

SB

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Testimony on SB 141 Before the Senate Finance Committee

by

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& Teacher Retirement System Board Member

March 29, 2005

Rhetoric in the press has described the current condition of the retirement systems as the "PERS/TRS meltdown". The combined conditions have been characterized in the SB141 White Paper as a "perfect storm". It is important to understand that, contrary to the recent rhetoric, the factors that led us to this point were not immediate, not rapidly developing, and do not represent a meltdown. I am not suggesting that the issues are not real, but I am suggesting that they need to be viewed in their proper context.

Retirement systems are like supertankers that respond slowly to environmental conditions and corrective actions. The seeds of the problems as well as the successes of the plans were planted and nourished over the past twenty-five years. When critics speak of the funding "crises" or "meltdown" of today, they are actually looking twenty-five years into the future and projecting what cumulatively will occur over that period. Just as actuaries may have erred on many projections over the past quarter of a century, current actuarial estimates will no doubt miss the mark over the next quarter of a century. Minor changes in assumptions can cause enormous changes in the funding status of the plans. Consider that a 2% change up or down in the estimate of the rate of growth of health care would change the unfunded liability of the plans by over a billion dollars.

Actuaries will be the first to admit that their projections are far from an exact science. It is evident today that many of the assumptions throughout the 1990's were incorrect. Health care costs were growing much faster than we realized for nearly a decade before actuarial assumptions were revised around 2002. The retirement plans that appeared fully funded in the late 1990's were obviously under funded. Correcting those assumptions in 2002 resulted in a multi-year adjustment that startled everyone. Those adjustments did not reveal mismanagement of the assets by the ASPIB, the

testified 3/29/05

boards, or the administration. They simply revealed that the state, its municipalities, and its school districts had been underpaying the necessary contributions for health care to keep the system healthy. Had more accurate rates been imposed earlier, the unfunded liability would not sit on the books of the retirement systems, it would be reflected on the books of the municipalities, boroughs, and school districts.

I would like to offer the following observations and recommendations for the legislature to consider.

1. The major problem with our retirement plans is health care. In the 1980's and early 1990's health care was relatively more affordable than it is today. For the eleven-year period from 1992 to 2003, 69 % of the increase in unfunded liabilities, amounting to roughly \$3.7 billion, came from excess increases in health care costs. I use the term "excess" to mean that health care costs were \$3.7 billion more than the plan benchmark or estimate for that period. If it weren't for that \$3.7 billion deficit, we would not be here today and there would be no discussion of overhauling the retirement system.
2. The retirement super tanker has developed several leaks. By leaks, I mean benefits have been provided that have not been funded or calculated into the contribution rates. These leaks mandate payments greater than the plan ever intended. For example, there is no correlation between the earnings and contributions of part-time local public officials and the eventual benefits provided to those individuals. Under current provisions, a school board member or council member earns and pays little into the system, but they receive free medical coverage at 55 or 60. Their contribution to the retirement system could be as low as \$1,000 over their entire career, yet they could receive almost unlimited medical for them and their dependents for up to a generation.

Additionally, many schemes have been used by employees to boost eligible salaries in the final years of employment. Consequently, salary rates are often considerably higher than they should be. Termination bonuses have recently been identified in the press, but service credits, overtime, final year pay increases, etc. can produce large increases in benefits without reasonable

contributions to the system to offset them. These practices create unfunded liabilities.

One of the most overlooked leaks in the super tanker is masked in the benefit formula itself. Using the high three years for benefit calculation produces built in losses for the system. This piece of the formula, which has been considered sacred until now, consistently created an unfunded liability for every single participant.

3. Much has been spoken about reducing the risk to the employers by moving to defined contribution plans. While the change to a defined contribution plan may limit the exposure for local and state governments, any plan that undermines the retirement security of public employees will eventually drive good people from public service. Retirement plans, by their very nature, are structured to protect employees, not to take advantage of them. A blended approach that gradually introduces the concept will spread risk equally among employers, the state, and employees.

Recommendations:

1. Immediate changes need to be made to the health plan in order to maximize savings in every area possible. Aggressive steps should be taken to initiate preferred provider networks. Preferred prescription providers and the use of generic drugs should become mandatory under the plan. Increasing co-payments for drugs and services would spread the cost of services among beneficiaries and the plan. Disease management and large case management have been extremely beneficial in reducing unnecessary procedures and limiting hospital stays. I have personally administered a large self-funded plan for our school district for the past ten years. We have successfully implemented all of these procedures and realized considerable savings from them. The PERS/TRS Health Plan is large enough to wield considerable influence in negotiating savings with service providers.
2. Implement the changes in health care access that were recommended in the PERS & TRS Tier Proposals. These included limiting entry into the system until beneficiaries reach the age of 65 and assessing premiums

based on years of service. Limiting access to health care for part time elected officials would also help relieve the unfunded liability.

