

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

February 21, 2003

3:15 p.m.

MEMBERS PRESENT

Representative Tom Anderson, Chair
Representative Carl Gatto
Representative Norman Rokeberg
Representative Harry Crawford
Representative David Guttenberg

MEMBERS ABSENT

Representative Bob Lynn, Vice Chair
Representative Nancy Dahlstrom

COMMITTEE CALENDAR

HOUSE BILL NO. 91

"An Act relating to a cost-of-living allowance and medical benefits for retired peace officers after 20 years of credited service."

- MOVED HB 91 OUT OF COMMITTEE

PREVIOUS ACTION

BILL: HB 91

SHORT TITLE: RETIRED PEACE OFF. COLA/MEDICAL BENEFITS

SPONSOR(S): REPRESENTATIVE(S) ANDERSON

Jrn-Date	Jrn-Page		Action
02/12/03	0185	(H)	READ THE FIRST TIME - REFERRALS
02/12/03	0185	(H)	L&C, FIN
02/21/03		(H)	L&C AT 3:15 PM CAPITOL 17

WITNESS REGISTER

MICHAEL FOX

Public Safety Employees Association (PSEA)
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 91, presenting data and anecdotes on the retention and retirement of peace officers under the PERS Tier II system.

BRIAN WASSMANN, Sergeant
Division of Alaska State Troopers
Department of Public Safety
Delta Junction, Alaska

POSITION STATEMENT: Testified in favor of HB 91, describing the pressures unique to his work in rural Alaska; answered questions about shift differentials and overtime.

MIKE COUTURIER
Anchorage Police Department Employees' Association
Anchorage, Alaska

POSITION STATEMENT: Speaking in support of HB 91, described recruiting pressures on Alaska law enforcement officers.

GUY BELL, Director
Division of Retirement & Benefits
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Answered questions about the department's fiscal note on HB 91 and how employer contributions to PERS are calculated.

ACTION NARRATIVE

TAPE 03-10, SIDE A

Number 0001

CHAIR TOM ANDERSON called the House Labor and Commerce Standing Committee meeting to order at 3:15 p.m. Representatives Anderson, Gatto, Crawford, and Guttenberg were present at the call to order. Representative Rokeberg arrived as the meeting was in progress.

HB 91-RETIRED PEACE OFF.COLA/MEDICAL BENEFITS

Number 0116

CHAIR ANDERSON announced that the only order of business would be a hearing for HOUSE BILL NO. 91, "An Act relating to a cost-of-living allowance and medical benefits for retired peace officers after 20 years of credited service."

CHAIR ANDERSON, as sponsor of HB 91, testified that the bill provides parity of employee medical benefits and enhances the retention of peace officers. He explained that the normal state employee retirement is 30 years, at which time medical benefits

are immediately activated. The normal peace officer retirement is 20 years, but medical benefits are not available immediately. They are withheld until the person works an additional 5 years or reaches the age of 60 years. House Bill 91 corrects the delay by allowing peace officers to receive their medical benefits upon normal retirement, as other Public Employees' Retirement System (PERS) recipients do.

CHAIR ANDERSON also noted that the bill addresses the Alaska cost-of-living allowance (COLA) for peace officers. This COLA would be activated after 20 years of service, rather than at age 65 under the current statute. He explained that with this adjustment, retired peace officers would have an incentive to remain in Alaska, where they would continue to contribute to the public good.

Number 0238

MICHAEL FOX, Public Safety Employees Association (PSEA), identified himself as a retired Alaska State Trooper living in Juneau who had worked in the Division of Fish & Wildlife Protection, Department of Public Safety. He'd retired in 2000 after 22 years of service as a Tier I employee.

The committee took an at-ease from 3:20 p.m. to 3:22 p.m.

MR. FOX presented background on HB 91 in a PowerPoint presentation [hard copy in members' bill packets]. He reiterated that HB 91 amends state law to grant medical benefits and a cost-of-living allowance to peace officers after 20 years of service at normal retirement. This bill applies to people hired under Tier II or III of PERS.

CHAIR ANDERSON reported that the bill covers peace officers, firefighters, chiefs of police, regional public safety officers, correctional officers, correctional superintendents, probation officers, and fire chiefs.

