

ALASKA LEGISLATURE COMMITTEE FILES, 2005-2006 86 / 2

11709 HOUSE STATE AFFAIRS



ALASKA STATE LEGISLATURE

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

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

SIGNED:

Tracy L Cornish
 Testifier

MYSELF
 Representing

4130 SUMMER AVE FBX AK 99712
 Address / Phone Number

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

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

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

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

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

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

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

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

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

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

Age TRS retire 53 1/2

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

Thank you.

*Social Security windfall - on first date
of his*

Louie Flora

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

David Reaume: State's salaries are falling behind

DAVID REAUME
COMMENT

Published: March 6th, 2005

Last Modified: March 6th, 2005 at 11:25 AM

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

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

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

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

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

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

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

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

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

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

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Louie Flora

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

Workers for state see little pay raise

DAVID REAUME
COMMENT

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

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

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

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

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

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

experience.

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

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

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

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

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

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DRAFT

OUTLINE OF MAJOR POINTS FOR TESTIMONY

BEFORE ALASKA LEGISLATURE, MARCH 29-31, 2005

Richard J. Solie, TRS Board Member

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

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

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

I. MEMBER CONTRIBUTIONS:

A. Equal sharing of "Normal Cost":

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Role of PERS/TRS Boards in appeals:

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

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

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

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

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

IV. PROPOSED CHANGES IN THE HEALTH PLAN

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

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

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

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

V. ELIMINATION OF THE 10% COLA

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

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

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

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

3/24/05

House State Affairs Committee

PERS/TRS legislation

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

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

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

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

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

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

If I can be of service please contact me.

lsemmens@ci.kenai.ak.us

Louie Flora

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

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

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

4/29/2005

Louie Flora

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

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

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

Subject: No on SB141

To Alaskan Representatives:

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

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

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

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

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

Please vote "no" on SB141.

Thank you for your time.

Julia Smith

Louie Flora

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

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

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

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

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

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

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

Louie Flora

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

Representative Seaton:

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

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

Thank you for taking the time to read my email.

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

Louie Flora

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

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

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

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

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

Louie Flora

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

Dear Legislator,

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

Louie Flora

From: Doris Robbins [drobbins@gci.net]

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

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

Representatives,

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

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

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

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

Sincerely,

Doris Robbins

4/29/2005

Member of Interior Chapter RPEA

3763 Mitchell Ave #B
Fairbanks, AK 99709-4636

Alaskan since 1965

Independent

Former teacher, longliner and

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

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

- *Employment Security Tax..may I help you?* - from employers all over Alaska, as well as outside:

for things like "I need an employer report ..a registration form/packet..what's my rate? .. the dog ate

my report-can you send me another one? ... forward calls to wage and hour ..the director..the

commissioner

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

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

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

reviewed

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

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

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

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

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

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

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

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

and love of service!

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

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

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

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

From:SHornb5629@aol.com

To:bill.bjork@neaalaska.org

CC:

April 22, 2005

4/29/2005

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

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

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

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

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

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

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

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

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

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

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

Thank you for reading and considering my opinions and thoughts.

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

Louie Flora

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

Dear Mr. Seaton,

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

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

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

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

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

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

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

Sincerely,

Frank Jirik III
PO Box 873285
Wasilla, AK 99687
907.376.6324

Louie Flora

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

Dear Representative Seaton,

I wish to express my grave concerns about Bill 141.

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

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

Sincerely,

Heather Short

Louie Flora

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

Importance: High

Representative Seaton

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

Many people have testified to the following FACTS about SB141:

>This is a very significant public policy decision.

>This is a drastic change in the Public retirement system that will affect every citizen of Alaska, not just teachers and other public employees.

>This bill won't have any significant impact on the funding shortfalls for a decade or longer.

>Significant problems have been identified in the system that this bill makes no attempt to fix.

>These major changes need significant public buy-in if they are to be accepted by the public.

>We need to look at other reasonable, viable options besides a Defined Contribution Plan.

