

SB

183

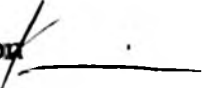


SENATOR KIM ELTON

MEMORANDUM

March 19, 2008

To: Senator Hollis French, Chair
Senate Judiciary Committee

From: Kim Elton 

Re: SB 183, Restoring Public Pensions

I respectfully request a hearing on Senate Bill 183, restoring pensions to teachers, fire fighters, and other public employees.

I look forward to discussing the bill with the committee.

If you have questions about scheduling this bill, please feel free to contact Jesse Kiehl in my office.



SENATOR KIM ELTON

MEMORANDUM

March 24, 2008

To: Senator Hollis French, Chair
Senate Judiciary Committee

From: Kim Elton 

Re: Sectional Analysis, SB 183

Sec. 1 Updates the definition of a retirement "plan" in the teachers' retirement system to remove references to the DC plan repealed by the bill.

Sec. 2 Replaces language limiting the DC plan to employees hired after July 1, 2006 with language describing the defined benefit teachers' retirement system.

Sec. 3 Adjusts a reference for the purpose of applying existing law to teachers who elect to remain in the former DC plan, repealed by the bill.

Secs. 4 and 5 Allow the Alaska Retirement Management Board to adjust pension payments for inflation when the financial condition of the TRS trust fund permits, by removing the 105 percent minimum funding ratio.

Sec. 6 Adjusts a reference for the purpose of applying existing law to teachers who elect to remain in the former DC plan, repealed by the bill.

Secs. 7 through 11 Adjust references for the purpose of applying existing law to teachers and public employees who elect to remain in the former DC plan, repealed by the bill. Sec. 9 also corrects a drafting error in SB 123.

Sec. 12 Adjusts a reference to ensure the Alaska Retirement Management Board continues oversight of the health reimbursement arrangement portion of the former DC plan, repealed by the bill.

ALASKA SENATE

STATE CAPITOL • JUNEAU, ALASKA 99801-1182 • (907) 465-4947 • FAX (907) 465-2108

SENATOR_KIM_ELTON@LEGIS.STATE.AK.US

Secs. 13 through 22 Adjust references for the purpose of applying existing law to teachers and public employees who elect to remain in the former DC plan, repealed by the bill.

Sec. 23 Updates the definition of a retirement "plan" in the public employees' retirement system to remove references to the DC plan repealed by the bill.

Sec. 24 Updates the definition of a retirement "system" in the public employees' retirement system to remove references to the DC plan repealed by the bill.

Sec. 25 Replaces language limiting the DC plan to employees hired after July 1, 2006 with language describing the defined benefit public employees' retirement system.

Secs. 26 and 27 Delete language allowing employers who terminate participation in the defined benefit plan to participate in the defined contribution plan.

Sec. 28 Allows the Alaska Retirement Management Board to adjust pension payments for inflation when the financial condition of the PERS trust fund permits, by removing the 105 percent minimum funding ratio.

Sec. 29 Adjusts a reference for the purpose of applying existing law to public employees who elect to remain in the former DC plan, repealed by the bill.

Sec. 30 Repeals the defined contribution retirement systems for both teachers and other public employees.

Sec. 31 Gives employees hired into the defined contribution plans who have not refunded out of those plans a 90-day period from the effective date of the bill to convert into PERS tier III or TRS tier II, as appropriate.

Sec. 32 Governs the conversion election in Sec. 31 and allows the Alaska Retirement Management Board to adopt regulations related to the conversion. The choice to convert is irrevocable, and certain information must be provided. Employees who transfer get credited service in the defined benefit plan equal to the lesser of the employee's actual service or the actuarially calculated value of the employer and employee money transferred from the defined contribution account.

Sec. 33 Allows the Commissioner of Administration to adopt regulations to implement and make specific the bill's provisions.

Sec. 34 Instructs the Revisor of Statutes to submit a bill via the Legislative Council to make technical or clarifying changes, if needed.

Sec. 35 Allows the ARM Board and the Commissioner of Administration to adopt regulations under sections 32 and 33 immediately.



