

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

May 13, 2005

5:09 p.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."

MOVED FCCS SB 141 OUT OF COMMITTEE

HOUSE CS FOR CS FOR SENATE BILL NO. 141(FIN) am H

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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."

MOVED FCCS SB 141 OUT OF COMMITTEE

**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) SPECIAL SESSION BILL - SEE H. JOURNAL  
 PAGE 1854  
 05/09/05 (H) CONFERENCE COMMITTEE DISCHARGED  
 05/09/05 (H) FREE CONFERENCE COMMITTEE APPOINTED  
 05/09/05 (H) KELLY, HAWKER, KERTTULA  
 05/09/05 (S) SPECIAL SESSION BILL - SEE S. JOURNAL  
 PAGE 1493  
 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 (H) -- Postponed to 5/13/05 at 9:00 am --  
 05/12/05 (S) 141 AT 6:00 PM SENATE FINANCE 532  
 05/12/05 (S) -- Meeting Delayed to 05/13/05 --  
 05/13/05 (H) 141 AT 9:15 AM SENATE FINANCE 532  
 05/13/05 (S) 141 AT 5:15 PM SENATE FINANCE 532

**WITNESS REGISTER**

Traci Carpenter  
 Staff to Senator Green  
 Alaska State Capitol  
 Juneau, AK 99801-1182

**POSITION STATEMENT:** Explained fiscal notes for SB 141

**ACTION NARRATIVE**

**CHAIR BERT STEDMAN** called the Free Conference Committee on SB 141 meeting to order at [5:09:35 PM](#). Present were Representatives Hawker, Kelly, and Kerttula and Senators Elton, Wilken and Stedman.

**SB 141-PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS**

CHAIR STEDMAN announced SB 141 to be up for consideration.

REPRESENTATIVE HAWKER said there was no need to redo work already done on this issue, but item 30 regarding the university was something he thought they could come to agreement on easily. The two most contentious issues within the current bill are the sunset and the plan choice alternative.

[5:14:03 PM](#)

He had concerns with the overall direct contribution (DC) approach; he didn't like the simultaneous dual plan and wanted to take that off the table now. He also thought the sunset plan needed a clear decision. It doesn't make sense to make an agreement and then say it will go away in two years.

The effective date of when employees become involved in the new DC plan is now July 1, 2005. If they decide that is the appropriate route to take, this time horizon is too short to properly implement the plan. Deferring the effective date until July 1, 2006 will allow time to get more actuarial information and to look at other things to incorporate in the DC Plan. Removing the sunset gives certainty to the plan.

[5:18:26 PM](#)

REPRESENTATIVE HAWKER moved to adopt conceptual Amendment 1.

**CONCEPTUAL AMENDMENT 1**

OFFERED IN FREE CONFERENCE COMMITTEE

TO: HCS CSSB 141(FIN) am H, version R.A. By Representative Hawker

Part 1

Effective date: Sections 32,67,79 and 120 of the Act take effect July 1, 2006.

1. Section 32 is the Defined Contribution Plan under AS 14.25.
2. Section 67 amends AS 39.30.090 procurement of group insurance to include the new medical benefits sections of the Defined Contribution Plans under AS 14.25 and AS 39.25.
3. Section 79 is the new Health Reimbursement Arrangement Plan for members of the Defined Contribution Plans.
4. Section 120 is the Defined Contribution Plan under AS 39.35.

Legal Services should make all conforming changes to other sections in the bill that reference sections 32,67,79 and 120. All other sections of this Act, except for those specified above and those contained in sections 146 and 147 on page 120, are effective July 1, 2005.

#### Part 2

Delete the sunset provision and the employee option to choose either the DB or DC plans.

Page 115, lines 13-20:

Delete all material.

Renumber the following bill sections accordingly.

#### Part 3

Delete the conditional retroactivity clause. The delayed effective date of the new Defined Contribution Plans makes the retroactivity clause unnecessary.

Page 120, lines 20-25:

Delete all material.

Renumber the following bill sections accordingly.

#### Part 4

AS 14.25.540 and AS 39.35.940: Transfer into defined contribution plan by nonvested members of defined benefit retirement plan.

