

HB

280

<TARGET><BILL>HB 280</BILL><SUBJECT>HB
280</SUBJECT><COMM>HSTA29</COMM></TARGET>



Representative Sam Kito III

Alaska State Legislature

DATE: 29 January 2016

TO: Representative Bob Lynn
Chair, House State Affairs Committee

FROM: Representative Sam Kito

RE: HB 280 – Teachers and public employee retirement plans

I respectfully request that the House State Affairs Committee schedule House Bill 280 – Teachers and public employee retirement plans for a hearing.

Please find attached:

- House Bill 280 version A
- Sponsor Statement
- Sectional Analysis

Thank you for your consideration. If you have any questions, please do not hesitate to contact me or my staff Bianca Carpeneti at 465-4767.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sam Kito III".

Rep. Sam Kito III

(Public testimony closed)

29-LS0152E

*929 A
V wants to see statistic on the attrition rate*

*Tier 2
3
4*

*3/24 1133 A SW Bianca
She's working on getting this information & will give to all members*

HOUSE BILL NO. 280

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY REPRESENTATIVE KITO

Introduced: 1/29/16

Referred:

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to new defined benefit tiers in the public employees' retirement system**
2 **and the teachers' retirement system; providing certain employees an opportunity to**
3 **choose between the defined benefit and defined contribution plans of the public**
4 **employees' retirement system and the teachers' retirement system; and providing for an**
5 **effective date."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 *** Section 1.** AS 14.25.009 is repealed and reenacted to read:

8 **Sec. 14.25.009. Applicability of AS 14.25.009 - 14.25.220.** (a) The provisions
9 of AS 14.25.009 - 14.25.220 apply to teachers who are eligible to be members of the
10 teachers' retirement system under AS 14.25.009 - 14.25.220 and are not members of
11 the defined contribution retirement plan under AS 14.25.310 - 14.25.590.

12 (b) An employer that participates in the plan shall also participate in the
13 defined contribution retirement plan under AS 14.25.310 - 14.25.590.

1 * **Sec. 2.** AS 14.25.040(a) is amended to read:

2 (a) Unless a teacher or member participates in a university retirement program
3 under AS 14.40.661 - 14.40.799 or has elected under AS 14.25.330 or former
4 AS 14.25.540 to participate in the plan established in AS 14.25.310 - 14.25.590, a
5 teacher or member contracting for service with a participating employer is subject to
6 AS 14.25.009 - 14.25.220.

7 * **Sec. 3.** AS 14.25.050(a) is amended to read:

8 (a) Except as provided in (c) and (e) of this section, beginning January 1,
9 1991, each member shall contribute to the plan an amount equal to 8.65 percent of the
10 member's base salary accrued from July 1 to the following June 30. [THE
11 EMPLOYER SHALL DEDUCT THE CONTRIBUTION FROM THE MEMBER'S
12 SALARY AT THE END OF EACH PAYROLL PERIOD, AND THE
13 CONTRIBUTION SHALL BE CREDITED BY THE PLAN TO THE MEMBER
14 CONTRIBUTION ACCOUNT. THE CONTRIBUTIONS SHALL BE DEDUCTED
15 FROM EMPLOYEE COMPENSATION BEFORE THE COMPUTATION OF
16 APPLICABLE FEDERAL TAXES AND SHALL BE TREATED AS EMPLOYER
17 CONTRIBUTIONS UNDER 26 U.S.C. 414(h)(2). A MEMBER MAY NOT HAVE
18 THE OPTION OF MAKING THE PAYROLL DEDUCTION DIRECTLY IN CASH
19 INSTEAD OF HAVING THE CONTRIBUTION PICKED UP BY THE
20 EMPLOYER.]

21 * **Sec. 4.** AS 14.25.050 is amended by adding new subsections to read:

22 (e) Except as provided in (a) and (c) of this section, a member who first
23 participates in the plan after June 30, 2006, shall contribute to the plan an amount
24 equal to eight percent of the employee's base salary accrued from July 1 to the
25 following June 30.

26 (f) The employer shall deduct the contributions under (a) and (e) of this
27 section from the member's salary at the end of each payroll period, and the
28 contributions shall be credited by the plan to the member contribution account. The
29 contributions shall be deducted from employee compensation before the computation
30 of applicable federal taxes and shall be treated as employer contributions under 26
31 U.S.C. 414(h)(2). A member may not have the option of making the payroll deduction

1 directly in cash instead of having the contribution picked up by the employer.

2 * **Sec. 5.** AS 14.25.130(c) is amended to read:

3 (c) Once each year during the first five years following appointment to
4 disability under this section, and once every three-year period thereafter, the
5 administrator may require a disabled member who **first became a member before**
6 **July 1, 2006, and who** has not attained eligibility for normal retirement to undergo a
7 medical or mental examination by a competent physician. The administrator shall
8 suspend any disability benefit for a disabled member who refuses to undergo a
9 physical or mental examination when requested under this section.

10 * **Sec. 6.** AS 14.25.130 is amended by adding new subsections to read:

11 (g) A person who first becomes a member after June 30, 2006, and who is
12 receiving a benefit under this section shall undergo a medical examination as often as
13 the administrator considers advisable, but not more frequently than once each year.
14 The administrator shall determine the place of the examination and engage the
15 physician or physicians. If the administrator determines that the examination indicates
16 that the disabled member is no longer incapacitated because of a total and apparently
17 permanent occupational disability, the administrator may not issue further disability
18 benefits to the member.

19 (h) A person who first becomes a member after June 30, 2006, and who is
20 appointed to disability benefits shall apply to the division of vocational rehabilitation
21 in the Department of Labor and Workforce Development within 30 days after the date
22 disability benefits commence. The member shall be enrolled in a rehabilitation
23 program if the member meets the eligibility requirements of the division of vocational
24 rehabilitation. Unless the member demonstrates cause, benefits shall terminate at the
25 end of the first month in which a disabled member

26 (1) fails to report to the division of vocational rehabilitation;

27 (2) is certified by the division of vocational rehabilitation as failing to
28 cooperate in a vocational rehabilitation program;

29 (3) fails to interview for a job; or

30 (4) fails to accept a position offered.

31 * **Sec. 7.** AS 14.25.168(d) is amended to read:

1 (d) A benefit recipient who first became a member before July 1, 2006, or
 2 the benefit recipient's surviving spouse may elect major medical insurance coverage
 3 in accordance with regulations and under the following conditions:

4 (1) a benefit recipient [PERSON] who has less than 25 years of
 5 membership service and who is younger than 60 years of age must pay an amount
 6 equal to the full monthly group premium for retiree major medical insurance coverage;

7 (2) a disabled member, a disabled member who is appointed to normal
 8 retirement, a person 60 years of age or older, or a person who has at least 25 years of
 9 membership service is not required to make premium payments.

10 * **Sec. 8.** AS 14.25.168 is amended by adding new subsections to read:

11 (g) A benefit recipient, or the surviving spouse of a benefit recipient, who first
 12 becomes a member after June 30, 2006, may elect major medical insurance coverage
 13 in accordance with regulations and under the following conditions:

14 (1) if the participating member or surviving spouse is not eligible for
 15 Medicare, the cost of a monthly premium for retiree major medical insurance coverage
 16 elected under this section is equal to the full monthly group premium for retiree major
 17 medical insurance coverage;

18 (2) if the participating member or surviving spouse is eligible for
 19 Medicare, the cost of a monthly premium for retiree major medical insurance coverage
 20 is a percentage of the full monthly group premium, as follows:

21 (A) 30 percent if the member had 10 or more, but less than 15,
 22 years of service;

23 (B) 25 percent if the member had 15 or more, but less than 20,
 24 years of service;

25 (C) 20 percent if the member had 20 or more, but less than 25,
 26 years of service;

27 (3) the cost of a monthly premium paid by the member or the
 28 member's surviving spouse for retiree major medical insurance coverage is

29 (A) 15 percent of the full monthly group premium if the
 30 participating member has 25 or more, but less than 30, years of service;

31 (B) 10 percent of the full monthly group premium if the

1 participating member has 30 or more years of service;

2 (4) a disabled member or a disabled member who is appointed to
3 normal retirement is not required to make premium payments.

4 (h) On or after July 1, 2021, and every five years thereafter, the administrator
5 shall adjust the percentages under (g)(2) and (3) of this section as needed to maintain,
6 but not to exceed, over the succeeding five years, an employer normal cost rate for the
7 members and survivors who first become members after June 30, 2006, that does not
8 exceed the combined total of the rates under AS 14.25.350(a), (b), (d), and (e) minus
9 the employer normal cost rate attributable to the members who first become members
10 after June 30, 2006, for benefits under AS 14.25.009 - 14.25.167. An adjustment made
11 under this subsection shall remain in effect for five years. In making an adjustment
12 under this subsection, the administrator shall maintain the five percent differences
13 between the percentages in (g)(2)(A), (B), and (C) of this section and the five percent
14 differences between the percentages in (g)(3)(A) and (B) of this section.

15 (i) When a member is appointed to retirement, the member obtains a vested
16 right to the applicable percentage under (g)(2) or (3) of this section, as adjusted under
17 (h) of this section, that is in effect when the member is appointed to retirement. A
18 member does not obtain a vested right to a percentage under (g)(2) or (3) of this
19 section, as adjusted under (h) of this section, before the member is appointed to
20 retirement.

21 * **Sec. 9.** AS 14.25.310 is amended to read:

22 **Sec. 14.25.310. Applicability of AS 14.25.310 - 14.25.590.** The provisions of
23 AS 14.25.310 - 14.25.590 apply only to

24 (1) teachers who first become members on or after July 1, 2006, and
25 before the effective date of this section who do not transfer to a defined benefit
26 retirement plan under AS 14.25.009 - 14.25.220 or AS 39.35.095 - 39.35.680;

27 (2) teachers described in AS 14.25.330 who elect under that section
28 to become [TO MEMBERS WHO ARE EMPLOYED BY EMPLOYERS THAT DO
29 NOT PARTICIPATE IN THE DEFINED BENEFIT RETIREMENT PLAN
30 ESTABLISHED UNDER AS 14.25.009 - 14.25.220, TO FORMER MEMBERS
31 UNDER AS 14.25.220, OR TO] members; and

1 (3) teachers who transferred [TRANSFER] into the defined
2 contribution retirement plan under former AS 14.25.540.

3 * **Sec. 10.** AS 14.25.310 is amended by adding a new subsection to read:

4 (b) An employer that participates in the plan shall also participate in the
5 defined benefit retirement plan under AS 14.25.009 - 14.25.220.

6 * **Sec. 11.** AS 14.25.330 is repealed and reenacted to read:

7 **Sec. 14.25.330. Retirement plan election option.** (a) A teacher who is first
8 hired on or after the effective date of this section may make a one-time election to
9 participate in the defined contribution retirement plan under AS 14.25.310 - 14.25.590
10 retroactive to the date of hire and may transfer to that plan employee contributions, if
11 any, and employer contributions, if any, that have been made to the defined benefit
12 retirement plan under AS 14.25.009 - 14.25.220. Before employer contributions are
13 transferred under this subsection, the administrator shall recalculate them under
14 AS 14.25.070.

15 (b) The election to participate in the defined contribution retirement plan
16 under (a) of this section must be made within 90 days after the date of hire and be
17 made in writing on a form and in the manner prescribed by the administrator. Before
18 accepting an election to participate in the defined contribution retirement plan, the
19 administrator shall, within 20 days after the administrator receives notification of the
20 teacher's date of hire, provide the teacher eligible to make an election to participate in
21 the defined contribution retirement plan under AS 14.25.310 - 14.25.590 with

22 (1) information, including calculations to illustrate the effect of
23 moving the teacher's retirement plan from the defined benefit retirement plan to the
24 defined contribution retirement plan; and

25 (2) other information clearly to inform the teacher of the potential
26 consequences of the teacher's election.

27 (c) An election made under (a) of this section to participate in the defined
28 contribution retirement plan is irrevocable. Retroactive to the date of hire, the teacher
29 shall be enrolled in the defined contribution retirement plan under AS 14.25.310 -
30 14.25.590, the teacher's participation in the plan shall be governed by the provisions
31 for the defined contribution retirement plan, and the teacher's participation in the

1 defined benefit retirement plan under AS 14.25.009 - 14.25.220 shall terminate. An
2 election made by an eligible teacher who is married is not effective unless the election
3 is signed by the teacher's spouse.

4 (d) When an eligible teacher makes an election under (a) of this section, the
5 administrator shall cause the total amount of the teacher's employee and employer
6 contributions, with investment earnings and losses through the final day of the
7 teacher's participation in the defined benefit retirement plan, to be actuarially
8 calculated and transferred to the teacher's designated account in the defined
9 contribution retirement plan. The administrator shall establish transfer procedures by
10 regulation, but the actual transfer may not be later than 30 days after the date the
11 administrator receives the teacher's completed election form under (b) of this section,
12 unless the major financial markets for securities available for a transfer are seriously
13 disrupted by an unforeseen event that also causes the suspension of trading on any
14 national securities exchange in the country where the securities were issued. In that
15 event, the 30-day period may be extended by a resolution of the board. Transfers are
16 not commissionable or subject to other fees and may be in the form of securities or
17 cash as determined by the board. Securities shall be valued on the date of receipt in the
18 teacher's account.

19 (e) An election under (a) of this section made by an eligible teacher who is
20 married is not effective unless the election is signed by the teacher's spouse. An
21 eligible teacher whose accounts are subject to a qualified domestic relations order may
22 not make an election to participate in the defined contribution retirement plan under
23 this section unless the qualified domestic relations order is amended or vacated and
24 court-certified copies of the order are received by the administrator.

