

SB

141

FILE 2



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April 2, 2005

Representative Seaton and Committee
House State Affairs Committee
State Capitol
Juneau, AK 99811

Dear Representative Seaton and Committee Members

Thank you for the resolve and hard work that has gone into generating an approach to a major problem equally facing the State, cities, boroughs, school districts, and the university. The Alaska Municipal League supports your efforts to stabilize the cost of the PERS/TRS program. The defined contribution approach and efforts to restrict actuarially unsound access to retirement health benefits is a good method of stabilizing and adding predictability for future costs.

Approximately a year ago AML organized an ad hoc committee of elected and appointed officials from cities, boroughs, school districts, and the university. Membership on the committee has remained fairly consistent with representatives from most of the larger municipalities, a number of smaller ones, a number of school districts, and the university. AML has also done extensive information and analysis work with municipalities, legislators, and the news media over the past year informing them of the problem and the need to take action.

Taking action on the PERS/TRS issue is one of AML's top two priorities in its 2005 Legislative Platform. The issue is also the subject of a separate AML resolution adopted last November and is extensively treated in the AML Policy Statement.

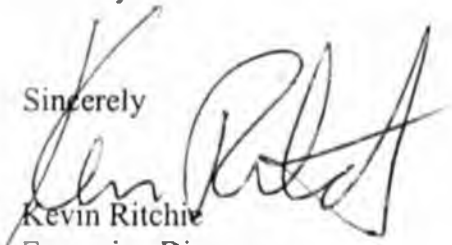
In addition to regular meetings throughout the year, the ad hoc committee has met several times in the past two weeks. As you know, trying to make 800 local elected officials plus managers and finance officers fully knowledgeable about a bill as complex as the PERS/TRS bills is not an easy task. Attached are comments and recommendations on the bill from the ad hoc committee which are consistent with the general adopted policy of the AML.

In addition to stabilizing long-term future costs, it is absolutely essential that the State assist cities and boroughs in meeting the skyrocketing costs of PERS for FY 06 and FY 07. The PERS costs alone over the next several years will require 1 to 6 mill property tax

increases in your communities, or deep local cuts. (Each 5% annual PERS increase represents an average 3.75% overall budget increase for most communities, excluding local contribution to schools, each year.) PERS increases on top of huge increases in fuel, transportation, insurance, etc. will make it difficult to impossible for many of your communities to raise local taxes enough to pay the requested local contribution for schools, plus roads, public safety, and other key local services. In addition, the State, according to State reports, has already lost 9 of its 94 small cities with the likely loss of many more by next year. This represents a large increase in State liability in its Unorganized Borough, the loss of critical public services to Alaskans, and an enlarging hole in the economic fabric of the State that will not be easy to repair. The State has the resources necessary to help stabilize local taxes and services, and AML suggests that this should be a legislative priority that will help your constituents. The PERS help to your communities for FY 06 and FY 07 is critical.

Thank you.

Sincerely



Kevin Ritchie

Executive Director

AML Position on PERS/TRS

Key Cost Driver of PERS/TRS

According to the Division of Retirement and Benefits/Mercer Consulting:

- Individually, the retirement compensation portion of PERS/TRS is adequately funded. The funding problem is in the post-retirement Health Insurance.
- Approximately 75% of the cost of the PERS/TRS health program is for retirees who have not yet reached 65 year of age, and only 25% of the cost is for post-65 age retirees.

Health insurance is the fastest growing cost to PERS/TRS. It appears that access to full health benefits, especially for retirees younger than 65, is the largest cost driver of the \$5 billion system shortfall and a key consideration for the future.

Overall Policy on SB 141

AML supports the adoption of a new PERS/TRS "Tier" of benefits for new employees that:

- Better controls future costs, especially health insurance, of the PERS/TRS system for employers, and;
- Provides benefits that allow employers to attract and retain good public employees. It is recommended that the adequacy of proposals be compared and determined by:
 - Comparison with other states and likely competitors for employees, and
 - Developing test cases for retirement benefits for retirees of various incomes and years in the system considering

Defined Contribution

AML members generally support a defined contribution approach to a new "tier." Regarding the amount of the defined contribution, if a municipality feels that state compensation benefits are too low, any municipality may independently supplement the employee's retirement with federally approved deferred compensation retirement programs. The suggestion of some type of investment earnings floor into the DC plan would reasonably share the risk of long-term down markets with employees.

Health Benefits

Since health is the primary cost driver of the current funding problem, AML supports changes to control health program costs by limiting access to full health benefits and ensuring that health benefit costs are actuarially covered by employer/employee contributions. The proposal that employees must retire from the PERS/TRS system to access health benefits will significantly limit access, especially in cases when the employee/employer contributions have not provided enough contributions to pay for an individual's retirement health benefits. For example, the old practice of providing full retirement health benefits at age 55 after only five years of employment is not an actuarially sound practice. AML also supports the Health Reimbursement Accounts. Again, the level of health benefits must be considered for adequacy. It appears that the Mercer proposal provided greater health benefits from age 60 to 65 than proposed in SB 141. It may be that the system can be protected by allowing access to health benefits with an expanded sliding scale for employees who do not retire out of the system.

Board

AML supports restructuring of the PERS/TRS board to improve employer participation. Municipalities, Schools, and the University represent 63% of the PERS/TRS programs but have never had direct representation on the PERS/TRS boards. This is a critical accountability issue. In the past, there was no direct link between the PERS/TRS boards and most employers. This resulted in a loss of involvement and accountability on the part of municipalities, school districts and the University. It is recommended that:

- Direct accountability be established either by providing for direct appointment by each employer group collectively, or providing three names for each position, to the Governor, and
- Increase the size of the proposed board to 11 and add one additional municipal and one additional school district representative and one University representative to mirror the composition of the PERS/TRS program.
- Since schools and the UA have both PERS and TRS employees, it may make sense to merge the current PERS and TRS boards. (But not necessarily the investment board.)

Strengthen the Review and Analysis Process for changes in the future

A significant portion of the unfunded liability is due to hurried and inadequate analysis of the long-term cost of modifications to PERS/TRS. Unlike any other legislative decision, under Alaska's Constitution a PERS/TRS benefit can never be "diminished or impaired" (Article XII, Section 7). The current "fiscal note" process for bills is not sufficient to accurately determine the long-term impacts of changes. Over a long time period the lack of an adequate analysis process has been the cause of a significant portion of the current cost crisis. Implement:

- A statutory 90 day review process prior to legislative committee review that includes,
 - A comprehensive long-term actuarial analysis by the PERS/TRS Boards, and
 - PERS/TRS hearings with all affected employers, and
 - A full report and recommendation of the PERS/TRS Boards to the legislature.

Short and long-term financial solutions to meet crushing cost increases for past liability

While it is important to create a new "tier" to control future costs, it does nothing to reduce the problem – skyrocketing payments for past liability. It is recommended that

- a. Support State appropriations to offset the 5% PERS/TRS cost increase for FY 06 and the cumulative 10% cost increase for FY 07.
- b. Consider the long-term cost impacts a direct pay down of the approximately \$5 Billion past liability. For example, a \$2 Billion pay down could lower long-term PERS/TRS rate increases significantly.
- c. Consider the creation of a State and Local Retirement Pension Bond Corporation to finance the PERS/TRS \$5 Billion past liability with low interest bonds. Estimated bond rates of 5.5 to 6% could save an estimated over \$100 million/year on the PERS/TRS unfunded liability currently charged to employers at 8.25%.



*Alaska Municipal League/Alaska Conference of Mayors
2005 Legislative Platform Priorities*

Excerpt

2. Protect Communities and local Taxpayers from mandatory State PERS/TRS Cost increases.

*Alaska Municipal League/Alaska Conference of Mayors
2005 Policy Statement
Adopted November 2004*

Excerpt

D. PUBLIC EMPLOYEES' RETIREMENT AND BENEFITS

1. **Funding of Massive Unexpected Increases in PERS/TRS Costs Due to Inaccurate Projections:** To avoid penalizing local taxpayers and students, the State should take financial responsibility for the cost increases of 5% of salary each year that are clearly due to inaccurate projections.
2. **Increases in Benefits:** The League opposes any legislation that increases the cost of the Public Employees' Retirement System or the Teachers' Retirement System.
3. **Analysis of Proposed Benefit Changes:** The League strongly urges the development of a mandatory statutory process that implements a comprehensive actuarial analysis including long term impacts on the state, municipal, school district, and university members, and requires a full public and employer review/comment process under the PERS/TRS Board, prior to action by the legislature. Due to the permanent and irrevocable nature of any benefit changes in the PERS/TRS systems, benefit changes should be acted on by the legislature in the year following introduction to allow for an adequate comprehensive actuarial analysis, discussion with employers, and allow time for the public decision-making process.
4. **Stabilization of the Cost of the PERS/TRS System:** The League supports change to the PERS/TRS system that will stabilize the cost of the program to municipalities.
5. **Basis for Computation of PERS/TRS Benefits:** The League supports changes to the computation of PERS/TRS benefits to exclude overtime pay and leave cash-in from the calculation of retirement benefits.
6. **Proportionate Representation on PERS/TRS Board:** The League urges the addition of proportionate representation of municipal, school district, and university employers on the PERS/TRS Boards.

PERS Talking Points
Two Year PERS Early Funding Needed for Municipalities to Avoid Crushing Tax Increases and Allow for Planning

A Crushing Municipal Impact: Mandatory State PERS increases on top of revenue sharing/other losses and local economic recessions will leave many municipalities without the resources to fully fund schools, or other basic services:

- **Not a problem of municipal making:** PERS/TRS contributions are mandatory required by the State. In the past, municipalities have made all payments requested by the State. Municipalities, schools, and UA make up for 63% of the PERS/TRS system but these employers have no representation on the PERS/TRS Boards.
- **The bottom Line: Relying on local "Tax Authority" means:** Municipalities with property taxes face 1 to 6 mill property tax increases just to pay state mandated PERS costs over the next three years (average 1.65 mills). Many municipalities have local tax caps that preclude such increases while municipalities with sales taxes must go back to voters for sales tax increases to pay for PERS.
- **The State has far, far more fiscal capacity than communities:** Every \$1 increase in oil prices nets \$65 million more state revenue, but costs cities, boroughs, businesses and families \$20 million in higher fuel/transportation costs.
- **Problem for Alaska and municipalities to 2028 – Per the 3/04 Mercer "Actuarial Valuation Report" for 1% employee "population" annual increase:**

	<u>*PERS Employer Rate</u>	<u>*TRS Employer Rate</u>
FY 03	6.77%	11%
FY 04	11.77%	16%
FY 05	16.77%	38.5%
FY 06	21.77%	39.22%
FY 07	26.77%	40.75%
FY 08 to FY28	*27.74% to 30.22%	*41.29% to 47.62%

*These rates could increase by 10% of salary if state investment returns average one half percent less than projected. (Current projection for average investment returns is 8.25%/yr)

- **PERS/TRS Cost increases for FY 05 approved by PERS/TRS Board:**
 - State +\$39,433,486
 - Schools +\$35,789,260
 - UA +\$ 8,800,000
 - Municipalities/Hospitals +\$19,213,000
- **Approximate Cost to Pay PERS/TRS for FY 06 and 07 for Municipalities:**
 - FY 06 - \$21 million
 - FY 07 - \$43 million (cumulative 2 year cost)
 - **State Funding needed for Total FY 06/07 for municipalities = \$64 million**

(Information from 3/04 State PERS/TRS Actuarial Study)

Public Employees' Retirement System (PERS) Municipalities & Hospitals Only

ESTIMATED FY 05 Change in Employer Contribution

* From Division of Retirement and Benefits

** Based on "2003 Alaska Taxable" DCED

Fund	Employer	<<<PERS>>> 5.0% (D)		* FY 05	**Value of	**FY 05
		FY 05 Estimated Municipal Payroll	FY 05 Rate Incr	PERS Increase Dollars	1 "Mill" of Property Tax	Local Prop Tax Mill Rate Needed for PERS Increase!
PERS	PETERSBURG, CITY& MEDICAL CTR.	\$6,702,627	5.0%	\$335,131	\$191,012	1.75
PERS	CORDOVA, CITY & MEDICAL CENTER	\$4,427,981	5.0%	\$221,400	\$111,769	1.98
PERS	SAXMAN, CITY OF	\$415,247	5.0%	\$20,762	\$12,100	1.72
PERS	UNALASKA, CITY OF	\$9,508,993	5.0%	\$475,450	\$342,385	1.39
PERS	NENANA, CITY OF	\$373,857	5.0%	\$18,693	\$14,705	1.27
PERS	CRAIG, CITY OF	\$1,821,035	5.0%	\$91,052	\$72,297	1.26
PERS	SITKA, CITY/BOROUGH, & HOSPITAL	\$11,507,548	5.0%	\$792,470	\$639,629	1.24
PERS	WRANGELL, CITY OF	\$2,426,833	5.0%	\$121,342	\$100,285	1.21
PERS	WHITTIER, CITY OF	\$944,422	5.0%	\$47,221	\$39,389	1.20
PERS	NOME, CITY & UTILITIES	\$2,496,407	5.0%	\$173,791	\$173,516	1.00
PERS	SEWARD, CITY OF	\$3,720,505	5.0%	\$186,025	\$200,255	0.93
PERS	DILLINGHAM, CITY OF	\$2,355,455	5.0%	\$117,773	\$130,552	0.90
PERS	JUNEAU, CITY AND BOROUGH OF	\$43,232,840	5.0%	\$2,161,642	\$2,640,000	0.82
PERS	KETCHIKAN, CITY OF	\$8,020,487	5.0%	\$401,024	\$547,376	0.73
PERS	PELICAN, CITY OF	\$126,411	5.0%	\$6,324	\$8,632	0.73
PERS	KENAI, CITY OF	\$5,369,573	5.0%	\$268,479	\$366,726	0.73
PERS	KODIAK, CITY OF	\$5,663,400	5.0%	\$283,170	\$388,182	0.73
PERS	HOMER, CITY OF	\$4,738,657	5.0%	\$236,933	\$332,626	0.71
PERS	PALMER, CITY OF	\$2,561,992	5.0%	\$128,200	\$189,946	0.67
PERS	HAINES BOROUGH	\$2,037,530	5.0%	\$101,877	\$175,187	0.58
PERS	BRISTOL BAY BOROUGH	\$1,368,016	5.0%	\$68,401	\$141,500	0.48
PERS	SOLDOTNA, CITY OF	\$2,689,459	5.0%	\$134,473	\$298,700	0.45
PERS	NORTH POLE, CITY OF	\$2,073,587	5.0%	\$103,679	\$259,625	0.40
PERS	WASILLA, CITY OF	\$3,347,381	5.0%	\$167,369	\$437,138	0.38
PERS	SKAGWAY, CITY OF	\$1,398,477	5.0%	\$69,924	\$205,046	0.34
PERS	ANCHORAGE, MUNICIPALITY OF	\$127,572,934	5.0%	\$6,378,647	\$19,126,104	0.33
PERS	SELDOVIA, CITY OF	\$96,359	5.0%	\$4,818	\$19,007	0.25
PERS	VALDEZ, CITY OF	\$4,929,091	5.0%	\$246,455	\$1,049,202	0.23
PERS	FAIRBANKS, CITY OF	\$5,896,416	5.0%	\$294,821	\$1,321,750	0.22
PERS	NORTH SLOPE BOROUGH	\$47,405,369	5.0%	\$2,370,268	\$10,714,796	0.22
PERS	KETCHIKAN GATEWAY BOROUGH	\$3,978,212	5.0%	\$198,911	\$935,122	0.21
PERS	FAIRBANKS NORTH STAR BOROUGH	\$16,735,548	5.0%	\$836,777	\$4,452,200	0.19
PERS	SAXMAN SEAPORT	\$38,479	5.0%	\$1,924	\$12,100	0.16
PERS	KODIAK ISLAND BOROUGH	\$2,191,832	5.0%	\$109,592	\$770,982	0.14
PERS	KENAI PENINSULA BOROUGH	\$12,062,817	5.0%	\$603,141	\$4,277,332	0.14
PERS	MATANUSKA-SUSITNA BOROUGH	\$9,566,280	5.0%	\$478,314	\$3,612,276	0.13
PERS	KACHEMAK, CITY OF	\$59,167	5.0%	\$2,958	\$28,614	0.10
PERS	ALLAKAKET, CITY OF	\$49,434	5.0%	\$2,472	none	
PERS	BARROW, CITY OF	\$1,036,873	5.0%	\$51,844	none	

Fund	Employer	FY 05 Estimated Municipal Payroll	FY 05 Rate Incr	* FY 05 PERS Increase Dollars	** Value of 1 "Mill" Property Tax	**Local Prop Tax Mill Rate Needed for PERS Increase
PERS	DELTA JUNCTION, CITY OF	\$65,919	5.0%	\$3,296	none	
PERS	HUSLIA, CITY OF	\$92,276	5.0%	\$4,614	none	
PERS	KALTAG, CITY OF	\$28,529	5.0%	\$1,426	none	
PERS	NORTHWEST ARCTIC BOROUGH	\$700,747	5.0%	\$35,037	none	
PERS	RUBY, CITY OF	\$118,657	5.0%	\$5,933	none	
PERS	SAINT GEORGE, CITY OF	\$366,136	5.0%	\$18,307	none	
PERS	AKUTAN, CITY OF	\$287,937	5.0%	\$14,397	sales tax only	
PERS	ALEUTIANS EAST BOROUGH	\$974,507	5.0%	\$48,725	sales tax only	
PERS	ANDERSON, CITY OF	\$38,730	5.0%	\$1,936	sales tax only	
PERS	ANGOON, CITY OF	\$307,662	5.0%	\$15,383	sales tax only	
PERS	ATKA, CITY OF	\$71,502	5.0%	\$3,575	sales tax only	
PERS	BETHEL, CITY OF	\$4,537,734	5.0%	\$226,887	sales tax only	
PERS	DENALI BOROUGH	\$568,543	5.0%	\$28,427	sales tax only	
PERS	EGEGIK, CITY OF	\$97,862	5.0%	\$4,893	sales tax only	
PERS	ELIM, CITY OF	\$175,041	5.0%	\$8,752	sales tax only	
PERS	FORT YUKON, CITY OF	\$295,768	5.0%	\$14,788	sales tax only	
PERS	GALENA, CITY OF	\$1,320,610	5.0%	\$66,031	sales tax only	
PERS	HOONAH, CITY OF	\$638,162	5.0%	\$31,908	sales tax only	
PERS	HOOPER BAY, CITY OF	\$592,669	5.0%	\$29,633	sales tax only	
PERS	KAKE, CITY OF	\$291,898	5.0%	\$14,595	sales tax only	
PERS	KING COVE, CITY OF	\$1,035,132	5.0%	\$51,757	sales tax only	
PERS	KLAWOCK, CITY OF	\$820,343	5.0%	\$41,017	sales tax only	
PERS	KOTZEBUE, CITY OF	\$3,138,622	5.0%	\$156,931	sales tax only	
PERS	KOTUK, CITY OF	\$21,463	5.0%	\$1,073	sales tax only	
PERS	LAKE AND PENINSULA BOROUGH	\$632,700	5.0%	\$31,635	sales tax only	
PERS	NOORVIK, CITY OF	\$351,910	5.0%	\$17,595	sales tax only	
PERS	QUINHAGAK, CITY OF	\$29,932	5.0%	\$1,497	sales tax only	
PERS	SAINT MARY'S, CITY OF	\$306,495	5.0%	\$15,325	sales tax only	
PERS	SAINT PAUL, CITY OF	\$1,366,801	5.0%	\$68,340	sales tax only	
PERS	SAND POINT, CITY OF	\$758,056	5.0%	\$37,903	sales tax only	
PERS	SELAWICK, CITY OF	\$77,442	5.0%	\$3,872	sales tax only	
PERS	TANANA, CITY OF	\$217,611	5.0%	\$10,881	sales tax only	
PERS	THORNE BAY, CITY OF	\$279,855	5.0%	\$13,993	sales tax only	
PERS	TOKSOOK BAY, CITY OF	\$16,994	5.0%	\$850	sales tax only	
PERS	UNALAKLEET, CITY OF	\$264,140	5.0%	\$13,207	sales tax only	
PERS	YAKUTAT, CITY AND BOROUGH OF	\$439,129	5.0%	\$21,956	sales tax only	
PERS	ANCHORAGE PARKING AUTHORITY	\$1,020,063	5.0%	\$51,003	see Anch	
TOTAL				\$19,430,923		

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April 2, 2005

Dear Representative Seaton and members of the House State Affairs Committee,

I am very concerned about the impacts of HB 238, which I understand would require current public employees to contribute a higher percentage of their earnings to the retirement program without any increase in retirement benefits.

I have been a state employee since 1997 after having worked for many years in Alaska for private industry, the federal government, and also being self employed. The wages I currently earn are less than any of the other jobs I've held in the state, but I truly love my job, I feel that I am doing important work and I plan on continuing my work with the state until retirement.

In my short time as a state employee, I have seen our wages erode due to inflation and I have seen many qualified employees leave state service to work for the federal government or the private sector. It is becoming very difficult for the state to recruit qualified workers in many areas. Creating a defined contribution retirement system under a new tier will make it even more difficult to attract hard working qualified employees.

It is also unwise to take more money out of public employees pay to solve an underfunding problem created by faulty management of the retirement program. Most state employees have not had a pay raise in several years. We are scheduled to receive a small (1.5%) raise this year, but if HB 238 passes, our small increase will be eliminated by an increased contribution towards the retirement system. This will affect moral, employee retention and recruitment.

Please do not hurt us any more than we have been through the erosion of our wages.

Thanks you for the opportunity to comment

Sincerely,



Willy Dunne

TESTIMONY by Gayle Harbo
TRS Trustee
House State Affairs and Senate Finance

i know the legislature is trying to find solutions to a perceived problem with a retirement system that has worked well for almost 50 years. I respect your concern. I am not a political person, but I am an Alaskan of almost 50 years, a mother, a grandmother, a retired teacher and most recently a member of the TRS Board. I urge you to go slowly, get a second opinion from a credible actuary and talk with affected parties about the reasons for the decrease in the funding ratio before you impose devastating changes.

What affects the funding ratio? If you read the last valuation you will see that TRS is almost 92% funded without health care costs. PERS is 120% funded. Are these healthy systems???? What would your conclusion be? Has ASPIB done a great job??? What would your conclusion be?

Now look at the ratios with Medical costs factored in - remember Alaska is one of only 4 states that pre-funds medical costs. In FY'03, under GASB, all states will have to acknowledge medical costs as a liability. With Medical the TRS ratio drops to about 63% and PERS ratio to 73%. What would your conclusion be? What is the major factor affecting the declining ratio?

Medical costs have been the main factor and if the Administration would make some allowable changes, matters of choice and convenience, they could save millions of dollars on the health plan for the current tiers. They can change the Health Benefits for new hires without legislation - prospective is the key word here. Ask them why they have not made significant changes in the last 4 or 5 years.

You may have received a memo from Mercer, dated March 18, which shows two items which have also contributed to the unfunded liability. One is the enhancement of benefits that various legislatures have passed in recent years; some which the actuary said would be cost neutral. Actuaries, like airlines, are cautious people and always have a disclaimer, "subject to change without notice". They told you Retirement Incentive Programs would not negatively affect the funding ratio. This past year they changed their story - they did not predict the impact of medical costs correctly. The Boards asked for an Actuarial Audit in 2002 -2003 - In our Sept.'04 Joint Board minutes the auditor, Milliman, stated (on page 6) that Mercer's "starting point for projecting forward was a number that was 14 percent too low." The minutes also reflect that medical costs account for 50% of the increases in employer contribution rates these past years. The Joint Boards, these past two years, have asked the Legislature not to pass legislation which will enhance benefits for existing Tiers and you have held off.

The second item in the March 18th letter refers to the Ad Hoc PRPA which is recommended by the Boards only when the fund is healthy. The sheet attributes huge costs to the Ad Hoc PRPA, but fails to mention that dollars of that cost was the settlement of a lawsuit that made all living retirees whole, from their time of retirement, for ad hoc PRPA's that had not been awarded. Take that out and an ad hoc is a mere blip.

In the legislation proposing a DC plan teachers are more impacted than Public Employees. Teachers did not have the choice of an SBS plan when they were pulled from SS. Not only that, because they are public employees, even though they may earn SS credits, they will not get all that is due them because of two unfair Federal Provisions, GPOWEP, which the Legislature last year recognized as unfair when they passed a resolution urging our Congressional Delegation to seek repeal.

I urge you to take time to get a second opinion. I urge you to work with the Boards and the Employers and the AML and successful Health Care Trusts and Plans to see how medical costs can be properly managed.

While I respect Dr. Solie's opinion, it is a lofty one. He may not realize that many of the people I worked with every day did not earn enough to save and invest the minimum needed to start a mutual fund. These people need the security and assurance in their senior years that a Defined Benefit offers. People need a system which recognizes inflation, as SS does, to adjust their annual retirement income.

Dr. Solie erred in his testimony on HB 238. He implied, using a 2000 mortality table and other assumptions used by Mercer, that a person retiring from the proposed DC plan would be better off than a Tier I employee. It is a devastating error to future retirees, that I, a humble, public school teacher must point out. If this legislature did what Dr. Solie suggested many retirees would run out of dollars long before they died.

It is a grave error to apply group assumptions of a DB plan to individual assumptions on which DC plans are based. You would do grievous harm to thousands of seniors if you relied on Dr. Solie's data. Please go slowly and check and recheck and ask for all the information ... not selected sound bits.

Please work with the Boards these next years to solve the Medical cost problem, which is not unique to Alaska. We should be working together. The Legislature did not ask the opinions of the Boards before they introduced these bills. My late colleague, Bob Boko, a respected member of the Fairbanks Community, was not in favor of a Defined Contribution program. He knew it would be devastating to seniors. Though he chaired the Tier Committee and voted to recommend Option One of their proposed plan, he did so only because the Administration put pressure on him. After the vote in November, he wanted to meet and confer with the Joint Board members after our meeting with ASPIB on December 1st. He

wanted to discuss the suggestions we all had made. We were not allowed to meet. I urge you to speak with his widow, Sharon, who shares his deep concern.

Please let us work together to make Alaska a place where young people want to come and work. We can be a role model for health care reform if we choose to work together. I do not like the word "impose"; I prefer sitting down and discussing the problem and developing a solution which works for all. Thank you for your time.

Testimony by Sam Harbo
UAF Retired Professor of Bio-Statistics

Longevity figures are estimates based on selected groups of individuals. Such estimates usually work well when used with projections associated with groups, such as the actuarial projections for the group of retirees in the D3 plan. Individual retiree variations in such a plan (e.g. one retiree dying at an early age and another at an older age) tend to compensate for one another, with the actuarial projections accommodating continued pension payments to the long-lived retiree. Such is not the case in a DC plan. Everything there depends on an individual's history, not on group dynamics. Using group-based projections to evaluate a DC plan can hide a world of hurt.

For example, suppose the life expectancy is estimated to be 80 for the average retiree, with the amount of money (plus earnings) in a retiree's DC pension fund projected to last to year 80. Let us assume that all the underlying assumptions governing the above are objective and reasonable. Even if the above DC monthly pension payment is greater than what the retiree would have gotten under our current DB Tier 1 plan, one should not conclude immediately that the DC plan is better. At the very least, one should determine what proportion of retirees live to age 80, and what their life expectancy is at that age. Is it 6, 8, or 10 more years with no pension payment?

Another major difficulty with comparing DC and DB plans is that not all employees retire at the same age. That confuses the longevity picture (and any resulting projections) because an employee retiring at age 55 has a different projected mortality age than does an employee retiring at age 65. That is, life expectancy is retirement age specific. That difficulty is manageable in a DB plan because group dynamics are involved.

Unfortunately, group dynamics do not govern the fortunes of individual retirees in a DC plan; each individual's retirement age is paramount there.

I am not asserting that group projections are not useful in gaining insight into DC plans. In fact I have done just that myself. However, such projections must be evaluated and used with care. One must emphasize the individual in a DC plan.

To: Senator Lyda Green, Chair, Senate Finance
From: Gayle Harbo, Teacher Retirement System Bd.
Re: Senator Stedman's Comments, Mar. 30 am, SFC

Senator Stedman, during his presentation on proposed Board reconfiguration, made a comment to which I take exception. Had I been allowed to give my testimony that day I would have responded in person, but realize the Committee had limited time that morning.

Senator Stedman, speaking in regard to the 3 retirement boards, said, "we've had them all in here and all there's been is finger pointing." I have never observed members of any of the three boards finger pointing. The Boards, in fact, requested an actuarial audit several years ago because they questioned some of the information they were receiving from Mercer Milliman, the auditors, found several gross errors, particularly with respect for medical expense accounting. (see Sept. Joint Board minutes, page 6).

As I stated in my testimony on March 29, the three boards work well together and I have great respect for the members of ASPIB, the work they do and the staff which supports them. I don't know who Senator Stedman is referring to when he says "we've had them all in" - Mar. 29 is the first time in my 6 years on the TRS Board that I have testified and to my knowledge since SB141 came out no one on the three boards had testified before any committee. If he has names then tell us, but please do not make accusations.

Senator Stedman talks about professionalism on the Boards. The members we have now and have had are well respected members in their communities and give countless hours preparing for appeals and for other meetings, all on their own time. The Boards have always asked good questions and sought information from the actuary and Administration to make sound decisions.

I was dismayed at our last joint meeting that many of the Board members did not even receive the actuary's valuation until the day of the meeting. New information on how to calculate and project medical costs was contained in the valuation. For the first time health and prescription costs were separated and presented on cost per member basis, something I asked the actuaries for years ago. It makes it much easier to compare costs from year to year at a glance. Not only did we get new material, the Division had put a presentation on LTC on the agenda, which could have been held at a later time or scheduled for Fri., Mar.

25. These Boards are dedicated to serving members' interests, another reason to have member representation. Employers are members of the system. They too may be represented.

Thank for allowing me to testify on the 29th and I know my written testimony for the 30th is in the record.

Respectfully

Gayle Harbo

Retired Teacher
TRS Trustee

Public Safety Employees Association, Inc.
"Representing Alaska's Finest"

Position Paper

**PSEA Supports the PERS Defined Benefit Plan
for
Public Safety Employees**

- **Defined Benefit Plans** compensate for the fact that no occupations in the Private Sector compare with what Public Safety Employees do for a living:
- **Defined Benefit Plans** assists Management with attraction and retention of a skilled workforce:
- **Defined Benefit Plans** offer a disability retirement benefit which is absolutely critical in the public safety profession:
- **Defined Benefit Plans** encourage long term employment, thus a more efficient and experienced workforce.
- The process of hiring and training Public Safety personnel is expensive.

While some states have tried the Defined Contribution Plans, the trend has been to return to Defined Benefit Plans since the DC Plans did not produce the desired result. While DC Plans promote mobility, the result is instability in the workforce. The Public Safety Profession requires a stable workforce to provide the service Alaskans deserve. The costs associated with training Public Safety personnel, both basic and in-service, are considerable and are not conducive to a portable workforce. In addition, Public Safety Employees are exposed to frequent physical hazards associated with the occupation. Disability retirement protection is the only fair method of protecting the employees that protect the public.



NEA-ALASKA

Affiliated with the National Education Association

TRS/PERS Issues for Testimony

Rep. Seaton and members of the House State Affairs Committee, for the record my name is Bill Bjork. I am presently serving as the President of NEA-Alaska. As we examine the retirement issues it is important to remember the purpose of the retirement system (Sec. 14.25.012) which "is to encourage qualified teachers to enter and remain in service with participating employers." Although there is some anecdotal evidence that the retirement benefits can be used for recruitment, its main attraction is a tool for retaining educators. Job satisfaction, competitive compensation and retirement benefits are the three major reasons for a person to remain in education.

When a person considers retirement benefits, they want to be able to retire with dignity and to maintain their dignity through their retirement years. What does that mean? For most educators it means to maintain a standard of living that is middle class. Under the present system that means to retire with an income of 50%-60% of their salary with health insurance provided. This takes 27 years of service to earn.

Thus, in order to establish a new and improved system, we should adopt ASSUMPTION #1: An educator with 27 years of service should be able to receive an annual annuity of at least 55% of their salary at retirement. Today the teacher average salary is \$51,062. To have an annual annuity that is a middle class standard of living, the educator would receive approximately \$34,000 or two-thirds of the TAS. Under HB 238 a person needs to work for at least 30 years. If you corrected one of the flaws in the present system and used an average of the employee's salaries over their career instead of the average of the high three years, the person would need to earn 2.25% per year to produce a middle class standard of living in retirement.

How much a retired person receives as an annuity is dependent upon the investment return and the amount of contributions made during each year of active service. ASSUMPTION #2: The investment return must be at least 8.25% per year, compounded annually, net of expenses. *This is the same assumption that is presently in place. It is also consistent with the Permanent Fund assumptions.* ASSUMPTION #3: The combined contribution of the employee and the employer to the pension must be at least 20%. ASSUMPTION #4: Inflation will increase by 3% annually. *The present assumption is 3.5% annually. This is not consistent with the Permanent Fund assumptions.* Given that inflation has been 2.6% over any ten-year period in Alaska, why would we adopt a 3.5% inflation rate? How much does a .5% over twenty-five years add to the Past Service Cost?

Assumptions are critical in determining the necessity of a new and improved retirement plan. Making the wrong assumptions today will only lead to retirees having no dignity and becoming dependent upon the state of Alaska for welfare. **We must take the time to reach an agreement on the actuarial assumptions to be used.**

NEA-Alaska understands the deep concerns surrounding the issue of the Unfunded Liability of the Teachers' Retirement System and the Public Employees' Retirement System. The causes and the amount of the Unfunded Liability or the Past Service Cost are a part of the debate; however, I believe there is agreement that the actuarial assumptions made in the past have brought us to this point. The projected cost of health care, the delayed use of mortality rates and the addition of benefits without an increase in contributions are three of the major factors.

At least two of those factors can be corrected without the adoption of a new tier for TRS and PERS. The use of the most recent mortality tables could be mandated by the legislature. The legislature could also require an actuarial valuation of any proposed benefit increase and require an increased contribution rate to cover Past Service Cost at the time of passage. For example, if the retired, rehired legislation is recommended for passage, the legislation should set a contribution rate for that benefit, which would be paid by the governmental entity that takes advantage of the legislation.

NEA-Alaska also believes that health care costs can be managed to provide a more predictable rate increase. It seems that the Health Cost Trend actuarial assumptions provided to the Administration on June 30, 2002 defied common sense and logic. The projections were: FY 01 - 7.5%, FY 02 - 6.5%, FY 03 - 5.5%, FY 04-08 - 5.0%, FY 09-FY 13 - 4.5%, FY 14 & later - 4.0%. Anyone using health care services could tell you those rate projections were not based in reality. In fact the next year the assumptions were changed to be FY 04 - 12.0%, FY 05 - 12.0%, FY 06 - 11.5%, FY 07 - 11.0%, FY 08 - 10.5%, FY 09 - 10.0%, FY 10 - 9.5%, FY 11 - 9.0%, FY 12 - 8.5%, FY 13 - 8.0%, FY 14 - 7.5%, FY 15 - 7.0%, FY 16 - 6.0%, FY 17 and later - 5.0%. These numbers make a pretty, downhill slope, but are they based in any reality? How could such a drastic change occur in one year? This kind of dramatic change does not inspire credibility in the actuary. Is this the kind of assumption that the \$5 billion Unfunded Liability is based upon?

NEA-Alaska appreciates the effort in HB 238 to provide important access to health care and payment of premiums for retirees. Once we all agree on the health care inflation assumptions to be used, we can evaluate the proposal and its impact on retirees' standard of living.

For the record, a teacher that begins their career at the age of 22 and works for 30 years without interruption will be 52 when they can retire. That is 3 more years than the present average years of service. Since they must retire directly into the system under HB 238, they would actually have to teach 38 years or pay for their health care for eight years, which could erode their pension annuity significantly. Again, the actual affect can only be determined once the actuarial assumptions are finalized.

NEA-Alaska believes that several things could be done to provide a new and improved retirement system for both teachers and public employees. The key is what assumptions are put in place. NEA-Alaska stands ready to work with the committee to determine the appropriate actuarial assumptions upon which to build a new and improved retirement system that meets the purpose of recruiting and retaining qualified educators and public employees.

April 10, 2005

Ron and Mary Woods
120 Concordia Dr.
Fairbanks, AK 99709

In re: Retirement System Reforms, SB141, HB177, HB238

Dear Representative Scaton,

We are writing in strong opposition to the legislation noted above as presently drafted, and ask that you seriously consider the arguments presented herein against such legislation without significant amendments.

First, let us say that we are long-term state employees, which enables us to provide meaningful input and insights regarding the affect of the proposed reforms on the state operations we value greatly.

Further, we appreciate the legislature's concern and sense of responsibility to examine the existing PERS/TERS systems, and think the key is to be fair, thoughtful, and prudent in considering what changes are truly in the State of Alaska's best interest. Everyone agrees that there is no financial crisis or emergency involving these systems, and the legislature should not over-react in implementing corrective measures.

We recommend restraint similar to take exercised by the legislature in not implementing a solution to the state's anticipated fiscal gap prematurely. If the legislature wants to move to a private sector approach in providing for the salary and benefits of state employees, it cannot look just at establishing a defined benefit retirement program that minimizes financial risk to the state.

The legislature must also develop a salary structure and employee incentive programs that provide sufficient compensation and incentives to recruit and retain good employees. Taking the defined benefit of a retirement program away from state employees would really leave little or no financial incentives for employees considering employment with the state, thus compounding the recruitment problems that already exist in many communities were the state struggles to compete with other employers.

If the state is to move in the private sector direction and compete like a business for employees, it needs to do much more to develop financial and other incentive programs. Successful private sector corporations control their costs by hiring and retaining the best teams of people to run their organization. Bonuses and stock options are also common in the private sector. Intel Corporation benefits include two months off with pay for a work sabbatical every seven years that an employee works for the company. This is obviously one way the company motivates and retains good, experienced employees.

The state must act in good faith in dealing with its employees. Changing the funding contribution rate for current employees would effectively be no different than changing the Tier terms and conditions that they were hired under. Attempting to do that would surely create significant distrust of the legislature, lower productivity, and would create even more financial hardship on employees struggling to survive and work for the state.

The purchasing power of employees' salaries continues to lose ground every year to costs of living increases and their portion of increasing medical care costs when they make their care selection decisions. Please recognize that changing the funding rate for current employees would be very unfair, problematic to operations, and ill advised.

All need to appreciate that the state's employees are critically important in meeting the service needs of our citizens in the most effective and efficient manner. The costs associated with providing for a good salary and retirement system for these employees should be one of the legislature's highest priorities. The legislature should be looking to invest more, not less, in the state's employees, as they are the state's best assets.

We thank you for your time in reading this letter and seriously considering your actions in this very important decision area for the state.

Sincerely,

Ron and Mary Woods

TESTIMONY ON LEGISLATION REGARDIN RETIREMENT LEGISLATION

I am Merritt Olson, a 51-year resident of Alaska who has had a long connection with education and the state's pension program. At Anchorage's West High School I taught mathematics and business subjects and later served as chair of the guidance department and coordinated the Honors and Advanced Placement programs.

In 1977 Governor Hammond appointed me to the Teachers' Retirement Board, a position that I held for some fifteen years serving as the chair. When the Alaska State Pension Investment Board was created by the legislature in 1992 I was elected to serve as one of the four members designated to represent the teachers and public employees. Currently I am serving on that board.

My concerns are that replacing the defined benefit program with a defined contribution plan will be a deterrent to attracting quality teachers and public employees to the state. In the case of teachers, employment in Alaska is no longer attractive when compared with many states. From providing the highest salaries of the 50 states, Alaska has in recent years dropped to the mid-rankings. School districts are finding a dearth of applicants as a result. Adopting a defined contribution plan exacerbates the the problem. Members will no longer have assurances of a pension that adequately provides for them at retirement. Many teachers who have had little or no experience in making wise choices in personal investments will be lost without some direction. Will the state be prepared to provide education in basic investments for those who are in need of such?

Spiraling health care costs and the poor market returns of 2001 and 2002 certainly have strongly affected the funding ratio. But also contributing to the deficits we now experience are the actions of past legislatures, actuaries, employers and employees, as well, who yielded to pressures to lower normal retirement age limits and to offer incentives in the form of attractive bonuses for early retirement. Some of us argued with the actuaries, but to no avail, that their cost estimates for these freebies were far too conservative. Now we must face up to the extravagance of these actions.

The sizeable unfunded liability of the pension system is sufficiently large to demand attention but it is not a crisis situation as some would make it out to be. When I went on the TRS Board in 1977 the pension plan was little more than 50% funded but the funding status continued to improve and by the '90s it was fully funded. Optimist that I am, I believe that can happen again based on rising markets, consistent and improved actuarial advice and a handle on medical costs.

Legislation that would replace the three boards (PERS, TRS and ASPIB) with a single nine-member board appointed by the governor is also a concern. A board with all its members subject to appointment by the governor could very well have frequent turnover of some, or all, of the trustees as administrations and part control

change. For an efficient operation of the boards a certain continuity of service is desirable.

||| Dr. Merritt C. Olson
1032 W. 11th Avenue, #203
Anchorage, AK 99501



April 13, 2005

The Honorable Paul Seaton, Chair
House State Affairs Committee
Alaska State Capitol, Room 102
Juneau, Alaska 99801-1182

Dear Chair Seaton:

RE: PERS/TRS Issues

On behalf of the AARP members in Alaska, we encourage you and your colleagues on the House State Affairs Committee to move very deliberately and cautiously in your consideration of changes to the PERS/TRS systems.

AARP recognizes that the Legislature, particularly the Senate, is proposing Alaska participate in a nationwide trend that is far more advanced in the private sector than in the public sector, i.e., moving from defined benefit to defined contribution plans.

However, changes to such fundamental benefits cannot be made quickly. In particular, any proposed changes must protect the agreement that current workers and retirees have entered into with their employers. People have made long-term plans that are contingent on the continued availability of their defined benefit pensions.

Defined benefit pensions are superior to 401(k) plans for long-service workers. We submit that long-service workers include the majority of the education workforce as well as a substantial percentage of state and municipal employees. Shorter-term workers typically prefer, and often do better with, defined contribution plans like 401(k)s, but teachers are not typically to be found in this group. Also, it is difficult to know clearly in advance whether one will be a short- or a long-term employee. We presume the Legislature's goal, as is AARP's, is to have a stable experienced workforce that is attractive to long term employees in our schools, our municipalities and our state workforce.

To the extent that changes to public retirement systems are necessitated by budgetary constraints (as well as demographic considerations), the solution should never be to change the rules of the game while it is being played. Demographic challenges are foreseeable far in the future and should be planned for, not treated as a surprise and an occasion for emergency remedies. We believe SB 141, with an effective date of July 1, 2005, would create multiple problems.

If it does become necessary to move to a defined contribution type of plan, it should only happen for workers who are newly hired as of some future date. We believe that is the intent of the Senate and, based on previous law suits, is probably also the intent of the House. If the change is adopted, it may be worth considering whether to offer current workers a choice whether to continue with the old plan or to join the new one. This is what happened to federal workers who were already employed in the mid-1980's. They were able to select the plan they thought worked best for them individually. Many workers who did not foresee a full career with the government, or who were otherwise feeling somewhat "locked-in" to the defined benefit plan, chose to take the new 401(k) type thrift savings plan. It is important to recognize that, in addition to providing guaranteed pensions that require no individual investment effort, defined benefit plans can also become "golden handcuffs" that limit people's sense of the employment options available to them.

We understand the PERS and TRS Boards recently considered a variety of defined benefit and defined contribution options and determined they needed more time to study such significant changes. We agree that any changes under consideration should be well thought out and examined. Some of our current problems with the systems are due to legislative action that had unanticipated consequences, eg., including short term "employees" like school board members and elected Assembly members in the health benefit program. There is no possible way that their contributions can come close to paying the true cost of their health benefits.

From what we understand, we primarily have a health care inflation problem. It might make more sense to address that specific issue than to tinker with the entire pension program. Lumping health care cost increases with pension forecasts will only cause Peter to rob Paul and, in the end, both will be broke.

With all due respect to the Legislature, we think this issue needs to be debated beyond the Committee rooms in Juneau. Employers like school districts and municipalities have, in AARP's opinion, a just concern that eliminating defined benefit programs may make it very difficult to fill future vacancies for teachers, police officers, firefighters, nurses and first responders. We would recommend that this discussion be taken to the other areas of the state by the State Affairs Committee so that more Alaskans and the employers who will be impacted by any changes have a chance to hear more about the options and for you to hear more about their concerns.

In addition, you may wish to consider an alternative that we do not think has been addressed. Is it timely for Alaska to have all "new hires" participate in the Social Security system? Social Security is, in essence, a "defined benefit" program. Having newly hired employees participate in Social Security may provide a defined benefit program that could be augmented by 401(k) type programs, additional defined contribution options, etc.

In the mid-1980's, the federal government began to include all newly hired federal employees into the Social Security program.

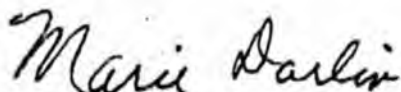
Among the considerations that Congress will be dealing with as Social Security is addressed is to mandate that all newly hired state and municipal and school district employees participate in Social Security. As we mentioned, this was done for newly hired federal employees (and newly elected members of Congress) in the mid-1980's. You may find that the debate over the future of Social Security may have a significant impact on what Alaska can and should do to provide pension, disability, and survivors' benefits.

There is no reason to hurry this process through the Legislature. AARP believes it is better public policy to slow the process, take it to the citizens in field hearings over the interim, and then return to Juneau in January, 2006 to continue this discussion.

Should you have any questions about our position, please feel free to contact me (586-3637) or Patrick Luby, AARP Advocacy Director (907-762-3314).

Thank you for your consideration.

Sincerely,



Marie Darlin, Coordinator
AARP Capital City Task Force
415 Willoughby Avenue, Apt. 506
Juneau, AK 99801
586-3637 (voice)
463-3580 (fax)

CC: Representative Jim Elkins
Representative Berta Gardner
Representative Carl Gatto
Representative Max Gruenberg
Representative Bob Lynn
Representative Jay Ramras



ADOPTED AUGUST 1972

CITY OF WRANGELL, ALASKA

INCORPORATED JUNE 15, 1903

BOX 531, 99829

(907) 874-2381

FAX: (907) 874-3952

April 12, 2005

Dear Representatives:

The City of Wrangell is facing many challenges with our 2005-2006 budget. Employer costs for our employees is our biggest concern. We were just notified that our group insurance will increase 22%. PERS will increase 5%. Workers Compensation is also going up. We are trying to give our employees a cost of living raise for the first time since July 2001. We will not be able to absorb these increases without layoffs and reduced services.

Wrangell is a community with a 7% sales tax and a 12 mil. property tax. In view of the economic situation we are in, a tax increase to pay for these shortfalls is not an option.

