

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

February 1, 2005
8:02 a.m.

MEMBERS PRESENT

Representative Paul Seaton, Chair
Representative Jim Elkins
Representative Carl Gatto
Representative Bob Lynn
Representative Jay Ramras
Representative Berta Gardner
Representative Max Gruenberg

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

OVERVIEW(S): DEPARTMENT OF ADMINISTRATION: DIVISION OF
RETIREMENT AND BENEFITS TIER IV PERS/TIER III TRS

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MELANIE MILLHORN, Director
Division of Retirement & Benefits
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Co-presented an overview of the division's proposed Tier IV PERS/Tier III TRS, on behalf of the Department of Administration.

BOB REYNOLDS
Mercer Human Resource Consulting
No address provided

POSITION STATEMENT: Co-presented an overview of the division's proposed Tier IV PERS/Tier III TRS, on behalf of the Department of Administration.

KATHY LEA, Retirement Manager
Health Benefits Section
Division of Retirement & Benefits
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Responded to questions during the overview of the proposed Tier IV PERS/Tier III TRS.

ACTION NARRATIVE

CHAIR PAUL SEATON called the House State Affairs Standing Committee meeting to order at [8:02:08 AM](#). Present at the call to order were Representatives Gatto, Elkins, Gardner, Gruenberg, and Seaton. Representatives Lynn and Ramras arrived as the meeting was in progress.

OVERVIEW(S)

DEPARTMENT OF ADMINISTRATION: DIVISION OF RETIREMENT AND BENEFITS TIER IV PERS/TIER III TRS

[8:02:45 AM](#)

CHAIR SEATON announced that the only order of business was the overview regarding Tier IV in the Public Employees' Retirement System (PERS) and Tier III in the Teachers' Retirement System (TRS).

[8:03:29 AM](#)

MELANIE MILLHORN, Director, Division of Retirement & Benefits, Department of Administration, noted that Bob Reynolds of Mercer Human Resource Consulting, an actuarial for the division, would be assisting her in offering the presentation of the overview.

[8:04:49 AM](#)

MS. MILLHORN said that in January 2004, at the request of the commissioner of the Department of Administration, a new tier system was created for consideration. Involved in the process were two board members and two representatives from the Teachers' Retirement board, in concert with Mercer Human Resource Consulting. There were multiple meetings, all of which were noticed to the employers.

[8:06:31 AM](#)

REPRESENTATIVE GRUENBERG asked if the unions were notified also.

[8:06:43 AM](#)

MS. MILLHORN answered yes. She said the survey was designed and sent to all employers.

[8:07:06 AM](#)

REPRESENTATIVE GRUENBERG asked how members were selected.

[8:07:18 AM](#)

MS. MILLHORN said subcommittees of the Teachers' Retirement board and the Public Employees' Retirement board made the selection.

[8:07:28 AM](#)

MS. MILLHORN said all the information that was collected from studies and surveys was presented in Anchorage on November 19. All board members not involved with the subcommittee were asked to approve of the subcommittee's work and forward a recommendation to the commissioner of administration. Although the tier committee work was done, the board members were not able to muster the requisite votes, because some board members were not present and some did not support the new tiers. In response to a question from Representative Gardner, she clarified that the chair of the Public Employees' Retirement board was not present, and two out of the four members of that board who were present did not support a new tier in PERS. All five board members of the Teachers' Retirement board were present, but only 2 out of the 5 members supported the new tier.

[8:10:53 AM](#)

MS. MILLHORN, in response to a question from Representative Gatto, reported that on the Public Employees' Retirement board, three out of four members are PERS beneficiaries, while on the Teachers' Retirement board, all five are TRS beneficiaries. In response to a follow-up question from Representative Gatto, she said it is mandated in statute that the Teachers' Retirement board must have one member retired from the system.

[8:12:06 AM](#)

MS. MILLHORN, in response to a question from Representative Gruenberg, reiterated the process by which a recommendation for a new tier must be approved by the boards and sent to the commissioner of administration for recommendation.

[8:13:07 AM](#)

CHAIR SEATON, in response to a follow-up question from Representative Gruenberg, explained that the legislature has not been asked by the administration to forward the tier initiative, but has simply asked for a review of the work that has been done by the tier committee, with a view to solving a long-term fiscal problem.