25 * **Sec. 12.** AS 39.35.095 is repealed and reenacted to read:

26 **Sec. 39.35.095. Applicability of AS 39.35.095 - 39.35.680.** (a) The provisions
27 of AS 39.35.095 - 39.35.680 apply to public employees who are eligible to be
28 members of the public employees' retirement system under AS 39.35.095 - 39.35.680
29 and are not members of the defined contribution retirement plan under AS 39.35.700 -
30 39.35.990.

31 (b) A public organization or a municipality or other political subdivision of the

1 state that participates in the plan shall also participate in the defined contribution
2 retirement plan under AS 39.35.700 - 39.35.990.

3 * **Sec. 13.** AS 39.35 is amended by adding a new section to read:

4 **Sec. 39.35.128. Participation of elected officials of political subdivisions.** (a)

5 A person who is an elected official of a political subdivision of the state and who has
6 not participated in the plan or waived participation in the plan before July 1, 2016, is a
7 member of the plan if

8 (1) the political subdivision has elected under AS 39.35.600 -
9 39.35.650 to designate elected officials in the classifications of employees entitled to
10 participate in the plan; and

11 (2) the elected official receives compensation from the political
12 subdivision for services as an elected official in the amount of at least \$2,001 a month.

13 (b) An elected official entitled to participate under this section, and who either
14 has no previous service under the system with the political subdivision or is retired
15 under the system, may file a waiver of participation in the plan with the administrator
16 within 30 days after the later of July 1, 2016, or the date that the elected official's term
17 of office begins. A waiver is irrevocable for the remainder of the elected official's
18 service as an elected official or employee of the political subdivision.

19 * **Sec. 14.** AS 39.35.160(a) is amended to read:

20 (a) Subject to (e) of this section, beginning [BEGINNING] January 1, 1987,
21 each peace officer or firefighter shall contribute to the plan an amount equal to seven
22 and one-half percent of the peace officer's or firefighter's compensation. Except as
23 provided in (d) and (e) of this section, beginning January 1, 1987, each other
24 employee shall contribute to the plan an amount equal to six and three-quarters percent
25 of the employee's compensation. [THE CONTRIBUTIONS SHALL BE DEDUCTED
26 BY THE EMPLOYER AT THE END OF EACH PAYROLL PERIOD. THE
27 CONTRIBUTIONS SHALL BE DEDUCTED FROM EMPLOYEE
28 COMPENSATION BEFORE COMPUTATION OF APPLICABLE FEDERAL
29 TAXES, AND THE CONTRIBUTIONS SHALL BE TREATED AS EMPLOYER
30 CONTRIBUTIONS UNDER 26 U.S.C. 414(h)(2). A MEMBER MAY NOT HAVE
31 THE OPTION OF MAKING THE PAYROLL DEDUCTION DIRECTLY INSTEAD

1 OF HAVING THE CONTRIBUTION PICKED UP BY THE EMPLOYER.]

2 * **Sec. 15.** AS 39.35.160 is amended by adding new subsections to read:

3 (e) Except as provided in (a) and (d) of this section, an employee, including a
4 peace officer or firefighter, who first participates in the plan after June 30, 2006, shall
5 contribute to the plan an amount equal to eight percent of the employee's
6 compensation.

7 (f) Contributions under (a) and (e) of this section shall be deducted by the
8 employer at the end of each payroll period. The contributions shall be deducted from
9 employee compensation before computation of applicable federal taxes, and the
10 contributions shall be treated as employer contributions under 26 U.S.C. 414(h)(2). A
11 member may not have the option of making the payroll deduction directly instead of
12 having the contribution picked up by the employer.

13 * **Sec. 16.** AS 39.35.410(g) is amended to read:

14 (g) A disabled employee **who first became a member before July 1, 2006,**
15 **and who is** receiving an occupational disability benefit shall undergo a medical
16 examination as often as the administrator considers advisable but not more frequently
17 than once each year. The administrator shall determine the place of the examination
18 and engage the physician or physicians. If, in the judgment of the administrator, the
19 examination indicates that the retired employee is no longer incapacitated because of a
20 total and apparently permanent occupational disability, the administrator may not issue
21 further disability benefits to the employee.

22 * **Sec. 17.** AS 39.35.410 is amended by adding a new subsection to read:

23 (k) A person who first becomes a member after June 30, 2006, and who is
24 appointed to disability benefits shall apply to the division of vocational rehabilitation
25 within 30 days after the date disability benefits commence. The employee shall be
26 enrolled in a rehabilitation program if the employee meets the eligibility requirements
27 of the division of vocational rehabilitation. Unless the employee demonstrates cause,
28 benefits shall terminate at the end of the first month in which a disabled employee

29 (1) fails to report to the division of vocational rehabilitation;

30 (2) is certified by the division of vocational rehabilitation as failing to
31 cooperate in a vocational rehabilitation program;

1 (3) fails to interview for a job; or

2 (4) fails to accept a position offered.

3 * **Sec. 18.** AS 39.35.535(c) is amended to read:

4 (c) A benefit recipient may elect major medical insurance coverage in
5 accordance with regulations and under the following conditions:

6 (1) a person who first became a member before July 1, 2006, or the
7 surviving spouse of the person, other than a disabled member or a disabled member
8 who is appointed to normal retirement, must pay an amount equal to the full monthly
9 group premium for retiree major medical insurance coverage if the person is

10 (A) younger than 60 years of age and has less than

11 (i) 25 years of credited service as a peace officer under
12 AS 39.35.360 and 39.35.370; or

13 (ii) 30 years of credited service under AS 39.35.360 and
14 39.35.370 that is not service as a peace officer; or

15 (B) of any age and has less than 10 years of credited service;

16 (2) a person who first became a member before July 1, 2006, or the
17 surviving spouse of the person is not required to make premium payments for retiree
18 major medical coverage if the person

19 (A) is a disabled member;

20 (B) is a disabled member who is appointed to normal
21 retirement;

22 (C) is 60 years of age or older and has at least 10 years of
23 credited service; or

24 (D) has at least

25 (i) 25 years of credited service as a peace officer under
26 AS 39.35.360 and 39.35.370; or

27 (ii) 30 years of credited service under AS 39.35.360 and
28 39.35.370 not as a peace officer;

29 (3) a benefit recipient who first becomes a member after June 30,
30 2006, or a benefit recipient who is the surviving spouse of a person who first
31 becomes a member after June 30, 2006, except as provided in (4) and (5) of this

1 subsection, shall pay an amount equal to the full monthly group premium for
 2 retiree major medical insurance coverage; however, except as provided in (4) and
 3 (5) of this subsection, if the benefit recipient is eligible for Medicare, the cost of a
 4 monthly premium is a percentage of the full monthly group premium, as follows:

5 (A) 30 percent if the member has 10 or more, but less than
 6 15, years of service;

7 (B) 25 percent if the member has 15 or more, but less than
 8 20, years of service;

9 (C) 20 percent if the member has 20 or more, but less than
 10 25, years of service;

11 (D) 15 percent if the member has 25 or more, but less than
 12 30, years of service not as a peace officer;

13 (4) except as provided in (5) of this subsection, a benefit recipient
 14 who first becomes a member after June 30, 2006, or a benefit recipient who is the
 15 surviving spouse of a person who first becomes a member after June 30, 2006,
 16 shall pay a monthly premium that is

17 (A) 15 percent of the cost of a full monthly group premium
 18 if the member has 25 or more, but less than 30, years of service as a peace
 19 officer; or

20 (B) 10 percent of the cost of a full monthly group premium
 21 if the member has 30 or more years of service;

22 (5) a benefit recipient who first becomes a member after June 30,
 23 2006, is not required to make premium payments for retiree major medical
 24 coverage if the recipient

25 (A) is a disabled member; or

26 (B) is a disabled member who is appointed to normal
 27 retirement;

28 (6) on or after July 1, 2021, and every five years thereafter, the
 29 administrator shall adjust the percentages under (3) and (4) of this subsection as
 30 needed to maintain, but not to exceed, over the succeeding five years, an
 31 employer normal cost rate for the members and survivors who first became

1 members after June 30, 2006, that does not exceed the combined total of the rates
 2 under AS 39.35.750(a), (b), (d), and (e) minus the employer normal cost rate
 3 attributable to the members who first become members after June 30, 2006, for
 4 benefits under AS 39.35.095 - 39.35.530; an adjustment made under this
 5 paragraph shall remain in effect for five years; in making an adjustment under
 6 this paragraph, the administrator shall maintain the five percent differences
 7 between the percentages in (3)(A), (B), (C), and (D) of this subsection and the five
 8 percent differences between the percentages in (4)(A) and (B) of this subsection;

9 (7) when a member is appointed to retirement, the member
 10 obtains a vested right to the applicable percentage under (3) or (4) of this
 11 subsection, as adjusted under (6) of this subsection, that is in effect when the
 12 member is appointed to retirement; a member does not obtain a vested right to a
 13 percentage under (3) or (4) of this subsection, as adjusted under (6) of this
 14 subsection, before appointment to retirement.

15 * Sec. 19. AS 39.35.620(k) is amended to read:

16 (k) Termination of an employer's participation in the plan does not bar future
 17 participation in the system by that employer if the employer is current with payments
 18 on amounts due under AS 39.35.625. [IF A PREVIOUSLY TERMINATED
 19 EMPLOYER RETURNS TO THE SYSTEM, THE EMPLOYER MAY ONLY
 20 PARTICIPATE IN THE PLAN ESTABLISHED UNDER AS 39.35.700 - 39.35.990.
 21 EMPLOYEES MAY BE CREDITED UNDER AS 39.35.700 - 39.35.990 ONLY
 22 WITH SERVICE SUBSEQUENT TO THE DATE OF RETURN.]

23 * Sec. 20. AS 39.35.680(18) is amended to read:

24 (18) "employer" means
 25 (A) the State of Alaska;
 26 (B) a political subdivision or public organization of the state
 27 that participates in the plan based on a resolution to participate in the plan that
 28 was approved by the administrator [ON OR BEFORE JULY 1, 2006]; or
 29 (C) a political subdivision or public organization of the state
 30 that, as a result of consolidation or reorganization [THAT OCCURS ON OR
 31 AFTER JULY 1, 2006], assumes liability under the plan of a political

1 subdivision or public organization described in (B) of this paragraph;

2 * **Sec. 21.** AS 39.35.700 is amended to read:

3 **Sec. 39.35.700. Applicability of AS 39.35.700 - 39.35.990.** The provisions of
4 AS 39.35.700 - 39.35.990 apply only to

5 (1) members first hired on or after July 1, 2006, and before the
6 effective date of this section who do not transfer to a defined benefit retirement
7 plan under AS 14.25.009 - 14.25.220 or AS 39.35.095 - 39.35.680;

8 (2) public employees described in AS 39.35.720 who elect under
9 that section to become [TO MEMBERS WHO ARE EMPLOYED BY
10 EMPLOYERS THAT DO NOT PARTICIPATE IN THE DEFINED BENEFIT
11 RETIREMENT PLAN ESTABLISHED UNDER AS 39.35.095 - 39.35.680, TO
12 FORMER MEMBERS AS DEFINED IN AS 39.35.680, OR TO] members; and

13 (3) members who transferred [TRANSFER] into the defined
14 contribution retirement plan under former AS 39.35.940.

15 * **Sec. 22.** AS 39.35.700 is amended by adding a new subsection to read:

16 (b) A public organization as defined in AS 39.35.680 or a municipality or
17 other political subdivision of the state that participates in the plan shall also participate
18 in the defined benefit retirement plan under AS 39.35.095 - 39.35.680.

19 * **Sec. 23.** AS 39.35.720 is repealed and reenacted to read:

20 **Sec. 39.35.720. Retirement plan election option.** (a) A public employee who
21 is first hired on or after the effective date of this section may make a one-time election
22 to participate in the defined contribution retirement plan under AS 39.35.700 -
23 39.35.990 retroactive to the date of hire and may transfer to that plan employee
24 contributions, if any, and employer contributions, if any, that have been made to the
25 defined benefit retirement plan under AS 39.35.095 - 39.35.680. Before employer
26 contributions are transferred under this subsection, the administrator shall recalculate
27 them under AS 39.35.255.

28 (b) The election to participate in the defined contribution retirement plan
29 under (a) of this section must be made within 90 days after the date of hire and be
30 made in writing on a form and in the manner prescribed by the administrator. Before
31 accepting an election to participate in the defined contribution retirement plan under

1 AS 39.35.700 - 39.35.990, the administrator shall, within 20 days after the
2 administrator receives notice of the public employee's date of hire, provide the
3 employee eligible to make an election to participate in the defined contribution
4 retirement plan with

5 (1) information, including calculations to illustrate the effect of
6 moving the employee's retirement plan from the defined benefit retirement plan to the
7 defined contribution retirement plan; and

8 (2) other information clearly to inform the employee of the potential
9 consequences of the employee's election.

10 (c) An election made under (a) of this section to participate in the defined
11 contribution retirement plan is irrevocable. Retroactive to the date of hire, the
12 employee shall be enrolled in the defined contribution retirement plan under
13 AS 39.35.700 - 39.35.990, the employee's participation in the plan shall be governed
14 by the provisions for the defined contribution retirement plan, and the employee's
15 participation in the defined benefit retirement plan under AS 39.35.095 - 39.35.680
16 shall terminate. An election made by an eligible employee who is married is not
17 effective unless the election is signed by the employee's spouse.

