

NEA-Alaska/Retired

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Use common sense—restore a secure retirement

'We do not oppose 401k type plans, but they are intended to supplement, not replace a defined benefit pension.'

On the last day of the 25th Alaska Legislature, Senator Elton and cosponsor Senator McGuire introduced SB183, an act which would repeal the "401k savings plan" imposed on new teachers and public employees hired after June 30, 2006. SB183 would restore a safe, secure defined benefit (DB) plan which would allow our members to retire with dignity.

The legislation imposing the 401k-type savings plan was sponsored by the previous administration and promised to "stop the bleeding" of the pension plans and bring relief to employers. It did neither and narrowly passed, requiring three special sessions before it passed by **one** vote. Legislators did not have all the facts. Buck Consultants, the new actuary, has indicated that Tier III of PERS with 19,000 active members, and Tier II of TRS with 7,100 active members cost almost exactly the same as the new 401k plan. It is most important to note that under the 401k plan, an employee can take his/her contribution and also the employer's contribution and leave after five years - no dollars stay in the state and there is no "guaranteed" health care. Retirees will be "out of luck" when money in the required health accounts runs out. It is a faulty plan which attracts short-timers and transients who will then cost the state millions of dollars in training costs when they take their money and run. Utah and Colorado rejected this type of mandatory plan for just those reasons.

The Palin administration has taken steps to "stop the bleeding" by appropriating in the capital budget \$269 million

dollars to DB accounts in TRS, thus reducing the employer contribution rate for FY'08 from the adopted 54% to an effective rate of 12.56%; for PERS \$185 million was appropriated which would reduce employer contribution from about 40% to 22%, a single payer rate. This is not a permanent "fix" because SB125, which would fix these rates and this process in law, failed to pass. This significant effort to meet the actuarially calculated rate is a big help to the funds and to employers. When the 401k plan was man-

dated, the prior tiers were closed to new members, and the employer rates will continue to escalate. The rates, yet to be adopted for FY'09, are calculated by the actuary to be close to 57% for TRS and 43% for PERS.

Nationwide, the bulk of public pension funding is not shouldered by taxpayers - almost 85% comes from investment earnings and employee contributions. Public pension plan recipients fuel the local economy, but only if they stay in the state.

Retention of experienced and trained personnel is critical to the continuous, reliable delivery of taxpayer services. We want to build community, not destroy it. We do not oppose 401k type plans, but they are intended to supplement, not replace a defined benefit pension.

In Alaska, teachers are adversely impacted the most by a 401k as the only retirement source, because teachers are not eligible for Social Security and even if they do earn Social Security wages through additional employment, they will be penalized with a reduced benefit when they apply. Public employees have either Social Security or a



Thank you



*Pre-retired members
Kent and Suzanne
Hermon host the booth at
the Alaska State Fair.*

Joyce Boese and I would like to thank the many volunteers who helped run the NEA-Alaska booth at the Alaska State Fair in Palmer, August 23-September 3. We gave out lots of information on helping students in school and our new 401k retirement plan. Many people, including some high school students, stopped to

complain about NCLB. I especially want to thank David Schwantes for contacting Anchorage retired members and CEA President Ron Rucker for filling in all the empty slots for the Valley and AEA for sending lots of volunteers who braved the terrible traffic on a beautiful weekend and all showed up. NEA-Alaska/Retired did a great job of staffing the booth for seven of the 12 days. Thank you all.

— Bette Reed

Will you have enough? *continued from page 4*

interest, the fund would be worth only \$34,250 when that 20-year old reaches 85, not the \$160,000 touted by financial planners. Fees, inflation, and commissions eat up most of the earnings.

Savings plans such as the 401k were never meant to replace a DB pension plan. The purpose of 401k's and 403b's is to supplement, along with Social Security or a supplemental benefit plan, a monthly retirement check. It is often referred to as the "three-legged stool" of retirement security. **New teachers in Alaska have only a one-legged stool.**

We must do our best for these young people, encourage them to stay and make their homes in Alaska and contribute to our communities, but you do the math - how long, at \$6,000 a year, will it take to reach the over \$1.5 million that is needed to provide a comfortable and secure retirement. Re-

member, too, that these DC members will have to use the money in their major medical accounts and HRA accounts to pay for health care. If the money runs out, too bad!