3. Stop the leaks caused by unfunded benefits. Any provision in the current statutes that drains from the system should be identified and corrected. Make the necessary changes to statutes that currently allow supplemental earnings to boost the wage base for retirement calculations.
4. Amend the formula for retirement benefits to create a more reasonable base period for eligible salaries. A minimum of ten years of earnings should be used for benefit calculation purposes. This will dilute the effects of any large payouts in the final years of employment and will help insure that benefits more evenly match contributions.
5. Take a very conservative approach in implementing elements of a defined contribution plan. The division of retirement and benefits has offered PERS and TRS Tier Proposals that incorporate a defined contribution plan that is more gradual. It provides significantly more protection for the state and the employer without totally abolishing the benefits of the current plan. The plans are healthy in terms of their ability to pay pension benefits. In spite of all of the bear market, low interest rates, legislative changes, etc., the pension portion of the plans were well funded and were in the top ten percent of state retirement systems as measured by one of the top pension experts, Wilshire Research. The success of that portion of the plans should be preserved to the extent possible.

The plans have served the state and its residents well for many years and can continue to do so in the future. Rather than dismantling the plan, we urge you to consider a combination of mid-course corrections and prospective changes.

We thank you for the opportunity to address these issues. I would be happy to answer any questions from the committee.

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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 Stedeman 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% employer 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 item 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.

Louise Harbo JRS
3/29/05

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'06, 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.



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Compliments of...

Gary Wilken

Senator, Fairbanks

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, GPO/WEF, 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.

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";

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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.

*copy for comm.
Wed 3/31/05*

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

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.

Gayle W. Harbo, JR.

A
EARNINGS FOR TRS RETIREMENT CALCULATIONS

AVERAGE ANNUAL RATE OF INCREASE:
 ANCHORAGE CPI (1): 3.730% ASSUMED YRS AK SERVICE: 25
 AVE ALASKA ALL INDUSTRIES WAGE (2): 3.910% BEGINNING SALARY (3): \$37,538.00

AVERAGE BASE RETIREMENT SALARY DETERMINED BY: % of High 3
 ALL YEARS WITHOUT ADJUSTMENT: \$68,925.73 65.89%
 ALL YEARS ADJ BY ANCHORAGE CPI: \$102,109.67 97.61%
 ALL YRS ADJ BY AK MNTHLY EARNINGS: \$104,203.48 99.61%
 HIGH FIVE YEARS: \$100,481.01 96.05%
 HIGH THREE YEARS: \$104,611.64 100.00%