18 (d) When an employee makes an election under (a) of this section, the
19 administrator shall cause the total amount of the employee's employee and employer
20 contributions, with investment earnings and losses through the final day of the
21 employee's participation in the defined benefit retirement plan, to be actuarially
22 calculated and transferred to the employee's designated account in the defined
23 contribution retirement plan. The administrator shall establish transfer procedures by
24 regulation, but the actual transfer may not be later than 30 days after the date the
25 administrator receives the employee's completed election form under (b) of this
26 section, unless the major financial markets for securities available for a transfer are
27 seriously disrupted by an unforeseen event that also causes the suspension of trading
28 on any national securities exchange in the country where the securities were issued. In
29 that event, the 30-day period may be extended by a resolution of the board. Transfers
30 are not commissionable or subject to other fees and may be in the form of securities or
31 cash as determined by the board. Securities shall be valued on the date of receipt in the

1 employee's account.

2 (e) An election made by an eligible employee who is married is not effective
3 unless the election is signed by the employee's spouse. An eligible employee whose
4 accounts are subject to a qualified domestic relations order may not make an election
5 to participate in the defined contribution retirement plan under this section unless the
6 qualified domestic relations order is amended or vacated and court-certified copies of
7 the order are received by the administrator.

8 * **Sec. 24.** AS 14.25.012(c), 14.25.540; AS 39.35.940, and 39.35.957(b) are repealed.

9 * **Sec. 25.** The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 **RETIREMENT PLAN ELECTION CHOICE.** (a) A teacher who was first hired after
12 June 30, 2006, and before the effective date of this section and who is a member of the
13 defined contribution plan of the teachers' retirement system under AS 14.25.310 - 14.25.590
14 may make a one-time election, within 90 days after the effective date of this section, to
15 participate in the defined benefit retirement plan under AS 14.25.009 - 14.25.220 and to
16 transfer all contributions, including employer contributions, that have been made or should be
17 made to the defined contribution retirement plan for service the member completes before the
18 effective date of the member's participation in the defined benefit retirement plan.

19 (b) A public employee who was first hired after June 30, 2006, and before the
20 effective date of this section and who is a member of the defined contribution plan of the
21 public employees' retirement system under AS 39.35.700 - 39.35.990 may make a one-time
22 election, within 90 days after the effective date of this section, to participate in the defined
23 benefit retirement plan under AS 39.35.095 - 39.35.680 and to transfer all contributions,
24 including employer contributions, that have been made or should be made to the defined
25 contribution retirement plan for any service the member completes before the effective date of
26 the member's participation in the defined benefit retirement plan.

27 * **Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to
28 read:

29 **RETIREMENT PLAN ELECTION PROCEDURE; REGULATIONS REQUIRED.**

30 (a) The election to participate in the defined benefit retirement plan under sec. 25 of this Act
31 must be made in writing on forms and in the manner prescribed by the administrator. Before

1 accepting an election to participate in the defined benefit retirement plan, the administrator
2 shall provide the employee planning on making an election to participate in the defined
3 benefit retirement plan with information, including calculations to illustrate the effect of
4 moving the employee's retirement plan from the defined contribution retirement plan to the
5 defined benefit retirement plan as well as other information clearly to inform the employee of
6 the potential consequences of the employee's election.

7 (b) An election made under sec. 25 of this Act to participate in the defined benefit
8 retirement plan is irrevocable. On the effective date of the election, an eligible employee who
9 makes the election shall be enrolled as a member of the defined benefit retirement plan, the
10 employee's participation in the plan shall be governed by the provisions for the defined
11 benefit retirement plan, and the employee's participation in the defined contribution retirement
12 plan shall terminate. The employee's enrollment in the defined benefit retirement plan shall be
13 effective retroactive to the date of hire. An election made by an eligible employee who is
14 married is not effective unless the election is signed by the employee's spouse.

15 (c) When an eligible employee makes a one-time election under sec. 25 of this Act,
16 the administrator shall cause the total amount of the employee's employee and employer
17 contributions, with investment earnings and losses through the final day of the employee's
18 participation as a member in the defined contribution retirement plan, to be actuarially
19 calculated and, subject to (d) of this section, transferred to the pension fund in the defined
20 benefit retirement plan. On the effective date of the employee's participation in the defined
21 benefit retirement plan, the employee shall be credited with service in the defined benefit
22 retirement plan that is equal to the employee's service in years, including fractional years,
23 recognized for computing benefits that may be due from the defined contribution retirement
24 plan. The board shall establish transfer procedures by regulation, but the actual transfer may
25 not be later than 30 days after the date the administrator receives the employee's completed
26 election forms under (a) of this section, unless the major financial markets for securities
27 available for a transfer are seriously disrupted by an unforeseen event that also causes the
28 suspension of trading on any national securities exchange in the country where the securities
29 were issued. In that event, the 30-day period may be extended by a resolution of the board.
30 Transfers are not commissionable or subject to other fees and may be in the form of securities
31 or cash as determined by the board. Securities shall be valued on the date of receipt in the

1 employee's account.

2 (d) If the value actuarially calculated under (c) of this section is insufficient to pay for
 3 a service credit equal to the employee's actual service, the administrator shall allow the
 4 employee to create an indebtedness up to the amount needed to eliminate the insufficiency;
 5 however, if that value exceeds the amount needed to pay for a service credit equal to the
 6 employee's actual service, the administrator shall cause the excess to be paid to the employee
 7 as a rollover transfer to either an individual employee annuity account in the Department of
 8 Administration under the terms of AS 39.30.150 - 39.30.180 (State of Alaska Supplemental
 9 Annuity Plan) or, if the employee's employer does not participate in the State of Alaska
 10 Supplemental Annuity Plan, to an eligible retirement plan as defined in AS 14.25.360(d) or
 11 AS 39.35.760(d). An excess under this subsection may not be used to purchase service credit
 12 in a retirement plan administered under AS 14.25 or AS 39.35.

13 (e) The provisions of this section are subject to the requirements of the Internal
 14 Revenue Code and the limitations under AS 14.25.010, 14.25.320(c) and (d), 14.25.490,
 15 AS 39.35.115, 39.35.678, 39.35.710(c) and (d), and 39.35.895.

16 (f) In this section,

17 (1) "administrator" means the commissioner of administration or the person
 18 designated by the commissioner of administration under AS 39.35.003 for a public
 19 employees' retirement plan and under AS 14.25.003 for a teachers' retirement plan;

20 (2) "board" means the Alaska Retirement Management Board established
 21 under AS 37.10.210;

22 (3) "defined benefit retirement plan" means the retirement plan established
 23 under

24 (A) AS 14.25.009 - 14.25.220 for a teacher; or

25 (B) AS 39.35.095 - 39.35.680 for a public employee;

26 (4) "defined contribution retirement plan" means the retirement plan
 27 established under

28 (A) AS 14.25.310 - 14.25.590 for a teacher; or

29 (B) AS 39.35.700 - 39.35.990 for a public employee;

30 (5) "Internal Revenue Code" has the meaning given in AS 39.35.990.

31 * **Sec. 27.** The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 ADOPTION OF REGULATIONS. The commissioner of administration shall adopt
3 regulations necessary to implement the changes made by this Act. The regulations take effect
4 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the law
5 implemented by the regulation.

6 * **Sec. 28.** Sections 26 and 27 of this Act take effect immediately under AS 01.10.070(c).

7 * **Sec. 29.** Except as provided in sec. 28 of this Act, this Act takes effect July 1, 2016.



Representative Sam Kito III

Alaska State Legislature

Sponsor Statement

House Bill 280

Teachers and public employee retirement plans

HB 280 lets teachers, Troopers, firefighters and other public employees choose one of two state retirement systems: today's defined contribution retirement account, or earning a new defined benefit pension. And it saves the state money in the process.

A defined benefit pension takes time to earn, but rewards public service by paying a guaranteed monthly benefit and, for long-term employees, health insurance. An individual defined contribution account is portable from one employer to another, and flexible in how it can be used, but makes no guarantees.

HB 280 lets newly hired public servants in Alaska choose the one that fits best. HB 280 creates a new more stable, more predictable defined benefit pension tier for teachers and public employees. A few years ago, Alaska beefed up oversight of the pension system to head off any new surprises. HB 280 keeps these smart reforms, making Alaska pensions stronger than ever.

And because the defined benefit pensions for new employees include sharing the risk of rising health costs, they will never cost employers more than the defined contribution system, saving money for schools, cities, and the State of Alaska. HB 280 will save the state roughly \$70 million in the first 10 years.

Alaska teachers and public employees don't earn the private sector's defined benefit of Social Security, and many even lose Social Security benefits they earned in past jobs. So for most, a defined benefit pension makes sense. Other employees will choose individual defined contribution accounts because they prefer flexibility, portability, and control, or because their plans do not include long-term service in the public sector. HB 280 lets them choose an individual account.

The teachers who educate our children, the police and firefighters who protect our families, and the public employees who serve our state and cities will be able to choose the benefit that best fits their service

Thank you for your support of House Bill 280.



Representative Sam Kito III

Alaska State Legislature

Sectional Analysis

House Bill 280

Teacher and public employee retirement plans

Secs. 1 and 2 Clarify that the Teachers Retirement System (TRS) defined benefit (DB) statutes apply only to employees who participate in the DB plan and did not convert to defined contribution (DC). No employee can participate in both the DB and DC plans. Sec. 1 also puts all TRS employers on an equal footing by requiring them to offer new employees the choice between DB and DC systems.

Secs. 3 and 4 Set employee contributions for the new DB tier at eight percent of pay, while leaving prior tier employees' contributions unchanged.

Secs. 5 and 6 Require a person receiving disability benefits under the DB tiers to seek work and receive a medical examination. Sets limits on the frequency of the exams.

Sec. 7 Closes the Tier II DB health plan to new hires and those DC members who choose to convert to the new TRS DB tier.

Sec. 8 Establishes the eligibility standard for retiree medical benefits in the new TRS DB tier. In the new DB tier, a member with 25 years of service may receive medical benefits partially paid by the system at any age. A member without 25 years must have at least eight years of service and be eligible for Medicare. Disabled members also get system-paid medical benefits.

A TRS DB retiree who does not meet those qualifications can buy health care coverage from the system, but must pay the full cost of premiums.

Establishes a premium share schedule for retirees to pay a portion of their health insurance and requires actuarial adjustments to keep the pre-funding rate of the new DB tier no higher than the cost of the DC plan.

Sets vesting rules for the premium share percentages so that the schedule can change during an employee's working life, but is fixed at the date of retirement.

Sec. 9 Clarifies that the TRS DC statutes apply only to employees who participate in the DC plan and did not convert to DB. No employees can participate in both the DB and DC plans.

Sec. 10 Puts all TRS employers on an equal footing by requiring them to offer new employees the choice between DB and DC.

Sec. 11 Gives a newly hired teacher the choice between DB and DC systems. This is a one-time irrevocable choice. Sets timeframes and rules for the process.

Sec. 12 Clarifies that the Public Employee Retirement System (PERS) DB statutes apply only to employees who participate in the DB plan and did not convert to DC. No employee can participate in both the DB and DC plans. This section also puts all PERS employers on an equal footing by requiring them to offer new employees the choice between DB and DC systems.

Sec. 13 Sets the same minimum wage threshold for elected officials in the new DB tier as the 2004 reforms implemented for prior tiers.

Secs. 14 and 15 Set employee contributions for the new PERS DB tier at eight percent of pay, while leaving prior tier employees' contributions unchanged.

Secs. 16 and 17 Require a person receiving disability benefits under the PERS DB tiers to seek work and receive a medical examination. Sets limits on the frequency of the exams.

Sec. 18 Establishes an eligibility standard for retiree medical benefits in the new PERS DB tier. In the new DB tier, a peace officer or firefighter with 25 years of service may receive medical benefits partially paid by the system at any age. A peace officer or firefighter who does not have 25 years of service must be eligible for Medicare and have at least 10 years. Other PERS employees require 30 years of service to get medical benefits partially paid by the system unless they are Medicare eligible, in which case they require a minimum of 10 years. Disabled members also get system-paid medical benefits.

A PERS DB retiree who does not meet those qualifications can buy health care coverage from the system, but must pay the full cost of premiums.

Establishes a premium share schedule for retirees to pay a portion of their health insurance and requires actuarial adjustments to keep the pre-funding rate of the new DB tier no higher than the cost of the DC plan.

Sets vesting rules for the premium share percentages so that the schedule can change during an employee's working life, but is fixed at the date of retirement.

Secs. 19 and 20 Put all PERS employers on an equal footing by allowing employers that return to PERS after terminating participation to hire employees the same way other PERS employers do, and allows employees to earn service credits in the appropriate tier when working for those employers.

Sec. 21 Clarifies that the PERS DC statutes apply only to employees who participate in the DC plan and did not convert to DB. No employees can participate in both the DB and DC plans.

Sec. 22 Puts all PERS employers on an equal footing by requiring them to offer new employees the choice between DB and DC systems.

Sec. 23 Gives a newly hired public employee the choice between DB and DC systems. This is a one-time irrevocable choice. Sets timeframes and rules for the process.

Sec. 24 Repeals sections that let non-vested employees convert from DB to DC and required employers to match the funds transferred dollar for dollar. Repeals sections related to political subdivisions that participate only in the DC plan. Repeals a requirement that DB employees who refunded contributions from the system and return to work after July 1, 2010 participate only in the DC plan. (Such employees will thus be treated as new hires.)

