

**ALASKA STATE LEGISLATURE
CONFERENCE COMMITTEE ON SB 141**

May 7, 2005

7:32 p.m.

MEMBERS PRESENT

Senator Lyda Green, Chair
Senator Ralph Seekins
Senator Donny Olson

Representative Bruce Weyhrauch
Representative Paul Seaton
Representative Harry Crawford

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 141 (FIN)

"An Act relating to the teachers' and public employees' retirement systems and creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2005; relating to university retirement programs; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; providing for nonvested members of the teachers' retirement system defined benefit plans to transfer into the teachers' retirement system defined contribution plan and for nonvested members of the public employees' retirement system defined benefit plans to transfer into the public employees' retirement system defined contribution plan; providing for political subdivisions and public organizations to request to participate in the public employees' defined contribution retirement plan; and providing for an effective date."

HEARD AND HELD

HOUSE CS FOR CS FOR SENATE BILL NO. 141(FIN) am H
 "An Act relating to the teachers' and public employees' retirement systems and creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2005; relating to university retirement programs; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; providing for nonvested members of the teachers' retirement system defined benefit plans to transfer into the teachers' retirement system defined contribution plan and for nonvested members of the public employees' retirement system defined benefit plans to transfer into the public employees' retirement system defined contribution plan; providing for political subdivisions and public organizations to request to participate in the public employees' defined contribution retirement plan; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 141

SHORT TITLE: PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS

SPONSOR(s): FINANCE

03/14/05	(S)	READ THE FIRST TIME - REFERRALS
03/14/05	(S)	FIN
03/16/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/16/05	(S)	Heard & Held
03/16/05	(S)	MINUTE(FIN)
03/17/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/17/05	(S)	Heard & Held
03/17/05	(S)	MINUTE(FIN)
03/21/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/21/05	(S)	Heard & Held
03/21/05	(S)	MINUTE(FIN)
03/22/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/22/05	(S)	Heard & Held
03/22/05	(S)	MINUTE(FIN)
03/23/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532

03/23/05	(S)	Heard & Held
03/23/05	(S)	MINUTE (FIN)
03/29/05	(S)	FIN AT 4:30 PM SENATE FINANCE 532
03/29/05	(S)	Heard & Held
03/29/05	(S)	MINUTE (FIN)
03/30/05	(H)	FIN AT 9:00 AM HOUSE FINANCE 519
03/30/05	(S)	Heard & Held
03/30/05	(S)	MINUTE (FIN)
03/31/05	(H)	FIN AT 9:00 AM HOUSE FINANCE 519
03/31/05	(S)	Heard & Held
03/31/05	(S)	MINUTE (FIN)
04/01/05	(H)	FIN AT 9:00 AM HOUSE FINANCE 519
04/01/05	(S)	Heard & Held
04/01/05	(S)	MINUTE (FIN)
04/02/05	(S)	FIN AT 10:00 AM SENATE FINANCE 532
04/02/05	(S)	Heard & Held
04/02/05	(S)	MINUTE (FIN)
04/03/05	(S)	FIN AT 10:00 AM SENATE FINANCE 532
04/03/05	(S)	Heard & Held
04/03/05	(S)	MINUTE (FIN)
04/04/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
04/04/05	(S)	Scheduled But Not Heard
04/05/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
04/05/05	(S)	Heard & Held
04/05/05	(S)	MINUTE (FIN)
04/06/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
04/06/05	(S)	Moved CSSB 141 (FIN) Out of Committee
04/06/05	(S)	MINUTE (FIN)
04/08/05	(S)	FIN RPT CS 5DP 1DNP 1AM NEW TITLE
04/08/05	(S)	DP: GREEN, WILKEN, BUNDE, DYSON, STEDMAN
04/08/05	(S)	DNP: HOFFMAN
04/08/05	(S)	AM: OLSON
04/12/05	(S)	ENGROSSED
04/14/05	(S)	TRANSMITTED TO (H)
04/14/05	(S)	VERSION: CSSB 141 (FIN)
04/14/05	(H)	READ THE FIRST TIME - REFERRALS
04/14/05	(H)	STA, FIN
04/14/05	(H)	STA AT 8:00 AM CAPITOL 106
04/14/05	(H)	<Pending Referral>
04/16/05	(H)	STA AT 9:30 AM CAPITOL 106
04/16/05	(H)	<Bill Hearing Canceled>
04/19/05	(H)	STA AT 8:00 AM CAPITOL 106
04/19/05	(H)	Heard & Held
04/19/05	(H)	MINUTE (STA)

