

HOUSE FINANCE COMMITTEE  
May 1, 2005  
1:18 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:18:30 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Eric Croft  
Representative Richard Foster  
Representative Mike Hawker  
Representative Jim Holm (teleconferenced)  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Carl Moses  
Representative Bruce Weyhrauch

MEMBERS ABSENT

None

ALSO PRESENT

Speaker Representative John Harris; Representative Paul Seaton; Representative Beth Kerrtula; Representative Kurt Olson; Senator Ralph Seekins; Melanie Millhorn, Director, Division of Retirement and Benefits, Department of Administration; Bruce Ludwig, Business Manager, Alaska Public Employees Association (APEA); Virginia Ragle, Assistant Attorney General, Department of Law; Traci Carpenter, Staff, Senator Lyda Green; Pete Kelly, Director, State Relations, University of Alaska; Tom Boutin, Deputy Commissioner, Department of Revenue

PRESENT VIA TELECONFERENCE

None

SUMMARY

CS SB 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 non-vested members of the teachers' retirement system defined benefit plans to transfer into the teachers' retirement system defined contribution plan and for non-vested 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.

HCS CS SB 141 (FIN) was reported out of Committee with a "no recommendation" and with a new fiscal note by the Department of Administration and a new zero note by the House Finance Committee for the Department of Administration, fiscal note #1 by the Department of Transportation & Public Facilities and fiscal notes #2, #4, #5, #6 and #7 by the Department of Revenue.

#SB141

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 non-vested members of the teachers' retirement system defined benefit plans to transfer into the teachers' retirement system defined contribution plan and for non-vested 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.

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Representative Kelly MOVED to ADOPT Amendment #8A.  
Representative Croft OBJECTED.

Representative Kelly explained that the amendment would address the death benefit for the public employee who was killed or disabled in the line of duty. The amount would be \$500 thousand dollars; the designated beneficiary would receive \$250 thousand dollars. The benefit would be in addition to federal and Union benefits received.

Vice-Chair Stoltze inquired if the Administration had compared that to existing benefits. He referenced Amendment #14.

Representative Croft asked which section referenced disability. Representative Hawker replied Amendment #10A.

MELANIE MILLHORN, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, explained that Amendment #8A created an "obligation" benefit. The current benefit for the Public Employee Retirement System (PERS) members under Tier 3 includes if there were no surviving spouse and the member had dependant children, the monthly pension would be divided equally amongst those children. The monthly survivor pension amounts to 40% of the member's gross salary at the time of death. For a police and firefighter member, the monthly survivor benefit is the greater of 50% of the gross salary or 75% of the normal retirement benefit earned when retired. A new benefit outlined in the accompanying chart amounts to \$500 thousand dollars, a lump sum payment. (Copy on File).

Representative Croft pointed out that the amendment was limited to peace officers and firefighters and asked if current law had the same limitations. Ms. Millhorn pointed out that the provisions in AS 39.35.430 applies to all the other members including police and firefighters. All members have the occupational death benefit.

Representative Croft inquired the difference between a lump-sum payment and the pension, referencing the pension time line. Ms. Millhorn agreed.

Representative Croft thought for a young family, the pension would be more preferable, whereas, the opposite was true for someone about to retire.

REPRESENTATIVE PAUL SEATON pointed out the annuity numbers indicated on the chart.

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Representative Croft observed that the chart numbers included the average age. He thought that there could be a large difference for particular pensioners, under what is currently received. Representative Seaton said the chart illustrates ages 25 to 57 years old and provides a life expectancy.

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Representative Weyhrauch inquired if that program were in effect, would the employee need to opt into it or would they automatically obtain the benefit once hired. Ms. Millhorn explained that the member would enroll at the time they were appointed to a position and would then need to make the election.

Representative Weyhrauch explained that the difference between the proposal and existing law is that at present time, they are automatically entitled to the benefit. Ms. Millhorn reiterated that the member would be enrolled and at that time would make the beneficiary election. Representative Weyhrauch specifically asked if the employee would have to elect the death penalty. Ms. Millhorn responded that it would be expected that a member would choose that benefit. The member would be enrolled.

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Representative Weyhrauch asked about the difference between the benefits if the employee were killed in the line of duty. He inquired if the surviving children and spouse would receive the benefit. Ms. Millhorn replied that the spouse becomes the automatic beneficiary. Under the amendment, it is expected that the children would become the next-in-line beneficiary.

Representative Weyhrauch asked if the employee were over 57 and was killed, would they still receive the \$500 thousand dollars. Ms. Millhorn understood that was correct.

Representative Weyhrauch asked if there was any age restriction on the benefit. Ms. Millhorn believed not.

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Representative Weyhrauch inquired what would the monthly benefit be for the family if the widow chose not to remarry if the young PERS member was killed. Ms. Millhorn responded \$500 thousand dollars.

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Representative Weyhrauch inquired the difference of the benefit received between that system and the existing Tier 3 benefit. Ms. Millhorn explained that it would be necessary to do some computations based on existing statute addressing the death benefit under Tier 3 to determine the member's salary. She added it would be on a case-by-case basis.

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Representative Hawker understood that the amendment would include juvenile correction officers killed by a juvenile offender. Representative Seaton pointed out that changing existing statute was not addressed in Amendment #8A.