Number 0470

REPRESENTATIVE GATTO asked if a Tier I employee is the same as a Plan I employee in the Anchorage Fire Department.

CHAIR ANDERSON suggested asking Guy Bell, Director, Division of Retirement & Benefits, Department of Administration, when he testifies today.

MR. FOX quoted the mission statement of the Public Employees' Retirement System: "On January 1, 1961, the Alaska legislature established the Public Employees' Retirement System (PERS) to attract and retain qualified people into public service employment." He explained that Tier I employees were hired between 1961 and the end of June 1986, and the COLA and medical benefits available upon retirement were very generous during those years. In 1986, the legislature passed HB 252 and created Tier II in PERS. For employees hired under Tier II, COLA was payable at age 65 and major medical benefits took effect at age 60. In 2001, the passage of HB 242 partially restored medical benefits to retired peace officers, but only if they worked 5 extra years beyond their 20-year retirement.

Number 0660

MR. FOX answered a question from Representative Gatto, explaining that state law pays COLA to benefit recipients who are aged 65 and over. A peace officer must meet two conditions: be at least 65 and retire after 20 years of service.

Number 0729

MR. FOX stated that the Department of Administration fiscal note [projects a cost of] \$1,224,000 annually, funded by a 0.18 percent increase in the employer's contribution. He explained how the State of Alaska employer contribution for peace officers has varied over the years. It reached its highest level in 1994 at 17.22 percent, and declined to 7.1 percent through 2003. The proposed increase of 0.18 percent would raise the employer contribution of 8.42 percent for the year 2004 to 8.6 percent. For a person with a \$55,000 salary, an 0.18 percent increase would cost the employer \$99.

MR. FOX said current law undermines the intent of the peace officers' 20-year retirement because it denies them medical benefits unless they work an extra 5 years. He said this feature inhibits recruitment and lowers morale. Mr. Fox referred to a graph that illustrates the turnover for troopers, corporals, and sergeants in the Alaska State Troopers for the past 21 years. After 12 years of state service, 50 percent are working and 50 percent have either separated or been promoted. In the first 8 years of service, he said, the retention rate has been steady, but starting at 10 years of employment there has been a decline.

MR. FOX presented another chart that depicted the number of Alaska State Troopers, corporals, and sergeants. Some 237 troopers out of 315 total have less than 10 years' experience in the job. He said there's a dramatic dropout of troopers after 10 to 15 years of service.

Number 1009

CHAIR ANDERSON commented that the Public Safety Employees Association credits these separations to transfers to other federal or local agencies, the private sector, or simply leaving law enforcement completely. He added that PSEA attributes the majority of these separations to dissatisfaction with benefits.

MR. FOX said PSEA staff found that the younger troopers were enthusiastic about their jobs; many didn't even know what their retirement benefits were. When troopers have worked 8-10 years, however, they start looking into their future. He said when troopers are in their early thirties, other job opportunities come along because they are well trained, well educated, and good employees.

Number 1105

CHAIR ANDERSON commented on the high burnout rate for law enforcement employees.

MR. FOX confirmed that the policy of the 20-year retirement is related to this higher burnout rate. He said 20 years is the standard retirement for peace officers and firemen in the federal government and in other states. Mr. Fox described the results of his personal poll of a number of state troopers. He said he'd asked whether they would serve out their 20 years and whether that probability would increase if medical benefits and COLA were available at a 20-year retirement. Fifty percent responded that they'd make it to 20 years; if the benefits were changed, troopers said there was a 80 to 90 percent chance that they'd stay through their 20 years.

Number 1301

REPRESENTATIVE GATTO asked whether other workers such as teachers, custodians, and ferry workers experience career burnout.

MR. FOX replied that many teachers experience a similar burnout, but that he couldn't speak to other occupations.

Number 1378

MR. FOX said PSEA looked at the costs of recruiting and training peace officers. He said PSEA asserts that if an employer can retain employees beyond 6 years to the 20-year retirement, the agency gets a better return on its training investment. Typical recruitment is costly because it includes written testing, oral and written exams with psychologists, polygraph tests, physical agility and fitness testing, physical health exam, drug testing, and extensive background investigations by applicant review boards.

