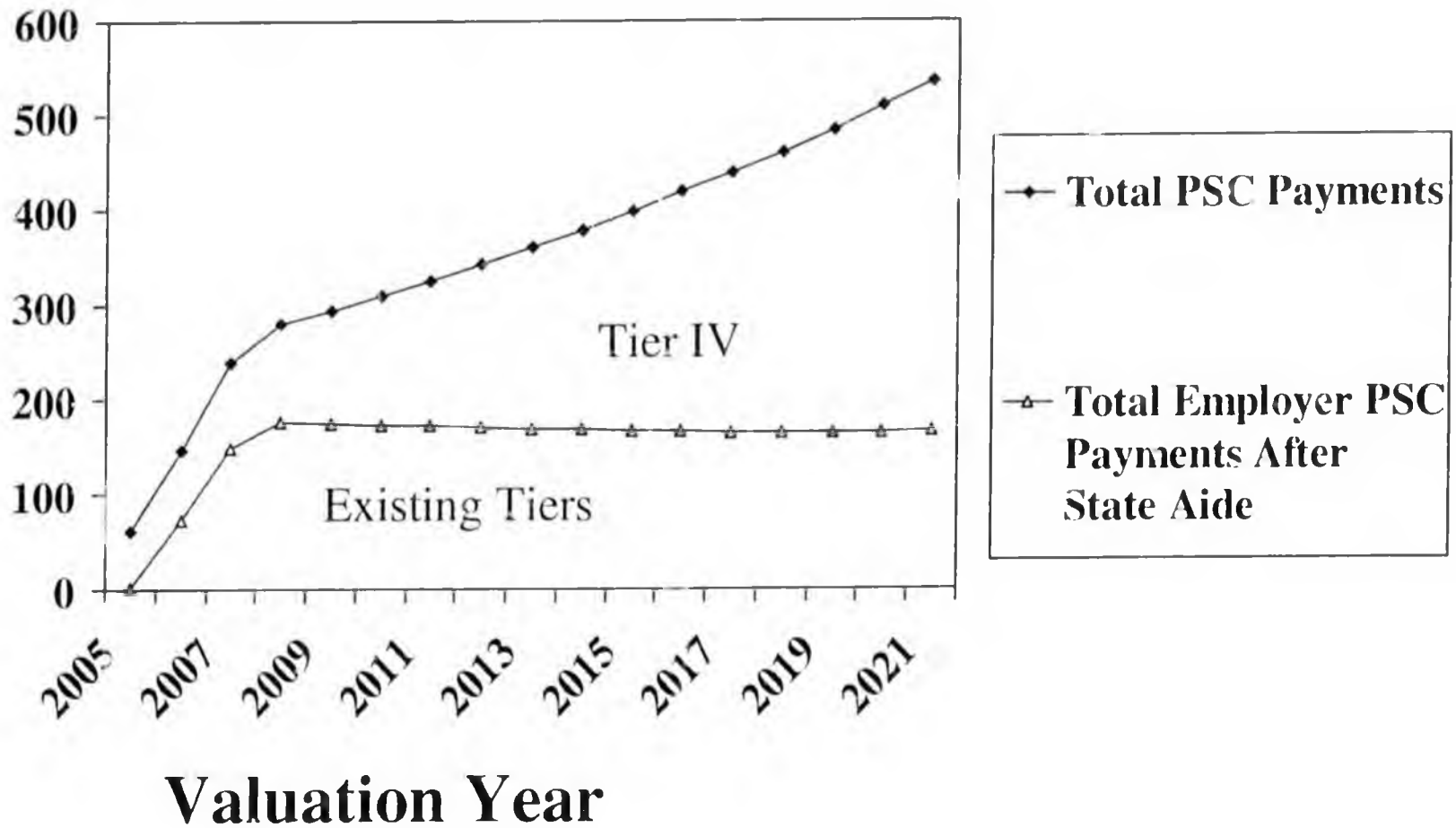


ALBANY COUNTY FILES, 2005-2006/2

11708 HOURS AFTER

# PERS Aide to Communities From Past Service Offset Account: Actual Dollar Value

Millions of dollars



PERS employers with Social Security 218 Contracts	Employer Number		
	SBS	PERS	TRS
Akutan, City of		208	
Alaska Gateway School District		255	736
Alaska Housing Finance Corporation		152	
Alaska Municipal League		106	
Aleutian Region School District		162	758
Anchorage Parking Authority		203	
Anchorage School District		111	701
Anchorage, Municipality of		173	
Anderson, City of		283	
Annette Island School District		103	770
Barrow, City of		171	
Barlett Memorial Hospital (entity of CBJ)		219	
Bering Straits School District		104	752
Bristol Bay Regional Housing Authority		223	
Chatham School District		105	768
Copper River School District		112	767
Cordova City Schools		185	704
Cordova Community Hospital		163	
Cordova, City of		148	
Craig City Schools		204	705
Craig, City of		186	
Delta Junction, City of		282	
Delta-Greely School District		246	765
Dillingham City Schools		205	744
Dillingham, City of		178	
Elim, City of		242	
Fairbanks North Star Borough		116	
Fairbanks North Star Borough School District		117	706
Fort Yukon, City of		183	
Galena City Schools		141	735
Galena, City of		192	
Homer, City of		215	
Hoonah City Schools		138	708
Hoonah, City of		199	
Huslia, City of		235	
Iditarod Area School District		124	761
Ilisagvik College (entity of North Slope Borough)		275	
Juneau Borough School District		108	710
Juneau, City & Borough		126	
Kake City Schools		265	712
Kenai Peninsula Borough		180	
Kenai Peninsula Borough School District		190	746
Ketchikan Gateway Borough		122	
Ketchikan Gateway Borough School District		177	714
Ketchikan, City of		181	
King Cove, City of		151	
Klawock City Schools		251	717
Klawock, City of		227	
Kodiak Island Borough		174	
Kodiak Island Borough School District		158	718