These new hires must get a fair and accurate assessment of the situation they are in. It is more than probable that Alaska will be a great training ground for most of them, and a costly experience for the employers. Many employees will stay only five years, take their money and their employer's contribution and head for "greener pastures." Utah and Colorado have rejected DC as the way to go. It would be costly in the long run, they say, because when DC retirees run out of money they will be on welfare or in state run homes. This is **not** the way to treat Alaska seniors - we expect respect and dignity in their "golden years" for our seniors.

Use common sense *continued from page 1*

replacement Supplemental Benefit Plan. Please work with other retiree groups, community leaders and active teachers and public workers to **restore common sense**. Get the facts and get involved - contact legislators, attend forums, ask questions. Talk to local chambers and school boards about the importance of stable communities, faculties and school programs. Retired community members are contributors, both economically and socially. Retired members deserve a safe and secure retirement.

President's message

A warm welcome to our new retired and pre-retired members. Retirement can be a time of renewed commitment to issues that affect the lives of seniors and those about to retire. Many of us belong to the "sandwich generation" - we care for our parents and we care for our children and grandchildren. We remain active politically and committed to public education. We need to challenge the "negative media" to spend a week with any classroom teacher, take home the papers to grade, make the phone contacts and do the one-on-one counseling. Most critics have no idea about the challenges school employees face every day. Please remain an advocate and stay active politically. It's the only way to bring about positive change.

A recent headline in the Fairbanks Daily News Miner read, "State Trying to Reconcile Lack of Qualified Workers." It doesn't take a rocket scientist to wonder who would want to come to Alaska to work. For new employees to TRS and PERS the only

retirement plan offered is a 401k, subject to the ups and downs of the market, with no COLA or PRPA after retirement to keep up with inflation - who would come and who would stay more than a few years? In 2006, only 3,700 new workers were hired under the defined contribution (DC) plan in both TRS and PERS, almost 1,000 fewer than predicted. Of the 30,000+ public employees, only 32 of the non-vested employees converted to a DC plan and of those, 20 terminated, took their money and the employer's money and left. For TRS the number was even smaller, ten converted and five of those terminated.

A better way is offered in the form of SB183 introduced by Senator Elton. We need your help to restore common sense to the retirement system and pass SB183 which would reestablish a defined benefit pension plan. To do this we need the help of every one of you - you contribute each day to your community, both monetarily and as a volunteer.

Be proud of what you do and respond to the nay-sayers of public education and public employees.

Some advice to any public employee who left employment and withdrew their contributions: you should know that the option to buy back your service years upon your return was negated by SB141. For the 78,000 former employees in this category, the deadline to buy back service is July 1, 2010. If you have not repaid contributions by then and are rehired you will automatically be part of the 401k type retirement, with no guaranteed retirement income or health care coverage.

On a more positive note, we are proud to announce that your dedication and hard work finally paid off with the recent signing of Rep Young as a cosponsor HR82, the Social Security Fairness Act, which repeals the devastating pension offsets which negatively affect your pension income. Please thank Rep Young and also Senator Lisa Murkowski who has supported repeal since she was first in office.



Gayle Harbo,
President

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Will you have enough?

' In Alaska, teachers are more at risk than public employees because teachers do not have the additional 6+% of salary put in by the employer to either Social Security or a Supplemental Benefit Plan.'

The 2006 implementation of a defined contribution (DC) savings plan to provide new hires of PERS and TRS with retirement dollars raises many concerns about retirement security. The question is - will members save enough to insure a safe, secure retirement? After 30 years of employment and a life expectancy to late 70's for males, or early 80's for females, what will you need to save?

If you start your career at age 22 and work 30 years, you would be able to retire at age 52. Will you save enough to live comfortably for almost 30 more years? Let's consider what the current PERS and TRS statistics indicate.