Ms. Millhorn said that Amendment #8A specifies the definition in AS 39.35.680; in that section, they would not be covered. Representative Hawker believed that class of employee deserves death benefits. Ms. Millhorn noted that currently, individuals classified under existing statute are given the benefit, however that group was not included.

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Representative Seaton reiterated that it is in existing law and that there is other legislation trying to make that correction. Representative Hawker argued that one injustice does not justify another.

Representative Croft understood that current law covers members and does not limit who receives the death benefit. He pointed out that the proposed legislation does limit and affects an entire class of State employees being cut out.

Representative Kelly explained that the purpose of the amendment was to work from the system causing the problems. The intent of the amendment addresses police and fire fighters not covered by the death benefit. He noted other options for employees to buy term life insurance.

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Co-Chair Meyer summarized that under the previous system, everyone was covered, and in the proposed legislation peace officers would be covered as defined in statute.

Representative Joule asked about the Village Public Safety Officers (VPSO). Ms. Millborn replied that they would not be covered under the police and fire fighter component.

Representative Joule inquired about inclusion of health insurance benefits for surviving dependants and spouses. Ms. Millhorn did not think it was provided, however, she offered to research it.

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Representative Croft stated that he preferred Amendment #14, which had been withdrawn on 4/30/05. (Copy on File). He MOVED to substitute the text of that amendment into Amendment #8A, which would keep the current death and disability benefit. Representative Kelly OBJECTED. Co-Chair Meyer understood that Amendment #14 had already been discussed and it was determined to be unworkable.

Representative Weyhrauch argued that there had been no determination that it was not workable. Instead, discussion ended in determining where the payment would come from to finance the mechanism for the amendment. The government needs to be held responsible to pay. He stressed that these people are putting their lives on the line and being killed in the line of duty. Their families would be left destitute. He stated that he could not morally vote for any reduction in benefits to any widow or child. The State government must pay for that benefit.

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Co-Chair Meyer accepted Amendment #14 as an amendment to the amendment. He reiterated concern that Amendment #14 had previously been withdrawn. Co-Chair Meyer OBJECTED to the MOTION to AMEND Amendment #8A.

Representative Hawker stated that peace officers receive 50% wage benefit plus are granted medical provisions. He asked if the amendment to the amendment would restore both the wage and medical factor.

Co-Chair Meyer pointed out previous concerns with the amendment and asked if they still exist. Ms. Millhorn stated that the death and disability benefits under the PERS and Teachers Retirement System (TRS) were structured in such a way [and not under a defined benefit type of plan], which determines the benefit based on member's retirement calculation as a stream of payment to that individual. That is the difference between the two structures. She summarized the structure and funding of the two would be different.

Representative Seaton referenced Section D of the bill, regarding major medical coverage elected by the surviving spouse of the eligible member.

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Representative Croft noted that most of the persons being referenced [as killed on the job] would not have been "retired". The above language references retirees.

Representative Seaton responded that SB 141 was a retirement bill and that there was a different section for the active employees. Representative Croft argued that the above referenced language does not identify the person killed on the job.

Vice-Chair Stoltze noted his concern that the death benefit be included in the legislation.

Co-Chair Meyer asked if it could be workable under the defined contribution plan. Ms. Millhorn stated that current provisions are structured in such a way that they work well with the defined contribution (DC) plan. The manner in which that benefit is calculated has the same design, but would create issues under a DC plan.

Co-Chair Meyer asked if it could work under the defined contribution plan. Ms. Millhorn responded it might be problematic.

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Representative Weyhrauch questioned if a public employee hired under the defined contribution plan, were killed or injured in the line of duty, would they be treated as if they were hired under Tier 3. Ms. Millhorn understood that the amendment was intended to do that, however, there are cost issues associated with that action. She added that fundamental structures would need to be in place for that design as opposed to the defined contribution plan. A DC plan would make it indeterminate.

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Representative Hawker agreed that it would be "problematic". He pointed out the overriding federal regulations in the way. It becomes problematic with the construct regarding the death benefits for peace officers. He agreed that the amendment to the amendment was problematic and was found to be an invalid attempt and illustrates the problem of the entire situation. He would not support Amendment #8A. Co-Chair Meyer agreed that Amendment #8A could be broader.

Representative Kelly summarized his understanding. He said that the amendment does not include "other" employees. It would be difficult to do that and should be addressed in a separate amendment. He submitted that Amendment #8A does "generously" address benefits for the police and fire employees, especially when linking it together with the federal contribution amount of ¼ million dollars. He encouraged member's support.

[1:59:00 PM](#)

Co-Chair Meyer asked about broadening Amendment #8A. Representative Kelly stated that he could not "support" that. He commented that Amendment #11 offers different options.

Representative Croft pointed out that those affected would prefer the current system - "It works for these people". The State does not know how the proposed system would work. In other States, problems have resulted. He recommended that costs be covered through the General Fund.

[2:01:54 PM](#)

A roll call vote was taken on the motion to place the verbiage of Amendment #14 into Amendment #8A.