We implore the House to institute a PERS/TRS fix that would provide funding equal to the amount of the 5% increase. This will go a long way in helping us avoid reducing more staff and services.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert S. Pruncella".

Robert S. Pruncella
City Manager

cc: Senator Bert Stedman

CITY OF WRANGELL, ALASKA

RESOLUTION NO. 03-05-1018

A RESOLUTION OF THE COUNCIL OF THE CITY OF WRANGELL, ALASKA, URGING STATE PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)/TRS EARLY FUNDING NEEDED TO AVOID LOCAL TAX INCREASES

WHEREAS, the State has notified communities that rates for the State Public Employee Retirement System (PERS) will increase more than 400%. PERS rates have been increasing by 5% of total salaries paid by municipalities and will reach approximately 30% of the salary of every public employee for the next 25 years to pay the "unfunded liability" of the State PERS program; and

Whereas, mandatory State PERS increases on top of the loss of municipal revenue sharing, and fuel, insurance and other cost increases leaves many municipalities without the resources to fully fund schools, police, or other basic services; and

Whereas, municipalities with property taxes face 1 to 6 mill property taxes increases just to pay state mandated PERS costs over the next three years (average 1.65 mills). However, many municipalities have local tax caps that preclude such increases which will require municipalities to make deeper cuts to local basic services; and

Whereas, the Alaska Municipal and many municipal elected officials and finance directors have been "at the table" to help the State adopt a new PERS/TRS "tier" to help control future costs; and

Whereas, the State has received a huge increase in oil revenue while communities face steeply higher expenses. For every \$1 increase in the price of a barrel of oil the State government receives an additional \$65 million of new revenue per year while Alaskan cities, boroughs, schools, businesses, other organizations, and families pay \$20 million of higher new costs for fuel, transportation, etc., based on federal fuel usage figures for Alaska; and

Whereas, if the State fails to share a small portion of its huge oil revenue increases with our community/local taxpayers to offset State required PERS payment increases for at least the next two years, the impact on the City of Wrangell will be substantial. The City of Wrangell will be faced with an annual property tax increase of 1.5 mills and/or additional reduction of services to the citizens of the community.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF WRANGELL, ALASKA, that the members of the Alaska State House and Senate are strongly urged to approve the Governor's proposed \$37.5 million appropriation to offset the cost of State required municipal PERS increases for the next two years. This action

will avoid higher local taxes and/or large cuts to local services including schools, public safety, public works, and health care.

ADOPTED March 31, 2005

Valery McCandless
Valery McCandless, Mayor *Serving as Mayor*

ATTEST: Christie L. Jamieson
Christie L. Jamieson, City Clerk

July 3/29
Sen. J...

Good afternoon. My name is Gayle Harbo and I have been a resident of Alaska since 1957, most of the time living in Fairbanks. I taught in Fairbanks for 25 years, most of the time at Lathrop High School and was Chair of the Math Dept and Advanced Placement Coordinator for almost 20 years. I am here as a member of the Teacher Retirement Board. The joint boards thank Senator Stederman for his willingness to teleconference with us on Friday Mar. 25. We are sorry his plans changed but since he could not teleconference hope he and the Committee will read the verbatim transcript of the morning's discussion so they realize the depth of true concern that each Board member has regarding all the bills which seriously impact a retirement system which has worked well for 50 years. The only significant changes that have been made in recent years have been enhancements of benefits due to legislation. The Joint Boards have sent letters to the Legislature these past two years asking that you not introduce any bills which enhance benefits and the Administration has agreed to testify against these bills because all would increase the unfunded liability.

I am going to address 3 topics in my remarks and will be happy to answer any questions. If I don't know the answer I will try to find out.

My first issue is the interaction of the 3 Pension Boards. As you know the main work of the TRS and PERS Boards is listening to appeals of members, recommending employer contribution rates and adopting actuarial assumptions every 5 years based on the recommendations of the Commissioner of Administration and the actuary. ASPIB manages and invests the contributions to the system. The Joint Board members have great admiration and respect for the way ASPIB and the staff of Revenue, who work with Gary Bader, invest and care for our funds. Over the past 10 years the funds have earned almost 9% annually, at or near the assumed rate of our actuary. Earnings are not the problem causing the unfunded liability.

This leads to my second issue. The main driver of the decrease in the funding ratio has been the rapid increase in health care costs, a problem not unique to Alaska. You have seen in past presentations that without the inclusion of medical costs the funding ratio is a respectable 91% for TRS and 120% for PERS. Health care costs have accounted for 50% of the employer contribution rate increases in past few years. The Administration can make changes in the Health Care plan without legislation. First, changes can be made to the plan for current tiers if they do not diminish benefits, but are a matter of choice or convenience. (An example would be requiring members use hospitals, both in and out of Alaska, which are preferred providers so

significant savings could be negotiated - Providence in Anch. is not a PP yet over 80% of retirees go there, the hospitals in Juneau and Sitka are owned by their respective cities. They are not preferred providers and there is little savings to the state.) Secondly, significant changes can be made to the plan for employees hired after a specific date.

About 5 years ago the Joint Boards recommended an education program to encourage members to use Generic Drugs. The members responded and now 42% of the drugs used are generic. Every percent of brand name drugs replaced by generics saves the plan 1M. (see Oct. '04 Newsbreak). The Health Care Committee has for several years recommended the state pilot a disease mgt. program, particularly for diabetes, but we were told that the start up cost of \$240000 was too much. In speaking with other health plan administrators who utilize disease mgt. I have been told that the cost savings in the first four years are considerable and would more than recoup the start up costs. Mr. Mike Humphries, from the benefits division at the U of A, the NEA Health Trust and, perhaps Mr. Jarrell, our new trustee from Bering Straits School District, indicate their plans incorporate this element. For retirees this past year, 474 members had claims of over \$50000 each and accounted for 53M of the medical expenses to the state plan. Surely disease mgt could have reduced some of this cost. Other than the generic drug campaign no substantive cost savings measures have been taken. The Health Care Committee has presented a list of several cost savings measures that we, and the entire Jt Board, would like to see initiated. The Boards can only recommend, however, not implement. I feel we would not be at this juncture, with drastic changes recommended to the system, if this Administration and past Administrations had held a Forum with employers, legislators, representatives of unions and the Municipal League and medical professionals to discuss methods of resolving these skyrocketing costs. We all recognize the problem and would like to be part of the solution, not adversaries. Senator Seaton has a bill regarding generics and closed formularies. This does not have to be legislated - the Administration can make those changes now as long as they do not diminish benefits to the current tiers.

My third issue deals with the comments by some that the Boards have not been responsible in recommending the employer contribution rate and with the awarding of the ad hoc PRPA. Wrt TERS and the employer rate, it is a

recommendation, the Administration can set the rate higher. The Boards act with information provided them by the Administration and the actuary. In the early '90's the TRS Bd adopted a 12% employee rate and to ensure stability for employers for future planning, they intended this rate be used for at least 20 years. In 2000 and 2001, however, when setting the rates for FY'02 and FY'03, Mercer, our actuary, recommended rates as low as 7.09% and 8.29% for those fiscal years. The TRS Bds did, in those two years, drop the rate to 11%; had they not, the employers may have been upset. In '03 we set the rate at 16%, though the first motion was for 17%. The contribution rate has been higher - in FY' 83 and '84 the combined rate for state and school district was close to 18%. When I started teaching in the '60's, employee, employer and the state each contributed 7%. The employee population at the University that is not under TRS, but under private accounts has a match by the employer of roughly two to one.

The other issue of Ad Hoc PRPA's apparently needs to be clarified since you were given a paper dated Mar. 18 from Mercer regarding the funding status due to plan changes, mostly enhancements through legislation, and Ad Hoc PRPAs. As you know the Boards recommend Ad Hocs on the basis of information provided by the actuary and the Commissioner of Administration. The Boards have only made recommendations when the funds were healthy. No Ad Hoc has been recommended since 2003. A retiree gets either the Ad Hoc or the automatic PRPA, not both. In the past years when the Ad Hoc has been awarded it only causes a small "blip" in the increase of the employer contribution rate, probably less than .06%. The Mar. 18 letter fails to indicate that probably 99% of the ad hoc cost mentioned, resulted from the settlement of a lawsuit in the mid '90's. The state lost the lawsuit and as a result had to make all retirees whole, from the time they retired, wrt the PRPA. The dollars paid out include not only past prpas but the interest earned. Many individual retirees who had been retired 30 to 40 years received checks close to \$10000. The lawsuit, as many of you may remember resulted because past administrations had not awarded a prpa when the fund was "healthy".

The Mar. 18 letter also attributes nearly 1B of the increase to the unfunded liability to benefit enhancements by the legislature. The Boards have said many times that "tinkering" with the tiers, once they have been established has not been in the best interest of the funds and for some of

these changes the actuary has not accurately predicted the rapid rise in health care costs. In the assumptions adopted by the Boards, the last time in Dec. of 2000, Mercer had a Medical assumption rate of 5.5%. We now know was not a realistic assumption. The Boards requested an Actuarial Audit in 2001 and the resulting report indicated that we should look at Medical assumptions on an annual basis. You also know that the RIP programs advocated by the Legislature in the early '90's were to be cost neutral, but this past year Mercer indicated they have had a negative affect on the funding ratio, primarily because of escalating Medical costs. Despite this poor advice, if you examine Mercer's budget line items over the past few years, you will see there has been a 100% increase in their fees.

I thank you again for your time and hope you will carefully consider whether drastic measures need to be taken at this time. We all agree there is a problem and we hope by working together we can begin to solve it, but please do not burden future hires for the mistakes of others. Changes can be made, without legislation, to control current and future costs. Please let us work together to make Alaska continue to be the place young people will want to come to work, as you and I once did.

Gayle Harbo

City of Ruby

PO Box 90

Ruby AK 99768

907.463.4401

Fax: 907.468.444

March 22, 2005

State of Alaska
Attn: Senator Albert Kookesh
Juneau, Alaska

Distributed by
Senator Albert Kookesh

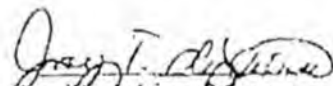
Dear Mr. Kookesh:

In March 2003 the City of Ruby voluntarily withdrew from the State of Alaska-PERS program. We took this action to reduce expenditures, because of State funding cuts to rural Alaskan municipalities. Before we made the decision to withdraw from the PERS program our City Clerk at that time was in contact with Mr. Kevin Worley. Mr. Worley did advise our Clerk that we would be penalized for withdrawing from the program, but we were never given an amount. There is no written statement to this effect, because both parties only discussed our options verbally over the telephone.

The State of Alaska-PERS program recently mailed a billing statement in the amount of \$241,854.00 to the City of Ruby, with no option of a payment plan. We were also informed that we would be charged an 8.25% Interest fee beginning with March 1, 2005. Even though we are no longer in the PERS program we are still faced with the same kind of debt as those communities who are still in the program. We feel that this is not fair to us and the other communities who have withdrawn due to financial stress. We are in dire need of State assistance in paying this debt off. As such we request that any Proposal by the State of Alaska to help communities deal with PERS debt should include the City of Ruby, since we all share the same burden of PERS debt together.

Since May 2003 the City of Ruby has had a high turnover rate in the City Clerk's position. We have been trying to keep up financially, especially with reduced State funding. We continue to provide services to our residents, and like many other Alaskan communities we face financial difficulties in providing sustainable programs. The amount that we owe will completely destroy our efforts to continue to provide services to our community. The Interest alone will wipe us out financially, and we will have no option but to discontinue to provide municipal services to the Ruby residents.

Respectfully,


Jay V. deLima Mayor

deferred comp plan. Teachers not only do not have a parallel SBS plan, they often receive little or no benefits under Social Security because of the provisions of the Government Pension Offset (spousal offset) and the Windfall Elimination Provision. These provisions eliminate or greatly reduce promised benefits from Social Security for quarters worked. Not only that, because the state mandates participation in Medicare Part B when a retiree reaches age 65, every retiree must pay almost \$80 a month out of pocket.

Last year this Legislature unanimously passed a resolution requesting our Alaska Delegation in Congress work for the repeal of GPO/WEP. They recognized the inequities for public employees not covered by SS.

I urge you to give this matter more thought before you make sweeping changes. Let's work together for a year to get the health care costs down and look at some of the suggestions made by the Joint Boards at the presentation of the Tier subcommittee's proposal in November. I am sure working together we can reach a solution that will be beneficial to future employees and also to Alaska's children. I want young people to come to Alaska and to stay in Alaska. We have much to offer. Thank you for this opportunity.

Bayle Harbo

3/30 Wed am
Senfman

Good Morning . My name is Gayle Harbo and I have been a resident of Alaska since 1957. I am a mother, a grandmother and a teacher and most recently a member of the Teacher Retirement System Board. As a parent and a grandmother I am most concerned about the quality and stability of the education employees in the state of Alaska. When I came to Alaska there were many applicants for each job, with prospective teachers often subbing for years before they were hired to a permanent position. Salaries in the late '60's and early '70's were very competitive. That is no longer true. I believe teacher job fairs are no longer held in either Anch or Fairbanks. The point is Alaska is no longer the place to come to get a good salary . A friend in Wasilla said if she had stayed in Wisconsin for her teaching career she would have a better retirement then she will have here.

I want the best and brightest to teach my grandchildren. To attract teacher's it is important we keep the DB system. Many of the changes recommended by the Tier Subcommittee of the Joint BDs could be adopted without going to a defined contribution system. One, in particular, would change the number of years over which an average salary is computed.

It is important to realize that, under the proposed system, seniors would be given a "pot" of money when they retire and then have to manage a resource that is to last them for a lifetime in terms of annual income. They would have no inflation proofing(PRPA, which even SS provides)and they would be at the mercy of investment advisors and unknown investment costs. As individuals, they would not be able to get the breaks ASPIB gets by investing large sums of money, putting their dollars at even greater risk. You have all read the horror stories of retirees who have lost everything because they did not have the expertise to invest. Most are emotional, not long term investors and their resources may not match their lifetime expectancy.

Another issue for seniors is health. I personally know many seniors who have suffered from stroke, Parkinson's, and dementia in their late 60's and early '70's. Who will look out for their well-being and security? Our retirees who invest their lives working for the state of Alaska deserve more.

The proposed legislation is particularly unfair to members of TRS who were pulled from Social Security, but not given the option PERS employees received when SBS was formed and the state matched the employee contribution of 6.13% . In addition PERS employees may participate in a

It is clear that the retirement systems are stressed and will remain so until such time a consistent market recovery is encountered and/or health care costs for retirees are contained. It is not prudent at this time to make any benefit changes that would increase retirement system costs, therefore, I urge you to oppose HB 97 addressing medical benefits for retired peace officers, SB 245 relating to retirement benefits for certain harbor officials and HB 329 relating to a retirement incentive program, as these changes will affect the overall pool.

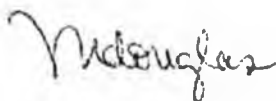
Do not initiate any benefit changes to add to the retirement system burden. Changes to the system are spread out to all participating employers as a result of the employer rate setting process. If an entity participates in a retirement incentive program, it will result in a prorated increase in all TRS employer rates. This would penalize those who choose not to participate. It takes many years for employers to pay for changes in benefits.

The following suggestions are presented for consideration:

- Adjust employee contribution rates so they may contribute to increased retirement system costs; this would require a change to AS 39.35.160 and AS 14.25.050 and allow the employees to share the burden of increased medical costs and market declines. (Keep in mind that members of TRS do not participate in Social Security and do not have that deduction from their wages.)
- Change the contract with Mercer to allow for faster reactions to the stock market and health care costs. Public entities have been struggling with increasing health care costs for many years. To think that this matter was not addressed pending a standard 5 year review is frustrating.
- Set the retirement system up as a separate corporation to remove them from the political process currently in place - it should operate like the Permanent Fund. There could be a savings in departmental costs through a shared investment infrastructure; the retirement system could cost out its investment process. (There should not be two sets of administrative staff to oversee investments - one in the Department of Administration and one in the Department of Revenue - this is redundancy of effort.)

Please pursue a plan to protect the PERS and TRS retirement systems by not adding to benefits, exploring ways to contain costs through plan changes (defined benefit vs. defined contribution plans) and assisting public entities in covering these ongoing unexpected increasing costs.

Sincerely,



Melody Douglas
Chief Financial Officer

Cc: Governor Frank Murkowski
PERS Retirement Board
TRS Retirement Board
Department of Education and Early Benefit
Division of Retirement & Benefits
Alaska Municipal League
Alaska Legislature



KENAI PENINSULA BOROUGH SCHOOL DISTRICT

Finance

Melody Douglas, Chief Financial Officer
148 North Binkley Street Soldotna, Alaska 99669-7553
Phone (907) 262-5846 Fax (907) 262-7645

April 2, 2004

TO: All State Senators
All State Representatives

RE: FY06 PERS and TRS employer rates
Changes in retirement benefits

Dear State Legislator:

Much work has been done in the Senate and House thus far to address the needs of K-12 education funding. I thank you for your part in this process. We anxiously wait to hear the outcome of pending legislation in light of our budget approval process and decisions required for hiring staff.

According to a presentation made by a Mercer Human Resource Consulting representative to a joint PERS and TRS Retirement Board Meeting March 24, 2004, the retirement systems funding requirements have gotten slightly worse over the last year. It appears the PERS employer rate should be increased from 11.77% to 25.63% and the TRS employer rate should be raised from 16% to 38.85% to meet the needs. Obviously, these increases are unrealistic to implement in a single year.

Therefore, similar increases to those approved by the PERS and TRS Boards for FY05, 5% and 4% respectively, will likely be forthcoming for each of the next several years in order to make the retirement systems financially sound. These Boards are slated to set the FY06 rates at their meetings on April 19, 2004. The incremental impact of such a plan for the Kenai Peninsula Borough School District (KPBSD), assuming the same number of staff each year, is estimated to be:

	<u>TRS</u>	<u>PERS</u>	<u>Total Increase</u>
FY06	1,678,926	510,790	2,189,716
FY07	1,700,893	547,597	2,344,490
FY08	1,721,346	586,417	2,507,793
FY09	1,752,607	627,440	2,680,046
FY10	2,191,009	670,683	2,861,692

To put such increases into perspective for KPBSD, it could equate to the annual elimination of approximately 35 teaching positions if additional revenue isn't forthcoming. Please bear in mind that the impact of the incremental rates for KPBSD for FY05 is \$1.9 million dollars. This increase alone is estimated to require \$1.78 additional base student allocation to fund (DEED statewide estimate).

proposals to reform the existing system rather than scrapping it altogether.

"We talked for hours," Schwarzenegger said. "Group after group after group. We met from morning to night. And those were powerful arguments, and powerful stories, and it was very clear that the main thing that troubled them was that there is a danger that the death benefits and the disability benefits are at risk."

He recalled that his own mother received benefits for 10 years after the death of his father, who was a police officer. "So of course, I would not want to take any of this away from anyone," he said.

The governor said he was not influenced by protests or polls, some of which show his popularity sagging.

At the surprise news conference announcing the move, Schwarzenegger was flanked by local government officials who had been actively involved in talks on the pension proposal. Some said they were willing to continue to work on changes.

Notably absent from the news conference were public employee unions seen as more militant.

Lou Paulson, a spokesman for a group of public service workers opposed to the changes, said union officials were invited to the news conference but were only given two hours to respond.

"We didn't think that was appropriate," said Paulson, a spokesman for the Alliance for a Better California.

Despite their absence, Paulson said that public safety workers are open to negotiations. He said the unions had already been talking to local governments in December before Schwarzenegger soured the atmosphere by backing the initiative.

"He threw the gauntlet down and said this is the way it has to be," Paulson said.

Schwarzenegger's proposal mobilized public workers even more than Proposition 13, the property tax limitation measure approved by voters in 1978, Paulson said.

"I've never seen more members more upset about any issue," he said.

The pension proposal was seen by some as part of a nationwide effort to scale back public employee pensions.

"It certainly frustrates any momentum that the movement had," said Keith Brainard, research director at the National Association of State Retirement Administrators. "California is often a trend-setter in many issues."

Others didn't see it that way, arguing that the proposal was derailed not on its merits but by the confusion over death and disability benefits.

"It's more of a clarity error," said economist Dan Clifton of Americans for Tax Reform, the Washington think tank headed by conservative crusader Grover Norquist. "I listened to the press conference - I heard him say, 'We still need to do this.'"

zoned in on what they said was the measure's failure to provide death and disability benefits for public safety workers.

Although the administration said it would never allow such benefits to be cut, it didn't offer a concrete proposal to keep them, and the criticism raged on.

After meeting with survivors of public safety workers killed in the line of duty and local government groups this week, Schwarzenegger decided to pull the plug - at least for now.

"I do not want the pension reform debate to be clouded by worries surrounding this issue," he said.

Democrats and unions were unambiguous in calling it a major defeat for Schwarzenegger.

"He deeply divided the state and poisoned his ability to balance the budget," said Treasurer Phil Angelides, a Democrat who is running for governor in 2006.

Dave Low, chairman of California Families Against Privatizing Retirement, called the governor's action an "admission that his initiative was flawed."

"He's been denying that all along and calling us liars for months," he said.

Assembly Speaker Fabian Núñez, D-Los Angeles, said the move, which he characterized as a retreat, would improve the governor's troubled relationship with Democratic lawmakers.

But he called on Schwarzenegger to withdraw his other proposed initiatives, which would change how political districts are drawn, give more budget-cutting power to governors, and institute merit pay for teachers and require them to be on the job five years instead of two before they could qualify for tenure. The governor still hopes to put the initiatives before voters this year.

While public pensions are no longer on Schwarzenegger's agenda for a special election this year, Núñez said, "the gun still has three bullets in it."

If Schwarzenegger hadn't threatened to circumvent the Legislature, he said, "we would probably have already negotiated agreement with the governor on most of these issues."

Schwarzenegger, however, showed no sign of backing down from his other proposals - and vowed to revive the pension proposal if the Legislature and public employee unions fail to agree to changes.

"We're right on target with our reforms," he said. "We will have reform. Come next year, we will have the pension reforms."

In his January State of the State address, Schwarzenegger embraced pension changes as one component of his effort to remake California government. He backed a proposal by Assemblyman Keith Richman, R-Northridge, and the Howard Jarvis Taxpayers Association to end the system that guarantees state and local workers a pension based on years of service and highest salary.

Instead, government workers hired after July 1, 2007, were to get 401(k)-style investment accounts similar to those common in the private sector. Those plans do not guarantee income in retirement, but can be transported from job to job.

The initiative was silent on the issue of death and disability benefits, which guarantee payments to public safety workers or their survivors.

But opponents maintained that the initiative would make it impossible for government employers to offer the benefits in their current form. Their position was bolstered by the ballot summary prepared by Attorney General Bill Lockyer, a Democrat who is considering a run for governor. The ballot summary stated flatly that the initiative would "eliminate" those benefits.

Survivors of fallen public safety workers and others spoke out publicly against the proposal and ran radio ads. Earlier this week, they met privately with the governor.

The governor also met with local government representatives, who had presented their own

Katie Shows

From: Rep. Paul Seaton
Sent: Thursday, April 14, 2005 7:30 AM
To: Katie Shows; Louie Flora
Subject: FW: HB238 PERS/TRS -- eliminating disability/death benefits

-----Original Message-----

From: anonymous - [mailto:anonymous777@gmail.com]
Sent: Wednesday, April 13, 2005 5:49 PM
To: Rep. Paul Seaton
Subject: HB238 PERS/TRS -- eliminating disability/death benefits

Dear Representative Seaton:

I am concerned that one very important issue has been overlooked in both the Senate and House bills establishing defined contribution retirement plans for PERS and TRS. This issue is the elimination of disability and death benefits for new State Troopers, city police officers and firefighters hired under these new plans.

The article below from the Sacramento Bee describes how Governor Schwarzenegger was forced to drop his defined contribution pension proposal because of this issue.

Yes, under the DC plans, the widow and children of a State Trooper killed in the line of duty would receive the balance of the trooper's DC account, but for a Trooper only on the job a few years this would be completely inadequate. Likewise, a Trooper suffering a permanent disability would only get the balance of his or her DC account.

I cannot imagine that any Alaska legislator would support eliminating the PERS disability and death benefits now provided to State Troopers, city police officers and firefighters for newly hired public safety employees in these dangerous professions.

I hope you can address this issue in your work on HB238.

Unfortunately, my personal situation requires me to send this to you anonymously.

Sincerely,

A concerned citizen

Sacramento Bee

Governor retreats on pensions

He drops the ballot plan, a key part of his effort to overhaul government.

By John Hill -- Bee Capitol Bureau

Published 2:15 am PDT Friday, April 8, 2005 Under assault by public employee unions, Gov. Arnold Schwarzenegger retreated from a key component of his proposed government overhaul Thursday, an initiative that would have scrapped the traditional government pension system in favor of 401(k)-style investment accounts.

"Even though our signature drive has been very successful and we have gathered 400,000 signatures, I think it is better to improve the language and put our plan on the June 2006 ballot," the Republican governor said. He had wanted to put the issue on the ballot during a special election this fall.

Public employee unions and others had lambasted the proposal, staging protest after protest at Schwarzenegger fund-raisers and other public appearances. In particular, they

Katie Shows

From: Rep. Paul Seaton
Sent: Wednesday, April 13, 2005 2:40 PM
To: Katie Shows
Subject: FW: PERS/TERS

Follow Up Flag: Follow up
Flag Status: Red

Ian Laing
Rep. Paul Seaton
Legislative Staff
(907) 465-2689

-----Original Message-----

From: Glen Ramos [mailto:fishing@alaska.com]
Sent: Wednesday, April 13, 2005 12:00 PM
To: Rep. Paul Seaton; Rep. Bob Lynn; Rep. Jim Elkins;
Representative_Jay_Ramrus@legis.state.ak.us; Representative_Carl_Gatto@legis.ststae.ak.us;
Rep. Berta Gardner; Representative_Max_gruenberg@legis.ststae.ak.us
Subject: PERS/TERS

Dear House State Affairs Members,

Thank you for all your work on the Public Employees retirement issue. I have been living in this great state since 1979, and never plan to leave. I vote in every election, and although I am not a "squeaky wheel", this issue is too important not to squeak about.

I believe that this is the richest state in the nation on many fronts. The richest in beauty, the richest in resources, and the richest in our diverse population. I have been following the PERS/TERS issues from: the erroneous information provided by Mercer that got us into this fix, to the throw the baby out with the bathwater fix.

The fix the Senate has proposed, I believe, will have disasterous effects on the people who have a calling to be firefighters, peace officers, educators, and other public employees. Our state is not bankrupt. Our state is not poor. There is no wolf at the door today.

Please do not make any hasty decisions this session about our Great State's public retirement system. This is a complex issue that deserves careful thought and time. My humble request is that you wait until next session, and revisit this issue at that time.

Respectfully,
Lynn Kracke, Republican and public school educator since 1992

Katie Shows

From: Dave and Molly Brann [brann@alaska.net]
Sent: Monday, April 11, 2005 9:33 PM
To: Katie Shows
Subject: Education - pers/ters issues

Follow Up Flag: Follow up
Flag Status: Red

Representative Steaton,
Thank you for all you do and thank you for your newsletter which attempts to inform us about what you are attempting to do.

I still can not feel certain I understand what is happening to the trs/prs issue. Although it seems that I will not be impacted since I am already retired, I can not be sure of this from the information you have sent out. I still feel compelled to react for the benefit of the future teachers of Alaska who do not exist yet and can not speak for themselves. I am so disappointed in the legislature for potentially reducing the retirement program to basically nothing. What can they be thinking??

I did not go into teaching for the retirement. I did not choose Alaska for the retirement program. But I expected that the retirement program would be fair. It did not occur to me 25 years ago to compare the states and pick the state with the best system. But I think the teachers of the future have a little more knowledge than I had. Why would anyone choose to teach in Alaska unless they have no other choice. Can we attract quality teachers and aids???

What the legislature is proposing is an insult. Not only to teachers, but to all public employees. It is a TRS/PRS system. If you have to put away a million dollars on a teacher's salary, (to fund your health care) you will not be able to do it. If you are able to do it, you will not spend that money on the state health insurance system, you will simply save it for medical costs. You will gamble. Most health insurance policies have a million dollar limit anyway. Can't the legislature figure this out??? All teachers will work to the minimum and retire (which is what most of them do now anyway). They will retire and go to work someplace else to earn a real income.

Although I feel for the Teachers in the future system, I am embarrassed for the classified personal in the education system. The state actually thinks that they will be able to attract classified aids who are required to have two years of college education? And in retirement, they will have to spend their total retirement payment for health costs?? Have the members of the legislature, Senate and House ever passed a math test?? Can they understand the figures??? It makes no sense.

I have no faith in the legislature to make a good decision. Is it all just politics? Why do they submit bills that are way off reality? Is it just a political move to wake up the public? Do they understand that teachers have no time to react to the legislature? They are correcting tests, homework and making lesson plans. By the time they can pay attention to the messages they have been receiving, school is out and it is June. It is too late. So they submit totally impossible bills hoping they will get a reaction from the teachers???

We elected you to deal with this. We trusted you to have a level head.
To know what was reasonable.

TRS/PRS should not be weakened. It should be strengthened. Alaska has the money to treat its employees well and should treat its employees well. Considering that teachers who earned Social Security through the other jobs they had to have in their lives to pay the bills are denied their full SS benefits, it is wrong for the State to reduce their benefits even more.

Sincerely, Molly Brann



KENAI PENINSULA BOROUGH SCHOOL DISTRICT

Finance

Melody Douglas, Chief Financial Officer
148 North Binkley Street Soldotna, Alaska 99669-7553
Phone (907) 714-9883 Fax (907) 262-5867
Email mdouglas@kpbsd.k12.ak.us

January 20, 2005

RE: PERS and TRS System – let's take a different approach
Alaska Public Employees Retirement Corporation

VIA EMAIL

Dear Legislator,

The annual incremental increases to Public Employees Retirement System and the Teachers Retirement System employer contribution rates experienced in recent years, with continued increases expected for several years to come, will eventually cripple the economy of the State. Retirement systems slated to have employer rates of 30% for PERS and 50% for TRS is ludicrous.

A viable retirement system is essential in the recruitment process and particularly so in the K-12 education arena. Teacher salaries in Alaska are no longer at the top nationally and the draw of the 'Last Frontier' isn't as effective as it once was. The deteriorating condition of these retirement systems may potentially have a negative affect on the hiring process, not to mention the cost cutting mode forced on school districts by increased rates.

It seems time to look at doing business differently. There are many suggestions that will make minor adjustments, but we need something BIG to alter the course of these systems. The indebtedness needs to be paid off, but how to accomplish that generates a lively discussion, to say the least. Suggestions have ranged from 'the State should just write the check' to 'bonding the debt.' Trying to avoid the problem through increased rates will ultimately devastate public education in Alaska.

At a minimum, issues to be addressed with these systems include:

- Holding all bills that could increase costs until a detailed, thorough analysis is done
- Establishment of new tiers to include long-term cost containment
- Proportional employer representation on the retirement boards

And then there are more radical approaches to the retirement challenge facing Alaska. Enclosed is a suggestion for consideration – establish a corporation to manage the retirement systems. Although not new, now is the time to seriously consider this or other solutions to the problems facing our retirement systems. Hopefully, this suggestion will initiate a conversation about truly resolving Alaska's PERS and TRS dilemma.

Sincerely,

Melody Douglas
Chief Financial Officer

Enclosure

Katie Shows

From: Louie Flora
Sent: Monday, February 07, 2005 1:41 PM
To: katie_shows@legis.state.ak.us
Subject: FW: TRS tiers

constituent

From: Will Files [mailto:will@wfiles.us]
Sent: Monday, February 07, 2005 1:15 PM
To: Louie Flora
Subject: TRS tiers

Hi Louie,
I went to the web site about tiers, and found the whole subject somewhat confusing. But I am opposed to the idea of "tiers". This creates different classes of people, which is not constitutionally viable. With high teacher turnover, particularly in the bush (I heard it has been averaging 60% in the Kotzebue area), and the need for quality instruction, we need to strengthen our retirement system, not water it down. It's time whoever is supposed to pay, pays up.
Will

Will Files
Homer, AK

Katie Shows

From: Rep. Paul Seaton
Sent: Friday, March 04, 2005 6:04 PM
To: Ron Rucker
Subject: RE: PERS/TRS Deficit

Thank you for the message. Hopefully we will have a draft version out for discussion next week. we are construction it on the principles that were discussed last Saturday. We will stay in touch and send you a copy as soon as we have it available. We will appreciate you suggestions.

Thanks again.

Paul Seaton

From: Ron Rucker [mailto:matsucea@mtaonline.net]
Sent: Thursday, March 03, 2005 5:05 PM
To: Rep. Mike Kelly; Rep. Carl Gatto; Rep. Vic Kohring; Rep. Mark Neuman; Rep. Bill Stoltze; Rep. Lesil McGuire; Rep. Paul Seaton; Rep. John Coghil; Sen. Johnny Ellis; Sen. Lyda Green; Senator_Charlie_Hugginss@legis.state.ak.us; Sen. Ralph Seekins; Sen. Fred Dyson; Sen. Gary Wilken
Subject: PERS/TRS Deficit

Dear Representatives and Senators: I wanted to comment to concerning the PERS/TRS deficit and some of the proposed changes. First, I want to say that I am not opposed to paying my fair share or even having the employee contribution rate increased. I am opposed to an excessive increase for either employers or employees because of a stock market crash and at least two bad management decisions. The stock market is and will continue to correct itself. The decision to reduce the employer contribution because of a "flush" system was counterproductive. Had that reduction not occurred, then the deficit would be smaller now. Finally, the retire/rehire program puts undue stress on an already stressed program. Scott Burns wrote an article in the October 25, 2004 "Statesman Journal" on the negative effect low paying jobs has on Social Security. No paying jobs are even worse. Allowing people to retire and then come back to work and not pay for their insurance and their retirement benefits increase the strain on the retirement system. The system is designed to have new employees paying in to the system for a long time to maintain solvency. Rehiring a retiree not only means they are paying into the system but there is also not a new young employee paying into the system. This is, in affect, a double wammy. I ask you to carefully consider how you change the system until you change some of the negative impactors. Increase employee contribution by a small amount if you must, but not by 50%. Thanks for all your time and effort. Ron Rucker, President, Classified Employees' Association.

Katie Shows

From: Rep. Paul Seaton
Sent: Monday, April 04, 2005 5:07 PM
To: Katie Shows
Subject: FW: TERS and PERS Retirement Proposed Changes

Respond if you want.

Ian Laing
Rep. Paul Seaton
Legislative Staff
(907) 465-2689

-----Original Message-----

From: Gretchen Nelson [mailto:johnngretchen@gci.net]
Sent: Sunday, April 03, 2005 4:53 PM
To: Rep. Paul Seaton
Subject: TERS and PERS Retirement Proposed Changes

Gretchen Nelson
3039 Alder Cir.
Anchorage, AK 99508-3255

April 3, 2005

The Honorable Paul K. Seaton
Alaska House of Representatives
House of Representatives, Room 102
Juneau, AK 99801-1182

Dear Representative Seaton:

I am writing to ask that you carefully consider the serious impact and long term effects the recent proposed legislative action toward the state retirement system will have on our schools and people's lives. Please do all you can to change the approach being taken on this issue. I don't often take time to contact political decision makers, but the little I've read on this issues has brought me to urge you to consider other angles to make the system more efficient.

No, the Investment board should never be appointed by the governor (no matter who it is), and before we make changes to district/employee contributions, and create lower Tiers that will effect children's learning; Please work to eliminate and clean up loop holes in the system that do not truly benefit the employee base. I never knew, city councils, school board, assembly members, etc. receive retirement benefits (\$10,000-health) after serving just years in a job that is portrayed by them as their civic contribution! Let me know what I can do to to ensure that wise action is taken so our schools can continue to provide a quality education for the people who will be making future decisions for our state.

Sincerely,

Gretchen Nelson

Katie Shows

From: Rep. Paul Seaton
Sent: Friday, April 08, 2005 7:55 AM
To: Katie Shows
Subject: FW: TRS/PERS system

Ian Laing
Rep. Paul Seaton
Legislative Staff
(907) 465-2689

-----Original Message-----

From: Mary Ostermick [mailto:awi@alaska.net]
Sent: Thursday, April 07, 2005 9:36 PM
To: Rep. Paul Seaton
Subject: TRS/PERS system

Mary Ostermick
P.O. Box 827
Talkeetna, AK 99676

April 8, 2005

The Honorable Paul K. Seaton
Alaska House of Representatives
House of Representatives, Room 102
Juneau, AK 99801-1182

Dear Representative Seaton:

Please leave the TRS/PERS system alone. It is necessary to attract and keep new teachers and paraprofessionals. Correct abuses to the system if necessary, but leave it strong and intact.

Sincerely,

Mary Ostermick

3/24/05

House State Affairs Committee

PERS/TRS legislation

Thank you for addressing the PERS/TRS \$5 billion problem.

My name is Larry Semmens, I am a CPA and Finance Director for the City of Kenai. I have attended most of the PERS meetings the last 18 months or so, including 3/22/05.

From an employers standpoint, the recent jump in the unfunded actuarial liability and the resulting rate increases are difficult to absorb, so I believe changes do need to be made.

Predictability of cost and local control are best provided with a defined contribution plan, so I support a new tier which is a DC plan. Recruitment issues are real, but can be dealt with locally with either salary, work conditions, or even supplemental retirement plans like the State's SBS plan.

Although the PERS/TRS boards have some culpability in the current situation, I honestly believe it is limited. Consider that the actuary is the expert and the Boards practically have to believe what they are told. Until 2002, the actuary told the boards that the funds were fully funded and the rate needed to support the system was 6.77%. The next year the board had to be as shocked as everyone else when the actuary told them the fund is now about 75% funded and the rate needed is 25%. Did the board have anything to do with that change?

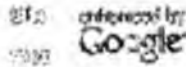
I do not believe that changing the make-up of the board to more of a disinterested board will necessarily help. The key attribute of a PERS/TRS member in my opinion is understanding what a pension plan is, how it works and where the risks are. The change in board structure that I would like to see is employer representation.

If I can be of service please contact me.

lsemmens@ci.kenai.ak.us



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April 16, 2005

E-mail story Print Most E-mailed

Bush Points to a Retirement System With Mixed Results

By Peter G. Gosselin and Edwin Chen, Times Staff Writers

KIRTLAND, Ohio — President Bush came to Ohio on Friday to highlight a state retirement savings system that he said showed that Americans would be better off handling their own old-age investments through personal accounts than relying on traditional Social Security.

But that state's version of personal accounts has attracted few takers among the people eligible — Ohio's 750,000 public employees. And records show that the most widely chosen version of the state-offered accounts has racked up a five-year earning record of 1.86%, about the same return that the president says Social Security produces.

"Boy, does he have a hard sell ahead of him in using Ohio as his example," said Keith Brainard, research director of the National Assn. of State Retirement Directors, which represents virtually all of the nation's public employee pension plans.

"Ohio's individual account programs are only a few years old, and in the short time they've been around, investment returns have been relatively weak," Brainard said.

Coming two weeks before the end of his "60 Steps in 60 Days" campaign to convince the nation that Social Security needs to be reshaped, Bush's Ohio appearance illustrated the difficulty the president faced in promoting his plan to a nation edgy about a still-uncertain economic recovery and a stock market that had taken a steep dive in recent days.

Bush has proposed allowing workers under 55 to divert a portion of their Social Security taxes into private stock and bond accounts. In return, they would agree to a cut in their traditional Social Security benefit.

The president has said the private accounts should be part of a broader plan to shore up the shaky finances of the Social Security system. That broader, still-undefined plan might include further benefit cuts or tax increases.

But several recent polls show the president's proposal losing ground amid concerns that private accounts would require Americans to shoulder more economic risk for the possibility of a greater reward.

And the president's cause was unlikely to be helped by a stock market that wrapped up its worst week in two years Friday, with the Dow Jones industrial average diving 191 points.



Section front from today's newspaper

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Hoy

The Dow slumped 3.6% for the week, and the tech-heavy Nasdaq index fell nearly 5%.

None of this appeared to faze Bush, however, as he took the stage at Lakeland Community College in Kirtland to lavish praise on an Ohio public employee retirement system that he said held important lessons for the White House and Congress in how to restructure Social Security.

"We need to come together in Washington ... to work on a permanent fix [for Social Security]. All options are on the table," Bush declared.

But he quickly suggested that any overhaul include personal accounts, which congressional Democrats have said they will adamantly oppose if — as Bush has proposed — they involve diverting payroll tax revenue from the existing system.

Part of any Social Security fix, the president told his audience, should be "to trust people with their own money, to devise a system that would work similar to the state of Ohio, that would say, 'We're going to let you earn a better rate of return for your money.'"

But in the biggest of Ohio's several state retirement programs, the popularity of the private accounts and the returns they produce are relatively low.

Ohio is one of half a dozen states that have begun to offer 401(k)-like retirement accounts through which eligible employees can invest in a handful of state-screened mutual funds or other portfolios.

Employees who choose accounts risk losing money if the value of their investments falls, but reap most of the reward if the value rises.

Ohio has continued to offer traditional pensions, where the state bears the risk and promises to pay retirees a certain amount for as long as they live. Employees can choose between the traditional pension and the private accounts, or pick a plan that mixes the two.

The state began offering the private accounts to state college faculties in 1998, and extended them to other workers early in this decade. Ohio has five major retirement systems for teachers, police, firefighters and other public employees.

It was unclear from the president's remarks and from an administration-issued news release which of the five plans Bush was discussing in his appearance Friday, or what option he was focusing on. The White House referred calls to spokesman Trent Duffy, who could not be reached.

But in the biggest of the state's plans — the 522,000-member Ohio Public Employees Retirement System, or OPERS — the personal account option has not proven particularly popular among state workers, or delivered a particularly good rate of return.

About 10,000 of those eligible for personal accounts — less than 5% — have signed up for the accounts since they became available at the start of 2003, according to Laurie Fiori Hacking, OPERS' executive director.

Of those who have chosen the accounts, most have directed that their money be invested in the system's "moderate" or "aggressive" pre-mixed portfolios, according to spokesman Richard Baker.

OPERS records show that the "moderate" account lost money in two of the last four years and during the first three months of this year. It posted a five-year annualized return of 1.86%.

That compares to the 1.8% that Bush said Friday was the rate of return for Social Security.

The OPERS "aggressive" portfolio had a five-year return of 0.26%.

By contrast, the fund that pays for the system's traditional pensions, which is handled by professional money managers, had a five-year return of 3.52%.

Personal accounts have also had relatively few takers in the state's other big plan, the State Teachers Retirement System of Ohio, where 12,500 of the plan's 225,000 members — less than 6% — have chosen personal accounts, said Laura Ecklar, spokeswoman for the teachers' system.

Ecklar said it was impossible to tell how personal account holders had fared, because no single investment option offered by the teachers' retirement system was so favored by participants that it could serve as a representative for all.

During his Ohio appearance, the president was accompanied by several retirement plan participants.

Among them was a University of Cincinnati employee who said she was making 6% on a "guaranteed" account that sets a floor under and a cap on what people can make. Another person said he was making 7.1% on a hybrid plan.

In a pitch directed to Democratic lawmakers, who are nearly unanimous in opposing Bush's plan to create Social Security personal accounts, the president called for "political amnesty" for those who joined his drive to retool the retirement program.

"All ideas are on the table," he asserted at several points in his remarks.

His declaration appeared to reinforce a suggestion made Thursday by his top economic advisor, Allan B. Hubbard, that the voluntary retirement accounts might be acceptable to Bush even if they were offered as an "add-on" to Social Security, instead of being financed by current payroll taxes, as the president was advocating.

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Governing Magazine

March 2004

SECTION: FEATURE; Pg. 28

LENGTH: 1759 words

HEADLINE: PENSION PENDULUM

BYLINE: Anya Sostek

HIGHLIGHT:

A few years ago, defined-contribution plans were hot. Now they're not.

BODY:

In the mid-1960s, the **Nebraska** legislature embarked on what would ultimately turn out to be a very expensive experiment. **Nebraska** had just decided to provide all state and county workers with retirement benefits, something that the state had done two decades earlier for its teachers and judges in the form of a traditional "defined-benefit" pension plan. But in the spirit of the '60s, the state decided to blaze new ground, selecting an up-and-coming idea called "defined contribution" for the state and county workers.

Where defined-benefit plans gave employees a fixed amount of money at retirement, usually based on their salary and years of service, the new defined-contribution plans created individual employee savings accounts, allowing workers to invest the money on their own. As the 20th century drew to a close, **Nebraska's** decision seemed positively prescient. Many other state governments were considering legislation to adopt similar plans, which had already caught fire in the private sector in the form of 401(k) accounts.

But Nebraskans' feelings about such plans changed in the year 2000, after a large-scale study of the state **pension** system. The results shocked even those who already had doubts about the defined-contribution approach. During the period from 1983 to 1999, state and county workers averaged a 6 percent return on their money--versus an 11 percent return for the state's professional investors handling the traditional **pension** money.

Faced with such a disparity, legislators acted almost immediately to change the system, ending the defined-contribution plan for new hires and giving all other workers the option

to switch into a hybrid plan. "We had to take a look in the mirror and think, is this really providing a true **pension**?" says Anna Sullivan, executive director of **Nebraska** Public Employee Retirement Systems. "It's really sad what they retire with. It's nothing compared to what people in our defined-benefit plan receive."

Nebraska's experience is unlike that of any other state--in the duration of the plan, the level of data collected and the abrupt shift away from defined contribution. But **Nebraska's** experience was a harbinger for a nationwide trend. Momentum for defined-contribution plans, which peaked nationwide with the red-hot stock market of the late 1990s, has slowed significantly in the wake of the market downturn. Since then, no states have adopted new plans and participation in optional plans is far below projected levels. "I don't think **Nebraska** is unique," says Sullivan, who has worked for the state **pension** system for 28 years. "I read every article I can get my hands on, and the patterns are very similar."

FLEXIBILITY VS. RISK

Virtually all governments started out offering their workers defined-benefit plans: As long as employees worked the number of years required to be vested in the system, they were guaranteed a fixed, annual amount based on their salaries and years of service. In the 1980s, the private-sector shift to defined-contribution plans took off as small employers realized they offered a way to provide retirement benefits with essentially no financial risk. Younger workers, who tend to change jobs frequently, appreciate the portability. When they leave a job, they can take the contributed funds with them.

Of the nearly two-thirds of private-sector workers who had **pension** plans in 2000, 22 percent were in defined-benefit programs; 42 percent were in defined-contribution plans. In contrast, 90 percent of government workers are in defined-benefit, with only 10 percent in defined-contribution programs. It is increasingly common, however, for governments to offer supplemental defined-contribution plans, in addition to their defined-benefit plan.