Average salary for the 34,000 PERS employees is close to \$45,000, and for the 10,000 TRS employees, the average salary is close to \$56,000. For TRS employees, to reach an average of \$56,000 they must continue their education, work towards a Masters degree or beyond, and continue to spend dollars for certificate renewal.

According to an article in the spring 2007 *USAA* magazine, you will need 80% of your pre-retirement income to retire and maintain your pre-retirement standard of living. For example, if you retire at 65 with an annual pre-retirement salary of \$40,000, you would need \$32,000 annually, which would require saving a minimum \$1,050,000 by retirement; for pre-retirement salary of \$60,000, retirement of \$48,000, annually, you would need to save \$1,600,000. For a person to retire at age 52, the savings would need to be significantly more.

Recently, the teachers in West Virginia voted to go back to a defined benefit (DB) plan after 16 years in a DC plan. The statistics of the savings they experienced are sad and very discouraging. After 16 years, only 74 of the 22,000 teachers in the system had accrued more than \$100,000, hardly enough

for a secure retirement. Alaska, as of July 2006, is the only state with a mandatory DC program.

In Alaska, teachers are more at risk than public employees because teachers do not have the additional 6+% of salary put in by the employer to either Social Security or a Supplemental Benefit Plan. This amount is matched by the employee, so an additional 13% of salary for retirement is saved by PERS employees. There is no counterpart for TRS who were not offered a choice of either Social Security or a replacement. In addition, teachers and some public employees who contribute to Social Security through supplemental employment, have the benefits reduced by two-thirds of their pension benefit, often resulting in a zero SS benefit, simply because they chose public service. It is an unfair federal pension offset.



The concern has to be for these new DC employees, who at beginning salaries of less than \$40,000, are putting less than (in the case of TRS) \$6,000 a year into a 401k type plan. Most new

employees choose managed accounts which cost them 50 basis points (\$5 per \$1,000) on dollars contributed. Additional costs are the expense ratio and annual fees of the individual fund choices, the annual and account fees charged by the State of Alaska. The risk of the market "downturn" at a chosen retirement year may also prevent DC employees from retiring when planned.

Supporters of DC plans talk about the **miracle of compounded interest**, but John Bogle, founder of Vanguard Funds, known for low fees, cites the **tyranny of compounded costs**. According to him (*The Little Book of Common Sense Investing*), if a 20-year old put \$1,000 into a mutual fund at a typical 2.5% management fee, earning 8%

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ARMboard news

The Alaska Retirement Management Board met June 13, 2007, in a work session with the actuary, Buck Consultants. Buck presented the 2006 valuation report and answered 25 specific questions presented in writing by the board members. Many questions dealt with the ramifications of the "fix-it" legislation for the DC 401k savings plan imposed on new hires in PERS and TRS as of July 1, 2006. The "fix-it" legislation, SB123, had the most significant effect in two areas. It changed the wage base used to determine employer contributions to the defined benefit plan, from just DB plan members to all active members in the DB and DC plans. The DB plans are "closed" in terms of new members, but open for contributions from all actives. The second significant change was the establishment of a separate health trust for monies used to pre-fund health care.

Apparently since health care dollars were collected, beginning in 1975, the monies were commingled with pension dollars for the purpose of investment. Now a separate trust has been established as of July 1, 2007, and pension and health care dollars will be kept completely separate. The actuary is still working out exactly how much is in each fund and what the funding ratio of each fund is. The board expects a complete report from the actuary at the September meeting when it sets the employer contribution rates for FY'09.

A significant resolution at the board meeting on June 14, resulted in the change of the employer contribution rates for PERS and TRS, for FY'08, which previously had been set at 40% and 54%, respectively. A Senate Bill, SB125, which did not pass, would have set the employer contribution rates in statute, PERS at 22% and TRS at 12.56%. The ARM Board supported passage of SB125, but in its absence, supported the funding from the capital budget which would pay to the respective funds the difference between a calculated 22% of the wage base and the actuary's calculated rate of 40% for PERS, and between 12.56% and 54% for TRS. Now that the entire wage base will be used, employers must also contribute to the DB plans for DC employees.