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
YEAR	EMPLOYMENT YEAR	BEGINNING SALARY	SALARY INCREASE % (4)	PROJECTED ANCHORAGE CPI (5)	PROJECTED ALASKA ALL INDUSTRIES AVE MO EARN (6)	ANNUAL BASE SALARY ADJUSTED TO DATE			
						BASED ON ANCH CPI (7)*	BASED ON AK AVE EARN (8)	BASED ON HIGH FIVE (9)	BASED ON HIGH THREE (10)
2004	1	\$37,538.00	5.730%	1.686	\$3,301.81	\$90,401.62	\$94,242.63	N/A	N/A
2005	2	39,688.93	5.730%	1.748	3,430.91	92,144.63	95,893.31	N/A	N/A
2006	3	41,903.10	5.730%	1.814	3,565.06	93,921.26	97,572.89	N/A	39,730.01
2007	4	44,367.59	5.730%	1.881	3,704.45	95,732.14	99,281.90	N/A	42,006.54
2008	5	46,909.85	5.730%	1.952	3,849.30	97,577.93	101,020.84	42,093.49	44,413.51
2009	6	49,597.79	4.230%	2.024	3,999.81	99,459.32	102,790.23	44,505.45	46,958.41
2010	7	51,695.77	4.230%	2.100	4,156.20	99,938.73	103,106.78	46,906.82	49,401.14
2011	8	53,882.50	4.230%	2.178	4,318.71	100,420.46	103,424.31	49,290.70	51,725.35
2012	9	56,161.73	4.230%	2.259	4,487.57	100,904.50	103,742.81	51,649.53	53,913.34
2013	10	58,537.37	4.230%	2.344	4,663.03	101,390.88	104,062.30	53,975.03	56,193.87
2014	11	61,013.51	4.230%	2.431	4,845.36	101,879.61	104,382.77	56,258.18	58,570.87
2015	12	63,594.38	4.230%	2.522	5,034.81	102,370.69	104,704.22	58,637.90	61,048.42
2016	13	66,284.42	4.230%	2.616	5,231.67	102,864.14	105,026.67	61,118.28	63,630.77
2017	14	69,088.25	4.230%	2.713	5,436.23	103,359.96	105,350.11	63,703.59	66,322.35
2018	15	72,010.68	4.230%	2.815	5,648.78	103,859.18	105,674.54	66,398.25	69,127.78
2019	16	75,056.74	4.230%	2.920	5,869.65	104,358.80	105,999.98	69,206.89	72,051.89
2020	17	78,231.63	4.230%	3.029	6,099.16	104,861.83	106,326.41	72,134.34	75,099.68
2021	18	81,540.83	4.230%	3.141	6,337.63	105,367.28	106,653.86	75,185.63	78,276.40
2022	19	84,990.01	4.230%	3.259	6,585.43	105,875.18	106,982.31	78,365.98	81,587.49
2023	20	88,585.09	4.230%	3.380	6,842.92	106,385.52	107,311.77	81,680.86	85,038.64
2024	21	92,332.24	4.230%	3.506	7,110.48	106,898.32	107,642.24	85,135.96	88,635.78
2025	22	96,237.89	4.230%	3.637	7,388.50	107,413.59	107,973.74	88,737.21	92,385.07
2026	23	100,308.75	4.230%	3.773	7,677.39	107,931.34	108,306.25	92,490.80	96,292.96
2027	24	104,551.81	4.230%	3.913	7,977.58	108,451.65	108,639.79	96,403.16	100,366.15
2028	25	108,974.36	4.230%	4.059	8,289.50	108,974.36	108,974.36	100,481.01	104,611.64
2029	26	113,585.97	4.230%	4.211	8,613.62	#N/A	#N/A	104,731.36	109,036.71
2030	27	118,388.57	4.230%	4.368	8,950.41	#N/A	#N/A	109,161.49	113,648.97
2031	28	123,396.41	4.230%	4.531	9,300.38	#N/A	#N/A	113,779.02	118,456.32
2032	29	128,616.08	4.230%	4.700	9,664.02	#N/A	#N/A	118,591.88	123,467.02
2033	30	134,056.54	4.230%	4.875	10,041.88	#N/A	#N/A	123,608.31	128,689.67
2034	31	139,727.13	4.230%	5.057	10,434.52	#N/A	#N/A	128,836.95	134,133.25
2035	32	145,637.59	4.230%	5.246	10,842.51	#N/A	#N/A	134,266.75	139,807.08
2036	33	151,798.06	4.230%	5.441	11,266.45	#N/A	#N/A	139,967.08	145,720.92
2037	34	158,219.11	4.230%	5.644	11,706.97	#N/A	#N/A	145,887.68	151,884.92
2038	35	164,911.78	4.230%	5.855	12,164.71	#N/A	#N/A	152,058.73	158,309.65

Provided by Mr. Solie
3/31/05

Good morning. My name is Chris Blust. I have worked for the Juneau School District as a para educator for eleven years. I moved to Juneau 12 years ago this coming August. I moved here for several reasons, the first being the opportunity to raise my then 10 year old daughter in a place where she could ride her bicycle down the path and not have to worry that some lunatic was going to snatch her, never to be seen again. My husband and I longed for a safer life for all of us. I also moved here because of the awesome beauty, clean air, clean water and abundant wild life. I have never regretted it, not for a second. I moved here to improve the quality of life for my family and myself and I seen all of this come to pass. I love Alaska, Juneau in particular, and I can't see myself ever leaving, this is my home.

The first year I lived here I took a job with the Juneau School District. I am what is now called a para-educator. If you aren't familiar with that term, ten years ago I was a classroom aide, then a teaching assistant and now a para. The title changed, the pay didn't., darn. At that time, I was able to take a classified job and make almost as much as I did as a new teacher in California. But what I really wanted was a job with good medical insurance and a good retirement. You see, my husband is self-employed and does not have those benefits. My insurance was adequate, the retirement okay. The salary was enough and I knew that there would be regular step increases and I expected that my salary would raise with the cost of living. I was in for a surprise.