IN FAVOR:           Joule, Stoltze, Weyhrauch, Croft  
OPPOSED:           Foster, Hawker, Holm, Kelly, Moses, Meyer,  
                          Chenault

The MOTION FAILED (4-7).

[2:02:45 PM](#)

Representative Hawker recommended a defined benefit structure and asked if police and firefighters should be left in the existing defined benefit structure. Then the defined contribution structure could apply to non-public safety employees. He worried about prejudicing one class of employee over another.

Representative Hawker voiced concern that the amendment "places a dollar value on certain lives".

[2:05:10 PM](#)

Representative Weyhrauch asked to make a conceptual amendment to Amendment #8A. The conceptual language would read: "For any employee hired after the effective date of this act, who is killed or disabled in the course of their employment, the provision of AS 14.25.157, 160, 162, or 39.35.410, 415, 420, 430, and 440 as they existed before the effective date of this act, shall apply." Representative Hawker OBJECTED.

Representative Weyhrauch stated that the language would replace Amendment #8A and if the employee was killed or injured in the line of duty, they would not be treated the same as they would in the defined contribution plan but rather the same as they would be in the Tier 3 plan.

Ms. Millhorn thought the concept returned the Committee to that of Amendment #14. Representative Weyhrauch stated that

the language was more "elegant and would provide a more simple approach".

[2:07:35 PM](#)

Representative Kelly maintained that the original Amendment #8A was a "great offer" and provided an annuity option. He reiterated it was generous and that select term insurance was also available and affordable.

Vice-Chair Stoltze thought that the proposed amendment would "narrow the scoop" of the discussed language and that it would fit the death benefits for police and firefighters. He pointed out that the occurrences were rare and that the system could absorb it.

[2:09:05 PM](#)

Co-Chair Meyer did not believe the proposed language would be the correct fix.

[2:09:39 PM](#)

A roll call vote was taken on the motion to adopt the conceptual amendment to Amendment #8A.

IN FAVOR: Croft, Hawker, Joule, Moses, Stoltze,  
Weyhrauch  
OPPOSED: Foster, Holm, Kelly, Chenault, Meyer

The MOTION PASSED (6-5).

There being NO further OBJECTION, Amendment #8A was adopted as amended.

Representative Kelly MOVED to ADOPT Amendment #9A, which changes the employment contribution structure to distinguish between police and fire employees from all the other members of the PERS system. Co-Chair Meyer OBJECTED.

Ms. Millhorn advised that based on the adoption of the amended Amendment #8A, the Department does not know what the costs will be. There could be an issue regarding the percentage of that increase.

[2:12:45 PM](#)

Representative Hawker interjected that Amendment #9A was not necessary given the adoption of Amendment #8A. Ms. Millhorn explained there would be a difference in the funding structure of the two plans. She was not certain what the additional costs would be.

[2:14:55 PM](#)

Representative Hawker reiterated that Amendment #9A was unnecessary.

Representative Kelly commented that there was a way to stay on the defined contribution side of the funding. He suggested that the new Amendment #8A "crosses an odd moment of time". Amendment #9A provides an associated benefit with the previous tier. He encouraged the Committee to move ahead with the funding and providing the Department the needed tools. Ms. Millhorn acknowledged it would help.

Co-Chair Meyer recommended withdrawing Amendment #9A and revisiting to it later with new language.

[2:16:24 PM](#)

Representative Kelly WITHDREW Amendment #9A. There being NO OBJECTION, it was withdrawn.

[2:16:46 PM](#)

Representative Kelly MOVED to ADOPT Amendment #10A. Co-Chair Meyer OBJECTED.

Representative Kelly explained that the amendment would add a new section on Page 57, following Line 6. The amendment would note that an employee might opt to have additional wage reductions to be paid into a separate account in the Department for selected supplemental benefits.

[2:17:34 PM](#)

Representative Croft commented that currently, someone disabled or killed on the job, would be covered under the previous mentioned sections. Representative Weyhrauch said that was correct.

Representative Weyhrauch indicated his support for Amendment #10A.

Co-Chair Meyer WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment #10A was adopted.

[2:19:20 PM](#)

Representative Kelly MOVED to ADOPT Amendment #11. Co-Chair Meyer OBJECTED.

Representative Kelly explained that the amendment would delete all material on Page 59, Lines 24-27 and would insert new language regarding the eligibility requirement of AS 14.25.470 or AS 39.35.870. It provides that an employee could leave the system only up to ten years in order to have

their account remain open. He thought that the other system was not fair.

Representative Croft read language from Page 59, Lines 24-27, of the House State Affairs version. The effect of the amendment would make that account "go away" after ten years. He asked if the person had earned that money, why would it "go away".

[2:22:28 PM](#)

Representative Seaton discussed how long the money should be tracked. The House State Affairs (HSTA) version did not place a limit on the time. He added it would only affect the Health Reimbursement Account (HRA).

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Representative Croft spoke in support of the HSTA version. He inquired the intent for those funds after that ten-year period. Representative Seaton explained that if the employee was not vested, they would not receive the funds and that the funds would stay in the system.

[2:25:01 PM](#)

Representative Kelly pointed out that in the original Senate bill, it was at five-years. Amendment #11 moves it to ten-years. He believed that was an improvement over the original bill.