04/20/05 (H) STA AT 8:00 AM CAPITOL 106
 04/20/05 (H) Moved HCS CSSB 141(STA) Out of
 Committee
 04/20/05 (H) MINUTE(STA)
 04/21/05 (H) STA AT 8:00 AM CAPITOL 106
 04/21/05 (H) <Bill Hearing Canceled>
 04/22/05 (H) STA RPT HCS(STA) 1DP 5NR
 04/22/05 (H) DP: SEATON;
 04/22/05 (H) NR: LYNN, GATTO, GRUENBERG,
 ELKINS, RAMRAS
 04/23/05 (H) FIN AT 10:00 AM HOUSE FINANCE 519
 04/23/05 (H) Heard & Held
 04/23/05 (H) MINUTE(FIN)
 04/28/05 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 04/28/05 (H) Heard & Held
 04/28/05 (H) MINUTE(FIN)
 04/30/05 (H) FIN AT 2:00 PM HOUSE FINANCE 519
 04/30/05 (H) Heard & Held
 04/30/05 (H) MINUTE(FIN)
 05/01/05 (H) FIN AT 1:00 PM HOUSE FINANCE 519
 05/01/05 (H) Moved HCS CSSB 141(FIN) Out of
 Committee
 05/01/05 (H) MINUTE(FIN)
 05/02/05 (H) FIN RPT HCS(FIN) 2DP 5NR 2AM
 (FORTHCOMING HCS)
 05/02/05 (H) DP: KELLY, FOSTER;
 05/02/05 (H) NR: JOULE, STOLTZE, MOSES, MEYER,
 CHENAULT;
 05/02/05 (H) AM: HAWKER, WEYHRAUCH
 05/02/05 (H) OBJECTION TO REFERRAL TO RULES
 05/02/05 (H) OBJECTION TO REFERRAL TO RULES
 WITHDRAWN
 05/02/05 (H) RETURNED TO FIN COMMITTEE
 05/02/05 (H) FIN RPT HCS(FIN) 3DP 4NR 1AM
 (FORTHCOMING HCS)
 05/02/05 (H) DP: FOSTER, KELLY, CHENAULT;
 05/02/05 (H) NR: HOLM, STOLTZE, MOSES, MEYER;
 05/02/05 (H) AM: HAWKER
 05/02/05 (H) OBJECTION TO FISCAL ANALYSIS WITH
 FINANCE RPT
 05/02/05 (H) REPLACE FISCAL ANALYSIS FAILED Y15
 N25
 05/02/05 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 05/02/05 (H) Moved HCS CSSB 141(FIN) Out of
 Committee
 05/02/05 (H) MINUTE(FIN)
 05/03/05 (H) HCS(FIN) NT RECEIVED

05/03/05	(H)	MOVED TO BOTTOM OF CALENDAR
05/03/05	(H)	BEFORE THE HOUSE
05/03/05	(H)	MOTION TO DIVIDE AM NO 3 NOT IN ORDER
05/03/05	(H)	ADJOURNED TO 5/4
05/05/05	(H)	BEFORE THE HOUSE
05/06/05	(H)	ENGROSSED
05/07/05	(H)	VERSION: HCS CSSB 141(FIN) AM H
05/07/05	(S)	CONCURRENCE MESSAGE READ
05/07/05	(S)	CONFERENCE COMMITTEE APPOINTED
05/07/05	(S)	GREEN (CHAIR), SEEKINS, OLSON
05/07/05	(H)	RECEDE MESSAGE
05/07/05	(H)	CONFERENCE COMMITTEE APPOINTED
05/07/05	(H)	SEATON, WEYHRAUCH, CRAWFORD

WITNESS REGISTER

No witnesses

ACTION NARRATIVE

^#SB141

SB 141-PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS

CHAIR LYDA GREEN called the Conference Committee on SB 141 meeting to order at [7:32:12 PM](#). All members were present. CHAIR GREEN said she hoped to get through the points of agreement and disagreement and report back to the House and Senate.

SENATOR SEEKINS moved that the Senate request the House recede from its amendments to CSSB 141(FIN).

An unidentified member objected.

A roll call vote was taken. Representatives Seaton, Crawford, and Weyhrauch and Senator Olson were opposed and Senators Green and Seekins were in favor, therefore the motion failed.

REPRESENTATIVE WEYHRAUCH moved that the Senate concur with the changes contained in HCS CSSB 141(FIN)am H.

CHAIR GREEN objected.

A roll call vote was taken. Senator Olson and Representatives Weyhrauch, Crawford and Seaton were in favor and Senators Seekins and Green were opposed.