MR. FOX said standard training includes academy attendance and field training. Specialized instruction is critical for firefighters and policemen, and covers the use of helicopters and boats, handling bombs, canine work, and dealing with hazardous materials. When an agency loses employees, it loses all the money it has invested in them, he added.

Number 1461

CHAIR ANDERSON noted that he'd requested information on training costs from William Tandeske, the new commissioner of the Department of Public Safety. He said Commissioner Tandeske indicated he would provide this research as soon as possible. Chair Anderson said it's important to weigh the costs of recruiting and training new employees who fill the positions of those who leave in the middle of their tenure for other jobs or better benefits. He said the fiscal note carries a cost, but it's important to measure this cost against training funds lost; he suggested the result may be a wash or even a savings. Chair Anderson said he hoped this information would be available to the House Finance Committee when it considers HB 91.

Number 1507

MR. FOX explained why the 20-year retirement for peace officers is standard across the country. As a police officer ages, the person is compensated at a higher rate; there are increased health problems and increased risk of injury, and low morale and burnout are increasingly common. He said these factors are well documented. One career problem for a peace officer is illustrated in a chart of administration versus officer positions. He said that in many careers, an employee can move from rough-and-tumble fieldwork into the desk section, but this is a limited option for most peace officers. For example, in

the Department of Corrections, 709 correctional officers work on the floor of the prisons; in contrast, there are only 30 positions in administration. All of these employees are peace officers, but the vast majority have jobs on the floor, which is a very tough place to spend 25 years, he pointed out.

Number 1593

CHAIR ANDERSON emphasized that correctional officers would benefit the most by HB 91.

MR. FOX continued explaining the administration-versus-officers chart. He pointed out that to find less stressful work, a person can move into an administrative position or leave the agency completely.

MR. FOX commented on the broader benefits of paying retired peace officers the COLA. When retired peace officers remain in Alaska after retirement, they often use their experience and training in security jobs and frequently do volunteer work. He concluded by saying that current state law undermines the intent of normal 20-year retirement for peace officers and inhibits the PERS mission of recruiting and retaining peace officers in public service. He said HB 91 restores a true 20-year retirement to peace officers.

Number 1684

REPRESENTATIVE ROKEBERG asked about the fairness of peace officers' receiving COLA immediately upon retirement, while other retirees are required to wait until they are aged 65.

MR. FOX replied that he would be delighted if every employee received Alaska COLA upon retirement. This bill addresses peace officers, but he said he would favor an amendment that gave all retirees COLA upon retirement.

CHAIR ANDERSON clarified that it would be good to retain firemen and police officers in Alaska because of their specialized emergency training and record of being law-abiding citizens. He said he was not suggesting that they were more deserving than other citizens.

Number 1739

MR. FOX mentioned that retired peace officers often fill security positions on the Trans-Alaska Pipeline System.

CHAIR ANDERSON theorized that there are many retired peace officers in the Alaska Air National Guard and the Alaska Army National Guard.

Number 1784

REPRESENTATIVE ROKEBERG said the COLA is an incentive for former state employees to remain in the Alaska, where the cost of living is high. State law requires that a person has to be 65 years of age or older to qualify for COLA. He said he believes this additional benefit should go only to people who are actually retired and are limited in their ability to work and make additional income. He observed that people who retire at 20 years are probably going to take other work.

Number 1837

MR. FOX replied that the COLA issue is a matter of retaining retired peace officers - their skills and their paychecks - in the state. If they are going to work, they will use their skills somewhere, he surmised, either in Alaska or in some other state.

REPRESENTATIVE ROKEBERG commented that he doesn't understand the concept that extra-special people with extra-special talents should be paid extra money. He said he objects to the practice of accumulating multiple retirement benefits.

MR. FOX confirmed that most people who retire from peace officer work find employment in some other area. From personal observations, he said most retirees do seasonal or part-time work, for example, oil pipeline jobs with month-on/month-off schedules.

Number 2005

REPRESENTATIVE GATTO asked about the conflict in Mr. Fox's statement that he'd retired to spend more time with his children, while most peace officers pursue other jobs after they retire.

MR. FOX explained that he's an exception to the pattern he'd described for most peace officers.