March 26, 2008

The Honorable Hollis French, Chair
Senate Judiciary Committee
Alaska State Capitol, Room 417
Juneau, Alaska 99801-1182

RE: SB 183 (Elton)--Support

Dear Chair French:

On behalf of the members of AARP in Alaska, we encourage you and your colleagues on the Senate Judiciary Committee to support SB 183, authored by Senator Kim Elton and co-sponsored by Senators McGuire, Wielechowski and Ellis.

Lifetime financial security is a cornerstone of the American dream: if you work hard and follow the rules, you will be able to retire without financial worries. For most Alaskans, Social Security forms the base of a secure retirement and it is augmented by pensions, IRA's, 401-K's and savings. However few of our teachers or state and municipal employees participate in Social Security. Our defined benefit pensions under TRS and PERS were a stable substitute for Social Security. You cannot outlive Social Security. You cannot outlive a defined benefit pension.

Alaskans who make it to 65 have to prepare financially for a long time in retirement. Of all the women who reach age 65, 79% will also reach age 90. Eighteen percent of men who reach age 65 will also reach age 90.

Our newly hired public employees will only have the defined contribution plan. What will Alaska do with retired teachers, police officers and firefighters who outlive their contributions and have no defined benefit plan under PERS or TRS and do not participate in Social Security?

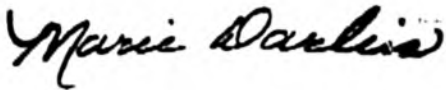
SB 183 will return to a system that will provide reasonable pension benefits that cannot be outlived.

We urge an "AYE" vote on SB 183.

Should you have any questions about our position, please feel free to contact me (586-3637) or Patrick Luby, AARP Advocacy Director (907-762-3514).

Thank you for your consideration.

Sincerely,



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

CC: Vice-Chair Charlie Huggins
Senator Lesil McGuire
Senator Bill Wielechowski
Senator Gene Therriault

February 11, 2008

VIA EMAIL

Mr. Pat Shier
 Director
 Division of Retirement and Benefits
 Department of Administration
 State of Alaska
 333 Willoughby Avenue
 6th Floor State Office Building
 Juneau, AK 99811-0208

**Re: Alaska PERS and TRS
 Comparison of DB versus DCR Costs**

Dear Pat:

As requested we are providing a comparison of the costs between the defined benefit (DB) plans and the Defined Contribution Retirement Plan (DCR) for the State of Alaska Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS). The results provided represent employer costs as a percent of pay for FY10 and do not include member contributions. The comparison is between the most recent tier of the DB plan (Tier 2 for TRS, Tier 3 for PERS) and the DCR Plan (Tier 3 for TRS, Tier 4 for PERS). The rates were determined using the payroll applicable to each group and are not based on total payroll.

We have provided the results under two scenarios. The first assumes that the plans are administered under the current law. The second assumes that new members may choose the plan in which they would like to become a member. Under the choice option, some adverse selection may occur and is factored into our results. Adverse selection may occur because older members are more likely to select the DB plan which would increase the normal cost rate.

RESULTS WITHOUT ADVERSE SELECTION

The following results compare the DB and DCR plans under the current law.

Teachers' Retirement System	DB Plan Tier 2	DCR Plan Tier 3
DB Plan Employer Normal Cost Rate	2.70%	N/A
DC Employer Contribution Rate	N/A	7.00%
Occupational Death and Disability Normal Cost Rate	N/A	0.56%*
Medical Normal Cost Rate	5.81%	0.99%*
HRA Contribution Rate	N/A	3.00%
Total	8.51%	11.55%

*Based on estimates as of June 30, 2005. Updated results as of June 30, 2007 will be ready in the next few weeks.

Public Employees' Retirement System (All)	DB Plan Tier 3	DCR Plan Tier 4
DB Plan Employer Normal Cost Rate	3.05%	N/A
DC Employer Contribution Rate	N/A	5.00%
Occupational Death and Disability Normal Cost Rate	N/A	0.67%*
Medical Normal Cost Rate	7.37%	0.99%*
HRA Contribution Rate	N/A	3.00%
Total	10.42%	9.66%

*Based on estimates as of June 30, 2005. Updated results as of June 30, 2007 will be ready in the next few weeks.

