

Alaska State Legislature

Juneau

State Capitol Bldg., Rm. 434
Juneau, AK 99811-1182
Phone (907) 465-4976
Fax (907) 465-3883
Toll Free 866-465-4976



Fairbanks

119 N Cushman, Ste 213
Fairbanks, AK 99701
Phone (907) 452-6084
Fax (907) 452-6096

Representative Mike Kelly

House District 7

The Coming PERS/TRS Funding Crisis

As my staff and I prepare for this Legislative Session I am studying the important issues that will drive the agenda of the House. The more I study the crisis in funding of the Public Employees' and Teachers' Retirement System (PERS/TRS), the more concerned I become. It is currently under funded by over \$5 billion. To put this in perspective, \$5 billion could fund the state portion of our University budget for 25 years, fund K-12 Education for the next decade, or fund the State operating budget for the next two years. I want to make it clear that, although I believe we must make changes to the troubled system, we also have an obligation to PERS/TRS participants who are counting on it for retirement. We must also be able to attract and retain qualified public employees and teachers. As a new legislator I am eligible for benefits under PERS. I have chosen to decline enrollment at this time. Admittedly, waiving PERS benefits is easier for me than it might be for legislators who are already participating, or have no other retirement plan.

A 20/20 hindsight view of PERS/TERS reveals a system destined to hit the rocks. Health care costs far exceeded plan expectations; the aging beneficiary population is boosting retirement costs, while fewer younger employees are paying into the plan because of cutbacks in government; the plan provides a "defined benefit" instead of a "defined contribution," which places considerable risk on government employers; and asset investment returns have fallen lower than anyone believed possible. I was disappointed to learn that the current investment rate recovery will only have a small positive impact because PERS/TERS is so far under water.

While I find reasons given for financial failure of PERS/TERS to be instructive, I believe the core problem may be more insidious. The benefits bargaining table is a "round table"! Although there have been cost and abuse control measures implemented in the past, it appears we have not consistently maintained an independent and fiscally conservative management team across the table from the motivated beneficiary team. A look at the roster of PERS/TERS participants helps one understand the problem. Our Governor; his commissioners; local and State government employees and supervisors; school board, council and assembly members; professors, teachers and even legislators are all eligible to receive benefits at the round table.

I've been told two of every five Alaskans are PERS/TERS beneficiaries, covered dependents, or are related to these participants. Several of my own extended family are public employees or teachers. The round table structure is not unique to Alaska, or to government. But wherever it exists – there is a recipe for trouble. The round table breeds patronage – and it influences votes. I mean no criticism of

participants who fully utilize PERS/TERS benefits, options and privileges. But simply stated, we cannot afford this near-bankrupt system!

Prior to the State paying it's fair share of the unfunded liability, I believe a new defined-contribution plan covering new hires and re-entrants, and establishing provisions to prevent abuse, must be in place. We must be prepared to change law, renegotiate agreements, and do whatever it takes to craft a long-term, fair and affordable solution before asking the people of Alaska to provide a \$5 billion bailout.

I suggest we begin deliberations with three stakeholders – each taking ownership of one third of the problem (we must start somewhere): 1) the State acting as employer and representing all Alaskans benefiting from the labor of the beneficiaries; 2) local government employers; 3) PERS/TERS beneficiaries. Ideally we should place non-beneficiary management representatives on one side of the table, and non-management employee beneficiaries on the other. That will be a real challenge given the “round table” configuration of PERS/TERS. Changing the make-up of the PERS/TRS boards to provide for 50% non-beneficiary directors deserves some thought. Our goal should be to craft a fiscally sound and fair solution by the end of session.

Repairing the PERS/TERS meltdown and making sure it never recurs poses a significant challenge for lawmakers. If we are successful, we will probably only upset one out of every two Alaskans. As a freshman, I obviously have much to learn in a very short time. I can perhaps be more effective in helping my colleagues to craft a sound solution if I decline PERS enrollment. So I shall.

I wish everyone abundant blessings in the New Year and look forward to serving you in Juneau.

Mike Kelly, Representative District 7