CHAIR GREEN announced the motion failed, requiring two affirmative votes from each house. She then informed members that several bill comparisons had been distributed; the comparison done by her staff is the most recent and contains the provisions of the bill with no substantial differences. Senate members are willing to accept the House language on those provisions at this time.

[7:34:17 PM](#)

REPRESENTATIVE SEATON clarified that in the rush to get things done, in the House comparison the Senate and House provisions are reversed so that the provisions under the Senate column are the House provisions and vice versa.

REPRESENTATIVE WEYHRAUCH noted Senate Finance Committee staff prepared the document referred to by Chair Green; Representative Seaton provided a comparison; and the third double-sided document explains all elements of the bill.

CHAIR GREEN affirmed that members would work from the Senate Finance Committee document, which has numbered columns.

[7:37:31 PM](#)

CHAIR GREEN began reviewing the comparison and directed members to line 7, employee contribution rates, and said the Senate is agreeable to the House plan.

REPRESENTATIVE WEYHRAUCH asked if **column d** contains the provisions in the House bill while **column b** contains the provisions in the Senate bill as received by the House.

CHAIR GREEN clarified that **column b** contains the provisions in the bill passed by the Senate while **column d** contains the provisions of the bill passed by the House. She repeated that in **column d**, line 7, the employee contribution will remain unchanged.

[7:41:26 PM](#)

SENATOR SEEKINS asked if the Senate plan was a floating plan while the House plan was a fixed plan.

REPRESENTATIVE SEATON explained the Senate plan contains an escalator for the employee, which increases the contribution by .5 percent per year until the amount equals the employer contribution. He noted that questions of the legality of that method were raised.

CHAIR GREEN referred to line 9, **column d**, and said the 5 percent to the DC account as listed in the House plan is acceptable to the Senate.

CHAIR GREEN directed members to page 2, line 24, and said the House gave the board the additional duty of assisting the retirement system administrator in prescribing policies for the operation of the retirement system. The Senate is agreeable to that directive.

CHAIR GREEN moved to the language on line 25, which speaks to the \$400 honorarium plus per diem, and said the Senate finds that to be acceptable.

SENATOR SEEKINS commented that the intent of that provision is to mirror the per diem paid to the Alaska Permanent Fund Corporation board of trustees.

REPRESENTATIVE SEATON said that is correct, as well as the directors of the board of the Alaska Housing Finance Corporation.

[7:41:52 PM](#)

CHAIR GREEN said the Senate is agreeable to the provision on page 3, line 27, to change the fund ratio to 105 percent.

CHAIR GREEN referred to the provision on page 3, line 29, which closes a loophole, and said the Senate is agreeable.

SENATOR SEEKINS asked if it applies to minor dependents only.

REPRESENTATIVE SEATON explained that it applies to dependents with no relationship to the retiree before he or she died.

SENATOR SEEKINS asked if any age limits apply to dependents or if the benefit is dependent on IRS status.

REPRESENTATIVE SEATON believed the definition of "dependent" is from the existing retirement system so no changes would occur.

CHAIR GREEN stated, "They're already dependent adults that might be covered, as well as certainly your children that you would have custody of."

REPRESENTATIVE SEATON said his understanding is that if the retiree dies and the spouse later adopts or has a dependent, the new dependent would not be covered.

[7:44:09 PM](#)

CHAIR GREEN moved to line 32 and said the House removed language regarding forfeiting all rights under this chapter, which the Senate is agreeable to. She noted that language is in existing law so nothing will change.

CHAIR GREEN explained that the language on page 4, line 36, pertains to conditional retroactivity, which the Senate finds acceptable.

[7:44:48 PM](#)

REPRESENTATIVE WEYHRAUCH asked about line 3 above line 36.

CHAIR GREEN said the number 3 was erroneously implanted on every page and asked members to ignore it.

[7:46:13 PM](#)

CHAIR GREEN announced a 10-minute break.

[8:03:47 PM](#)

REPRESENTATIVE SEATON informed members the House would accept the Senate schedule on page 1, line 13, but in several places in the Senate version, such as on page 93, lines 4 and 5, the bill refers to age 65 instead of Medicare eligible. House members are agreeable as long as the understanding is that the correct term is "Medicare eligible" and that term is used.

CHAIR GREEN stated that "Medicare eligible" would be used throughout the bill.

SENATOR SEEKINS pointed out the conference committee cannot amend the bill.

[8:04:33 PM](#)

CHAIR GREEN announced an at-ease.

[8:05:44 PM](#)

CHAIR GREEN informed members [the conference committee can request] that a technical correction be made to the bill by the legal drafter to make that language consistent.

REPRESENTATIVE SEATON referred to the language on line 28 and said the problem is the retroactivity to 1987. He said the House has no problem making that change prospectively but it cannot agree to diminish accrued benefits.