Number 2042

CHAIR ANDERSON recounted Commissioner Tandeske's recent presentation to the House Judiciary Standing Committee, during which he'd described how difficult it is for law enforcement agencies across the nation to recruit police officers, correctional officers, and, to a lesser extent, firefighters and paramedics; Commissioner Tandeske had stated that as budgets are cut, agencies still have to offer incentives to recruit and retain top-quality peace officers.

Number 2114

REPRESENTATIVE ROKEBERG asked how granting medical benefits at 20 years instead of 25 years would assist in recruitment efforts. He said the testimony shows that people in the first 10 years hardly look at their retirement benefits.

Number 2178

REPRESENTATIVE GUTTENBERG explained that he has had a similar experience in the construction field. As a high school student, he started with a summer job, never imagining that he would eventually retire from the construction industry. He said he found that after 10 years in the industry, he was more likely to stay until retirement if it was 10 years rather than 15 years away.

MR. FOX described how a person starting a law enforcement job "tries on" the profession. When there are tough experiences, the person asks over and over again, "How long can I do this?" After working 8 to 10 years, the person looks down the tunnel and says, "I could make it 10, but I couldn't make it 15." He said that's a very common decision for people in the middle of their careers, because they're at an age where if they're going to change careers, they've got to do it [soon].

Number 2257

REPRESENTATIVE CRAWFORD said he sees HB 91 as a means for the legislature to retain highly trained individuals. As an ironworker in his twenties, he said he was only concerned about the size of his Friday paycheck; once in his thirties, however, health and retirement benefits became a bigger factor in whether he stayed in the field.

Number 2307

REPRESENTATIVE GATTO stated that after 10 years as a paramedic in Anchorage, he was "fried." There was no way he was going to work 10, 15, or even 5 more years. Fortunately, he said, he had the opportunity to transfer to the Anchorage fire line. When he finally retired, it wasn't because of burnout, but for other reasons.

TAPE 03-10, SIDE B

Number 2344

REPRESENTATIVE GATTO asked whether the retention rate is different for people who start their careers at different stages of their lives. He said he was not convinced that HB 91 would result in better retention of peace officers. He said people jump ship on their jobs for a variety of reasons - better job offers, divorce, or being tired of Alaska's climate - that have nothing to do with the 20- or 25-year retirement issue.

Number 2258

MR. FOX clarified that the youngest age for starting a peace officer career is in the mid-twenties, after the young recruit has had a few life experiences. He described an unsolicited job offer that he'd received while working in Valdez the year of the Exxon Valdez oil spill. He said he turned down the pipeline-security job because he qualified for a full retirement in 8 years. He said the 5 years added on to qualify for medical benefits make a huge difference to a peace officer when considering such an offer.

REPRESENTATIVE GATTO questioned whether the state will benefit from retaining an employee another 10 or 15 years if the person doesn't like the job.

Number 2008

MR. FOX replied that this is a relevant question when a peace officer has worked 20 years and considers another 5 years to qualify for medical benefits. He has seen it many times, he added: the worst employees stay because of fewer options, whereas the good employees have better options and take them.

Number 1972

REPRESENTATIVE ROKEBERG asked Mr. Fox to clarify about restoring the retirement benefit from 25 years to 20 years.

MR. FOX explained that Tier I peace officers all receive the same benefits at 20 years that other employees receive with a 30-year retirement. When HB 242 passed two years ago, the medical benefit was restored to the start of normal retirement for other employees, but peace officers were required to work another 5 years past their normal retirement to qualify for medical benefits. He said troopers feel they have a 25-year retirement because the medical benefit, which is such a major part of the retirement package, is not available until then.

Number 1926

MR. FOX replied to a question from Chair Anderson, explaining that many retired peace officers do background investigations and provide various training services to the Department of Public Safety on part-time or short-term contracts.

Number 1867

BRIAN WASSMANN, Sergeant, Division of Alaska State Troopers, Department of Public Safety, noting that he has 10 years of experience, described law enforcement as a rewarding career with good pay. He said it's very demanding, however, and many officers want to retire at 20 years. The availability of medical benefits at 20 years is a huge incentive for him to stay in the field. Many troopers work hours that the normal state employees aren't working - weekends, swing shifts, graveyard shifts - and must live in remote areas without the amenities available to many Alaskan residents. He offered his belief that HB 91 would increase the morale of peace officers and encourage them to stay in law enforcement.