The most important difference between the two plans boils down to who is left holding the bag if investments turn sour. In a defined-benefit plan, the risk lies with the employer. If an employer--private or public--is lax in its funding or if it invests its money poorly, it is still on the hook to pay employees their guaranteed benefits. With governments under constant fiscal pressures, underfunding of **pension** plans is not uncommon. In one of the worst such cases in the early 1990s, the West Virginia teachers' **pension** fund had a total liability of \$3.2 billion and had assets of less than \$300 million. The few places that are still considering defined-contribution plans--notably New York and Massachusetts--are doing so mainly because of concerns about their ability to fund a traditional plan.

Defined-contribution plans have no possibility of incurring a funding deficit, because each employee has his or her own money already saved in an account. "Defined-contribution plans mean that there's no future liability that has to be paid for," says Trevor Martin, director of the commerce and economic development task force for the

American Legislative Exchange Council. With the defined-benefit plan, on the other hand, if pension funds "default or underperform severely, it all boils down to costing taxpayers," Martin says.

To force itself to straighten out its finances, West Virginia switched to a defined-contribution plan in 1993. The funding is now stable, but teachers are asking to switch back to a defined-benefit plan--a proposal that the legislature is considering this session.

It turns out that, as Nebraska learned, employees are not comfortable investing their own money. "It's like sitting in a car and you've never seen a steering wheel before, and they say to drive this thing," says David Haney, executive director of the West Virginia Education Association. "You may figure it out eventually, but it may wreck in the process." Haney contends that an aggressive education program is a necessary component of a defined-contribution plan, and that West Virginia teachers weren't given any semblance of an education.

Even in Nebraska, where employees were given the option of taking off work to attend full-day financial seminars, investment performance was woeful. "I don't think that people have the discipline, the time or the temperament to manage their own defined-contribution account and to have that be their whole retirement," says Sullivan.

TEPID INTEREST

The flip side of the risk in defined-contribution plans comes when an employee invests well and ends up flush in retirement money. If investments don't pan out as expected, however, it's the individual employee's retirement savings on the line. For that reason, employee enthusiasm for defined-contribution plans often mirrors the Dow Jones index. "When the market is doing well, people are very excited about defined contribution," says ALEC's Martin. "When the market is doing poorly, people get excited about defined benefit."

Florida learned that lesson the hard way. The state enacted a law in 2000 creating a defined-contribution plan and also making reforms to its defined-benefit plan, such as a shorter vesting period. The measure, passed at the height of the stock market boom, was designed mainly to compete for younger workers tempted by the private sector. It was estimated at the time that 30 percent of the state's 600,000 eligible public employees would switch into the defined-contribution plan.

Two years later, when it came time for people to make a decision, the market was severely battered. Furthermore, the nation had grown very familiar with the fate of some Enron workers and the complete evaporation of their retirement savings. Even though government defined-contribution plans don't allow risky investments in a single company, employees were skittish about the market and frightened about their retirement savings. Thus far, only 3 percent of Florida employees have actually exercised their option to switch plans--far below the 30 percent projection.

Other states that recently established optional defined-contribution plans saw similar results. In Ohio, a defined-contribution plan and a hybrid plan for teachers have attracted only 2.5 percent of existing employees and 25 percent of new hires. Even though the market was still soaring when Michigan introduced its defined-contribution plan in 1997, only 6 percent of employees decided to join.

The issue of risk also recently propelled the city of Alexandria, Virginia, to begin the process of switching from a defined-contribution plan to a defined-benefit plan for its police and firefighters. "With the changes in the stock market, we started asking ourselves, why do the employees have the investment risk," says finance director Daniel Neckel. "Why doesn't the city have the investment risk?"

HYBRIDS TO THE RESCUE?

Even though the stock market rebound is boosting investment returns, state and local governments still face intense budget pressures, and some are looking to hybrid plans for relief. On the brink of fiscal disaster, the state of Oregon was forced to completely overhaul its unusually generous pension system. Among the reforms, the state legislature agreed on a mandatory hybrid plan for new and existing employees.

Under the plan, which went into effect this year, employer contributions go into a defined-benefit fund, with a guaranteed retirement benefit. Employee contributions go into a defined-contribution fund, which employees can invest as they please and take with them if they leave the job. In some ways, the plan provides the best of both worlds. "That could be the trend," says Randy Taylor, senior vice president of CitiStreet, a private company that administers government defined-contribution plans. "A hybrid program giving members defined benefits but also allowing some self-direction."

Nebraska's solution is also a hybrid, called a cash balance plan. Workers were given the option to keep whatever money was in their defined-contribution accounts, and to transfer it into the new cash balance account. All employees in the new plan still get a quarterly statement with their account balance, and can take whatever is in their account with them if they leave. But they no longer have control over the investments in the account. The money is now pooled and invested by the state, with a guaranteed return.

For Sullivan, the new plan provides an acceptable compromise. She is still frustrated by employees who cash out their savings for a big purchase when they leave government. But she is much more at ease with the investment activity. "I think that in a defined-benefit plan, your dollars work harder for you," she says. "For the same amount of money, you can provide a better benefit."

LOAD-DATE: February 27, 2004

**KODIAK ISLAND BOROUGH
RESOLUTION NO. FY2005-23**

**A RESOLUTION OF THE KODIAK ISLAND BOROUGH ASSEMBLY URGING
THE ALASKA STATE HOUSE AND SENATE TO APPROVE THE GOVERNOR'S
PROPOSED \$37.5 MILLION APPROPRIATION TO OFFSET THE COST OF
STATE REQUIRED MUNICIPAL PERS INCREASES FOR THE NEXT TWO YEARS**

WHEREAS, the State has notified the Kodiak Island Borough that its' PERS rate will increase from 5% in FY2005 to 10% in FY2006, and will continue to increase until it reaches a total rate of 28.34%; and

WHEREAS, PERS is a single employer retirement system and the Kodiak Island Borough has an unfunded liability of \$4,119,487, not shared with other PERS employers; and

WHEREAS, mandatory State PERS increases on top of the loss of municipal revenue sharing as well as fuel, insurance and other cost increases leave many municipalities without the resources to fully fund schools, police, or other basic services; and

WHEREAS, the Kodiak Island Borough would have to raise its' mill levy close to 1 mill to fully fund its' state mandated PERS costs but has a tax cap that precludes such increases and will require the Borough to make deeper cuts to local basic services; and

WHEREAS, the Alaska Municipal League and many municipal elected officials and finance directors have been "at the table" to help the State adopt a new PERS/TRS "tier" to help control future costs; and

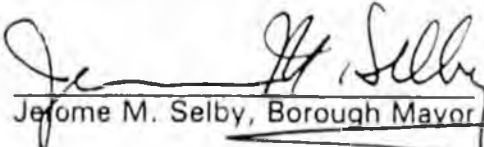
WHEREAS, the State has received a huge increase in oil revenue while communities are facing steeply higher expenses. For every \$1 increase in the price of a barrel of oil the State government receives an additional \$65 million of new revenue per year while Alaskan cities, boroughs, schools, businesses, other organizations, and families pay \$20 million of higher new costs for fuel, transportation, etc. based on federal fuel usage figures for Alaska; and

WHEREAS, if the State fails to share a small portion of its huge oil revenue increases with our community/local taxpayers to offset State required PERS payment increases for at least the next two years, the impact on Kodiak Island Borough will be higher taxes plus a reduction in the ability to pay for education, planning and zoning, health, and other basic Borough functions.

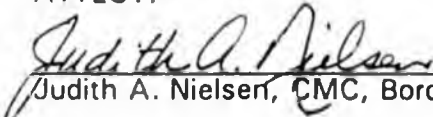
NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH that the members of the Alaska State House and Senate are strongly urged to approve the Governor's proposed \$37.5 million appropriation to offset the cost of State required municipal PERS increases for the next two years. This action will avoid large local tax increases and/or large cuts to local services including schools, maintenance of Borough buildings and other improvements, planning and zoning, equity in Borough property assessments, and other services.

**ADOPTED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH
THIS SEVENTH DAY OF APRIL 2005**

KODIAK ISLAND BOROUGH


Jerome M. Selby, Borough Mayor

ATTEST:


Judith A. Nielsen, CMC, Borough Clerk

Rep. Paul Seaton

From: Steve Conn [steveconn@hotmail.com]
Sent: Tuesday, April 19, 2005 9:37 AM
To: Rep. Paul Seaton
Subject: please get more input on retirement issues

First, thanks for your hard work. Second, please delay reform of the state retirement system until those of us who depend on it can have a chance to give more input. I am one of those, now living in Seward and you have many others in your district. Steve Conn, PO Box 1690, Seward 99664, 907-2246061.

Requested by: Mayor Keller
Adopted: April 11, 2005
Vote: Unanimous

**CITY OF WASILLA
RESOLUTION SERIAL NO. 05-16**

**A RESOLUTION OF THE WASILLA CITY COUNCIL SUPPORTING PUBLIC
EMPLOYEE RETIREMENT SYSTEM (PERS) EARLY FUNDING NEEDED FOR THE
CITY OF WASILLA TO AVOID LOCAL TAX INCREASES.**

WHEREAS, the State has notified communities that rates for the State Public Employee Retirement System (PERS) will increase by more than 400 percent. PERS rates have been increasing by 5 percent of total salaries paid by municipalities and will reach approximately 30 percent of the salary of every public employee for the next 25 years to pay the "unfunded liability" of the State PERS program; and

WHEREAS, mandatory State PERS increases on top of the loss of municipal revenue sharing, and fuel, insurance and other cost increases leaves many municipalities without the resources to fully fund schools, police, or other basic services; and

WHEREAS, municipalities with property taxes face 1 to 6 mill property tax increases just to pay state mandated PERS costs over the next three years (average 1.65 mills), however, many municipalities have local tax caps that preclude such increases which will require municipalities to make deeper cuts to local basic services.

WHEREAS, the Alaska Municipal League and many municipal elected officials and finance directors have been "at the table" to help the State adopt a new PERS/TRS "tier" to help control future costs; and


WHEREAS, the State has received a huge increase in oil revenue while communities face steeply higher expenses. For every \$1 increase in the price of a barrel of oil the State government receives an additional \$65 million of new revenue per year while Alaskan cities, boroughs, schools, businesses, other organizations, and families pay \$20 million of higher new costs for fuel, transportation, etc. based on federal fuel usage figures for Alaska; and

WHEREAS, if the State fails to share a small portion of its huge oil revenue increases with our community/local taxpayers to offset State required PERS payment increases for at least the next two years, the impact on the City of Wasilla will have an upward affect on property taxes or lower the service level that we provide to our citizens.

NOW THEREFORE BE IT RESOLVED, that the Wasilla City Council strongly urges the members of the Alaska State House and Senate to approve the Governor's proposed \$37.5 million appropriation to offset the cost of State required municipal PERS increases for the next two years; and


BE IT FURTHER RESOLVED, this action will avoid higher local taxes and/or large cuts to local services.

ADOPTED by the Wasilla City Council on April 11, 2005.



DIANNE M. KELLER, Mayor

ATTEST:



KRISTIE SMITHERS, MMC
City Clerk

[SEAL]

Rep. Paul Seaton

From: Buddy Harrel [blueboy@mosquitonet.com]
Sent: Tuesday, April 19, 2005 9:30 AM
To: Rep. Paul Seaton
Cc: Rep. Jay Ramras; Representative_Berta_Gardiner@legis.state.ak.us; Rep. Bob Lynn; Rep. Carl Gatto; Rep. Jim Elkins; Rep. Max Gruenberg
Subject: Senate Bill 141

Dear Legislative Representatives:

Since I moved to Alaska in 1969, the State has been dedicated to all of its citizens with the exception of its public employees. Today, 36 years later, you are still trying to penalize those employees that do so much with so few for so little. Most work for a very basic wage and receive so little that they can barely save for potential health benefits and life insurance.

The only thing that has been good for state employees is the Retirement System as it currently stands. We have had to sue or initiate a law suit to get any funding for long overdue wages and settlements brokered in good faith with you, the Legislature and the Administration. Any unfunded liabilities are not the fault of the state employees but are the responsibility of the "Pork Barrel Policies" of Legislators.

SB 141 wants to eradicate positions not paid for by the state and start a new bureaucracy. If there is, in fact, an unfunded liability, how will creating another monetarily costly program help to get any allocation of funds for retirement and to fund this alleged liability?

I do not see how abolishing a program that dumps PERS/TRS/ASPIB and costs us, the citizens of Alaska, more is nor could be effective. I strongly urge you to stand up for those future, current, and past employees of the state and VOTE against passage of SB 141. You should do what is right and not necessarily politically expedient.

Thank you.

Sincerely yours,

Buddy V. Harrel
PO Box 80179
Fairbanks, AK 99708-0179

Rep. Paul Seaton

From: Steve Conn [steveconn@hotmail.com]
Sent: Tuesday, April 19, 2005 9:37 AM
To: Rep. Paul Seaton
Subject: please get more input on retirement issues

First, thanks for your hard work. Second, please delay reform of the state retirement system until those of us who depend on it can have a chance to give more input. I am one of those, now living in Seward and you have many others in your district. Steve Conn, PO Box 1690, Seward 99664, 907-2246061.

Rep. Paul Seaton

From: Keith Campbell [kcamp99664@arctic.net]
Sent: Tuesday, April 19, 2005 11:24 AM
To: Rep. Paul Seaton
Subject: SB141

Dear Paul.

SB 141 is in my opinion a bad bill that desperately needs a lot more study. The fix is draconian. The stock market helped put the fund in deficit and the market can help pull the fund out of a large part of the deficit. Please study this issue over the next year and get more information on the ramifications of the Senate actions.

Keith Campbell

4/20/2005

Rep. Paul Seaton

From: Trina Richards [trina_richards@yahoo.com]
Sent: Tuesday, April 19, 2005 5:35 PM
To: Rep. Paul Seaton
Cc: Fate Putman; Jim Duncan; Trina Richards
Subject: Public Opinion Message

Dear Representative Seaton,

I have read a great deal of information about the problems with the public employees retirement system and I strongly disagree with the current legislation to resolve the problem. SB 141 and House Bills 170, 177 and 191 are not the right approach. Employees who contribute to TRS and PERS do so instead of contributing to Social Security. In other words, they contribute to a state-run defined benefit plan instead of contributing to a federally-run defined benefit plan. To eliminate this security would place future employees and retirees at the mercy of the markets.

Also, I don't understand why employees should have to increase their contribution to the retirement system when such entities as the city of Fairbanks' government have the option of not paying their portion. Their unwillingness to pay their share, along with other participating governments around the state, are another the reason the system is not generating the needed revenue for future disbursements.

I suggest stepping back and taking a longer look at the situation. With less than two months in the legislative session, there can't possibly be enough time to really involve everyone who may have reasonable solutions.

Sincerely,
Trina Richards
Fairbanks

This is an email message from "Trina Richards" <trina_richards@yahoo.com>.
Opinions expressed belong to the sender alone.

Rep. Paul Seaton

From: Debby Broneske [dbroneske@yahoo.com]
Sent: Tuesday, April 19, 2005 5:38 PM
To: Rep. Paul Seaton; Rep. Carl Gatto; Representative_Jim_Elkins@legis.state.sk.us; Rep. Bob Lynn;
Representative_Jay_Ramaras@legis.state.ak.us;
Representative_Berta_Sardiner@legis.state.ak.us; Rep. Max Gruenberg
Subject: Not support SB141

Subject: Not support SB141

Paul_Seaton@legis.state.ak.us, Carl_Gatto@legis.state.ak.us, Jim_Elkins@legis.state.sk.us,
To: Bob_Lynn@legis.state.ak.us, Jay_Ramaras@legis.state.ak.us, Berta_Sardiner@legis.state.ak.us,
Max_Gruenberg@legis.state.ak.us

I am Deborah Broneske, 17750 E. Idle Drive, Palmer Alaska 99645, 907-745-9863. I do not support SB 141 because it does not support all workers and treats new hires differently from older tier employees. I do not support creation of a new board by combining PERS & TERS. I request more professional input before changing the system to the one proposed in SB141.

Thank you for accepting my comments.
Sincerely,
Deborah Broneske

Do you Yahoo!?
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Rep. Paul Seaton

From: Mary Ann Tipton [alaskamudpuppy@gci.net]
Sent: Tuesday, April 19, 2005 7:41 PM
To: Rep. Paul Seaton
Subject: SB 141

April 19, 2005

Alaska House of Representatives

Dear Sir:

I am writing you as a concerned constituent who lives and works in the Anchorage area. I proudly accepted a position with the Department of Labor with the great State of Alaska in 2001. Since my hire date I continue to be disappointed with my representation by my legislators. I am asking for you to be my voice when casting your vote to defeat SB 141 and any related bills.

This bill not only takes money out of my paycheck, but also reduces the retirement that I was promised at the time of hire. I do not have the luxury of voting my self regular pay increases as do the members of the legislation nor do I think that reducing my pay is the way to fairly reduce the State's expenditures. It will instead serve as a message to possible future candidates as well as current employees to discourage a career in civil service. Further, this bill will take away my representation of those allowed to sit on my retirement board and replace them with Governor appointed members only. This is in direct conflict of a government of, by and for the people and I am asking you to put a stop to those in the top level of government who are not serving the best interest of those who they were elected to represent.

Sincerely,

Mary Ann Tipton

Voting ASEA Union Member and

Eagle River Constituent

18687 Hiland Road • Eagle River, AK • 99577

Robbins' Testimony on SB 141, House State Affairs, April 19, 2005

Thank you for your time.

Doris Robbins

3763 Mitchell Ave. #B
Fairbanks AK 99709-4636
(907) 374-0597

of the board, was only too glad to approve the unfunded mandates above the recommendation of the current PERS/TRS board. In spite of continued implications, it was done through legislated changes. The current board is watching the fund like it is their own wallet! It is their shared wallet with me and several thousand other folks like me. We are scared to death of it being managed by a totally one track executive board, ultimately under the control of Governor(s) down through the years - carte blanche. We don't know from one term to the next what may happen. As retirees, please let us help keep watch over our money!

The state is considering going to an all generic (when generics are available) and a formulary plan for prescriptions. That would be a good thing to do, which retirees will support as long as in those instances where the doctor states there is a need for something different the exceptions are allowed.

I know that it is not an unending pot of gold at the end of the rainbow, and any time I find someone talking about Aetna being our insurance company, I correct them. Yesterday, I corrected a billing clerk in a doctor's office that I suspected had coded a bill for \$20 more than a "routine" exam by putting in a code for a more extensive exam. Perhaps she was poorly trained, but when I was told it was the more extensive exam, I corrected her because I check carefully such things and remember what the doctor ordered. RPEA has a monthly insurance meeting where we further teach our members to be more questioning. In our regular RPEA general membership meetings, we have invited local pharmacists to talk about generic prescriptions and underline that they are the same medicine, but for a cheaper price. (Occasionally, there are instances where the delivery system or inert ingredients do not work for someone and they may require the brand name.) With education, our use of generic prescription drugs has reached about the maximum level until new ones come on the market. I encourage members of the legislature to pursue general decreases in medical costs by joining other states to find ways to get those unreasonable costs down.

I become irritated when a few legislators, who have already had the facts set straight for them, continue to imply that "retirees don't care." We not only care, as a member of RPEA we have been seriously educating retirees (should some be in the dark) that it is our money which was collected as we worked, combined with the State match, which makes up the pot of money which we depend upon for our health care and medicines. We always have some of our retirees at the current PERS/TRS board meetings to learn, and take the information back to the membership!

Our system of government in the United States, provides for an Executive, Legislative, and Judicial Branch. Something similar should be in place with the Boards which oversee the retirement funds. I'm sure as legislators, you would not want there to be only an Executive Branch to oversee all the laws, regulations and funding. That is comparable to having a system with one retirement board, all under one head. I thank you for making some allowances for more oversight by representatives of the beneficiaries through amendments passed by House State Affairs this morning. House State Affairs has shown an interest in finding a fair and workable solution to our retirement problems. Please continue to ask questions and get answers before making a decision which could do more harm than good if it isn't the right one.

Testimony on SB 141 before House State Affairs, April 19, 2005

Due to transportation difficulties I was not able to testify in person at the LIO tonight. Please consider my written views.

Anna Rappaport, in the Chicago office of Mercer Human Resource Consulting, is an actuary and futurist with 40 years' experience. In a November, 2004 article she asks the question, "Are pension plans still a good solution? Despite serious challenges, a well-designed and well-communicated DB plan actually creates substantial value for both employer and employee, and can be a source of competitive advantage for the employer."

This statement from a Mercer Consultant in Chicago, implies the opposite of what has been stated by the administratively hired actuary, and those legislators who seem to be in a hurry to pass new PERS/TRS legislation which will create drastic change - for whose benefit I am wondering? She goes on to state: "Most mature pension plans were designed to provide retirement income to long-term employees on a tax-effective basis. They help organizations retain employees, provide workers a graceful transition to retirement, and help keep direct compensation and taxes lower. The retirement plan options available to employers changed dramatically when it became possible for U.S. employees to save pre-tax dollars in 401(k) plans, starting in 1981. Employers quickly added matching to their savings plans and this benefit pattern spread to different countries. During the bull market of the 1990s, many employees began to believe their defined contribution (DC) plans would make them rich and allow early retirement, while financial executives became accustomed to holidays from contributions for traditional pension plans."

Isn't that a major factor that has drawn down the retirement fund investments? That, and outrageous increases in health and insurance costs, which were brought about in part from things like the latest Medicare legislation which wrote the bill to give the medical sector of the economy anything they asked for - no controls.

The above statement from a Mercer Consultant in Chicago, implies the opposite of what has been stated by administratively hired "yes" people, and legislators who seem to be in a hurry to pass new PERS/TRS legislation which will create drastic change - for whose benefit I am wondering? Ms. Rappaport goes on to state: "Most mature pension plans were designed to provide retirement income to long-term employees on a tax effective basis. They help organizations retain employees, provide workers a graceful transition to retirement, and help keep direct compensation and taxes lower. The retirement plan options available to employers changed dramatically when it became possible for U.S. employees to save pre-tax dollars in 401(k) plans, starting in 1981. Employers quickly added matching to their savings plans and this benefit pattern spread to different countries. During the bull market of the 1990s, many employees began to believe their defined contribution (DC) plans would make them rich and allow early retirement, while financial executives became accustomed to holidays from contributions for traditional pension plans."

The Administration, to whom the legislature is about to turn over the whole management

Rep. Paul Seaton

From: j or ksummers [jks Summers@gci.net]
Sent: Wednesday, April 20, 2005 6:42 AM
To: Rep. Paul Seaton
Subject: Retirement system

Dear Rep. Seaton,

I would like to thank you for extending the testimony time for Tom Harvey last night. I am currently serving as the President of the Mat-Su Education Association with over 1000 members. Mr. Harvey's testimony expressed the concerns that we have the Mat-Su regarding the proposed changes to the TRS. Again, this issue needs more time to assess the real problems. Thank you.

Kathy Summers

Rep. Paul Seaton

From: CaptASTJoe@aol.com
Sent: Wednesday, April 20, 2005 6:53 AM
To: Rep. Paul Seaton; Rep. Carl Gatto; Rep. Jim Elkins; Rep. Bob Lynn; Rep. Jay Ramras;
Representative_Berta_Gardiner@legis.state.ak.us; Rep. Max Gruenberg
Subject: SB 141

Sir: Please accept the following as my input on SB 141.

- The State of Alaska has been committed to a sound retirement system since before statehood
- Public employees - and all workers - deserve to know how much of a monthly income they will get when they retire. SB 141 will not guarantee that for new hires.
- The fault of the unfunded liability is not the fault of current or future employees.
- The legislation doesn't provide for any death or disability insurance. Dozens of classifications of workers find themselves in potentially dangerous work situations including in the corrections system, API, schools, police and fire, fish and wildlife biologists and protection officers, and engineers and equipment operators constructing and maintaining roads. Public employees have died while performing their duties for the public.
- Most public employees make a basic wage with no extra money to save for health benefits and life insurance
- Combining the boards will cost a great deal of money and will not fix the problem. Public employees pay in substantial sums of money into the system and should have a say through elections in who helps makes decisions
- Often, the problems come back to mistakes made from one single actuary. Isn't it time to get more professional input before changing the retirement safety nets Alaskans have depended upon for nearly 50 years?
- Recruitment and retention - especially for more specialized job classes - will become more difficult.

Joe DeTemple
Captain Retired 1967-1986
Alaska State Troopers
4105 Center St
Washougal WA.
98671



ALASKA STATE LEGISLATURE

Please enter into the record my testimony to the HOUSE State Affairs
 Committee on SB 141 Committee Name
Bill / Subject Dated April 19, 2005

*I am observing today and I am
 against SB 141. I work at the
 Pioneers Home.*

SIGNED:

Tracy L Cornish

Testifier

MYSELF

Representing

4130 SUMMER AVE FBX AK 99712
 Address / Phone Number

Testimony of Jerry Patterson
22811 Glacier Hwy Juneau, AK 99801
(907) 789-7328

My name is Jerry Patterson representing NEA Alaska Retired. I am also a former TRS Board member.

I would like to start by making some observations. My first observation is that what goes up will come down and what goes down will go up. Unfortunately, when the stock market was up, the PERS Board took the recommendation of the actuaries and lowered contribution rates excessively costing PERS about seven hundred million dollars in contributions and earnings. While the TRS Board only dropped its rate by a point, they were hit by a flood of early retirements that combined with the rate drop and lost earnings, resulted in a loss of over one hundred and fifty million. Currently, the market has rebounded and PERS and TRS combined earned around seven hundred million over the 8.25% assumed return that is not reflected in the current actuarial report. In addition ASPIB has a history of outperforming the return assumption so already the condition of the retirement funds are improving.

My second observation is that things are never as good or bad as they appear. When I was on the TRS Board, we received twenty-five year projections showing that the contribution rate could drop to one percent. Now we are getting reports that the contribution rate needs to exceed thirty percent. Of course those projections are made from the low point in the cycle. Depending on the current condition of the retirement funds, projections can paint a very rosy picture, the sky can be falling, or we can be somewhere in between. It would not be good policy to make a decision that has a drastic effect on the system forty years out based on one snapshot in time.

My third observation is that it is most likely there will always be an un-funded liability. Only once in recent memory have our retirement funds been fully funded and it has never before been a cause for concern. It is not uncommon to have an un-funded liability. Even in 2001, at the peak of the stock market rise, fifty-three of the top one hundred public pension funds were less than a hundred per cent funded. A pension fund that is ninety percent funded is considered very healthy.

My last observation is that the condition of the fund changes all the time. Even now, the information in the reports you have received is outdated. When the boards adopt contribution rates for two years ahead, it is based on information that is nine months old. Most of the time those changes are slight so it doesn't matter if the data is slightly behind the times. But occasionally the changes are significant. Between 2001 and 2002 our

funding ratio dropped about thirty points. However, half of that drop was due to a change in the health cost assumption. It then becomes very important to examine the health care assumption. In the fall of 2003 Retirement and Benefits raised the health care premium twelve percent. At the same time they did a reserve study and found that they had been accumulating excess reserves over the previous three years in the amount of twenty-two million dollars. They then turned back to ASPIB twenty million. In the fall of 2004 health care premiums went up less than six percent while the anticipated rate was over eleven percent. Clearly, there is a problem with the health care assumption and it needs to be reexamined.

In looking to the future there are bright spots. The division's campaign to encourage members to move from name brand drugs to generics has met with success and there is room for more savings. There are over fifteen thousand members between the ages of fifty-five and sixty-four that will reach Medicare age in the next ten years saving the retirement system large amounts of money, as Medicare becomes the primary insurer and the retirement system secondary. We have yet to take full advantage of PERS tiers two and three and TRS tier two. Take TRS tier two for example. In 2011 the first tier two teachers will have twenty years of service and will be eligible to retire. However, they need twenty-five years of service to receive medical benefits. They will not retire without medical benefits. So for five years, teacher retirements will be reduced to a trickle. The contributions to the system will increase while the outlay for new retirements will be reduced. And ASPIB has a long history of outperforming the earnings assumption. Each one percent of excess earnings is worth over a hundred and twenty million.

The thrust of this new bill has been to reduce costs to the system. That does not mean that it will reduce costs to the employer. In fact, this bill could increase future costs to the employer. Whenever you change retirement law you change retirement behavior. Currently, the average age at the start of retirement is fifty-five for teachers and fifty-seven for public employees. The difference between a starting teacher's salary and a teacher at the top of the salary scale is about thirty-five thousand dollars in salary and benefits. If we average three hundred teacher retirements a year and those three hundred teachers can not retire because they have no health benefits, it will cost school districts ten million dollars a year to keep those people. If for instance teachers feel they need to be close to Medicare age to retire and add seven years to their career, it would cost school districts seventy million dollars a year.

To summarize, we shot ourselves in the foot when we dropped the rates excessively. We stressed the system when we had a flood of early retirements as the employers cost shifted their most expensive employees onto the retirement system. We have a health care assumption that doesn't appear valid. We have an investment board that has historically outperformed the earnings assumption. We have projections that are taken from the

Age TRS retire 53 1/2

lowest point in the cycle and are already outdated. We have yet to reap the full benefit of the new tiers already on the books. And we know this bill will not save any money for years to come and in the end will probably cost the employers more than they save. This is not a good recipe for such a drastic change to the retirement system. I would urge you to vote no on this bill.

Thank you.

*Social Security windfall - on first date
of his*

Louie Flora

From: Willy Dunne [wdunne@xyz.net]
Sent: Saturday, April 02, 2005 * 1:38 AM
To: Ian Laing
Subject: report for HSA committee

David Reaume: State's salaries are falling behind

DAVID REAUME
COMMENT

Published: March 6th, 2005

Last Modified: March 6th, 2005 at 12:25 AM

State government payroll per worker has dropped 31 percent since 1984, after adjustment for inflation. Over that same time period Alaska personal income per capita, also adjusted for inflation, has dropped only 3.7 percent. Although changes in the job composition of Alaska's work force readily account for the drop in real per capita income for all Alaskans, changes in the job composition of the state of Alaska work force cannot possibly account for the drop in inflation-adjusted payroll per state government worker.

The year 1984 was the height of the early 1980s oil price boom in Alaska. State coffers were bulging. One might, therefore, question the choice of 1984 as a base year for comparison purposes. But a look at 1991 pay schedules shows that paychecks for state government employees have continued to erode at a rapid pace.

For example, a range 18E supervisory worker earned \$3,893 per month in July 1991, base pay. The pay schedule that went into effect in December 2002, the most recent available, shows a range 18E supervisory worker earning \$4,429 per month. Had that range 18E supervisor been fully compensated for inflation since July 1991, the worker's December 2002 base pay would have been \$5,796. On an annual basis the shortfall comes to more than \$16,000.

So how do state salaries compare to those paid elsewhere for people of comparable skills and educational attainments? Comparisons that have been made in the past seem to suggest that state workers are doing reasonably well. But there are several problems with those past comparisons. One big problem that arises when comparisons are made with out-of-state workers is that only cost-of-living differentials have been accounted for. Other factors have been ignored, such as the possible need for a post differential.

A post differential is a percentage amount that must be added to salaries, over and above a cost-of-living allowance, to compensate for factors that are not included in the cost-of-living allowance. Such factors include climate, hours of daylight, quality of schools, interstate and intrastate air transportation costs, special housing maintenance costs, goods and services needed in the COLA area but not needed in the representative city, and remoteness and isolation. What little evidence is available suggests that the post differential for Anchorage may be considerably higher than one might have expected.

In a study released by the federal Office of Personnel Management in July 2000

titled "Special Research Relating to the Nonforeign Area Cost-Of-Living Allowance (COLA) Program," economist Joel Popkin estimated that the post differential needed in 1996 to fully compensate federal workers in Anchorage was about 30 percent of what they would have been paid in Washington, D.C. This 30 percent was in addition to the existing 25 percent tax-free COLA. The combination of the 30 percent required post differential and the existing 25 percent tax-free COLA was over 60 percent of the base salary paid in Washington, D.C., after converting the COLA to a taxable equivalent percentage.

I understand that many Alaskans prefer living in Alaska to living Outside and would be happy to work at today's wages. To those workers a post differential is just another bonus. But employers, state government included, cannot count on finding all or even most of the skilled new people they need if the search is restricted just to those residents who happen to love Alaska for itself. The state, like other Alaska employers, must recruit workers from Outside if it is to maintain a competent work force. To do so, it rather clearly needs to rethink its compensation policy.

David M. Reaume is a Washington state-based economist who was based for many years in Juneau. His opinion column appears every fourth Sunday.

THE REPORT "Special Research Relating to the Nonforeign Area Cost-Of-Living Allowance (COLA) Program" can be seen at www.opm.gov/oca/COLA/html/Research.pdf

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Louie Flora

From: Willy Dunne [wdunne@xyz.net]
Sent: Saturday, April 02, 2005 11:39 AM
To: Ian Laing
Subject: Report for HSA committee

Workers for state see little pay raise

DAVID REAUME
COMMENT

Published: February 6th, 2005
Last Modified: February 6th, 2005 at 03:05 AM

Recently I was hired by the Alaska Public Safety Employees Association to examine the pay history of the Alaska state troopers and to testify to my findings at an arbitration hearing held in Anchorage the week of Jan. 17. What I discovered deserves some publicity. Briefly put, Alaska does have a personal income tax, albeit one that is not on the books. That tax is levied only on state government workers. Here are the facts.

In 1984, average annual payroll per worker for Alaska state government workers stood at \$32,376. By 2003 it had risen to \$39,540. Although that may seem like a reasonable increase at first glance, the \$39,540 earned in 2003 was actually worth only \$22,327 in 1984 dollars, a decline of some 31 percent.

It is not possible to account for this 31 percent real (inflation-adjusted) decline by reference to changes in the composition of state government employment. It happened because state government workers have been getting pay increases for the past 20 years that simply do not keep up with inflation. Comparing what each got with what each would have received under full inflation adjustment, we find that, on average, state government workers paid an implicit state income "tax" in 2003 on the order of \$10,000 in constant 1984 dollars. Restated in 2003 dollars, the average 2003 "tax" per employee comes to more than \$17,000.

Other Alaskans seem to have done much better because per capita personal income for all Alaskans nearly kept up with inflation over this period. Restated in constant 1984 dollars Alaska per capita personal income stood at \$18,778 in 2003, down only 3.7 percent from the \$19,503 posted in 1984. Given the change in the composition of Alaska employment over this period, toward lower paying retail trade and service-sector jobs, it seems likely that the earnings of most individual workers in the private sector, in contrast to those in state government, more than kept up with inflation over the past 20 years even if they received no promotions.

We can look at this in another way. I have constructed 20-year "could-have-been" salary profiles for three hypothetical state government workers, one who earned \$15,000 in 1984, one who earned \$25,000 in 1984 and one who earned \$35,000 in 1984. I have assumed that each received promotions that increased their pay by an average of 1.7 percent per year plus an annual average cost-of-living increase equal to one-half the previous year's increase in the Anchorage consumer price index. These assumptions are not out of line with actual

experience.

Compared with what each would have received had they been fully compensated for inflation, the first state worker lost \$82,000 over the past 20 years, the second state worker lost \$137,000 and the third lost \$192,000. Given that their pensions are determined in part by their earnings, their total losses inclusive of pension loss are only a little less than double their salary loss.

In other words, many if not most state government workers have realized little or no increase in their standard of living since 1984. Between 1983 and 2003 the Anchorage consumer price index rose at an annual average rate of 3.1 percent. The numbers that I have looked at suggest that, even including promotions, the average state government worker's annual salary increased something less than 3.5 percent!

It is no secret that government workers are not the most loved people in Alaska. I suspect that if a poll were taken they might rank somewhere down near trial lawyers in public esteem. But they have a job to do, and that job will not get done competently if the state cannot hire enough good people. If Alaskans want a state government work force heavily loaded with people who are asked to do jobs for which they are not fully qualified, then stay the course. If you want competent, well-qualified people looking out for your interests, then it is time to reverse the trend of the last 20 years.

Some readers may wonder if the use of 1984 as a base year for salary comparisons biases the results in favor of the conclusion that state workers are underpaid. Others may wonder how Alaska state salaries compare to those in other states. I will address these issues in my next column, on March 6. In brief: The conclusion is unchanged when these additional questions are answered. State workers are underpaid.

David M. Reaume is a Washington-state-based economist who was based for many years in Juneau. His opinion column appears every fourth Sunday.

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DRAFT

OUTLINE OF MAJOR POINTS FOR TESTIMONY

BEFORE ALASKA LEGISLATURE, MARCH 29-31, 2005

Richard J. Solie, TRS Board Member

-- My name is Richard Solie, Sr. I am retired from the University of Alaska where I was a Professor of Economics, Head of the Department of Economics, and Acting Dean of the School of Management. I also ran my own economic consulting firm for a number of years.

I am a member of the TRS Board, having been appointed by Governor Murkowski in the summer of 2003 and re-appointed to a new term in January of 2004. As a member of the TRS Board I served as one of four members on the Tier Committee which was charged with developing a proposal or proposals for a new retirement plan for both TRS and PERS.

After review of several of the major bills being considered by the House and Senate, I have a number of observations that I would like to make. I will deal with these under several different categories, and I will approach them in order of my perception of their importance. That way, if I run out of time, I'll at least have been able to discuss what to me are the most important issues.

I. MEMBER CONTRIBUTIONS:

A. Equal sharing of "Normal Cost":

1. I, personally, agree philosophically with this approach, and, as a matter of fact, the Tier Committee's recommendation for both Alternatives 1 and 2 included employee contributions which were at least as high as the employer contributions! (TRS: Employer -- 8.75%, Employee -- 10.0%; PERS - Both pay 8.0%).
2. I even agree philosophically with equal sharing of "Normal Cost" for employees covered under existing tiers, however I am concerned that the 5%/year possible increase is a very stiff increase for an individual employee. That probably wouldn't come into play, however, if the equal sharing was limited to "Normal Cost".

3. I might note that the employee survey conducted by the Division of Retirement at the request of the Tier Committee indicated a willingness on the part of some of the employees to make higher contributions if the DB plan could be retained in a future tier; and there was wide-spread feeling among employers that employees should pay a larger share of benefit costs than they presently do;
4. I am concerned about the response of the judiciary if this is applied to existing tiers, and this is one of the reasons that the Tier Committee didn't consider this alternative;
5. I also question whether the contributions should be the same for all existing tiers
 - "Normal Cost" for TRS Tier II in FY06 is 20.36% versus a 22.97% combined rate for Tiers I & II (p. 8, slide 15, November 19, 2004 Presentation to PERS and TRS Boards)
 - "Normal Cost" for PERS Tier III is 17.55% versus 20.05% for Tiers I, II and III combined (slide 14)

B. Equal sharing of contributions for "Past Unfunded Liabilities"

1. For members of a new tier, there would, of course, be no unfunded liabilities so presumably it isn't the intent of the legislature to charge them for the unfunded liabilities of existing tiers.
2. For current TRS/PERS members I am strongly opposed to such a policy for several reasons:
 - a. The majority of the past funded-liabilities are associated with retirees rather than with current actives.
 - b. Bob Reynolds with Mercer estimated the allocation of unfunded liabilities to be approximately:
 - TRS -- 27.8% active participants, 68.5% for retirees and beneficiaries, 3.2% for terminated vested individuals and 0.5% for "others" (thus **72.2% for non-actives**);
 - PERS -- 33.2% actives, 11.7% terminated vested, 54.7% retirees and dependents, and 0.4% "other" (**66.8% for non-actives**).

c Furthermore, you would get a similar disparity even among the actives since a newly hired employee would have essentially no unfunded liability related to his future benefits whereas a long-term employee who was nearing retirement would have a great deal.

d The result would be that existing members would be required to pay additional contributions that would be grossly out of line with the future benefits they could be expected to receive

II. INTRODUCTION OF A 100% DC PLAN TO REPLACE THE EXISTING DB PLAN

- A First of all, let me say that I am not opposed to the general concept of DC plans or of privatized retirement plans. I strongly believe in individual responsibility and in the advantages of personal ownership of private equities;
- B I am sure that all of you are aware that, although the Tier Committee did forward to the full boards an Alternative 2 which was 100% DC, the committee was unanimous in opposing its adoption.
- C I personally pressed for a hybrid plan that included both a 1% DB and a DC component. Although some of the committee members undoubtedly had misgivings about it, there was a clear recognition of the serious problem facing the State of Alaska with respect to the retirement plans, and consequently the Tier Committee voted unanimously to support the hybrid plan,
- D There are several reasons for the committee's and my personal opposition to a 100% DC plan:
- 1 A key factor is that in Alaska **most of the teachers in this state are not covered by Social Security**. Thus, they lack the floor of retirement benefits that is available to private sector employees and to public sector employees in most other states. The 1% DB plan that the Tier Committee proposed would provide such a floor.
 - 2 The employer surveys that were conducted showed strong support for a sharing of the risks of the retirement plan, not a complete shifting of the risk to the employees;

3. The vast majority of other public employment plans are 100% DB plans; a much smaller number are hybrid plans with both DB and DC components; and some include an **optional** DC plan. Only a handful are 100% mandatory DC, and this could be a significant factor in competing for employees;
4. I am sure you have been exposed to the studies showing significantly lower rates of return on individually managed versus pooled accounts and also the problem with some employees utilizing their retirement funds for purposes other than retirement. As a consequence, I won't discuss those issues
5. Individual investors face risk that is significantly greater than that for a pooled investment plan for several reasons:
 - a. The volatility of the markets is such that there is a significant possibility that an individual's planned retirement will coincide with a **down market**. And, while there might be some possibility for a **postponement** of the planned retirement, I would call attention to the fact that the U.S. stock markets generally reached their previous highs in March of 2000 and five years later the S&P 500, for example, is still approximately 25% below the March of 2000 peak.
 - b. The pooled funds, of course, are subject to similar volatility, but in any given year only a **small fraction** of the members are planning to retire, and as a consequence the pooled funds have a much longer time horizon in which to recover from those downturns.
 - c. When it comes to actual retirement, the **longevity factor** is very significant for the individual retiree, but it is largely limited by the **pooling** that results with a large fund. (By this I mean that for an individual, the number of additional years that he/she will live after retirement is very uncertain. Thus, there is a significant risk of outliving one's retirement funds. For a large group, in contrast, the **average** risk is minimal because of the large numbers of individuals involved. This, of course, is what creates the opportunity for life insurance.)

d. The suggestion could be made that when the individual retires, he/she could buy a whole-life annuity which would shift the risk to an insurance company. The problem with this is that annuities are very much a function of interest rates at the time they are written, and consequently a period of low interest rates would result in a much smaller annuity for an individual retiree. Again, the pooled retirement fund is able to take a much longer view of interest rates.

6. Largely as a result of issues such as these, the State of Nebraska, recently switched from the DC plan that it had maintained for 25 years to a Defined Benefit plan.

7. In most states where employees have been given the option to choose between a DC and a DB plan, the overwhelming majority have chosen the DB option. In Florida, for example, only 3% of the employees chose the DC alternative, and in Ohio only 7,367 of almost 300,000 employees chose the DC plan. (Source: *Public Pension Action News*, Spring 2003.)

- This, I believe, is a strong indicator of the negative impact that a 100% DC plan would have on our competitiveness in attracting and retaining teachers and other public employees in the future.

8. I am aware that there is a movement in some states to replace their DB plans with either hybrid plans or, in some cases, with 100% DC plans. Given the problems already facing the State in attracting and retaining employees, I am not sure that it is wise for Alaska to get into the lead on this movement.

III. RE-CONSTITUTION OF AND/OR ELIMINATION OF THE EXISTING BOARDS

A. In my opinion, the proposed increase in professionalism would be positive, although I have been impressed with the expertise and experience already existent on the Boards.

B. I am concerned about the lack of assured representation of TRS/PERS members in some of the bills – after all, the monies in the funds are held in trust for the members, the members have made major contributions into the funds, and the funds represent the major (and in some cases the total) basis for their future retirement.

- Further, even if there is assured member representation, there is a question as to whether public or member's representatives should hold the majority (I would personally favor the members' representatives being in the majority).

C. Role of PERS/TRS Boards in appeals:

- Hearing Officer would probably be more efficient if efficiency is measured only by the hearing itself. But, because the boards act as a jury of peers in essence, I believe the board approach reduces the risk of further litigation and gives the beneficiaries a greater sense that their case has been truly heard.

-- I was a member of the National Panel of Arbitrators of AAA for a number of years, and I feel that that system (which in a majority of the cases relies on a single arbitrator) works well.

- There is a major distinction between that system and the one envisioned here, however. The arbitrator is jointly selected by the parties and thus there is basis for trust and confidence on both sides of the issue being appealed.
- In this instance, I am afraid that the fact that the Hearing Officers would be administratively appointed would engender potential distrust on the part of the appellants;

D. Some of the functions envisioned for a "Super Board", while probably well within their capabilities, would add significant and potentially time-consuming duties to the already heavy responsibility of overseeing investment of the funds.

E. I am sure some of my colleagues have discussed the loss that a "Super Board" might engender in some of the inputs currently realized from the existing TRS/PERS boards (e.g., recommendations for health plan cost savings from the Health Sub-committee) so I won't go into that.

IV. PROPOSED CHANGES IN THE HEALTH PLAN

- A. As you are all aware, the health plans have been a **major contributor** to the unfunded liability for the Alaska TRS and PERS. Further, unlike the impact of the downturn in the securities markets—which will probably even out over time—there is really no end in sight for the health plan problems. As a consequence, the Tier Committee (and a majority of the TRS/PERS Boards) considered it to be absolutely essential that the **administration and/or the legislature make significant changes in the current plan**. Such changes should be designed to reduce both plan costs and future risk.
- B. The Tier Committee's proposal included several major changes for employees under a new tier:
1. Participation in the health plan would require retirement directly from employment.
 2. The plan would be redesigned to include true deductibles and co-pays for Medicare eligible retirees. This is not true under the existing plan, and **the situation that exists at present provides essentially no incentive for such retirees to monitor and ration their health care usage and costs.**
 3. The plan would provide for significant health plan premium payments by the retirees tied to the length of the employee's service and to whether they were taking early or normal retirement.
 - a. Access only to coverage with full premiums paid by the retiree would apply during early retirement.
 - b. A DC type of employer subsidy for premium payments would be provided during normal retirement and up to Medicare eligibility.
 - c. Employees would pay a percentage of actual plan costs upon reaching Medicare eligibility with the percentage varying in accordance with the employee's years of service.

4. As a means of assisting retirees with the payment of the larger deductibles and co-pays as well as the retiree premium payments, an Employer paid for Health Savings Account would be provided. At the same time that this would assist retirees in paying the larger share of health plan costs it, **along with the higher deductibles and co-pays, would provide the retiree with a strong incentive to assist in controlling health care expenses.**

C. I am aware that Senate Bill 141 appears to provide similar changes to those outlined above for retirees who have reached Medicare eligibility. I am also aware of the HSA provisions in most, if not all of the various legislative bills. I am concerned, however, about several provisions:

1. For retirees from age 60-Medicare eligibility there is no subsidy (other than what might provided by the HSA). I am somewhat disappointed in this since I believe that the Tier Committee's age 60-Medicare eligibility subsidy would have involved essentially no risk to the employer (The subsidies are fixed in initial amount and in terms of future increases, and they would be readily calculable.) and the cost would have been relatively low.
2. The HSA contributions are capped at \$500 per year. There is concern that this would produce an inadequate fund to assist in the retiree's uncovered health care expenses.