>Such a plan would put future retirees at risk of outliving their savings & medical plans, with most not even eligible for Social Security as a back up.

>This bill needs careful study, public hearings around the state with input from all stakeholders, in the interim.

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

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

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

Louie Flora

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

Senators,

Representatives,

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

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

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

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

Thank you for your hard work,

Doris Robbins

4/29/2005

A POM was successfully sent

From:

Doris Robbins

To:

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

Subject

The message was sent in reference to:
Retirement

Message

The message contained the following text:

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

[Begin Another POM](#)

[Logout](#)

Louie Flora

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

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

Crystal Hurbi
1306 Gilmore Trail
Fairbanks, AK 99712

Louie Flora

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

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

Louie Flora

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

Dear Representative Seaton:

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

Thank you,

Judith A. Christiansen
Box 1284
Seward, Alaska 99664

Louie Flora

From: Melinda Peterson [abominablesnowgirl@yahoo.com]

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

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

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

Dear Representative,

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

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

Melinda Peterson

Wasilla, Alaska

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Louie Flora

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

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

Crista Cady Hippchen

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

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

Christy,

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

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

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

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

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

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

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

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

Sincerely,

Katie Shows
Legislative Aide
Rep. Paul Seaton
1.907.465.2689

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

Dear Representative Seaton

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

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

Good luck. Sincerely,

Crista Cady Hippchen

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

Louie Flora

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

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

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

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

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

*Sharon Hanna
Administrative Clerk III*

Louie Fiora

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

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

Louie Flora

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

Dear Mr. Seaton,

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

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

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

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

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

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

Thank you
Kim Zwingelberg

Louie Flora

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

Dear Legislators,

RE: SB 141 TRS/PERS Retirement System Legislation

PLEASE DO NOT SUPPORT THIS BILL!

Why?

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

make critical decisions about their lives.

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

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

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

PLEASE - DO NOT SUPPORT SB 141!

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

Louie Flora

From: kenneth crump [thelittleguy_99645@yahoo.com]

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

To: Rep. Paul Seaton

Subject: Pers

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

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Louie Flora

From: kenneth crump [thelittleguy_99645@yahoo.com]

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

To: Rep. Paul Seaton

Subject: Pers

I vote NO

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<http://mail.yahoo.com>

Louie Flora

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

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

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

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

April 20th, 2005

Alaska House of Representatives

Dear Sir:

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

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

Sincerely,

Corrine M. Holt

Anchorage, AK

Louie Flora

From: Doris Rubbins [drobbins@gci.net]

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

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

Representatives,

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

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

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

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

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

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

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

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

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

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

Thank you for listening and for your service to Alaska!

Sincerely,

Doris Robbins

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

4/29/2005

MERCER

Human Resource Consulting

High Age Implications of Post-Retirement Risks

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

Introduction and Context

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

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

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

In this paper, we will:

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

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

Background

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

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

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

Overview of the Risks

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

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

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

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

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

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

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

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

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

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

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

Financial and economic risks

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

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

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

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

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

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

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

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

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

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

Business and employment risk

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

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

Public Policy Risk

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

How different types of retirement plans treat different risks

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

Treatment of Risks Under Different Types of Retirement Plans

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

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

Discussion and Analysis of Selected Risks

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

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

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

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

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

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

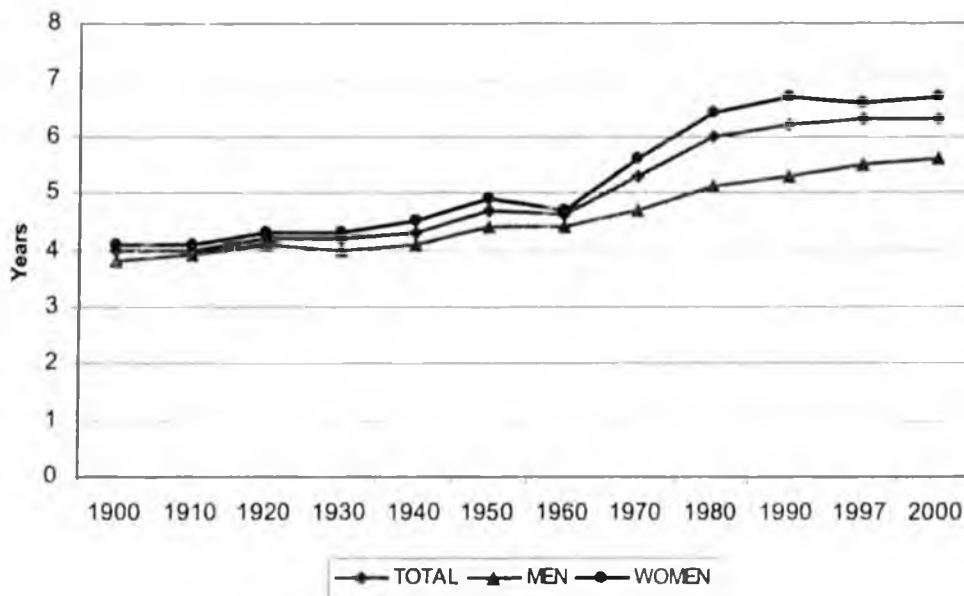
This section covered only those risks viewed as most important by the public. The discussion that follows is based on the authors' view of the importance of risks to the advanced age subset of the population grouped within longevity, family structure, health care and employment.

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

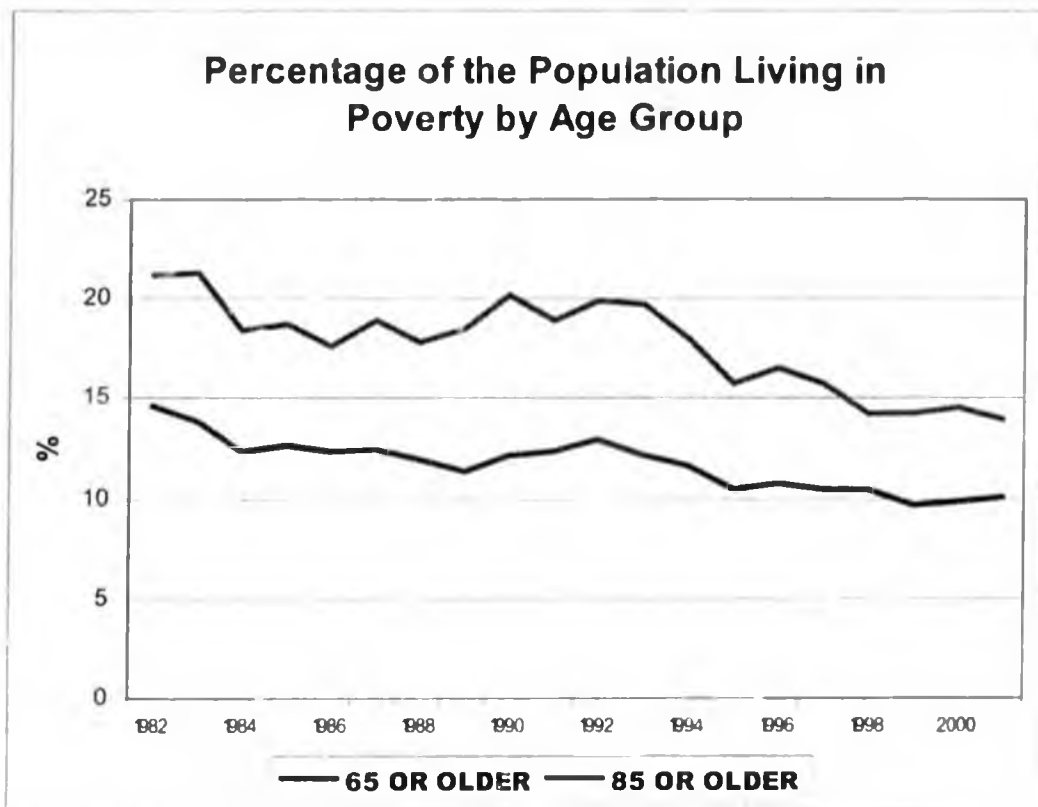
The importance of these topics is growing. As indicated above more people are living to very old ages and as more people are living longer there are more people in poverty. Poverty rates increase in with age.