During the last eleven years, five of those found my wages frozen. The school district was having to tighten their belts, there was no money for steps, there was no money for raises.. Our insurance was still good, that was good compensation. Then three years ago Blue Cross Blue Shield presented the District with a 62% increase in insurance costs, if we wanted to continue with the same coverage. That was impossible. What we ended up doing was gutting the plan, it became a plan that we could no longer afford to even use. Catastrophic insurance. We now had a \$500 deductible per family member. We paid 30% instead of 20% on our co-pay and our prescription plan went out the roof. By doing this we were able to keep members from having a co-pay. But the next year the insurance went up 18% and we were told by our broker that we could expect this each and every year, it was the TREND. Don't you just hate that word? We were fortunate that the District was able to cover this increase but at negotiations they made it clear that they could not continue to do so and every year we would be faced with those rising costs. And indeed this came to pass and during the last negotiations, the classified staff had to pick up \$70 per month to help the cost. Our union is very proactive. Faced with these rising costs we began to educate members on how to shop for services, how to get the most from any money spent, but for many, it simply meant we no longer had the luxury of going to the doctor, the chiropractor, the dentist. It was no longer an option. Working with APEA we developed our own health trust to better managed the costs. All this work done by volunteers. But we know there are no guarantees, we don't know how long we can fight the TREND. This last Contract I received my first real increase in pay. I got my 3% step increase and a 2% for the first year of the Contract and a 1% the next year. We will be back in negotiations this November. It doesn't look good.

I'm telling you this sad story as a prelude to my and your reason of being here today. Today, I pay to PERS 9.6% of every check. I pay extra to fill in the three months I am off during the summer. I was here yesterday listening to the testimony and I heard it debated that I, as the employee needed to take more responsibility in my retirement. I heard that it was time for the employer to not have to carry the burden of retirement after those workers had "foolishly" spent their money and had not thought far enough ahead to see the price of their folly. Senators, I, and my fellow classified don't spend out money foolishly, we do it to pay the rent, the utilities, food, clothing...we are not being irresponsible, we are living from pay check to pay check. There are many school district employees who have two, some even three jobs to support their families. We have full-time employees who, because of their rising medical costs live in Section Eight housing. Retirement isn't a priority, these people will never be able to retire, they must work until physically no longer able, or just do the right thing, and die. I have no expectation of retaining my life-style and current living standard. Things will change and I will have to just deal with it. For some school district employees, their future is much more grim.

testified 3/22/05

I would like for you to look at the numbers and tell me what more I can do. If 141 is made into law, I could be looking at 14.6% being taken next year for PERS, along with a 12% increase in my health insurance. The next year I could look at 19.6% being taken from my check, along with a 12% increase in insurance. In three years I would be looking at a 24.6% increase in my PERS contributions....need I say more?

I understand the fix you as legislators are in. Balance the budget, be responsible, do your job. I don't have a solution for you but as you ponder on this issues, please do not forget my message today, do not forget those who don't have time to spare, do not forget my face. Your actions will affect my fellow employees and they could be devastating. Thank you for the opportunity to speak to you today. This is one another thing I love about Alaska.

CITY & BOROUGH OF JUNEAU SCHOOL DISTRICT
 10014 CRAZY HORSE DRIVE
 JUNEAU, AK 99801
 (907) 463-1700 ext 437

Direct Deposit Voucher
 FIRST NATIONAL BANK ALASKA
 JUNEAU ALASKA

89-6/1252

No. 33974

DATE	CHECK NUMBER
3/18/05	33974

DIRECT DEPOSIT AMOUNT
*****\$896.96

PAY

VOID VOID VOID VOID

TO THE ACCOUNT OF
 36
 JULIA J. BLACK
 4544 TRAFALGAR AVE
 JUNEAU AK 99801

JUNEAU SCHOOL DISTRICT

Direct Deposit
 Voucher

NON-NEGOTIABLE

⑈00033974⑈ ⑆125200060⑆ 0680 166 6⑈

CITY & BOROUGH OF JUNEAU SCHOOL DISTRICT
 10014 CRAZY HORSE DRIVE * JUNEAU, AK 99801
 (907) 463-1700 ext 437

No. 33974

Retain For Your Records

		Check Date:	3/18/05	Check:	33974
		Period End Date:	3/06/05	Run #:	6737
BLACK, JULIA J.		Fiscal	Calendar	Current	
Non current paid-to-date		4,377.22			
SPECIAL ED. INST. ASSIST.-		16,273.43	7,024.50		1,170.75
--Reg: 75.0000 HOURS @	\$15.61	\$1170.75			
TAXABLE LEGAL TRUST FUND		70.00	30.00		5.00
TAXABLE GTL = \$50,000		32.50	15.00		2.50