[2:26:15 PM](#)

A roll call vote was taken on the motion to adopt Amendment #11.

IN FAVOR: Kelly, Moses, Weyhrauch, Chenault  
OPPOSED: Foster, Hawker, Holm, Joule, Stoltze, Croft, Meyer

The MOTION FAILED (4-7).

[2:27:17 PM](#)

Representative Weyhrauch MOVED to ADOPT Amendment #18, #24-LS0637\X.3, Craver, 4/26/05. Co-Chair Meyer OBJECTED.

Representative Weyhrauch explained that the amendment would allow a member to increase their contribution from 8% to 11%. It would have the employer to increase contributions from 4.5% to 8.5%.

AT EASE: [2:30:36 PM](#)  
RECONVENED: [2:40:22 PM](#)

Representative Seaton commented that testimony heard in HSTA Committee indicated that employees had not wanted to see the percentages increased.

[2:42:02 PM](#)

Representative Hawker reflected on the amendment. He observed that employees should be encouraged but not required to make a high level of savings with provided incentives.

Representative Weyhrauch WITHDREW Amendment #18.

[2:43:28 PM](#)

Representative Weyhrauch MOVED to ADOPT Amendment #19. OBJECTED. Co-Chair Meyer OBJECTED for the purpose of discussion.

Representative Weyhrauch explained that the amendment would prevent increases beyond 2% a year, while placing a cap on it. Representative Seaton noted that HSTA Committee had not discussed that issue adding that the current limit was 5%. Representative Croft said he had wanted to draft similar legislation.

Representative Croft MOVED to AMEND Amendment #19, inserting "or decreases" after "increases". There being NO OBJECTION, it was changed.

[2:46:06 PM](#)

Representative Kelly stated he objected to Amendment #19.

Co-Chair Meyer asked if it addressed existing language. Representative Weyhrauch explained that it applies to the existing system, but does not deal with the defined contribution plan. The proposed bill does not address concerns in the current PERS and TRS system.

Co-Chair Meyer inquired if the amendment added a new section. Representative Weyhrauch clarified it was conceptual and would be under existing language in the PERS and TRS statutes.

Representative Hawker thought that this would be good timing for Amendment #19. It is important that the pension plan never gets bought. The reserve of assets is advisable and it is important when an employee retires, they can count on their cash flow. The defined benefit plan is based on the concept of "continuity of existence". He reiterated that Amendment #19 would provide a good management tool and was the responsible approach.

[2:52:08 PM](#)

Representative Seaton interjected that the only system currently in place is raising the employer contribution rate. If that does not happen, everything in it would grow at an estimated 8.25% per year.

[2:53:04 PM](#)

Representative Kelly thought that the 2% assumes that the State is in better shape than it really is. He preferred to keep the "pressure on the employee". He encouraged the change.

[2:54:29 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Hawker, Joule, Stoltze, Weyhrauch, Croft  
OPPOSED: Holm, Kelly, Moses, Foster, Chenault, Meyer

The MOTION FAILED (5-6).

Representative Weyhrauch MOVED to ADOPT Amendment #20.  
Vice-Chair Stoltze OBJECTED.

Representative Weyhrauch noted that the amendment adds a new section. The proposed bill does not deal with the current PERS and TRS unfunded liability concerns. The amendment recommends that the Legislature solve the problems next year and if that does not happen, the act would sunset on June 1<sup>st</sup>, 2006.

[2:57:07 PM](#)

Representative Hawker applauded Amendment #20 and urged consideration of it. He pointed out components within SB 141, dealing with the unfunded liability plan. He asked if Representative Weyhrauch would support language stating "resulting in new plan tiers". Representative Weyhrauch responded that had been his intent and that he had no objection gauge.

There being NO OBJECTION, the amended language was added.

[2:58:55 PM](#)

Representative Kelly indicated that he would not support the amendment. Representative Weyhrauch stated he felt strongly about it. He thought that there were mechanisms to help fix the PERS & TRS concerns. He acknowledged that it would not be popular because it would involve bonds and big spending; however, stressed it was "too serious to ignore".

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Representative Seaton pointed out that the HSTA Committee had also been dealing with HB 238, which has a funding mechanism for past service costs and for the new employees coming on line. \$2.68 billion dollars would need to be deposited.

[3:01:24 PM](#)

Co-Chair Meyer understood that the intent of the legislation was only to establish a structure to deal with the "bleeding". He was concerned that the amendment would only give the process one year to succeed or fail, which he did not believe was enough time. Representative Weyhrauch responded it would be one year more than the Legislature has had on the entire bill. He believed that the Legislature could amend the legislation in the following year, to create a bill with universal agreement.

Vice-Chair Stoltze agreed with the need to stop the bleeding and to address current statewide deficiencies. He stated that the amendment could provide the State with a mechanism to address the concerns. He supported the amendment.

[3:04:21 PM](#)

Representative Hawker MOVED to AMEND Amendment #20, inserting language: "Resulting in new plan tiers", into Section (A), following "act". There being NO OBJECTION, it was amended.

Co-Chair Meyer voiced concern that new employees hired after the bill passes, would be confused regarding which plan they were under. Additionally, it could cause administrative confusion.