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

Life Expectancy at Age 85



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



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

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

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

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

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

*Based on GAB3MIF Mortality Table

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

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

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

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

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

Expected Length of Retirement (for retirees)

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

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

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

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

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

Risks Related to Family Structure and Status

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



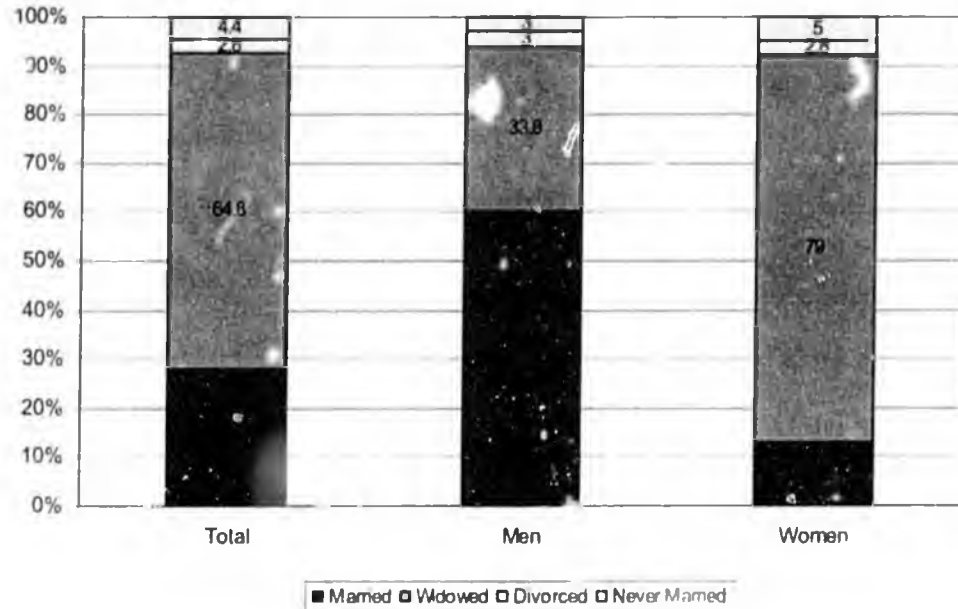
Source: Current Population Survey, Annual Social and Economic Supplement 2002.

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

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

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

Marital Status of the Population 85 and Older



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

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

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

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

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

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

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

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

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

Risks Related to Health Care, Long Term Care and Housing

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

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

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

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

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

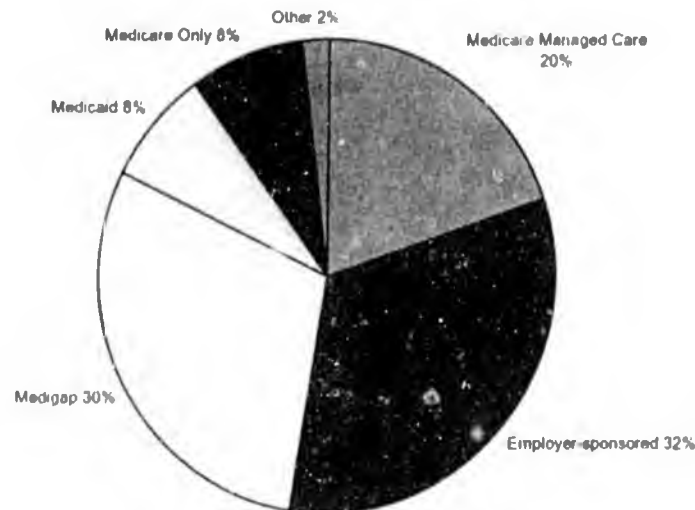
* Source: EBRI Issue Brief No. 254, Executive Summary, February 2003.