Total Pay		20,753.15	7,069.50		1,178.25
RETIREMENT-PERS 6.75%			474.18-		79.03
SOCIAL SECURITY TAX W/H			438.30-		73.05
MEDICARE TAX W/H CLASSIFIE			102.48-		17.08
FEDERAL INCOME TAX W/H			482.70-		80.45
WORKERS COMPENSATION					.00
DUES-JESS APEA		376.46-			22.18
DUES-JESS		28.00-			2.00
HLT INS-JESS AFTER-TX 9/10		574.87-			.00
DEPENDENT LIFE - JESS					.00
LIFE INS-JESS BASIC 9/10					.00
TAXABLE GTL = \$50,000			15.00-		2.50
TAXABLE LEGAL TRUST			30.00-		5.00

Total Deductions		979.33-	1,542.66-		281.29

NET CHECK		33974			896.96

Tax Marital Status: S Exemptions: 03 Location: 36 36 36
 Deposited with:
 DENALI ALASKAN CREDIT UNION Account: 4560043886 32

Absence/Leave Summary	Beg Bal	Earned	Absence	Adjust	Balance	HOUF
ANNUAL LEAVE-CLASSIF	59.5320	6.9800	.0000	.0000	66.5120	HOUF
ANNUAL LEAVE-CLASSIF	6.8580	.0000	.0000	.0000	6.8580	HOUF
SICK LEAVE-CLASSIFIED	8.5500	4.3500	1.0000-	.0000	11.9000	HOUF
SICK LEAVE-CLASSIFIED	27.0900	.0000	.0000	.0000	27.0900	HOUF

Julia Black
 testified 3/22/05



217 Second Street, Suite 200 • Juneau, Alaska 99801
Tel (907) 586-1325 • Fax (907) 463-5480 • www.akml.org

March 31, 2005

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senate Finance Committee
State Capitol
Juneau, AK 99811

Dear Senators Green, Wilken, and Committee Members

Thank you, and especially Senator Stedman, 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.

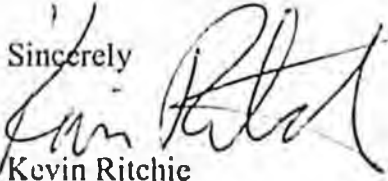
In addition to regular meetings throughout the year, the ad hoc committee has met several times in the past two weeks. As you know, trying to make 800 local elected officials plus managers and finance officers fully knowledgeable about a bill as complex as the PERS/TRS bills is not an easy task. Attached 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 SB 141

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 Senator Stedman to put 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%.

Accountable and Representative Board Structure

AML supports restructuring of the PERS/TRS board to improve employer participation and coordinate decision-making recognizing that schools, the university, and the state are both PERS and TRS employers.

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 results in a loss of involvement and accountability on the part of municipalities, school districts and the University.

% of PERS/TRS program

State	38%
Schools - (Both PERS and TRS)	34.5%
Cities and Boroughs	19%
University	8.5%

Draft language: (p.37 of SB 141)

(b) The Alaska Retirement Management Board consists of ~~nine~~ eleven trustees. The commissioner of administration and the commissioner of revenue shall serve on the board. The governor shall appoint seven additional trustees who meet the eligibility requirements for an Alaska permanent fund dividend and who are professionally credentialed or have recognized competence in investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis as follows:

- (1) three trustees shall be appointed from the general public; a trustee appointed under this paragraph may not hold another state office, position, or employment and may not be a member or beneficiary of a retirement system managed by the board;
- 2) Two one trustees, at least one shall be employed as a finance officer, for a political subdivision or the university participating in the public employees' retirement system. The governor shall solicit three names for each position from organizations representing political subdivisions and the university;
- 3) Two one trustees, at least one shall be employed as a finance officer, for a political subdivision or the university participating in the teachers' retirement system. The governor shall solicit three names for each position from organizations representing political subdivisions and the university;
- (4) one trustee shall be a member of the public employees' retirement system;
- (5) one trustee shall be a member of the teachers' retirement system.

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. 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:

The current "fiscal note" process for bills is not sufficient to accurately determine the long-term impacts of changes.

Draft language

Powers and duties of the board – (Section 42 p. 38):

Add:

8. Prior to the adoption of any benefit change to the system the board shall have a maximum of ninety days to work with the retirement system coordinator to perform a long-term actuarial analysis of any proposed benefit changes to the system, provide that information to all employers allowing adequate time to gather comments, hold at least one public hearing, and amend board recommendations, then provide a full report to the legislature and governor.



