

I appreciated Dorothy Wells' response to my guest opinions regarding our public pension plans. The more debate, the better will be the public's understanding of the issues. Clearly we have different views concerning the source and gravity of our current \$5.7 billion unfunded liability problem, the wisdom of retreating from our 100% funding requirement, and the appropriateness of adopting a defined contribution plan to attract and retain qualified new employees.

During the past 14 years employer retirement plan contribution rates have been as low as 7.9% and as high as this year's 16% of pay. The rate will reach 21% in FY06 and climb steadily to nearly half of base pay in the years ahead. How did this happen when prior to 2000 our funds were typically nearly 100% funded and had remained so for years? If you read the non-fiction Perfect Storm, or lived through the '64 Alaska earthquake, or remember the '67 flood in Fairbanks, you know that negative factors can combine to create 100-year events. Our defined benefit pension plans experienced a perfect storm after 2000 when investment markets plummeted, health care costs (particularly for the retired age group) skyrocketed, and new actuarial assumptions were adopted predicting that our employees will live in retirement two-plus years longer than previously expected. As a result of cutbacks in government over the past decade, there are fewer new public employees coming in the door to support those who are retiring, and retirement incentive programs have prematurely loaded retirees on our pension and retirement healthcare rolls.

Some say we should reduce our pension and retirement health care liability funding to less than 100%. I challenge the wisdom of this approach. The Alaska pension systems have traditionally maintained a 100% funding goal. This is one of the things we did right. Recent Fed rulings dictate that this conservative valuation is now required for financial reporting purposes. Let's keep the high ground.

Attracting and retaining quality public employees and teachers must be a cornerstone of any pension fix. If we fail at that, we put our future at risk. I have 11 grandchildren, 6 in public schools and 4 in private. I am related to a dozen teachers and public employees in the Alaska system. Like you, I am personally invested in a sound solution. Early in this legislative session I introduced three conceptual bills in order to trigger discussions, with a goal of uniting the greatest number of Alaskans possible behind a workable solution. The first bill would restructure the PERS/TRS Boards to add a non-beneficiary viewpoint; the second bill would involve over 45,000 active, unretired employees in the funding solution; the third bill would implement a defined contribution plan for new employees only. I believe ignoring the problem and hoping it will go away, or writing a check out of permanent fund earnings, or raising local taxes dramatically will bitterly divide beneficiary and non-beneficiary Alaskans.

There are those who would quite naturally like to assign blame so we can put the boots to the culprits and move on. Here is the usual list of folks to blame:

- 1) **Public employees** – They did nothing wrong. Their pension programs are the ones we provided for them. The so-called “abuses” we like to point out have been approved in statute by the Legislature, or permitted by benefit plan documents. However, tightening up in several areas would certainly be desirable.

- 2) **Actuarial wizards and plan managers** – There were judgment calls which, using 20/20 hindsight, appear to have understated pension fund liability and positioned us less than optimally for the perfect storm. Our plan managers were not alone in their judgments. They had plenty of company in other states, and with other plans and funds. Unfortunately, it's much easier to call plays from the armchair after the game. We must improve the overall management of the retirement systems where prudence dictates change.
- 3) **The Legislature** – Perhaps some blame should be placed for legislators being too generous with public employee voters, using public funds. But, except for approving a generous, risk-loaded defined benefit program similar to most other states, their actions weren't among the most significant contributors to the huge unfunded liability problem. I opted out of the PERS system believing that perhaps elected officials should not be in the programs. However, it is only fair to point out that politicians account for less than 1% of the active or retired member populations. Kicking them out may be appropriate, but will not bring much to bear on the larger problem.
- 4) **The Employers** – Some suggest they didn't pay enough into the fund. They historically paid in what the system required for 100% funding. They increased contributions in years when it was required. But, unlike employees, they were permitted to reduce payments when full funding was reported. It is clear to me going forward that there should be a contribution floor for employers and employees so we can overfund in good times to mitigate the impact of bad years.

If we work hard at it we can identify portions of the \$5.7 billion unfunded liability problem to blame on specific persons or groups. Examining wreckage is our time-honored way to ensure we don't come here again. But in the long run, our challenge is simple, if not easy – Alaska can no longer afford defined benefit plans wherein the governments (the people) absorb all risk associated with the pension and retirement health care of our public employees and teachers. Those who say a defined contribution system won't attract and retain qualified future public employees are wrong. Those who maintain that active, non-retired beneficiaries bear no obligation to join non-beneficiary Alaskans to stabilize and fully fund their defined benefit programs, are missing a leadership opportunity to involve an army of over 45,000 active beneficiaries for whom we are proposing no benefit cuts. The Legislature is struggling with these challenges. I sincerely hope they have the will to act this year.

