

ALASKA STATE LEGISLATURE
FREE CONFERENCE COMMITTEE ON SB 141

May 12, 2005

8:35 a.m.

MEMBERS PRESENT

Senator Bert Stedman, Chair
Senator Gary Wilken
Senator Kim Elton

Representative Mike Hawker
Representative Mike Kelly
Representative Beth Kerttula

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 AND HELD
 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
 05/08/05 (S) LIMITED POWERS FREE CONFERENCE GRANTED
 05/08/05 (H) LIMITED POWERS FREE CONFERENCE GRANTED
 05/09/05 (S) CONFERENCE COMMITTEE DISCHARGED
 05/09/05 (S) FREE CONFERENCE COMMITTEE APPOINTED
 05/09/05 (S) STEDMAN (CHAIR), WILKEN, ELTON
 05/09/05 (H) CONFERENCE COMMITTEE DISCHARGED
 05/09/05 (H) FREE CONFERENCE COMMITTEE APPOINTED
 05/09/05 (H) KELLY, HAWKER, KERTTULA
 05/10/05 (H) 141 AT 2:30 PM SENATE FINANCE 532
 05/10/05 (H) PUBLIC EMPLOYEE/ TEACHER
 RETIREMENT/BOARDS
 05/11/05 (H) 141 AT 10:00 AM SENATE FINANCE 532
 05/11/05 (H) -- Meeting Canceled --
 05/11/05 (S) 141 AT 6:00 PM SENATE FINANCE 532
 05/11/05 (S) -- Meeting Postponed to 5/12/05 --
 05/12/05 (H) 141 AT 8:00 AM SENATE FINANCE 532
 05/12/05 (S) 141 AT 1:00 PM SENATE FINANCE 532

WITNESS REGISTER

No witnesses

ACTION NARRATIVE

SB 141-PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS

CHAIR BERT STEDMAN called the Free Conference Committee on SB 141 to order at 8:35:50 AM. Present were Representatives Kerttula, Kelly, Hawker, and Senators Elton, Wilken, and Stedman.

CHAIR STEDMAN reviewed the progress made by the conference committee with limited powers of free conference. He said he would like to honor the points of agreement from that committee and leave intact the negotiated decisions made by former committee members. [See minutes from meetings on May 7, 8, and 9, 2005.] He directed members to the chart entitled, "Adopted by SB 141 Conference Committee with Limited Free Powers" dated May 10, 2005, which details the areas of difference between the House and Senate versions of SB 141. He recapped the areas of agreement by the previous committee:

Item 4: Benefit formula equals 13 percent per year to the defined contribution account plus investment earnings

Item 7: Employee Contribution Rates - Deleted as per House plan

Item 8: House and Senate concepts were the same. Added verbiage saying neither the House nor Senate felt it prudent that contribution rate on current tiers fall below the normal service cost. He pointed out the normal cost differs substantially from the past service cost. This will assure that regardless of the condition of the plan, the contribution shall never fall below the normal service cost. He said over time, plans have a tendency to be over-funded and under-funded and the extremes create problems.

Items 9(a), (b), (c) - the following amounts were accepted:

5.00 % contribution to DC account (House)
1.75 % to Medical (Senate)
3.00 % to HRA (New-employer pays, tax-free to employee)
.35 % to Death and Disability Benefits (New)
10.10 % total

[8:46:32 AM](#)

SENATOR KIM ELTON said his understanding was the death and disability benefits would be .4 percent for peace officers and firefighters and .3 percent for other employees. He asked if the chart shows the average of the two at .35 percent.

CHAIR STEDMAN replied it's an actuarially calculated rate that depends on the benefits selected.

SENATOR ELTON said he was still trying to figure out whether a peace officer's employer would pay .4 percent and a highway engineer's employer would pay .3 percent or whether both employers will pay .35 percent.

CHAIR STEDMAN replied, "It's a composite rate. It is 4 and 3 and there will be individual calculations on it."

SENATOR ELTON clarified the employer of a highway engineer would pay .3 percent while the employer of a police officer would pay .4 percent.

CHAIR STEDMAN said that is his understanding.

8:57:13 AM

SENATOR ELTON referenced Item 19 and asked if a municipal employee would have to return to the previous municipal employer or whether the employee could return to any participating employer prior to age 65.

CHAIR STEDMAN replied the employee could do it either way and the prior years would count.