Sec. 25 Gives employees hired into the TRS and PERS DC plans who have not refunded out of those plans a 90-day period from the effective date of the bill to irrevocably convert into the new DB tier. Contributions move from the DC plan to the DB plan trust if they make the switch.

Sec. 26 Sets the procedure for the conversion election in Sec. 25 and allows the administrator to adopt regulations related to the conversion. The choice to convert is irrevocable, and certain information must be provided to the employee. An employee who transfers receives credited service in the defined benefit plan equal to the value of the employee's DC account. If that amount is insufficient to 'buy' the employee's actual service time, the employee may create an indebtedness to purchase the difference. If the employee's individual account has an excess, the difference is transferred into the Supplemental Benefits System or a comparable account, in keeping with federal tax law.

Sec. 27 Allows the Commissioner of Administration to adopt regulations to implement and make specific the bill's provisions.

Sec. 28 Is an immediate effective date for sections 26 and 27 of the bill.

Sec. 29 Makes the bill effective July 1, 2016, except as provided in Sec. 28.

Nancy Manly

From: Rep. Bob Lynn
Sent: Saturday, March 12, 2016 6:44 PM
To: Nancy Manly
Subject: Fwd: HB 280

Sent via the Samsung Galaxy S® 6, an AT&T 4G LTE smartphone

----- Original message -----

From: Doug Gregg
Date: 3/12/2016 9:08 AM (GMT-09:00)
To: "Rep. Bob Lynn"
Subject: HB 280

Representative Lynn,
I know you are correct that HB280 will improve Alaska's future!

My wife and I spent 15 years successfully running our own businesses. I made a decision to return to teaching because of the Defined Benefit retirement program and my desire to give back to my community. I thoroughly enjoyed my 20 years in education teaching, coaching, advising activities, and promoting Alaska's youth. I did, however take a cut in pay for the first 13 years of teaching. It was not until I became a principal that my salary equalled my income in private employment. The combination of the health insurance through TRS and my work with youth made it a decision I have no regrets in making.

The Defined Contribution plan will contribute to our ability to attract and retain the most qualified professionals to the education profession in Alaska. Others will choose, as I did, to leave successful private employment to serve our state's future...our children.

Thank you for your support of this important measure.
Doug Gregg
Ketchikan

Nancy Manly

From: Rep. Bob Lynn
Sent: Monday, March 21, 2016 8:41 AM
To: Nancy Manly
Subject: FW: Please support HB 280

Very brief letter of support for HB280, which is in STA.

Esther Mielke

Office of Representative Bob Lynn

Session Office Phone: 907-465-4931

Toll-Free: 800-870-4931

State Capitol Room 108

Juneau AK, 99801

From: Laurie Hueffer [mailto:l.hueffer@gmail.com]
Sent: Friday, March 18, 2016 8:45 PM
To: Rep. Bob Lynn
Subject: Please support HB 280

Please support HB 280

--
Laurie Hueffer
l.hueffer@gmail.com

Nancy Manly

From: Rep. Bob Lynn
Sent: Friday, March 18, 2016 9:22 AM
To: Nancy Manly
Subject: FW: Support for HB 280

This is in STA.

Esther Mielke

Office of Representative Bob Lynn

Session Office Phone: 907-465-4931

Toll-Free: 800-870-4931

State Capitol Room 108

Juneau AK, 99801

From: John Netardus [mailto:jnetardus@gmail.com]

Sent: Friday, March 18, 2016 9:11 AM

To: Rep. Sam Kito; Rep. Gabrielle LeDoux; Rep. Cathy Munoz; Rep. Bob Lynn; Rep. Chris Tuck; Rep. Louise Stutes

Subject: Support for HB 280

Representatives,

I am sending my support for HB280 and also SB88. HB280 would allow state employees to choose between defined benefit and defined contribution retirements. I am a 25 year old highway design engineer at ADOT&PF and this option is very important for me as it will help secure my financial future with some certainty versus what I have now as a Tier IV member.

Currently, retirement money is tied up in the stock market in one way or another per the Alaska Defined Contribution system, and we can see how unstable that can be at times by looking at the situation the State of Alaska is in right now. It is lucrative to stay in Alaska and earn my Professional Engineering license and Masters Degree, and then take my skills elsewhere where a more secure financial future is available. The state also just negotiated a contract with state employees such as myself for 0 raises the next three years and 2 furlough days. Alaska may implement some sort of income tax, pfd reduction, and various other taxes on things I like such as beer. Lets pull together and pass this bill that will encourage young professionals like myself and many other coworkers around me to remain in this great state.

How does the state plan to keep good young employees? The deadbeats and tier 1-3 are sure to stay, but the newest generation will leave a huge knowledge gap and use the state as training grounds.

Respectfully,
John Netardus
Engineering Assistant
907-803-3259



February 8, 2016

The Honorable Sam Kito
Alaska State House of Representatives
State Capitol Rm. 422
120 4th Street, Mail Stop 3100
Juneau AK 99801-1182

Dear Representative Kito:

On behalf of the Alaska Peace Officers Association (APOA), I would like to thank you for introducing House Bill 280 "An Act relating to new defined benefit tiers in the public employees' retirement system and the teachers' retirement system; providing certain employees an opportunity to choose between the defined benefit and defined contribution plans of the public employees' retirement system and the teachers' retirement system; and providing for an effective date."

The APOA Board of Directors recently reviewed this proposed legislation and unanimously supports this bill in its current form. Please contact the APOA business office in Anchorage at 277-0515, if there is anything our organization can do to assist in the passage of this bill.

Sincerely,

Brad Johnson
State President
Alaska Peace Officers Association

Cc: Representatives Munoz, Lynn, Stutes, and LeDoux

Alaska Peace Officers Association
PO Box 240106
Anchorage, AK 99524
(907)277-0515
www.apoaonline.org



PUBLIC PENSION RESOURCE GUIDE

Case Studies of State Pension Plans that Switched to Defined Contribution Plans

The “Public Pension Resource Guide” provides readers with facts and data on the important role that public pensions play in the economy—for employees and retirees, public employers, and taxpayers alike.

A misperception persists among some that defined contribution (DC) plans “save money” when compared with traditional pensions. However, several states that switched to DC plans have experienced a much different reality over time. Indeed, a recent NIRS analysis of the economic efficiencies of defined benefit (DB) plans reconfirmed that pensions deliver the same amount of lifetime income for about half of the cost of providing the lifetime income from a typical DC plan.

“Case Studies of State Pension Plans that Switched to Defined Contribution Plans” presents summaries of past changes in three state retirement systems that made the switch to a DC plan from a traditional DB pension. Case studies cover the following states: West Virginia, Michigan, and Alaska. Rather than save states money, these DB to DC switch exacerbated funding problems and drove up pension debt.

Overall, certain trends appear common to all three states, such as:

- Changing from a DB plan to a DC plan did not help an existing underfunding problem, and, in fact, increased pension plan costs.
- Workers under the DC plan face increased levels of retirement insecurity.
- The best way to address a pension underfunding problem is to implement a responsible funding policy of making the full annual required contribution each year and to evaluate and adjust assumptions as well as funding over time.

Each analysis examines the key issues and the impact of the plan change over time. Specific areas include: the impact on the overall demographics of the system membership; changes in the cost of providing benefits under the plan; the percent of the actuarial required contribution made by the state and other public employers each year from 2003-2013; the effect on the retirement security of workers impacted by the change; and the impact on the overall funding level of the plan over time. To the extent possible, the case studies also examine subsequent action taken by policymakers to address the results of the plan changes.



PUBLIC PENSION RESOURCE GUIDE

Look Before You Leap: West Virginia Reopens DB Plan Within 15 Years of Closing; Commits to Improve Funding After DC Plan Benefits Prove Inadequate

Recently, there has been a misperception that defined contribution (DC) plans such as 401k plans “save money” as compared with traditional defined benefit (DB) plans. In light of this misperception, and in the wake of the financial crisis of 2008-2009 that caused underfunding in many public pension plans, many public employers have faced pressures to move from DB plans to DC accounts.

However, changing from DB to DC does not solve the underlying funding problem a state may be experiencing. One interesting case study that experienced this is that of the West Virginia Teachers Retirement System (TRS).

TRS, a traditional DB plan, was historically underfunded, due to lack of contributions from the state. While teachers had always made their contributions (6% of their pay out of every paycheck), the state and many county school boards failed to make their full contributions for many years. In fact, for some years from 1979 onward, the state and many school boards failed to match even employee contributions to the fund. To address the problem, in 1991, the state closed the TRS and moved newly hired teachers into a DC plan. Teachers in the DB plan were given a one-time choice to move to the DC plan as well.

The state later found, however, that this “funding solution” had overlooked some important considerations. Specifically, new members, by definition, do not start with any unfunded obligation. At the same time, unfunded obligations for existing members are not reduced when new members instead go into a DC plan. As a result, the loss of new members makes it more difficult to finance the unfunded obligations of the DB plan.

In other words, with the plan closed, TRS demographics shifted quickly. By 2005, TRS paid pension benefits to nearly 27,000 retired teachers, while less than 18,000 active teachers still contributed to the fund. The plan’s funding level stood at just 25%.

Meanwhile, the DC plan was fairing poorly as well. The members who had opted to transfer from the DB to the DC plan in 1991 found it hard to retire after the 2000–2002 bear market reduced the values of teachers’ accounts. While the state contributed 7.5% of salary to members’ DC accounts—supplemented by a mandatory 4.5% employee contribution—account balances were too low to provide an adequate retirement income. As of April 30, 2005, the average account balance was just \$41,478, and only 105 of the 1,767 teachers over age 60 had balances

over \$100,000. This was largely due to the fact that DC member accounts had achieved much lower investment returns than TRS. Between 2001 and 2010, for example, the average West Virginia DB return was 1.6% higher than the average DC return.

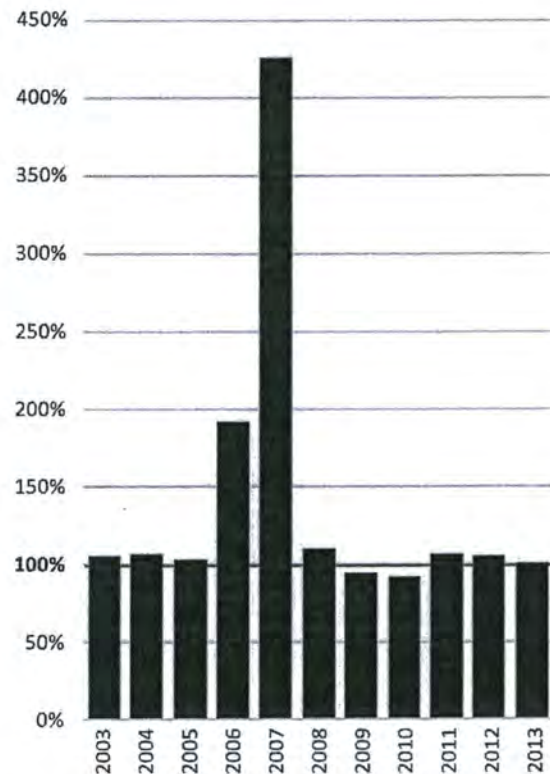
By 2003, the state began reexamining the switch. After studying the issue extensively, it found that the “normal cost” for TRS (the cost of benefits accrued in a single year) was roughly half of the required employer contribution to the DC plan. In other words, providing equivalent benefits would be far less expensive under the DB structure than in the DC plan. As a result, the state decided that, starting in 2005, all new hires would go back into the DB plan.

At the same time, the state became much more disciplined in funding the plan in order to make up for those years when the plan was deliberately underfunded. Extra contributions of \$290.1 million and \$313.8 million were made in 2006 and 2007, respectively. In addition, West Virginia completed a tobacco bond securitization in 2007 and deposited \$807.5 million of those proceeds into TRS as a special appropriation. All these amounts were in addition to the regular required contributions.

After TRS was reopened to new hires, in June 2008, the state allowed teachers who had been hired into the DC plan to choose whether they wanted to remain in that plan, or switch over to TRS. A full 78.6% of teachers (nearly 15,000 members) chose to switch, including 76% of teachers under 40 years old.

Surprisingly, the switch, which was expected to cost the state up to \$78 million before the elections were made, was now expected to save the state about \$22 million, because more young DC members than expected transferred. Specifically, 50% of those over age 70 transferred; 69% of those age 65 to 69 transferred; 81% of those age 45 to 64 transferred; and 76% of members under age 40 transferred.

Table 1. Percentage of ARC Made to West Virginia Teachers, 2003-2013



Ultimately, West Virginia projected \$1.2 billion in savings in the first 30 years by moving new entrants from the DC to the DB plan.

Today, the West Virginia TRS pension plan continues to improve. As of July 1, 2013, the plan’s funded level stood at 58%. That means that in the eight years since reopening the TRS pension, the state narrowed its historically sizeable funding gap by more than half. In addition, its recommended contribution has stabilized dramatically; in fact, in 2013, the recommended contribution was less than it was in 2010. The plan is expected to reach full funding by 2034.

Other states have watched and learned from the West Virginia experience, which showed that ultimately, moving from a DB plan to a DC plan can have dire consequence for employees,

employers, and taxpayers—even when a large unfunded liability exists. Indeed, all states have made significant changes to their retirement plans in the wake of the financial crisis. As states and municipalities have considered switching from the DB pension to a DC plan, those that have conducted a cost analysis have found that the move would save little to no money in the long term, and could actually substantially increase retirement plan costs in the near term. Not surprisingly, virtually no state that has conducted such a study has made the switch. Only one state (Oklahoma) ultimately opted in favor of moving to DC, but it did so as part of an overhaul of the total compensation package, without conducting a separate cost study for the switch.