Kodiak, City of		128	
Kuspuk School District		125	755
Lower Kuskokwim School District		157	754
Lower Yukon School District		153	753
Mountain Village, City of		294	
Nenana City School		196	719
Nenana, City of		193	

85  
PERS  
Employers  
Participants  
Social  
Security

<b>PERS employers with Social Security 218 Contracts</b>	<b>SBS</b>	<b>PERS</b>	<b>TRS</b>
Nome City Schools		149	720
Nome Joint Utilities		175	
Nome, City of		139	
Noorvik, City of		241	
North Slope Borough		145	
North Slope Borough School District		161	736
Palmer, City of		134	
Pelican City School		257	723
Pelican, City of		200	
Pribilof School District		156	759
Saxman Seaport (entity of Saxman City)		278	
Saxman, City of		198	
Seldovia, City of		286	
Skagway City Schools		225	728
Skagway, City of		132	
Southeast Island School District		155	769
Southeast Regional Resource Center		167	743
St. Mary's Schools		221	748
Toksook Bay, City of		280	
Unalakleet, City of		249	
Unalaska City Schools		209	729
Unalaska, City of		179	
Wrangell City Schools		146	731
Wrangell, City of		135	
Yakutat City Schools		264	732
Yakutat, City of		248	
Yukon Flats School District		159	763
Yupik School District		195	778

All teachers are excluded from Social Security in Alaska.

**Projected Benefits – Rate of Return 8.25%**

*15.25 yrs*  
*8.75* *9.38 ten years*

<b>FEMALE</b>			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	110,040	7,425	92.19%
20	413,641	17,596	103.74% <i>(102.29)</i>
30	1,171,954	34,567	119.52%
40	2,979,845	60,940	145.03%

<b>MALE</b>			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	110,040	7,452	92.19%
20	413,641	19,421	114.49%
30	1,171,954	38,152	131.91%
40	2,979,845	67,291	160.07%

**Assumptions:**

Beginning Salary 37,538

Defined Contribution pension account: percentage 15.5%

Anchorage CPI 3.73%

Real rate of interest 4.52%

Salary increase 5.73% the first 5 years, then 4.23% (Based on Mercer's assumptions, includes inflation)