Number 1743

MR. WASSMANN answered questions from Representative Rokeberg about pay adjustments for shift differentials and overtime. He said the shift differential is 3 percent for a swing shift and about 7 percent for shifts starting after 8 p.m. Overtime pay depends on the area of the state and the time of year. He said there is less overtime in urban stations and more in rural posts where shifts last 10 hours a day and troopers are called back to work on emergencies.

Number 1630

MR. WASSMANN, answering a question from Representative Rokeberg about trooper salaries, said his post has a cost-of-living

increase, so he earns about \$78,000 a year gross, including overtime and shift differentials. The starting salary for a trooper in the Palmer-Wasilla area is \$40,000 to \$45,000 a year.

Number 1590

MIKE COUTURIER, Anchorage Police Department Employees' Association, testified that his union represents 317 sworn officers and 150 nonsworn employees in the Anchorage Police Department (APD). He is a patrol officer in downtown Anchorage with 7 years of experience. Mr. Couturier explained that he is a 20-year retired army officer who joined the police department at age 38.

Number 1510

MR. COUTURIER explained that he'd set up the most recent recruiting program for the APD. He said officers after 10 years of service are not tired of being officers. He predicted that they will remain officers but will move to the Lower 48, where the weather and the benefits are better. He reported that there has been active recruiting of APD officers and Alaska State Troopers by representatives from Vancouver [Washington]; Tacoma, Washington; San Diego, California; and Stockton, California. He opined that if peace officers are certified, they can easily move to new positions, go through a minimal field training officer program, and be on their way to better benefits, better pay, and better retirement benefits.

Number 1403

MR. COUTURIER explained that at one time, the Alaska State Troopers and the APD were among the 5 or 10 top-paying agencies in the U.S., but now rank in the 30s among comparable jurisdictions. In 1994, the Municipality of Anchorage moved out of the police and fire program Plans I, II, and III, and enrolled its officers in PERS. Anchorage's benefits under Tier II deteriorated significantly. He said his union supports HB 91 because it wants to improve the retirement medical benefit for purposes of recruiting and retention.

MR. COUTURIER noted that today's young peace officers have laptop computers and access to the World Wide Web, and are being bombarded with online, magazine, and telephone job offers. He said there is a national shortage of police and fire professionals, along with correctional officers, that this state

and every other state will have to address. To address it, he said, the agency must be competitive.

MR. COUTURIER commented on the practice of collecting multiple retirements. He said many in the field believe that if fellow officers are willing to go through the high-impact career of policing, firefighting, providing emergency medical services, or guarding criminals, then they should be rewarded for it. He said the state should reduce its costs by retaining those people for the full term that they're available. He estimated that it costs the APD about \$100,000 to train and field a police officer through its own academy and the first year on the job. He reported that the APD is losing officers to West Coast cities between 5 and 8 years into their careers.

Number 1211

MR. COUTURIER also noted that the APD is gaining state troopers, partly because the state and Anchorage are both part of PERS. As a larger city, Anchorage offers the advantage to troopers who don't want to move around the state.

Number 1157

GUY BELL, Director, Division of Retirement & Benefits, Department of Administration, offered to answer questions on his department's fiscal note for HB 91.

Number 1119

REPRESENTATIVE ROKEBERG asked why the fiscal note has only an asterisk in the fiscal year columns, but an annual cost of \$1,224,000.

MR. BELL replied that the asterisk was used because the \$1,224,000 cost of a change in the retirement system would be spread among the personal-services line items of all state agencies; it's not a cost to the Division of Retirement & Benefits. He explained that it's money the state will need to collect and pay to the retirement fund. He said roughly half of the \$1,224,000 would be general funds. The \$13.45 million in accrued liability for the 20-year period is collected by increasing the employer's rate of contribution by 0.18 percent.

REPRESENTATIVE ROKEBERG asked whether this increase in contribution applies to all the political subdivisions of the state that participate in PERS.

Number 1047

MR. BELL replied that the increase to various political subdivisions varies according to the number of peace officers employed.