#### Explanation

The language in these sections needs to be clarified so that only the pre-tax contributions paid by a member into their individual account under the defined benefit plan and the associated years of membership service are eligible for transfer into the defined contribution plan.

This clarification is necessary to ensure the plans maintain compliance with the federal tax code because after-tax contributions may not be made into a pre-tax contribution account.

Legal Services may change or add to the language of AS 14.25.540 and AS 39.35.940 to make this clarification.

CHAIR STEDMAN object for discussion purposes. He asked him to clarify Part 4.

REPRESENTATIVE HAWKER explained that Part 4 clarifies that current employees who transfer into the defined contribution plan won't have their pre and post tax contributions mixed up. He said this is one of several technical issues that will have to be addressed in the next year.

SENATOR ELTON asked if Part 4 is designed for those people who may be in the system now, are non-vested, but who may opt to leave Tier 3 go to the DC plan.

REPRESENTATIVE HAWKER replied yes.

SENATOR ELTON objected to amend July 1, 2006 to July 1, 2007. He thought that 2006 was way too aggressive for moving to a new plan, especially while lawmakers will be working on fine-tuning it throughout the year. This kind of a plan was suggested by the governor of California and he recognized the difficulty of implementing it over a short period of time and he recommended that the DC plan begin in 2007.

SENATOR ELTON said that other things need to be done whether or not this bill passes. One of them is that the state needs to solicit for a new Mercer contract and a new DeLoit contract, whether it goes to them or not. Those contracts run out this year, June 30.

Those are integral to the management of any retirement system. We won't even have until maybe October, the newly constituted board that is going to have to make decisions on what an RFP for those contracts looks like.

He thought that 2007 may even be too aggressive.

[5:23:35 PM](#)

REPRESENTATIVE KERTTULA supported the amendment to the amendment, because she sees tax and qualification issues that will need time to resolve.

REPRESENTATIVE KELLY commented that in two years, nearly a quarter of the workforce would be replaced. Each of the new employees in the two-year timeframe would represent an unfunded liability challenge. He accepted the compromise that one year

would give the legislature to get the new plan completely fleshed out.

[5:25:13 PM](#)

SENATOR WILKEN said he also has heard concerns about the timeframe. However, his discussions with the department indicate that implementation of this plan, while challenging, could be done - absolutely.

CHAIR STEDMAN maintained his objection.

SENATOR ELTON responded that he would not withdraw his amendment. He said he has confidence in the department, but wanted to remind people that there is a lot of work to be done. He appreciated Representative Kelly's comments, but pointed out whatever they do with this amendment and the bill, they are not addressing the unfunded liability anyway.

CHAIR STEDMAN asked for a roll call vote. Representative Kerttula and Senator Elton voted yea; Representatives Hawker, Representative Kelly, Senator Wilken and Chair Stedman voted nay; and Amendment 1 to Amendment 1 failed.

CHAIR STEDMAN announced Amendment 1 was before the committee.

[5:27:16 PM](#)

SENATOR ELTON said Representative Hawker's comments covered the elements. He disagreed, though, that this is a defined contribution bill. "The bill before us is a choice bill. This amendment makes it a defined contribution bill. That's a dramatic paradigm shift."

He said the legislature has not yet had a good discussion on what the net effect of this bill is going to be, for instance, for recruitment and retention. He already knows it does nothing with the unfunded liability. This bill, if amended this way, isn't an investment in the workforce and the state may end up recruiting from the bottom of the class. It won't attract and keep the kind of public servants Alaska needs.

[5:31:12 PM](#)

REPRESENTATIVE KERTTULA agreed and added that the DC plans are seen as an unreliable vehicle for insuring financial security in retirement.

We know specifically if we did something like this, you can't have lengthy time off for having children,

raising a family, completing and education or for illness. You have to have the proper ratios with replacement. There are so many things in terms of a policy call on this that I just feel that this one year will not be enough....

[5:32:03 PM](#)

CHAIR STEDMAN called for a roll call vote on the motion to adopt Amendment 1. Representative Kerttula and Senator Elton voted nay; Representative Hawker, Representative Kelly, Senator Wilken and Chair Stedman voted yea; and Amendment 1 was adopted.