V. ELIMINATION OF THE 10% COLA

-- As you are aware, the Tier Committee recommended elimination of the 10% COLA for the new tier.

- Our reason for eliminating COLA for the new tier was our recognition of the current court action challenging the application of the existing COLA and seeking to apply it to retirees living outside the State in areas which have living costs equal to or greater than those in Alaska,
- We did feel, however, that the COLA (unless the legal challenge is successful) does serve a public purpose by encouraging retirees to remain in Alaska.

VI. ADDITIONAL POTENTIAL CHANGES APPARENTLY NOT CONTEMPLATED IN CURRENT LEGISLATION:

- A. Although the Tier Committee did not formally recommend it, there was considerable discussion about proposing the elimination of SBS. This could mean many millions of dollars in savings to the State and other employers which could be used to help fund the existing retirement programs as well as the benefits of a new tier.
1. In considering this, the Tier Committee was aware that, although the State and University of Alaska are covered by SBS, a number of the political subdivisions are not. Thus, eliminating SBS would also be a means of rationalizing the statewide retirement benefits structure.
 2. The specific reason that this was not proposed by the Tier Committee was a caution by the Boards' legal counsel that the courts might view SBS as a contractual obligation paid in return for the agreement to opt out of Social Security.
 3. The legislature, however, is in a position to get a thorough review of the legal issues involved in such a change, and if the determination is that it would pass judicial scrutiny, I (and I believe I speak for the majority if not all of the Tier Committee and also for several of the other Board members) would recommend that this be given consideration for a future tier.
- B. As you are aware, the Tier Committee recommended the adoption of a "career average" base salary (adjusted for changes in the Alaska CPI) under the new tier in contrast to the "High Three Years' Salary" that is the basis for pension calculations at present.
1. This, of course, is irrelevant if the legislature adopts a 100% DC plan, but if a hybrid plan is approved, it could be very important.
 2. A career average salary would eliminate many of the so-called "abuses" of the system under which various actions are taken to build up the final three years of salary.
 3. A career average base would allow such things as inclusion of overtime pay, bonuses, etc. without distorting the benefits and creating unfunded liability as currently occurs when such elements are added in the final three years. Allowing them to be included, however, would give employers maximum flexibility in using these as tools for managing their workforce.

3/24/05

House State Affairs Committee

PERS/TRS legislation

Thank you for addressing the PERS/TRS \$5 billion problem.

My name is Larry Semmens, I am a CPA and Finance Director for the City of Kenai. I have attended most of the PERS meetings the last 18 months or so, including 3/22/05.

From an employers standpoint, the recent jump in the unfunded actuarial liability and the resulting rate increases are difficult to absorb, so I believe changes do need to be made.

Predictability of cost and local control are best provided with a defined contribution plan, so I support a new tier which is a DC plan. Recruitment issues are real, but can be dealt with locally with either salary, work conditions, or even supplemental retirement plans like the State's SBS plan.

Although the PERS/TRS boards have some culpability in the current situation, I honestly believe it is limited. Consider that the actuary is the expert and the Boards practically have to believe what they are told. Until 2002, the actuary told the boards that the funds were fully funded and the rate needed to support the system was 6.77%. The next year the board had to be as shocked as everyone else when the actuary told them the fund is now about 75% funded and the rate needed is 25%. Did the board have anything to do with that change?

I do not believe that changing the make-up of the board to more of a disinterested board will necessarily help. The key attribute of a PERS/TRS member in my opinion is understanding what a pension plan is, how it works and where the risks are. The change in Board structure that I would like to see is employer representation.

If I can be of service please contact me.

lsemmens@ci.kenai.ak.us

Louie Flora

From: Jim & Louise [jimbob@gci.net]
Sent: Friday, April 29, 2005 8:26 AM
To: Rep. Paul Seaton
Subject: Retirement Overhaul

Representative Seaton : I have been following the various bills to change the state retirement system. My question to you is why do the bills not change the retirement for judges and university professors? Judges receive 5% per year for 15 years service, defined benefits.

It seems that if the system is to be converted to defined contribution that all new public servants should be in the same position. Otherwise the state is creating an elite status of privileged public employees, which in my opinion is unfair. I look forward to your comments explaining why the bills do not include these employees? Thank you for your service. Jim Rice Juneau jimbob@gci.net

4/29/2005

Louie Flora

From: Julia Smith [julia.smith@acsalaska.net]

Sent: Thursday, April 28, 2005 7:03 PM

To: Rep. Tom Anderson; Rep. Ethan Berkowitz; Rep. Mike Chenault; Rep. Sharon Cissna; Rep. John Coghill; Rep. Harry Crawford; Rep. Eric Croft; Rep. Nancy Dahlstrom; Rep. Jim Elkins; Rep. Richard Foster; Rep. Les Gara; Rep. Berta Gardner; Rep. Carl Gatto; Rep. Max Gruenberg; Rep. David Guttenberg; Rep. John Harris; Rep. Mike Hawker; Rep. Jim Holm; Rep. Reggie Joule; Rep. Mary Kapsner; Rep. Mike Kelly; Rep. Beth Kerttula; Rep. Vic Kohring; Rep. Pete Kott; Rep. Gabrielle LeDoux; Rep. Bob Lynn; Rep. Lesil McGuire; Rep. Kevin Meyer; Rep. Carl Moses; Rep. Mark Neuman; Rep. Kurt Olson; Rep. Jay Ramras; Rep. Norman Rokeberg; Rep. Woodie Salmon; Rep. Ralph Samuels; Rep. Paul Seaton; Rep. Bill Stoltze; Rep. Bill Thomas; Rep. Bruce Weyhrauch; Rep. Peggy Wilson

Subject: No on SB141

To Alaskan Representatives:

I understand that you will be voting on a bill that proposes changes to the teachers' retirement system. It is also my understanding that my retirement benefits will be in jeopardy if this bill is passed.

I urge you to vote "no" on this bill. My reasons for this are simple. I love to teach, I love Alaska, and if my retirement benefits are reduced, I will seriously consider leaving the teaching profession.

This year I will complete a masters degree in statistics. With this degree, I am more highly qualified than No Child Left Behind requires. (I am highly qualified without the masters degree as I have a bachelors degree in mathematics.) However, I am also highly qualified to find a job in industry where my salary will be twice what it is now.

This is not a threat: I am being realistic about my financial options. I did not seek my masters degree to leave the teaching profession. I am a talented teacher and I adore working with my students. This is why I choose to stay in the teaching profession despite having other career options where the financial gain is greater.

However, it would be foolish for me to stay in a profession that does not provide adequate retirement and provides only a mediocre salary. I hope that this does not sound sarcastic, but I have no desire to work this 50 - 60 hour work week schedule when I am in my seventies.

Please vote "no" on SB141.

Thank you for your time.

Julia Smith

Louie Flora

From: Charles Holyfield [holyfield@mosquitone.net com]
Sent: Thursday, April 28, 2005 12:52 PM
To: Rep. Paul Seaton
Subject: RE: Retirement System

Mr. Seaton....It appears from your E-mail that you are not even bothering to read your mail. I am sure you receive a large quantity of mail both postal and computer but if you don't take the time to review or have staff to do so....are you listening to the people of Alaska??

You mentioned in your E-mail that the Senate Finance committee spent three weeks going over the bill in detail....THREE WEEKS is a poor review time for the impact it has plus how much time have you allowed for input from public, current state employees and retirees??? If you listened, took time to hear what is being said by the public there are probably some excellent ideas how to resolve some of the current problems. Most poor decisions are those made in haste and with limited research and SB 141 meets that definition.

This problem did not develop in 3 weeks or one year....take time to look at all the ideas and options. Make a good decision that addresses all the problems, not just a band-aid approach that will possibly end up costing the state more money in legal fees.

Knowledge is power....and it appears that full knowledge of all the facts for all is not happening. I would like to know more, the facts surrounding the deficit, rather than just general info. Stop the reacting and go into action and do it right. Allow time for testimony, distribution of the facts to public, research how to make it right and make a good decision.

Thanks, Nilda Holyfield, Retired from Department of Health and Social Services, Division of Public Assistance

----- Original Message -----

From: Rep. Paul Seaton
To: Charles Holyfield
Sent: Thursday, April 28, 2005 8:22 AM
Subject: RE: Retirement System

Due to the large volume of correspondence we have been receiving on this issue, I have prepared a general statement to address your concerns.

As you are aware, the current Public Employee's Retirement System and Teacher's Retirement System is facing a 5 billion dollar unfunded liability (present dollar value), which jeopardizes its future solvency. This means that employers will need to dramatically increase their payments over the course of the next 25 years to pay off this unfunded liability. To meet these payments, the percentage of salary that school districts will need to contribute on behalf of teachers will reach as high as 50%, and for PERS as high as 30%. Over the course of 25 years, the total of all the payments made by PERS and TRS employers to pay off the unfunded liability will amount to over 15 billion dollars. Both the House and Senate have taken on the daunting task of overhauling the system in order to create a more sustainable program. In House State Affairs we are currently viewing SB 141 and making amendments to incorporate what the committee feels are the most important elements of HB 238.

SB 141 creates a sustainable and attractive retirement system by instituting a new tier for future employees. SB 141 establishes a defined contribution account – similar to a 401K – for future employees. Under SB 141 an employee would be required to contribute 8% of their salary to their defined contribution account. The employer would contribute 4.5%. This would replace the existing

defined benefit program, through which a retiree receives a monthly pension amount with a portable lump sum account they can transport into another qualified employer's retirement plan. The employer's would also contribute towards medical benefits, 5.5% for PERS and 5.75 for TRS. I am happy to report that a State Affairs amendment to SB 141 significantly improved the medical benefits from what was originally in the bill.

One of the main concerns for both employers and employees is maintaining a system that is rich enough to attract quality employees and provide a dignified retirement for members. The defined contribution plan as amended by the House State Affairs committee in SB 141 is an adequate plan with the portability and flexibility that a new generation of employees finds attractive. We tried to get an increase in employer contribution, however that amendment failed.

Another concern that many have expressed are the changes to existing tiers proposed under SB 141. Specifically, the bill calls for an increase in the contribution rate for current employees. However, House State Affairs was able to get that aspect taken out.

Most of the changes to the retirement system will affect only new employees. The Senate Finance committee spent three weeks going over the bill in detail. You can find information they were provided with, along with a host of back up material on SB 141 at <http://www.akrepublicans.org/passedleg.php> (scroll down till you find SB 141).

For more details on HB 238, the State Affairs bill, please visit <http://www.akrepublicans.org/seaton/index.php> and click on "PERS/TRS Retirement Bill".

If you have any specific questions that are not addressed in the literature please feel free to email or call.

Sincerely,

From: Charles Holyfield [mailto:holyfield@mosquitonet.com]
Sent: Wednesday, April 27, 2005 7:15 PM
To: Rep. Paul Seaton
Subject: Retirement System

Mr. Seaton....I am State of Alaska retiree and am very proud of my service to the state for almost 15 years. We moved to Alaska in 1983 and I brought with me over 10 years of state service and training from 2 other states. Alaska is where we settled, raised our family and my husband continues to work in the community. Through the years of working for the State of Alaska, there were lots of lean years, no raises for years, no money for supplies (yes, I purchased my own pens, notebooks and etc), and put in many of unpaid hours to fill in when we were under-staffed, backlogged or a special project was needed to impress someone. I did training for new employees for a number of years and at one point had 12 trainees at various levels....that was over 1/4 of the front line workers were new due to hiring freezes, hard working conditions and etc.... I loved it all and did my job professionally. Though at the time I never thought about retirement, disability insurance, PERS. Too soon they became a reality for me and I am very grateful. In my years of working, I have seen many types of workers----but most fit into 2 categories: professional and

unprofessional. State of Alaska has both kinds in very department. By making the proposed drastic changes to the retirement system, you are going to have mostly unprofessional and no longer those that see state employment as a profession to be proud of. Retention will be gone as employees will search for employers who have good retirement programs and benefits as the state now has. Why destroy something that is working??? To save money from poor investments? We have all be hit hard due to the market...why attack the backbone of the State government?

I did not get the chance to testify as I was sick last week...a few days notice and one misses a chance to speak out. If this proposal has been in the making for a year, why has it been kept from the public. Ashamed??? If money is needed, start with your own retirement system, benefits and etc.

I do not think the State retirement program is perfect, and there are areas that should be looked at. Example is individuals that worked a short time in the 1970's and early 1980's (fall under Tier I). I have heard too many times from previous short term state employees that now realize the retirement benefits and plan to go back to work just to get their 5 years in to qualify for benefits. Not right or fair. Look at making it 5 consecutive years of employment for retirement benefits to reduce the takers or even increase it to 7 to 10 years so you have professional state employees eligible for good retirement benefits. Saves training time, poor employees that dislike job won't stay that long, and the state wins.

I do agree with 50/50 contributions and did not realize it was anything but.....looking at my contributions over the years I did do 50/50 so I am not sure what changed or what the issue is. Again, give everyone a chance to know the facts, not just the issues---making a good change is the best. Thanks, Nilda Holyfield retired from Department of Health and Social Service, Division of Public Assistance

Louie Flora

From: Lauri Lingafelt [bkrchk@gci.net]
Sent: Wednesday, April 27, 2005 9:37 PM
To: Rep. Paul Seaton
Subject: SB141

Representative Seaton:

I would like to express my concern for voting on the SB 141. I would encourage you to **NOT** vote for this bill. Here are some points of interest:

- The State of Alaska has been committed to a sound retirement system since before statehood
- Public employees - and all workers - deserve to know how much of a monthly income they will get when they retire. SB 141 will not guarantee that for new hires.
- The fault of the unfunded liability is not the fault of current or future employees.
- The legislation doesn't provide for any death or disability insurance. Dozens of classifications of workers find themselves in potentially dangerous work situations including in the corrections system, API, schools, police and fire, fish and wildlife biologists and protection officers, and engineers and equipment operators constructing and maintaining roads. Public employees have died while performing their duties for the public.
- Most public employees make a basic wage with no extra money to save for health benefits and life insurance
- Combining the boards will cost a great deal of money and will not fix the problem. Public employees pay in substantial sums of money into the system and should have a say through elections in who helps makes decisions
- Often, the problems come back to mistakes made from one single actuary. Isn't it time to get more professional input before changing the retirement safety nets Alaskans have depended upon for nearly 50 years?
- Recruitment and retention - especially for more specialized job classes - will become more difficult.

Thank you for taking the time to read my email.

Sincerely,
Lauri Lingafelt
907-262-7126
PO Box 3643
Soldotna, AK 99669

Louie Flora

From: Bailey, Marilyn [mbailey@ci.anchorage.ak.us]
Sent: Wednesday, April 27, 2005 3:37 PM
To: Rep. Paul Seaton
Subject: opposition to sb141

I am sure you are already doing everything you can to prevent passage of the bill that proposes to eliminate the death benefit for families of officers killed in the line of duty. It is my understanding that it also would eliminate disability benefits and eliminate a defined retirement benefit as well.

I retired after 25 years as a police officer with APD, and then returned to work in APD's backgrounds unit responsible for recruitment and selection of new officers. I can assure you that passage of this type of legislation would gravely impede our department and departments state-wide in attracting quality candidates. Government cannot afford such an appallingly short-sighted move.

I am in Tier I, so this doesn't affect my own retirement benefits. But it will most assuredly affect my law enforcement peers and will impact our future capability to effectively protect all of our communities.

Marilyn S. Bailey
Backgrounds Specialist
Anchorage Police Department
907-786-8969

4/29/2005

Louie Flora

From: john brown [jbrown302@hotmail.com]
Sent: Tuesday, April 26, 2005 1:11 PM
To: Rep. Tom Anderson; Rep. Ethan Berkowitz; Rep. Mike Chenault; Rep. Sharon Cissna; Rep. John Coghill; Rep. Harry Crawford; Rep. Eric Croft; Rep. Nancy Dahlstrom; Rep. Jim Elkins; Rep. Richard Foster; Rep. Les Gara; Rep. Berta Gardner; Rep. Carl Gatto; Rep. Max Gruenberg; Rep. David Guttenberg; Rep. John Harris; Rep. Mike Hawker; Rep. Jim Holm; Rep. Reggie Joule; Rep. Mary Kapsner; kellys1@gci.net; Rep. Beth Kerttula; Rep. Vic Kohring; Rep. Pete Kott; Rep. Gabrielle LeDoux; Rep. Bob Lynn; Rep. Lesil McGuire; Rep. Kevin Meyer; Rep. Carl Moses; Rep. Mark Neuman; Rep. Kurt Olson; Rep. Jay Ramras; Rep. Norman Rokeberg; Rep. Woodie Salmon; Rep. Ralph Samuels; Rep. Paul Seaton; Rep. Bill Stoltze; Rep. Bill Thomas; Rep. Bruce Weyhrauch; Rep. Peggy Wilson
Subject: oppose SB 141

Dear Legislator,

Those that support the elimination of a Defined Benefit Pension for public employees have not done their homework. It does not save money or eliminate risk for government. Business is running away from defined benefit plans because they don't have to pick up the tab when millions of working americans can not support them selves, when they can no longer work. Government will in one form or another. I urge you to take a few minutes and type in the words "Defined Benefit versus Defined Contribution" on a goggle search. Its easy to see with just limited effort that the vast majority will never retire with a defined contribution plan. I say "plan" because it is not a retirement plan it is savings account.

Louie Flora

From: Doris Robbins [drobbins@gci.net]

Sent: Sunday, April 24, 2005 1:10 PM

Subject: Former Teacher/Administrator's Testimony to House Finance Committee on SB 141 (with foreword)

Representatives,

I am forwarding Sara's confidentiality testimony with a foreword about who Sara Homberger is. You would do well to listen to this experienced former teacher who has taken on the job of statewide Medical Committee Chair for Retired Public Employees of Alaska (RPEA). She is in Anchorage and also attends with our president and several area RPEA members the PERS/TRS and ASPIB board meetings every time they meet (usually in Anchorage) except due to illness or they are held in a different community (at which time retirees from those communities attend).

She receives communications from retirees all over the world, usually by email. It comes from members who have problems with medical due to any number of reasons, and works with the input from Alaska Aetna manager in Anchorage on the hard ones. There is often great confusion with the going to Medicare at 65, and how Medicare makes retirees submit claims over and over until finally a live body actually looks at the claim on about the 5th submission. She has, through discussions with Shelly Nordlinger, Aetna Anch, worked out many problem areas. Now Shelly has given out her number for direct help, not a voice mail, and is taking calls on AlaskaCare and Medicare issues from PERS/TRS retirees because coding problems are so rampant with Medicare and the claims interact before payment to doctor takes place. (We don't make friends with doctors when meager payment is delayed for months, and AlaskaCare can not pay until Medicare does!) Sara has taken the problems that she deals with and writes a medical column in the RPEA newsletter, explaining how to handle some of the frequent problems which she learns about.

If you wish to confirm, you may reach Shelley Nordlinger at 1-800-560-7253 ext. 210. Sara was able to get Shelly as a guest at our April Medical teleconference and she spent 2 hours working with us. Be aware that Shelly she may be swamped with calls this week, as her number was just given out to many of our members. Shelly and Aetna have been trying to help us convince the current administration to take the preventive approach with retirees, that Medicare has now endorses, because it will save our retirement fund and the State a great deal after an initial start-up fund infusion. She can prove this to you if you talk to her! This is one of the reasons we are leery of handing over full control of our retirement fund to administration via the combined boards.

In listening to some testimony by legislators, retirees such as this one, have been demeaned as not having the experience or expertise to participate in oversight of the retirement boards. I remind you again, retirees like this one taught you how to be who your are. They taught the financial experts, the managers and the full spectrum of those you say are qualified to oversee the board(s). Often they have the experience of seeing this sort of thing in the past and the wisdom of having been there and done that before. They usually know the pitfalls better than lawmakers and the up and coming whiz kid experts. Do you want to be known for bringing down the system that has continued to keep employees interested in working in Alaska? You can be sure that I personally will bring it up every election season. I am already printing and saving vote tallies.

Sincerely,

Doris Robbins

4/29/2005

Member of Interior Chapter RPEA

3763 Mitchell Ave #B
Fairbanks, AK 99709-4636

Alaskan since 1965

Independent

Former teacher, longliner and

Admin. Clerk in DOL Employment Security Tax Section and Workers' Compensation Division.

I loved serving the public and took calls, sometimes hundreds a day, with a cheerful greeting in Tax

- *Employment Security Tax..may I help you?* - from employers all over Alaska, as well as outside:
for things like "I need an employer report ..a registration form/packet..what's my rate? .. the dog ate
my report-can you send me another one? ... forward calls to wage and hour ..the director..the
commissioner

...Insurance ...admin...personnel ..tell them it is an IRS matter and how to reach them...made sure ee's
adhere to

safety codes ...endorsed checks for huge amounts - above \$500,000 all the time (making sure checks
were in the

bank within 3 days)..date-stamped thousands of return receipts ... returned your magnetic tapes ...
reviewed

subpoena's requesting documents for investigators ... and provided documents only as confidentiality
rules

allow (signing a confidentiality statement yearly) .. served as notary.. entered claims... did travel
requests

..completed inventory... sanitized documents....archived documents...prepared files/documents in
preparation

for hearings....filed in a complicated color+numeric system and filed more and found occasional lost
files...

...maintained ee medical files separate from personnel files (all locked) ..wrote job descriptions . . . sent
our job notices

according to law, properly using hire lists...interviewed...watched my p's & q's on proper consideration
of minorities .

..hired... justified hires and submitted documentation...completed purchase requisitions using the proper
contract/coding.

...called the building manager on problems...and on and on ALL for under \$30,000 gross/yr.: stayed
because of benefits

and love of service!

[So you want to make it easy for me to leave for a better job? and for someone to start over so Alaska can pay to train
a new person as the work gets behind? Do you postpone hearings? Postpone employer statements? Ignore subpoenas?]

----- Original Message -----

Subject:Second Try to send my letter to House Finance Committee

Date:Sat, 23 Apr 2005 12:55:00 -0400 (EDT)

From:SHornb5629@aol.com

To:bill.bjork@neaalaska.org

CC:

April 22, 2005

4/29/2005

Members of the Finance Committee
Alaska State House of Representatives
Juneau, Alaska
FAX: 1-907-465-6813

Reference: Testimony on SB 141
House Public Hearing, April 23, 2005

As I will probably be unable to attend your hearing in person, I submit the following comments:

Having closely followed the activities of the PERS/TRS and ASPIB boards over the past four years and, in addition, having worked with the PERS/TRS boards in their efforts to hold the line on medical insurance costs including efforts to bring costs down, and noting the recent prestigious national award received by the ASPIB, I question the current legislative efforts to eliminate those boards especially since they will be replaced with one board appointed by the governor.

I note that there is also a legislative effort to change the control of the investment of the Permanent Fund and place those investments more completely under the control of the governor.

I question, therefore, considering the huge amounts of money represented by these two funds: What is going on? Who is behind this? Who or what is benefiting? What is happening to a system of checks and balances to protect these funds?

The Alaska Legislature is on the verge of destroying a system that has worked well since statehood and doing it based on faulty and, in some cases, downright false information. I won't go into the falsehoods as you have already had them pointed out to you in statement after statement from Alaskans far more knowledgeable and capable than I. The question is, why this push to get rid of these boards based on this false information? Who is going to benefit from this new monolithic body and defined contribution plan? Who is benefiting from the dissolution of the hard working and ethical PERS/TRS and ASPIB boards?

As a resident of Alaska since 1963, a teacher and administrator with twenty years experience in Alaska rural schools and ten years in schools in Arizona, Idaho, and California, and a twelve-year member of an Alaska rural school board, and a small business owner along with my husband, I want you to know that with the provisions of SB 141 you are gambling with the future of education in rural Alaska to say nothing of bush law enforcement and protection in the form of troopers.

It is already difficult enough to find quality teachers who are willing to work in rural Alaska and to remain there long enough to make a difference. No longer can we offer better salaries and benefits to make up for the sacrifices teachers made when they go to the bush to work. With this new legislation we have nothing to offer them and this applies to trooper candidates also.

The present retirement system is not broken. It is working well considering the obstacles the PERS/TRS boards have had to deal with as they have endeavored to protect the retirement fund and bring costs down. If you want to lay blame for problems, I suggest you look elsewhere than the PERS/TRS boards. I also ask that you take a strong hard look at just who is going to benefit from the passage of this legislation. It will not be the hard working public employees and teachers and school personnel of Alaska.

One final point. The money in the retirement trust fund belongs to the retired public employees and teachers of Alaska. That includes the money that was contributed to the fund by our employers as those monies were part of our negotiated agreements. That money does not belong to the state; it is money we earned doing our respective jobs. As such, we have a right to a board composed of our peers holding the responsibility for the investment and disposal of those funds. A board appointed by the governor will not be a board of our peers.

Thank you for reading and considering my opinions and thoughts.

Sara Hornberger,
Chair Retired Public Employees of Alaska Medical Insurance Committee
Alaska resident since June 1963
Retired public school teacher and administrator
Small business owner and operator with husband Charles Hornberger
Registered political independent

Louie Flora

From: Frank Jirik [djalaska@gci.net]
Sent: Sunday, April 24, 2005 10:02 AM
To: Rep. Paul Seaton
Cc: Rep. Richard Foster; Rep. Mike Hawker; Rep. Kevin Meyer; Rep. Bill Stoltze
Subject: HB 238 & HB 191

Dear Mr. Seaton,

First, thank you for taking time from your family and friends to be a part of the future of this State. As for me, I am a citizen with a lifelong interest in the future of this State. Please take my words to heart.

I ask that you do not pass HB 238 & HB 191. I haven't read them in their entirety, but I know the end result is that defined benefits retirement will be replaced by defined contributions.

I understand that defined contributions will be less expensive for the State of Alaska than the defined benefits system; however, the State deserves quality, experienced employees. Employees are and have been willing to accept lower wage or salary because they know they can plan on a certain level of retirement income when each are eligible for retirement. This is important to our families and our communities. It is important to know what can be expected after 20 or 30 years of faithful service to our people. The defined contributions leaves our valued employees retirement income to the whim of the stock market.

The burden of "managing" a retirement portfolio by the average Alaskan is huge. Even experienced funds managers have little ability to predict market trends. These bills are not unlike President Bush's desire to privatize a portion of American workers social security. As you know, the majority of Americans oppose privatization and defined contributions is no different than a form of privatization.

Please, sir, continue Alaska's guarantee of a predictable, decent retirement for its public workers and oppose any effort to adopt a defined contributions retirement plan for public employees. If defined contributions becomes law, you can be assured that the quality of State employees will decline as those employees will seek employment where wages are much higher than the current State salary/wage range. Recruitment will become a significant issue in the years to follow if HB 238 & HB 191 pass. If these bills are passed out of committee, the people of this State can only hope that the Governor exercises his right to veto. If he doesn't, I will have to seriously consider switching my party affiliation.

I have read in the Anchorage Daily News that the PERS/TERS retirement system is shortfunded by a predicted \$5.9 billion. Why? I have also heard that the PERS/TERS funds management staff allowed lower contributions by participating government agencies during the stock markets "boom years" and as a result the State retirement plans are underfunded. If this is true, fire all of them. A handful of people put our State retirement program in a precarious financial position.

Thank you for taking time to read my comments, and I wish you the very best.

Sincerely,

Frank Jirik III
PO Box 873285
Wasilla, AK 99687
907.376.6324

Louie Flora

From: James Short [shortjh1975@msn.com]
Sent: Saturday, April 23, 2005 11:22 PM
To: Rep. Paul Seaton
Subject: Bill 141

Dear Representative Seaton,

I wish to express my grave concerns about Bill 141.

- First and foremost, Bill 141 is moving at such a rapid pace that public process is being denied, leaving many unanswered questions and the potential ruin of retirement plans for many.
- The State of Alaska is shirking its commitment to public employees as it tries to shift the burden of its retirement system to others such as municipalities, school districts, and employees.
- The defined contribution retirement plan would be devastating for teachers because they do not have any other safety net for retirement such as Social Security.
- At this time, the retirement system's financial situation is unclear. Mercer Consulting's stats are inaccurate and do not tell the whole story. The figures need further study.

It is necessary that we sit down together and look at ideas to improve the system, making sure we have accurate information in order to create a retirement system that not only provides adequately for public employees who have been in the system for years but is also competitive to attract quality people for years to come. At a time when there is a budget surplus, the opportunity should be taken to make an comprehensive plan for the future. Thank you for your time.

Sincerely,

Heather Short

Louie Flora

From: Don Logan [dlogan@co.fairbanks.ak.us]
Sent: Saturday, April 23, 2005 1:24 PM
To: Rep. Paul Seaton
Subject: Sb141

Importance: High

Representative Seaton

I am writing to express my objections to SB141 and related bills now under consideration in the House.

Many people have testified to the following FACTS about SB141:

- >This is a very significant public policy decision.
- >This is a drastic change in the Public retirement system that will affect every citizen of Alaska, not just teachers and other public employees.
- >This bill won't have any significant impact on the funding shortfalls for a decade or longer.
- >Significant problems have been identified in the system that this bill makes no attempt to fix.
- >These major changes need significant public buy-in if they are to be accepted by the public.
- >We need to look at other reasonable, viable options besides a Defined Contribution Plan.
- >Such a plan would put future retirees at risk of outliving their savings & medical plans, with most not even eligible for Social Security as a back up.
- >This bill needs careful study, public hearings around the state with input from all stakeholders, in the interim.

Yes I did cut and paste this from an email created by Sam Trivette RPEA President BECAUSE I AGREE WITH HIM!!

I strongly urge SB 141 bill be tabled this session. Your decision on this piece of legislation WILL be the deciding factor of who I support in all future elections. I will do everything within my power to see that supporters of SB141 will never be reelected. Thank you for your time.

Donald Logan
708 Stewart Street
Fairbanks, AK. 99701
907-459-7707
dlogan@alaska.net

Louie Flora

From: Doris Robbins [drcbbins@gci.net]
Sent: Saturday, April 23, 2005 11:11 AM
Subject: An apology to Legislative Council

Senators,

Representatives,

Below is a copy of an apology that I sent to the Legislative Council, to apologize for comments which were not actually intended for them; but as it turned out they were the recipients. I, and others under PERS/TRS are feeling very paranoid due to a number of presentations which have not been factual, or were skewed. Even now the unfunded mandates which had a big part of the low fund level, are not the subject of the current fix in SB 141. Why is the focus not on fixing the practices which created those. I just heard Senator Steadman say that it would do nothing to take care of the current problem.

If we are to have effective longterm changes, this bill does not do it. We need to stop the unfunded practices, continue to work statewide and nationally to curb health costs, and to give the money to education that should not be tied to this bill. You should not give in to hostage taking any more than our nation does. Education funding and this problem are two different issues. The kids have been deprived enough! If it gets out that Alaska uses these methods, we will never get teachers to come here!

Since SB 141 does not solve the immediate funding problem, right out of Senator Steadman's mouth, you should not take action which has not been well planned "in the heat of the moment." I receive an email of state facts, updated every so often. The latest showed that Alaska's contributions to retirement funding was down from the average nationwide. And again, I remind you that per actuaries I have read, and Mr. Esuchanko's statement, since Alaska does not have Social Security, there needs to be some type of Defined Benefit included so that you do not have retirees flooding to Medicaid in 3 to 4 years after retiring.

Please: Why is there a need to change the boards when they have not been shown to be the problem? In fact, they tried to step in and cut it off at the pass, and the administration, who really already makes the final decision, was the one who did not heed their advice. So you will turn the whole thing over to administration?

Thank you for your hard work,

Doris Robbins

4/29/2005

A POM was successfully sent

From:

Doris Robbins

To:

Sen. Cowdery, Sen. Davis, Sen. Stevens B, Sen. Stevens G, Sen. Therriault, Sen. Wagoner, Sen. Wilken

Subject

The message was sent in reference to:
Retirement

Message

The message contained the following text:

I owe you an apology, not knowing I was commenting on this committee when I questioned the hiring of Mr. Esuchanco. I made a bad assumption that the same contracting agent hired him as Mercer. After hearing his preliminary report I can tell he is very ethical and thorough.

[Begin Another POM](#)

[Logout](#)

Louie Flora

From: Crystal Hurbi [churbi@acsalaska.net]
Sent: Saturday, April 23, 2005 8:52 AM
To: Rep. Paul Seaton
Subject: Senate Bill 141

I am a 31 year employee of the Fairbanks North Star Borough, and have been on the negotiating team to determine employee benefits. I have had concerns about TRS/PERS for a while now as I am aware of the current funding deficient facing this system. I am also aware it creates problems for Municipalities throughout state. What I don't want to happen is a plan to correct the problems that creates even more problems than we already have. The State offered an early out for employees close to retirement, people left in areas that were critical, and then they did not have trained staff to complete funded projects. So they came up with a new bill to rehire retired employees and not have them pay into PERS, so these employees took jobs that could have gone to new employees who would have paid into PERS. I DO NOT WANT THIS TYPE OF MIS-MANAGEMENT TO OCCUR WITH THE RETIREMENT FUND. Every change made to the system has the potential to affect all the tiers in the long run. Your decisions will impact thousands of people and I urge caution over ramming something through, for that reason I urge you not to support Senate Bill 141.

Crystal Hurbi
1306 Gilmore Trail
Fairbanks, AK 99712

Louie Flora

From: Anderson, Jack [JAnderson@borough.kenai.ak.us]
Sent: Friday, April 22, 2005 11:27 PM
To: Rep. Paul Seaton
Subject: SB141,191

Dear Representative,
SB 141 and HB 191 would convert all members of PERS and TRS (Public Employees Retirement System and Teachers Retirement System) to private accounts very similar to the proposed changes to social security. I am strongly opposed to this legislation. Private accounts will make retirement very uncertain for most employees. Besides being a fluctuating number, the accounts could lose drastic sums of money in the market or get eaten up in investment fees. It isn't fair to new employees looking to devote their life to public service. It also isn't fair to those of us who are current members of PERS. By diverting those monies away from PERS, the legislature may make the problem even worse. I respectfully ask that you do not pass HB 191 or the related bills.
Jack Anderson
PERS Employee

Louie Flora

From: Judi Christiansen [jchristiansen@gci.net]
Sent: Friday, April 22, 2005 3:43 PM
To: Rep. Paul Seaton
Subject: PERS/TRS

Dear Representative Seaton:

As a former State employee and as a retired State employee I urge you to make PERS/TRS a two year effort and to seek out the opinions of Alaskans who will be impacted by the proposed changes to the system.

Thank you,

Judith A. Christiansen
Box 1284
Seward, Alaska 99664

Louie Flora

From: Melinda Peterson [abominablesnowgirl@yahoo.com]

Sent: Friday, April 22, 2005 5:13 PM

To: Ian Laing; Katie Shows; Louie Flora; Rep. Berta Gardner; Rep. Beth Kerttula; Rep. Bill Stoltze; Rep. Bob Lynn; Rep. Bruce Weyhrauch; Rep. Carl Gatto; Rep. Carl Moses; Rep. David Guttenberg; Rep. Eric Croft; Rep. Ethan Berkowitz; Rep. Gabrielle LeDoux; Rep. Harry Crawford; Rep. Jay Ramras; Rep. Jim Elkins; Rep. Jim Holm; Rep. John Coghill; Rep. John Harris; Rep. Kevin Meyer; Rep. Kurt Olson; Rep. Les Gara; Rep. Lesil McGuire; Rep. Mark Neuman; Rep. Mary Kapsner; Rep. Max Gruenberg; Rep. Mike Chenault; Rep. Mike Hawker; Rep. Mike Kelly; Rep. Nancy Dahlstrom; Rep. Norman Rokeberg; Rep. Paul Seaton; Rep. Peggy Wilson; Rep. Pete Kott; Rep. Ralph Samuels; Rep. Reggie Joule; Rep. Richard Foster; Rep. Sharon Cissna; Rep. Tom Anderson; Rep. Vic Kohring; representative_william_thomas@legis.state.ak.us; Rep. Woodie Salmon

Subject: *****SPAM***** Do Not Pass HB 191 or the Related Bills

Dear Representative,

SB 141 and HB 191 would convert all members of PERS and TRS (Public Employees Retirement System and Teachers Retirement System) to private accounts very similar to the proposed changes to social security. I am strongly opposed to this legislation. It would also change the amount current employees contribute to the fund.

Private accounts will make retirement very uncertain for most employees. Besides being a fluctuating number, the accounts could lose drastic sums of money in the market or get eaten up in investment fees. It isn't fair to new employees looking to devote their life to public service. It also isn't fair to those who are current members of PERS. By diverting those monies away from PERS, the legislature may make the problem even worse. I respectfully ask that you do not pass HB 191 or the related bills.

Melinda Peterson

Wasilla, Alaska

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Louie Flora

From: Cady, Crista [CCady@borough.kenai.ak.us]
Sent: Friday, April 22, 2005 5:03 PM
To: Rep. Paul Seaton
Cc: Katie Shows
Subject: RE: I implore you not to support SB 141

It's hard to take a letter from a congressional aide seriously when it is not written well. See below for some suggestion on how to revise your form letter. Thank you.

Crista Cady Hippchen

-----Original Message-----

From: Katie Shows [mailto:Katie_Shows@legis.state.ak.us]
Sent: Friday, April 22, 2005 2:50 PM
To: Cady, Crista
Subject: RE: I implore you not to support SB 141

Christy,

As you are aware, the current Public Employee's Retirement System and Teacher's Retirement System is facing a 5 billion dollar unfunded liability (present dollar value), which jeopardizes its future solvency. This means that employers will need to dramatically increase their payments over the course of the next 25 years to pay off this unfunded liability. To meet these payments, the percentage of salary that school districts will need to contribute on behalf of teachers will reach as high as 50%, and for PERS as high as 30%. Over the course of 25 years, the total of all the payments made by PERS and TRS employers to pay off the unfunded liability will amount to over 15 billion dollars. Both the House and Senate have taken on the daunting task of overhauling the system in order to create a more sustainable program. In House State Affairs we are currently viewing SB 141 and making amendments to incorporate what the committee feels are the most important elements of HB 238.

SB 141 creates a sustainable and attractive retirement system by instituting a new tier for future employees. SB 141 establishes a defined contribution account – similar to a 401K – for future employees. Under SB 141 an employee would be required to contribute 8% of their salary to their defined contribution account. The employer would contribute 4.5%. This would replace the existing defined benefit program, through which a retiree receives a monthly pension amount with a portable lump sum account they can transport (transfer?) into another qualified employer's retirement plan. The employer's would also contribute towards medical benefits, 5.5% for PERS and 5.75 for TRS. I am happy to report that a State Affairs amendment to SB 141 significantly improved the medical benefits from what was originally in the bill.

One of the main concerns for both employers and employees is maintaining a system that is rich enough to attract quality employees and provide a dignified retirement for members. The defined contribution plan as amended by the House State Affairs committee in SB 141 is an adequate plan with the portability and flexibility that a new generation of employees finds attractive (How do you know?). We tried to get an increase in employer contribution, however that amendment failed.

Another concern (singular) that many have expressed are the changes (plural) to existing tiers proposed under SB 141. Specifically, the bill calls for an increase in the contribution rate for current employees.

4/29/2005

However, House State Affairs was able to get that aspect taken out.

Most of the changes to the retirement system will affect only new employees. The Senate Finance committee spent three weeks going over the bill in detail. You can find information they were provided with, along with a host of back up material on SB 141 at <http://www.akrepublicans.org/passedleg.php> (scroll down till you find SB 141).

For more details on HB 238, the State Affairs bill, please visit <http://www.akrepublicans.org/seaton/index.php> and click on "PERS/TRS Retirement Bill".

If you have any specific questions that are not addressed in the literature please feel free to email or call.

Sincerely,

Katie Shows
Legislative Aide
Rep. Paul Seaton
1.907.465.2689

From: Cady, Crista [mailto:CCady@borough.kenai.ak.us]
Sent: Tuesday, April 19, 2005 8:57 AM
To: Rep. Paul Seaton
Subject: I implore you not to support SB 141

Dear Representative Seaton

I implore you not to support SB 141. There must be other reasonable solutions for the PERS/TRS emergency. Please give this crisis the attention it deserves and see experienced, professional input before voting to change the retirement system that I, my husband, and perhaps one day my son depend on.

Stay strong, fight for a creative approach to taking care of the retirement and health care needs of our indispensable public employees. Don't let the pressure from your fellow legislators and other interest groups sway your resolve to do what you know is right.

Good luck. Sincerely,

Crista Cady Hippchen

P.O. Box 3361
Soldotna, AK 99669
907-262-2825

Louie Flora

From: Sharon Hanna [sharon_hanna@correct.state.ak.us]
Sent: Friday, April 22, 2005 4:31 PM
To: Sen. Bert Stedman
Cc: Rep. Bill Thomas; Sen. Donny Olson; Sen. Lyman Hoffman; Sen. Gary Stevens; Sen. Tom Wagoner; Sen. Con Bunde; Sen. John Cowdery; Sen. Ben Stevens; Sen. Hollis French; Sen. Johnny Ellis; Sen. Bettye Davis; Sen. Gretchen Guess; Sen. Fred Dyson; Sen. Charlie Huggins; Sen. Lyda Green; Sen. Gene Therriault; Sen. Gary Wilken; Sen. Ralph Seekins; Sen. Albert Kookesh; Sen. Kim Elton
Subject: SB 141 HB 238 HB191

I am going to try to state my case as unemotionally as I possibly can.

I am really stressed about the results if these bills pass. Everytime the "powers that be" error, we the people are made (not asked) to PAY and PAY and PAY. I have worked for the State for ten years and bring home, after taxes, etc., all of 1946.00 per month. TEN YEARS I have worked, and being 61 years or age, how scary do you think that is? And NOW you want to take MORE money away from me because our retirement was unfunded.....NOT BY ME.....BUT BY YOU!!!!!!!!!!!!!!!!!!!!!! What is wrong with this picture? We are already so far behind inflation and fighting for all we are worth to just to keep what we have that we will NEVER catch up. I am an Administrative Clerk III and will never make what others make, and yet, where would you be without us? I can not afford to buy a car or a house on my salary. At the rate that food prices are rising, I will be living off the State, on assistance, even WITH my pension/SBS. How DO you justify that. I have to assume that you have plenty of money so that whatever you do won't effect your quality of living. Unfortunately for me, and lots others just like me, it will mean the difference between barely getting by and or needing help FROM STATE ASSISTANCE. What IS considered the poverty level in this state? Less than \$2000 per month?

As I have said many times, when the state/federal governments make a mistake or spend too much, they just tax us and we pay for it. WHO PAYS THE BILLS I CAN'T PAY.....WILL YOU? May I dun you?

Again, PLEASE DO NOT PASS THFSE BILLS.... I truly NEED all the money I EARN. I cannot afford another penney to be taken out of my salary.

*Sharon Hanna
Administrative Clerk III*

Louie Fiora

From: Carol A. Petraborg [carol_petraborg@fishgame.state.ak.us]
Sent: Friday, April 22, 2005 1:09 PM
To: Rep. Paul Seaton
Subject: SB 141 and HB 238

Please reject both of these proposed changed to the PERS retirement system

Louie Flora

From: Kim Zwingelberg [zwingelk@jsd.k12.ak.us]
Sent: Friday, April 22, 2005 12:33 PM
To: Rep. Paul Seaton
Subject: retirement

Dear Mr. Seaton,

Please do not mess with our retirement system. It is a good system. I do not believe in having my money or any new hires money to go into individual Ira accounts (or other individual accounts.) I have stayed in Alaska all of these years because I knew we had a good retirement system. Also, my paycheck shrinks each year and with the high cost of insurance and no pay raises. I can hardly afford to have more money taken out of my paycheck. Please consider the following:

- Consider using more than three years of high salary to base pension

- Abolish the practice of city council and school board members that pay so little into the system, receiving full medical benefits

- Hire a credible actuary. Quit using the advice of an actuary that brought this system from over-funded three years ago to a \$5.7 billion liability today

- Consider how many public school employees will leave Alaska if we become a "middle of the pack" retirement system.

- The funds have earned 15% in each of the last two years. That is well above the 8.25% assumed rate of return. In dollars, it amounts to about 700 million extra earnings each year.

Thank you
Kim Zwingelberg

Louie Flora

From: Donna VanLuchene [donnavan@gci.net]
Sent: Friday, April 22, 2005 10:47 AM
To: Rep. Paul Seaton; Rep. Carl Gatto; Rep. Jim Elkins; Rep. Bob Lynn; Rep. Jay Ramras; Representative_Berta_Gardiner@legis.state.ak.us; Rep. Max Gruenberg; Rep. Richard Foster
Subject: SB 141

Dear Legislators,

RE: SB 141 TRS/PERS Retirement System Legislation

PLEASE DO NOT SUPPORT THIS BILL!

Why?

- This is a critical piece of legislation which impacts the lives of hard-working, dedicated Alaska public employees and teachers. ***It needs further study and research.*** The initial draft of this bill was presented only one month ago, clearly not enough time to adequately consider the drastic nature of changes in public employee retirement.
- The passage of this legislation would also impact everyone else in Alaska, because it would change the ability of public employees and teachers to contribute to the health of the economy of the state as the result of a reduction in retirement and benefits. ***There would be an adverse "filter down" affect of such a drain on retirement benefits.***
- It will take at least a decade to realize funding savings, if any, as a result of such legislation. ***There are no guarantees of funding savings and there will be no short-term benefit.***
- Teachers and Public Employees on the whole do not support this legislation. The best way to gain support for such legislation is to involve employed and retired public employees in the process and ask for their input. If you want support, then ***seek involvement from those impacted by such legislation.*** Do not rely just on testimony alone. ***Seek active involvement from these individuals in drafting sound, effective legislation.***
- This type of legislation impacts the lives of elders at a time when they are less able to care for themselves. That is why they have worked so hard to develop an adequate state retirement. ***How would you react if you worked hard for 30 years contributing to a stable retirement system only to find out when you retired that you can not depend on that major source of income?***
- As state retirees, we cannot rely on any Social Security contributions we made during employment which was not state employment. Not only have retirees contributed to a Federal system for which they will receive **ABSOLUTELY NO BENEFITS**, but the State of Alaska now diminishes the contributions they are making for state retirement benefits through SB 141. ***Broken promises breed public mistrust.***
- Maintain the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board. Replacing these with the newly proposed Alaska Retirement Management Board will only further remove retirees from managing their own retirement and making important decisions that need to be made. ***The Alaska Retirement Management Board will only further separate the people from those who***

make critical decisions about their lives.