REPRESENTATIVE ROKEBERG asked why, under the Tier II calculation, employers of peace officers pay 7.5 percent compared with [6.7 percent for all] other employees.

Number 0947

MR. BELL replied that historically, employers of peace officers have paid more than for other employees because peace officers receive benefits sooner. The rate is higher because the money is collected over a shorter period of time.

REPRESENTATIVE ROKEBERG asked if there would be any additional cost to the employee for this increased benefit.

MR. BELL confirmed that the employee rate of contribution is fixed in statute at 6.75 percent for a normal employee and 7.5 percent for a peace officer. If there's a change in benefits, the impact is on the employer's rate of contribution.

Number 0870

REPRESENTATIVE ROKEBERG noted that there's no distinction between the COLA and the medical benefit in the fiscal note. He asked if there was a breakout between the two items when the calculations were made.

MR. BELL replied that he'd asked the division's actuarial firm about the relative weighting of the COLA to the medical benefit, and was told it's about two-thirds medical benefits and one-third COLA.

Number 0851

MR. BELL, in response to a question from Representative Rokeberg, said the other half of the \$1,224,000 - not the general fund portion - consisted of CIP [capital improvement project] receipts, federal receipts, and other agency receipts.

Number 0794

REPRESENTATIVE GUTTENBERG inquired as to the average age of entry into the peace officer occupations.

MR. BELL replied that he didn't have that information but could get it. He said the average age of retirement for a peace officer is about age 52 or 53. He suggested the average age may be different between a trooper and a correctional officer.

REPRESENTATIVE GUTTENBERG observed that 50 percent of the \$1,224,000 is about \$600,000. He questioned whether it's possible to determine a dollar value for the increased retention of peace officers, the dollar savings for not having to train new officers. He offered his understanding that the Division of Retirement & Benefits doesn't calculate the training side of the equation, but said he would find this an interesting number.

Number 0670

REPRESENTATIVE GATTO opined that money is being saved in training, but that the long-term employees are being paid at a higher rate. He said it might be difficult to dig out a number that compares training dollars saved with increased salary costs and the employer's higher contribution rate.

Number 0628

REPRESENTATIVE CRAWFORD reminded the committee that one person testified that it costs \$100,000 to train an Anchorage police officer. He said retaining only a few troopers [for a \$100,000 savings each] makes the \$600,000 increased employer contribution a bargain.

REPRESENTATIVE ROKEBERG asked Mr. Bell about the intent of the COLA law: whether it is for older people who would be retiring or for younger retirees [who plan to continue working in other jobs while retired].

Number 0576

MR. BELL recounted the statutory history of PERS. Up until June 1986, anyone hired was eligible for COLA at retirement, regardless of age. With Tier II, for people vesting in PERS after June 1986, COLA took effect at age 65. He surmised that rationales for this legislative decision included reducing the cost of the retirement system and paying the COLA at the point when retirees actually stop working and need the money.

REPRESENTATIVE ROKEBERG asked about the actuarial soundness of PERS, given the state of the stock market for the last three and a half years.

Number 0511

MR. BELL replied that Alaska's PERS has suffered serious declines in value, as has every other pension fund in the country. The division has requested an actuarial audit to make sure that it is costing out these things appropriately. He said the division had an analysis done of its investment-return assumption to see if was reasonable. Mr. Bell said the system is in good shape, but added, "We're in the wrong market."

Number 0425

MR. BELL explained how the PERS and TRS [Teachers' Retirement System] boards set the employer contribution rate. The boards set assumptions. Then the actuary uses those assumptions, looks at the state's data, produces asset-liability modeling, and presents an expected contribution rate that employers would be required to pay two years hence, for example, for fiscal year 2005 (FY 05). The retirement boards individually consider this information and then develop the employer rate. The boards will hear from the actuaries in March and April, and in April will set an employer rate for FY 05, the [fiscal] year beginning July 1, 2004.

MR. BELL went on to say that under state law, the largest increase that could occur in any one year would be 5 percent. Currently, the state's rate averages 7.1 percent, so the largest possible rate could be 12.1 percent, a substantial increase. He said he didn't know whether the boards would increase the employer contribution rate.