RESULTS WITH ADVERSE SELECTION

The following results compare the DB and DCR plans assuming the members may choose which plan to participate.

Teachers' Retirement System	DB Plan Tier 2	DCR Plan Tier 3
DB Plan Employer Normal Cost Rate	2.70%	N/A
DC Employer Contribution Rate	N/A	7.00%
Occupational Death and Disability Normal Cost Rate	N/A	0.56%*
Medical Normal Cost Rate	5.81%	0.99%*
HRA Contribution Rate	N/A	3.00%
Adverse Selection**	0.34%	N/A
Total	8.85%	11.55%

*Based on estimates as of June 30, 2005. Updated results as of June 30, 2007 will be ready in the next few weeks.

**We have estimated the affect of adverse selection and loaded the contribution rate by 2%.

Public Employees' Retirement System (All)	DB Plan Tier 3	DCR Plan Tier 4
DB Plan Employer Normal Cost Rate	3.05%	N/A
DC Employer Contribution Rate	N/A	5.00%
Occupational Death and Disability Normal Cost Rate	N/A	0.67%*
Medical Normal Cost Rate	7.37%	0.99%*
HRA Contribution Rate	N/A	3.00%
Adverse Selection**	0.35%	N/A
Total	10.77%	9.66%

*Based on estimates as of June 30, 2005. Updated results as of June 30, 2007 will be ready in the next few weeks.

**We have estimated the affect of adverse selection and loaded the contribution rate by 2%.

Mr. Pat Shier
February 11, 2008
Page 3

Due to recent favorable healthcare experience, the cost of the TRS DB plan is less than the TRS DCR plan under both scenarios. The PERS DB plan also had favorable healthcare experience recently; however, the lower DC employer contribution rate keeps the cost of the PERS DCR plan lower than the DB plan.

As discussed, there are other factors to consider, not just cost, when comparing the DB and the DCR plans. One of the fundamental differences between a defined benefit and defined contribution plan is who bears the risk. The risk, whether investment risk or mortality risk, is borne by the employer in a DB plan. This risk causes volatility over the short-term in determining the annual cost that will sufficiently meet the long-term benefit obligation. The employer contribution rates for the DB plan shown in this letter represent the expected long-term cost of the DB plan benefits. When experience is different than assumed from one year to the next, hence short-term volatility, the employer contribution rates change. The employer contribution rates in the DCR plan are not subject to this short-term volatility since the members bear the risk. As a result, employer contribution rates are stable and not subject to volatility.

DATA, ASSUMPTIONS, METHODS AND PROVISIONS

The data, assumptions, plan provisions and methods used for the DB plan costs are described in the actuarial valuation reports as of June 30, 2007. The postretirement healthcare and occupational death and disability rates shown for the DCR plan costs are estimates based on the June 30, 2005 data on the most recent tier of the DB plans. The assumptions, methods and provisions used for the DCR plan costs are the same as those outlined in our previous letter sent to Melanie Millhorn on May 24, 2006. The actual FY10 DCR rates will be finalized in the next few weeks.

Please let me know if you have any questions or if we can be of further assistance.

Sincerely,



David H. Slushinsky, ASA, EA, MAAA
Principal, Consulting Actuary



Michelle Reding DeLange, FSA, EA, MAAA
Director, Retirement Actuary

/mlp

c: Mr. Kevin Worley, State of Alaska
Mr. Joe Cooper, Buck Consultants
Mr. Chris Hulla, Buck Consultants

February 1, 2008

VIA EMAIL

Mr. Pat Shier
Director
Division of Retirement and Benefits
Department of Administration
State of Alaska
333 Willoughby Avenue
6th Floor State Office Building
Juneau, AK 99811-0208

Re: Projected Employer Contributions from FY09 through FY14 for DB Plans, DCR Plans and Choice

Dear Pat:

As requested, we have calculated the expected change in employer contributions from FY09 through FY14 for members hired after June 30, 2006 if current members of the Defined Contribution Retirement Plan (DCR) and future new hires are offered a choice between the defined benefit (DB) plan or DCR plan for the State of Alaska Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS).