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

SBS

6 1/2% = 6 1/2%

**Projected Benefits – Rate of Return 6.73%**

<b>FEMALE</b>	<i>future</i>	<i>Present Value</i>	
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	102,235	5,527	68.38%
20	354,363	13,283	78.31%
30	919,202	23,890	82.6%
40	2,125,547	38,303	91.6%

<b>MALE</b>			
Number of years worked	DC account lump sum at termination	Beginning annuity in 2004 dollars	% funded compared to current DB plan
10	102,235	6,195	76.65%
20	354,363	14,889	87.78%
30	919,202	26,779	92.59
40	2,125,547	42,935	102.18%

**Assumptions:**

Beginning Salary 37,538

Defined Contribution pension account percentage 15.5%

Anchorage CPI 3.73%

Real rate of interest ~~4.52%~~ 3.7%

1.5%

Salary increase 5.73% the first 5 years, then 4.23% (Based on Mercer's assumptions, .57% includes inflation)

Based on 2000 mortality table (Mercer's projections are based on a 1994 mortality table)

*real average beginning salary*



### Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended December 31, 2004. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

#### Returns for Periods Ended December 31, 2004

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years
<b>Total All Plans</b>	<b>7.58%</b>	<b>10.79%</b>	<b>7.43%</b>	<b>3.33%</b>	<b>6.24%</b>
Employees' Total Plan	7.57%	10.79%	7.42%	3.32%	6.23%
Teachers' Total Plan	7.60%	10.83%	7.44%	3.31%	6.26%
PERS & TERS Policy Target	7.73%	11.40%	8.02%	3.63%	6.64%
Judicial Total Plan	7.89%	10.66%	1.97%	4.63%	6.75%
Military Total Plan	4.90%	7.70%	6.32%	4.27%	6.09%

\* Current Quarter Target = 30.0% S&P 500, 24.0% L/B Agg, 15.0% MSCI EAFE Index, 9.0% NCREIF Total Index, 6.0% Russell 2000, 3.0% CPI-W+5.0%, 3.0% Libor-1 Month+4.0%, 2.0% MSCI EAFE Index, 2.0% S&P 500, 2.0% ML Hi Yld Cash Pay Index, 2.0% Russell 2000 and 2.0% Non-US Govt World Govt Bd.

State Of Alaska Retirement Funds



### Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended December 31, 2004. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class

#### Returns for Periods Ended December 31, 2004

	Last 10 Years	Last 13-1/4 Years
<b>Total All Plans</b>	<b>9.38%</b>	<b>8.95%</b>
Employees' Total Plan	9.35%	8.94%
Teachers' Total Plan	9.44%	9.00%
PERS & TERS Policy Target	9.67%	8.96%
Judicial Total Plan	8.81%	8.49%
Military Total Plan	7.90%	7.94%

\* Current Quarter Target = 30.0% S&P 500, 24.0% L/B Agg, 15.0% MSCI EAFE Index, 9.0% NCREIF Total Index, 6.0% Russell 2000, 3.0% CPI-W+5.0%, 3.0% Libor-1 Month+4.0%, 2.0% MSCI EAFE Index, 2.0% S&P 500, 2.0% ML Hi Yld Cash Pay Index, 2.0% Russell 2000 and 2.0% Non-US Govt World Govt Bd.

**SB**

**141**

**FILE 2**



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

April 2, 2005

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

Dear Representative Seaton and Committee Members

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

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

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

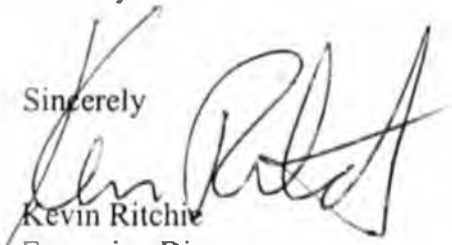
In addition to regular meetings throughout the year, the ad hoc committee has met several times in the past two weeks. As you know, trying to make 800 local elected officials plus managers and finance officers fully knowledgeable about a bill as complex as the PERS/TRS bills is not an easy task. Attached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

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

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

Thank you.