- Passage of SB 141 will have a ***major adverse affect on the ability of the state to recruit teachers and public employees throughout the state, particularly in rural areas.***
- ***A Defined Contribution Plan IS NOT THE ANSWER!*** My foremost question is: ***WHO WILL BENEFIT FROM THESE CHANGES?*** It will not be the retiree!!!

Have you ever been a public employee or a teacher in the state of Alaska? Then you know how difficult it can be at times to be so completely dedicated and committed to one's job to hang in there until retirement age or until the sufficient number of years have been worked. Living in a rural community simply adds to the difficulty of remaining a dedicated public employee. Yes, many of us manage to invest privately for our future, but we also rely heavily on the promises of this state to provide an adequate retirement with medical benefits. As a result, we forfeit our right to any Social Security benefits, despite the fact that we may have years of contribution into that system (I have over 10 years into the social security system from which I will never be able to draw a single benefit. Is this fair?).

As a retired teacher in this state, ***I ask you NOT to support SB 141.*** This issue of change must be carefully and thoroughly studied and researched so there is minimal adverse affect on current and future retirees. Although many retirees leave the state, more remain in the state. That means ***retirees must be able to continue to contribute to the economic health of the state throughout their lives and not become economic burdens on society. By providing an adequate and stable retirement, this will happen. Under SB 141, this will not!***

PLEASE - DO NOT SUPPORT SB 141!

Donna Van Luchene
P.O. Box 1938
Nome, AK 99762
(907)- 443-2979
donnavan@gci.net
Retired Alaska Teacher

Louie Flora

From: kenneth crump [thelittleguy_99645@yahoo.com]

Sent: Friday, April 22, 2005 10:37 AM

To: Rep. Paul Seaton

Subject: Pers

My Name is Kenneth Crump and I work for the mat su borough and I vote **NO**

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Louie Flora

From: kenneth crump [thelittleguy_99645@yahoo.com]

Sent: Friday, April 22, 2005 10:35 AM

To: Rep. Paul Seaton

Subject: Pers

I vote NO

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<http://mail.yahoo.com>

Louie Flora

From: Corrine M Holt [corrine_holt@labor.state.ak.us]
Sent: Thursday, April 21, 2005 2:01 PM
To: Rep. Paul Seaton
Subject: RE: *****SPAM***** SB 141

Please oppose SB141 - I've read the info below - It is very wrong to approve this!!!! You should understand that this is not good!!!

-----Original Message-----

From: Rep. Paul Seaton [mailto:Representative_Paul_Seaton@legis.state.ak.us]
Sent: Thursday, April 21, 2005 1:35 PM
To: corrine_holt@labor.state.ak.us
Subject: RE: *****SPAM***** SB 141

Due to the large volume of correspondence we have been receiving on this issue, I have prepared a general statement to address your concerns.

As you are aware, the current Public Employee's Retirement System and Teacher's Retirement System is facing a 5 billion dollar unfunded liability (present dollar value), which jeopardizes its future solvency. This means that employers will need to dramatically increase their payments over the course of the next 25 years to pay off this unfunded liability. To meet these payments, the percentage of salary that school districts will need to contribute on behalf of teachers will reach as high as 50%, and for PERS as high as 30%. Over the course of 25 years, the total of all the payments made by PERS and TRS employers to pay off the unfunded liability will amount to over 15 billion dollars. Both the House and Senate have taken on the daunting task of overhauling the system in order to create a more sustainable program. In House State Affairs we are currently viewing SB 141 and making amendments to incorporate what the committee feels are the most important elements of HB 238.

SB 141 creates a sustainable and attractive retirement system by instituting a new tier for future employees. SB 141 establishes a defined contribution account - similar to a 401K - for future employees. Under SB 141 an employee would be required to contribute 8% of their salary to their defined contribution account. The employer would contribute 4.5%. This would replace the existing defined benefit program, through which a retiree receives a monthly pension amount with a portable lump sum account they can transport into another qualified employer's retirement plan. The employer's would also contribute towards medical benefits, 5.5% for PERS and 5.75 for TRS. I am happy to report that a State Affairs amendment to SB 141 significantly improved the medical benefits from what was originally in the bill.

One of the main concerns for both employers and employees is maintaining a system that is rich enough to attract quality employees and provide a dignified retirement for members. The defined contribution plan created by the House State Affairs committee in SB 141 is an adequate plan with the portability and flexibility that a new generation of employees finds attractive.

Another concern that many have expressed are the changes to existing tiers proposed under SB 141. Specifically, the bill calls for an increase in the contribution rate for current employees. The employer currently bears the entire burden of the increasing cost of paying for employee's future benefits. In SB 141, the employer and the employee contribute equally to cover a member's

future retirement. Employee contribution rates would gradually increase at a rate of no more than .05% per year until they reach equivalency. For current employees this would mean that the average contribution rate for PERS employees (including police/ fire) over the course of 5 years would increase from 6.81% to 9.33%. For TRS, the contribution would increase from 8.69% to 10.94% during the same time frame. This rate could increase or decrease depending on the projected cost of providing for future member benefits. It is important to note that the employer will still bear the lion's share of the contribution to the system because they will be responsible for paying down the unfunded liability.

Most of the changes to the retirement system will affect only new employees. The Senate Finance committee spent three weeks going over the bill in detail. You can find information they were provided with, along with a host of back up material on SB 141 at <http://www.akrepublicans.org/passedleg.php> (scroll down till you find SB 141).

For more details on HB 238, the State Affairs bill, please visit HB 238, the problem facing Alaska's retirement system, and proposed solutions, please visit my website <http://www.akrepublicans.org/seaton/index.php> and click on "PERS/TRS Retirement Bill".

If you have any specific questions that are not addressed in the literature, or would like to submit written testimony to the House State Affairs committee, please feel free to email or call.

Sincerely,

Ian Laing
Rep. Paul Seaton
Legislative Staff
(800) 665-2689

From: Corrine M Holt [mailto:corrine_holt@labor.state.ak.us]
Sent: Wednesday, April 20, 2005 9:00 AM
To: Rep. Paul Seaton
Subject: *****SPAM***** SB 141
Importance: High

April 20th, 2005

Alaska House of Representatives

Dear Sir:

I am writing to you to express my concern over SB 141. Please defeat this when casting your vote and also any related bills. I was very excited to work with the State of Alaska starting in May of the year 2000. Since then my pay only decreases rather than increase. The cost of living does not cover costs in health care premium increases and general living. Now the Governor is trying to make it even worse. The reform of the retirement program is unacceptable. Being a State employee will not be attractive anymore if this one passes must be stopped. I will not be receiving the retirement benefits I was promised. Citizens won't be able to count on social security nor any retirement benefits from their employers. It is a shame.

It is not fair to reduce my pay to reduce State's expenditures. It will discourage new employees and existing employees from working within the State Departments. I also think that it is wrong for the Governor to appoint members on the retirement board. This bill must be stopped!

Sincerely,

Corrine M. Holt

Anchorage, AK

4/29/2005

Louie Flora

From: Doris Rubbins [drobbins@gci.net]

Sent: Wednesday, April 20, 2005 1:19 PM

Subject: Facts as recent as 1/05: a different Mercer Actuarial View

Representatives,

First, a thank you for your hours of work on the issue of retirement solvency. I know you are very tired and all of the facts must be swirling around in your brains. From business, you likely know that decisions should not be made until the mind clears. After letting facts "simmer in your brain" as you sleep, decisions are much more rational.

If you will take a moment to review the very thoughtful presentations attached by Anna Rappaport, in the Chicago office of Mercer Human Resource Consulting, which are part of a huge symposium on "Living to 100 and Beyond...", you will have a comparative of just straight facts to consider. Should you want to look for several other opinions (found at the link at page bottom) you will see reports from a variety of actuaries from many places. These should be considered carefully before making a quick decision on changing the retirement system. I think there may be another way to mediate the problem of both the employer and employee sides to get a better deal for both. There could be a combination plan.

Points made in reference to Defined Contribution always include the statement that they will have Social Security to fall back on. That certainly does not apply for State Workers, since Alaska opted out in 1980.

The second point brought out is that when employees can get their hands on a lump sum when they retire, they generally do not properly invest it to last through their life or it is not large enough to last, and they end up on medicaid and the state becomes their caretaker.

The third point is that individual employees, for the most part, do not have the expertise to know how to properly invest. If you are not careful in crafting retirement legislation, the decision may be to put off until tomorrow by saving money now (and you also risk loss of employees with an unattractive plan) only to find it costing the State more down the line, with people having no remaining retirement dollars going to Medicaid, where they are again the responsibility of the state.

I wonder who hired the third actuary, whose reports you are considering? You can shop around and find any statistic to prove any plan you wish to promote. I ask you to use your logic and think clearly before making decisions, but first get a variety of opinions from some who have no interest in the outcome. Please, think and ask many questions. It has been said that it can be changed back. Talk to someone in West Virginia and Nebraska, two of three states which went to a DC plan and have now gone back to the other system. Michigan, recently going to a DC plan, has not had it long enough to see what they will do. However, I can tell you that it is your 3rd opinion actuary who got them into their DC plan. I looked it up. I'm sure they also paid him a huge fee to say what they wanted to hear, or maybe I am paranoid. I will apologize if you can prove me wrong.

I saw former DOL Commissioner Jim Robison on the floor today through Gavel to Gavel. You can ask him, as I surprisingly ran into him in McDonalds (down the hill from the Capitol) last year (before moving up to Fairbanks) and had coffee with him. I don't know if he remembered me from an incident in Workers' Compensation Division in Juneau, or if he just remembers everyone, but I believe he will tell you that I am fair. Even when I do not agree with something, I will settle for what is fair. In fact, if

4/29/2005

it isn't fair to all, I won't stand for it. (I remember him from one Halloween when he became "Dolly Pardon" -visualize that and see if you can forget it.)

I love Alaska, don't send it back to boom-bust, flyby night "work for a year or two" and go to a high paying company outside where there is another lucrative job to be had from the training for which the State of Alaska paid "to get them up to speed" as an employee.

<http://ce.soa.org/living-to-100/>

Thank you for listening and for your service to Alaska!

Sincerely,

Doris Robbins

3763 Mitchell Ave. #B
Fairbanks AK 99709-4636
(907) 374-0597

4/29/2005

MERCER

Human Resource Consulting

High Age Implications of Post-Retirement Risks

by Anna M. Rappaport, F.S.A. and Monica Dragut

Introduction and Context

This conference is largely focused on living to advanced ages, finding data to measure high age mortality and techniques that can be used for this purpose. This paper is focused on a different direction, the risks of retirement and special issues for those at more advanced ages.

The U.S. retirement system is undergoing a transformation. There are large increases in the number of people covered by defined contribution plans, and corresponding decrease in the number covered by defined benefit plans. People have been retiring earlier and living longer. While the trend to early retirement has turned around a little since 1985, the length of the retirement period continues to increase. This transformation means that an increasing number of Americans are more responsible for their own, increasingly expensive, security in retirement. Issues of personal responsibility are particularly hard hitting as retirees reach advanced ages. Those over age 80 are more likely to use up all assets other than Social Security, and require long-term care, or become dependent on others.

The traditional focus on retirement planning has been around accumulation of assets for retirement, and not on the distribution phase. Where there has been focus on the distribution phase, there is usually very little focus on special issues related to higher ages. Therefore retirement risk has not been well addressed. This paper will identify important areas of post-retirement risk with emphasis on advanced ages and on the perspective of the individual. It will include public perceptions about post-retirement risk and information about the link of some plan features to post-retirement risk.

In this paper, we will:

- Provide context related to developments in the systems to provide retirement security
- Describe major post retirement risks, grouped by major sections – health and long-term care, family related, financial and other.
- Provide information on individual perspectives on risk and retirement security
- Present key findings from public attitude studies to show public views about post-retirement risk and to provide examples of what people know and understand.
- Make recommendations. Gaps and misperceptions are demonstrated. In this era of increased individual responsibility, inadequate knowledge can have serious consequences.

This paper uses data from several studies of public perceptions as shown in Appendix 1 and from a variety of other sources.

Background

Retirement security is based on the fundamental idea that the individual will work for a number of years, build retirement assets and/or entitlement to benefits, and then retire and use the assets in their retirement years. Traditionally, retirement planning has focused much more heavily on the accumulation of assets rather than the use of assets. For some people, retirement is a single well-defined event, but for many it is a process extending over a period of time. The Society of Actuaries has published an inventory of post-retirement risks with key management strategies. Risks can be viewed one at a time, qualitatively or quantitatively, or they can be considered by focusing on how they can interact for individuals or groups of people.

There has been a major shift from defined benefit to defined contribution plans, and to individual responsibility. Financial security in old age increasingly depends on individual action, but Americans are saving less. According to the Bureau of Economic Analysis (2003 NIPA Data), personal savings are at the lowest since the Great Depression. The personal savings rate was around 7% of annual income 1990 and dropped to 1.4% by 2003.

The pension benefit coverage of the respondents to the Society of Actuaries (SOA) and American Academy of Actuaries (AAA) Retirement Plan Preferences Survey documents that future retirees will differ from today's retirees. The respondents were workers and retirees who are covered by retirement plans of some type. Eighty-eight percent of the retirees have benefits from a defined benefit plan compared to 49% of the workers. Only 9% of the retirees say that they received benefits from a defined contribution plan compared to 56% of the workers who say that they have such coverage.

Overview of the Risks

Risks: The Society of Actuaries Committee on Postretirement Needs and Risks has identified post-retirement risks and analyzed their variability. Some of these risks can be transferred through the use of financial products and others can not. Some of the risks identified were those traditionally identified, but others went beyond the traditional risks. It became clear in this process that not all of the risks can be managed easily. Interacting with all of the individual risks is the risk of inadequate information for decision making. The following are some of the risks that were identified with a comment about how these risks change in later years.

Risks related to longevity, outliving assets, and changes in family structure

Longevity—outliving your retirement resources: Nobody knows how long their assets will last, especially since unexpected events might diminish those funds. Social Security provides a lifetime income so the issue is really to have assets above and beyond what Social Security provides. The impact of this risk grows with increasing age, and is highest at advanced ages. Living off investment income only and preserving principal is one way to partially manage this risk. To totally manage it, one would need to live off investment income less the increase in value due to inflation. Annuitization is a method of risk transfer. However, if assets are annuitized without inflation protection, the purchasing power of the income declines over time. Therefore, if annuities are not indexed for inflation, they only offer partial risk protection. Experts don't agree on the desirability of annuitization, partly because of the tradeoff between a lifetime guarantee and loss of control combined with the loss of availability of funds for other needs.

Death of a spouse: The surviving spouse may need 75% of the couple's income to maintain the same standard of living. Poverty rates among the population of widows over age 65 are much higher than among married couples (15% compared to 4%). The associated risks can be transferred through use of survivor annuities or life insurance. The risks of inadequate resources during widowhood grow with increasing age.

Change in marital status: Marital status can affect benefit entitlement in both Social Security and private benefits. Retirement assets can be modified or transferred at marriage, divorce, and remarriage.

Unforeseen needs of family members: Many retirees find themselves helping other family members including parents, children, and grandchildren. This often applies more at the earlier part of retirement rather than at the very high ages. Retirement planning needs to take this contingency into account. Older children or grandchildren may need money for higher education, and a few might need special help to deal with physical or mental handicaps. Adult children might look for help if become unemployed or financially distressed.

Risks related to health care, long term care, and housing needs

Unexpected health care needs and costs: This is a major concern and an especially difficult issue for retirees not yet Medicare eligible. When they do not have employer sponsored coverage, it is very difficult and costly to get any coverage. Prescription drugs and long term care have not been covered by Medicare to any significant degree, but Medicare will begin to cover a portion of drugs in 2006 and later. This is a major topic for this paper and a special section is devoted to this topic.

Loss of ability to live independently: This is a major financial and life risk. Long term care insurance offers a means to partial risk transfer. Continuing care retirement communities also offer partial risk transfer. This risk increases very much with increasing age. There is a special section of this paper to cover this topic.

Lack of available facilities or caregivers: A risk related to the problems with long term care financing and loss of ability to live independently is the risk that even with appropriate resources, there will not be suitable facilities and caregivers. At present, there is a shortage of skilled personnel for long term care facilities. There are currently adequate facilities for those with adequate resources but availability is often a problem for those without money.

Change in housing needs: Housing is often an important asset in retirement, and a house can be converted to income without moving through a reverse annuity mortgage. Reverse mortgages are used infrequently. Housing is often integrated with care and as people have limitations in what they can do; these can be solved through moving into specialized housing. Specialized housing is generally more expensive than housing without the added services. The integration of housing and care is a particularly important issue for higher age retirees. There is a separate discussion of housing options later in this paper, and how they might be used at higher ages.

Financial and economic risks

Inflation: This risk is a major concern for retirees. As life spans increase, this risk grows more severe. If inflation early during retirement causes retirees to use up more of their resources than anticipated, this will produce a double hit later in inflation. Inflation compounds, so that higher inflation in one year produces higher living costs in all future years. The purchasing power of \$1000 in ten, twenty and thirty years assuming inflation of 3%, 5% and 10% is as follows:

Value of \$1000 Years from now	Inflation		
	3%	5%	10%
10	\$ 744	\$ 614	\$ 386
20	\$ 554	\$ 377	\$ 149
30	\$ 412	\$ 231	\$ 57

Except for inflation indexed bonds, most investment vehicles are not directly indexed for inflation, but different strategies provide different levels of inflation matching. Social Security benefits are inflation indexed, but few private annuities are. The risks related to inflation grow with increasing age. A particularly difficult issue for retirees is that health care costs and premiums for health coverage have been increasing much more rapidly than inflation. Social Security increases do not reflect the impact of this added cost for many retirees. Inflation also interacts with other risks.

Interest rate risk: For retirees with assets invested in fixed investments, declines in interest rates mean less investment income. Annuities also become more expensive as interest rates drop. Retirees wishing to purchase annuities can moderate interest risk by dividing their purchase into several purchases and spacing them out over time. Interest rate risk can be particularly troublesome for retirees with modest assets and the impact interacts with inflation. These retirees are likely to have their assets invested in fixed income investments. Younger retirees who find they have experienced a decline in income due to a drop in interest rates are likely to have more options than very old retirees. These options often include returning to work, at least part-time or part-year.

Stock market risk: Traditionally, it is expected that those with a longer time horizon will want to take more risk. There are very different risks between a single stock and a diversified portfolio. Retirement assets may also be invested in company stock which carries an additional risk since it is not diversified, and prior to retirement, workers are subject to job related risk as well. Traditional thinking is that higher age retirees should not invest in stocks unless they have a secure income to cover basic needs, or investments with a secure return to cover such needs.

The investment experience of the 1990s fed undue optimism about stock market returns. The bad experience in the last five years caused hardship to many retirees and those planning to retire. In 2002, AARP studied the impact of stock market declines on 50-70 year olds, and found that 77% of those with money invested in stocks had lost money. Of this group, 27% said that they had postponed retirement, returned to work or were looking for work. 43% said that they expected to be less comfortable in retirement. 59% said that they were budgeting more carefully, and 67% had adjusted their lifestyles as a result of the losses.*

Knowledge about investment risk and returns: The Insight into Participant Investment Knowledge and Behavior Study series provides some insight into knowledge of investments. The participants in this survey all participate in 401(k) or similar plans with investment choice, but many of them show significant gaps in investment knowledge.

Participants are confused about the relative risk of company stock compared to a diversified portfolio. The 2002 Insight report states "Surprising enough, Enron has not affected participants' perception of risk of a single company's stock. The risk ranking for employer stock (as an investment) remained below diversified domestic stock funds and diversified global and international stock funds, and by margins consistent with previous surveys."

* Source: AARP Study: *Impact of Stock Market Decline on 50-70 Year Old Investors, 2002*

In this study, 42% of participants say they have little or no investment knowledge, up from 38% in 1997. Only 20% say that they are relatively knowledgeable, down from 24% in 1997. When asked what type of securities is found in a money market fund, in 2002, 49% said short-term investments, 47% said bonds, and 40% said stocks. Participants were asked to include all that applied so multiple responses are possible. Only 8% knew that money market funds included only short term securities.

Business and employment risk

Business risk: Benefits from a defined benefit plan in excess of federally guaranteed amounts can be lost on business failure. Federal insurance of defined benefit plans does not cover all benefit features in insured plans, and no insurance is provided for public sector employee plans or church plans. There are no special issues at very high ages related to this risk. Defined contribution plan benefits depend on the value of underlying investments, and there are special risks when assets are invested in company stock. Where assets are concentrated in company stock, they should be diversified prior to reaching very high ages. Where annuities are purchased, there can also be business risk if the insurance company fails and if amounts are above those guaranteed by state guarantee funds.

Employment risk: Personal retirement expectations may include continued income from a bridge job, but it might be difficult or impossible to find the desired employment. This is becoming increasingly important because many people want and/or need to continue working in retirement. Health status can also change, making doing such a job impossible. This risk does not generally apply to the very high ages, but it can affect security. An individual planning to retire gradually with some continued income from work during their 60s may find that assets are depleted too early if such work was not available.

Public Policy Risk

Change in Public Policy: Policy risks refers to the possibility of a tax increase, change in the taxation of social benefit, a reduction of Social Security benefits, and changes in Medicare or Medicaid benefits. It will make some adjustments such as raising taxes, lowering benefits or a combination to sustain the range of social benefits to the boomers.

How different types of retirement plans treat different risks

Different types of retirement plans distribute risk differently between different stakeholders. We assume here that risk is distributed between government programs, the employee, and the plan sponsor. We do not focus on shifting risk to the community at large. This happens if the individual is impoverished and effectively becomes a ward of the state. The chart below shows the distribution.

Treatment of Risks Under Different Types of Retirement Plans

Type of Risk	Social Security Current System	Traditional DB Final Average Pay Formula	Traditional DB Career Average Pay Formula	Hybrid DB Cash Balance	Defined Contribution Plan
Investment Risk	Plan, but largely NA	Plan Sponsor	Plan Sponsor	Plan Sponsor	Participant
Pre-retirement Inflation Risk	System	Plan Sponsor, to the extent that pay changes track inflation	Participant (but Plan Sponsor may absorb part through updates)	Participant (but Plan Sponsor may absorb part through method of crediting interest)	Participant
Post-retirement Inflation Risk	System	Usually participant, except in public sector plans	Usually participant, except in public sector plans	Usually participant (because most benefits are paid as a lump sum)	Participant
Post-retirement mortality risk	System – for individual and spouse	Sponsor if benefit paid out as life income, Participant if benefit paid as lump sum	Sponsor if benefit paid out as life income, Participant if benefit paid as lump sum	Usually participant (because benefits often are paid as lump sum)	Participant

It should be noted that where the individual bears inflation and mortality risk post-retirement, that the greatest problems are likely to be at the very high ages. The impact of an adverse outcome will much more likely be felt at older rather than younger ages.

Discussion and Analysis of Selected Risks

The risks viewed as most important: The SOA 2003 Risks and Process of Retirement Survey described in the Appendix provides insight into how the public views different types of risks. Retirees are most concerned about keeping up with inflation. The next concerns are that they might exhaust savings and be left only with Social Security, that they might not be able to pay for good health care, and that they may not have adequate funds to pay for nursing home care. The items selected by retirees as being the most concern were:

Risk	Top Priority: % Indicating Most Concerned (2003)	% Very Concerned or Somewhat Concerned	
		2003	2001
Inflation	17%	57%	55%
Health care	12%	46%	43%
Deplete savings and have only Social Security	11%	41%	n/a
Not have enough to pay for long term care	9%	47%	48%

Other risks are also surveyed including the risks of not being able to maintain a reasonable living standard, not being able to stay in your own home, not being able to rely on family members, and of not having money to leave to heirs. Not having money to leave to heirs was the lowest concern.

For pre-retirees, the top priorities were much more concentrated, the top five issues included the four issues which were top for retirees, and the order of them switched. The priority issues were:

Risk	Top Priority: % Indicating Most Concerned (2003)	% Very Concerned or Somewhat Concerned	
		2003	2001
Health care	24%	79%	58%
Not be able to maintain reasonable living standard	15%	71%	55%
Inflation	14%	78%	63%
Deplete savings and have only Social Security	12%	65%	n/a
Not have enough to pay for long term care	10%	65%	52%/57%

The pre-retirees are much more focused on risk than the retirees. While there was not much change from 2001 to 2003 in the reported concerns of retirees, there were big increases in the reported concerns of pre-retirees. It should be noted that this was a period when health care costs were increasing rapidly, employers were dropping retiree health coverage, and there were poor returns in equity markets. The authors were not surprised by the increased focus on risk by pre-retirees and would have expected a greater increase from pre-retirees.

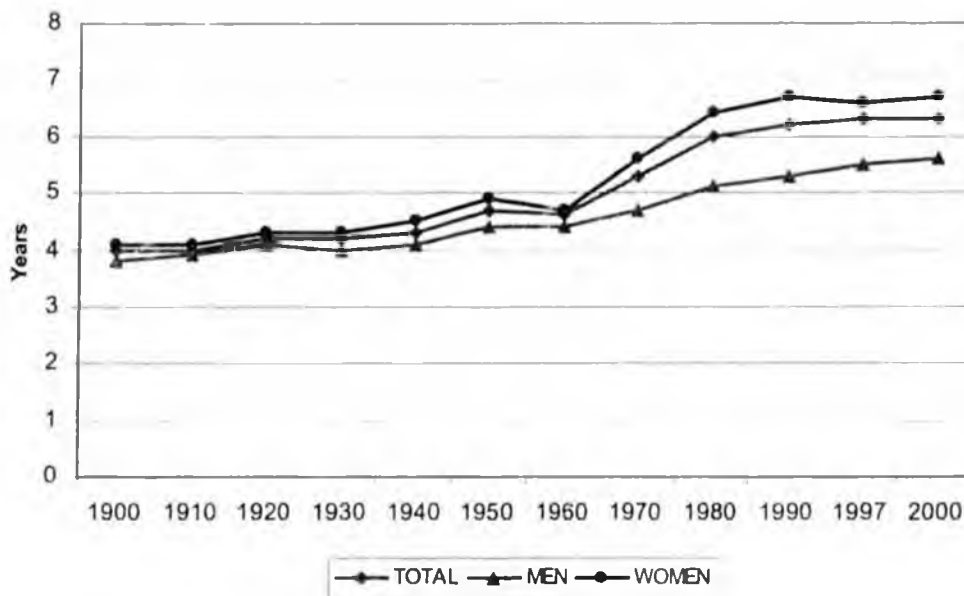
This section covered only those risks viewed as most important by the public. The discussion that follows is based on the authors' view of the importance of risks to the advanced age subset of the population grouped within longevity, family structure, health care and employment.

Risks related to longevity, outliving assets and changes in family structure

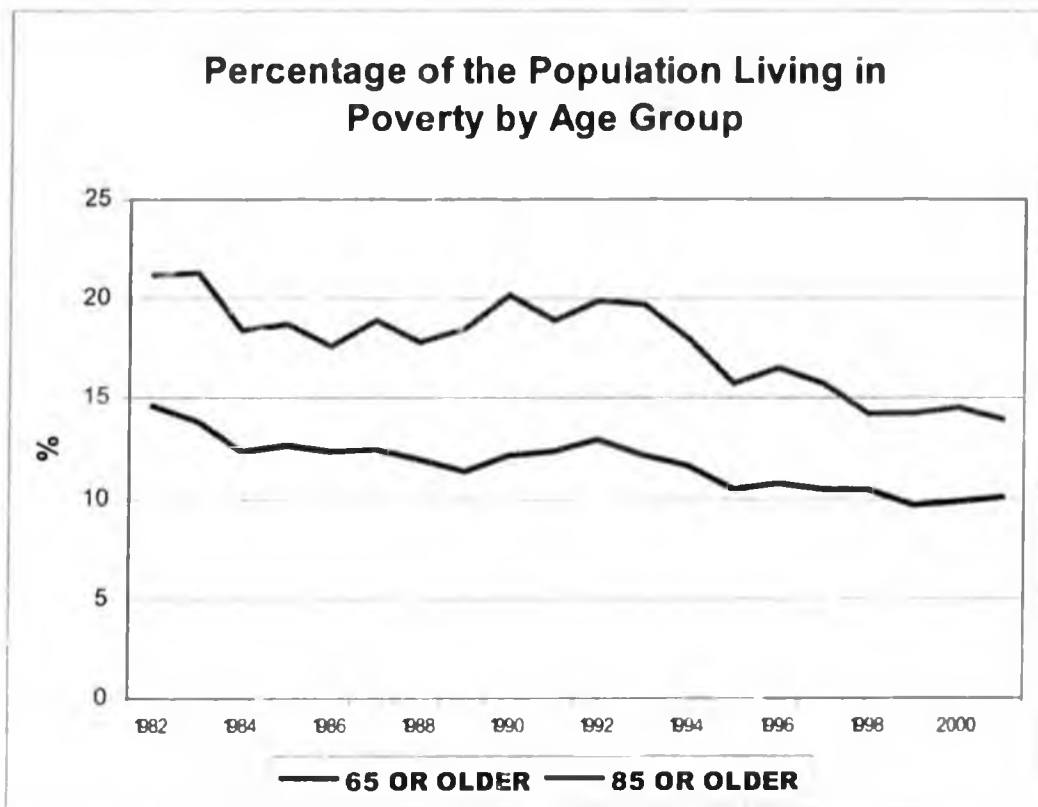
The importance of these topics is growing. As indicated above more people are living to very old ages and as more people are living longer there are more people in poverty. Poverty rates increase in with age.

More people are living to the very old ages: According to the Federal Interagency Forum on Aging-Related Statistics Older Americans 2000: Key Indicators of Well-Being, life expectancy at high ages has increased more than 50% this century.

Life Expectancy at Age 85



This is important in focusing on how well the oldest population is doing. The percentage of the population in poverty increases with increasing age providing evidence that the impact of the risks is often greatest at the highest ages.



The chart above shows poverty rates at 65 and older and 85 and older from 1982 to the present. Poverty rates have dropped over time but not consistently. They are consistently much higher at the ages over 85. Some hypotheses as to why this may be include the following:

- There are many more widows in the over age 85 group, and the arrangements of the family did not provide well for widowhood.
- Assets have been depleted at earlier ages.
- More people in the over age 85 group their spouses needed significant care that depleted assets.
- Pension benefits did not keep up with inflation.

Research is needed to understand what is happening to this group and why so many more of them are poor at the higher ages.

Understanding of longevity probability and risk: The following table shows the probability of a couple both of who are currently age 65 of living to 80, 90 and 100. It shows the probability of both living to these ages, of the husband living to these ages, of the wife living to these ages, and of either one living to these ages.

Couple Both Age 65				
Probability of Survival to Various Ages				
	Survival of Husband	Survival of Wife	Both Survive	Either Survive
80	.57	.75	.43	.89
90	.17	.37	.06	.48
100	.01	.05	.00	.06

*Based on GAB3MIF Mortality Table

One of the findings of studies of public knowledge and perceptions is that there is not a clear understanding of mortality risk. Some people will live to a very high age while others die early. The typical financial planning process focuses on average life expectancy, and there is not a good understanding of average life expectancy. By definition, exactly half the population will outlive the average life expectancy assigned to them.

The 2003 Risks and Process of Retirement Survey shows a spread of expectations with regard to the average life expectancy at age 65:

	Male Preretiirees	Female Preretiirees	Male Retirees	Female Retirees
Less than 75	9%	12%	15%	5%
75 to 79	20%	16%	23%	13%
80	25%	18%	25%	22%
81-84	6%	4%	7%	7%
85	22%	17%	14%	27%
86 and older	14%	26%	7%	18%
Don't know/refused	3%	6%	11%	19%

Pre-retirees expected people to live longer, and both groups expected females to live longer than males. Depending on the mortality study used, women can be expected to live about 4-6 years longer than men. Retirees were also asked how long they expected their retirement to last. Those who retired before age 62 were more likely to expect their retirement to last at least 30 years (24% vs. 10%). People with poorer health and lower incomes (less than \$25,000) were more likely to answer that they did not know. The expectations expressed are not inconsistent with the probabilities of living to various ages. They support the lower probabilities of men living to higher ages. 51% of male retirees and 68% of male pre-retirees indicated an expected life span of 80 or more at age 65 and the mortality table shows that 57% will live to age 80. For females, the expectations of retirees are that 63% will live to age 80. The expectations of pre-retirees are that 66% will live to 80 or more compared to 75%. The longer life spans expected by pre-retirees might be seen as reflecting an expectation of future mortality improvement, and they also may reflect the fact that pre-retirees have not experienced and seen as much chronic illness as retirees.

While mortality is improving, the difference in expectation may overstate the amount of future improvement. The next set of data shows the expected length of retirement.

Expected Length of Retirement (for retirees)

Less than 20 years	15%
20 to 24 years	20%
25 to 29 years	7%
30 years or more	17%
Don't know/refuse	41%

The expected period of retirement on average is closer to male than female experience. We need to remember that many people will retire before age 65. The life span and its variability make it important to think about income at advanced ages. Many people are not aware of the potential to use an annuity to secure a guaranteed lifetime income, and many financial advisors feel it is more advisable for people to manage their own money. The Retirement Plan Preferences Survey focused on preferred distribution options and showed a strong preference for lifetime income when people were asked what is important to them. This was puzzling to actuaries working with retirement plans because practitioners observe that lump sums are chosen most often in defined benefit plans that offer a choice. The Retirement Plan Preference Survey indicated that the following payout options are preferred by workers:

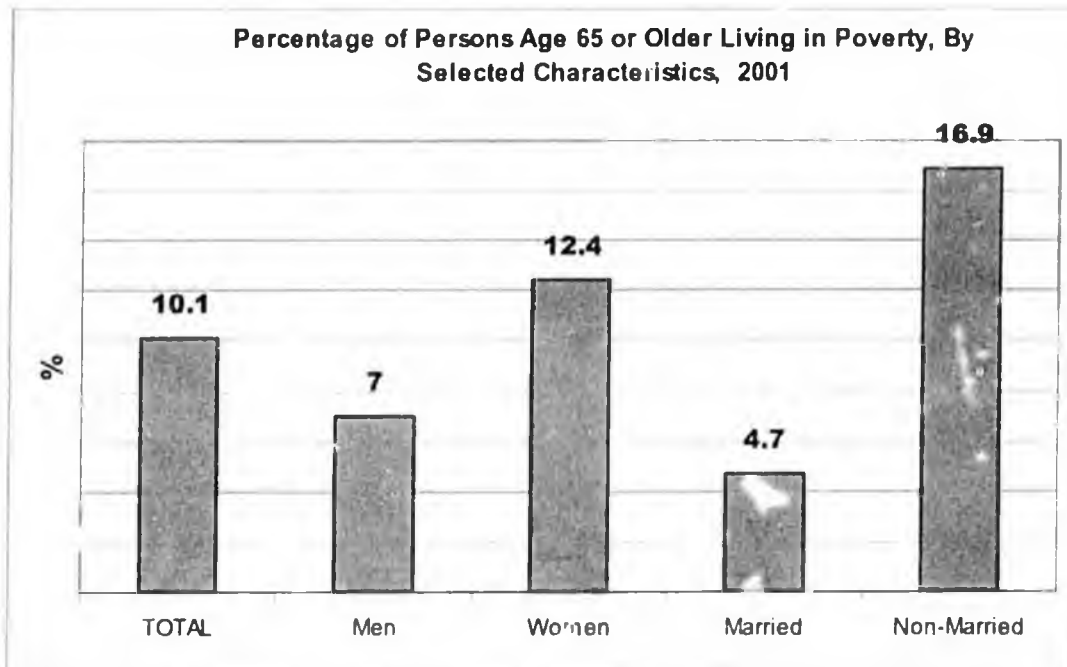
	Workers
A series of regular payments for the rest of your life and continued payments to your spouse for the rest of her life, if spouse outlives you	51%
A combination of regular payments and a lump sum withdrawal	18%
A series of regular payments guaranteed for the rest of your life regardless of how long you live, with no further payments after death to a spouse or other heir	15%
Withdraw the entire amount as a lump sum	12%
Don't know/no answer	4%

The groups that would prefer a lump sum versus a stream of payments included younger respondents and those with household incomes over \$50,000. The authors point out that if a lump sum is used too quickly that the impact will be felt at the highest ages.

Our analysis of longevity risk shows how important it is to address a key issue: little understanding of the likelihood of outliving assets. The data on what is perceived as most important reinforces that is not among the top risk issues with retirees or pre-retirees. The data on life spans show that in nearly half of all couples age 65, at least one will survive to age 90 and that 37% of women age 65 will survive to age 90. The typical financial planning practice for using assets to an average retirement age reinforces this lack of concern.

Risks Related to Family Structure and Status

How retirement risk is allocated in the family: Assets are accumulated during working years and spent during retirement years. Where the family stays together during the entire period, there is no problem of allocation by individual. This is very important when focusing on the highest ages since in most couples, the man will be the first to die. Post-retirement risks fall heavily on widows and often there is not adequate planning. Poverty rates by family status and age clearly document this fact.



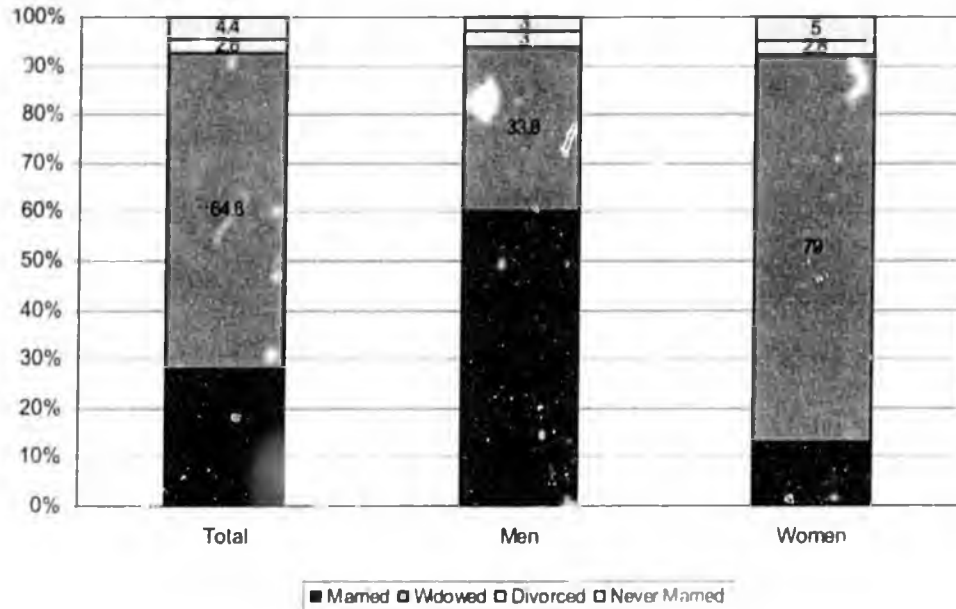
Source: Current Population Survey, Annual Social and Economic Supplement 2002.

Among the population 65 and older, non-married women face the biggest problems. About 12.4 % of women live near the poverty line. Some of the reasons why so many women are poor include the fact that the retirement system is earnings-based, and women tend to have lower earnings and fewer years of employment. Some of the risks related to family status and structure applicable to the most advanced ages are: widowhood, change in marital status.

Widowhood: There are also distributional issues in the post-retirement period. Depending on the method of allocating assets over time and the distribution strategy used, there may be continued income to the survivor after the first person in a couple dies or there may not be such income. Economic status declines at time of widowhood. As shown below the majority of women over age 85 are widowed. This percentage increases with increasing age.

According to the Federal Interagency Forum on Aging-Related Statistics Older Americans 2000: Key Indicators of Well-Being, only 28% of the population 85 and older is married, while almost 65% are widowed. The percentage of widowed is much higher for women (79%) than for men (33.8%). This is due to both women's life spans and the fact that men often marry younger wives.

Marital Status of the Population 85 and Older



According to the US Census Bureau, in 2002 there were 7.1 million widowed Americans over the age of 75, 17.8% were men while 82.8% were women. The financial burden is harder for widowed women given that they live longer and are more likely to outlive their assets. It is generally believed that women are less informed about financial management risks. For most couples who are retired today, the husband was the larger earner during their working years and they tend to rely on their husband benefits in retirement. As shown above, poverty rates among elderly widows are 15% compared to 4% for married couples.

Often widowhood is accompanied by a decrease in living standard. The surviving spouse needs about 75% of the couple's income to maintain standard of living. The typical benefit received upon death of a spouse is 50% of the regular pension as a result of the 50% QJSA requirement. Social Security provides continued benefits to survivors based on their personal work and family status. Some women have experience in managing their finances and are full partners in that endeavor, or even the family financial manager. Others have little experience, and along with the emotional distress at time of widowhood, they are suddenly confronted with the need to manage their own finances. An even worse situation is in the case of the death of a disabled person's caretaker spouse.

Social Security provides benefits to the survivor. Depending on the family work history, they can be anywhere from half to two-thirds of the combined benefits for the couple. They are half in a dual earner family with equal earnings and two-thirds in a single earner family over the entire work history. Added protection to help support widows can be provided through survivor benefits in pensions, life insurance, annuities, long term care insurance, and personal savings.

As indicated above, widowhood is a greater risk for women than men. The likelihood of widowhood increases with increasing age. Older women tend to be less informed about risks and they also tend to rely on their husband's retirement benefits. Unless the couple planned for widowhood, the widow may find herself with a big reduction in retirement income and/or resources.

According to the University of Michigan Retirement Research Center when a spouse dies before age 61, the main loss in household income is due to the loss of the deceased's labor earnings. When a spouse dies between ages 62 and 69, private pension benefits affect a widow the most. By age 85 a large proportion of women (43%) are kept out of poverty by Social Security. At any given time, the women who had been widowed longest have highest poverty rates. ("The Economic Consequences of Widowhood" David R. Weir, Robert J. Willis and Purvi Sevak: "How Exits from Labor Force or Death Impact Household Incomes: A Four Country Comparison of Public and Private Income Support" by Richard V. Burkhauser, Phil Giles, Dean R. Lillard, and Johannes Schwarze)

Change in Marital Status: Divorce is also an issue, and it can occur before or after retirement. Divorce can create major financial problems for either party and in some cases for both parties. The allocation of assets in the event of family break-up is a matter of law and family decision. Under domestic relations laws in most states, pension assets are assets to be considered during divorce, but often this does not happen. One member of a couple may also have much greater capability to build retirement assets after divorce than the other. Social Security includes provisions that work well for some people and not others. Both marriage and divorce can affect benefit entitlement under public and private plans. RISA allows for a split of benefits in divorce in private pension plans. Older couples who marry, especially those with children, may want a prenuptial agreement to define each party's rights to property as they wish, not as a court would decide.

Divorce can occur before or after retirement age, and affects retirement security either way. 4.6% of males 75 and older are divorced while 5.2% of women in the same age category are divorced.

The data presented here reinforce the importance of planning on both an individual and a family basis. The risks related to family interact with longevity risk, as retirement income for a couple is often not paid to the widow.

* Source: *Statistical Abstract of the United States, 2003, Table No.63*

Risks Related to Health Care, Long Term Care and Housing

Health Care Costs: Unexpected health care needs can be a major financial problem at any age, but serious health problems are more likely at older ages. Lower-income retirees with chronic or severe illness may spend 35 % or more of their resources on health care. Prescription drugs and long term care benefits are a major issue, especially for the chronically ill.

Medicare is a partial solution to financing the health care needs of the very old. However, Medicare doesn't cover prescription drugs at present and it covers long term care to a very limited extent. Beginning in 2006, Medicare will cover a substantial share of prescription drug costs. Medicare is the primary source of coverage for post-65 retirees. Supplemental coverage is available from employer plans and individual "Medigap" policies, but these policies often exclude or severely limit prescription drug coverage. HMOs with Medicare risk contracts can provide total health coverage, but this coverage also varies with regard to prescription drug coverage and generally does not include long term care coverage. A new generation of Medicare HMOs and related plans, Medicare Advantage plans will be available beginning in 2006. It is too early to tell how many will be available and what role they will play in offering coverage. The last generation, Medicare + Choice plans covered fewer people. This happened because plans left markets due in large part to the level of Federal support provided. Others raised their prices or lost physicians and beneficiaries elected to leave them. Future resources for health care coverage for retirees are hard to predict because a high level of uncertainty exists about the future of Medicare and employer plans.

Today, millions of retirees are covered by employer sponsored retiree health benefits, but current trends show that fewer workers will be able to enjoy this financial protection when they retire. The U.S. healthcare system is based heavily on employer coverage. Individuals, particularly those in poorer health who need to purchase health insurance on their own often face few coverage options and extremely high prices. The Employee Benefit Research Institute (EBRI) provides a perspective on future coverage. EBRI says:

"Very few retirees are expected to be eligible for retiree health benefits in the future. Retiree health coverage generally is offered only by large employers, as very few small employers ever offered the benefit and more than half of private-sector workers are in firms with fewer than 500 employees. In 2000, only 11 percent of all U.S. private establishments offered retiree health benefits to Medicare-eligible retirees and only 12 percent to "early" retirees under age 65."

Employees working in firms with this coverage usually need to satisfy eligibility requirements by working to retirement age and for a minimum number of years. The situation with regard to post-retirement coverage changes with age and grows more severe and over time and at the older ages because many employers have imposed caps on the total that they will provide to help pay for the cost of retiree health. The retiree contributions, i.e. their share of the benefit cost, will go up at a much more rapid rate once the caps are reached. Others are simply gradually increasing the share of the cost to be borne by retirees and changing plans to increase deductibles and co-

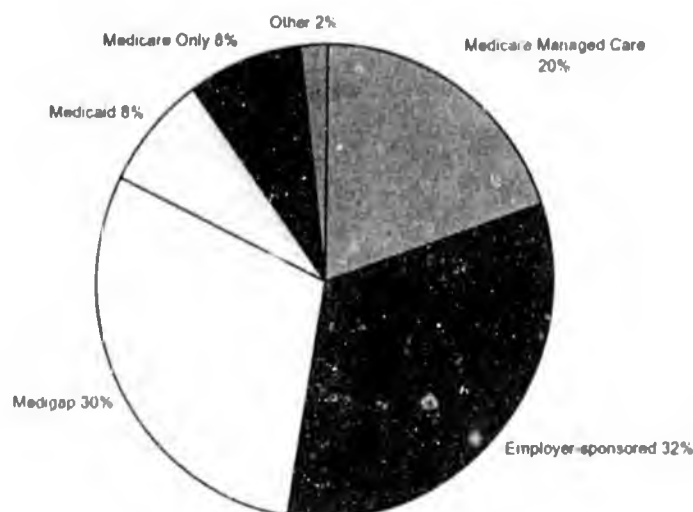
* Source: EBRI Issue Brief No. 254, Executive Summary, February 2003.

payments. So as retirees get older, the cost of total medical care is likely to increase and their share is likely to increase as well.

As retirees are forced to reduce their reliance on employer-sponsored plans, financial planning for retirement that goes beyond simply replacing pre-retirement income will become even more of a necessity.

