Here are my notes from the (S) Finance Committee hearing with David Teal , the Legislative Finance Director, held on Tuesday morning, February 20th. We considered his Overview of PERS/TRS important enough to share with you separate from our weekly legislative updates. You may be able to listen directly to his presentation by going to http://www.ktoo.org/gavel/calendar.cfm. Make sure you are on the page for the February 20th schedule, scroll down to 8:33 am meeting start date for Senate Finance and click Audio Archive.

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For the first time in the PERS/TRS overviews, an official came forward with a degree of openness that hasn't been seen previously.

During an overview held Tuesday, 2/20, in (S) Finance, the Legislative Finance Director, David Teal, went point by point over the situation to a PowerPoint presentation.

First, he presented a graph charting the liability/asset gap that showed the amounts closely correlated through FY 01. Then the gap widened considerably, showing the system costs versus money on hand to pay those costs. In addition to the previous reasons for the gap - market conditions, life expectancy increasing - there was the problem of a real lag between the data and the budget, especially in the area of wage bases. Mercer had assumed that wages would grow with cost of living increases, thus increasing the employee contributions, but wages have been stagnant.

"We may be at the point where the system can't be fixed," Teal told the committee, and "why there may be at least one bill going through here besides funding."

Will the gap ever be resolved? Yes, Teal said. It will begin to flatten as retirees die. Meanwhile, because the system is now closed to new members, it will simply take more and more money.

Teal said that the unfunded liability will not likely change things for retirees, and employee contribution rates cannot be increased unilaterally. However, he noted that there may be indirect costs associated with the higher benefit costs such as how many people can be hired and how much employees get paid.

The reason is because employers will pay higher contribution rates in the absence of cash infusions. For each employee, depending on the tier, employers will have to pay in 50% of their salary increasing to 100% and 150% as the years pass from the closing date of the system. The more an employee earns, the higher the percentage of the employer contribution.

Teal said that gaps can close but only if they are caught on time. "We could have and should have paid more into it (PERS/TRS) and didn't", Teal said. "The gap will close with the adjusted contributions, but can communities pay?"

In the recent past, the state has fully paid cost increases to TRS and for state employees. The state has paid a portion of cost increases for local governments, despite the fact that it has no legal responsibility to pay these costs.

But paying the bill is not the same as fixing the system, according to Teal's PowerPoint. The system is dysfunctional now.

Teal advised that the legislature may want to address several issues, beginning with discriminatory hiring. Employers with budget considerations can look up the past service costs on each applicant and know exactly how much they will have to pay on each person and, possibly, make hiring decisions accordingly. (Note: an electronic newsletter from Retirement and Benefits a year or so ago stated that they were working on a system to track the costs and make it easy for employers to research employees).

Senator Stedman expressed concern over the potential discriminatory hiring practices and the need to blend in the costs to level the playing field. The committee discussion indicated that the Governor plans to introduce a bill on cost sharing, something that would give predictability and, likely, include IRS fix-it items not corrected in the emergency regulations passed last summer.

Other comments from the committee: Senator Elton asked what would happen if you make an extraordinary deposit to the funds? Teal responded that Retirement and Benefits said there would be minimal impact and would not produce a huge change to the on-going costs.

Senator Hoffman expressed concern about the municipalities becoming dependent upon the state for the costs or face bankruptcy.

Senator Olson asked if it was true that alarming rates of people were being put on the payroll (a reference to Millhorn's claim that 68,000 refunded PERS/TRS people are crowding back in to become vested) and whether or not they could be put on contract.

That concludes the remarks from the hearing. The Alaska Retirement Management Board will meet tomorrow afternoon to review legislation pertaining to PERS/TRS and proposals. To our knowledge, they will not be considering a return to defined benefits but the proposals will involve the cost sharing and needed changes for IRS approval.