CHAIR GREEN said that provision would be left open for further discussion at a later date.

[8:07:26 PM](#)

CHAIR GREEN informed members that by accepting the language on page 1, line 9, the reference on line 5 would also be accepted.

REPRESENTATIVE SEATON said that is correct.

CHAIR GREEN explained that one is 5 percent; the other is 8 percent so the total would be 13 percent. She then said the Senate would also agree to accept line 5.

[8:09:03 PM](#)

SENATOR SEEKINS commented that in looking at the totals in section 13, line 9, the numbers on line 5 include the 5 percent number to equal the 13 percent. He said his understanding of line 9 is that the 4.5 and 2.0 differ from the House version, which establishes a 2.5-fixed rate. He asked if the 1.75 in the Senate version is a calculated number rather than a fixed number.

REPRESENTATIVE SEATON pointed out the \$250 on the House side is also a calculated number.

SENATOR SEEKINS asked if that number stays the same forever in the House version or whether it is actuarially calculated for a date certain.

REPRESENTATIVE SEATON replied \$250 is the current actuarial calculation but the House version requires that medical benefits be enough to satisfy the medical cost. Therefore, the \$250 would be actuarially calculated each year to prevent building up an unfunded liability.

SENATOR SEEKINS asked if the number is fixed in statute.

REPRESENTATIVE SEATON referred members to line 29 on page 86 of HCS CSSB 141(FIN)am H, subsection (d).

[8:11:56 PM](#)

CHAIR GREEN said her understanding is that in the Senate version, **the 1.75 percent** is from the Mercer calculation. She assumed it to be a calculable rate each year.

SENATOR SEEKINS thought it was a fixed rate and said he couldn't see where it becomes calculable in the future. He affirmed he was speaking to **the 2.5 percent** amount for the medical [rate].

REPRESENTATIVE WEYHRAUCH said it is **2 percent** by legislative fiat.

SENATOR SEEKINS agreed the number will remain the same until changed by the legislature.

REPRESENTATIVE WEYHRAUCH thought that was the purpose of requiring advice and consent and reports to the legislature in other portions of the bill.

CHAIR GREEN recalled a conversation about reaching a balance between the contribution rates for employees and retirement health benefits. **She pointed out the 1.75 is in statute as well.**

[8:14:22 PM](#)

SENATOR SEEKINS asked if the language beginning on page 51, lines 7-14, of the House bill add a requirement for **AMRB** to annually evaluate the employer rate for medical insurance sufficient to cover projected costs.

REPRESENTATIVE SEATON said that was the intent.

SENATOR SEEKINS said he would object to just setting a number in statute.

REPRESENTATIVE SEATON said House members would too.

CHAIR GREEN suggested leaving that question for the next conference committee to address.

REPRESENTATIVE SEATON added there are a couple of errors in both accounts. Although those errors were discussed on the House floor, they were not changed because a death and disability part was added on the House side, which adds up to 3/10 of a percent and the actuarial calculation was supposed to be there. **He said Mercer calculated the 1.75 rate based on requiring people to retire directly from the system as it was on the House side and made a mistake because not retiring from the system increases the cost quite a bit.**

SENATOR SEEKINS agreed that 175 basis points increase the cost quite a bit and he is not willing to fix that [number] in statute.

CHAIR GREEN said she would leave that open for the free conference committee.

[8:16:46 PM](#)

REPRESENTATIVE WEYHRAUCH said the health reimbursement provision should also be left open because the differences need to be determined.

CHAIR GREEN said someone had asked if a person resigned rather than retired, that person would have access to the health reimbursement account.

[8:20:42 PM](#)

CHAIR GREEN announced an at-ease.

[8:23:02 PM](#)

CHAIR GREEN announced she would leave the last question open for the next conference committee to address.

SENATOR SEEKINS proposed highlighting the specific points the committee does not agree on by page number and paragraph using the matrix.

CHAIR GREEN expressed skepticism about making it through 100 pages.

SENATOR SEEKINS said he wanted to look at each referenced page.

REPRESENTATIVE SEATON referred to line 8 on the matrix.

SENATOR SEEKINS clarified that would be pages 73-74, sections 7-8 of the House version and pages 71-72, sections 95 and 96 in the Senate version.