*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.

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		**FY 05
		FY 05 Estimated Municipal Payroll	FY 05 Rate Incr	FY 05 PERS Increase Dollars	**Value of 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	\$126,474	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	\$2,563,992	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	KOYUK, 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		

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 DB 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



NEA-ALASKA

Affiliated with the National Education Association

TRS/PERS Issues for Testimony

Senator Green and members of the Senate Finance 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 people consider their retirement benefits, they want to be able to retire with dignity and to maintain that 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 teachers retire with an income of 50%-60% of their salary with health insurance provided. This takes 27 years of service to earn.

The present system is based on several actuarial assumptions. There is still debate about the correctness of these assumptions. Before we can actually determine if a person can retire with dignity, we must know the assumptions.

Thus, in order to establish a new and improved system, NEA-Alaska believes 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%. *Looking at defined contribution plans in the private sector, this is an appropriate level.* 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?

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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 legislature 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 04-08 – 5.0%
FY 02 – 6.5%	FY 09-FY 13 – 4.5%
FY 03 – 5.5%	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 11 – 9.0%
FY 05 – 12.0%	FY 12 – 8.5%
FY 06 – 11.5%	FY 13 – 8.0%
FY 07 – 11.0%	FY 14 – 7.5%
FY 08 – 10.5%	FY 15 – 7.0%
FY 09 – 10.0%	FY 16 – 6.0%
FY 10 – 9.5%	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?

For the record, teachers that begin their careers at the age of 22 and work 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 cannot receive medical benefits until age 65, they would actually have to teach 43 years or pay for their health care for 13 years, which would 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 inects the purpose of recruiting and retaining qualified educators and public employees.



KENAI PENINSULA BOROUGH SCHOOL DISTRICT

Finance

Melody Douglas, Chief Financial Officer
148 Binkley Street Soldotna, Alaska 99669-7553
Phone (907) 262-5846 Fax (907) 262-9645

Draft

Testimony before the Alaska Legislature
Public Employee's Retirement System
Teacher's Retirement System
April 6, 2005

Thank you for the opportunity to speak on this important matter. My name is Melody Douglas and I am the chief financial officer for the Kenai Peninsula Borough School District. The District is the largest employer on the Kenai Peninsula and the 4th largest District in the State, employing approximately 1100 people.

You are going in the right direction with much of the legislation contained in SB141 for PERS and TRS employees and elected officials. Thank you for your hard work. I would like to bring a few issues to your attention today for further discussion and resolution.

Creating a new tier for both PERS and TRS is essential to the health of these systems. However, a significant issue in my mind is the unfunded liability of the nearly \$6 billion if paid today, most of which is coming from full health benefits for retirees younger than 65. I ask that pension bonds be explored to address this matter. I have heard it said that we (the state) can't commit those coming after us by such a financing arrangement. The fact is that the financial commitment is already here; we are just paying for it with increased employer contribution rates. It's not only prudent; it is our responsibility to address this matter. Pension bonds, for even a portion of the unfunded liability if not all, would have the affect of lowering employer contribution rates. Estimated bond rates of 5.5 to 6% would generate a savings as compared to the 8.25% currently charged to employers for the PERS and TRS unfunded liability. However, the benefit of this option will decline as interest rates rise.

New tiers should be based on a defined contribution retirement system for new employees. Corporate America has transitioned to a defined contribution system because they could no longer afford to incur all the risk of a defined benefit retirement system. The Public Sector must follow suit; the Kenai Peninsula Borough School District does not have the funds to address ongoing employer rate increases without draconian cuts in the classroom. I am concerned about attracting and retaining quality employees throughout the State. I don't see a defined contribution system and recruiting and retention as mutually exclusive if the system includes a combination of say 50% fixed (less risky) investing, and 50% flexible investing, in conjunction with a health care

ANCHOR POINT COOPER LANDING HOMER HOPE KACHEMAK SELO KENAI MOOSE PASS NANWALEK NIKISKI NIKOLAIIVSK NINILCHIK
PORT GRAHAM RAZDOVNA SILDONIA SEWARD SOLDOTNA STEPLING TUSTUMENA TYONIK VOZNESENKA

4/6/05

benefits. Requiring a fixed investment component will ensure a secure level of retirement benefits for individuals. Portability of an individual's retirement fund is an attractive feature of a defined contribution system, given that younger generations are expected to change jobs 7 or more times during their career.