Sincerely



Kevin Ritchie

Executive Director

## **AML Position on PERS/TRS**

### **Key Cost Driver of PERS/TRS**

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

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

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

### **Overall Policy on SB 141**

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

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

### **Defined Contribution**

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

### **Health Benefits**

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

### Board

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

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

### Strengthen the Review and Analysis Process for changes in the future

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

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

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

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

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



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

*Excerpt*

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

*Alaska Municipal League/Alaska Conference of Mayors  
2005 Policy Statement*

*Adopted November 2004*

*Excerpt*

**D. PUBLIC EMPLOYEES' RETIREMENT AND BENEFITS**

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

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

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

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

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

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

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

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

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

### ESTIMATED FY 05 Change in Employer Contribution

\* From Division of Retirement and Benefits

\*\* Based on "2003 Alaska Taxable" DCED

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

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

PO Box 15043  
Fritz Creek, AK 99603  
907-235-7578  
[wdunne@xyz.net](mailto:wdunne@xyz.net)

April 2, 2005

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

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

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

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

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

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

Thanks you for the opportunity to comment.

Sincerely,



Willy Dunne

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Testimony by Sam Harbo  
UAF Retired Professor of Bio-Statistics

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

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

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

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

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

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

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

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

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

I was dismayed at our last joint meeting that many of the Board members did not even receive the actuary's valuation until the day of the meeting. New information on how to calculate and project medical costs was contained in the valuation. For the first time health and prescription costs were separated and presented on cost per member basis, something I asked the actuaries for years ago. It makes it much easier to compare costs from year to year at a glance. Not only did we get new material, the Division had put a presentation on LTC on the agenda, which could have been held at a later time or scheduled for Fri., Mar. 25. These Boards are dedicated to serving members' interests, another reason to have member representation. Employers are members of the system. They too may be represented.

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

Respectfully

Gayle Harbo

Retired Teacher  
TRS Trustee

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

## **Position Paper**

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

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

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



# NEA-ALASKA

*Affiliated with the National Education Association*

## TRS/PERS Issues for Testimony

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

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

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

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

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

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

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

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

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

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

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

April 10, 2005

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

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

Dear Representative Scaton,

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

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

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

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

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

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

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

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

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

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

Sincerely,

Ron and Mary Woods

**TESTIMONY ON LEGISLATION REGARDIN RETIREMENT LEGISLATION**

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

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

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

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

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

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

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

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



April 13, 2005

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

Dear Chair Seaton:

RE: PERS/TRS Issues

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

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

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

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

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

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

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

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

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

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

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

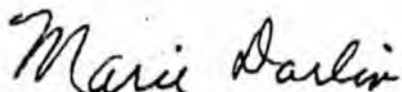
Among the considerations that Congress will be dealing with as Social Security is addressed is to mandate that all newly hired state and municipal and school district employees participate in Social Security. As we mentioned, this was done for newly hired federal employees (and newly elected members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

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

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

Thank you for your consideration.

Sincerely,



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

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



ADOPTED AUGUST 1972

**CITY OF WRANGELL, ALASKA**

INCORPORATED JUNE 15, 1903

BOX 531, 99829

(907) 874-2381

FAX: (907) 874-3952

April 12, 2005

Dear Representatives:

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

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

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

Sincerely,

Robert S. Pruncella  
City Manager

cc: Senator Bert Stedman

## CITY OF WRANGELL, ALASKA

RESOLUTION NO. 03-05-1018**A RESOLUTION OF THE COUNCIL OF THE CITY OF WRANGELL, ALASKA, URGING STATE PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)/TRS EARLY FUNDING NEEDED TO AVOID LOCAL TAX INCREASES**

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

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

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

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

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

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

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

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

ADOPTED March 31, 2005

Valery McCandless  
Valery McCandless, Mayor *Serving as Mayor*

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

July 3/29  
Sen. J...