REPRESENTATIVE SEATON explained line 8 sets a floor for PERS and TRS contributions to prevent another shortfall from occurring, like the one that occurred after the PERS contribution was lowered to 6.75 percent. It will smooth out the long-range contributions to the system so the state does not generate past service costs. TRS did keep a floor at 11 percent so the contribution never went down but PERS brought its normal cost rates down to 6.75 a couple of years ago. He thought that earlier, the committee accepted the elimination of the employee contribution - the 50 percent match with the .5 percent escalator on line 7, which corresponds to line 8 in the Senate bill. He said the Senate version says 50 percent of the normal cost rate. Line 7 said the employee rate would increase .5 percent each year until the two matched. Since the Senate agreed to eliminate that language, it also eliminated the employer 50 percent match. He questioned whether the Senate would accept the floor on employer contributions in the House version.

[8:26:53 PM](#)

CHAIR GREEN said she thought the [Senate] was trying to craft the language to assure there would be participation at the normal service rate. She suggested leaving that provision open for future discussion.

REPRESENTATIVE SEATON said that is fine. He said when looked at carefully, one can see that lines 7 and 8 are tied together. He explained that because the Senate agreed to remove the escalator from the employee rate up to 50 percent, the reference to the employer paying up to 50 percent does not make sense.

CHAIR GREEN repeated she would leave that open.

SENATOR SEEKINS asked if the House and Senate are not in agreement on line 5.

CHAIR GREEN said they are.

SENATOR SEEKINS said the House and Senate agree on line 7 but they are not in agreement on lines 8 and 9. He asked, regarding line 11, why the House views its version to be more advantageous.

REPRESENTATIVE SEATON explained the requirement for medical benefits is 10 years of service. If employees are not required to retire directly from the system with 30 years of service at any age or at age 60 with at least 10 years, a person could work from age 22 to 32, leave the state, and have medical benefits provided by the state at age 60. When Mercer calculated the Senate's number, it assumed the employee would retire directly from the system.

[8:30:44 PM](#)

CHAIR GREEN asked if a person who worked 30 years and resigned would be required to come back and work to retire.

REPRESENTATIVE SEATON said absolutely not. He said retiring directly from the system is defined as 30 years of service or more than 10 years and reaching age 60.

CHAIR GREEN said she would leave that provision open.

SENATOR SEEKINS asked for an explanation of the items on line 12.

REPRESENTATIVE SEATON explained the House version has a pre-Medicare eligible medical coverage provision built in so if a person is within 5 years of being pre-Medicare eligible, s/he can get a subsidy on medical premiums so

that s/he could retire at age 60. The premium subsidy would be based on the number of years served beginning at 30 percent for 10 years of service with an increase of 3 percent per year up to 30 years, at which point the subsidy would be 90 percent. The subsidy of the premium has some cost containment built in. The start year - this year - is \$7,900; the maximum escalation is 5 percent per year. Therefore, if health care costs increase 12 percent per year, 7 percent would be excluded from the calculation. This benefit was built in because employees said medical benefits are highly prized.

[8:34:32 PM](#)

CHAIR GREEN asked about the increased cost to the employer.

REPRESENTATIVE SEATON said it would increase costs by 1 percent for each pre-Medicare eligible employee.

CHAIR GREEN said she would leave that provision open for later discussion.

SENATOR SEEKINS said the House and Senate are not in agreement on line 13. He then asked, regarding line 14, what the normal retirement age is.

REPRESENTATIVE SEATON said normal retirement age is 60 months pre-Medicare, meaning 60 years old.

SENATOR SEEKINS asked if, in the House version, retirement begins 5 years earlier than the Senate version.

REPRESENTATIVE SEATON said that is correct. He explained that a person with 30 years of service who is not 60 would have to pay the full premium.

CHAIR GREEN asked if that provision merely provides access.

REPRESENTATIVE SEATON said that is correct.

REPRESENTATIVE SEATON said that is the same as the Senate version. The difference between the two is the House version has a 60 months pre-Medicare eligible component whereas the Senate version has no medical benefits before Medicare eligible age or 65.

CHAIR GREEN asked for an explanation of the age range in the House version.

REPRESENTATIVE SEATON said the service range in the two versions is identical - 30 years or 10 years and reaching the age of 60. He then said, "...It's actually 10 years and 60 months pre-Medicare eligible. The reason that pre-Medicare eligible is so important is because the federal government might come around in a few years and change Medicare eligible to 67 and we at the state don't want to be stuck with paying 100 percent of medical costs between 65 and 67 if they raise the age limit by two years."

SENATOR SEEKINS asked if this would establish a floating rate that duplicates exactly what the Senate version would do in terms of age and eligibility now.

REPRESENTATIVE SEATON said the House version provides for a 60 months pre-Medicare eligible subsidy for insurance premiums while the Senate version does not provide anything pre-Medicare eligible.

CHAIR GREEN noted the House version provides an extra five years of assistance.

REPRESENTATIVE SEATON said that is correct.