The following chart illustrates the types of health care benefits provided to a total 32.7 millions non-institutionalized elderly Medicare beneficiaries, in 2000.

1 In 3 Seniors with Medicare also have employer-sponsored health benefits

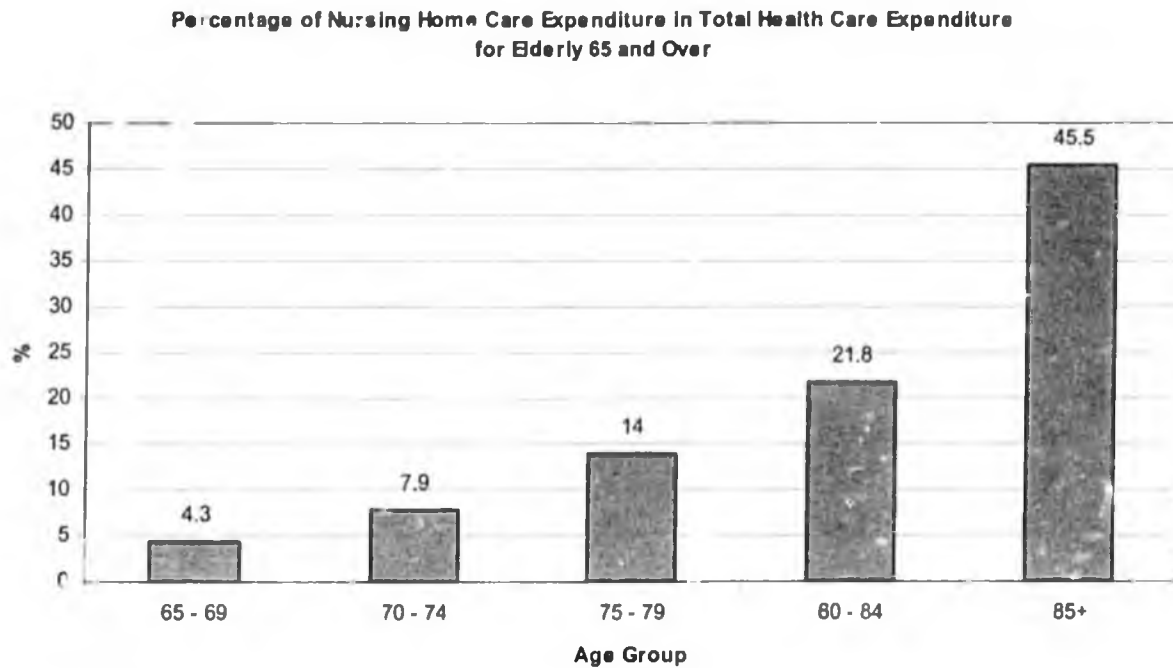


Source: The State of Retiree Health Benefits: Historical Trends and Future Uncertainties, Patricia Neuman ScD, The Henry J Kaiser Family Foundation (MedPAC analysis of Medicare Current Beneficiary Survey, Cost and Use file 2000)

Given that 68% don't have employer sponsored health benefits and the numbers of such plans are declining, there will be significant gaps in coverage. The magnitude of uncovered expenses for those with chronic illness and severe acute illness make this a key issue at advanced ages.

Long Term Care: While Medicare pays for most hospital care for covered Americans over age 65, and for quite a lot of physician care, it offers much more limited coverage for long term care. It is not clear how aware the public is of coverage differences and how well they make the distinction between acute and long-term care. Long-term care is different from acute care in that needs increase sharply with increasing age. Without appropriate financing, the cost of care can easily deplete most retirement savings. At the point that there are no more assets available, many individuals can qualify for Medicaid. Private insurance is a method of financing care for the severely disabled, and it enables the elderly to retain their assets.

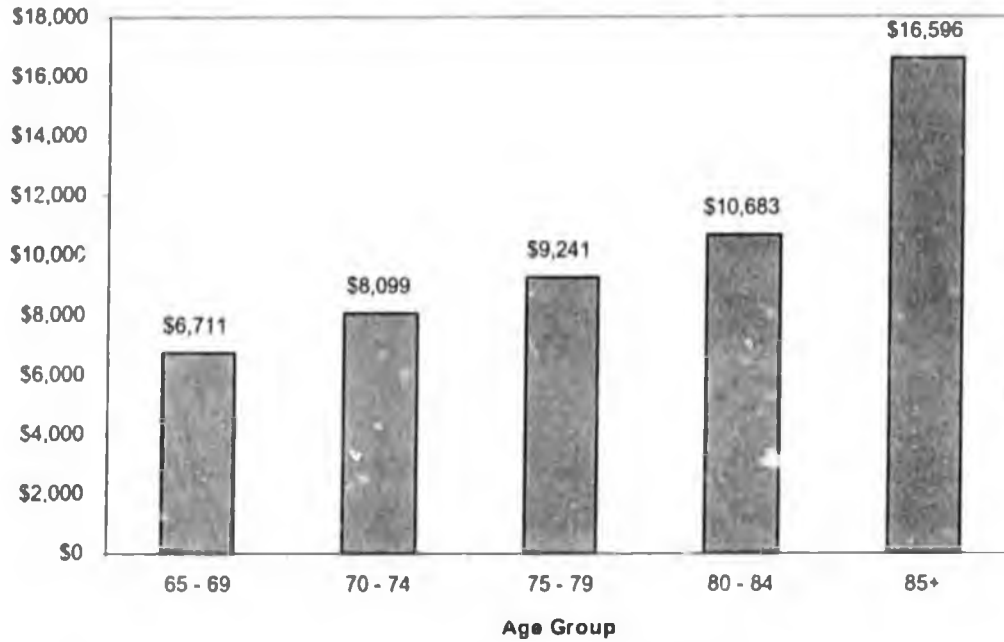
The following chart shows how the use of long term care increases with age:



Source: *Federal Interagency Forum on Aging Related Statistics*

Not only do the chances of needing care go up with age, but those who get care in a nursing home spend more at the higher ages. In 1999, the average annual expenditure among Medicare beneficiaries for health care, by age groups was:

Average Expenditure Among Medicare Beneficiaries Age 65 or Older

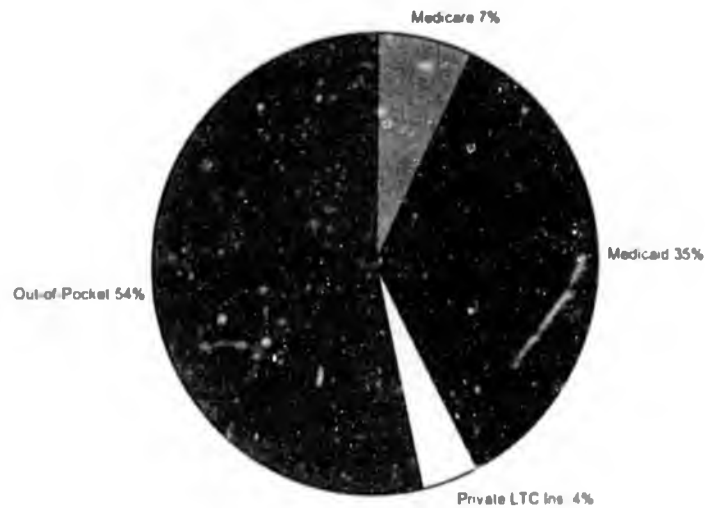


Source: Federal Interagency Forum on Aging Related Statistics

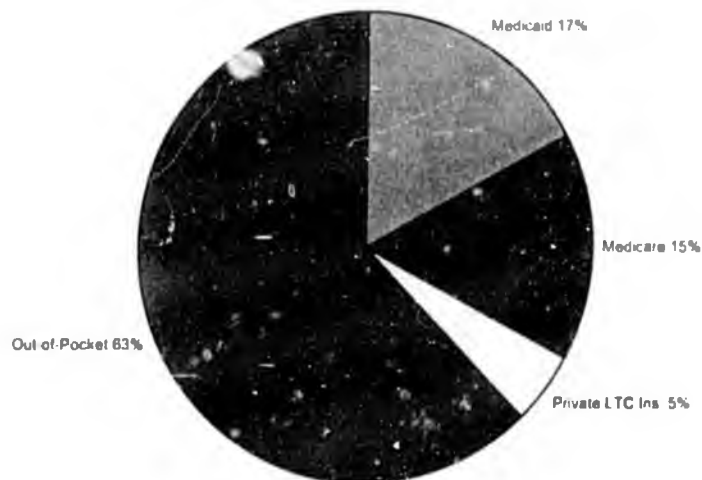
There are two types of concerns with regard to long term care, paying for it and having access to the appropriate facilities and caregivers. In the long run there are likely to be shortages of caregivers. Facilities or caregivers might not be available for acute or chronic care, even for paying individuals. The problem is likely to be more severe for those whose care is financed by Medicaid, the state system that supplements Medicare and pays for a great deal of long term care.

In the absence of insurance most long term care is paid for by Medicaid or out-of-pocket by patients and their families. According to CMS, Office of the Actuary, National Health Statistics Group, the sources of payment for the \$100 Billion in Long Term Care (LTC) spending in 2000 are as presented in the following charts:

Sources of Payment for LTC, 2000
Nursing Home



Sources of Payment for LTC, 2000
Home Care



Source: CMS, Office of the Actuary, National Health Statistics Group. The CMS Chart Series

Spouses, children, other family and friends are a major source of long term care. However, when someone becomes severely disabled, family members may be unable to provide care needed. Often, this means that the person needing care will be institutionalized.

Long-term care is a very real risk to retirees' financial security but often people deny that they will need care. Only one in eight Americans over age 45 believes it is very likely that he or she will spend time in a nursing home at some point after the age of 65 (Society of Actuaries 2001 Retirement Risk Study), although they say that a much higher proportion of the overall population will need care.

Another area of misinformation is the ownership of long term care insurance. People over-report long-term care insurance ownership. In LIMRA's *Retirement Risks – How They Are Viewed and Managed* report, 17% of pre-retirees and one quarter of retirees claimed they owned long-term care insurance. Experts believe LTCI ownership to be in the single, not double, digits. While LTCI is expensive, it is not as costly as people believe it to be.*

Housing: Housing can also be an important asset in retirement. For the average income retiree aged 65 to 74, home equity is three times as large as financial assets. For the high income retiree aged 65-74, home equity is 43% of assets above Social Security and pensions, and financial assets are 57%. (Source: Presentation by Betty Meredith at Profit Sharing Council of America annual meeting, September, 2004). For people who are living in their own homes and who own them free and clear, the value of the house may offer some options for retirement financing. The options include taking a reverse mortgage and staying in the house, or selling it and downscaling or moving to specialized housing.

People very often prefer to stay in their own homes in which they lived for a long time, but this may not be possible for a variety of reasons. Sometimes they are no longer affordable, and downsizing becomes a necessity. In other cases, there may be barriers to getting around such as steps, or requirements for yard care and snow removal that pose a challenge. In other cases care needed at home is simply not available.

Housing is closely related to options for care. There are a variety of special types of housing for older Americans. Some offer care as part of a package with housing. Assisted living and nursing homes include care together with housing. Independent living arrangements for seniors offer some supportive services but generally not care. Continuing Care Retirement Communities are integrated multi-step communities where an individual starts by living independently but can move up to have various forms of assistance with the community. There is a financial and insurance aspect of these arrangements.

Risks related to Employment

Work and the definition of retirement: Many people do not leave employment all at once, but rather retire gradually. This has been studied extensively with significant focus on the move to bridge jobs. Work is increasingly becoming a part of retirement, but usually early in retirement. At ages over 80, work is very unlikely and this is unlikely to change in the long run.

* Source: *Retirement Risks – How They Are Viewed and Managed*, LIMRA International, 2002

In the 2003 Retirement Risk and Process of Retirement Survey, respondents were asked about the process of retirement from their primary occupation and also were asked about how much work they were doing. Some people say they are retired, but in fact, are still working.

The prevalence of work and dependence on earned income during a transition period that often extends beyond "retirement" is important to understanding retirement security and risk. This is also important for the future as more people say that they expect to continue working in retirement.

A new study "Staying Ahead of the Curve 2003: The AARP Working in Retirement Study" states that 70% of workers who have not retired plan to work into retirement or never retire and almost half indicate that they envision working into their 70s and beyond.

The following chart shows labor force participation rates at ages 70 and over from 1963 to 2001:



Source: Current Population Survey.

Employment prospects for individual retirees vary greatly because of the demand for specific and changing skill sets, and differences by individual in interest and capability.

Conclusions

The retirement world of the future is challenging because of the decline in defined benefit plans, low savings rates in the United States, increased longevity, and the failure of many people to focus effectively on planning for retirement. Those who plan well for the start of retirement may not plan well for the possibility that they will live a long time.

Data shows that costs do increase with rising age and that poverty increases as well. Research on what the public knows about retirement and retirement planning shows big gaps in knowledge and many misperceptions. Any system that relies too much on people providing for themselves is likely to leave some people out and create particularly difficult issues at the very high ages.

As we think about these gaps, we need to remember that there are different segments of the population with regard to retirement security:

- People who in old age are relying on Social Security alone and have no financial assets. This group will not be impacted by these perceptions since they are not planning for themselves. How well they do at very old ages is a function of the government programs and their health.
- People who have substantial assets and for whom financial and retirement planning is heavily focused on minimizing estate taxes and maximizing the inheritance for their heirs. This group should be fine economically at very high ages.
- And people in the middle. For this group, traditional planning for retirement is very important and this is the group most likely to see a decline in economic status as they age.

The impact of gaps is most important to the 50% - 60% of the population who are in the middle. Strategies for managing post-retirement risk are also mainly for the people in the middle. For the bottom group, retirement security could be enhanced with some financial assets, either by saving or through longer term employment in jobs that offer some types of pensions. However, without such assets, these strategies don't work.

Some of the gaps and issues with regard to perceptions that we found are:

- There is relatively little understanding of longevity risk, and outliving assets is not an issue recognized as very important by many retirees.
- Respondents in surveys say that they prefer lifetime income, but when given a choice, plan participants in qualified plans tend to choose lump sums. Taking payments in lump sums creates particular challenges for security at very high ages.

- Pre-retirees misunderstand what their primary sources of income will be in retirement. They underestimate the importance of Social Security and overestimate the importance of personal savings.
- People are more likely to think that others will need more long-term care than they will need. They tend to underestimate their own need for long-term care.
- More people think buying risk management products is a good idea than actually buying such products.
- While many individuals are now heavily responsible for managing their own retirement assets and planning, many have basic misunderstandings about the financial market and investment products. Their understanding of how to invest may also decline with increasing age if they have any dementia.
- Many people retire earlier than they plan to, some for reasons of health, some because of job loss, and some for other reasons.

There are several different directions that can be taken to enhance the retirement futures of Americans. They include:

- Plan design that recognizes people need help in saving for retirement. Within the context of defined contribution plans features like automatic enrollment, good default investment options, and provisions to direct pay increases automatically to plans offer potential routes to more retirement savings. These default options address building up better assets at retirement, but not the use of the funds after retirement.
- Increased education with research supporting it to make sure its program design is effective. In this regard, it is important to extend the design to help with managing the distribution phase.
- Maintaining a good level of employer contributions to retirement programs whether they be defined benefit or defined contribution.
- Being sure that Social Security provides a good base layer of benefit. The studies discussed here reinforce the importance of Social Security and not relying too heavily on individual efforts.

An analysis of the research indicates that there are significant gaps and perceptions that demonstrate the risks to high age Americans. They help us understand why poverty rates are increasing. The potential impact in of the increase in personal responsibility for retirement will be greatest at the very high ages.

Appendix
Studies of Public Perceptions about Retirement Related Risk

Study	Methodology	Sponsors and Partners	Sample
Retirement Plan Preference Survey (2003)	<p>Two stage mail panel</p> <p>First survey stage used to determine those members of the Synovate mail panel that qualified based on participation in a pension or retirement plan.</p> <p>10,356 of 15,000 panel members responded to the first stage, and a stratified random sample was selected.</p>	<p>Sponsors:</p> <p>Society of Actuaries</p> <p>American Academy of Actuaries</p> <p>Research Firm:</p> <p>Mathew Greenwald & Associates</p>	<p>Second stage surveys were sent to 1,088 workers and 1,889 retirees. The response rate for the second stage was 75% for workers and 33% for retirees. After discarding incomplete responses, a total of 790 worker responses and 600 for retirees were analyzed.</p>
2003 Risks and Process of Retirement Survey (2003)	<p>Telephone Interviews</p> <p>Households were selected from a nationwide targeted list sample</p>	<p>Society of Actuaries</p> <p>Mathew Greenwald & Associates</p> <p>EBRI</p>	<p>Americans age 45 to 80 split between retirees and pre-retirees – total of 604 interviews.</p>
Retirement Confidence Survey (2003)	<p>Telephone interviews</p> <p>Series starting in 1993</p>	<p>EBRI</p> <p>ASEC</p> <p>Mathew Greenwald & Associates</p>	<p>1000 individuals were interviewed, 782 workers aged 25 and older, and 218 retirees</p>
Insight into Participant Investment Knowledge and Behavior (2002)	<p>Eight in a series starting in 1991</p>	<p>John Hancock</p> <p>Research Firm:</p> <p>Mathew Greenwald & Associates</p>	<p>801 respondents between the ages of 25 and 65</p> <p>Respondents were people who contributed to 401(k) plan and had a choice of funds to invest</p>

High age implications of post-retirement risks

Anna Rappaport, MBA, FSA, MAAA, FCA, EA
Monica Dragut, MS

The SOA Committee on Post-Retirement Needs and Risks has identified a number of risks during retirement. These have different implications early and later during the retirement period for people who retire during the traditional age 60-65 period. This paper will look at each risk and discuss how it may play out differently by age group. It will include a combination of qualitative discussion and some quantitative data. Challenges in managing the risks as developed by the Committee will also be cited and expanded upon in thinking about areas that are more specific to high ages. The paper will focus on special issues for widows and divorced women.

Date sources: Data will be from published sources including data from the U.S. government. Some may come from the Social Security administration. The paper will be primarily qualitative, but data will be used to supplement discussion.

Louie Flora

From: CaptASTJoe@aol.com
Sent: Wednesday, April 20, 2005 6:53 AM
To: Rep. Paul Seaton; Rep. Carl Gatto; Rep. Jim Elkins; Rep. Bob Lynn; Rep. Jay Ramras;
Representative_Berta_Gardiner@legis.state.ak.us; Rep. Max Gruenberg
Subject: SB 141

Sir: Please accept the following as my input on SB 141.

- The State of Alaska has been committed to a sound retirement system since before statehood
- Public employees - and all workers - deserve to know how much of a monthly income they will get when they retire. SB 141 will not guarantee that for new hires.
- The fault of the unfunded liability is not the fault of current or future employees.
- The legislation doesn't provide for any death or disability insurance. Dozens of classifications of workers find themselves in potentially dangerous work situations including in the corrections system, API, schools, police and fire, fish and wildlife biologists and protection officers, and engineers and equipment operators constructing and maintaining roads. Public employees have died while performing their duties for the public.
- Most public employees make a basic wage with no extra money to save for health benefits and life insurance
- Combining the boards will cost a great deal of money and will not fix the problem. Public employees pay in substantial sums of money into the system and should have a say through elections in who helps makes decisions
- Often, the problems come back to mistakes made from one single actuary. Isn't it time to get more professional input before changing the retirement safety nets Alaskans have depended upon for nearly 50 years?
- Recruitment and retention - especially for more specialized job classes - will become more difficult.

Joe DeTemple
Captain Retired 1967-1986
Alaska State Troopers
4105 Center St
Washougal WA
98671

Louie Flora

From: j or ksummers [jks Summers@gci.net]
Sent: Wednesday, April 20, 2005 6:42 AM
To: Rep. Paul Seaton
Subject: Retirement system

Dear Rep. Seaton,

I would like to thank you for extending the testimony time for Tom Harvey last night. I am currently serving as the President of the Mat-Su Education Association with over 1000 members. Mr. Harvey's testimony expressed the concerns that we have the Mat-Su regarding the proposed changes to the TRS. Again, this issue needs more time to assess the real problems. Thank you.

Kathy Summers

4/29/2005

Louie Flora

From: Doris Robbins [drobbins@gci.net]

Sent: Tuesday, April 19, 2005 11:26 P

Subject: Testimony on SB 141 before House State Affairs, April 19, 2005

Representatives, please accept my written testimony by email. -Doris Robbins
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Testimony on SB 141 before House State Affairs, April 19, 2005

Due to transportation difficulties I was not able to testify in person at the LIO tonight. Please consider my written views:

Anna Rappaport, in the Chicago office of Mercer Human Resource Consulting, is an actuary and futurist with 40 years' experience. In a November, 2004 article she asks the question, "Are pension plans still a good solution? Despite serious challenges, a well-designed and well-communicated DB plan actually creates substantial value for both employer and employee, and can be a source of competitive advantage for the employer."

This statement from a Mercer Consultant in Chicago, implies the opposite of what has been stated by the administratively hired actuary, and those legislators who seem to be in a hurry to pass new PERS/TRS legislation which will create drastic change - for whose benefit I am wondering? She goes on to state: "Most mature pension plans were designed to provide retirement income to long-term employees on a tax-effective basis. They help organizations retain employees, provide workers a graceful transition to retirement, and help keep direct compensation and taxes lower. The retirement plan options available to employers changed dramatically when it became possible for U.S. employees to save pre-tax dollars in 401(k) plans, starting in 1981. Employers quickly added matching to their savings plans and this benefit pattern spread to different countries. During the bull market of the 1990s, many employees began to believe their defined contribution (DC) plans would make them rich and allow early retirement, while financial executives became accustomed to holidays from contributions for traditional pension plans."

Isn't that a major factor that has drawn down the retirement fund investments? That, and outrageous increases in health and insurance costs, which were brought about in part from things like the latest Medicare legislation which wrote the bill to give the medical sector of the economy anything they asked for - no controls.

The above statement from a Mercer Consultant in Chicago, implies the opposite of what has been stated by administratively hired "yes" people, and legislators who seem to be in a hurry to pass new PERS/TRS legislation which will create drastic change - for whose benefit I am wondering? Ms. Rappaport goes on to state: "Most mature pension plans were designed to provide retirement income to long-term employees on a tax effective basis. They help organizations retain employees, provide workers a graceful transition to retirement, and help keep direct compensation and taxes lower. The retirement plan options available to employers changed dramatically when it became possible for U.S. employees to save pre-tax dollars in 401(k) plans, starting in 1981. Employers quickly added matching to their savings plans and this benefit pattern spread to different countries. During the bull market of the 1990s, many employees began to believe their defined contribution (DC) plans would make them rich and allow early

retirement, while financial executives became accustomed to holidays from contributions for traditional pension plans."

The Administration, to whom the legislature is about to turn over the whole management of the board, was only too glad to approve the unfunded mandates above the recommendation of the current PERS/TRS board. In spite of continued implications, it was done through legislated changes. The current board is watching the fund like it is their own wallet! It is their shared wallet with me and several thousand other folks like me. We are scared to death of it being managed by a totally one track executive board, ultimately under the control of Governor(s) down through the years - carte blanche. We don't know from one term to the next what may happen. As retirees, please let us help keep watch over our money!

The state is considering going to an all generic (when generics are available) and a formulary plan for prescriptions. That would be a good thing to do, which retirees will support as long as in those instances where the doctor states there is a need for something different the exceptions are allowed.

I know that it is not an unending pot of gold at the end of the rainbow, and any time I find someone talking about Aetna being our insurance company, I correct them. Yesterday, I corrected a billing clerk in a doctor's office that I suspected had coded a bill for \$20 more than a "routine" exam by putting in a code for a more extensive exam. Perhaps she was poorly trained, but when I was told it was the more extensive exam, I corrected her because I check carefully such things and remember what the doctor ordered. RPEA has a monthly insurance meeting where we further teach our members to be more questioning. In our regular RPEA general membership meetings, we have invited local pharmacists to talk about generic prescriptions and underline that they are the same medicine, but for a cheaper price. (Occasionally, there are instances where the delivery system or inert ingredients do not work for someone and they may require the brand name.) With education, our use of generic prescription drugs has reached about the maximum level until new ones come on the market. I encourage members of the legislature to pursue general decreases in medical costs by joining other states to find ways to get those unreasonable costs down.

I become irritated when a few legislators, who have already had the facts set straight for them, continue to imply that "retirees don't care." We not only care, as a member of RPEA we have been seriously educating retirees (should some be in the dark) that it is our money which was collected as we worked, combined with the State match, which makes up the pot of money which we depend upon for our health care and medicines. We always have some of our retirees at the current PERS/TRS board meetings to learn, and take the information back to the membership!

Our system of government in the United States, provides for an Executive, Legislative, and Judicial Branch. Something similar should be in place with the Boards which oversee the retirement funds. I'm sure as legislators, you would not want there to be only and Executive Branch to oversee all the laws, regulations and funding. That is comparable to having a system with one retirement board, all under one head. I thank you for making some allowances for more oversight by representatives of the beneficiaries through amendments passed by House State Affairs this morning. House State Affairs has shown an interest in finding a fair and workable solution to our retirement problems. Please continue to ask questions and get answers before making a decision which could do more harm than good if it isn't the right one.

Thank you for your time,

Doris Robbins

3763 Mitchell Ave. #B
Fairbanks AK 99709-4636
(907) 374-0597

Louie Flora

From: Mary Ann Tipton [alaskamudpuppy@pci.net]
Sent: Tuesday, April 19, 2005 7:41 PM
To: Rep. Paul Seaton
Subject: SB 141

April 19, 2005

Alaska House of Representatives

Dear Sir:

I am writing you as a concerned constituent who lives and works in the Anchorage area. I proudly accepted a position with the Department of Labor with the great State of Alaska in 2001. Since my hire date I continue to be disappointed with my representation by my legislators. I am asking for you to be my voice when casting your vote to defeat SB 141 and any related bills.

This bill not only takes money out of my paycheck, but also reduces the retirement that I was promised at the time of hire. I do not have the luxury of voting my self regular pay increases as do the members of the legislation nor do I think that reducing my pay is the way to fairly reduce the State's expenditures. It will instead serve as a message to possible future candidates as well as current employees to discourage a career in civil service. Further, this bill will take away my representation of those allowed to sit on my retirement board and replace them with Governor appointed members only. This is in direct conflict of a government of, by and for the people and I am asking you to put a stop to those in the top level of government who are not serving the best interest of those who they were elected to represent.

Sincerely,

Mary Ann Tipton

Voting ASEA Union Member and

Eagle River Constituent

18687 Hiland Road • Eagle River, AK • 99577

Louie Flora

From: Debby Broneske [dbroneske@yahoo.com]
Sent: Tuesday, April 19, 2005 5:38 PM
To: Rep. Paul Seaton; Rep. Carl Gatto: Representative_Jim_Elkins@legis.state.sk.us; Rep. Bob Lynn;
Representative_Jay_Ramaras@legis.state.ak.us;
Representative_Berta_Sardiner@legis.state.ak.us; Rep. Max Gruenberg
Subject: Not support SB141

Subject:Not support SB141

Paul_Seaton@legis.state.ak.us, Carl_Gatto@legis.state.ak.us, Jim_Elkins@legis.state.sk.us,
To: Bob_Lynn@legis.state.ak.us, Jay_Ramaras@legis.state.ak.us, Berta_Sardiner@legis.state.ak.us,
Max_Gruenberg@legis.state.ak.us

I am Deborah Broneske, 17750 E. Idle Drive, Palmer Alaska 99645, 907-745-9863. I do not support SB 141 because it does not support all workers and treats new hires differently from older tier employees. I do not support creation of a new board by combining PERS & TERS. I request more professional input before changing the system to the one proposed in SB141.

Thank you for accepting my comments.
Sincerely,
Deborah Broneske

Do you Yahoo!?
Plan great trips with Yahoo! Travel: Now over 17,000 guides!

Louie Flora

From: Trina Richards [trina_richards@yahoo.com]
Sent: Tuesday, April 19, 2005 5:35 PM
To: Rep. Paul Seaton
Cc: Fate Putman; Jim Duncan; Trina Richards
Subject: Public Opinion Message

Dear Representative Seaton,

I have read a great deal of information about the problems with the public employees retirement system and I strongly disagree with the current legislation to resolve the problem. SB 141 and House Bills 170, 177 and 191 are not the right approach. Employees who contribute to TRS and PERS do so instead of contributing to Social Security. In other words, they contribute to a state-run defined benefit plan instead of contributing to a federally-run defined benefit plan. To eliminate this security would place future employees and retirees at the mercy of the markets.

Also, I don't understand why employees should have to increase their contribution to the retirement system when such entities as the city of Fairbanks' government have the option of not paying their portion. Their unwillingness to pay their share, along with other participating governments around the state, are another the reason the system is not generating the needed revenue for future disbursements.

I suggest stepping back and taking a longer look at the situation. With less than two months in the legislative session, there can't possibly be enough time to really involve everyone who may have reasonable solutions.

Sincerely,
Trina Richards
Fairbanks

This is an email message from "Trina Richards" <trina_richards@yahoo.com>. Opinions expressed belong to the sender alone.

Louie Flora

From: Rachel Boyd [rboyd@co.fairbanks.ak.us]
Sent: Tuesday, April 19, 2005 10:33 AM
To: Rep. Paul Seaton
Subject: RE: Autoreply: PERS/TERS Legislation - SB 141

Dear Representative Seaton,

Thank you for your e-mail autoreply. I am not in your district, so in that sense I am not a constituent. I am a constituent in the sense that the legislation you are involved in impacts me regardless of where in the state I live. In this case, I am very concerned about the PERS/TERS fixes being rushed into. I think the solutions being proposed are life-threatening for future retirees. Since you are on the committee, I addressed my concern to you.

Thank you for your service.

Sincerely,

Rachel Boyd
PO Box 75306
Fairbanks AK 99707
rboyd@co.fairbanks.ak.us

-----Original Message-----

From: representative_paul_seaton@legis.state.ak.us
[mailto:representative_paul_seaton@legis.state.ak.us]
Sent: Tuesday, April 19, 2005 10:18 AM
To: rboyd@co.fairbanks.ak.us
Subject: Autoreply: PERS/TERS Legislation - SB 141

This message was automatically created for representative_paul_seaton

Subject: Thanks for contacting me

Hello,

Thank you for contacting me. I receive a high volume of email and try to respond to messages from constituents in a timely matter. If you need immediate assistance, I encourage you to get in touch with my office by calling 1-800-665-2689 or (907) 235-2921, or by emailing one of my staff member at the addresses listed below. If you did not include your contact information in the email you sent to me please do so by replying to this email with your name, address and telephone number so we can respond to your comments. Thank you again for writing to me.

Sincerely,

Representative Paul Seaton
Alaska State Legislature
House District 35

Email address for Katie Shows:
Katie_Shows@legis.state.ak.us

Email address for Louie Flora:

Louis_Flora@legis.state.ak.us

Email address for Ian Laing:
Ian_Laing@legis.state.ak.us

Louie Flora

From: Rachel Boyd [rboyd@co.fairbanks.ak.us]
Sent: Tuesday, April 19, 2005 10:19 AM
To: Rep. Paul Seaton
Subject: PERS/TERS Legislation - SB 141

Dear Legislator,

PLEASE DO NOT be herded into passing bad legislation! The consequences of this bill have not been fully defined, but they will be drastic. Raise the contribution rate in the interim so you do not feel so pressured (although this means a de facto cut in pay for all PERS/TERS employees), but please take time for SERIOUS study of the ramifications of any proposed solution. Employees will live with the results for the remainder of their lives. This is too weighty for knee-jerk reaction.

Employees did not cause this problem, but it looks as though most of the burden for recovery will be placed on them.

Please oppose replacing and combining the boards. As I understand it, these boards are largely policy and appeals boards. Each system needs its own board that is intimately familiar with that plan.

Defined contribution plans place ALL the risk on the employee. Judging from the status of my IRA, I would guess you are going to find a lot of future retirees on welfare after their 401K plans run out of money if you pass this legislation.

Placing retirement money in 401K plans will further impact the present PERS/TERS fund as all these future hires will not be contributing.

The plan does not include any death or disability insurance. Many workers are in hazardous situations. It is irresponsible for the State to pull the rug out from under all future employees.

Please pull your support from all the current PERS/TERS bills unless they are drastically amended. This bill will impact thousands of people. Please take the time to do it right.

I appreciate your consideration.

Sincerely,

Rachel Boyd, Secretary
FNSB, Dept of Community Planning

4/29/2005

Louie Flora

From: Buddy Harrel [blueboy@mosquitonet.com]
Sent: Tuesday, April 19, 2005 9:30 AM
To: Rep. Paul Seaton
Cc: Rep. Jay Ramras; Representative_Berta_Gardiner@legis.state.ak.us; Rep. Bob Lynn; Rep. Carl Gatto; Rep. Jim Elkins; Rep. Max Gruenberg
Subject: Senate Bill 141

Dear Legislative Representatives:

Since I moved to Alaska in 1969, the State has been dedicated to all of its citizens with the exception of its public employees. Today, 36 years later, you are still trying to penalize those employees that do so much with so few for so little. Most work for a very basic wage and receive so little that they can barely save for potential health benefits and life insurance.

The only thing that has been good for state employees is the Retirement System as it currently stands. We have had to sue or initiate a law suit to get any funding for long overdue wages and settlements brokered in good faith with you, the Legislature and the Administration. Any unfunded liabilities are not the fault of the state employees but are the responsibility of the "Pork Barrel Policies" of Legislators.

SB 141 wants to eradicate positions not paid for by the state and start a new bureaucracy. If there is, in fact, an unfunded liability, how will creating another monetarily costly program help to get any allocation of funds for retirement and to fund this alleged liability?

I do not see how abolishing a program that dumps PERS/TRS/ASPIB and costs us, the citizens of Alaska, more is nor could be effective. I strongly urge you to stand up for those future, current, and past employees of the state and VOTE against passage of SB 141. You should do what is right and not necessarily politically expedient.

Thank you.

Sincerely yours,

Buddy V. Harrel
PO Box 80179
Fairbanks, AK 99708-0179

Louie Flora

From: Sue Zimmerman [dszimmer@imt.net]
Sent: Tuesday, April 19, 2005 7:34 AM
To: Rep. Paul Seaton; Rep. Carl Gatto
Cc: Rep. Max Gruenberg; Representative_Berta_Gardiner@legis.state.ak.us; Rep. Bob Lynn
Subject: SB141

Dear Representatives,

Please do not support SB141 as it stands. The current boards have done an excellent job of managing my retirement funds for the past 25 years. The State of Alaska has been committed to a sound retirement system since before statehood. Please don't try to fix what isn't broken. I am counting on you to do the right thing for the retirees and employees of the great state of Alaska.

Sincerely,

Sue Zimmerman
Bozeman, Montana
(formerly of Juneau but caring for
family in Mont. now)

Louie Flora

From: Judy Stohl [rsrjas@gci.net]
Sent: Thursday, April 14, 2005 2:28 PM
To: Rep. Paul Seaton
Cc: Fate Putman; Jim Juneau; Judy Stohl
Subject: Public Opinion Message

Dear Mr. Seaton,

I am writing to express my strong opposition to HB238. This is the wrong thing to do and the wrong direction to go in regards to the pensions for state employees. I urge you to slow down and give credence to other possible solutions. Such a narrow approach only serves to reveal how out of touch Juneau really is with the people working hard for this state in good faith. And I am a private citizen.
Sincerely, Judy Stohl

This is an email message from "Judy Stohl" <rsrjas@gci.net>.
Opinions expressed belong to the sender alone.

Louie Flora

From: Jaynbarbcr@aol.com
Sent: Thursday, April 14, 2005 12:27 PM
To: Rep. Paul Seaton
Subject: SB 141 and HB 191

Dear Representative Seaton:

As a retired PERS employee, I am writing you to let you know how strongly I oppose SB 141 and HB 191. These bills would convert all members of PERS and TRS (Public Employees Retirement System and Teachers Retirement System) to private accounts very similar to the proposed changes to social security. As President Bush is finding out, converting to private accounts does not solve anything. Private accounts will make retirement very uncertain for most employees. Besides being a fluctuating number, the accounts could lose drastic sums of money in the market or get eaten up in investment fees.

One of the reasons I committed to 25 years of state employment was because of the guaranteed retirement benefits. Sure, when I was working Alaska was building a pipeline, I could have went to work for an oil company and hauled in thousands of dollars during the pipeline construction, but I did not. I chose instead to work for the State of Alaska at a much reduced pay rate because of the guaranteed benefits. I was a single mother raising a child and those guaranteed benefits were a life saver. It isn't fair to new employees looking to devote their life to public service. It also isn't fair to those of us who are current members of PERS. By diverting those monies away from PERS, the legislature may make the problem even worse. I respectfully ask that you do not pass HB 191 or the related bills.

Back when I retired, oil was going for about \$20.00 a barrel and the retirement system was fully lunded. Now oil is up over \$50.00 a barrel, and you are predicting billions in shortfall to fund the retirement system. The employer contributions need to be raised and so does the employee contributions. Just the same way that social security limits need to be raised. The employees are making more because of inflation and the state is earning a lot more because of oil inflation. Simple adjustments to the contribution levels (both employer and employee) could easily solve this problem. Do not change to the retirement system to a "defined benefit" plan.

Thank you.
Barbara Crombie
PO Box 92187
Anchorage Alaska 99509

4/29/2005

Louie Flora

From: anonymous - [anonymous777@gmail.com]
Sent: Wednesday, April 13, 2005 5:49 PM
To: Rep. Paul Seaton
Subject: HB238 PERS/TRS -- eliminating disability/death benefits

Dear Representative Seaton:

I am concerned that one very important issue has been overlooked in both the Senate and House bills establishing defined contribution retirement plans for PERS and TRS. This issue is the elimination of disability and death benefits for new State Troopers, city police officers and firefighters hired under these new plans.

The article below from the Sacramento Bee describes how Governor Schwarzenegger was forced to drop his defined contribution pension proposal because of this issue.

Yes, under the DC plans, the widow and children of a State Trooper killed in the line of duty would receive the balance of the trooper's DC account, but for a Trooper only on the job a few years this would be completely inadequate. Likewise, a Trooper suffering a permanent disability would only get the balance of his or her DC account.

I cannot imagine that any Alaska legislator would support eliminating the PERS disability and death benefits now provided to State Troopers, city police officers and firefighters for newly hired public safety employees in these dangerous professions.

I hope you can address this issue in your work on HB238.

Unfortunately, my personal situation requires me to send this to you anonymously.

Sincerely,

A concerned citizen

Sacramento Bee

Governor retreats on pensions

He drops the ballot plan, a key part of his effort to overhaul government.

By John Hill -- Bee Capitol Bureau

Published 2:15 am PDT Friday, April 8, 2005 Under assault by public employee unions, Gov. Arnold Schwarzenegger retreated from a key component of his proposed government overhaul Thursday, an initiative that would have scrapped the traditional government pension system in favor of 401(k)-style investment accounts.

"Even though our signature drive has been very successful and we have gathered 400,000 signatures, I think it is better to improve the language and put our plan on the June 2006 ballot," the Republican governor said. He had wanted to put the issue on the ballot during a special election this fall.

Public employee unions and others had lambasted the proposal, staging protest after protest at Schwarzenegger fund-raisers and other public appearances. In particular, they zeroed in on what they said was the measure's failure to provide death and disability benefits for public safety workers.

Although the administration said it would never allow such benefits to be cut, it didn't offer a concrete proposal to keep them, and the criticism raged on.

After meeting with survivors of public safety workers killed in the line of duty and local government groups this week, Schwarzenegger decided to pull the plug - at least for now.

"I do not want the pension reform debate to be clouded by worries surrounding this issue," he said.

Democrats and unions were unambiguous in calling it a major defeat for Schwarzenegger.

"He deeply divided the state and poisoned his ability to balance the budget," said Treasurer Phil Angelides, a Democrat who is running for governor in 2006

Dave Low, chairman of California Families Against Privatizing Retirement, called the governor's action an "admission that his initiative was flawed."

"He's been denying that all along and calling us liars for months," he said.

Assembly Speaker Fabian Núñez, D-Los Angeles, said the move, which he characterized as a retreat, would improve the governor's troubled relationship with Democratic lawmakers.

But he called on Schwarzenegger to withdraw his other proposed initiatives, which would change how political districts are drawn, give more budget-cutting power to governors, and institute merit pay for teachers and require them to be on the job five years instead of two before they could qualify for tenure. The governor still hopes to put the initiatives before voters this year.

While public pensions are no longer on Schwarzenegger's agenda for a special election this year, Núñez said, "the gun still has three bullets in it."

If Schwarzenegger hadn't threatened to circumvent the Legislature, he said, "we would probably have already negotiated agreement with the governor on most of these issues."

Schwarzenegger, however, showed no sign of backing down from his other proposals - and vowed to revive the pension proposal if the Legislature and public employee unions fail to agree to changes.

"We're right on target with our reforms," he said. "We will have reform. Come next year, we will have the pension reforms."

In his January State of the State address, Schwarzenegger embraced pension changes as one component of his effort to remake California government. He backed a proposal by Assemblyman Keith Richman, R-Northridge, and the Howard Jarvis Taxpayers Association to end the system that guarantees state and local workers a pension based on years of service and highest salary.

Instead, government workers hired after July 1, 2007, were to get 401(k)-style investment accounts similar to those common in the private sector. Those plans do not guarantee income in retirement, but can be transported from job to job.

The initiative was silent on the issue of death and disability benefits, which guarantee payments to public safety workers or their survivors.

But opponents maintained that the initiative would make it impossible for government employers to offer the benefits in their current form. Their position was bolstered by the ballot summary prepared by Attorney General Bill Lockyer, a Democrat who is considering a run for governor. The ballot summary stated flatly that the initiative would "eliminate" those benefits.

Survivors of fallen public safety workers and others spoke out publicly against the proposal and ran radio ads. Earlier this week, they met privately with the governor.

The governor also met with local government representatives, who had presented their own proposals to reform the existing system rather than scrapping it altogether.

"We talked for hours," Schwarzenegger said. "Group after group after group. We met from morning to night. And those were powerful arguments, and powerful stories, and it was very clear that the main thing that troubled them was that there is a danger that the death benefits and the disability benefits are at risk."

He recalled that his own mother received benefits for 10 years after the death of his

father, who was a police officer. "So of course, I would not want to take any of this away from anyone," he said.

The governor said he was not influenced by protests or polls, some of which show his popularity sagging.

At the surprise news conference announcing the move, Schwarzenegger was flanked by local government officials who had been actively involved in talks on the pension proposal. Some said they were willing to continue to work on changes.

Notably absent from the news conference were public employee unions seen as more militant.

Lou Paulson, a spokesman for a group of public service workers opposed to the changes, said union officials were invited to the news conference but were only given two hours to respond.

"We didn't think that was appropriate," said Paulson, a spokesman for the Alliance for a Better California.

Despite their absence, Paulson said that public safety workers are open to negotiations. He said the unions had already been talking to local governments in December before Schwarzenegger soured the atmosphere by backing the initiative.

"He threw the gauntlet down and said this is the way it has to be," Paulson said.

Schwarzenegger's proposal mobilized public workers even more than Proposition 13, the property tax limitation measure approved by voters in 1978, Paulson said.

"I've never seen more members more upset about any issue," he said.

The pension proposal was seen by some as part of a nationwide effort to scale back public employee pensions.

"It certainly frustrates any momentum that the movement had," said Keith Brainard, research director at the National Association of State Retirement Administrators. "California is often a trend-setter in many issues."

Others didn't see it that way, arguing that the proposal was derailed not on its merits but by the confusion over death and disability benefits.

"It's more of a clarity error," said economist Dan Clifton of Americans for Tax Reform, the Washington think tank headed by conservative crusader Grover Norquist. "I listened to the press conference - I heard him say, 'We still need to do this.'"

Louie Flora

From: Glen James [jshing@alaska.com]
Sent: Wednesday, April 13, 2005 12:00 PM
To: Rep. Paul Seaton; Rep. Bob Lynn; Rep. Jim Elkins;
Representative_Jay_Namrus@legis.state.ak.us;
Representative_Carl_Gatto@legis.state.ak.us; Rep. Berta Gardner;
Representative_Max_gruenberg@legis.state.ak.us
Subject: PERS/TERS

Dear House State Affairs Members,

Thank you for all your work on the Public Employees retirement issue. I have been living in this great state since 1979, and never plan to leave. I vote in every election, and although I am not a "squeaky wheel", this issue is too important not to squeak about.

I believe that this is the richest state in the nation on many fronts. The richest in beauty, the richest in resources, and the richest in our diverse population. I have been following the PERS/TERS issues from: the erroneous information provided by Mercer that got us into this fix, to the throw the baby out with the bathwater fix.

The fix the Senate has proposed, I believe, will have disasterous effects on the people who have a calling to be firefighters, peace officers, educators, and other public employees. Our state is not bankrupt. Our state is not poor. There is no wolf at the door today.

Please do not make any hasty decisions this session about our Great State's public retirement system. This is a complex issue that deserves careful thought and time. My humble request is that you wait until next session, and revisit this issue at that time.

Respectfully,
Lynn Kracke, Republican and public school educator since 1992

April 10, 2005

Ron and Mary Woods
120 Concordia Dr.
Fairbanks, AK 99709

In re: Retirement System Reforms, SB141, HB177, HR238

Dear Representative Seaton,

We are writing in strong opposition to the legislation noted above as presently drafted, and ask that you seriously consider the arguments presented herein against such legislation without significant amendments.

First, let us say that we are long-term state employees, which enables us to provide meaningful input and insights regarding the affect of the proposed reforms on the state operations we value greatly.

Further, we appreciate the legislature's concern and sense of responsibility to examine the existing PERS/TERS systems, and think the key is to be fair, thoughtful, and prudent in considering what changes are truly in the State of Alaska's best interest. Everyone agrees that there is no financial crisis or emergency involving these systems, and the legislature should not over-react in implementing corrective measures.

We recommend restraint similar to take exercised by the legislature in not implementing a solution to the state's anticipated fiscal gap prematurely. If the legislature wants to move to a private sector approach in providing for the salary and benefits of state employees, it cannot look just at establishing a defined benefit retirement program that minimizes financial risk to the state.

The legislature must also develop a salary structure and employee incentive programs that provide sufficient compensation and incentives to recruit and retain good employees. Taking the defined benefit of a retirement program away from state employees would really leave little or no financial incentives for employees considering employment with the state, thus compounding the recruitment problems that already exist in many communities were the state struggles to compete with other employers.

If the state is to move in the private sector direction and compete like a business for employees, it needs to do much more to develop financial and other incentive programs. Successful private sector corporations control their costs by hiring and retaining the best teams of people to run their organization. Bonuses and stock options are also common in the private sector. Intel Corporation benefits include two months off with pay for a work sabbatical every seven years that an employee works for the company. This is obviously one way the company motivates and retains good, experienced employees.