Vice-Chair Stoltze WITHDREW his OBJECTION. Co-Chair Meyer OBJECTED.

[3:05:44 PM](#)

A roll call vote was taken on the motion to adopt amended Amendment #20.

IN FAVOR:           Joule, Stoltze, Weyhrauch, Croft, Hawker  
OPPOSED:           Holm, Kelly, Moses, Foster, Meyer

Co-Chair Chenault was not present for the vote.

The MOTION FAILED (5-5).

[3:06:27 PM](#)

Representative Weyhrauch MOVED to ADOPT Amendment #21.  
Vice-Chair Stoltze OBJECTED.

Representative Weyhrauch explained that adding a new section would amend the uncodified law of the State of Alaska and would make the Legislative intent a part of the bill.

[3:07:16 PM](#)

Representative Seaton advised that language had originally been included in the bill; however, it was requested that it be Intent Language because if listed as intent, it would be more open. He wanted to guarantee that the cost containment moves forward.

Representative Weyhrauch recommended adding language to Line 3, "but not limited to", which would provides a range of examples and would broaden the range of possibilities. He MOVED that change. There being NO OBJECTION, Amendment #21 was amended.

Vice-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, amended Amendment #21 was adopted.

Representative Weyhrauch MOVED to ADOPT Amendment #22.  
Vice-Chair Stoltze OBJECTED.

[3:09:31 PM](#)

Representative Weyhrauch advised that Amendment #22 regarding the University of Alaska, deletes Section 35-50. The University has hired faculty from other facilities that have a 401K plan, bringing them into the University's plan. The University wants the ability to offer those employees the option of the defined contribution plan to dovetail with their existing plans. He noted that the Board of Regents currently has the authority to set the rates on their optional retirement plan. Amendment #22 would delete that out of the bill.

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Representative Seaton said that he had spoke to the University and that Sections 33 & 34 would manage it if the bill passes. The sponsor's intention was to delete the board. Representative Weyhrauch explained that the intent was to force the retirement program, not the management structure.

Representative Kelly commented that concerns regarding the University are a large portion of the bill. The current University contribution should not continue to be tied to that in the future. Additionally, it reflects broad support

on campus. It leaves it up to the Board of Regents and would affect no existing employees. He spoke against the amendment, noting that the University strongly favors the current system.

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Representative Weyhrauch countered that the University employees did not want the proposed system.

[3:14:15 PM](#)

BRUCE LUDWIG, BUSINESS MANAGER, ALASKA PUBLIC EMPLOYEES ASSOCIATION (APEA), noted that all employees his Union represents are opposed to that aspect for future hires. The Board of Regents has the ability to change the contribution rate. The employees at the University should be able to transfer within the municipalities and have the same portability they currently enjoy.

[3:15:14 PM](#)

Representative Weyhrauch asked if there was a way to solve the issue. Mr. Ludwig replied that the Board of Regents should make a decision to cut the rate.

Representative Kelly disagreed and stressed that is a "must" issue for the University.

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Mr. Ludwig advised that was included in Title 14 and gives the Board of Regents the authority to set it up. Co-Chair Meyer was confused and thought that the sponsor's staff should address it.

TRACI CARPENTER, STAFF, SENATOR LYDA GREEN, explained that the University approached the Senator requesting the language be added for several reasons:

- Their contribution rates to the optional retirement were tied to the three-year average of the TRS contribution rate. It is true that the Board of Regents is responsible for making that decision and can set the rates.
- The University would like to be able to offer both the optional retirement program and a mandatory program. They wanted the option to create something that they could attract new employees to the University with.
- They want to be able to develop their own health care plan.

- There is issue related to the contracts expiring June 2006.
- The University wants to make it clear that retirement rights are not subject to selective bargaining.

[3:19:21 PM](#)

Representative Hawker asked the Union's objection to that language. Mr. Ludwig stated that for the classified employees, it would end the portability that currently exists in the TRS system. Representative Croft asked which section Mr. Ludwig was referencing. Mr. Ludwig replied Sections 35-50. Another objection, if those persons were not already in the State retirement system, there is a question if the Constitution would apply. If that were the case, the employee groups should be able to bargain with their employer to put more money into pension or wages.

[3:21:08 PM](#)

Representative Hawker understood that the argument was absolute portability. Mr. Ludwig explained that there was a phase-in for vestment. If an employee worked for three years, they would not be able to access 100% of their money and that would not be considered "portability".

Representative Hawker asked if the Union was looking for immediate vesting in all contributions. Mr. Ludwig explained that was not what the amendment addresses. The current system provides portability in the State of Alaska and that an employee's pension would follow them, as does their vesting. If the University were allowed to separate and no longer be a part of that system, the portability would leave.

Representative Hawker understood that the University is a part of the State system, which a guarantee that what happens there occurs within the entire State system. He questioned the merit of allowing the University to make those decisions internally. Mr. Ludwig replied that the bill would remove it from the collective bargaining unit for negotiations.

[3:23:25 PM](#)

Mr. Ludwig explained that even the Court system was covered within the PERS & TRS system. Representative Hawker thought that the language was a bit "over-reaching".