The PERS and TRS Boards should include employer representation in their make-up. Since employers pay the lion share of the contribution rates to fund these systems, they should have a voice in the deliberations of these boards. It is prudent to evaluate the validity of what is done on a regular basis; consolidation of these boards and evaluation of their responsibilities and possible reassignment of some tasks is timely.

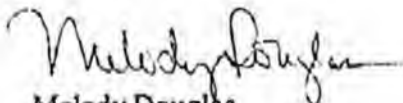
Future benefit changes, such as increasing health benefits for certain classes of employees, should be thoroughly reviewed for long-term financial impact before implemented. The lack of an adequate analysis process contributed significantly to the unfunded liability. Please establish a 90 day review process, supported by a comprehensive long-term actuarial analysis, a public hearing process and a recommendation of the retirement boards prior to any legislative changes affecting PERS and TRS. We need to ensure that these systems don't continue to decline financially.

I recommend that actuarial services include a peer review component on a periodic basis and/or a new actuary be hired after a certain number of years. No matter that the concept of hindsight is significantly at play in this situation, common sense doesn't allow for decreased employer rates in a time when increased health care costs and declining or negative investment returns were being realized by nearly all entities nationally. Relying on the scheduled review timeline contained in the contract, to thoroughly actuarially evaluate these systems, in such times is unacceptable.

It is unlikely that any legislative decision made this year can be fully implemented by July 1. Please fund the 5% PERS and TRS employer rate increases in effect for FY06 for all employers statewide. This rate increase equates to approximately \$2 million for the Kenai Peninsula Borough School District for FY06. The Board of Education approved the FY06 budget, which includes Governor Murkowski's proposed base student allocation of \$4880, Monday night. The District will likely have to reduce this budget if additional funds are realized to address the retirement rate increases. To put \$2 million into perspective for the District, it would equate to approximately 35 teaching positions.

Thank you for your continued work on this critical issue fac
appreciate the opportunity to bring these important issues to

State of Alaska. I
ention.


Melody Douglas

Public Employees' Retirement Board

Alaska Division
Retirement and Benefits

Meeting Schedule

ASPIB

e-mail



George Sullivan, Chair

Term Expires 6/20/06 (Appointed)

George Sullivan grew up in Alaska. After graduation from Valdez High School he joined the Army during WWII and served in the Aleutians. George represented the Anchorage area in the legislature in the mid 60's and was mayor of Anchorage from 1967 to 1982. He has always been active in the community and continues to provide leadership to a number of organizations in Alaska, including The Anchorage Center, Boys and Girls Club, Enstar Gas Board, Pioneers of Alaska, and the Foreign Wars. George lives in Anchorage with his wife, Margaret. They divide their retirement days between a very appreciative community and the families of their children, which include 15 grandchildren and 1 great-grandchild.



Alyce Hanley, Vice Chair

Term Expires 06/20/08 (Appointed)

Alyce Hanley has lived in Anchorage since 1971. She graduated from high school in Pawtucket, Rhode Island and completed her nurse's training at the New England Deaconess Hospital School of Nursing in Boston, Mass. She was elected to the Anchorage School Board in 1981 and to the Alaska House of Representatives in 1983. After serving three terms, she chose not to run for re-election. In 1993, Mrs. Hanley was appointed to serve as a Commissioner with the Alaska Public Utilities Commission. She retired from that position in April 1999.

Alyce enjoys family activities with her five sons, their wives and seven grandchildren, all of whom live in the Anchorage area.



Frank Narusch

Term Expires 04/24/06 (Elected)

Frank Narusch has been an Alaskan resident since 1952. Raised in the coal town of Suntrana on the Healy River, he boarded away to attend high school at Noyes School in Fairbanks and Copper Valley School in Glennallen. While attending Fairbanks University, he worked summers commercial fishing in Cordova, coal mining in Suntrana, and surveying and inspecting projects around Fairbanks and Valdez for the Department of Highways. After receiving a degree in civil engineering in 1964, he began his professional career with the Department of Highways (now DOT&PF). During 17 years of State employment, he held positions as Construction Project Manager, Materials Engineer, Contract Claims Engineer, and Professional Services Coordinator. Upon retiring from DOT&PF in 1997, he was active with the Alaska Public Employees Association as an employee representative, local officer, and state director.

Upon retiring from DOT&PF in 1997, Frank organized the Retired Public Employees of Alaska and currently serves as Membership Chairman and Newsletter Editor. He enjoys weekly breakfast get-togethers with retired friends as well as summer travel and exploring back roads around the State.