The state must act in good faith in dealing with its employees. Changing the funding contribution rate for current employees would effectively be no different than changing the Tier terms and conditions that they were hired under. Attempting to do that would surely create significant distrust of the legislature, lower productivity, and would create even more financial hardship on employees struggling to survive and work for the state.

The purchasing power of employees' salaries continues to lose ground every year to costs of living increases and their portion of increasing medical care costs when they make their care selection decisions. Please recognize that changing the funding rate for current employees would be very unfair, problematic to operations, and ill advised.

All need to appreciate that the state's employees are critically important in meeting the service needs of our citizens in the most effective and efficient manner. The costs associated with providing for a good salary and retirement system for these employees should be one of the legislature's highest priorities. The legislature should be looking to invest more, not less, in the state's employees, as they are the state's best assets.

We thank you for your time in reading this letter and seriously considering your actions in this very important decision area for the state.

Sincerely,

Ron and Mary Woods

Louie Flora

From: Don Logan [dlogan@co.fairbanks.ak.us]
Sent: Saturday, April 09, 2005 1:14 PM
Tc: 'tom_anderson@legis.state.ak.us'; 'ethan_berkowitz@legis.state.ak.us';
'mike_chenault@legis.state.ak.us'; 'sharon_cisson@legis.state.ak.us';
'john_coghill@legis.state.ak.us'; 'harry_crawford@legis.state.ak.us';
'eric_croft@legis.state.ak.us'; 'nancy_dahlstrom@legis.state.ak.us';
'jim_elkins@legis.state.ak.us'; 'richard_foster@legis.state.ak.us'; 'les_gara@legis.state.ak.us';
'berta_gardner@legis.state.ak.us'; 'carl_gatto@legis.state.ak.us';
'max_gruenberg@legis.state.ak.us'; 'david_guttenberg@legis.state.ak.us';
'john_harris@legis.state.ak.us'; 'mike_hawker@legis.state.ak.us';
'jim_holm@legis.state.ak.us'; 'reggie_joule@legis.state.ak.us';
'mary_kapsner@legis.state.ak.us'; 'mike_kelly@legis.state.ak.us';
'beth_kertulla@legis.state.ak.us'; 'vic_kohring@legis.state.ak.us';
'pete_kott@legis.state.ak.us'; 'gabrielie_ledoux@legis.state.ak.us';
'bob_lynn@legis.state.ak.us'; 'lesil_mcguire@legis.state.ak.us';
'kevin_meyer@legis.state.ak.us'; 'carl_moses@legis.state.ak.us';
'mark_neuman@legis.state.ak.us'; 'kurt_olson@legis.state.ak.us';
'jay_ramras@legis.state.ak.us'; 'norman_rokeberg@legis.state.ak.us';
'woodie_salmon@legis.state.ak.us'; 'ralph_ruels@legis.state.ak.us';
'paul_seaton@legis.state.ak.us'; 'bill_sto@legis.state.ak.us';
'william_thomas@legis.state.ak.us'; 'bruce_weyhrauch@legis.state.ak.us';
'peggy_wilson@legis.state.ak.us'
Subject: FW: PERS/TRS
Importance: High

> Dear Representative ;
>
> I am writing to ask that you not pass any of the following bills: HB
> 170, 177 and 191 and SB 141, all relating to drastic changes to the
> Teachers Retirement System and the Public Employees Retirement System.
> While the PERS/TRS problem has been portrayed as drastic and requiring
> an immediate fix, none of the proposed bills help. Placing the entire
> burden for the fix upon public employees shoulders is unfair. Public
> employees did not create this problem, mismanagement by the state and
> participating municipalities have played a much larger role.
>
> This problem didn't develop overnight and the proposed bills won't
> correct it overnight (if at all). The urgent move to push legislation
> through, before the Fall elections, is particularly distasteful and is
> an obvious Political ploy, that I for one, will not forget when it
> comes time to cast my ballot .
> This issue needs a great deal more time and effort to craft an
> equitable solution. When researching the solutions, please remember
> that public employees and teachers are valuable, loyal and
> hard-working individuals who deliver public services every day.
> Retirement benefits are a critical part of our compensation package
> we've accepted in lieu of higher salaries paid in the private sectors.
>
> Please do not pass HB 170, HB 177 or HB 191 and especially SB 141.
> Thank you
>
>
>

Louie Flora

From: Mary Ostermick [awi@alaska.net]
Sent: Thursday, April 07, 2005 9:36 PM
To: Rep. Paul Seaton
Subject: TRS/PERS system

Mary Ostermick
P.O. Box 827
Talkeetna, AK 99676

April 8, 2005

The Honorable Paul K. Seaton
Alaska House of Representatives
House of Representatives, Room 102
Juneau, AK 99801-1182

Dear Representative Seaton:

Please leave the TRS/PERS system alone. It is necessary to attract and keep new teachers and paraprofessionals. Correct abuses to the system if necessary, but leave it strong and intact.

Sincerely,

Mary Ostermick

Louie Flora

From: Gretchen Nelson [johngr@tchen@gci.net]
Sent: Sunday, April 03, 2005 4:53 PM
To: Rep. Paul Seaton
Subject: TERS and PERS Retirement Proposed Changes

Gretchen Nelson
3039 Alder Cir.
Anchorage, AK 99508-3256

April 3, 2005

The Honorable Paul K. Seaton
Alaska House of Representatives
House of Representatives, Room 102
Juneau, AK 99801-1182

Dear Representative Seaton:

I am writing to ask that you carefully consider the serious impact and long term effects the recent proposed legislative action toward the state retirement system will have on our schools and people's lives. Please do all you can to change the approach being taken on this issue. I don't often take time to contact political decision makers, but the little I've read on this issues has brought me to urge you to consider other angles to make the system more efficient.

No, the Investment board should never be appointed by the governor (no mattter who it is), and before we make changes to district/employee contributions, and create lower Tiers that will effect children's learning; Please work to eliminate and clean up loop holes in the system that do not truly benefit the employee base. I never knew, city councils, school board, assembly members, etc. receive retirement benefits (\$10,000-health)after serving just years in a job that is portrayed by them as their civic contribution! Let me know what I can do to to ensure that wise action is taken so our schools can continue to provide a quality education for the people who will be making future decisions for our state.

Sincerely,

Gretchen Nelson

Louie Flo: a

From: john brown [jbrown302@hotmail.com]
Sent: Tuesday, March 29, 2005 9:17 AM
To: Rep. Tom Anderson; Rep. Ethan Berkowitz; Rep. Mike Chenault; Rep. Sharon Cissna; Rep. John Coghill; Rep. Harry Crawford; Rep. Eric Croft; Rep. Nancy Dahlstrom; Rep. Jim Elkins; Rep. Richard Foster; Rep. Les Gara; Rep. Berta Gardner; Rep. Carl Gatto; Rep. Max Gruenberg; Rep. David Guttenberg; Rep. John Harris; Rep. Mike Hawker; Rep. Jim Holm; Rep. Reggie Joule; Rep. Mary Kapsner; kellys1@gci.net; Rep. Beth Kerttula; Rep. Vic Kohring; Rep. Pete Kott; Rep. Gabriella LeDoux; Rep. Bob Lynn; Rep. Lesil McGuire; Rep. Kevin Meyer; Rep. Carl Moses; Rep. Mark Neuman; Rep. Kurt Olson; Rep. Jay Ramras; Rep. Norman Rokeberg; Rep. Woodie Salmon; Rep. Ralph Samuels; Rep. Paul Seaton; Rep. Bill Stoltze; Rep. Bill Thomas; Rep. Bruce Weyhrauch; Rep. Peggy Wilson; Sen. Con Bunde; Sen. John Cowdery; Sen. Bettye Davis; Sen. Fred Dyson; Sen. Johnny Ellis; Sen. Kim Elton; Sen. Hollis French; Sen. Lyda Green; Sen. Gretchen Guess; Sen. Lyman Hoffman; Sen. Charlie Huggins; Sen. Albert Kookesh; Sen. Donny Olson; Sen. Ralph Seekins; Sen. Bert Stedman; Sen. Ben Stevens; Sen. Gary Stevens; Sen. Gene Therriault; Sen. Tom Wagoner; Sen. Gary Wilken
Subject: PERS and TERS

Dear Legislators, The unfunded liability issue needs to be addressed. The best way to do this is a careful process bringing all parties together. Tying education funding to a quick fix has the potential to make matters worse not better. Please reject this attempt to use a long term problem to put in place a bad fix. Sincerely
John Brown President Fairbanks Central Labor Council

Louie Flora

From: Carol Lowery [h-clowery@gci.net]
Sent: Monday, March 28, 2005 7:37 PM
To: Rep. Paul Seaton
Subject: Retirement Board for TRS/PERS

Carol Lowery
HC31 Box 5205
Wasilla, AK 99654

March 28, 2005

The Honorable Paul K. Seaton
Alaska House of Representatives
House of Representatives, Room 102
Juneau, AK 99801-1182

Dear Representative Seaton:

I am very concerned about the proposed changes in the retirement system. They won't affect me as a retired teacher, as I retired 6 years ago after 35 years of teaching here in Alaska, but the changes appear to be very detrimental to the future of education in Alaska for all students. I have grandchildren who will be going on through the educational system here, and I would hope they are able to have the good teachers they need.

I am especially concerned about the issue of the Governor appointing all 9 members of the Retirement Investment Boards of TRS and PERS. This has been a basically non-political Board that has had the best interests of the Fund in mind. Putting the entire Board in the hands of whichever political party happens to have the Governor's support seems very risky...for both parties! Whichever party is in power will be able to use this Fund for a political football, and it will swing with the wind when there is a change in political affiliation.

Many of the other provisions seem short-sighted in that they will not attract strong teachers to our State. At a time when teachers are being asked to do more with the NCLB process, be more professional, have more complicated certification processes, and take more training at their own expense, it seems our State should be looking for ways to bring in the best teachers available. The days of Alaska being a teachers' magnet are gone, as many other states are becoming more aggressive as they find it difficult to find teachers with all the qualifications needed. Alaska is already finding it very difficult to attract many Special Education teachers in all areas. These changes will make it harder in all teaching fields.

I ask that you really consider all the ramifications of these changes. Will they make education in Alaska better, or will they cause the quality of education to drop for all students?

Sincerely,

Carol Lowery
376-5684

Louie Flora

From: Patricia Parsch [audi@gci.net]
Sent: Monday, March 28, 2005 5:00 AM
To: Rep. Paul Seaton
Subject: TRS & PERS Retirement

Patricia Parsch
6551 Cimarron Circle
Anchorage, AK 99504-3944

March 28, 2005

The Honorable Paul K. Seaton
Alaska House of Representatives
House of Representatives, Room 102
Juneau, AK 99801-1182

Dear Representative Seaton:

Dear Mr. Seaton,

As an Alaskan educator for 23 years, I have grave concerns about the five current bills legislators are considering. I'm opposed to the proposed changes and urge you to stop the abuses. If we can do this and close the loopholes, an excellent system will continue to operate effectively for retirees without mortgaging the future of working Alaskans.

Sincerely,

Patricia Parsch
907-742-1182

Louie Flora

From: Fred Lau [flau@homerseniors.com]
Sent: Tuesday, March 22, 2005 12:01 PM
To: Rep. Paul Seaton
Subject: PERS/TRS
Follow Up Flag: Follow up
Flag Status: Yellow

I appreciate and support your position that we need to take a good look at the retirement system and any reforms before we make changes to the PERS/TRS system. Tying passage of a bill to revamp the system to education funding does not make for sound fiscal policy. Although I am still working, I have been retired under the TRS system for 10 years. I spent 31 years working in education in Alaska and one of the reason I did was because of the retirement system. My wife is also a retired teacher with over 30 years experience. If we make drastic changes to the system without really understanding the long term effects it would be a big mistake. It does not appear that in its present form the system is totally broken and I am not sure it demands that we go from a system based on years of service and salaries to one based on the contributions of educators. When I was working as a superintendent of schools one of the main drawing cards that I used in enticing new teachers to come to Alaska was the retirement system. School systems in Alaska no longer have large numbers of applicants like we did back in the 80's and early 90's. Teacher shortages in other states make Alaska less attractive. Let's not add to that by down grading the retirement system and let's not hold education funding hostage in order to change the retirement system when it may not need major overhaul.

Fred Lau
Homer

Louie Flora

From: Lani Raymond [lani@alaska.net]
Sent: Monday, March 21, 2005 9:26 PM
To: Rep. Paul Seaton
Subject: Education

First, I would like to say that I appreciate your efforts on our behalf. I especially appreciate your concern and understanding of education issues. I believe that rushing through things is never good, but it seems there is an agenda here to tie the good to the potentially not-so-good. To hold up the early funding for education in order to pass a revamping of the retirement system is, in my opinion, criminal. My grandchildren deserve better than this! I accept that the PRS/TRS system needs to be changed but I fear what is going to happen since it will definitely impact attracting and keeping good teachers, especially for the bush. I know how difficult the layoff/rehiring situation for teachers can be. And never knowing how much money a district will have in time to make good plans and use the resources as wisely as possible is such a inept way to do things year after year after year! (I am a retired teacher, by the way.)

We have elected these lawmakers. They are supposed to be working for the good of all of us in our state. Why do children and their education seem to matter so little to most of them? There can be plans for bridges to nowhere, jets, large new convention centers--to say nothing of the new opulent capitol plans--which would lead one to believe that our education system (staff, building maintenance, basic needs, etc.), are way down on their priority list.

Thank you very much for listening!

Again, I appreciate all you do; you have a very difficult job!!

Lynda Raymond

Homer, AK

Louie Flora

From: Sharon Parker [alaskasharon@hotmail.com]
Sent: Tuesday, March 15, 2005 8:49 PM
To: Rep. Paul Seaton
Subject: SB141

March 15, 2005

Subject: SB141

This afternoon I was notified by my employee's association representatives that the legislature is to vote tomorrow morning at 9:00 am on SB141 which would, without my consent, take cash from my paycheck, reduce my retirement income and reduce retirement health benefits that I have already paid for with my labor. And, all of this activity was accomplished with only 48 hours public notice. When someone takes something that doesn't belong to them it is called theft. It is a criminal act. Legislators voting to pass SB141 are voting illegal - to take, without my consent, money and goods I have earned with my labor and what I cannot afford to give. They know it and that is why they have acted in this most despicable manner - to restrict any opportunity for the public to voice their opinion. There is no honorable, credible reason why state employees who can ill afford it should be made to pick up the tab for the gross incompetence and fiscal irresponsibility of state government officials..

The group designated as 'Voters', includes a very large number of state employees who will be greatly affected if SB141 passes. I'm one of them. I can't afford another 5% on top of the added costs of benefit reductions already in place and lack of parity between wages and cost of living increases. I will literally be choosing between paying bills and paying for groceries or medicine. Please explain to me who of those in Juneau, collecting generous amounts of public monies as their salaries, are going to be here to share my dinner table on those nights when I had no choice but to pay the bills and not the grocer. This isn't an exaggeration - this is my reality - perhaps the 'public representatives' ought to take a look at the impact that significantly reduced wages will have on the economy, of the personal cost to those individual members of the public they are supposed to be representing, and of how young, talented people are beginning to view what it means to be an employee of the State of Alaska. A state in which the word of the government means less than nothing.

This isn't just outrage or astonishment that I am expressing - this is the first time I've been ashamed to be an Alaskan. Passage of SB141 is not something that any of the state employees or their representative groups are going to take lightly. Please don't misunderstand me - that isn't a threat, it is a simple economic as well as political reality. The economic and political impact that passage of SB141 will have on both the public and private sector will undoubtedly be felt for a very long time and not just by public employees.

Sincerely,

Sharon A. Parker
Administrative Clerk

Louie Flora

From: Ron Rucker [matsucea@mtaonline.net]

Sent: Thursday, March 03, 2005 5:05 PM

To: Rep. Mike Kelly; Rep. Carl Gatto; Rep. Vic Kohring; Rep. Mark Neuman; Rep. Bill Stoltze; Rep. Lesil McGuire; Rep. Paul Seaton; Rep. John Coghill; Sen. Johnny Ellis; Sen. Lyda Green; Senator_Charlie_Hugginss@legis.state.ak.us; Sen. Ralph Seekins; Sen. Fred Dyson; Sen. Gary Wilton

Subject: PERS/TRS Deficit

Dear Representatives and Senators: I wanted to comment to concerning the PERS/TRS deficit and some of the proposed changes. First, I want to say that I am not opposed to paying my fair share or even having the employee contribution rate increased. I am opposed to an excessive increase for either employers or employees because of a stock market crash and at least two bad management decisions. The stock market is and will continue to correct itself. The decision to reduce the employer contribution because of a "flush" system was counterproductive. Had that reduction not occurred, then the deficit would be smaller now. Finally, the retire/rehire program puts undue stress on an already stressed program. Scott Burns wrote an article in the October 25, 2004 "Statesman Journal" on the negative effect low paying jobs has on Social Security. No paying jobs are even worse. Allowing people to retire and then come back to work and not pay for their insurance and their retirement benefits increase the strain on the retirement system. The system is designed to have new employees paying in to the system for a long time to maintain solvency. Rehiring a retiree not only means they are paying into the system but there is also not a new young employee paying into the system. This is, in affect, a double wammy. I ask you to careiully consider how you change the system until you change some of the negative impactors. Increase employee contribution by a small amount if you must, but not by 50%. Thanks for all your time and effort. Ron Rucker, President, Classified Employees' Associaton.

Louie Flora

From: Glenn and Edna Johns [yippie@ptialaska.net]

Sent: Friday, April 22, 2005 2:01 PM

To: Rep. Paul Seaton

Subject: retirement!!

We believe that the retirement system set in place is far superior to what we read the suggested changes are. Any person has a need to know what they can expect from their retirement.

Those of us who are retired need the board to stay in place ... we have already had to go to it regarding our medical.. we depend on our retirement in order to stay in the state of alaska where we have lived for over 40 years.

Please do not change any of the retirement system until more studying has been done on the effect on individuals already working for the state and for those already retired.

Thank you for any consideration that you give to this.

**Sincerely,
Glenn and Edna Johns**

Louie Flora

From: Charles L Kelly [charles_kelly@labor.state.ak.us]
Sent: Wednesday, April 20, 2005 9:34 AM
To: Rep. Paul Seaton
Subject: SB 141

. ,pril 20th, 2005

Alaska House of Representatives

Dear Sir or Madam:

I am writing to you to express my concern over SB 141. Please vote against this bill and any related bills. I have been working with the State of Alaska for 7 and ½ year's and it seems that, every year, our pay and benefits take one step forward and two steps backward. Our pay and benefits seem to have decreased rather than increase. The cost of living does not cover costs in health care premium increases and general living. Now the Governor is trying to make it even worse. The reform of the retirement program is unacceptable. State employment is not as attractive, as it once was, and will continue to decline if this bill passes. I urge you to vote against SB 141 - it must be stopped. If this bill passes, I will not receive the retirement benefits I was promised. State employees will not be able to count on social security or the retirement benefits promised from this employer. Please be accountable to the State of Alaska employees by protecting our benefits- VOTE AGAINST SB 141.

Defeating SB 141 will protect state employees benefits will encourage new employees to accept employment in this great state. I also think that it is wrong for the Governor to appoint members on the retirement board. This bill must be defeated!

Sincerely,

Charles L. Kelly

Anchorage, AK

*Charles Keily
Employment Security Specialist
Anchorage UI Call Center
Phone: 907-269-4805
Fax: 907-269-4853 or
888-353-2937*

Louie Flora

From: Nancy Osborne [petero@gci.net]
Sent: Wednesday, April 20, 2005 9:31 AM
To: Rep. Paul Seaton
Subject: SB 141

Honorable Senator Seaton,

We urge you to reconsider passing SB 141 without input from the pension boards and more discussion as to the consequences of this legislation. There is more at stake here than just saving money. As a former educator, surely you can understand. We appreciate your many faithful stands to help education. This is a big one as well and we pray you will NOT pass this one. Teachers and public employees are counting on you. Please don't disappoint us!

Thank you for your time and consideration.

Tom and Nancy Osborne
Box 2375
Seward, AK

4/29/2005

Louie Flora

From: John A. Lund [jalund@gci.net]
Sent: Sunday, January 30, 2005 7:58 PM
To: Rep. Paul Seaton
Subject: Fw: Daily News

A copy of a note I sent to Ben.....good luck.....jl

----- Original Message -----

From: John A. Lund
To: Sen. Ben Stevens
Sent: Sunday, January 30, 2005 7:50 PM
Subject: Daily News

Good morning. A couple of follow ups to the Daily News article on the Alaskan Pension Funds.

- 1.) I assume that if Social Security heads towards a later age for retirement, so too will Medi Care. In essence, that would add two more years of TRS and PERS coverage for medical. Is anyone talking about that ?
 - 2.) Since tier two extended the age for retirement, causing less strain on the pensions systems covering medical, how much did the new tiers save the system as opposed to staying in tier one ?
 - 3.) I think the educational system has to make a choice, either high wages or a great retirement system. In my opinion as a past educator, the great retirement system is the answer. It is extremely hard to teach into your late fifties. Some do it very well but others don't, which creates its own set of circumstances, added to the increased use of sick leave and major medical.
- In terms of recruitment, the 10 and vested with medical, was a great recruiting tool for rural Alaska teachers. Unless, someone can convince me that the university system can create enough teachers to meet the need.
- 4.) I still believe the Administration is reacting on their anticipation of future investment returns for the funds. To me that is like the "investment expert" who recommend a decrease in PERS contributions. Bad advice.....
 - 5.) The need to put good people on the pension boards with a broad vision and some business and investment sense.

Good luck on this thorny issue.

John Lund

4/29/2005

Louie Fiora

From: John A. Lund [jalund@gci.net]
Sent: Sunday, January 30, 2005 5:17 PM
To: Rep. Paul Seaton
Subject: Teacher Retirement System

Representative Seaton,

Good Morning. This is a new letter I sent to Jim Clark, Chief of Staff to the Governor. I hope this further clarifies my thoughts.

The Daily News article on Sunday was good but missed a few points. Realize that Medi Care kicks in at 65 (a problem if they extend that to 67) and as I note, I think Mercer's anticipated investment returns are too high.

Thanks for all your efforts.

John Lund

Dear Mr. Clark,

I appreciated your detailed response to my concerns on the PERS and TRS retirement systems.

First of all, I would like to thank you for all the hard work you do on behalf of fellow Alaskans. The countless hours of labor towards solving Alaskan problems is very laudable. I appreciate your efforts and the high standard you set for fellow employees.

And for the record, my recommendations would apply to the PERS system as well as the TRS system. I am just more familiar with the inner workings of the TRS system.

And for the record, I would like to see an audit of the Retirement Incentive Programs and their effects on the fiscal health of the retirement systems. My suspicion is that these programs undermined the actuarial tables set up for these systems therefore causing a greater outflow of funds than was anticipated.

And in a shortsighted manner, the retirement systems were used indirectly to fund public services and in the process weakened the underpinnings of the TRS and PERS systems.

My main concern is twofold. One, use the power of compound interest and arithmetically add funds to these retirement systems and achieve a geometric result. Similar to how much adding \$1,000 to your downpayment on a home loan of \$250,000 would have saved you in interest over thirty years. I am not advocating "not" putting additional state money in education funding or municipal projects. What I am advocating is exploring putting a portion of those funds towards lowering the existing unfunded liability of the pension systems and therefore harness the power of compound interest in our favor.

Secondly, I believe the anticipation of a 8.25% annual return on the investment holdings of the pension funds is unrealistic. Between 1962 and 1982 the Dow Jones Industrial Index returned 0%. It was flat for twenty years as hard assets rose. Our country is coming off one of the greatest bull market runs ever in our history. A return of high single digits for aggressive accounts could be the new standard. For a pension fund that is highly diversified and has a high composition of bond holdings, a 8.25% annual

4/29/2005

return is very high. And the consequences if the 8.25% annual return were not reached could be very troubling.

The 8.25% number is the median forecasted average return for the next ten years by the brokerage houses. Please check their track record on past recommendations. The Mercer Corporation used this figure in their presentation on the possibility of establishing a new tier to the retirement systems. I do not know the number the state anticipates as the annual return on investments for the retirement systems.

I have heard three numbers touted by stock market pundits, 8.25%, 6.25%, and 4.25% for projected stock market returns. I would go with the middle number 6.25%. If I am wrong, the excess funds could go towards paying down the unfunded liabilities in the retirement systems. The problem is what if the pundits are wrong and the system doesn't earn an 8.25% annual return. It would geometrically increase the present unfunded liability causing a huge fiscal problem years out.

The Permanent Fund Board in their recent report noted a 10.1% return for the last 20.5 years and projected a 7.6% return for the next five years.

My own thoughts are that the indexes will have a hard time climbing above the high single digits due to higher interest rates caused by high government and consumer debt. And with no large increases in technology spending forecasted, P/E ratios will contract. Technology is on a replacement cycle not a growth cycle.

I appreciate your efforts on this very complicated situation.

Thank you for your time.

Sincerely

John Lund

Ian Laing

From: Sharon Hanna [sharon_hanna@correct.state.ak.us]
Sent: Friday, April 29, 2005 10:42 AM
To: Sen. Donny Olson; Sen. Lyman Hoffman; Sen. Gary Stevens; Sen. Tom Wagoner; Sen. Con Bunde; Sen. John Cowdery; Sen. Ben Stevens; Sen. Hollis French; Sen. Johnny Ellis; Sen. Bettye Davis; Sen. Gretchen Guess; Sen. Fred Dyson; Sen. Charlie Huggins; Sen. Lyda Green; Sen. Gene Therriault; Sen. Gary Wilken; Sen. Ralph Seekins; Sen. Albert Kookesh; Sen. Kim Elton; Sen. Bert Stedman
Cc: Rep. Woodie Salmon; Rep. Vic Kohring; Rep. Tom Anderson; Rep. Sharon Cissna; Richard B Foster; Rep. Reggie Joule; Rep. Ralph Samuels; Rep. Pete Kott; Rep. Peggy Wilson; Rep. Paul Seaton; Rep. Norman Rokeberg; Rep. Nancy Dahlstrom; Rep. Mike Kelly; Rep. Mike Chenault; Rep. Max Gruenberg; Rep. Mary Kapsner; Rep. Mark Neuman; Rep. Lesil McGuire; Rep. Les Gara; Rep. Kurt Olson; Rep. Kevin Meyer; Rep. John Harris; Rep. John Coghill; Rep. Jim Holm; Rep. Jim Elkins; Rep. Jay Ramras; Rep. Harry Crawford; Rep. Gabrielle LeDoux; Rep. Ethan Berkowitz; Rep. Eric Croft; Rep. David Guttenberg; Rep. Carl Gatto; Rep. Carl Moses; Rep. Bruce Weyhrauch; Rep. Bob Lynn; Rep. Bill Thomas; Rep. Bill Stoltze; Rep. Beth Kerttula; Rep. Berta Gardner; Rep. Mike Hawker
Subject: Article re LEGISLATORS BRISTLE OVER PAY DECREASE

After reading this article on April 27, 2005, Peninsula Clarion, I had to stop and LAUGH OUT LOUD! You are willing to DECREASE MY PAY, my very minute \$ 973.11 two times per month take home pay, after working ten years for the state, BUT YOU CRY ABOUT YOUR PER DIEM BEING REDUCED!!!!!!!!!!!!!! WHAT IS WRONG WITH THIS PICTURE????????????????? I am BARELY making ends meet on a take home pay of 27,000 AND YOU ARE RAKING IN 24,000 JUST FOR FOUR MCNTHS?????????????.....again WHAT IS WRONG WITH THIS PICTURE..... You REALLY DO NOT CARE ABOUT ANYONE BUT YOURSELVES.....I am barely able to buy GROCERIES.....AND YOU WANT TO TAKE MORE MONEY FROM ME TO FUND RETIREMENT AND IT'S THE STATE'S FAULTY ACCOUNTING.....

May I quote one of your own....."Rep. Pete Kott, R-Eagle River, Legislative Council chair, said the decline in per diem pay is a concern for lawmakers WHO BASED THEIR BUDGET FOR LIVING FOUR MONTHS IN JUNEAU ON THE PREVIOUS RATE.

"THERE'S AN EXPECTATION THAT YOU'RE GOING TO HAVE A CERTAIN AMOUNT TO LIVE ON AND TAKE CARE OF FINANCES BACK HOME," KOTT SAID.

Well, duh.....THAT'S WHAT THE EMPLOYEES OF THIS STATE HAVE BEEN TRYING TO TELL YOU FOR THE LAST TWO WEEKS.....PLEASE WAKE UP TO THE PEOPLE'S NEEDS AND STOP THIS MADNESS.

VOTE AGAINST SB 141

Sharon Hanna
Administrative Clerk III

Jan Conitz
619 W. 11th St.
Juneau, AK 99801

Representative Paul Seaton
Chair, House State Affairs Committee
Alaska Legislature
re: Public Hearing 4/19/05 on SB 141 and related bills

Dear Representative Seaton:

I attended the committee hearing last evening on SB 141 and heard nearly all the testimony. I attended as a concerned citizen; I am an employee and a supervisor at Alaska Department of Fish and Game. First, I want to thank you for holding this hearing, giving adequate time for testimony, and listening attentively to each speaker, allowing time for questions at the end.

You heard in testimony after testimony public employees and teachers, from across many occupations and regions of the state, speaking with a strong unified voice. I share all of their concerns and would like to reiterate and emphasize the following negative effects of the proposed legislation:

1. Placing an unfair (and possibly unconstitutional) burden on current employees, especially those in the lower pay ranges. Increasing the contribution for the same benefit already promised represents a pay cut, at the same time that wages and salaries in public service are not keeping pace with the economy.
2. Plan is grossly unfair to future employees, including our children and grandchildren. I am especially concerned about the length of time required of employees to earn full benefits, with the distinct possibility they could work many years and then not receive benefits, the fact that contributions may not even cover health insurance, and the fact there is no safety net with increasing likelihood workers will exhaust benefits before the end of their lives.
3. Consequence of poor benefit plan is ever more difficulty in recruiting and retaining qualified workers. This cannot be over-emphasized. As you heard last night, it is already a problem in most departments. People expect to receive stable benefits in exchange for their career service combined with the lower pay they receive in public service.
4. Further erosion of qualified public workforce hurts all citizens of the state and will negatively affect our economy. Despite popular political perception that public employees are unnecessary, many functions of state and local governments are vital and irreplaceable. For example, the fishing industry is still the No. 1 private employer in the state. Without public sector management of our vital public fishery resources, there could be no viable seafood industry.
5. "Portable" benefits are just that. When employees realize their long-term benefits are inadequate, those most able to do so will leave for better opportunities elsewhere. The cost and

burden of continual re-hiring and training of new, and less-qualified, workers will fall to the state and local governments.

6. Shifting responsibility and risk in retirement investment to the employee is justified when the employee is well-compensated, above basic needs for housing and groceries. Most public employees and teachers do not enjoy this margin.

7. Public employees and teachers are important to the whole state and our economy. We need to provide adequate compensation to attract and keep good workers, who are interested in serving the state of Alaska and its people.

I recognize you and your committee for the extensive work you have done on this issue. The hearing last evening was lengthy, fair, and well-attended. But the public at large, and the affected employee groups, have not had nearly enough time to consider the sweeping and radical changes proposed. I urge you to take the following actions:

1. Do more fact-finding to determine why there was such a failure in estimation of the PERS/TRS funds between 2002 and 2003. If errors were made, who is accountable?
2. Slow the bill down, and give the public time to digest the information.
3. Take time to carefully craft amendments, after allowing public input. Present a clean and carefully-considered bill, with lots of input from the stakeholders.
4. Consider other options for change in our retirement systems, such as raising the retirement age, or re-structuring health care benefits.

Thank you for your consideration of public comment given so far. Please allow more time and work with the people who serve this state, to find a just and sustainable solution to this important issue.

Sincerely,



Jan Conitz

4/18/05

To: Rep. Paul Seaton -- fax'd to 465-3472

Re: Retirement bills should receive deliberate consideration -- please hold to '06 for proper study and avoidance of unanticipated problems

Fr: James E. Fisher, 171 Farnsworth Blvd., Soldotna, 99669
Ph: 262-9601 fax 262-9641

J. E. Fisher 4/18/05

Reports have indicated revisions to the state's retirement system needs more consideration, or it could:

- 1) have amendments, or be, initiated without a solid basis of information about its current condition or accurate forecast of future ramifications;
- 2) carry forward poor actuarial forecasts (those responsible should be discharged and better advice sought) or at least a second opinion secured;
- 3) be based on unrealistically low revenue possibilities?
- 4) overlook past unrealistic changes, or shortages, from contributions/payments into the trust fund that have been responsible for its present apparently alarming situation?
- 5) has the Senate's rapid action on the bills (only 1 referral in the Senate) overlooked aspects and needs for reasonable solutions?

From: Angie Hellickson [tinydancer21@yahoo.com]

Sent: Tuesday, April 19, 2005 9:17 AM

To: Rep. Paul Seaton; Rep. Carl Gatto; Rep. Jim Elkins; Rep. Bob Lynn; Rep. Jay Ramras; Representative_Berta_Gardiner@legis.state.ak.us; Rep. Max Gruenberg

Dear Representatives,

Please **DO NOT** support SB 141! This bill is harmful to all current and future PERS/TRS employees.

- The State of Alaska has been committed to a sound retirement system since before statehood
- Public employees - and all workers - deserve to know how much of a monthly income they will get when they retire. SB 141 will not guarantee that for new hires.
- The fault of the unfunded liability is not the fault of current or future employees.
- The legislation doesn't provide for any death or disability insurance. Dozens of classifications of workers find themselves in potentially dangerous work situations including in the corrections system, API, schools, police and fire, fish and wildlife biologists and protection officers, and engineers and equipment operators constructing and maintaining roads. Public employees have died while performing their duties for the public.
- Most public employees make a basic wage with no extra money to save for health benefits and life insurance
- Combining the boards will cost a great deal of money and will not fix the problem. Public employees pay in substantial sums of money into the system and should have a say through elections in who helps makes decisions
- Often, the problems come back to mistakes made from one single actuary. Isn't it time to get more professional input before changing the retirement safety nets Alaskans have depended upon for nearly 50 years?
- Recruitment and retention - especially for more specialized job classes - will become more difficult

Thank you for your consideration on this matter.

Angela Hellickson

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Plan great trips with [Yahoo! Travel](#): Now over 17,000 guides!

Louie Flora

From: Rep. Paul Seaton
Sent: Thursday, April 14, 2005 7:30 AM
To: Katie Shows; Louie Flora
Subject: FW: HB238 PERS/TRS -- eliminating disability/death benefits

-----Original Message-----

From: anonymous - [mailto:anonymous777@gmail.com]
Sent: Wednesday, April 13, 2005 5:49 PM
To: Rep. Paul Seaton
Subject: HB238 PERS/TRS -- eliminating disability/death benefits

Dear Representative Seaton:

I am concerned that one very important issue has been overlooked in both the Senate and House bills establishing defined contribution retirement plans for PERS and TRS. This issue is the elimination of disability and death benefits for new State Troopers, city police officers and firefighters hired under these new plans.

The article below from the Sacramento Bee describes how Governor Schwarzenegger was forced to drop his defined contribution pension proposal because of this issue.

Yes, under the DC plans, the widow and children of a State Trooper killed in the line of duty would receive the balance of the trooper's DC account, but for a Trooper only on the job a few years this would be completely inadequate. Likewise, a Trooper suffering a permanent disability would only get the balance of his or her DC account.

I cannot imagine that any Alaska legislator would support eliminating the PERS disability and death benefits now provided to State Troopers, city police officers and firefighters for newly hired public safety employees in these dangerous professions.

I hope you can address this issue in your work on HB238.

Unfortunately, my personal situation requires me to send this to you anonymously.

Sincerely,

A concerned citizen

Sacramento Bee

Governor retreats on pensions

He drops the ballot plan, a key part of his effort to overhaul government.

By John Hill -- Bee Capitol Bureau

Published 2:15 am PDT Friday, April 8, 2005 Under assault by public employee unions, Gov. Arnold Schwarzenegger retreated from a key component of his proposed government overhaul Thursday, an initiative that would have scrapped the traditional government pension system in favor of 401(k)-style investment accounts.

"Even though our signature drive has been very successful and we have gathered 400,000 signatures, I think it is better to improve the language and put our plan on the June 2006 ballot," the Republican governor said. He had wanted to put the issue on the ballot during a special election this fall.

Public employee unions and others had lambasted the proposal, staging protest after protest at Schwarzenegger fund-raisers and other public appearances. In particular, they

zeroed in on what they said was the measure's failure to provide death and disability benefits for public safety workers.

Although the administration said it would never allow such benefits to be cut, it didn't offer a concrete proposal to keep them, and the criticism raged on.

After meeting with survivors of public safety workers killed in the line of duty and local government groups this week, Schwarzenegger decided to pull the plug - at least for now.

"I do not want the pension reform debate to be clouded by worries surrounding this issue," he said.

Democrats and unions were unambiguous in calling it a major defeat for Schwarzenegger.

"He deeply divided the state and poisoned his ability to balance the budget," said Treasurer Phil Angelides, a Democrat who is running for governor in 2006.

Dave Low, chairman of California Families Against Privatizing Retirement, called the governor's action an "admission that his initiative was flawed."

"He's been denying that all along and calling us liars for months," he said.

Assembly Speaker Fabian Núñez, D-Los Angeles, said the move, which he characterized as a retreat, would improve the governor's troubled relationship with Democratic lawmakers

But he called on Schwarzenegger to withdraw his other proposed initiatives, which would change how political districts are drawn, give more budget-cutting power to governors, and institute merit pay for teachers and require them to be on the job five years instead of two before they could qualify for tenure. The governor still hopes to put the initiatives before voters this year.

While public pensions are no longer on Schwarzenegger's agenda for a special election this year, Núñez said, "the gun still has three bullets in it."

If Schwarzenegger hadn't threatened to circumvent the Legislature, he said, "we would probably have already negotiated agreement with the governor on most of these issues."

Schwarzenegger, however, showed no sign of backing down from his other proposals - and vowed to revive the pension proposal if the Legislature and public employee unions fail to agree to changes.

"We're right on target with our reforms," he said. "We will have reform. Come next year, we will have the pension reforms."

In his January State of the State address, Schwarzenegger embraced pension changes as one component of his effort to remake California government. He backed a proposal by Assemblyman Keith Richman, R-Northridge, and the Howard Jarvis Taxpayers Association to end the system that guarantees state and local workers a pension based on years of service and highest salary.

Instead, government workers hired after July 1, 2007, were to get 401(k)-style investment accounts similar to those common in the private sector. Those plans do not guarantee income in retirement, but can be transported from job to job.

The initiative was silent on the issue of death and disability benefits, which guarantee payments to public safety workers or their survivors.

But opponents maintained that the initiative would make it impossible for government employers to offer the benefits in their current form.

Their position was bolstered by the ballot summary prepared by Attorney General Bill Lockyer, a Democrat who is considering a run for governor. The ballot summary stated flatly that the initiative would "eliminate" those benefits.

Survivors of fallen public safety workers and others spoke out publicly against the proposal and ran radio ads. Earlier this week, they met privately with the governor.

The governor also met with local government representatives, who had presented their own

proposals to reform the existing system rather than scrapping it altogether.

"We talked for hours," Schwarzenegger said. "Group after group after group. We met from morning to night. And those were powerful arguments, and powerful stories, and it was very clear that the main thing that troubled them was that there is a danger that the death benefits and the disability benefits are a risk."

He recalled that his own mother received benefits for 10 years after the death of his father, who was a police officer. "So of course, I would not want to take any of this away from anyone," he said.

The governor said he was not influenced by protests or polls, some of which show his popularity sagging.

At the surprise news conference announcing the move, Schwarzenegger was flanked by local government officials who had been actively involved in talks on the pension proposal. Some said they were willing to continue to work on changes.

Notably absent from the news conference were public employee unions seen as more militant.

Lou Paulson, a spokesman for a group of public service workers opposed to the changes, said union officials were invited to the news conference but were only given two hours to respond.

"We didn't think that was appropriate," said Paulson, a spokesman for the Alliance for a Better California.

Despite their absence, Paulson said that public safety workers are open to negotiations. He said the unions had already been talking to local governments in December before Schwarzenegger soured the atmosphere by backing the initiative.

"He threw the gauntlet down and said this is the way it has to be," Paulson said.

Schwarzenegger's proposal mobilized public workers even more than Proposition 13, the property tax limitation measure approved by voters in 1978, Paulson said.

"I've never seen more members more upset about any issue," he said.

The pension proposal was seen by some as part of a nationwide effort to scale back public employee pensions.

"It certainly frustrates any momentum that the movement had," said Keith Brainard, research director at the National Association of State Retirement Administrators. "California is often a trend-setter in many issues."

Others didn't see it that way, arguing that the proposal was derailed not on its merits but by the confusion over death and disability benefits.

"It's more of a clarity error," said economist Dan Clifton of Americans for Tax Reform, the Washington think tank headed by conservative crusader Grover Norquist. "I listened to the press conference - I heard him say, 'We still need to do this.'"

Testimony of HB238/SB141
Gayle Harbo, April 2005

I have heard and read in the press that Alaska's public pension funds are in crisis. I have heard the figure "a 5 billion dollar unfunded liability". The liability is a crisis only if every PERS and TRS active member retires tomorrow and is paid all the money entitled to them for all their retired years. The funds, without health care costs, are in good shape. The earnings on the pension funds for each of the past two years have been 15%, better than the Permanent Fund. The funding ratios for non-medical benefits for TRS and PERS, based on market assets, are 93% and 120%, respectively. With medical benefits, the funding ratios drop to 64% and 74%, respectively. It doesn't take a rocket scientist to see that increasing health care costs are the problem. It is a recognized problem that can be solved without legislation. The Administration, working with employee groups, can make changes to current tier medical plans if the changes are for choice or convenience. They also have the ability to change the plan for future hires.

Have the funds been here before? You bet - in 1980, the funding ratio for TRS was 67%. At that time the contribution rate for the our model 50 year old system was roughly 7% each for employee, employer and the state, or 21% of payroll. When the state started funneling its share through the districts in FY'87, the contribution rate for the employer/state continued to decline to 12% until FY'05. The rate was then increased to 16%. Half the increase in the past few years has been caused by rising health care costs: a problem not unique to Alaska. This legislation seems to forget the state's share and speaks only to employee and employer sharing equally. No longer would 21% of payroll go to retirement.

Can the problem with health care costs be addressed? The Division of Retirement and Benefits and the Joint Boards of TRS and PERS have been working on cost containment, most recently with a generic drug campaign and in the near future with other measures such as preferred providers and closed formularies. The Division is also introducing a Positive Enrollment Program which they predict may save the state \$16 million dollars.

So you ask, why is the problem called a crisis? Some interests, both in and out of Alaska, want to privatize public pension funds. Alaska is only one of several states where some legislators have "bought in" to the need to privatize the billions of dollars of such funds. Most Alaskans know that is not the path to follow - many past legislators like Jay Hammond, Terry Miller, Arlyss Sturglewski and Charlie Parr worked to make Alaska's 50 year old retirement system a model for other systems in the country. Alaska is one of only four states which prefunds health care. Alaskans pride themselves on being independent and not having others tell them what to do.

The Employee Security Act which passed out of the senate as SB141 is a bill which assures *no security* for future retirees. It *takes away* the Defined Benefit plan which provides for a safe and secure income for Alaska's elderly in their golden years. In its

place is a DC plan. We all know DC plans discriminate against women, simply because they live longer. It would leave future retirees with no guaranteed monthly income, no health insurance and no cost of living adjustment. Many of these same legislators who would impose this system on future retirees have experienced what it means to take care of aging parents or loved ones who suffer from terminal illness or dementia, yet those same legislators would condemn future retirees to uncertain futures. It is not right, it is not fair, it is not necessary.

Talk with an employee who has been retired for 20 years or more and ask if they could now live on their base benefit, with no COLA or prpa. Under a DC plan there will be no incentive for retirees to remain in Alaska and contribute their time, expertise and pension dollars to Alaska's communities.

Why would our state, which has received almost 100% more than its budgeted amount for oil revenue, turn its back on seniors who have dedicated their lives serving Alaska's citizens? Only a few legislators would do this. They do not have the courage of those past legislators like Jay, Terry, Arlyss and Charlie. They do not have the courage of Senator Lisa Murkowski who has always been a strong proponent of public education and parent involvement. She had the courage to sign on to the repeal of the Government Pension Offset and the Windfall Elimination Provision, two provisions which reduce or eliminate Social Security retirement for thousands of Alaska's public servants. Senator Murkowski would not want to see legislation which would further discourage qualified teachers and public employees from coming to Alaska to work and from making Alaska their home.

Please "make Alaska proud" ~~_____~~

~~_____~~ We do not want outsiders telling us how to run our pension funds. Our funds are in great shape if you look at the long term. As Michael O'Leary, the financial advisor for the Alaska State Pension Investment Board, recently said - "How powerful any time period is when looking at investment return". Think long term. Governor Murkowski, in his Dec. 13 2004 letter to seniors, stated "care for our elders and for vulnerable adults in our society is vital to our success as a state." He further states - "*seniors should not have to choose between paying their rent, buying food or being able to fill prescriptions.*" That is exactly what many seniors will have to do if the legislature does away with a *Defined Benefit* retirement system. Please ask your legislators to "make Alaska proud" and retain our current *Defined Benefit* system. We can all work together to address health care costs.

We can work together to make Alaska a place where young people want to come and work. We can be a role model for health care reform if we choose to work together. I do not like the word "impose"; I prefer sitting down and developing a solution which works for all. There are many good things in this legislation which help close some of the loopholes, but doing away with a *Defined Benefit* plan is not one of them. Thanks for your time.

Gayle Harbo, Box 10201, Fairbanks 99710

- See HCU
 ✓ House State Affairs
 From: Single Harbo 20410201 Fairbanks 79710

Concerns for Rep Jay Raines to share with House State Affairs

Why does the legislature continue to use Mercer for all the data for these retirement bills when Mercer is part of the problem?

Jt Boards asked for an actuarial audit of Mercer in '02 - '03. The auditor, Millman, found several areas of concern in Mercer's work. The most significant was understating liabilities for health care costs. See page 6, Jt. Bd Mtg, Sept. 21, '04. Health care costs account for 50% of the employer contribution rates these past two years. Another recommendation by the auditor which had a significant, and one time effect, on the funding ratio was the methodology change to recognize deferred losses. The change from a corridor method to a 5 year smoothing impacted the '03 valuation with a 15.03% increase in the employer contribution rate. (pg 8 Mercer's Actuarial Valuation Report, June 30, 2002).

You have also heard that Mercer gave past legislatures poor information when they said Retirement Incentive Programs would be cost neutral to the funding ratio. They changed their minds this past year because they have failed to recognize the rapid rise in the cost of health care. At the Borough Assembly Meeting on April 14, Fairbanks Mayor Steve Thompson mentioned that in his research of the sale of MUS he found the Mercer had given the city very poor advice.