[3:24:20 PM](#)

Representative Foster asked how it would affect portability. Ms. Carpenter responded that Mr. Ludwig's interpretation could be correct in that Section 35 indicates that the retirement programs could be optional or mandatory. In the future, the University could create a mandatory program and might not be in the PERS or TRS system at that time. Presently, the University employees who are members of the PERS and TRS program would remain in. The language affects only a person hired after July 1, 2005. Right now, retirement benefits are not subject to collective bargaining. The University requested that the language be clear so they can promote the optional retirement program.

[3:26:29 PM](#)

Mr. Ludwig explained that the University held meetings with the Union announcing their intention to make it a "mandatory optional plan" for all employees at the University.

[3:26:56 PM](#)

PETE KELLY, DIRECTOR, STATE RELATIONS, UNIVERSITY OF ALASKA, agreed with comments made by Ms. Carpenter. He explained the competitive process the University goes through to entice employees, which is different from other State agencies. They would like to see that section remain in the bill.

[3:27:47 PM](#)

Representative Hawker asked if it was the University's intent to offer the option of removing the pension plan from the protection provided to State employees. Also, would the University continue the prohibition against collective bargaining.

Mr. Kelly said yes. It allows the Board of Regents to establish rates on a more competitive base. It is "imperative" that the University remain competitive nationwide. He reiterated that the University marketplace is more competitive than others.

[3:29:51 PM](#)

Vice-Chair Stoltze thought that the situation was more "global" and would most likely affect the custodial staff as well. Mr. Ludwig said that was correct. The optional plan is currently in place. Presently, about half of the professional staff has selected the optional plan in statute.

Vice-Chair Stoltze inquired how many employees would be affected. Mr. Ludwig replied there are 2,000 employees currently claiming PERS & TRS in that system. Mr. Kelly

corrected that there are about 3,600 full time employees and 7,000 seasonal employees.

Vice-Chair Stoltze inquired about the protections. Mr. Kelly explained that the mitigating factor results from a higher level within that system.

[3:32:37 PM](#)

Representative Kelly added that if the Legislature adopts a defined contribution plan, it would be an opportune time to shift the plan within the University. There is a demonstrated "popularity" for the other retirement plan. He noted he would vote against the amendment.

[3:33:50 PM](#)

Representative Croft asked what the effect would be if language on Page 39, Line 26, clarified that retirement programs must be optional. Mr. Ludwig said that would satisfy most of the concerns, as it would still provide the optional plan. The University could offer different plans depending on the type of service that the employee provides to the institution. He thought that custodians, working anywhere in the State system, should have the same pension plan options.

[3:35:53 PM](#)

Mr. Kelly argued that would be the language in the DC plan.

A roll call vote was taken on the motion to adopt the amended Amendment #22.

IN FAVOR:           Joule, Stoltze, Weyhrauch, Croft, Hawker  
OPPOSED:           Kelly, Moses, Foster, Holm, Chenault, Meyer

The MOTION FAILED (5-6).

[3:37:05 PM](#)

Representative Hawker MOVED to ADOPT conceptual Amendment #23. Representative Kelly OBJECTED.

Representative Hawker explained that the amendment would remove all language instituting a new tier system.

[3:39:23 PM](#)

Additionally, the amendment would add a new bill section, which would add back a section from the original Senate version. It would have all current active members participate in future changes for the normal cost factor of funding the plan and would amount to a small portion over

time from the current contribution. The change could bring labor interests into long-term concerns regarding medical issues.

Representative Hawker discussed new language that would authorize the Municipal Bond Bank to engage in pension obligation transactions as drafted in HB 278. He pointed out that both the Alaska Municipal League and the Alaska Government Finance Officer's Association supports the language. He said he discussed the issue with Senator Steadman and that it would allow the unfunded liability funded.

Representative Hawker pointed out a change to Page 5 of amendment, which would add a fiscal note to fund the TRS component of HB 1.

Representative Holm asked how that bond authorization would affect the State's rating. Representative Hawker understood that the rating agencies consider the unfunded pension obligation when funding. The issuance of a formal bond to mitigate some of that debt could actually raise the State's public debt perspective on Wall Street.

[3:45:23 PM](#)

Co-Chair Meyer suggested that bonding could still be implemented without "gutting the whole bill". Representative Hawker advised deferring action on the new tier system at this time and that such action could provide the Legislature the opportunity to use the summer to consider the retirement and benefit plans. He maintained that there has not been adequate time to adequately explore the existing plan and the proposed changes.

Representative Seaton interjected that the HSTA Committee dealt with Page 1, Lines 7-15. He opined that it could cause a lawsuit. Representative Hawker noted he had not yet discussed the option with the labor unions.

[3:48:14 PM](#)

Representative Seaton referred to the normal cost rate sheet. (Copy on File.) He explained that the current PERS cost rate is 14.28%-employer; TRS is 14.28%-employee. The total contribution is 22.93%.

Representative Hawker recommended that employees bear a portion of the costs. Representative Seaton responded that the original language limited an increase on an employee contribution to an increase of one half percent per year. He did not think that language had been included. Representative Hawker quoted language from the bill, demonstrating inclusion of that was critical point.

Co-Chair Meyer requested more information on the proposed bonding mechanism.