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- West Virginia Consolidated Public Retirement Board. *Audited Financial Statements, Years Ended June 30, 2004 and 2003*.



PUBLIC PENSION RESOURCE GUIDE

Look Before You Leap to DC: Michigan's Switch Increases Pension Costs, Reduces Retirement Security

Recently, there has been a misperception that switching from a traditional defined benefit (DB) pension plan to a defined contribution (DC) plan such as 401k plan will save taxpayer money and solve pension debt problems. In light of this misperception, and in the wake of the financial crisis of 2008-2009 that caused underfunding in many public pension plans, many public employers have faced pressures to move from DB plans to DC accounts.

However, changing from DB to DC does not decrease retirement plan costs, can drive up pension debt, and will almost certainly increase retirement insecurity. One interesting case study is that of the Michigan State Employees' Retirement System (MSERS).

In 1997, MSERS, a traditional DB pension plan, was closed to new hires, who were placed in a DC plan. Current employees were given a one-time choice to opt into the DC as well. In the DC plan, the state provides an automatic contribution of 4% of each employee's pay, with an additional match of 100% up to 3% of pay that the employee contributes.

At the time, the normal cost of the DB plan (the cost of benefits accrued in a single year) was approximately 9.1% of pay. So, it seemed as though the state would be "saving money"

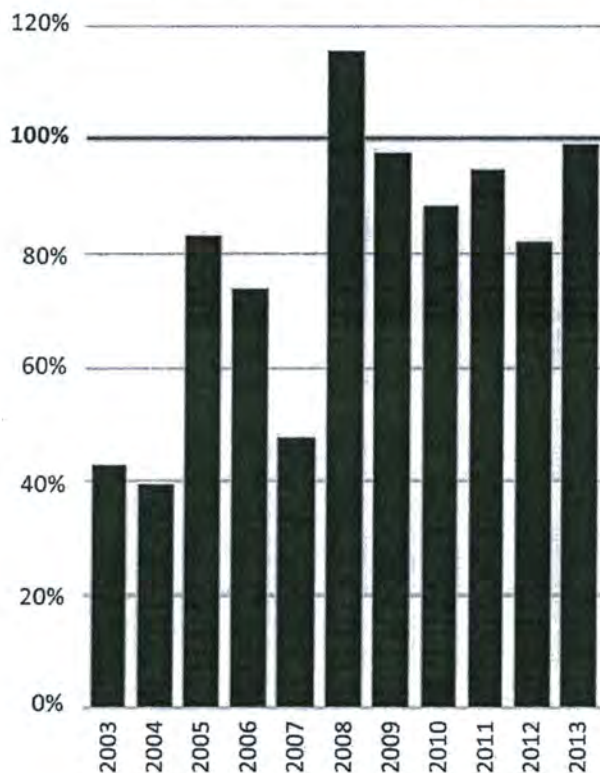
because the employer contribution to the DC plan would be capped at 7%, but any cost savings found by Michigan in the DC plan was produced by providing a lower income benefit in the DC plan.

Generally speaking, when a DB plan is frozen, plan costs will increase. This is because the plan's demographics tend to change rapidly. First, the active population will continue to age, and will amass a higher average liability as their wages grow. At the same time, the number of active members will steadily fall, as individuals retire, meaning an ever-smaller payroll base over which to spread payments on any unfunded liability.

When MSERS closed in 1997, the plan was actually overfunded; it had 109% of assets on hand to cover all liabilities. But by 2012—15 years after freezing new hires out—the plan had become severely underfunded, with an unfunded level of just 60.3%. In other words, while the plan had excess assets on hand of some \$734 million in 1997, by 2012, the plan amassed a significant unfunded liability of \$6.2 billion. Of course, between 1997 and 2012, other factors had come into play as well—two large financial market downturns, for example, as well as several years in which the state contributed less than its required payment.

More recently, however, the state has been making larger payments to MSERS, and financial markets have rebounded since the last downturn. Yet the state's unfunded liability continues to grow. As demographics continue to worsen, the burden increases. In 1997, the annual required contribution was about \$230 million, or \$4,140 per active member. By 2013, the required contribution had grown to \$611 million, or nearly \$37,100 per active employee.

Table 1. Percentage of ARC Made to Michigan SERS, 2003-2013



In just the one year from 2012 to 2013, the required payment on the unfunded liability grew by \$71.6 million to nearly \$567 million, despite an impressive 12.5% investment return in that year.

Meanwhile, in 2013, about two-thirds of current workers (33,000) were in the DC plan, and their retirement prospects seem dim. According to a 2011 report, the average balance was about \$50,000

in that year; for those close to retirement (age 60 or older), it was \$123,000. At current annuity rates, that balance would provide a benefit of about \$8,200 per year. Meanwhile, the average DB benefit for people currently retiring is over \$20,000 per year.

Even in a “best case” DC scenario—in which employees contribute enough of their own pay to receive the maximum employer contribution—a simple benefit projection shows that the DB benefit is worth much more. For example, an employee at a starting wage of \$40,000 per year, assuming 2% wage increases and 6% net investment returns each year, would accumulate a nest egg of approximately \$288,000 after 25 years of service; this can currently purchase an annuity of about \$1,600 per month. By contrast, an employee in the DB plan would see a monthly benefit of about \$2,050. Thus, the DB benefit is worth about 22% more, but actually costs less: The normal cost of the DB plan is roughly 8% of pay, while total contributions to the DC plan in this example are 10% of pay (7% employer and 3% employee).

This perhaps should not be surprising, as research shows that DB pensions are much more cost-efficient than DC plans, because they are able to achieve economies of scale by pooling employees. Specifically, they save money due to longevity risk pooling, maintaining a more balanced portfolio over a longer time, and achieving higher investment returns due to professional management and lower fees. NIRS has found that for a given level of retirement income, a typical DC plan costs 91% more than a typical DB plan.

Other states have watched and learned from the Michigan experience, which shows that ultimately, moving from a DB plan to a DC plan can have dire consequence for employees, employers, and taxpayers. The move can increase an unfunded liability, while simultaneously decimating the retirement prospects for workers. Indeed, all states have made significant changes to their retirement

plans in the wake of the financial crisis. As states and municipalities have considered switching from the DB pension to a DC plan, those that have conducted a cost analysis have found that the move would save little to no money in the long term, and could actually substantially increase retirement plan costs in the near term. Not surprisingly, virtually no state that has conducted such a study has made the switch. Only one state (Oklahoma) ultimately opted in favor of moving to DC, but it did so as part of an overhaul of the total compensation package, without conducting a separate cost study for the switch.

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PUBLIC PENSION RESOURCE GUIDE

Look Before You Leap to DC: Alaska Compounds Its Unfunded Pension Liability

“Going to a defined contribution system didn't solve the problem”

In 2005, Alaska adopted a mandatory 401K-style defined contribution (DC) retirement program for all state employees hired after July 1, 2006 as a way to address its unfunded liabilities for retiree benefits. At the time, the state was facing a combined \$5.7 billion unfunded liability for its Public Employees Retirement System (PERS), Teachers Retirement System (TRS) and retiree medical plan. However, far from solving the pension funding problems, the switch to DC only exacerbated them. In 2006, underfunding increased by 20 percent; eventually, it more than doubled, as the combined unfunded liability reached \$12.4 billion in 2013.

Alaska's Public Pensions in 2005

To examine the current state of public pensions in Alaska, it's important to look back at how the state amassed a \$5.7 billion debt in 2005. A 2014 article in the *Alaska Dispatch* faults funding decisions for the two defined benefit (DB) pensions by the Alaska legislatures and governors, together with sizeable stock market declines and devastating actuarial errors.

Mercer Inc., the state's actuary, made bad actuarial projections and attempted to hide them. A review by the state found that the firm

did not recommend the appropriate contribution increases needed to keep the plans on a sound financial basis. This error, according to officials, amounted to some \$2.5 billion of the unfunded liability. Subsequently, the Alaska Department of Law sued Mercer, and won an unprecedented \$500 million settlement—even as Mercer claimed that accurate information would not have changed the state's action to underfund its pension liabilities.

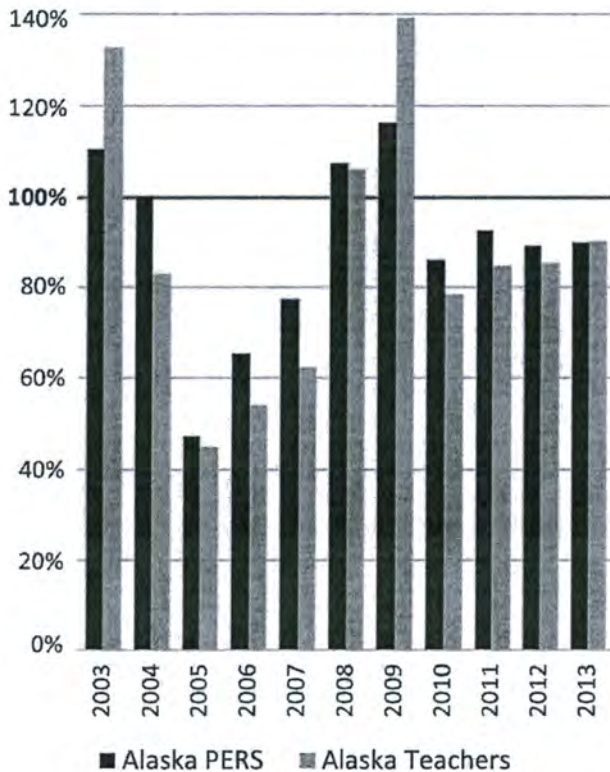
Governor Frank Murkowski used the \$5.7 billion funding shortfall to push the dramatic change from a DB pension to DC accounts, and he signed a bill (SB14) that made the switch into law after a special legislative session in 2005. Speaking at the press conference on the bill, the governor claimed that moving new employees into a DC plan “will stop the ‘so-called’ bleeding, so we can slow down the state's increasing liability.”

SB 141 Did Not Address the Underfunding of PERS and TRS

Unfortunately, as many experts understand, the change did nothing to reduce the pension funding shortfalls. Instead, Alaska continued the same underfunding practice of paying less than the full cost. The state and public employees

contributed just 47% of the annual required contribution (ARC) to PERS and 45% of the ARC to TRS in 2005. As a result, the total unfunded liability reached \$6.9 billion in 2006.

Table 1. Percentage of ARC Made to Alaska PERS and Teachers, 2003-2013



In fact, Alaska failed to make the full ARC payments to both of the state's DB pensions not only in 2005, but in six of the eight years from 2006 through 2013. This fairly consistent underfunding further increased the prior service costs for PERS and TRS in these years. Specifically, PERS past service cost as a percent of payroll was 12.4% in 2006, and grew to 24.2% in 2014 as the unpaid required contributions we added to outstanding liabilities each year they were not made. For TRS, its prior service cost as a percent of payroll rose from 24.6% in 2006 to 43.5% in 2014.

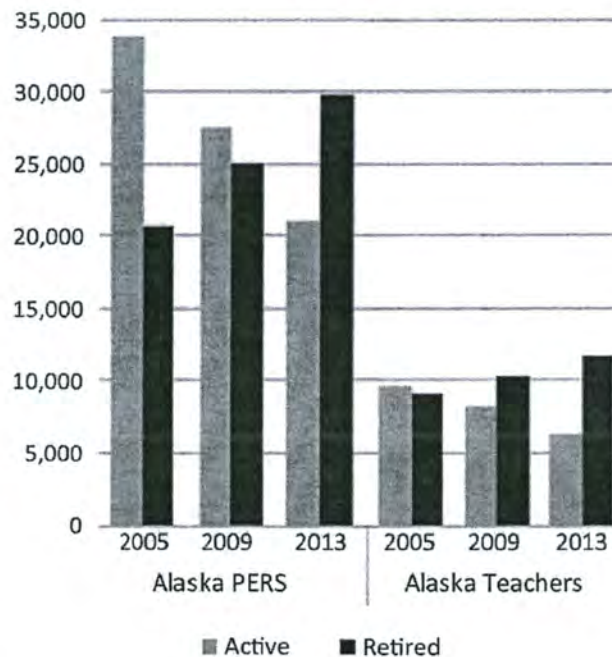
In all, the PERS and TRS total unfunded liabilities increased to \$7.8 billion and \$4.6 billion,

respectively, by 2013—for a total of some \$12.4 billion. In other words, the unfunded pension liability more than doubled since making the DC switch in 2005.

Meanwhile, with all new employees now covered by the DC plan, the demographics of the pensions changed quickly, which can worsen an underfunding problem. The loss of new employees' contributions and corresponding employer contributions makes it more difficult to finance the pensions' unfunded obligations. An issue paper published by gubernatorial candidate Sarah Palin in 2006 acknowledged that "employee contributions were the only constant source that continued coming into the system."

In 2005, PERS made payments to nearly 21,000 retired employees and beneficiaries, and collected contributions from 33,730 active employees. In 2013, the plan was paying benefits to nearly 30,000 retired employees and beneficiaries, but collected contributions from less than 21,000 active members.