[5:32:43 PM](#)

REPRESENTATIVE KELLY moved to adopt Amendment 2.

### AMENDMENT 2

OFFERED IN FREE CONFERENCE COMMITTEE

TO: HCS CSSB 141(FIN)Am, VERSION R.A. BY REPRESENTATIVE KELLY

Page 41, line 8:

Delete: "health"

Page 43, following line 23:

Insert new section to read:

"\*Sec\_\_\_. AS 14.40.671 is amended by adding a new subsection to read:

(h) Notwithstanding (b) of this section, the university may offer an employee who made an election not to participate in an optional university retirement program at the time the employee was eligible to participate in the program, an option to enroll in a different university retirement program first established by the university after the effective date of this subsection."

Page 44, line 1:

Insert a new section to read:

"\*Sec\_\_\_. AS 14.40.691(c) is amended to read:

(c)The board may specify that contributions required by this section are made by a reduction in salary under 26 U.S.C. 403(b) or 26 U.S.C. 414(h)(2)(Internal Revenue Code)."

CHAIR STEADMAN objected for discussion purposes.

REPRESENTATIVE KELLY explained:

Page 41 - The University does not currently provide health care coverage in its defined contribution program and the effect of leaving this in would require that this expensive accommodation be made. The UA designs programs appropriate for its employees based on market conditions necessary to keep competitive in recruitment and retention of faculty and staff.

Page 43 - This section will allow the University to open a defined contribution program to employees who may not have selected the option to join ORP when it was first offered. When the ORP program was established, there was a one-time, irrevocable opportunity to elect participation. Many employees who elected not to participate would now like a second change to elect a defined contribution program.

Page 44 - This language is necessary for the ORP program to be in compliance with Internal Revenue Code.

CHAIR STEDMAN said that addresses open item number 30 and he removed his objection.

SENATOR ELTON objected to ask a question and to restate that the net affect, other than technical clean up, is that the university can open the option of choosing ORP to their employees. It doesn't compel them to do it or change their existing plan if they opt not to do it. It's a choice the university employee can make based on his own personal or family imperatives.

REPRESENTATIVE KELLY replied that is correct. He explained that that option is now open to just a select class of employees and this would open it up further.

CHAIR STEDMAN removed his objection and said there were no further objections and Amendment 2 was adopted. He doubled back to clarify that Amendment 1 removed item 36, because it was not needed with the delayed implementation date. He recapped that Senator Elton had cleaned up language on item 22(a) for the board to have staggered terms of two years.

5:36:34 - [5:36:50 PM](#) - At ease

SENATOR ELTON asked if there was a conflict in the fiscal notes. Item 39, fiscal note number 9, dated 5/2/05, is zero for administration and all the others add several million dollars.

[5:37:51 PM](#)

TRACI CARPENTER, staff to Senator Green, explained that fiscal note number 9 was offered in the House Finance Committee to zero out fiscal note number 8, which the Senate Finance Committee passed depositing \$69.5 million on behalf of all the participating PERS employers.

The House Finance Committee felt that it was not an appropriate vehicle to do so and so they zeroed out the fiscal note. I believe the intention is that that particular situation of providing the 5 percent relief for the participating employers will be handled through the operating or capital budget conference committee.

REPRESENTATIVE HAWKER, as a member of the House Finance Committee, agreed with the explanation.

CHAIR STEDMAN moved to accept the report.

REPRESENTATIVE KELLY backed him up saying it addressed all 39 items.

CHAIR STEDMAN reiterated that there was a motion to accept the committee report on SB 141 accepting items from previous committee reports and Amendments 1 and 2.

[5:41:07 PM](#)

SENATOR ELTON objected.

CHAIR STEDMAN asked for a roll call vote. Representative Kerttula and Senator Elton voting nay; Representative Hawker, Representative Kelly, Senator Wilken and Chair Stedman voted yea; and the motion carried.

CHAIR STEDMAN adjourned the meeting at [5:42:53 PM](#).