[3:51:24 PM](#)

TOM BOUTIN, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, advised that he was familiar with pension obligation bonds. If pension obligation bonds were to be issued by the municipalities, the Municipal Bond Bank would be the place to do it. He believed that if the fiduciaries wanted to use leverage, there could be a more cost effective way to do it. Issuance tends to be about 2% of the bond proceeds. He added that credit rating agencies are not very favorable on those bonds.

Representative Hawker said the market place would prevail. He maintained that the Legislature is giving local governments the authority and option to make that decision.

[3:55:08 PM](#)

Co-Chair Meyer thought that Amendment #23 addresses two subjects. Representative Hawker believed that was an appropriate place to bring up pension bonds.

[3:55:39 PM](#)

Representative Croft spoke to "sharing the burden" with the employer/employee through the rates. He acknowledged that the amendment identifies that the risk is shared as opposed to the HSTA version of the bill. He commented that the issue would appear sooner or later. The current bill shifts the risk entirely to the employees, while the amendment shares the risk between the two. He argued for the adoption of Amendment #23.

[3:58:27 PM](#)

Representative Kelly emphasized that the work done on the bill to date should not be changed by the amendment. He submitted that there is a \$5.7 million unfunded liability that needs fixing and SB 141 is a more conservative plan and could do it. He spoke strongly against Amendment #23 and opined that it would create a lawsuit. He believed that more time would be necessary to address bonding issues. He restated previous arguments in favor of the HSTA Committee version of SB 141.

[4:03:46 PM](#)

Representative Hawker indicated his concern that the DC plan has been presented as an option that could "stop the bleeding". He stated that adopting the plan means that no

new employee money would go into the existing pension plan. He maintained that the bill would "cut out the heart of the existing plan." He related three overriding principles:

- Shared benefit of joint investment,
- Shared risk of the cost, and
- Continuity of the plan.

He voiced concern about maintaining the current plan for a long period. He proposed a hybrid plan combining the DB and DC plans. He stated that there are too many unanswered questions and requested more time to adequately address the pension situation through a more open process.

[4:08:51 PM](#)

Representative Kelly spoke to the point made by Representative Hawker that the employee's contribution would not be adequate under the DC plan. He stated that was not correct and listed problems of waiting until next year to address those concerns. He noted that there would be 5,500 new hires, which will create an unfunded liability risk.

[4:11:21 PM](#)

A roll call vote was taken on the motion to adopt Amendment #23.

IN FAVOR:           Weyhrauch, Croft, Hawker, Joule  
OPPOSED:           Kelly, Moses, Stoltze, Foster, Holm, Meyer,  
                          Chenault

The MOTION FAILED (4-7).

Representative Croft MOVED to ADOPT Amendment #24.  
Representative Joule OBJECTED.

Representative Croft explained that Amendment #24 would eliminate all aspects except the Board. He related the difficulties of living on a small retirement stipend even with decent medical opportunity. He stated that the amendment would apply to all employees and could attract more qualified future employees to the State. He explained that the gap was not created by the defined benefit system, but by mismanagement. The target would provide an adequate retirement benefit.

[4:18:14 PM](#)

Representative Kelly reported that the entire nation is considering health care concerns at this time. He emphasized that the State of Alaska can no longer afford to

"underwrite" that risk. He urged a no vote on the amendment.

Representative Weyhrauch questioned if there had been testimony in the HSTA Committee regarding no more money coming in to fund PERS/TRS. Representative Seaton admitted that there has been confusion regarding that issue. The retirement system is pre-funded and explained how the past service cost was created. He added that the entire wage base was a percentage base.

Representative Joule maintained his objection.

[4:21:25 PM](#)

A roll call vote was taken on the motion to adopt Amendment #24.

IN FAVOR: Moses, Weyhrauch, Croft, Hawker, Joule  
OPPOSED: Stoltze, Foster, Holm, Kelly, Meyer, Chenault

The MOTION FAILED (5-6).

Representative Croft WITHDREW Amendment #25.

Representative Weyhrauch MOVED to ADOPT Amendment #26.  
Vice-Chair Stoltze OBJECTED.

Representative Weyhrauch explained the amendment addressed legislative employees, deleting "120 days" on Page 77, Lines 9 and 14, and replacing it with "100 days".

[4:24:35 PM](#)

Vice-Chair Stoltze maintained his objection.

Representative Kelly asked clarification. Representative Weyhrauch reiterated the intent.

[4:26:29 PM](#)

Representative Croft inquired about vesting and if it would affect people that are at that level of service already.

Representative Weyhrauch understood that the person's current status could not be taken away. The language would only apply to the DC benefit plan.

Vice-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment #26 was adopted.

Representative Kelly MOVED to ADOPT new Amendment #27.  
OBJECTED. Vice-Chair Stoltze OBJECTED for discussion purposes.

AT EASE: [4:28:21 PM](#)  
RECONVENE: [4:47:23 PM](#)

Ms. Millhorn indicated that the Division had requested the amendment. She explained that the amendment would address current language under the DC plan, dealing with second families of deceased members, specifically retirees. The amendment speaks to that area within the existing statute provisions. It would remove coverage for an undefined number of spouses of survivors covered under the medical plan who are not eligible for the medical benefits in accord with the Internal Revenue Code, Section 152. The Division is engaged in determining how many individuals it would impact. She stated that the circumstance must be corrected and remedied.