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

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

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

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

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

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

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

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

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

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

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

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

*Gayle Harbo*

## City of Ruby

PO Box 90

Ruby AK 99768

907.463.4401

Fax: 907.468.444

March 22, 2005

State of Alaska  
Attn: Senator Albert Kookesh  
Juneau, Alaska

Distributed by  
Senator Albert Kookesh

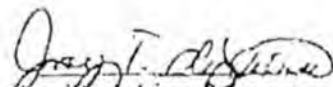
Dear Mr. Kookesh:

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

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

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

Respectfully,

  
Jay V. deLima Mayor

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

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

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

*Bayle Harbo*

3/30 Wed am  
Senfman

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

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

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

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

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

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

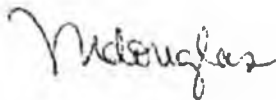
Do not initiate any benefit changes to add to the retirement system burden. Changes to the system are spread out to all participating employers as a result of the employer rate setting process. If an entity participates in a retirement incentive program, it will result in a prorated increase in all TRS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

The following suggestions are presented for consideration:

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

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

Sincerely,



Melody Douglas  
Chief Financial Officer

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



# KENAI PENINSULA BOROUGH SCHOOL DISTRICT

## Finance

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

April 2, 2004

TO: All State Senators  
All State Representatives

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

Dear State Legislator:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Katie Shows

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

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

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

Dear Representative Seaton:

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

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

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

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

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

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

Sincerely,

A concerned citizen

-----  
Sacramento Bee

Governor retreats on pensions

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

By John Hill -- Bee Capitol Bureau

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

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

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

## Katie Shows

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

**Follow Up Flag:** Follow up  
**Flag Status:** Red

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

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

**From:** Glen Ramos [mailto:fishing@alaska.com]  
**Sent:** Wednesday, April 13, 2005 12:00 PM  
**To:** Rep. Paul Seaton; Rep. Bob Lynn; Rep. Jim Elkins;  
Representative\_Jay\_Ramrus@legis.state.ak.us; Representative\_Carl\_Gatto@legis.ststae.ak.us;  
Rep. Berta Gardner; Representative\_Max\_gruenberg@legis.ststae.ak.us  
**Subject:** PERS/TERS

Dear House State Affairs Members,

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

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

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

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

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

## Katie Shows

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

**Follow Up Flag:** Follow up  
**Flag Status:** Red

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

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

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

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

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

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

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

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

Sincerely, Molly Brann



## KENAI PENINSULA BOROUGH SCHOOL DISTRICT

### Finance

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

January 20, 2005

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

VIA EMAIL

Dear Legislator,

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

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

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

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

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

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

Sincerely,

Melody Douglas  
Chief Financial Officer

Enclosure

**Katie Shows**

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

constituent

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

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

Will Files  
Homer, AK

**Katie Shows**

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

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

Thanks again.

Paul Seaton

---

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

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

## Katie Shows

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

Respond if you want.

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

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

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

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

April 3, 2005

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

Dear Representative Seaton:

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

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

Sincerely,

Gretchen Nelson

## Katie Shows

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

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

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

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

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

April 8, 2005

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

Dear Representative Seaton:

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

Sincerely,

Mary Ostermick

3/24/05

House State Affairs Committee

PERS/TRS legislation

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

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

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

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

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

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

If I can be of service please contact me.

lsemmens@ci.kenai.ak.us



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April 16, 2005

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# Bush Points to a Retirement System With Mixed Results

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

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

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

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

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

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

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

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

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

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



Section front from today's newspaper

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**Hoy**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Governing Magazine

March 2004

**SECTION:** FEATURE; Pg. 28

**LENGTH:** 1759 words

**HEADLINE:** PENSION PENDULUM

**BYLINE:** Anya Sostek

**HIGHLIGHT:**

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

**BODY:**

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

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

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

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

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

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

#### FLEXIBILITY VS. RISK

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

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

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

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

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

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

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

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

#### TEPID INTEREST

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

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

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

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

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

### HYBRIDS TO THE RESCUE?

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

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

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

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

**LOAD-DATE:** February 27, 2004

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

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

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

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

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

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

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

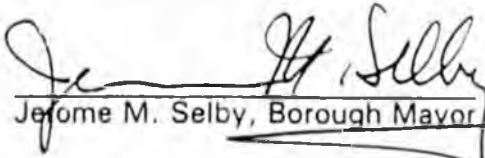
WHEREAS, the State has received a huge increase in oil revenue while communities are facing steeply higher expenses. For every \$1 increase in the price of a barrel of oil the State government receives an additional \$65 million of new revenue per year while Alaskan cities, boroughs, schools, businesses,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