The amount is the difference between the employer contribution rate to the 401k's and the actuary's calculated rate. SB125, if passed, will establish a single contribution rate for PERS employers as has always been the case for TRS. It is also significant that if SB125 is passed, the state would each year, on July 1, contribute to the funds the difference between the Board's adopted rate recommended by the actuary and the rates of 22% and 12.56% set in statute.

In other action, the board held a special meeting to terminate an investment option for members in the Supplemental Benefit System and in the DC 401k plan. As fiduciary, the board deemed the action necessary since the Daily Government/Corporate Bond Fund, supposedly risk-averse, had lost over 18% of value since January 1, most in the month of August. The assets for the 1,100 fund participants were transferred to a new investment option.

The good news is that the PERS and TRS pension fund level returns for FY'07 are estimated at close to 19%. At the end of March our funds were outperforming 95% of the funds in the Callen public fund data base. Special thanks goes to CIO Gary Bader and an outstanding staff at the Department of Revenue for an outstanding job on behalf of pension fund members.

--- Gayle Harbo



Phantastic Philly—2007 RA

The last time we were in Philadelphia for Representative Assembly (1983) it was hot and humid and we were singing “*Put an apple in your hand and vote for Bill* (Potter that is).” This time we were not singing Bill’s praises, but it was still hot and humid. It was also the 150th anniversary of the National Education Association. What better place to celebrate!

Gayle Harbo, Kristina Tornqvist, and I attended the NEA Retired meetings which are held before RA. This provides a chance for any retired member to meet and voice concerns. Of course, it’s also a chance to raise money for the NEA Fund for Children and Public Education. In addition to large group meetings, there were break-out sessions. I attended the one on organizing members when action is needed. We did some interesting role playing where we attempted to secure volunteers.

Kristina and I were delegates to RA representing your interests at the national level. There were 15,839 registered. Of that number, 8,585 were delegates. I served on the elections committee for the first time while Kristina enjoyed the early, early morning committee which previewed new business items. The Government Pension Offset and the Windfall Elimination Provision impacting our Social Security benefits were addressed. We were able to submit personal stories noting how we are being adversely affected.

It was the 50th anniversary of the “Little Rock Nine” who attempted to enter Little Rock’s Central High School. Six of them were able to attend and be honored at RA. One of them, Minnijean Brown Trickey, will lecture in Anchor-

age on September 27.

Campaign 2008 was off to a rousing start. Eight presidential candidates spoke before the body - Hillary Clinton, John Edwards, Christopher Dodd, Dennis Kucinich, Bill Richardson, Barack Obama, Mike Huckabee (the first Republican ever to accept our invitation), and Joe Biden. All addressed educational concerns, especially those connected with NCLB, and all received a standing ovation. At the end of each speech, the candidates were asked two questions. It was truly an exciting time.

The Alaska delegation had a fun evening out complete with a close-up of the Liberty Bell and some fine Philly cheesesteak sandwiches. Friendship Night featured a dance compliments of Target. I had my photo taken with Bullseye, the Target dog - it was well worth the wait in line. On the one free day we had, I had an opportunity to visit the Jersey shore, walk the boardwalk at Wildwood, have my favorite Taylor pork roll sandwich, dine on clams on the half shell, eat at a classic diner, and make sure the slot machines in Atlantic City were not running out of money!

Next RA will be in Washington, DC, where we will be electing a new NEA President, a new Vice President, and a new Secretary-Treasurer. Should be another exciting time!

--- Barbara W. Stek



President Bjork reviews RA directory with delegates.

NEA-Alaska Board highlights

The NEA-Alaska Board met September 14-15. Much of the meeting centered around updating board policy and changes directed by the 2007 Delegate Assembly. The board was updated on current issues and approved Dana Johnson and Chrya Sanderson to fill two board regional director vacancies.

Standing committees were approved for the year. President Harbo was effective in seeing that such appointments included retired members to assure that the issues of NEA-Alaska/Retired are addressed in the budget. Gayle was elected to the Executive Committee advising the President when difficult concerns arise.

