

Alaska State Legislature

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Representative Mike Kelly

House District 7

SPONSOR STATEMENT

HB 191

(WO 24-LS0461\G)

"An Act relating to defined contribution systems for members of the teachers' retirement system and the public employees' retirement system; and providing for an effective date."

HB 191 is the last of three bills (HB 170 & HB177) introduced by the sponsor in response to the growing unfunded liability in our state retirement systems.

HB 191 creates new tiers for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). These new tiers involve a substantial shift in the structure of the retirement systems, from a Defined Benefit (DB) model to that of a Defined Contribution (DC).

In drafting this bill, the sponsor used the Tier Redesign Plan-Alternative 2 proposal¹, commissioned by the Division of Retirement and Benefits, with a notable exception. Unlike the Alternative 2 option wherein members are 100% vested at the time of entering the system, HB 191 creates a graduated vesting system over the first five years of employment.

HB 191 follows a growing trend of public and private pension plans converting from DB to DC plans for compelling reasons. A 2000 report² offers some historical background of this trend in the public sector. Since the mid 1990s, government entities are increasingly moving to full or partial DC plans as a means to provide flexibility and mitigate the risk of significant unfunded liability. In 1997, Michigan was the first state to move from a DB plan to a pure DC plan.

In drafting HB 191, the sponsor has identified a number of advantages in adopting a DC plan:

- Contribution amount is easily determined, easy to understand and usually constant from year to year, in the absence of DC amount changes.

¹ Mercer Human Resource Consulting. "State of Alaska: PERS & TRS Tier Redesign Study". 2004.

²"Texas House of Representatives: Interim Report 2000", p. 26

- DC plans often provide more income for non-career employees. In the new millennium, employees will be expected to change employers and careers more often than in the past.
- Account balances may be easily transferred to a terminating employee's next retirement plan hence the plans tend to be very portable.
- Employer and Employee contributions are allocated to individual accounts. Employees can easily identify a specific dollar amount that is earmarked for them.
- Pension benefits are continuously fully funded.
- Cost of administration is generally less than for a defined benefit plan.

We believe it is essential for the State of Alaska and other government employers in our state to be able to attract and retain high quality teachers and employees in order to provide essential services. A competitive retirement system is one tool to accomplish that objective. We believe a DC plan for new employees coupled with retirement health benefits and competitive wages will provide the best all-around method for maintaining a quality workforce in the future. It is essential that the Legislature take immediate action to address the \$5.6 billion unfunded liability of the PERS and TRS systems. A DC plan will help protect Alaskans from such liabilities in the future. A DC plan for new hires will not affect the retirement benefits of existing employees, but will have a positive impact by helping to reduce the unfunded liability over time.