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

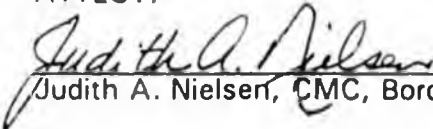
NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH that the members of the Alaska State House and Senate are strongly urged to approve the Governor's proposed \$37.5 million appropriation to offset the cost of State required municipal PERS increases for the next two years. This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

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

KODIAK ISLAND BOROUGH

  
Jerome M. Selby, Borough Mayor

ATTEST:

  
Judith A. Nielsen, CMC, Borough Clerk

**Rep. Paul Seaton**

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

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

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

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

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

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

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

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

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

**Rep. Paul Seaton**

---

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

Dear Legislative Representatives:

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

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

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

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

Thank you.

Sincerely yours,

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

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Central Microfilm Services  
Department of Education & Early Development  
State of Alaska

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

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

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

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

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

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

  
\_\_\_\_\_  
DIANNE M. KELLER, Mayor

ATTEST:

  
\_\_\_\_\_  
KRISTIE SMITHERS, MMC  
City Clerk

[SEAL]

**Rep. Paul Seaton**

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**From:** Buddy Harrel [blueboy@mosquitonet.com]  
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Thank you.

Sincerely yours,

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

**Rep. Paul Seaton**

---

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

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

**Rep. Paul Seaton**

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**From:** Keith Campbell [kcamp99664@arctic.net]

**Sent:** Tuesday, April 19, 2005 11:24 AM

**To:** Rep. Paul Seaton

**Subject:** SB141

Dear Paul.

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

Keith Campbell

4/20/2005

**Rep. Paul Seaton**

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

Dear Representative Seaton,

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

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

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

Sincerely,  
Trina Richards  
Fairbanks

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

**Rep. Paul Seaton**

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**From:** Debby Broneske [dbroneske@yahoo.com]  
**Sent:** Tuesday, April 19, 2005 5:38 PM  
**To:** Rep. Paul Seaton; Rep. Carl Gatto; Representative\_Jim\_Elkins@legis.state.sk.us; Rep. Bob Lynn;  
Representative\_Jay\_Ramaras@legis.state.ak.us;  
Representative\_Berta\_Sardiner@legis.state.ak.us; Rep. Max Gruenberg  
**Subject:** Not support SB141

Subject:Not support SB141

Paul\_Seaton@legis.state.ak.us, Carl\_Gatto@legis.state.ak.us, Jim\_Elkins@legis.state.sk.us,  
To: Bob\_Lynn@legis.state.ak.us, Jay\_Ramaras@legis.state.ak.us, Berta\_Sardiner@legis.state.ak.us,  
Max\_Gruenberg@legis.state.ak.us

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

Thank you for accepting my comments.  
Sincerely,  
Deborah Broneske

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Do you Yahoo!?  
Plan great trips with Yahoo! Travel: Now over 17,000 guides!

**Rep. Paul Seaton**

---

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

April 19, 2005

Alaska House of Representatives

Dear Sir:

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

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

Sincerely,

Mary Ann Tipton

Voting ASEA Union Member and

Eagle River Constituent

18687 Hiland Road • Eagle River, AK • 99577

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

Thank you for your time.

Doris Robbins

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

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

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

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

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

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

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

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

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

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

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

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

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

**Rep. Paul Seaton**

---

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

Dear Rep. Seaton,

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

Kathy Summers

**Rep. Paul Seaton**

---

**From:** CaptASTJoe@aol.com

**Sent:** Wednesday, April 20, 2005 6:53 AM

**To:** Rep. Paul Seaton; Rep. Carl Gatto; Rep. Jim Elkins; Rep. Bob Lynn; Rep. Jay Ramras;  
Representative\_Berta\_Gardiner@legis.state.ak.us; Rep. Max Gruenberg

**Subject:** SB 141

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

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

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