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

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

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

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



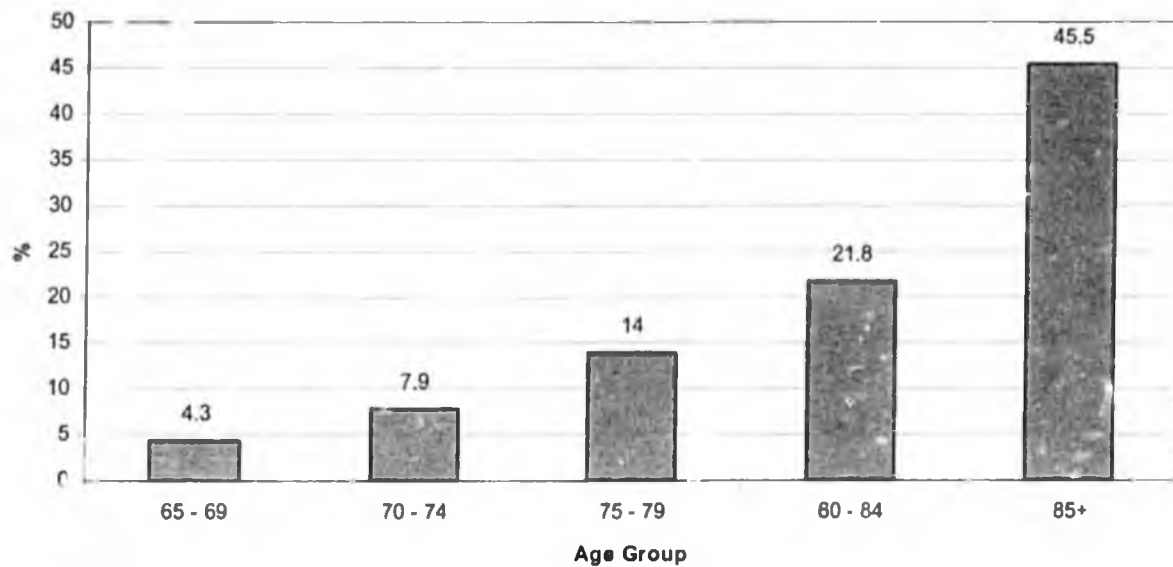
Source: The State of Retiree Health Benefits: Historical Trends and Future Uncertainties, Patricia Neuman ScD, The Henry J Kaiser Family Foundation (MedPAC analysis of Medicare Current Beneficiary Survey, Cost and Use file 2000)

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

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

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

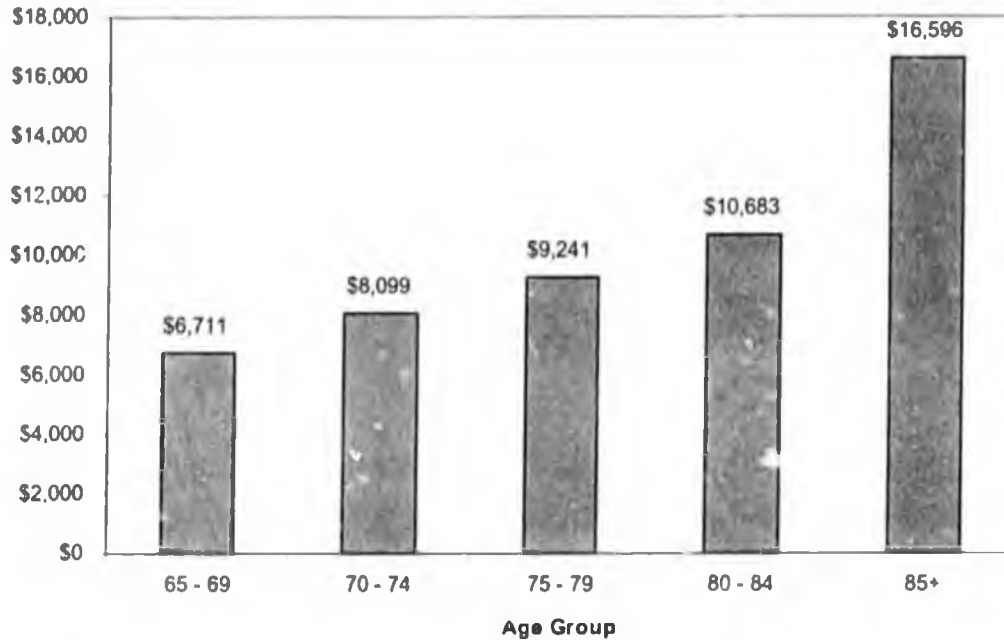
**Percentage of Nursing Home Care Expenditure in Total Health Care Expenditure
for Elderly 65 and Over**



