Representative Mary Kapsner's Column **April 29th, 2005**

Many older people in rural Alaska count on Social Security as monthly income when they retire. That Social Security check doesn't go far, as anyone who pays bills with it will tell you, but it is part of many older Alaskans' safety net.

If you work for the State of Alaska, your school district, or one of the city governments that joined the state system, your retirement benefit comes through the Public Employees Retirement System (PERS) or the Teacher Retirement System (TRS) and you do not accrue Social Security benefits under the federal government. Unless you have other employment in your lifetime, your retirement income depends on a check from the state.

State lawmakers are currently working to revise this state pension plan, and their main vehicle for doing so this session is Senate Bill 141. Senate Bill 141 makes several changes to the PERS/TRS system, but the most important change it makes is to the nature of the system itself, changing it from a "Defined Benefit" plan to a "Defined Contribution" plan. Neither of these terms is very descriptive, so I'll explain them here.

- Under a defined benefit plan, workers and their employer both make contributions to the system, and the state pays out guaranteed benefits to the worker when they retire, based on a formula involving their years and salary within the system. This is the model that the PERS/TRS systems currently operate under.
- Under a defined contribution plan, workers and their employers both contribute to an investment account for the worker, who draws from the account when he/she retires.

There's a little more to it than that, but the bottom line of difference between the plans is in who assumes the risk from changes in the stock market and finances of the pension systems. Under the current system, the state and other employers (boroughs and school districts participating in the plan) assume the risk – they pay the calculated benefits to the worker whether investments have done well or poorly. Under the new plan, those same workers must sink or swim entirely on the performance of their investment account – if they retire during a market downturn, and their account doesn't have much money, they're out of luck.

These changes don't come entirely out of the blue. There are real problems with the PERS/TRS system that need to be fixed. Escalating health care costs and the 2001-2003 stumbles in the stock market have put a squeeze on school districts and municipalities trying to pay out the defined benefits. As greater portions of local budgets are devoted to pension payments, the pressure for some kind of fix to the system gets that much higher. That pressure has prompted Republicans in the Senate to tie a portion of the increase for the educational foundation formula (House Bill 1) to adopting a defined contribution change to the PERS/TRS system. In their version of that bill, if the retirement change plans aren't passed, a part of the education funding increase won't go into effect either.

My problem with making the switch at this point though is that it all still seems very hasty. For many employees, the changes contained in SB 141 will result in significant cuts to the retirement benefits they will receive. Moreover, the uncertain nature of the private accounts will make them even less attractive to potential employees. It's already hard enough to recruit and keep teachers and other public employees, and this will only make it harder.

We've been committed to a strong, sound retirement program for our employees since before statehood – while reforms may be necessary, we should take the time to make sure we do it right.

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