In the assumptions adopted by the Jt. Boards in Dec. of 2000 (they are adopted once every 5 years), Mercer predicted a Health Premium Trend of 5.5%. It has been far greater and they have made adjustments these past years. In the most recent valuation they have finally broken out the costs of health care from the costs of prescription drugs. This is much more helpful to the Boards when they are making decisions.

In a recent letter to House State Affairs the Director of R and B mentions some of the cost containment measures we have been trying to employ. One successful program not mentioned, but in place since 2001, has been to encourage the use of generic drugs. When started the generic use was only 18%. Our goal then was to reach 46% and in March of this year we moved closer to that goal and now have 42% generic drug usage.

In January of 2004 the Health Benefit Subcommittee recommended several cost saving measures, among them the use of Disease Management, used in most health plans in the state. In June of 2004 we were told the \$240,000 start up for a pilot with Diabetes, was too costly. Other plan managers tell me that Disease Mgt is an important cost savings program. The Health Comm. again recommended Disease Mgt. at its meeting March 21 2005, as one of six initiatives we would like the Division to implement. I don't see it mentioned in the memo dated March 30 and forwarded to you April 12. The memo also mentions that Providence is a preferred provider, yet Mike Wiggins stated at our Mar. 21 meeting that they were not. I will check with Mike.

*Ac. Boards
Competition*

Testimony SB 141
Gayle Harbo, April 2005

The current system of 3 pension boards may, at first, seem cumbersome, but each has a slightly different role. The Boards work well together and the Jt Boards of TRS and PERS appreciate the time and effort of the Alaska State Pension Boards members to manage and invest the billions of dollars of pension fund assets. ASPIB's role and function was carefully crafted in the early '90's. They have done an excellent job and invested many volunteer hours.

PERS and TRS are advisory to the Administration, except for appeals, and in the case of PERS, setting the employer contribution rate.

It is important to have members of the system on any board which oversees the billions of dollars of pension fund money or listens to appeals. The boards are fiduciaries and should include members who contributed to the funds. It is also important for system members to have appeals heard and resolved by peers.

Elected representation from both TRS and PERS is a must on any board. I see no problem with merging the TRS/PERS Boards and I spoke at length with Rep Kelly's aide, Heath Lillyard, regarding the combination. A seven person board, with equal elected representation (for example 2 each as on the current PERS Board), plus one school district employer and one municipal employer and one other appointed person would be workable.

I ask you to please retain these important boards, keeping ASPIB with its current structure, and assuring there is elected representation of the parties who have contributed to the pension funds.

*Gayle Harbo
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NEA-ALASKA

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TRS/PERS Issues for Testimony

Rep. Seaton and members of the House State Affairs Committee, for the record my name is Bill Bjork. I am presently serving as the President of NEA-Alaska. As we examine the retirement issues it is important to remember the purpose of the retirement system (Sec. 14.25.012) which "is to encourage qualified teachers to enter and remain in service with participating employers." Although there is some anecdotal evidence that the retirement benefits can be used for recruitment, its main attraction is a tool for retaining educators. Job satisfaction, competitive compensation and retirement benefits are the three major reasons for a person to remain in education.

When a person considers retirement benefits, they want to be able to retire with dignity and to maintain their dignity through their retirement years. What does that mean? For most educators it means to maintain a standard of living that is middle class. Under the present system that means to retire with an income of 50%-60% of their salary with health insurance provided. This takes 27 years of service to earn.

Thus, in order to establish a new and improved system, we should adopt ASSUMPTION #1: An educator with 27 years of service should be able to receive an annual annuity of at least 55% of their salary at retirement. Today the teacher average salary is \$51,062. To have an annual annuity that is a middle class standard of living, the educator would receive approximately \$34,000 or two-thirds of the TAS. Under HB 238 a person needs to work for at least 30 years. If you corrected one of the flaws in the present system and used an average of the employee's salaries over their career instead of the average of the high three years, the person would need to earn 2.25% per year to produce a middle class standard of living in retirement.

How much a retired person receives as an annuity is dependent upon the investment return and the amount of contributions made during each year of active service. ASSUMPTION #2: The investment return must be at least 8.25% per year, compounded annually, net of expenses. *This is the same assumption that is presently in place. It is also consistent with the Permanent Fund assumptions.* ASSUMPTION #3: The combined contribution of the employee and the employer to the pension must be at least 20%. ASSUMPTION #4: Inflation will increase by 3% annually. *The present assumption is 3.5% annually. This is not consistent with the Permanent Fund assumptions.* Given that inflation has been 2.6% over any ten-year period in Alaska, why would we adopt a 3.5% inflation rate? How much does a .5% over twenty-five years add to the Past Service Cost?

Assumptions are critical in determining the necessity of a new and improved retirement plan. Making the wrong assumptions today will only lead to retirees having no dignity and becoming dependent upon the state of Alaska for welfare. **We must take the time to reach an agreement on the actuarial assumptions to be used.**

NEA-Alaska understands the deep concerns surrounding the issue of the Unfunded Liability of the Teachers' Retirement System and the Public Employees' Retirement System. The causes and the amount of the Unfunded Liability or the Past Service Cost are a part of the debate; however, I believe there is agreement that the actuarial assumptions made in the past have brought us to this point. The projected cost of health care, the delayed use of mortality rates and the addition of benefits without an increase in contributions are three of the major factors.

At least two of those factors can be corrected without the adoption of a new tier for TRS and PERS. The use of the most recent mortality tables could be mandated by the legislature. The legislature could also require an actuarial valuation of any proposed benefit increase and require an increased contribution rate to cover Past Service Cost at the time of passage. For example, if the retired, rehired legislation is recommended for passage, the legislation should set a contribution rate for that benefit, which would be paid by the governmental entity that takes advantage of the legislation.

NEA-Alaska also believes that health care costs can be managed to provide a more predictable rate increase. It seems that the Health Cost Trend actuarial assumptions provided to the Administration on June 30, 2002 defied common sense and logic. The projections were: FY 01 – 7.5%, FY 02 – 6.5%, FY 03 – 5.5% FY 04-08 – 5.0%, FY 09-FY 13 – 4.5% FY 14 & later – 4.0%. Anyone using health care services could tell you those rate projections were not based in reality. In fact the next year the assumptions were changed to be FY 04 – 12.0%, FY 05 – 12.0%, FY 06 – 11.5%, FY 07 – 11.0%, FY 08 – 10.5%, FY 09 – 10.0%, FY 10 – 9.5%, FY 11 – 9.0%, FY 12 – 8.5%, FY 13 – 8.0%, FY 14 – 7.5%, FY 15 – 7.0%, FY 16 – 6.0%, FY 17 and later – 5.0%. These numbers make a pretty, downhill slope, but are they based in any reality? How could such a drastic change occur in one year? This kind of dramatic change does not inspire credibility in the actuary. Is this the kind of assumption that the \$5 billion Unfunded Liability is based upon?

NEA-Alaska appreciates the effort in HB 238 do provide important access to health care and payment of premiums for retirees. Once we all agree on the health care inflation assumptions to be used, we can evaluate the proposal and its impact on retirees' standard of living.

For the record, a teacher that begins their career at the age of 22 and works for 30 years without interruption will be 52 when they can retire. That is 3 more years than the present average years of service. Since they must retire directly into the system under HB 238, they would actually have to teach 38 years or pay for their health care for eight years, which could erode their pension annuity significantly. Again, the actual affect can only be determined once the actuarial assumptions are finalized.

NEA-Alaska believes that several things could be done to provide a new and improved retirement system for both teachers and public employees. The key is what assumptions are put in place. NEA-Alaska stands ready to work with the committee to determine the appropriate actuarial assumptions upon which to build a new and improved retirement system that meets the purpose of recruiting and retaining qualified educators and public employees.



NEA-ALASKA

Affiliated with the National Education Association

DRAFT TESTIMONY ON SB 141

HOUSE STATE AFFAIRS

APRIL 19, 2005

TOM HARVEY, EXECUTIVE DIRECTOR, NEA-ALASKA

Good Evening, Chairman Seaton and members of the House State Affairs Committee. My name is Tom Harvey and I serve as the Executive Director for the 12,500 public school employees of NEA-Alaska.

I appreciate this opportunity to speak with the committee about Senate Bill 141. As you might suspect our members cannot support this legislation in its present form. There are several reasons for our lack of support. I will delineate some of those at this time.

COMPOSITION OF A NEW BOARD:

We do not believe the current boards have erred. In fact we believe the three Boards have done an excellent job of advising the administration and Commissioners. ASPIB has invested better than the professional Permanent Fund trustees. TRS has advised against reducing the contribution rate contrary to the recommendation of the actuary. PERS has handled a large volume of hearings without much conflict or reversal.

NEA-Alaska understands the rationale of assuring that the revenue (ASPIB) and expense sides (TRS/PERS) of the equation are dealt with simultaneously. All parties get to question the actuary and receive the answers in a consistent manner.

NEA-Alaska strongly suggests that the proposed nine-member board be expanded to eleven and include four members (2 PERS and 2 TRS) that are elected by the employees that are contributing to the system. This would still leave a majority of members as appointees by the Governor and would assure the sought after guarantees that these members be well-versed in the issues. Please consider ATTACHMENT #1.

POWERS AND DUTIES OF ARM BOARD:

NEA-Alaska believes that the adjudication of appeals related to decisions of the retirement system should be retained by the ARM Board. The Board could establish a subcommittee for PERS appeals and a subcommittee for TRS appeals. Each subcommittee should have five members. The main purpose of our proposal is to ensure that the appellant is heard by peers. Quoting Dr. Richard Solie, "because the boards act as a jury of peers in essence, I believe the board approach reduces the risk of further litigation and gives the beneficiaries a greater sense that their cases has been truly heard." Just look at the record of the present Boards to find the supporting evidence.

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EMPLOYER/EMPLOYEE CONTRIBUTION TO THE DEFINED BENEFITS PLANS:

After the initial stopping of hearts all throughout Alaska at the idea of losing 5% of their salary (original SB 141, Page 7), Sen. Stedman made the promised changes to the language and now SB 141 requires only a ½ of 1% increase to meet the "normal cost share of benefits." This proposal sounds fairly benign at first blush. But, when put into a proper context it is not such an easy pill to swallow. In 2020 the actuarially calculated costs for TRS sets the contribution rate at 52%. Thus, the employee and the employer would each contribute 26% of salary and payroll respectively. Can you imagine paying 26% of your salary for retirement benefits you are already promised?

If the cost share component is implemented it is conceivable that a number of veteran educators, who have 20 years of service, will choose to leave public service and probably leave the State of Alaska in lieu of paying increased contributions.

One last remark on increasing employees' contributions without increasing corresponding benefits...this is clearly charting a course to troubled legal waters per Alaska's constitution. Dr. Richard J. Solie, a Governor Murkowski appointee to the TRS Board, has testified that the PERS/TRS Tier Committee did not consider this approach because of the concern "about the response of the judiciary." A request for referral to House Judiciary would be prudent as was your decision with HB 177.

DEFINED CONTRIBUTION PLAN ELEMENTS:

SB 141 requires the employee to contribute 8% of compensation for pension purposes while the employer would contribute 4.5%. That is a total of 12.5%. This is not enough for investment purposes to provide for a retirement with dignity. The immediate response from the crafters of SB 141 is the employee can contribute more up to the IRC limits. Since 1989 the Teacher Average Salary has increased by a small 1.36% per annum, while inflation in Alaska averaged about 2.6%. Public school employees have steadily lost ground since 1989. The reality is the employee does not earn sufficient salary to make the added contributions. NEA-Alaska recommends an increase in the employer's contribution rate to 8.25% and the employee's contribution rate to 11%. This would create a total employer's contribution rate of 14% and provide for a 19.25% for pension.

If a teacher starts their career in Sitka this fall, they will have a salary of \$35,571 (SEE ATTACHMENT #2A & B). After a thirty-year career (That is 3 more years than the present average), the teacher will have \$800,129 in their account. That assumes a return on investment of 8.3%, which is 2.3% higher than an individual averages presently and is more the rate of return by ASPIB. They will also have an HRA of \$131,772. Their access to major medical insurance will cost \$96,602 in the first year (given an 8% annual inflation of medical costs). At age 62 the public servant will have no medical coverage or be in debt by \$141,897. *This is not retirement with dignity.*

You might respond that the assumptions NEA-Alaska has made are not appropriate. NEA-Alaska believes that the assumptions made by the actuary are not appropriate or based in reality of Alaska's experience over the past three decades. Before a true plan can be developed, agreement on the assumptions should be reached so we can determine what a public servant's retirement will actually provide.

You might also respond that a thirty-year career is too short. In fact SB 141 actually assumes a person directly out of college would have a forty-two (42) year career. How many teachers do you know that have taught past forty-two years? The answer is very few. The reason is stress. You have recognized that a peace officer or firefighter has served well after twenty-five years. Why would you expect an educator to serve over forty-two years or leave and get another job for twelve years to have medical coverage until age 65?

The medical Program in SB 141 now calls for a 1.75% contribution from the employer instead of the original 3.75%, which is what is minimally needed to sustain a meaningful major medical plan. What happens when the 1.75% cannot cover the major medical plan? Are the benefits reduced? Are the premiums increased? NEA-Alaska recommends that the medical contribution remain at 3.75%. Coupled with the HRA of 2% and the pension rate of 8.25% recommended above, the employer's contribution rate would be 14%, which is the actual amount the state and local government contributed at statehood.

Immediately after statehood, the cost share for public employees was split into about equal thirds; one-third from the State, one-third from the employer and one-third from the employee. When the State dropped their share (about 7% of salary) the promise was the State would increase revenue sharing to offset those costs. The State has deserted that commitment by no longer funding revenue sharing in the budget. Now the State proposes to shift its obligation to the employee. Instead of following the axiom that stuff flows downhill, the State should maintain the 14% original obligation. Remember this obligation was made before we had OIL!

It has been stated to this committee that NEA-Alaska asked for a vesting period of five years. Let me correct the record, in testimony before the Senate Finance Committee we confirmed five years is a standard vesting period and we had no objection. We also pointed out that the five-year period coincided with the "five-year itch" that infects educational employees. The data is clear. We are losing 50% of new employees over the first five years. If an employee can now take their contribution and return home, portability is not a factor that benefits Alaska's schools. However, if you are going to implement a Defined Contribution (DC) Plan, then we suggest that you provide the same benefit that NEA-Alaska provides to its employees, immediate vesting.

The investment method outlined in SB 141 is a standard approach for DC plans. Sen. Stedman has confirmed to NEA-Alaska that most national data demonstrates that an individual making investment decisions is more conservative than a group responsible for investing. In fact the difference is 1 to 3% annually. NEA-Alaska recommends that the investment responsibility be handled by ASPIB or the ARM Board.

DC PLAN TO REPLACE DB PLAN:

One of the major reasons that the Defined Contributions (DC) is being considered is its predictability. The State will know what its liabilities are and can fund them. A major reason why the Defined benefits Plan is not as predictable is the political whim of the legislator. When interested parties came to you for a benefit increase, you made the change because the actuary told you it would not add liability. Today we know better. NEA-Alaska recommends that you fix this loophole with an amendment regarding fiscal notes (SEE ATTACHMENT).

There are many valid reasons why a DC program is not the option of choice for large employers, especially public employers. You have received a handout from your staff illustrating that only one state (Michigan) continues with a DC plan. Recently, Governor Schwarzenegger dropped plans in California to implement a DC plan. He suggested more time is needed to understand the complexities. Nebraska and West Virginia have recently decided against their Defined Contribution plans. **A common theme is emerging; a DC plan does not allow an employee to retire with dignity.**

The TRS/PERS committee voted unanimously to OPPOSE a strict DC plan. Dr. Richard Solie also testified that the Tier Committee "voted unanimously to support the hybrid plan." Even the present employers are against a complete shifting of risk to the employee. NEA-Alaska recommends that House State Affairs examine the "blended plan" fashioned by the joint committee of PERS/TRS.

Alaska is NOT a Social Security state for public school employees. That means they lack the floor of retirement benefits that is available to private sector employees and to public sector employees in most other states. Two other non-Social Security states, Texas and California, have explored DC plans and backed-off.

TIMEFRAME AND WORK ACCOMPLISHED TO DATE:

Mr. Chairman, I realize my time here is waning and there are so many other issues to touch on. I have addressed only the tip of the iceberg and have not even mentioned the mass of the iceberg which is containing medical costs/health insurance. This piece is estimated to be almost 70% of the unfunded liability problem. I anticipate another time to dive into that quagmire.

However, I must address a frustration with the process to date. About five weeks ago, SB 141 made it out of legislative legal and was introduced on the Senate floor. The legislation began as a 93-page document and was immediately referred to Senate Finance, where the committee spent considerable time hearing presentations by the Bill sponsors and staff, and many presentations by Mercer and the Division of Retirement and Benefits. There was also a sprinkling of actual testimony from TRS, PERS and ASPIB members and from groups such as NEA-Alaska, the Alaska Retired Employees Association, and the Alaska Municipal League. This testimony was limited not only in minutes but in substance. How can anybody give clear testimony on legislation when they do not know what particular components of the legislation are actually being considered? After four weeks, the bill made it to the Senate floor and had mushroomed to a 109 page document!

Harvey Testimony
House State Affairs (4/19/05)
Page 5

Today we listened intently to an hour presentation from the bill sponsor and staff. In the second hour of the Committee meeting, many amendments were offered and acted upon without a single bit of public testimony. How can an average citizen be expected to provide thorough testimony on an ever changing 109 page piece of legislation?

I would like to go on record with a word of Thanks for Sen. Stedman, and for you Mr. Chairman. NEA-Alaska representatives have spent several hours with both of you and your staff assigned to the PERS/TRS legislation. However, that time cannot serve as a substitution for meetings of all the stakeholders to provide a complete analysis of the legislation and its affect on public servants.

As we sit here on the 100th legislative day, I urge this committee to take the interim to truly study the retirement system and to make competitive changes in the retirement plan that affects over 70,000 Alaskans.

NEA-Alaska is fortunate to have many members that have served on the TRS board and understand retirement issues well. We look forward to working with all of you this summer and fall to design a plan that works for Alaska and Alaskan workers.

I appreciate your time Mr. Chairman, and I would be happy to attempt to answer questions.

1 *Sec.59. AS 37.10.210 is repealed and reenacted to read:

2 **Sec. 37.10.210. Alaska Retirement Management Board.** (a) The Alaska
3 Retirement Management Board is established in the Department of Revenue. The
4 board's primary mission is to serve as the trustee of the assets of the state's retirement
5 systems, the State of Alaska Supplemental Annuity Plan, and the deferred
6 compensation program for state employees. Consistent with standards of prudence,
7 the board has the fiduciary obligation to manage and invest these assets in a manner
8 that is sufficient to meet the liabilities and pension obligations of the systems, plan,
9 and program. The board may with the approval of the commissioner of revenue and
10 upon agreement with the responsible fiduciary, manage and invest other state funds
11 so long as the activity does not interfere with the board's primary mission. In making
12 investments, the board shall exercise the powers and duties of a fiduciary of a state
13 fund under AS 37.10.071.

14 (b) The Alaska Retirement Management Board consists of eleven [nine]
15 trustees. The commissioner of administration and the commissioner of revenue shall
16 serve on the board. The governor shall appoint five [SEVEN ADDITIONAL] trustees
17 [WHO MEET THE ELIGIBILITY REQUIREMENTS FOR AN ALASKA
18 PERMANENT FUND DIVIDEND AND] who are professionally credentialed or
19 have recognized competence in investment management, finance, banking,
20 economics, accounting, pension administration, or actuarial analysis as follows:

21 (1) three trustees shall be appointed from the general public: a trustee
22 appointed under this paragraph may not hold another state office, position, or
23 employment and may not be a member or beneficiary of a retirement system managed
24 by the board;

25 (2) one trustee shall be employed as a finance officer for a political
26 subdivision participating in the public employees' retirement system; and

27 (3) one trustee shall be employed as a finance officer for a political
28 subdivision participating in the teachers' retirement system[;].

29 Two trustees shall be members of the Public Employees ' Retirement System elected by
30 the members of the system. Elections shall be conducted by the board. The two

1 members shall have overlapping terms. At each election, the candidate who receives
2 the most votes cast in the election is elected to the seat. The governor shall fill a
3 vacancy in an unexpired elective term by appointment of a member of the system for
4 the period remaining before the next regularly scheduled election held under this
5 subsection.

6 Two trustees shall be members of the Teachers' Retirement System elected by the
7 members of the system. Elections shall be conducted by the board. The two members
8 shall have overlapping terms. At each election, the candidate who receives the most
9 votes cast in the election is elected to the seat. The governor shall fill a vacancy in an
10 unexpired elective term by appointment of a member of the system for the period
11 remaining before the next regularly scheduled election held under this subsection.

12 [(4) ONE TRUSTEE SHALL BE A MEMBER OF THE PUBLIC
13 EMPLOYEES' RETIREMENT SYSTEM;

14 (5) ONE TRUSTEE SHALL BE A MEMBER OF THE TEACHERS'
15 RETIREMENT SYSTEM.]

16 (c) The trustees[, OTHER THAN THE TWO COMMISSIONERS,] shall serve
17 for staggered terms of three years and may be reappointed or elected to the board for
18 a total of three consecutive terms. A person who has served three consecutive terms
19 may not be reappointed to the board for at least one year.

20 (d) The governor may, by written notice to the trustee, remove an appointed [A]
21 trustee for cause. After a trustee receives written notice of removal, the trustee may
22 not participate in board business and may not be counted for purposes of establishing
23 a quorum.

24 (e) A vacancy on the board of trustees shall be promptly filled. A person
25 filling a vacancy holds office for the balance of the unexpired term of the person's
26 predecessor, and the balance of the unexpired term served is not included in the three-
27 term limitation under (c) of this section. A vacancy on the board does not impair the

1 authority of a quorum of the board to exercise all the powers and perform all the
2 duties of the board.

3 (f) Five trustees constitute a quorum for the transaction of business and the
4 exercise of the powers and duties of the board.

5 (g) A trustee may not designate another person to serve on the board in the
6 absence of the trustee.

7 (h) The board shall provide annual training to its members on the duties and
8 powers of the fiduciary of a state fund and other training as necessary to keep the
9 members of the board educated about pension management and investment.

10 (i) The board shall elect a trustee to serve as chair and a trustee to serve as vice-
11 chair for one-year terms. A trustee may be reelected to serve additional terms as chair
12 or vice-chair.

Sitka Teacher Employed 8/15/05

Years of service	Sitka Salary Annual 2.6% Raise plus step	8% TRS plus 4.5%	Investment Return 8.3%		1.75% Medical		2% for HRA	
1	\$35,571.00	\$4,446.38	\$48,643.34	2005-06	\$622.49	\$6,810.07	\$711.42	\$7,782.93
2	\$38,685.33	\$4,835.67	\$48,840.23	2006-07	\$676.99	\$6,837.63	\$773.71	\$7,814.44
3	\$40,510.58	\$5,063.82	\$47,194.83	2007-08	\$708.94	\$6,607.28	\$810.21	\$7,551.17
4	\$42,334.81	\$5,291.85	\$45,562.84	2008-09	\$740.86	\$6,378.80	\$846.70	\$7,290.05
5	\$44,160.07	\$5,520.01	\$43,884.07	2009-10	\$772.80	\$6,143.77	\$883.20	\$7,021.45
6	\$45,620.06	\$5,702.51	\$41,856.41	2010-11	\$798.35	\$5,859.90	\$912.40	\$6,697.03
7	\$46,806.19	\$5,850.77	\$39,668.24	2011-12	\$819.11	\$5,553.55	\$936.12	\$6,346.92
8	\$48,023.15	\$6,002.89	\$37,578.11	2012-13	\$840.41	\$5,260.94	\$960.46	\$6,012.50
9	\$49,271.75	\$6,158.97	\$35,598.84	2013-14	\$862.26	\$4,983.84	\$985.43	\$5,695.81
10	\$50,552.81	\$6,319.10	\$33,744.00	2014-15	\$884.67	\$4,724.16	\$1,011.06	\$5,399.04
11	\$51,867.19	\$6,483.40	\$31,963.15	2015-16	\$907.68	\$4,474.84	\$1,037.34	\$5,114.10
12	\$53,215.73	\$6,651.97	\$30,266.45	2016-17	\$931.28	\$4,237.30	\$1,064.31	\$4,842.63
13	\$54,599.34	\$6,824.92	\$28,664.65	2017-18	\$955.49	\$4,013.05	\$1,091.99	\$4,586.34
14	\$56,018.93	\$7,002.37	\$27,169.18	2018-19	\$980.33	\$3,803.69	\$1,120.38	\$4,347.07
15	\$57,475.42	\$7,184.43	\$25,720.25	2019-20	\$1,005.82	\$3,600.83	\$1,149.51	\$4,115.24
16	\$58,969.78	\$7,371.22	\$24,398.75	2020-21	\$1,031.97	\$3,415.82	\$1,179.40	\$3,903.80
17	\$60,502.99	\$7,562.87	\$23,066.77	2021-22	\$1,058.80	\$3,229.35	\$1,210.06	\$3,690.68
18	\$62,076.07	\$7,759.51	\$21,881.81	2022-23	\$1,086.33	\$3,063.45	\$1,241.52	\$3,501.09
19	\$63,690.05	\$7,961.26	\$20,699.27	2023-24	\$1,114.58	\$2,897.90	\$1,273.80	\$3,311.88
20	\$65,345.99	\$8,168.25	\$19,603.80	2024-25	\$1,143.55	\$2,744.53	\$1,306.92	\$3,136.61
21	\$67,044.99	\$8,380.62	\$18,604.98	2025-26	\$1,173.29	\$2,604.70	\$1,340.90	\$2,976.80
22	\$68,788.16	\$8,598.52	\$17,626.96	2026-27	\$1,203.79	\$2,467.78	\$1,375.76	\$2,820.31
23	\$70,576.65	\$8,822.08	\$16,673.73	2027-28	\$1,235.09	\$2,337.32	\$1,411.53	\$2,667.80
24	\$72,411.64	\$9,051.46	\$15,840.05	2028-29	\$1,267.20	\$2,217.61	\$1,448.23	\$2,534.41
25	\$74,294.34	\$9,286.79	\$14,951.74	2029-30	\$1,300.15	\$2,093.24	\$1,485.89	\$2,392.28
26	\$76,226.00	\$9,528.25	\$14,197.09	2030-31	\$1,333.95	\$1,987.59	\$1,524.52	\$2,271.53
27	\$78,207.87	\$9,775.98	\$13,490.86	2031-32	\$1,368.64	\$1,888.72	\$1,564.16	\$2,158.54
28	\$80,241.28	\$10,030.16	\$12,738.30	2032-33	\$1,404.22	\$1,783.36	\$1,604.83	\$2,038.13
29	\$82,327.55	\$10,290.94	\$12,040.40	2033-34	\$1,440.73	\$1,685.66	\$1,646.55	\$1,926.46
30	\$84,468.07	\$10,558.51	\$11,403.19	2034-35	\$1,478.19	\$1,596.45	\$1,689.35	\$1,824.51
Total		\$201,636.02	\$800,128.71		\$31,147.97	\$115,300.12	\$35,597.68	\$131,771.57

SITKA TEACHER HIRED 8/15/05 RETIREMENT

Sitka
2.6%
Annual
Raise

Age	Investment Total @ 8.3%	Annual Annuity	New Balance	New Investment Return	Health Insurance Payment	HRA
54	\$800,128.71	\$38,121.33	\$762,007.38	\$825,253.99	\$96,602.00	\$131,771.57
55	\$860,423.56	\$38,121.33	\$822,302.23	\$871,640.36	\$104,330.00	
56	\$767,310.36	\$38,121.33	\$729,189.03	\$772,940.37	\$112,676.00	
57	\$660,264.37	\$38,121.33	\$622,143.03	\$659,471.62	\$121,690.00	
58	\$537,781.62	\$38,121.33	\$499,660.28	\$529,639.90	\$131,425.00	
59	\$398,214.90	\$38,121.33	\$360,093.57	\$381,699.18	\$141,939.00	
60	\$239,760.18	\$38,121.33	\$201,638.85	\$213,737.18	\$153,294.00	
61	\$60,443.18	\$38,121.33	\$22,321.84	\$23,661.16	\$165,558.00	
62	-\$141,896.84	\$38,121.33	-\$180,018.18	-\$190,819.27	\$178,802.65	
63	-\$369,621.92	\$38,121.33	-\$407,743.25	-\$432,207.85	\$193,106.86	
64	-\$625,314.71	\$38,121.33	-\$663,436.04	-\$703,242.20	\$208,555.41	
65	-\$911,797.61	\$38,121.33	-\$949,918.95	-\$1,006,914.08	\$225,239.84	
66	-\$1,232,153.92	\$38,121.33	-\$1,270,275.26	-\$1,346,491.77	\$24,325.90	
67	-\$1,370,817.67	\$38,121.33	-\$1,408,939.01	-\$1,493,475.35		
68	-\$1,493,475.35	\$38,121.33	-\$1,531,596.68	-\$1,623,492.48		
69	-\$1,623,492.48	\$38,121.33	-\$1,661,613.81	-\$1,761,310.64		
70	-\$1,761,310.64	\$38,121.33	-\$1,799,431.98	-\$1,907,397.89		
71	-\$1,907,397.89	\$38,121.33	-\$1,945,519.23	-\$2,062,250.38		
72	-\$2,062,250.38	\$38,121.33	-\$2,100,371.71	-\$2,226,394.02		
73	-\$2,226,394.02	\$38,121.33	-\$2,264,515.35	-\$2,400,386.27		

AMENDMENT

OFFERED IN HOUSE STATE AFFAIRS

TO: SB 141

Insert new sections to read:

* Sec __. AS 24.08.035(a) is amended to read:

(a) Before a bill or resolution, except an appropriation bill, is reported from the committee of first referral, there shall be attached to the bill a fiscal note containing an estimate of the amount of the appropriation increase or decrease that would result from enactment of the bill for the current fiscal year and five succeeding fiscal years or, if the bill has no fiscal impact, a statement to that effect shall be attached. The fiscal note of a bill that makes any change to the benefit structure of the state's retirement system shall include the additional analysis required in AS 24.08.036. The fiscal note or statement shall be prepared in conformity with the requirements of this section by the department or departments affected and may be reviewed by the office of management and budget. Except as allowed in AS 24.08.036, [T] the fiscal note or statement shall be delivered to the committee requesting it within five days of the request or within two days if the request is made after the 90th day of a regular session, or during a special session of the legislature. If the bill is presented by the governor for introduction in accordance with AS 24.08.060(b) and the uniform rules of the legislature, the fiscal note or statement shall be attached to the bill before the bill is introduced. An amendment or a substitute bill proposed by a committee of referral that changes the fiscal impact of a bill shall be explained in a revised fiscal note or statement attached to the bill.

* Sec __. AS 24.08.035(b) is amended to read:

(b) In addition to the fiscal note required by this section and AS 24.08.036, the sponsor of a bill or resolution may prepare a fiscal note in conformity with the requirements of this section, and submit it to the committee of first referral or the finance committee. A committee may prepare an additional fiscal note in conformity with the requirements of this section.

* Sec __. AS 24.08.036 is repealed and reenacted to read:

Sec. 24.08.036. Fiscal notes on bills affecting the benefit structure of state retirement systems. (a) In addition to the requirements of AS 24.08.035, the fiscal note of a bill that makes any change to the benefit structure of the state's retirement system shall include an actuarial analysis of the bill's affect on the assets and liabilities of the retirement systems. This analysis shall be prepared and certified by a member of the American Academy of Actuaries and coordinated through the division of retirement and benefits.

(b) The completed fiscal note shall be reviewed by the Commissioner of Administration and forwarded to the chair of the Alaska Retirement Management Board for comment and recommendations.

(c) The division of retirement and benefits shall be allowed 60 days from the time they receive a fiscal note request to complete the actuarial analysis, obtain the comments of the Alaska Retirement Management Board and deliver the fiscal note to the committee requesting it.

(d) A committee of referral proposing an amendment or a substitute bill that changes the inputs or assumptions used by the actuary in preparing the fiscal note required in this section must obtain a revised actuarial analysis prior to reporting the amended bill or committee substitute from committee. This revised actuarial analysis shall be performed in accordance with this section except that the division of retirement and benefits shall have 30 days to deliver the fiscal note to the committee.

Louie Flora

From: Rep. Paul Seaton
Sent: Friday, April 01, 2005 3:45 PM
To: Louie Flora
Subject: FW: Amendment to HB 177

is this too late?

Ian Laing
Rep. Paul Seaton
Legislative Staff
(907) 465-2689

From: Matthew McSorley [mailto:matthew_mcsorley@hotmail.com]
Sent: Thursday, March 24, 2005 10:38 AM
To: Rep. Paul Seaton
Subject: Amendment to HB 177

Representative Seaton,

I have some concerns about HB 177. I would like to propose an amendment to the bill to give current PERS members some security. I am very worried that the result of Tier 4 will create less cash flow in the the DB system. I feel that this could have the unwanted result of increasing the contribution rate to such a high rate that current members would be forced to abandon the DB plan and enter the DC plan. I would ask that you amend the bill to create a cap on employee contributions.

As an example the normal cost rate for police/fire for 2005 is just under 20%. A fiscally conservative contribution cap of 10% would allow for higher employee contributions but it would eliminate the possibility of existing employees being force to Tier 4 because of skyrocketing contribution rates. I feel that this is a needed security to show good faith that the intent of legislation is not to force people out of the better Tier 2 and 3 systems and into the DC plan.

Matthew McSorley

matthew_mcsorley@hotmail.com

3/31/05

Going against the grain, House votes to end personal accounts

By LAWRENCE MESSINA - The Associated Press

CHARLESTON, W.Va. — President Bush and California Gov. Arnold Schwarzenegger may consider them the bee's knees, but the House of Delegates voted Wednesday to shut down West Virginia's only retirement plan based on personal investment accounts.

By 94-5 with one absence, the lawmakers passed a pension bill (HB2984) originally proposed by Gov. Joe Manchin. As amended, it would close the state's defined contribution plan for teachers on June 30.

The bill, which advances to the Senate, would send all new hires into the state's older Teachers Retirement System. It would also allow the 21,286 teachers now with personal accounts to vote in March 2006 on whether to merge their funds into the TRS defined benefit plan.

"This is probably the most significant piece of legislation affecting education professionals that will pass this session," said Perry Bryant, a lobbyist for the West Virginia Education Association.

The Mountain State began offering personal investment accounts for teachers in 1991, after it closed TRS to new enrollees to arrest the program's chronic funding problems.

When measured by the gap between on-hand assets and promised benefits, TRS remains one of the worst-funded public retirement programs in the country. But lawmakers recently passed Manchin's proposal to erase the \$5 billion shortfall through the sale of bonds. The bonds require voter approval, with the special election set for June 25.

TRS offers retirees a specific benefit based on salary and years of service. Under the newer plan, teachers and their school boards each contribute funds which the teachers then invest through individual accounts.

An estimated 40 percent of private sector employees are relying on some version of this defined contribution plan for their retirement. Bush has proposed allowing younger workers to divert some of their Social Security taxes into personal investment accounts. Schwarzenegger, meanwhile, wants such accounts for all new public workers hired in California after 2007.

But the accounts have proved unpopular with a growing number of West Virginia teachers. Complaints racked up against a private firm hired to educate teachers about investing and to help them with their accounts. The recent stock market slump compounded the problem, spurring a push to reopen TRS.

"This doesn't mean that defined-contribution programs are inherently bad," said Bryant, whose group represents 15,000 teachers and administrators. "But a lot of

(defined contribution) members feel they were misled into joining that plan. They've lost millions of dollars."

Lawmakers who voted against the bill differed on which provisions they opposed. The bill also tightens rules for the state's main public employee pension plan as well as retirement programs for troopers and county deputies.

Delegate Patrick Lane cited the proposed TRS merger for his nay vote.

"I'm afraid we're going to end up back in the same hole," said Lane, R-Kanawha.

The pending legislation has been bolstered by a March 2 report from the state's retirement actuary, who concluded that merging the teachers' retirement plans would save the state's school system \$24 million in the first year. Those savings would total an estimated \$1.8 billion by 2034.

TRS relies on a smaller contribution from the employer than the defined contribution plan. New enrollees, meanwhile, would pump extra needed funds into TRS.

"Every actuary who has looked at this has basically said that there are substantial cost savings to the state," Bryant said. "It gives the employees a secure, predictable retirement system."

TESTIMONY ON HB 238

Sam Trivette

President

Retired Public Employees of Alaska

- I'm retired from the Department of Corrections after 32 yrs. 19 years of that time I served as the Director of the Alaska Parole Board, and in that capacity, worked closely with the Legislature in a complete rewrite of the Parole Administration Act and in rewriting other legislation and regulations. I also worked as the Director & Deputy Director of Probation & Parole, Chief Probation Officer, Parole Officer & Correctional Officer. I have extensive involvement in leadership positions in various non-profit organizations at the local, state and national level spanning 5 decades.
- I am currently the President of the Retired Public Employees of Alaska, having served in various capacities on its Executive Board since 1999. In my capacity as President, I have attended many of the PERS/TRS Board & ASPIB meetings in recent years. I have watched them work and participated extensively in their meetings.
- I have attended or watched almost all of the Senate Finance Committee hearings on their retiree bill since it was introduced and spent countless hours discussing issues surrounding retiree legislation with numerous people. I have attended many of the hearings and work sessions of this Committee in the last few weeks. I don't consider myself an expert on the retirement system, but I do think I have gained much knowledge about the system over the last 5 yrs. that gives me a reasonable perspective.
- Let me first complement the Committee in being willing to respectfully listen to a diverse group of people with an open mind and ask important questions. Folks that I talked to in recent ~~days~~ *weeks* that attended or watched your hearings and work sessions were heartened by your approach.
- In spite of some rhetoric to the contrary, everyone I've talked to thinks the system needs change. But citizens are asking that the problem areas be clearly & accurately identified before we try to design fixes. Mr. Chair, I thought you did an excellent job of your overview of the system in your work session of March 24. I hope all of the members were able to listen to those comments as well as the testimony provided at your April 6 work session when the members of PERS/TRS & ASPIB, and their attorney testified. I think that information is critical to committee members as you develop new legislation.
- Rolling all this together, here are some of my observations.
 1. The State's contracted actuaries made major errors in judgment and in calculations that were responsible for seriously understating the current and future liabilities of the

- retiree systems. [A few—mortality tables, salary schedules, medical benefits, statutory change impacts]
2. Because of the significant errors beginning in the mid-90's, the actuaries advice to the PERS/TRS Board resulted in the adoption of artificially low rates, at a time when full funding would have resulted in a much lower shortfall today.
 3. The many "intended & unintended enhancements" created by the legislature or employers over the years, have resulted in unintended significant additional liabilities for the systems. These "enhancements" refer to any law, regulation or practice that allows an employee to capture a benefit that is not fully actuarially funded. Many are legislative decisions [allowing local governments to provide retirement benefits to elected officials with minimal system contributions; allowing legislative staff to "vest" in the retirement system with full benefits with minimal contributions; allowing some Tier II employees Tier I medical benefits and not requiring full funding of this change]. Some others are the result of local government decisions, such as allowing senior employees significant overtime pay during the 3 high years, or paying bonuses to encourage retirement, significantly increasing the employees retirement pay.
 4. Many of these practices have existed for decades [including the transferring of employees to "bush" high geographical pay differential areas for the last 3-5 yrs. of employment to allow for large increases in retirement pensions]. Let me stress NOT ONE EMPLOYEE IS committing FRAUD on the system or in ANYWAY doing anything improper by following these laws, regulations or rules. THEY ARE NOT. The employees are only using the rules set up by the system. BUT I believe these benefits that are not fully funded, must be altered.

The logical question is if all these laws and rules were changed to disallow the unfunded benefits, how much money would be saved? Would there even be A NEED to consider the drastic move to a defined contribution system? If you review the minutes of the PERS & TRS meetings last fall when they did not recommend a new Defined Contribution plan, they believed there were many other options that they were not allowed to put forth & study that could put the retirement systems on sound footing. Besides removing the "enhancements" already discussed, the other options included increasing the employee contribution, reducing the employer Supplemental Benefits System contributions, raising the number of years of service before vesting, and of course adjusting the health benefits package. These options need to be fully considered BEFORE

~~adopting~~ a defined contribution plan.
moving to

So, where do we go from here? I agree with you, Mr. Chair, there is no evidence any of the three Boards [PERS, TRS, ASPIB] have made decisions in the recent past that have adversely affected the funding of the retiree systems. Quite the contrary, let me mention a few decisions by these Boards that positively affected the status of the funds. Most are decisions

by the PERS/TRS Boards that deal with the "cost savings" or liability side of the equation. Many more examples exist if you need additional information.

- Most of you have heard about the education program on generic drugs that is now saving \$5-6 Million a year by encouraging retirees to use generic vs. brand name medications, and also having prescriptions filled by mail order, resulting in further savings to the State.
- You probably haven't heard about the savings to the State on payments to the Term Life Insurance Program. Retirees and the State had been overpaying premiums & fees to the firm administering the retiree self funded program for years, resulting in much higher payments than necessary. This problem was identified after continued probing of the PERS/TRS Board members.
- PERS/TRS retirees for years were paying more than necessary into the self funded retiree Dental/Audio/Visual Plan. By pushing for accurate expense information on the plan, the Board recommended the State increase the benefits. The plan continued to make these increased reimbursements for 3 years before the premiums had to be increased. This "bought" a huge amount of good will from the retirees for the system's attempts to hold down retiree expenses.
- Let's take a look at one mistake made without the direct involvement in the details by the PERS/TRS Boards or RPEA volunteers, which caused much grief for Retirement & Benefits when trying to successfully control system expenses. Retirement & Benefits correctly identified some retirees were using personal credit cards to charge medications, without notifying the pharmacies the customer was a retired employee. Therefore, the retirement system was charged a much higher price for the drug. However, letters were mistakenly sent to many retirees that were not a part of the problem, making them angry at the State for falsely accusing these retirees of increasing the costs to the State. Also the letter threatened to make the retirees pay the difference in costs, further alienating the retirees, and making it more difficult to engage them in cost cutting measures in the future.
- Another important decision was made by the PERS/TRS Boards several years ago. After receiving the disturbing news in the early 2000's the funds that had been over 100% funded were now projected to be less than 80% funded, the Boards asked for a second opinion from another actuary. This second actuary report pointed out some of the major problems with the State's actuary assumptions, and these huge errors have been corrected.

Our belief is that some significant potential solutions to cost cutting still have not been identified. Most employees understand the current gap in funding and would be more than willing to offer information and potential solutions to this problem. Publicly solicit their input.

Everyone involved with the systems has identified health care costs as one of the primary culprits in the funding shortfall. Skyrocketing health care costs are a national crisis. There is nothing the employees, the employers,

the retirees, or any of the 3 Boards have done to cause this problem. Until ALL OF US put pressure on Congress and the health care industry to make changes, we will be stuck with this continued pressure on the retirement funds. One clear example is the new Medicare RX drug law. It PROHIBITS the federal government from negotiating drug prices with the pharmaceutical companies. Now if you are trying to contain and reduce costs, how much sense does that make?? Different segments of the federal government, including the Veteran's Administration and the Department of Defense, have been successfully saving huge sums of money annually by negotiating drug prices. We need to make health care cost reductions the Number 1 priority. It affects all publicly funded AND private health care systems. Skyrocketing health care costs are behind the massive increases in Medicare, Medicaid, Worker Compensation costs as well.

Mr. Chair, your committee bill is the only one introduced this session, dealing with retiree issues, that even attempts to deal with the current funding deficit. We applaud you for focusing on this critical issue. And we appreciate your understanding that the employers do need relief this year and the next year in meeting their financial obligations to the pension funds. Hopefully, the upcoming actuary review by the Michigan firm hired by the Legislative Council will shed more light on actuary issues resulting in such a quick downturn of the calculation of the fund projections. As you all have learned, it is these PROJECTIONS that are the largest factor in the employer premium increases today.

As the PERS/TRS/ASPIB contract attorney said, whatever solutions you come up with, must be very carefully crafted to avert additional unintended consequences in the future.

Testimony on SB 141
House State Affairs
April 19, 2005

James C. Hornaday, Mayor of Homer, AK

Chairman Seaton and Committee members -

~~My written~~ ^{my} testimony is in support
of the provisions of SB 141 providing
^{to give - recommended} some 69 Million over the next two years
to offset the cost of State required ^{assistance help} municipal PERS increases for the next
two years. If this money is not supported
and included, Homer will have to pay
* 245,000 per year and may result in decreased
City services. ^{the new cost of PERS} Homer just increased the City sales
tax ^{to pay for a portion of the new PERS tax} and the State of Alaska should share in
these increased PERS costs.

Thank you.

James C. Hornaday
Mayor of Homer, Alaska
I would encourage you to put the bill if a portion is
found unconstitutional.

1

2 Page 105, line 25:

3 Delete "sec. 59"

4 Insert "sec. 60"

5

6 Page 108, line 25:

7 Delete "14.25.210"

8

9 Page 109, line 19:

10 Delete "SECTIONS 139 AND 140"

11 Insert "SECTIONS 140 AND 141"

12

13 Page 109, line 20:

14 Delete "secs. 139 and 140"

15 Insert "secs. 140 and 141"

16

17 Page 109, lines 21 - 22:

18 Delete "secs. 139 and 140"

19 Insert "secs. 140 and 141"

20

21 Page 109, line 23:

22 Delete "89 - 94, 107, 114, and 131"

23 Insert "90 - 95, 108, 115, and 132"

24

25 Page 109, line 25:

26 Delete "Section 141"

27 Insert "Section 142"

28

29 Page 109, line 26:

30 Delete "secs. 142 and 143"

31 Insert "secs. 143 and 144"

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REPRESENTATIVE Paul Seaton District 35

Amendments that need to be considered

1. Establishes a floor for employer contributions at 11% for TRS and 10% for PERS

p.8 line 10. Delete "less than" and insert "the lesser of"
line 11 after "active members" insert "11 percent for TRS employer and 10 percent for PERS employers"

2. Clarifies language

p. 32 line 10, insert "'member contribution account' means the member's contributions to their defined contribution account plus any change in market value."

1. ^{only} Have 6 million - ^{legisl. sec. 31 - selected by 1991} vote 3-
2. ~~\$24~~ 5,000 - for next several years -
3. Fiscal note which includes tax savings proposed 375 million
4. ~~about the~~ cost of state required municipal pers for the next two years.
5. am not fully explained but understand there is a fiscal note attached which does include the funds.
6. ^{am accept} Trying to get a handle on ~~last~~ +
7. Retiree - also served as a treasurer in 1960 + 10 in the ^{leg. & gov.} ~~leg. & gov.~~ court. the first year the state took over from the federal court. as served as a state hearing officer.
8. ~~Project for~~ - ^{tion} + ^{Nonaka} ^{Bill} will be voter ownership program chosen nation wide.