Source: *Federal Interagency Forum on Aging Related Statistics*

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

Average Expenditure Among Medicare Beneficiaries Age 65 or Older

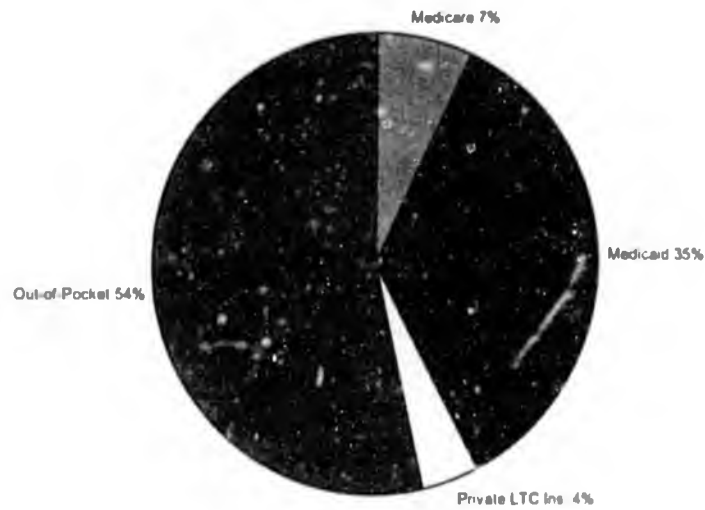


Source: Federal Interagency Forum on Aging Related Statistics

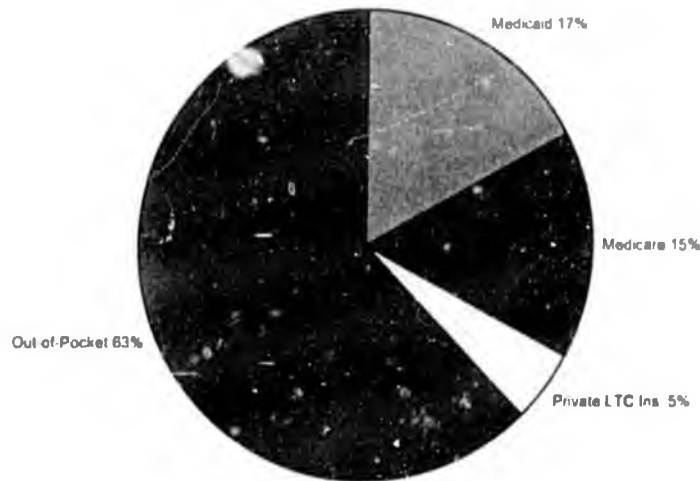
There are two types of concerns with regard to long term care, paying for it and having access to the appropriate facilities and caregivers. In the long run there are likely to be shortages of caregivers. Facilities or caregivers might not be available for acute or chronic care, even for paying individuals.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

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

Sources of Payment for LTC, 2000
Nursing Home



Sources of Payment for LTC, 2000
Home Care



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

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

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

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

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

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

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

Risks related to Employment

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

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

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

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

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

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



Source: Current Population Survey.

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

Conclusions

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

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

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

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

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

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

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

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

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

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

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

Appendix
Studies of Public Perceptions about Retirement Related Risk

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

High age implications of post-retirement risks

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Monica Dragut, MS

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

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

Louie Flora

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

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

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

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