The results show the change in employer contributions in dollars from FY09 through FY 2014 and do not include member contributions. For PERS, contributions were split into State and Non-State amounts. The difference in contributions was developed by assuming those members that choose the DB plan will earn the most recent tier of DB benefits (Tier 2 for TRS, Tier 3 for PERS) and comparing those costs to the employer contributions required for the benefits the member would have earned in the DCR Plan (Tier 3 for TRS, Tier 4 for PERS).

We have provided the results under several scenarios varying the percentage of current DCR members and future new hires that elect to join the DB plan instead of the DCR plan. Under the choice option, we have assumed some adverse selection will occur. Adverse selection occurs when a greater portion of older members select the DB plan which increases the normal cost rate. The scenario in which 100% elect the DB plan would represent the estimated future additional employer costs if the DCR plan is repealed. Results are in the attached exhibits.

DATA, ASSUMPTIONS, METHODS AND PROVISIONS

The data used to determine the additional plan costs was based on the DCR data provided by the State during the standard data collection process and was analyzed for consistency and reasonability. The assumptions, plan provisions and methods used are described in the actuarial valuation reports as of June 30, 2007. The allocation between State and Non-State employers for PERS was based on the current payroll as of June 30, 2007. The State payroll is assumed to be the same portion of total payroll for the entire projection period.


Mr. Pat Shier
February 1, 2008
Page 2

In order to determine future costs, we used projected payroll and applied the assumptions and plan provisions described in the actuarial valuation reports as of June 30, 2007. The assumptions were adjusted for the DCR members to reflect the benefit provisions in their plan. The total population was projected to increase at a rate of 1% per year.

To account for the adverse selection that we assume will occur when a choice between a DB and a DCR plan is offered we loaded the total normal cost rate for the DB plan by .51% of pay if 25% of the members elect the DB plan, .34% of pay if 50% elect the DB plan and .17% of pay if 75% elect the DB plan.

Please let me know if you have any questions or if we can be of further assistance.

Sincerely,



David H. Sliskinsky, A.S.A.
Principal and Consulting Actuary

/mlp

Enclosures

c: Mr. Kevin Worley, State of Alaska
Mr. Joe Cooper, Buck Consultants
Ms. Michelle DeLange, Buck Consultants
Mr. Chris Hulla, Buck Consultants

Exhibit 1

**State of Alaska
Teachers' Retirement System
June 30, 2007**

Employer Contributions For Members Hired After June 30, 2006 (In thousands)

Fiscal Year	DCR Payroll	DCR Employer Contributions	DB/DCR Choice - Portion of Hires after June 30, 2006 electing the DB Plan			
			25%	50%	75%	100%
FY09	\$ 80,113	\$ 9,253	\$ 8,746	\$ 8,172	\$ 7,529	\$ 6,818
FY10	128,722	14,867	14,053	13,130	12,097	10,954
FY11	176,915	20,434	19,315	18,045	16,626	15,055
FY12	225,214	26,012	24,588	22,972	21,165	19,166
FY13	275,200	31,786	30,045	28,070	25,862	23,420
FY14	327,216	37,793	35,724	33,376	30,750	27,846
Total	\$ 1,213,380	\$ 140,145	\$ 132,471	\$ 123,765	\$ 114,029	\$ 103,259
Increase/(Decrease) in Cost			\$ (7,674)	\$ (16,380)	\$ (26,116)	\$ (36,886)

This is an attachment to a letter dated February 1, 2008.