Table 2. Alaska Retirement System Membership Status



TRS also took a negative demographic turn. In 2005, TRS made payments to about 9,000 retired teachers and beneficiaries and collected contributions from nearly 9,700 teachers. By 2013, TRS had 11,705 retired teachers and beneficiaries but just 6,352 active teachers. Since July 2006, roughly 17,500 new public employees hired by Alaska began contributing to the DC plan. New members of a DB pension, by definition, do not start with any unfunded obligation for benefits. So, if Alaska kept open the DB pensions instead, these new employees would have resulted in the DB pensions getting a net funding contribution from a stable or growing group of employees rather than an ever smaller payroll base over which to spread the payments to meet the unfunded liabilities.

As early as 2007, legislation was introduced to reopen the DB pensions to new employees, in order to restore the demographic balance and to ensure retirement security with a predictable lifetime benefit for public sector workers. While these pension bills have received hearings and some votes in the legislature, they have not passed. New employees covered by the DC plan have planning and advice tools to help individuals estimate benefits, but the state has not published an analysis to assess how adequate such benefits will be when these employees retire.

Meanwhile, as the demographics of the pensions got worse, the underfunding increased. In 2005, PERS was 65.7% funded, as compared to 60.8% in 2013. The funding for TRS dropped from 60.9% in 2005 to 51.9% in 2013.

Calls for Cash Infusions

Like most public pension plans, the largest potential source of revenue to PERS and TRS is investment earnings. Specifically, between 2006 and 2013—even after adjusting for the stock market losses in 2008-2009—investment income added over \$3 billion to PERS plan assets on a net basis. Had the needed, full ARC payments been

made since 2005, the state could have taken better advantage of the growth in financial markets since 2009.

However, this did not occur, and by 2013, the unfunded liability had grown to \$12.4 billion. Considering the impact of closing the pension to new employees, Representative Mike Hawker (Anchorage) commented in 2014 that “I very much was concerned when we closed our retirement systems and went to a defined contribution that by closing those systems we were going to find ourselves in the position we are in today, which was ultimately having to step in with a significant financial bailout.”

Reaching dire straits by 2014, Governor Sean Parnell proposed that Alaska add \$2 billion to its \$1 billion regular payment to reduce the underfunding. Eventually, the state made \$3 billion in contributions to PERS and TRS, per HB 385. After much legislative posturing, wrangling, and rewriting, the bill was rushed through in the final days of the legislative session. HB 385 also included a longer amortization period of 30 years, and shifted more of the pension cost to municipalities. This longer amortization allows for lower payments each year, but adds \$2.5 billion more to the funding cost over time—in the same way that the total cost of a 30-year mortgage is higher than that of a 15-year mortgage, due to compound interest on the outstanding unfunded balance.

Key Takeaways from the Alaska Experience

Alaska presents a real-world example that switching to a DC plan does nothing to reduce DB plan costs, and can actually increase them. Losing a significant percent of employees to the DC plan reduced the one steady source of pension funding in Alaska. The false promise of the DC switch may have led policymakers to continue to underfund the pension plans, which only worsened the problem. As a result, the state's unfunded liabilities

doubled in less than ten years.

Ultimately, Alaska saw increased pension costs for PERS and TRS after it switched to a DC plan for new hires.

Indeed, all states have made significant changes to their retirement plans in the wake of the financial crisis. Perhaps, it is based on the Alaska experience that as states and municipalities have considered switching from the DB pension to a DC plan, those that have conducted a cost analysis have found that the move would save little to no money in the long term, and could actually substantially increase retirement plan costs in the near term. Not surprisingly, virtually no state that has conducted such a study has made the switch. Only one state (Oklahoma) ultimately opted in favor of moving to DC, but it did so as part of an overhaul of the total compensation package, without conducting a separate cost study for the switch. Indeed, in the same year that Alaska decided to switch to a DC plan West Virginia was making a very different choice to “unscramble the egg,” reopening their traditional DB pensions to new employees, after having closed the plan many years ago.

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The **National Institute on Retirement Security** is a non-profit research institute established to contribute to informed policy making by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole. NIRS works to fulfill this mission through research, education, and outreach programs that are national in scope.



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Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: HB 280
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB280-DOLWD-CS-03-15-16
Title: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS
Sponsor: KITO
Requester: House State Affairs

Department: Department of Labor and Workforce Development
Appropriation: Vocational Rehabilitation
Allocation: Client Services
OMB Component Number: 1828

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2016) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By: John Cannon, Director
Division: Division of Vocational Rehabilitation
Approved By: Heidi Drygas, Commissioner
Agency: Department of Labor and Workforce Development

Phone: (907)465-6927
Date: 03/15/2016 02:30 PM
Date: 03/18/16

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. HB 280

Analysis

This legislation provides individuals belonging to Tier IV of the public employees' retirement system and the teachers' retirement system an opportunity to choose between defined benefit and defined contribution retirement plans. Part of this legislation specifies individuals receiving disability benefits under these plans are required to apply for services with the Division of Vocational Rehabilitation. This provision already exists for Tier I, II and III employees in the public employees' and teachers' retirement system.

This new tier is not expected to significantly increase rehabilitation services provided, and therefore no fiscal impact to the department is anticipated as a result of this legislation.



Alaska Pension Option Legislation

SB 88 / HB 280

Senate Community and Regional Affairs Committee

House State Affairs Committee

William B. Fornia

March 24, 2016

Agenda

- How Pension Option Legislation would work
- Why is Defined Benefit Plan Option important to Alaskans
- Financial Analysis of Defined Benefit Plan Option
- Actuarial issues

Key Features of SB 88 / HB 280

- Gives employees a choice between DC and DB
 - DC tends to be preferred by shorter service & younger workers
 - DB still very popular, particularly for full career workers
- Legislation structures DB option to be long-term cost neutral
 - Costs will not be more than current tier DC program
 - Worker contributions same as current DC tier
 - Short term cost savings
 - Legislation also shifts much of the risk from the employers to the workers
 - Healthcare benefit will be reduced if employer normal costs increase

Findings

- DB plan option is more economical for Alaska
 - DB more efficient delivery of retirement benefits
 - Helps keep jobs in Alaska
 - Provides the safety net others have from Social Security
- Have structured DB choice alternative as cost neutral or favorable
 - Health cost risk shifted to employees
 - Higher employee contributions than current DB
 - Employee health cost sharing

Why should Alaska public employees have a Defined Benefit Option?

- By their nature, Defined Benefit (DB) plans provide workers what they need for retirement
- DB plans deliver benefits more efficiently than Defined Contribution (DC) plans, thereby saving money for same retirement benefit
- Particularly necessary because vast majority of Alaska public employees not covered by Social Security

Benefits Available from DCR Program are Substantially Lower than from Latest DB Tier

	Teachers	Police & Fire	Other PERS
Hire Age	34	31	37
Retirement Age	59	56	60
Years of Service	25	25	23
DB Benefit as Percent of Final Average Compensation (defined under the terms of the plan)	58%	57%	50%
DCR Benefit as Percent of Final Average Compensation (calculated based on assumptions above)	33%	31%	30%
Reduction of Benefit % due to DCR program	25%	26%	20%

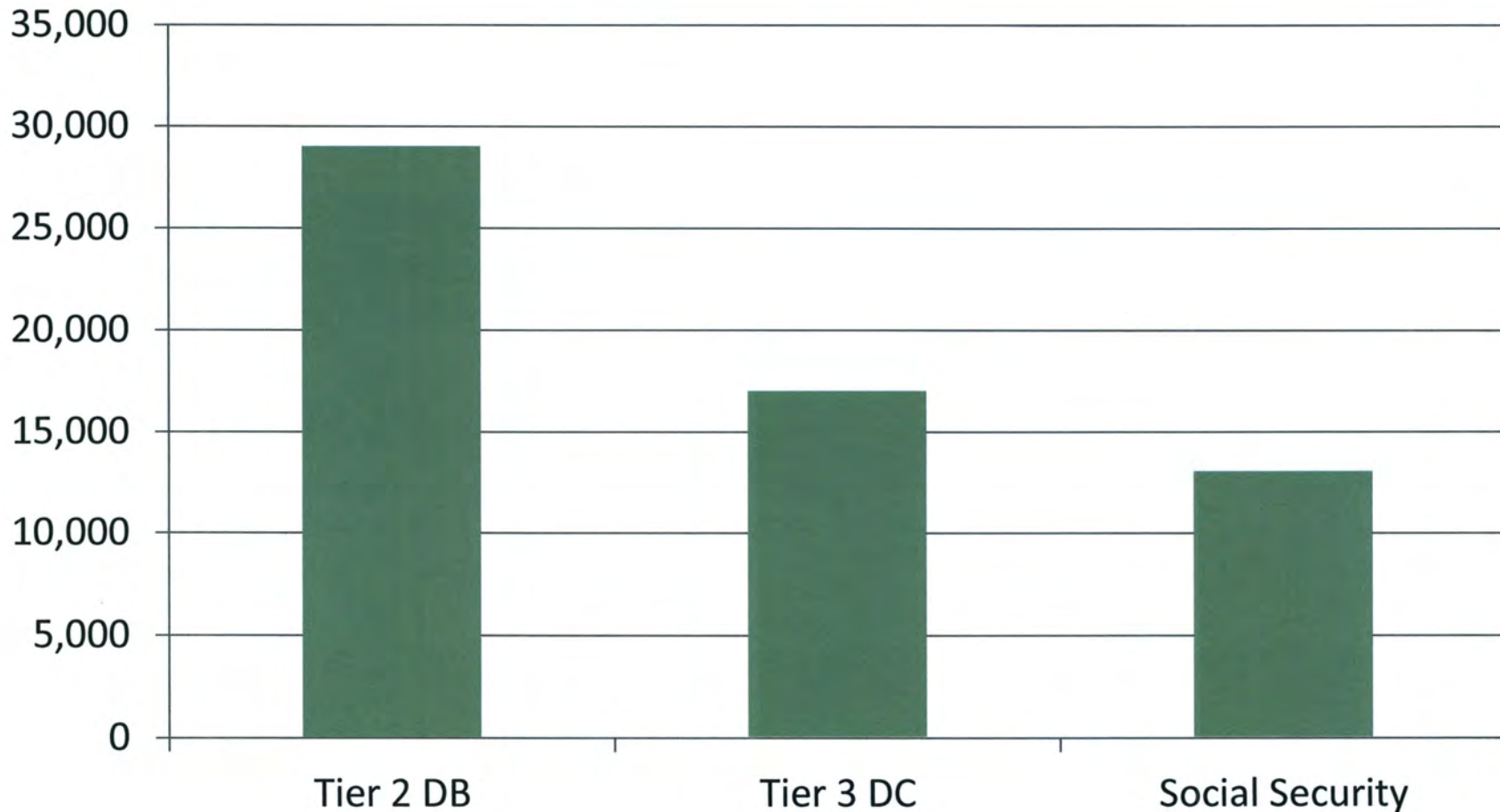
This is specific Alaska from 2012 info

Typical age retirement in AK

pg 8-13 Study

3/24/16 Keller asks Define oversavings

Illustration of Hypothetical Teacher Benefits - \$50,000 Final Average Salary



Why DB? – More Economically Efficient

- ***Longevity Risk Pooling***
 - DB plans better manage longevity risk, or the chance of running out of money in retirement
 - DB plans avoid the “over-saving” dilemma and do more with less
- ***Maintenance of Portfolio Diversification***
 - DB plans are able to take advantage of the enhanced investment returns that come from a balanced portfolio throughout an individual’s lifetime
- ***Superior Returns***
 - DB plans, which are professionally managed, achieve greater investment returns versus those of individual accounts

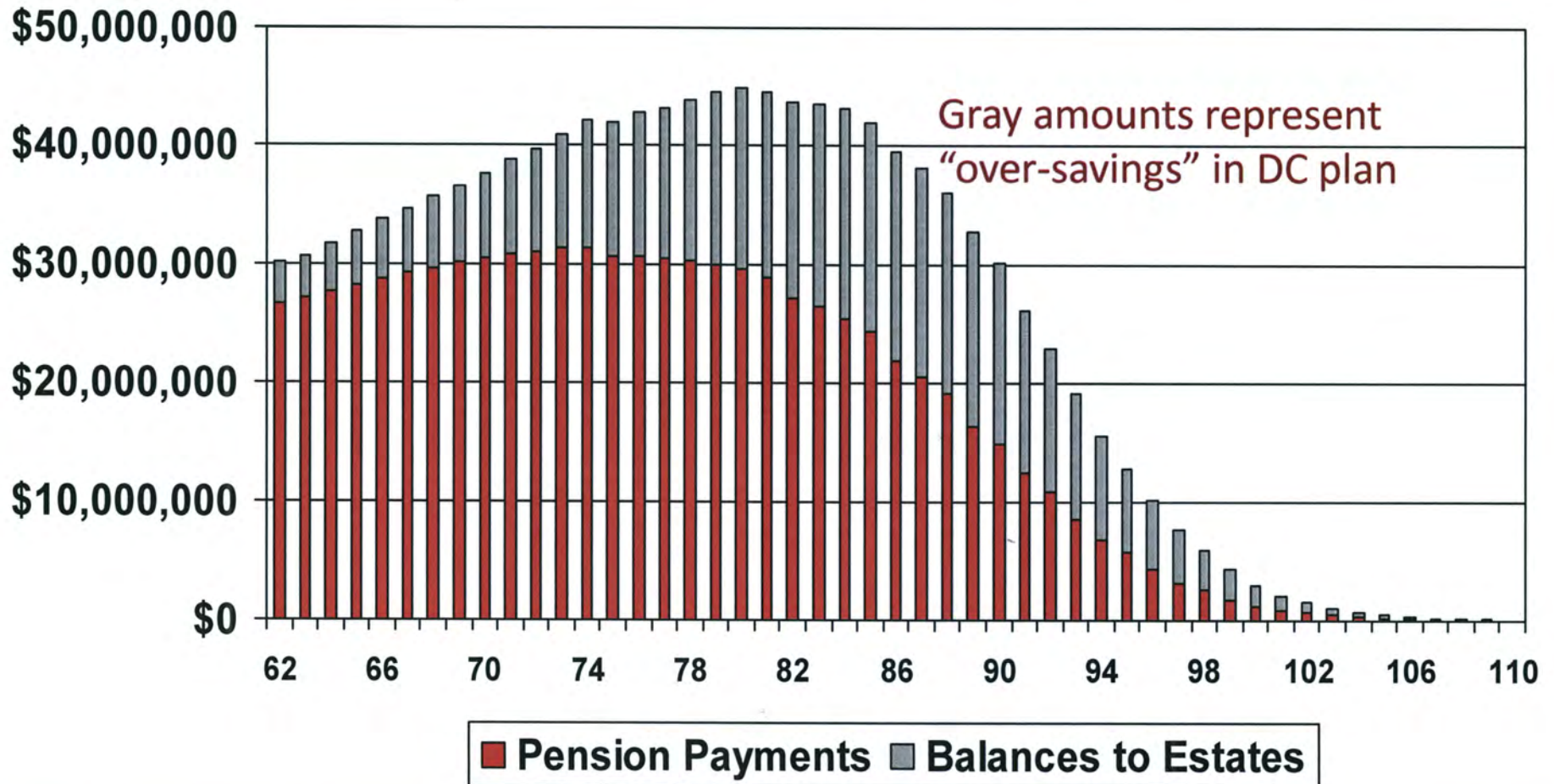
Source: Still A Better Bang for The Buck – National Institute on Retirement Security, 2014