NEA-Alaska/Retired board members reminded the rest of the board of the importance of returning to a defined benefit program for new school employees. The board has committed to supporting legislation to affect that change. The most effective tool at this time is SB183 introduced by Senators Elton and McGuire. Please thank these friends.

The Board discussed the Social Security offset problem and committed to work to fix the problem. Congressman Young and Senator Murkowski are co-signers of respective bills to correct the problem, which negatively affects our members. Please contact Senator Ted Stevens

to engage his support. Please send us any personal experiences on how the offset has or will affect you.

The board discussed changing the future dates of DA from January to spring starting in the 2009. The reason for the proposed change is a shortened legislature session thus shortening the time for our lobbying efforts. It was also pointed out that delegates could focus on the upcoming year more effectively in the spring. If the dates changed, it would require a change in the NEA-Alaska election process. Some believe NEA-Alaska might be better served if we had elections at DA with delegates voting rather than mailing ballots to all members. Part of the reasoning is significant cost savings. A more compelling argument might be that the election at DA by delegates would enliven the election process. Your thoughts and input on this question will be greatly appreciated. Please email

doberg907@hotmail.com with your views and any questions you may have. If you are interested in being a delegate be sure to complete the nomination form below. The next board meeting is November 10-11. Please contact Gayle, Kristina, and/or me to share your concerns.



Don Oberg

DA Nomination form

DELEGATES to DELEGATE ASSEMBLY

January 24-26, 2008

Name: _____

Street or PO Box: _____

City/State/Zip: _____

Email: _____

Return to:

**NEA-Alaska /Retired
4100 Spenard Road
Anchorage, AK 99517**

(Needs to be received by October 15, 2007, no fax or email nominations will be accepted)

CANDIDATE BIOGRAPHY: (Limit: 75 words)

If you are interested in attending DA January 24-26, 2008, please complete the nomination form and include a brief biography of 75 words or less. The first caucus meeting for Region R delegates will be from 3:30-5 PM Thursday January 24 at the Anchorage Hilton. Delegates must attend this first important caucus meeting, each morning caucus meeting and all sessions to receive the \$30 per diem for each of the three days. NEA-Alaska/Retired also reimburses delegates for up to half of the cost of a hotel room for a maximum of three nights. NEA-Alaska will reimburse up to \$500 for transportation based on supersaver airfare. If you have an entertainment card or some other discount you may be able to get a hotel rate lower than the

Fund for teacher's family Talk to your colleagues

Jennifer Holmes, a beloved teacher at Hancock - Hamline University Collaborative Magnet in St. Paul, MN, lost her husband in the I-35W bridge collapse on August 1st. He was one of the first four people identified. In addition to the tragedy the family is experiencing, Jennifer and her two young children are now facing a financial tragedy.

The family is getting numerous calls and questions of where they can donate money as a memorial for Pat's children. An account has been set up at Associated Healthcare Credit Union in the Twin Cities. The information below is where to send your donations.

Associated Healthcare CU
360 Sherman St B-10
St Paul, MN 55102
Attn: Holmes Children Education Fund

Please take the time to congratulate newly retired colleagues and ask them if they are already Pre-retired members. If they are not, please help them sign up as Retired members. There is a lot of evidence out there to suggest that the best way to get people to join is to ask them in person and to tell them why you decided to join, what you get out of your membership, and what you can do to contribute to the betterment of all retirees, present and future.

Our pensions are at a major crossroads - we need to find strength in our unity. If people ask you, "What have they done for me lately," gently remind them that we are all part of "them." We must all act if we want things to change for the better, and one way to do that is to be part of our association as a retired member. Download the membership form at www.neaalaska.org and give them to your co-workers.

Notes from the Editor

Contributions to the newsletter (as well as comments and concerns) are always welcome. For our next issue, please have your articles submitted no later than December 10, 2007, either via email to nskit@uaf.edu or barbara.young@neaalaska.org or via mail to Kristina Tornqvist, 9331 Tern Drive, Palmer, AK 99645.

NEA Alaska/Retired