



Official Business

# Alaska State Senate

## Senate Finance Committee

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### **SENATE BILL 141**

### **SPONSOR STATEMENT**

For almost two years, the legislature has heard of the looming crisis in the State's retirement systems. The systems are underfunded by \$5 billion. Employer contribution rates have been raised by five percent per year for the past two years, and greater increases are required unless something is done soon. In the first sixty days of this legislative session, members of the Senate have worked diligently to understand and evaluate the problems in the retirement system in order to propose a solution to those problems. Senate Bill 141 offers a two-prong approach: (1) create a defined contribution retirement plan for the long-term solution to employer cost management; and (2) implement management changes to the existing system so we can begin to address the \$5 billion deficit situation there.

In 2003, the Governor appointed a subcommittee of the PERS and TRS Boards that was charged with researching and evaluating the concept of a new retirement tier. This subcommittee worked throughout 2004, performing research and analyses of information gathered from employers statewide and studying nationwide trends in both the public and private sectors. In November of 2004, the subcommittee presented two tier alternatives to the PERS and TRS Boards suggesting that a recommendation be forwarded to the Governor and the Legislature.

Unfortunately, the Boards opted not to forward a recommendation. However, the work done by the subcommittee did not go in vain. The Senate leadership used the subcommittee's work, as well as its own research and analysis, to draft this legislation. SB 141 offers a holistic solution to our problem and allows Alaska to join other states in retirement system reform.

The true long-term solution, 30 to 50 years from now, will be accomplished by the change in the retirement plan for future government employees from the traditional pension plan to a defined contribution (DC) plan, commonly known in the private sector as a 401(k). Such a plan has three clear advantages: (1) cost predictability; (2) portability between employers; and (3) clarity. Hundreds of thousands of private sector employers and other state retirement systems offer their employees this type of plan. SB 141 combines the DC plan features with the tradition of offering insurability for all retirees and an IRS allowable vehicle for tax free savings accounts used to pay for out-of-pocket medical expenses during retirement years. As Alaska's older tier employees retire out of the defined benefits system, and the new DC plan employees are brought in to replace them, the existing structure will become more stable.

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In the short-term, SB 141 implements the management changes needed to effectively address the \$5 billion deficit. It creates a single board to replace the separate public employees' and teachers' retirement system boards and the pension investment board. The new board is the Alaska Retirement Management (ARM) Board. The Arm Board will be more experienced with financial and pension matters than the current boards require and will be charged with greater emphasis on its fiduciary role to balance the retirement system assets to system liabilities.

SB 141 seems voluminous. The concepts, however, are simple and few. Please take the time to read the "Senate Finance Committee White Paper: SB 141". This document is a succinct compilation of much of the research undertaken to date. It describes more fully the features contained in SB 141 and provides the understanding of the framework for the discussions to come.

The Senate Finance Committee is committed to addressing this problem this legislative session.