Number 0351

MR. BELL predicted that the relative funded status of the system would decline. He said Alaska is unusual because it has a pension benefit and a medical benefit, both of which are prefunded through the valuation process. Alaska is the only state retirement system in the country that prefunds its medical benefit, a prudent thing to do, he noted. If it didn't prefund the medical benefit, Alaska would be over 100 percent funded in PERS. He explained that if Alaska shut the program down today, it could pay 100 percent of all benefits that have been accrued to date. Including the medical benefit liability, PERS will be

funded below 100 percent - he said it's not known how far below 100 percent coverage, but it could be substantial. Mr. Bell said it's prudent to address a shortfall in the system over a period of 25 years. He explained that the division uses very long "time horizons" because markets can change, and it's important to avoid knee-jerk reactions to short-term volatility.

Number 0279

CHAIR ANDERSON asked if there are any other groups that don't receive medical benefits immediately upon retirement.

MR. BELL replied that [Tier II] teachers do not receive medical benefits immediately upon retirement.

CHAIR ANDERSON asked Mr. Bell to reiterate on the record the purposes of offering a COLA or a medical benefit.

MR. BELL responded that the purpose of offering medical benefits and COLA is very clear in the statute: to attract and retain qualified public employees.

Number 0190

REPRESENTATIVE ROKEBERG asked about the employer contribution rate for the FY 04 budget.

MR. BELL replied that the FY 04 contribution rate is based on the surplus that had been built up over the good times. There was a very small increase in retirement system rates from FY 03 to FY 04, less than a 0.5 percent increase overall for the state.

REPRESENTATIVE ROKEBERG asked Mr. Bell if he thinks there will be a serious increase in the employer contribution rate in FY 05.

MR. BELL replied that that decision is up to the [PERS and TRS] retirement boards. He estimated, in further reply, that an increase in the employer contribution rate could range from 0 to 5 percent. He calculated that a 5 percent increase on a \$680 million personal-services budget would be roughly \$30 million, with half that, or \$15 million, being GF [general fund].

TAPE 03-11, SIDE A

Number 0009

REPRESENTATIVE ROKEBERG remarked that Alaskans shouldn't be surprised that there will be recommended funding increases in PERS, because Alaska is in the same boat as the private companies that are having trouble funding their pension plans.

Number 0027

MR. BELL agreed and said other states are having similar problems. He said the State of Arizona is looking at increasing its employer rate by 5 percent starting in July. And some states are reacting more strongly. He said Alaska was in a healthy position to begin with, whereas some systems were already underfunded when the [stock] market was way up. And now that there's been a significant decline, they're in much worse shape than Alaska.

REPRESENTATIVE ROKEBERG said the goal of HB 91 is laudable and that it's important to honor peace officers who put their lives on the line every day. He said he wants to help with the bill, but it's going to be very difficult to fund it. He asked Mr. Fox whether he would consider removing the COLA provision from the bill if it gives the medical provision a better possibility of passage.

Number 0215

MR. FOX replied yes, that if the choice were medical benefits with no change in the COLA, that would be acceptable. He said the medical benefits are much more important than the COLA to the peace officers of the state.

REPRESENTATIVE ROKEBERG explained that he is not going to offer an amendment at this point.

MR. FOX said the PSEA would be receptive to an amendment removing the COLA from HB 91.

Number 0309

REPRESENTATIVE ROKEBERG said he was extremely concerned with Mr. Bell's comments about increases in the employer contribution to the payroll system, even without HB 91's change to PERS. He said he sees the fiscal "train wreck" coming, and that the costs of this bill add to the problem.

REPRESENTATIVE CRAWFORD recalled that Mr. Bell had talked to the committee before about these issues. He said legislators know the train wreck is down the road.

CHAIR ANDERSON commented that when the train wreck happens, citizens will want firemen and police there.

REPRESENTATIVE GUTTENBERG remarked that he would prefer to see Alaska's retired peace officers patrolling the oil pipeline and other facilities. He said that's what COLA represents.

Number 0486

REPRESENTATIVE GUTTENBERG moved to report HB 91 out of committee with individual recommendations and the accompanying fiscal note. There being no objection, HB 91 was reported from the House Labor and Commerce Standing Committee.

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:00 p.m.