

Alaska State Legislature

Senator Hollis French

Senator Dennis Egan



February 26, 2010

Honorable Sean Parnell
Governor
State of Alaska
P.O. Box 110001
Juneau, Alaska 99801

Dear Governor Parnell:

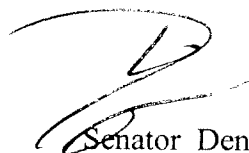
We write to encourage you to help us re-establish a fair retirement system for public employees across our state. As you know, public employees hired since July of 2006 are not offered a secure retirement; instead, they participate in a system known as 'defined contribution.' Under a defined contribution system, individual accounts are established for each employee and only employer contributions to the account are guaranteed, not the future benefits. All investment risk falls on the employee and the employer shares none. While these types of plans are widespread in the private sector, their risks are mitigated by the fact that most private workers also pay into Social Security. Such is not the case for state employees, however. They do not enjoy even the small safety net Social Security provides.

Alaska is the only state nationwide that offers such an uncertain future to our public employees. As you may know, a study by the Institute of Social and Economic Research (ISER) shows that the economic impact of retirees on Alaska's economy is over \$1.5 billion a year. In 2006, \$820 million flowed directly from state and local pension funds to over 35,000 retirees. The defined contribution system encouraged employees to stay in Alaska and retire here. This is not the case with the new program.

Part of the reason the State embarked on this course was due to the flawed work of Mercer, the state's former actuarial advisor. Among other errors, for several years Mercer badly underestimated the rising cost of medical benefits for public employees. As a result, the state and its subdivisions did not make sufficient deposits into the employees' retirement accounts. This chronic underfunding led to a multi-billion dollar unfunded liability in the overall system.

The state is pursuing legal claims against Mercer for its negligence, and it appears there will be a large settlement in the not too distant future. We believe this presents the state with an opportunity to partially correct the error it made in 2005, when SB 141 passed. We urge you to use the proceeds from the Mercer lawsuit as a down payment on a return to a secure retirement for public employees. While the cost of such a change should be negligible, the millions of dollars that the state will recoup from Mercer offers a painless way to do the right thing by our public employees.

Sincerely,



Senator Dennis Egan



Senator Hollis French