CHAIR STEDMAN continued the recap:

Item 20, retirement boards, and said the proposed structure is totally different from the current board structure. The current board spends 80 percent of its time on appeals. The proposal is to send appeals to administrative law judges, rather than the board. The current board also agrees on actuarial assumptions and setting the contribution rates. The new board will take on those functions along with the responsibilities of the assets and liabilities. The Senate wanted a nine-member board including the commissioners of administration and revenue, three Alaska residents who are non-beneficiaries of the system, a municipal finance officer, a school district finance officer, one member from PERS and one member from TRS. The House wanted the same make-up except for two PERS and two TRS members and one Alaska resident who is a non-beneficiary of the system. The previous committee discussed the need for the board composition to reflect the employees' needs versus the need for more representation on the board of non-beneficiaries to address the need to prevent shortfalls. Members decided the number of non-beneficiaries would be two and the municipal and school district finance officer positions would be combined. He noted the new board structure mirrors that of the Alaska Permanent Fund Corporation board.

9:03:11 AM

SENATOR ELTON referenced Item 22a relating to retirement board terms and said three years works with six year terms, but the staggering should be two years apart for four year terms. For example, a PERS member might rotate out the first and third years and a TRS member the second and fourth years.

CHAIR STEDMAN said that section references the existing structure in statute.

SENATOR ELTON said he still believes it would be a two-year stagger so that two PERS members would not come off one after the other.

CHAIR STEDMAN agreed to look into that, but thought it was taken care of in statute. He moved to Item 25, board compensation, and said the Senate used the current \$150 per day honorarium fee; the House used \$400 per day, based on the Alaska Permanent Fund Corporation board's policy. The previous committee agreed on the House number.

CHAIR STEDMAN told members the previous committee accepted the House ratio of 105 percent for the Ad hoc PRPAs. The previous committee deleted item 28, which pertained to legislative employees. Regarding Item 29, the previous committee adopted the House provision, which closes a loophole in existing law that deals with medical benefits for second families of retirees who died.

[9:08:43 AM](#)

CHAIR STEDMAN said of the items that remain open, Item 30, dealing with the University of Alaska Optional Retirement Program, is probably the one that the committee could resolve most easily when the time is appropriate. The University has proposed language to the committee.

[9:12:53 AM](#)

CHAIR STEDMAN noted Item 32 is clean-up language; Item 33 makes no changes to current statute. In Item 34, the Senate thought the cost saving measures should be taken care of via regulation while the House wanted them put in statute. The previous committee adopted the Senate approach. Regarding Item 35, the House requirement that the Division of Retirement and Benefits submit an annual report to the legislature was accepted.

CHAIR STEDMAN said that detailed discussion on open Item 37, the sunset provision, and open Item 38, continuing the option for the defined benefit plan into the future, would occur at the next meeting. He didn't intend to try to resolve those items today. He did want to try and honor the previous agreements and deal with the three open items. Regarding Item 39, the previous committee agreed upon the House's fiscal note.

He said clean up work is required in a few areas of the House bill. He pointed to page 15, line 15 through page 16, line 2

dealing with retirement plan choices; page 84, line 20 to page 85, line 7, dealing with retirement plan choices; and page 115, lines 13 through 29. There's a problem with the reference pages for the university section on page 41, line 5 through page 45, line 11.

9:17:53 AM

CHAIR STEDMAN said he'd like members to look at the points and he'd like feedback from each member on trying to hold the discussion to the open items. In particular he would make sure everyone received the language on the university issue. He said the Senate is flexible, but some issues are more difficult to move on.

9:19:18 AM

CHAIR STEDMAN said he would like to deal with Item 30 [UA] last since it is easier and it would be nice to close on an easier issue.

REPRESENTATIVE MIKE HAWKER suggested the committee would be better off resolving issues where ready agreement could be made to define the points of contention.

CHAIR STEDMAN said clearly, Items 37 and 38 would be the most difficult evidenced by the fact that the previous committee was unable to resolve them.

REPRESENTATIVE HAWKER said those items are issues within the presumption that the defined benefit contribution plan must be included in the legislation. Some sitting at the table are not in agreement the entire component is appropriate to include in this bill.

CHAIR STEDMAN replied there are certainly things each member would like to change, but in its current form the bill is a collective compromise. That being said, they could certainly expand the approach so the agreed solution deals as a package as long as that package is reasonable in scope. Clearly the idea is to move to the middle toward a solution.

SENATOR ELTON said Representative Hawker was also saying that as the committee works on those two issues, moving toward the middle doesn't necessarily mean picking one element from one side and another element from the other side. As six bright

people they have the obligation to think broadly and outside the box and look at a number of potential solutions.

CHAIR STEDMAN said he recognizes they are in free conference and have the authority to virtually rewrite the entire bill. He agreed with broadening the scope a little bit to deal with the issues and move toward compromise but believes there is a limit on how far the committee should stray.

There were no further comments.

CHAIR STEDMAN recessed the meeting to the call of the Chair at [9:24:08 AM](#).