[4:50:33 PM](#)

Representative Weyhrauch questioned the downside of the amendment. Ms. Millhorn replied there is no downside. It would preserve the tax-qualified status for the plan. For those individuals receiving the benefits would no longer be eligible for that coverage.

[4:51:45 PM](#)

Representative Hawker asked if current statute was inconsistent with the federal qualified plan and thus endangering the plan. Ms. Millhorn agreed.

[4:52:41 PM](#)

Representative Weyhrauch inquired if the amendment had come forward because it was noticed that something was wrong with the bill. Ms. Millhorn commented that the need for the amendment came forward following an analysis of some tier legislation. A Department of Law representative discovered the issue.

VIRGINIA RAGLE, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW, noted that the issue became apparent when the Department was working as consultants on the legislation.

Representative Croft asked who the people were that would no longer receive those benefits.

[4:54:00 PM](#)

Ms. Ragle responded it would be the new spouse and/or new dependants of the survivor of the retiree.

Vice-Chair Stoltze WITHDREW his OBJECTION. Representative Weyhrauch observed that the amendment addresses the existing PERS/TRS structure. It would not preclude amendments related to the Tier 1, 2 and 3 systems.

There being NO further OBJECTION, Amendment #27 was adopted.

[4:54:57 PM](#)

Representative Kelly MOVED to ADOPT Amendment #28. Vice-Chair Stoltze OBJECTED.

Representative Weyhrauch explained that Amendment #28, would add a new subsection to Page 49. The amendment addresses the additional fiduciary obligation of the Board. He requested to amend Amendment #28 by adding the language, "Assist in prescribing policies". He thought that would create more an advisory capacity.

Representative Seaton commented that the structure of the new board would be different from the old one. They would be providing actuarial, balancing and financing. The Director of the Division of Retirement and Benefits would be running the system and thought that the amended amendment would make it a more difficult duty for the board.

Representative Weyhrauch acknowledged his intent place it more into an advisory capacity.

[4:58:11 PM](#)

Representative Kelly agreed, it would not obligate the Board to write the regulations but would keep them more connected.

[4:58:47 PM](#)

Vice-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, amended Amendment #28 was adopted.

Representative Hawker MOVED to ADOPT Amendment #29. Co-Chair Meyer OBJECTED.

[4:59:14 PM](#)

Representative Hawker explained that the amendment addressed the pension obligation bond authority. The amendment would provide an option for the communities and municipalities. He pointed out it has wide support on both sides of the Legislature.

[5:00:32 PM](#)

Vice-Chair Stoltze MAINTAINED his OBJECTION as he thought that the amendment was a separate bill.

Representative Kelly agreed with Vice Chair Stoltze. He preferred that Amendment #29 [HB 278] be a separate piece of legislation.

[5:02:50 PM](#)

Co-Chair Meyer echoed sentiments of the previous testimony. He pointed out that HB 278 was currently in the House State Affairs committee. Representative Seaton acknowledged that was true.

Representative Croft maintained that if Amendment #29 were not adopted, legislators would not be addressing the TRS/PERS concern. SB 141 does define a new system, however, the old balance is not being addressed.

[5:04:15 PM](#)

Representative Kelly expected that the new board would be charged with providing recommendations. He suggested it would be the natural place to put HB 278.

[5:05:23 PM](#)

Representative Hawker responded to Representative Kelly that there was nothing in Amendment #29 that related it to the Percent of Market Value (POMV) approach.

Co-Chair Meyer looked forward to HB 278 coming to the House Finance Committee for discussion purposes. He commented it would be premature to take it up without the House State Affairs Committee doing their work first. He pointed out that adoption would require a title change.

A roll call vote was taken on the motion to adopt Amendment #29.

IN FAVOR:           Weyhrauch, Croft, Hawker, Joule, Stoltze  
OPPOSED:           Foster, Holm, Kelly, Moses, Meyer, Chenault

The MOTION FAILED (5-6).

[5:09:17 PM](#)

Co-Chair Chenault pointed out that fiscal note #8 had been zeroed out. He explained the reasoning for that change.

There being NO OBJECTION, the new note was adopted.

[5:12:08 PM](#)

Representative Foster MOVED to REPORT HCS CS SB 141 (FIN) out of Committee with individual recommendations and with

the accompanying fiscal notes. Representative Weyhrauch  
OBJECTED.

5:14:02 PM

A roll call vote was taken on the motion.

IN FAVOR: Foster, Hawker, Kelly, Moses, Stoltze,  
Chenault, Meyer  
OPPOSED: Croft, Joule, Weyhrauch

Representative Holm was not present for the vote.

The MOTION PASSED (7-3).

HCS CS SB 141 (FIN) was reported out of Committee with a "no recommendation" and with a new fiscal note by the Department of Administration and a new zero note by the House Finance Committee for the Department of Administration, fiscal note #1 by the Department of Transportation & Public Facilities and fiscal notes #2, #4, #5, #6 and #7 by the Department of Revenue.

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ADJOURNMENT

The meeting was adjourned at 5:14 P.M.