James "Pat" Wellington
Term Expires 04/05/08 (Elected)

Pat Wellington was born in Ketchikan, Alaska and graduated from Douglas. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Troopers; Chief of Police of Juneau; Deputy Commissioner and Commissioner of the Department of Public Safety; and retired in 1977 as Director of the Alaska Troopers. Mr. Wellington is also a trustee of the Alaska State Pension Invest



Bronk Jorgensen
Term Expires 06/20/10 (Appointed)

Bronk Jorgensen was born in Jackson Hole, Wyoming. He became an Alaskan in 1978, before he was one year old. Bronk attended Tok School, the University of Alaska Fairbanks and attended the University of Pittsburgh, Semester at Sea, graduating with a degree in Business Administration.

Bronk lives in Tok and is the owner/manager of All Alaska Gifts and Crafts and Jorgensen Realty. He is also a member of the Tok and State of Alaska Chamber of Commerce and was the 2002 recipient of the Chuck West New Pioneer Award from the Alaska Travel Industry Association.

Bronk enjoys Alaska's hunting, fishing and outdoor activities.

6th Floor, State Office Building
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Since 8/14/2001
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Teachers' Retirement Board

Alaska Divi
Retirement and B

Meeting Schedule

ASPIB

e-mail



Gayle W. Harbo, Chair

Term Expires 6/30/05 (Appointed)

Ms. Harbo was appointed to the Teachers' Retirement Board in 1999. G. Alaska in 1957, married Sam Harbo in 1958, and lived in Cold Bay, Jun before settling in Fairbanks in 1962. She graduated from North Carolina Raleigh with a BS in Mathematics and earned a Master of Arts in Teach University of Alaska-Fairbanks. She taught at Lathrop High School for five years in the Fairbanks District and served as coordinator of the scho Placement Program and on the District's Curriculum Committee. She wo committees which wrote the evaluation documents used by the district a several budget committees. Since retiring in 1993, she has enjoyed trave husband and assisting him with several building projects for each of thei loves her home and garden and the opportunity to take care of any or all grandchildren.



Richard J. Solie Sr., Vice Chair

Term Expires 01/31/07 (Appointed)

Richard Solie has been an Alaska resident for 33 years. He received his from the University of Wisconsin, Superior, and his Ph.D. degree in Eec University of Tennessee. After seven years of teaching in the "Lower 48 Professor of Economics, Head of the Department of Economics, and Ae School of Management at the University of Alaska, Fairbanks during the 1986. Following his retirement from UAF, he was self-employed in his consulting firm. He and his wife, Elsie, live in Fairbanks along with thei ten grandchildren.

Kerry Jarrell

Term Expires 01/31/08 (Appointed)

Bio and picture will be posted when available.

Dick Shultz

Term Expires 01/31/06 (Appointed)

Dick Shultz moved to Alaska in 1970 from Anselmo, a small town in ce settled in Mentasta Lake, a remote native village southwest of Tok wher kindergarten through the eighth grade. Dick relocated to Northway and 1 years after which his career took him to Delta Greely as a school guidan 1978, Dick returned to rural teaching in Nabesna until 1980, when he ret



Greely school district as the assistant superintendent.

Dick left his career in education in 1982 when he was elected to the House of Representatives for District 17. He served in the legislature for ten years as a representative and two as a senator until he retired from public service in 1992. He and his wife live in a rustic setting near Tok, where he enjoys life as an avid outdoorsman.

Dick was appointed to serve on the Teachers' Retirement Board by Governor W. W. Miller and he is looking forward to serving. He says, "I have always been concerned about maintaining the integrity of the fund to insure future retirees that their system will provide stable retirement benefits."

Vacant

Term Expires 06/30/05 (Appointed)

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Since 8/14/2001

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Received
25 April 2005

Introduced by: Mayor Selby
Requested by: Mayor Selby
Introduced: 04/07/2005
Adopted: 04/07/2005

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

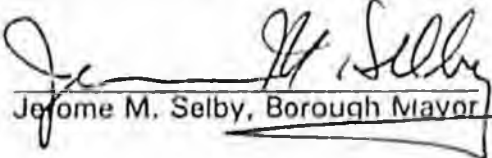
WHEREAS, the State has received a huge increase in oil revenue while communities are facing steeply higher expenses. For every \$1 increase in the price of a barrel of oil the State government receives an additional \$65 million of new revenue per year while Alaskan cities, boroughs, schools, businesses, 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