Exhibit 2

**State of Alaska
Public Employees' Retirement System
June 30, 2007**

Employer Contributions for Members Hired after June 30, 2006 (in thousands)

DB/DCR Choice - Portion of Hires after June 30, 2006 electing the DB Plan

Fiscal Year	DCR Payroll		DCR Employer Contributions		25%		50%		75%		100%	
	State	Non-State Employers	State	Non-State Employers	State	Non-State Employers	State	Non-State Employers	State	Non-State Employers	State	Non-State Employers
FY09	\$ 136,706	\$ 138,213	\$ 13,208	\$ 13,351	\$ 13,640	\$ 13,790	\$ 13,958	\$ 14,112	\$ 14,159	\$ 14,315	\$ 14,245	\$ 14,402
FY10	213,274	215,624	20,602	20,829	21,279	21,514	21,775	22,015	22,090	22,333	22,223	22,468
FY11	289,598	292,791	27,975	28,284	28,895	29,213	29,568	29,894	29,995	30,326	30,176	30,509
FY12	365,528	369,557	35,310	35,699	36,471	36,873	37,320	37,732	37,860	38,277	38,068	38,508
FY13	442,488	447,365	42,744	43,215	44,149	44,636	45,178	45,676	45,831	46,336	46,107	46,615
FY14	521,219	526,965	50,350	50,905	52,005	52,578	53,216	53,803	53,965	54,560	54,311	54,910
Total	\$ 1,968,813	\$ 1,990,515	\$ 190,187	\$ 192,283	\$ 196,439	\$ 198,604	\$ 201,015	\$ 203,232	\$ 203,920	\$ 206,167	\$ 205,150	\$ 207,412
Increase / (Decrease) in Cost					\$ 6,252	\$ 6,321	\$ 10,828	\$ 10,949	\$ 13,733	\$ 13,884	\$ 14,983	\$ 15,129

This is an attachment to a letter dated February 1, 2008.

Allison Biastock

From: Shay Wilson
Sent: Thursday, March 27, 2008 11:39 AM
To: Allison Biastock
Subject: New Pom:Housing

Bonny Lynn Babb
1818 Arctic Blvd

Anchorage 99503-1812,

907-272-7010
same

I'm not good with compute.s. The message has disappeared. Hope you received----

Please fund HB324. The Housing Trust can fund Housing First for the chronically homeless inebriates. Program reduces drain and cost to the hospitals and police departments, besides being effective.

ANCHORAGE HAS NO DETOX! All programs require detox first.

**ALASKA PUBLIC
PENSION COALITION**

TESTIMONY ON

SB 183

**“AN ACT REPEALING THE DEFINED
CONTRIBUTION PLAN FOR TEACHERS
AND PUBLIC EMPLOYEES”**

Members of the Alaska Public Pension Coalition?

National Education Association-Alaska

Alaska State Employees Association (ASEA/AFSCME Local 52)

Alaska Public Employees Association (APEA/AFT)

Alaska AFL-CIO

Anchorage Police Department Employees Association

Anchorage Professional Firefighters Local 1264

Alaska Professional Firefighters Association

International Brotherhood of Electrical Workers (IBEW Local 1547)

Public Safety Employees Association (PSEA/AFSCME Local 803)

National Public Pension Coalition

Retired Public Employees of Alaska (RPEA/APEA/AFT)

Alaska Retired Educators Association

AARP ALASKA

Alaska Center for Public Policy

Teamsters Local 959

Public Employees Local 71/LIUNA

Why the Alaska Public Pension Coalition opposes the DC plan.

- Does not provide a secure pension on retirement!
- Inadequate medical coverage for retirees!
- Inability to recruit and retain public employees!
- No overall cost savings in moving from DB (TRS Tier II or PRS Tier III) to DC Plan!