1st Strength of DB Plans

Longevity Risk Pooling

- Because they cover large numbers of retirees, DB plans can pay out over the *average* life expectancy, not *maximum* life expectancy
- An individual under a DC plan will want to avoid the risk of running out of money if they live a long life
- Because individuals must plan for a maximum life expectancy, much more money must be accumulated in a DC plan, compared to a DB plan

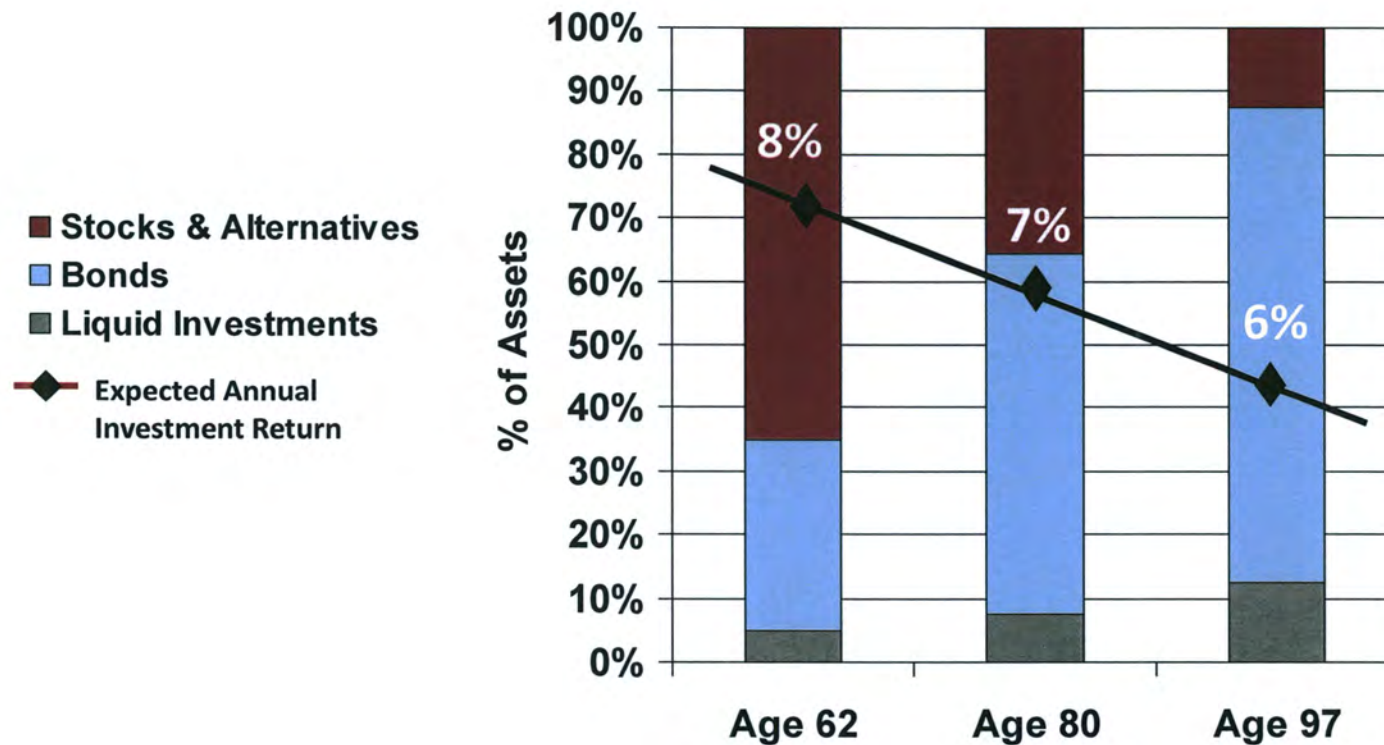
Under a DC Plan 24% of Assets Are Not Used for Retirement – 1,000 Sample Teachers



2nd Strength of DB Pension Plans More Effective Portfolio Diversification

- DB plans can maintain a well diversified portfolio over time – unlike individuals, DB plans do not age
- To protect against market shocks, individuals in DC plans are advised to shift toward more conservative investments as they age, sacrificing some expected return
- Lower returns mean more money must be contributed to deliver the same level of benefits

As Individuals Shift DC Portfolio Allocation, Expected Return Reduced



3rd Strength of DB Pension Plans

Pooled, Professionally-Managed Assets

- Assets in DB plans are professionally managed. Despite their best efforts, individuals tend to underperform when it comes to investing in DC plans
- Pooled investments in DB plans can lower expenses
 - Large group pricing negotiation
 - Avoid expenses of individual recordkeeping, investment education, investment transactions
- Studies generally have shown that DB plan returns outperform DC plans by at least 1% annually
 - Watson Wyatt 2013 found 0.76% difference net of fees
 - CEM Benchmarking 2013 found 0.99% difference net of fees
 - Boston College found 0.35% to 1.45% fee differential
 - Recent Alaska experience shows even larger DC shortfall
 - Even a mere 1% differential generates tremendous efficiencies – more than 20%

Recent Research

- Update on “Better Bang for the Buck – Economic Efficiencies of Defined Benefit Plans
- National Institute on Retirement Security – Experience of states that switched to DC
- University of California – Are Teachers better off with pension or 401(k)?
- Buck Investigation of Actuarial Experience 2009-2013

Update on Economic Efficiency Research

- Defined Benefit (DB) plan cost 46% less than a Defined Contribution (DC) plan for the same benefit.
- Misperception that DC plans inherently “save money.”
- Updated assumptions, methodology to reflect changing retirement benefit landscape
 - DC plans: lower fees, increased use of Target Date Funds (TDFs).
 - DB asset allocation changes.

NIRS Case Studies on States which switched from DB to DC – What NIRS did

- Case studies of three states: **West Virginia, Michigan, and Alaska.**
- Examined the issues in play and impact of plan changes over time. Specifically:
 - Impact of overall demographic changes on system membership;
 - Changes in the cost of providing benefits;
 - Percent of actuarially required contribution (ARC) made over time;
 - Effect on retirement security of workers impacted by the change;
 - Impact on overall funding level of the plan.

NIRS Case Studies on States which switched from DB to DC – Common Trends

- Changing from a DB plan to a DC plan did not help an existing underfunding problem, and, in fact, increased pension plan costs.
- Workers in the DC plan face increased levels of retirement insecurity.
- The best way to address underfunding problem is to implement a responsible funding policy of making the full annual required contribution each year, and to evaluate and adjust assumptions and funding over time, as appropriate.

Findings from Buck Actuarial Experience Investigation

- Actuarial Best Practice is to review the actuarial experience every 3-5 years to compare experience with actuarial assumptions
- Buck completed this study and reported September – November 2014
- All actuarial assumptions were reviewed, but we paid particular attention to the terminations by those with less than 5-8 years of experience
 - This could be evidence that DCR plan is distorting labor patterns

Are Teachers Better off with Pension or 401(k)? – Purpose of Study

- Evaluate suitability of CalSTRS pension benefits for California teachers—given turnover & tenure patterns—compared to alternative plans
 - Defined Contribution (DC), e.g., 401(k)
 - Cash Balance (CB) plan

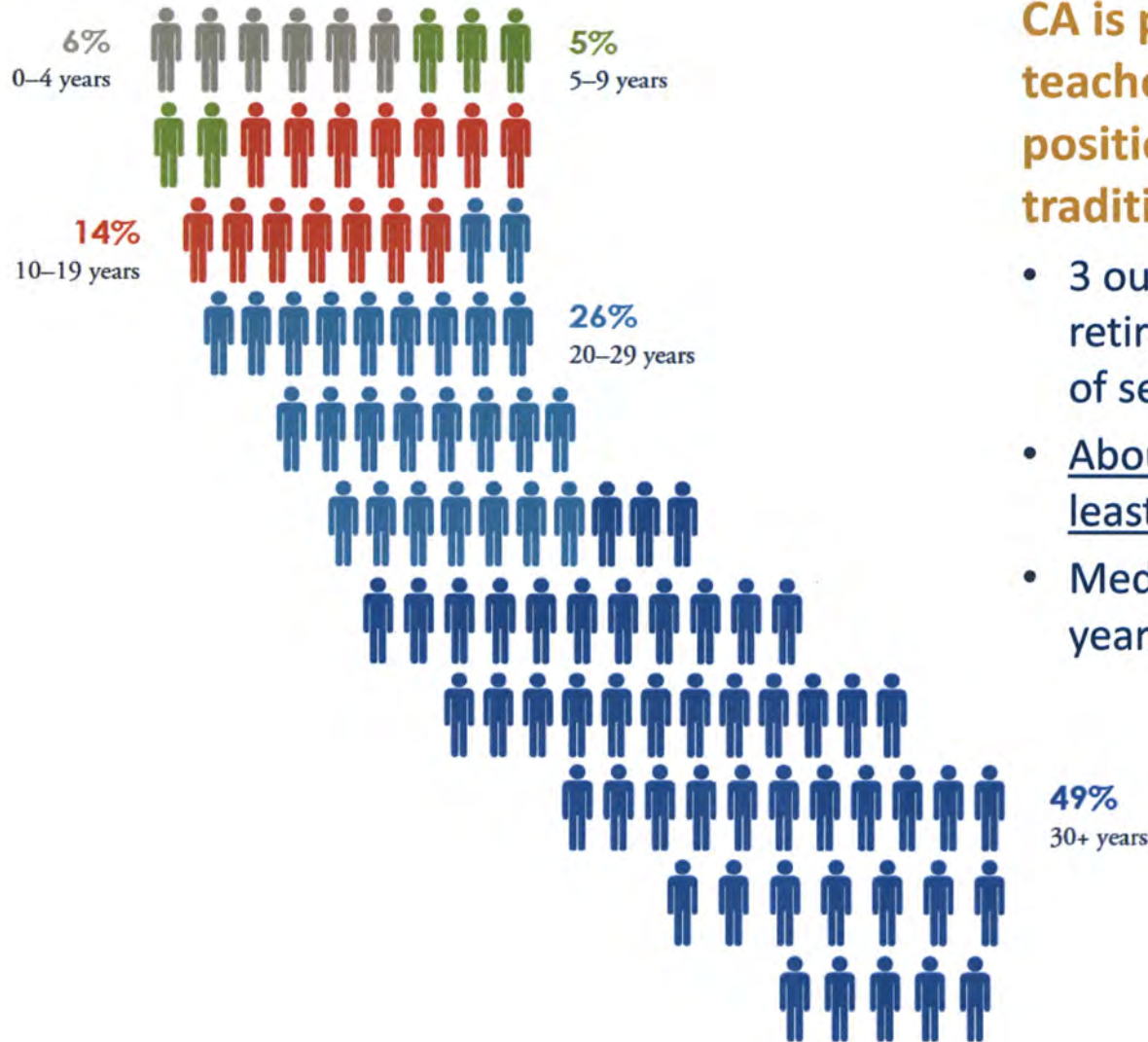


Are California Teachers Better off with a Pension or a 401(k)?

Nari Rhee, PhD and William B. Fornia, FSA

February 2016
UC Berkeley Center for Labor Research and Education

Projected Tenure of Current California Teachers



1) Most classroom teaching in CA is performed by long-career teachers who are well-positioned to benefit from a traditional pension.

- 3 out of 4 current teachers will retire with at least 20 years of service*.
- About 1/2 will retire with at least 30 years.
- Median age at exit: 61, with 29 years of service.

* FT and PT treated equally for service year calculation purposes

2) For the vast majority of California teachers (6 out of 7), the CalSTRS defined benefit pension provides greater, more secure retirement income compared to a 401(k)-style plan.