CHAIR GREEN said she would leave that provision open, as well as lines 15 and 16 as she is waiting for more figures on that provision.

SENATOR SEEKINS said the difference between the House and Senate versions in the health reimbursement arrangement [line 17] is the 50 basis points in the House version. The House wants to give retirees more money than the Senate does.

REPRESENTATIVE SEATON said that is correct.

CHAIR GREEN said some concern was expressed that the House provision was "too rich" so she would leave that open.

REPRESENTATIVE WEYHRAUCH asked if line 17 relates to line 9 on page 1.

CHAIR GREEN said it does and that a deeper discussion on the balance between all of those contributions needs to

occur because one causes one to go down and another to go up. The right balance needs to be found so that the employer is not over contributing and she believes there is room for change. She repeated she would leave that open for the free conference committee.

CHAIR GREEN then said she and Senator Seekins are very concerned with line 19.

SENATOR SEEKINS said his concern is that someone could leave voluntarily and come back and get full benefits plus interest.

CHAIR GREEN said that literally means someone could be kept on the books for infinity and she believes the benefit is designed to prepare employees, not to keep them on the books for 60 years. She said she would leave that open for future discussion.

REPRESENTATIVE SEATON said the whole design of this plan is a defined contribution. He continued, "And we have two components of defined contribution here. One is to the retirement plan where we're doing a percentage into there and the other defined contribution portion is the HRA where we take a certain amount of money and put it in your individual account that you have and you have to own and it becomes portable, it becomes usable. So this is a defined contribution section of the medical plan."

CHAIR GREEN said the HRA is not portable, as she understands it.

REPRESENTATIVE SEATON said it is portable in the sense that it is the employee's specific account that the employee is free to use for any medical expenses. It is a defined contribution, not a defined benefit. If it were a defined benefit, it would say the employer would pay so much of the medical costs. This says the state will contribute 2.5 percent of the average wage of every PERS/TRS employee for individual use. He pointed out the employee would not own it until s/he met the 10 year vesting requirement.

[8:43:30 PM](#)

SENATOR SEEKINS asked if he is sure ownership is attached or whether the account is there for the employee's benefit if he continues to be an employee and retires normally.

8:44:27 PM

REPRESENTATIVE SEATON replied, "You can look at it however you want but if the idea of a DC plan is to make a contribution into an account that is accounted for - you, individually - not for the group but you individually have this benefit - that's what the DC plan is and that's what this is. Now it takes 10 years to vest in it just like you have 5 years to vest in the other account."

SENATOR SEEKINS said he can see no reason why, if someone voluntarily separates, the state should maintain that contribution and let it accrue interest in case that person decides to come back 20 years later. He questioned why the state should do that if "it doesn't exist in the real world?"

REPRESENTATIVE WEYHRAUCH said it does exist in the real world because, "When your employer contributes something to you for your benefit, it becomes a property interest."

SENATOR OLSON asked if the employee contributes to a DC plan.

CHAIR GREEN clarified the employee does not contribute to the HRA portion.

REPRESENTATIVE SEATON agreed but said the employer contributes to an account for each specific employee. The employee must submit medical invoices for reimbursement from that account. He said the purpose of a DC plan is to attract employees.

SENATOR SEEKINS asked to leave this provision open for further negotiation because he believes the only way this money will become the employee's money is if the employee returns to state employment.

REPRESENTATIVE SEATON said that is incorrect because it belongs to the employee if s/he vests in 10 years.

SENATOR SEEKINS read, "can return to participating employer without time limitation and have account balance restored with interest."

REPRESENTATIVE SEATON said that is correct and explained that if Senator Seekins worked for 10 years, vested, left state service for 5 years and returned, his account would still be there. It is an incentive to employees to return.

SENATOR SEEKINS said in the real world, if you leave, you leave it behind therefore he disagrees with that provision.

CHAIR GREEN said that is one of the characteristics of the current plan that has caused the state to be in the position it is in.

CHAIR GREEN moved to the next issue: board members.

[8:47:17 PM](#)

SENATOR SEEKINS asked why only one person on the board is not a PERS/TRS member.

REPRESENTATIVE SEATON said the board is comprised of four employer representatives and four employee representatives. The commissioners of revenue and administration, and finance officers of a municipality and a school district would represent employers, while two members of the PERS employee system and two members of the TRS employee system would represent employees.

SENATOR SEEKINS asked if the commissioners and finance officers are PERS members.

CHAIR GREEN said they are.

SENATOR SEEKINS noted the PERS and TRS members also participate in the program so only one board member does not. He felt that balance is out of line.