A Defined Contribution System does not provide a secure pension

- **National Studies (Wharton School of Business 2004) show that more than 2/3 of DC plan participants cashed out their account when terminating employment leaving them with little or no funds for retirement.**
- **National Studies (Center for Retirement Research, Boston College 2006) show the median 401 (K) fund balances with household heads age 55-64 was \$60,000.**
- **Which means \$400 a month annuity income over their lifetime.**

A Defined Contribution System does not provide a secure pension

- **There is no Post Retirement Pension Adjustment which helps keep up with the cost of inflation.**
- **Teachers and most Public Employees in the DC plan unlike private sector employees will not receive social security and therefore have no defined benefit plan.**

Inadequate Medical Coverage for Retirees

- Retirees under the DC plan will not have a good medical plan to cover medical expenses.
- Must retire directly from state service to access medical benefit
- With 10 years of service access to medical coverage at Medicare eligible age or any age with 25 years of service for peace officers and firefighters or 30 years of service for all others
- May use health reimbursement account (HRA) to pay premiums – but once that is gone the retiree must self-pay the premium

Inadequate Medical Coverage for Retirees

- Retiree must pay 100% of the premiums of the plan until eligible for Medicare
- Upon reaching Medicare eligibility the retiree must pay 10% to 30% of the premiums depending on the years of service. Must work 30 years to pay just 10%
- The state may terminate the retiree medical plan at any time
- So for retirees under the DC plan – no decent medical benefit – if any at all

Inability to Recruit and Retain Public Employees

**The DC Plan encourages public employees
to move on to other employers**

**Even the Division of Retirement and
Benefits encourages this in their promotion
on their website of the DC Plan.**

Inability to Recruit and Retain Public Employees

R & B website excerpts promoting DC Plan

- Get it to Go
- Your savings move right along with you as you blaze your career trail
- We have made the new retirement plan just as modern and mobile as our most adventurous Alaska employees
- When you are ready to move on, just take your savings with you
- When you change employers, move your savings, or take your money with you

State of Alaska Employee Movement Report for Calendar Year 2006 prepared by the Division of Personnel shows increasing problems with recruitment and retention

- Noticeable changes in employee movement since the 2005 report
- The turnover rate has increased and continues to be higher than the hire rate by 3%
- The turnover rate in 2005 was 24% and exceeded the hire rate of 22%
- The turnover rate in 2006 for the Executive Branch is 29% and exceeds the hire rate of 26%
- The department with the highest turnover rate is Public Safety at 40%

An analysis of General Government Unit Employees prepared by ASEA shows that in 2007 the turnover rate for employees with under 2 years of service is 30% and drops to 23 % from 2 to 5 years

No overall cost savings in moving from DB (TRS Tier II, PERS Tier III) to DC

**Buck Consultants in February 11, 2008 analysis
to Division of Retirement and Benefits shows:**

- **The TRS Tier 2 DB Plan costs less (3%) than
the Tier 3 DC Plan**
- **The PRS Tier 3 DB Plan costs slightly more
(3/4 of a percent) than the Tier 4 DC plan**

The DC Plan is not working for Alaska and its Public Employees

- **Does not provide a secure pension on retirement!**
- **Inadequate medical coverage for retirees!**
- **Inability to recruit and retain public employees!**
- **No overall cost savings in moving from DB (FRS Tier II, PERS Tier III) to DC!**

A Defined Benefit Plan Works Best for the State of Alaska and its Public Employees

- **A stable pension that will enable retirees to stay in Alaska**
- **A medical plan that will enable retirees to meet their medical needs**
- **The ability to recruit employees and encourage them to make public service in Alaska their career**
- **And a Defined Benefit Plan does all this at less cost overall than the Defined Contribution Plan**

The Alaska Public Pension Coalition

National Education Association-Alaska

Alaska State Employees Association (ASEA/AFSCME Local 52)

Alaska Public Employees Association (APEA/AFT)

Alaska AFL-CIO

Anchorage Police Department Employees Association

Anchorage Professional Firefighters Local 1264

Alaska Professional Firefighters Association

International Brotherhood of Electrical Workers (IBEW Local 1547)

Public Safety Employees Association/AFSCME Local 803

National Public Pension Coalition

Retired Public Employees of Alaska

Alaska Retired Educators Association

AARP ALASKA

Alaska Center for Public Policy

Teamsters Local 959

Public Employees Local 71/LIUNA

Urges You To Support SB 183!

SUPPORT SB 183

REPEALING

THE

DEFINED CONTRIBUTION

PLAN

FOR TEACHERS

AND PUBLIC EMPLOYEES