- 4 out of 5 (79%) better off compared to a generous Cash Balance Plan.

Share of California Teachers Who Are Better Off With CalSTRS Defined Benefit Pension



Compared to Idealized Defined Contribution Plan



Compared to Generous Cash Balance Plan

Findings from Buck Actuarial Experience Investigation

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- Buck completed this study and reported September – November 2014
- All actuarial assumptions were reviewed, but we paid particular attention to the terminations by those with less than 5-8 years of experience
 - This could be evidence that DCR plan is distorting labor patterns
 - Buck report did not distinguish between DCR and DB
 - But we are able to draw conclusions based on length of service

Findings from Buck Actuarial Experience Investigation – Data

- Teacher turnover in first eight years is 12% higher than expected
- Police and Fire turnover in first five years is 4% higher than expected
- Other PERS turnover in first five years was 15% less than expected
- Normally in recessions, lower turnover is expected

What about Unfunded Liabilities?

- Unfunded Liability has grown by more than \$3 billion since 2005
 - “Unfunded Liability” is attributable to prior benefits, not future benefits
 - SB 141 DC approach was not designed to solve unfunded liability
 - Several safeguards have been introduced to manage unfunded liability
- Addition of DB option not anticipated to increase unfunded liabilities
 - To the extent that actuarial assumptions’ conservatism is borne out, would actually decrease unfunded liabilities
 - As likely to have favorable actuarial outcomes as unfavorable
- DB systems are advance funded, not left to future generations

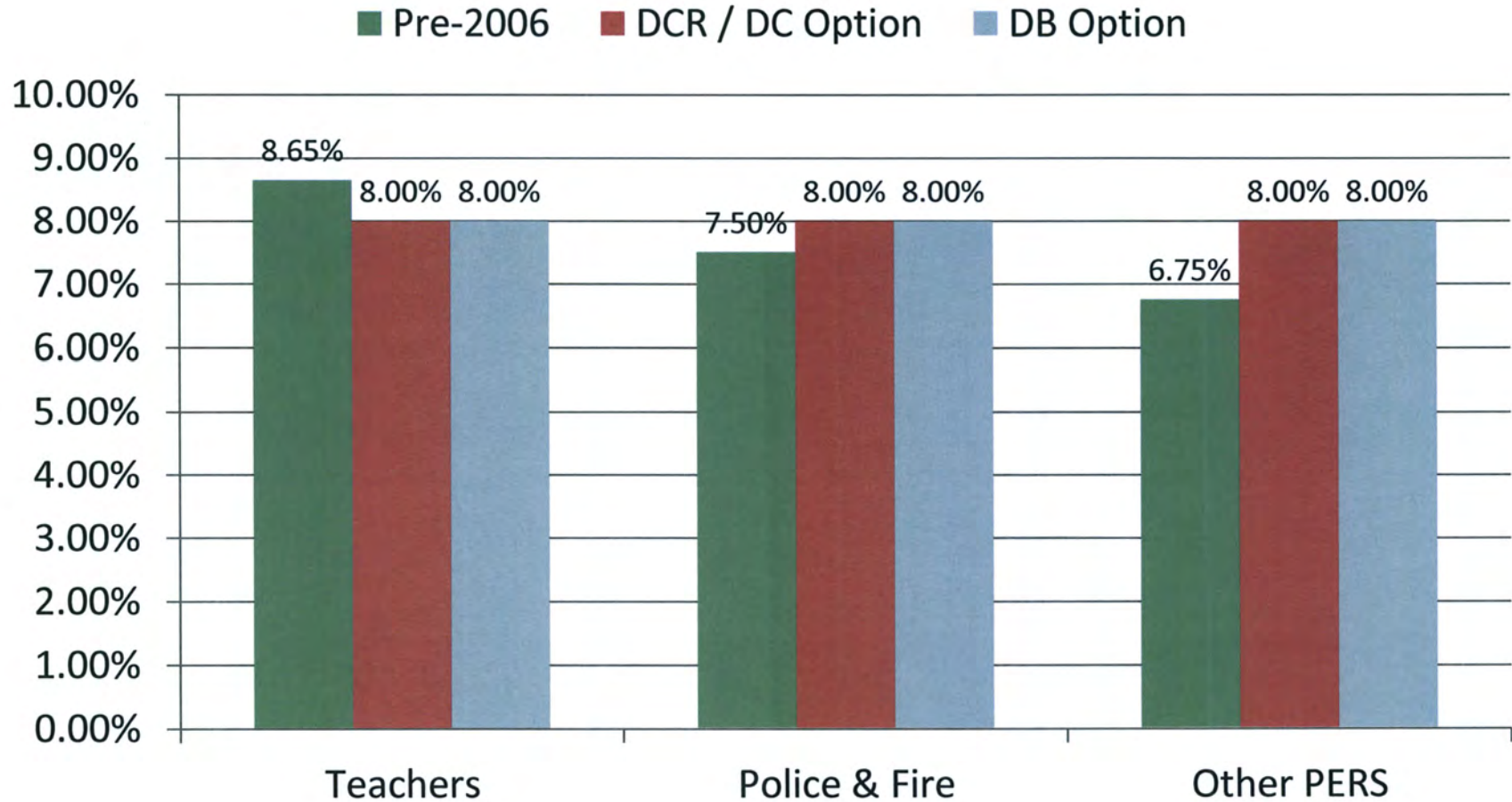
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 - Provides the safety net others have from Social Security
- Have structured DB choice alternative to be cost neutral or favorable
 - Health cost risk shifted to employees
 - Higher employee contributions than current DB
 - Employee health cost sharing

Major implications of the proposal for those who elect DB

- Pension benefits will be the same as the prior defined benefit plan tiers for those hired prior to July 1, 2006
 - The tiers which were reduced in the 1990's
- Retiree DB health benefits will be stronger than those under DCR, but not as strong as those provided under the latest tier DB plans.

Contributions for Various Members



Results from Cost Comparison

- Stronger pension benefits through a Defined Benefit option for members hired since 2006.
- It would provide improved health care plan benefits, but no future HRA contributions.
- Designed so that employer costs would not increase and may fall

Conclusions

- DB plan option is more economical for Alaska
 - DB more efficient
 - Helps keep jobs in Alaska
 - Provides the safety net others have from Social Security
- Have structured DB choice alternative to be cost neutral or favorable
 - Health cost risk shifted to employees
 - Higher employee contributions than current DB
 - Employee health cost sharing

Alaska Division of Retirement and Benefits
Public Employees' Retirement System (PERS) Plan Comparison Chart

Feature	Tier I 1/1/61 - 6/30/86	Tier II Entered on or after 7/1/86	Tier III Entered on or after 7/1/96	Tier IV Entered on or after 7/1/06
Employee Contribution	Pre-tax employee contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Pre-tax employee contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Pre-tax employee contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Pre-tax employee contribution: 8% all employees Employee may make additional contributions.
Employer Contribution	Determined by annual actuarial valuation.	Determined by annual actuarial valuation.	Determined by annual actuarial valuation.	5% DC Account 1.75% Health Plan - determined by annual actuarial valuation after FY07. HRA - Flat dollar amount per employee based on 3% of the employer's average annual employee compensation. .4% Disability - P/F .3 All others
Vesting	Members vest with 5 years of service.	Members vest with 5 years of service.	Members vest with 5 years of service.	100% vested in employee contributions from inception. Vested in employer contributions based on the following schedule: 25% after 2 years of service, 50% after 3 years, 75% after 4 years and 100% after five years.
Qualifications for Retirement	Normal retirement age is 55, with early retirement at age 50; police/fire members can retire at any age after 20 years of police/fire service; all other members can retire at any age after 30 years of membership service. Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	Normal retirement age is 60, with early retirement at age 55; police/fire members can retire at any age after 20 years of police/fire service; all other members can retire at any age after 30 years of membership service. Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	Normal retirement age is 60, with early retirement at age 55; police/fire members can retire at any age after 20 years of police/fire service; all other members can retire at any age after 30 years of membership service. Early retirement reduction will be 1/2% per month or 6% per year for every year less than the required normal retirement age.	None for investment account. Taxes and penalties may apply if withdrawn before age 59-1/2. See requirements for Retirement Medical Coverage.
Benefit Calculation Formula	Benefit formula is 2% for first 10 years and all years of service prior to July 1, 1986, 2.25% for the next 10 years, 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary. Police/Fire - 2% X 10, 2.5% over 10.	Benefit formula is 2% for first 10 years, 2.25% for the next 10 years, and 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary. Police/Fire - 2% X 10, 2.5% over 10.	Benefit formulas did not change; however, the benefit calculation is determined on the average of the high five consecutive years' salary. The benefit calculation for police and fire members is the average of the high three consecutive years regardless of tier (effective 2002).	DC account balance plus investment earnings. May be received in several different payment options. Payout options include lump sum payments, rollovers to another qualified plan, or annuities. Annuities may be taken as a lifetime annuity, joint and survivor annuity, or for a period certain.
Alaska Cost-of-living Increases (COLA)	An Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater.	An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater.	An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater.	None provided.

More detailed information may be found on the Division website, www.state.ak.us/drb, or in the PERS Information Handbook.

*Credited service includes all service used in the calculation of a retirement benefit.

Feature	Tier I 1/1/61 - 6/30/86	Tier II Entered on or after 7/1/86	Tier III Entered on or after 7/1/96	Tier IV Entered on or after 7/1/06
			the base benefit, whichever is greater.	
Post Retirement Pension Adjustments (PRPA) (Inflation Protection)	PRPA increases granted on an ad hoc basis. If an ad hoc is not granted, tier I employees must be age 60 or over or receiving benefits for 5 years to qualify for the automatic PRPA. The automatic PRPA legislated in 1986 applied to all members regardless of hire date.	Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.	Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years.	None provided.
Retirement Medical Coverage	Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system.	Medical coverage is provided to disabled members, regardless of age and benefit recipients over age 60 or <ul style="list-style-type: none"> Peace officer/fire members with 25 years of police/fire service all other members with 30 years of membership service and their eligible dependents. The retirement system pays the retiree medical plan premium. Retirees and survivors under age 60 must pay the full premium cost if they want coverage.	Same as Tier II. However, employees must accrue a minimum of 10 years of credited service* , to have system-paid coverage at age 60. Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage.	Access to medical coverage at Medicare eligible age with 10 years of service or at any age with 25 years of service for peace officers and firefighters or with 30 years of service for all others. Must retire directly from the system. If not eligible for Medicare, must pay full premium. May use health reimbursement arrangement (HRA) account to pay premiums. Once the HRA is exhausted, member self-pays premiums. When eligible for Medicare, the percentage of premium paid by the retiree or surviving spouse is: 10-14 years of service - 30% 15-19 years - 25% 20-24 years - 20% 25-29 years - 15% 30 years or more - 10%
Disability Benefits	Disability benefits for members: nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation. Different occupational disability formula available before 7/1/76.	Disability benefits for members: nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation.	Disability benefits for members: nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation.	Must be a total and presumably permanent disability whose cause is directly related to performance of duties of the job or an on the job injury. Benefit is 40% of salary, earns service while on occupational disability. Employer continues to make all required contributions as if the member were working, plus the member's required contributions to the DC account, without deduction from the member's disability payment. Disability benefits cease when the member becomes eligible for normal retirement at Medicare eligible age and 10 years of service or at any age with 25 years of service for peace officers and firefighters or with 30 years of service for all others. Medical insurance is available to members receiving disability when member is eligible for a normal retirement.

More detailed information may be found on the Division website, www.state.ak.us/drb, or in the PERS Information Handbook.

*Credited service includes all service used in the calculation of a retirement benefit.

Nancy Manly

From: Boyle, Charles [AK] <Charles.Boyle@neaalaska.org>
Sent: Wednesday, March 23, 2016 4:44 PM
To: Nancy Manly
Subject: RE: HB 280 public testimony

Hi Nancy,

Just a couple of changes to this list – instead of Jake Todd, Chris Benshoof from Fairbanks will be testifying tomorrow.

Also, the APD police officer who will be testifying is named Jayson Duncombe; I gave him the offnet number for the hearing.

Thanks! Let me know if you have any questions for me.

-Charles



Charles Boyle

Government Relations & Community Outreach Director

NEA-Alaska

907-586-3090, ext. 328

Mission Statement: NEA-Alaska exists to be an advocate for an excellent public education for each child in Alaska and to advance the interests of public school employees.

From: Boyle, Charles [AK]
Sent: Tuesday, March 22, 2016 3:56 PM
To: 'nancy.manly@akleg.gov' <nancy.manly@akleg.gov>
Subject: HB 280 public testimony

Hi Nancy,

Here is who we have lined up for public testimony so far for HB 280 on Thursday, to follow William Fornia's actuarial presentation:

- Nathan Coutsoubos, Dillingham teacher
- Jacob Bera, Eagle River teacher
- Brinna Wojtalewicz, Anchorage teacher
- Jake Todd, Anchorage teacher
- Greg Collen, Juneau School District, IT

We are also trying to line up a couple of folks from the Anchorage Police Department – I will send you their names as soon as I hear from them. In addition, Robert Grove and Sam Trivette from RPEA (retired public employees) are also available to offer testimony from a retired perspective, but if we run short on time our preference is to have our PERS Tier IV and TRS Tier III folks testify first.

Thanks, let me know if you have any questions for me! If we need to cut the public testimony list down let me know and I'll ask folks to submit written testimony to the committee instead.

-Charles



Charles Boyle

Government Relations & Community Outreach Director

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