[8:48:56 PM](#)

REPRESENTATIVE CRAWFORD said he is a member of the ironworkers' pension plan. That board consists of 3 members from the employers' group and 3 members of the employees' group. Although they have disparate goals at times, all are covered by the same plan. He thought the House composition is much fairer than the Senate composition.

SENATOR SEEKINS said he sees the two commissioners and two finance officers as employees of the state. He asked if

something goes wrong with the ironworkers' [retirement plan], the general public would be asked to make up the deficit as would happen with PERS and TRS. He said the person who is not a beneficiary of PERS and TRS should be part of the balance of this committee.

REPRESENTATIVE WEYHRAUCH asked if the ratio under the Senate version was 6 PERS/TRS members to 3 non-PERS/TRS members versus the 8 PERS/TRS members to 1 non-PERS/TRS member in the House version.

SENATOR SEEKINS said that is correct. He likened the House composition to allowing the fox to watch over the hen house. Someone who is qualified and not a beneficiary of the PERS/TRS system should be on the board.

CHAIR GREEN told members the Senate used the Permanent Fund board as a model. It was looking for highly trained investors. She added the Senate sees this board as a very hard working board and supports the honorarium for that reason. She said she prefers to have 3 unconnected people on the board.

SENATOR SEEKINS said he is not accusing anyone of being less than honorable; he just feels the board should be more balanced.

REPRESENTATIVE SEATON replied the commissioners would not be representing their individual membership in PERS and TRS, but rather the State of Alaska. He clarified that in a House Finance version, the PERS/TRS members were to be elected, which put them outside of the required criteria for other board members. In the final House version, all members must meet the same criteria.

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SENATOR OLSON said in his businesses, when negotiating with employees, he and his managers are in the same retirement program as his employees but his managers represent his side. He said he tends to favor the House composition and questioned how many Permanent Fund board members are not permanent fund dividend recipients.

SENATOR SEEKINS said every resident receives an equal permanent fund dividend but not every resident gets retirement benefits from the state. He noted he is in the

process of creating a bright line in the ethics law that says if a public officer has an investment worth \$10,000 or more and that officer's action could benefit that investment, the officer must put that investment in an account that s/he has no management control over. He said because the State of Alaska has an interest in the success of this program, it should have more than one member who is not a beneficiary of the system.

CHAIR GREEN announced that issue would remain open.

Regarding line 22, board terms, SENATOR SEEKINS said his understanding is that the structure of the board in the Senate version is modeled after the Permanent Fund board. As a former chair of that board, the only thing he found he did not like was that every board member was a political appointee who sat at the will of the governor. The legislature changed that last year so that now members are appointed to staggered terms and they can only be removed for cause. He said three-year terms provide a chance to evaluate members' service. He sees no reason to change.

REPRESENTATIVE SEATON said the House went with a 6-year term because 3-year terms with a 9 member board means that a single term governor would replace the entire board. The 6-year term would allow for some staggering so that doesn't happen.

CHAIR GREEN said the differences between the House and Senate board terms leave a lot of room for modifications so she would leave that open.

CHAIR GREEN referred to line 23, board duties, and said she would leave that open.

SENATOR SEEKINS asked for the rationale of line 23.

REPRESENTATIVE SEATON said one big problem of past service costs was not recognizing the changes to medical costs. The House thought the medical component should be analyzed each year to make sure the state doesn't get behind on projected medical benefits.

REPRESENTATIVE WEYHRAUCH indicated the medical benefits have always been projected to be the largest component of the financial impact and most subject to change.

CHAIR GREEN thought that was included as an assumption but she would check.

REPRESENTATIVE SEATON said the other assumptions are made every four years.

CHAIR GREEN thought another review kicks in on alternate years as well.

REPRESENTATIVE WEYHRAUCH indicated that everyone was in agreement about line 27.

CHAIR GREEN said the committee agreed to leave line 28 open and it agreed upon line 29.

9:00:55 PM

CHAIR GREEN said regarding line 30, the University of Alaska (UA) requested this language. The UA prefers the Senate language because it was part of a complete package it brought to the Senate. The current language provides a one-time option for current employees who choose to participate in PERS/TRS to transfer into the existing optional retirement program. She said she was not sure she wanted to revise the UA's optional retirement program.

REPRESENTATIVE SEATON explained the House did that for two reasons. First, a lot of people move into the University system and then into school districts or boroughs. This would give UA blue-collar workers a different plan from professors that would not be transferable. He cautioned if the UA has a separate system that is done by the Board of Regents, it would no longer conform with PERS so blue collar workers could not transfer from a municipality to the UA. For that reason, the House left the optional program intact but all other employees would be in the defined contribution PERS program established here.

CHAIR GREEN asked if new employees could choose a defined benefits program or defined contribution program.

REPRESENTATIVE SEATON explained the employee would either have the SB 141 defined contribution plan or the UA's optional plan, which is a defined contribution plan as well. That would allow blue-collar workers to go from one PERS job to another.

CHAIR GREEN asked if UA talked about forecasting difficulties arising from the difference.

REPRESENTATIVE WEYHRAUCH said he did not recall any such testimony in the House Finance Committee. He said UA does that now with its professorial and administrative staff because it can offer the defined contribution plan.

[9:04:39 PM](#)

SENATOR OLSON said it was his understanding that UA wanted a hybrid plan and asked whether Representative Seaton is saying that will be denied.

REPRESENTATIVE SEATON replied the UA testified that it wanted to go to a defined contribution plan for everyone, although there would be different levels of it. The House version says the defined contribution plan that applies to most everyone will be the same as the state's defined contribution plan and UA will have the ability to offer an optional plan. He affirmed there was no hybrid plan.

CHAIR GREEN noted both bodies have agreed on line 32.

[9:05:56 PM](#)

SENATOR SEEKINS asked for an explanation of line 33.

REPRESENTATIVE SEATON stated, "What that is, it's not only AVTechs, it's also Department of Labor has welding instructors out - I think it's in Bethel and you know wherever they have instructors that they hire that are teachers that are in TRS system, this means they would continue in the TRS system instead of stopping the TRS system and having to be in PERS because then if they had qualified in one they would be basically having two state retirement programs. So this means that if they are a member of TRS when they go in as an instructor in the Department of Labor, they will stay in the TRS system because there are slight differences. But if they're not, they're in the PERS system."

SENATOR SEEKINS asked if Representative Seaton's understanding is that people in the AVTech programs would stay there forever or that they don't want to go back to being a blue-collar worker.

9:07:02 PM

REPRESENTATIVE WEYHRAUCH said he heard testimony about how a welder who works for the city in a village might be asked to be a welding instructor. This would allow the welder to do that without getting into a separate retirement system. It is designed to pick up on the skilled labor in those areas.

REPRESENTATIVE SEATON said that is not quite what this does. He explained that blue-collar workers who come to the Department of Labor to teach welding would be in PERS. This would apply to people like high school teachers who are already in TRS who are brought to the Department of Labor to teach - they would then change to PERS. Those people would remain in TRS but anyone who is not already in TRS would be in PERS.

CHAIR GREEN asked how many people this would apply to.

REPRESENTATIVE SEATON said maybe 10 to 12 people in Seward and some in Kotzebue. He provided the history of the problem.

CHAIR GREEN asked if those employees preferred to be in TRS because the benefits are better.

REPRESENTATIVE SEATON said the workers who were in TRS before would have to cancel out and change over to PERS. If they were vested in TRS, they would have that retirement system and would be forced to pick up the new PERS.

CHAIR GREEN said she would leave line 33 open.

CHAIR GREEN said she does not believe the contents of line 34 should be placed in statute. She said the board has instructions and goals already and that the cost savings measures are an administrative function. She said line 34 would be left open.

REPRESENTATIVE SEATON mentioned the House State Affairs Committee included it as intent language but Legislative Legal Services and the House Finance Committee [preferred that it be put in the bill instead].

REPRESENTATIVE SEATON explained that line 35 grew out of the retirement and benefits board's attempt to up generic

drug use. That use has increased from 37 to 42 percent, saving an estimated \$1 million for each 1 percent change. Generic drugs are not required now so line 35 requires the cost savings measures be implemented and mandatory. That change is estimated to save \$6.5 million per year.

CHAIR GREEN announced the House and Senate agree upon line 36 and that she would leave lines 37 and 38 open.

CHAIR GREEN then asked members to sign the report so that it can be taken to members' respective bodies tomorrow, at which time free conference committee members will be appointed.

[9:13:47 PM](#)

SENATOR SEEKINS moved to return a letter to the Senate President and House Speaker that states that the conference committee on SB 141 met on May 7, 2005 and that Senate members failed to concur with the changes to HCS CSSB 141(FIN)am H, that the House members failed to recede from their changes to CSSB 141(FIN) and that the conference committee considered the attached sections and did not come to agreement. The conference committee respectfully requests limited powers of free conference.

CHAIR GREEN announced that with no objections, the motion carried.

REPRESENTATIVE SEATON asked if the conference committee should specify the areas for limited free conference.

CHAIR GREEN said the committee will sign the report when it meets at 1:45 p.m. tomorrow. She then adjourned the meeting at [9:18:50 PM](#).

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