[8:14:25 AM](#)

REPRESENTATIVE GRUENBERG asked, "Does the administration plan to do so?"

[8:14:37 AM](#)

MS. MILLHORN said she thinks that "this is on the table for discussion and consideration."

[8:14:44 AM](#)

MS. MILLHORN turned to presentation material [included in the committee packet]. She explained that she would refer to both the page number and the slide number on the page during her presentation. Ms. Millhorn directed attention to page 1, slide 1, which shows three policy areas that govern PERS and TRS. Those areas are: investment policy, benefits policy, and funding policies. The investment policy is governed by the Alaska Pension Investment board, which was created in 1992 and resides within the Department of Revenue. The benefits policy is the exclusive purview of the legislature to make determinations about retirement benefits. Both PERS and TRS play a role in looking at the funding policies for the systems. PERS does so by setting the employer contribution rate, while TRS has the authority to make a recommendation once a year, regarding the employer contribution rate, to the commissioner of administration. Ms. Millhorn noted that there are also thorough actuarial experience studies conducted periodically on the system, which look at the twenty underlying assumptions of the system. Those assumptions are divided into economic and demographic assumptions. She offered further details. The other periodic review is actuarial audits that are conducted

every 4 to 5 years. The last audit was conducted in 2002. Both PERS and TRS adopt recommendations that arise out of the actuarial audits.

[8:19:25 AM](#)

MS. MILLHORN, in response to a question from Representative Gatto regarding the timing of assumptions and audits, said [auditors] look at the actuarial assumptions that are in place at that time and make recommendations for revisions. She deferred to Mr. Reynolds for further explanation.

[8:19:46 AM](#)

BOB REYNOLDS, Mercer Human Resource Consulting, clarified that the actuarial audit is conducted by an independent firm, and that firm either renders an opinion that an assumption is reasonable or offers an opinion that a change is warranted. He said the 2002 audit opinions were, by and large, that the results were appropriate and reasonable. There were some recommendations for changes, all of which were implemented following the audit.

[8:21:19 AM](#)

MS. MILLHORN directed attention to slide 2, on page 1, which shows employer contribution rates for PERS for fiscal year (FY) 05 and FY 06. She said, "The normal cost rate ... provides for the benefits expected to be earned by active members during that fiscal year." She explained that that's important, because if the system was fully funded, the rate that would be paid would be the 13.31 [percent] normal cost rate. That would contemplate that each one of the approximately 155 PERS employers also were at 100 percent funding. She said the normal cost rate is the same for all employers; the average past service rate is averaged among all the PERS employers, but each PERS employer has his/her own past service rate that is dependent on his/her individual liabilities and assets in the system.

[8:23:55 AM](#)

MS. MILLHORN said Mercer Human Resource Consulting comes to the Public Employees' Retirement board each year and provides a recommendation for the average contribution rate for the employers, recognizing that each individual employer has his/her own contribution rate, which is found in the actuarial supplement to the systems.

[8:24:58 AM](#)

CHAIR SEATON asked Ms. Millhorn if she is talking about the current accumulated benefits over the projected lifespan of all of those employed.

[8:25:34 AM](#)

MS. MILLHORN said that's correct. She explained that the normal cost rate and the average past service rate combined together make of the average contribution rate for the employer. She offered further details.

[8:26:57 AM](#)

MR. REYNOLDS, in response to a question from Chair Seaton, confirmed that the intention of the actuarial method is that benefits be paid essentially during the working lifetime of each active member. He stated, "So, if you had assets to exactly match the accrued liability, you would be on target, in terms of that funding policy and, as long as all the assumptions continued to be met and the normal cost rate was paid, you would remain on target into the future."

[8:27:58 AM](#)

REPRESENTATIVE GATTO asked if an employee's past contributions would be sufficient to cover him/her at retirement after, for example, 11 1/2 years of work.

[8:28:25 AM](#)

MR. REYNOLDS responded, "The contributions attributable to that member ... would be the member's contributions themselves, as well as the contributions that the employer has made towards that member's benefits through the normal cost rate."

[8:28:41 AM](#)

REPRESENTATIVE GATTO asked if a new member has to contribute something to the past service rate to take care of "member number one who now left the state."

[8:29:02 AM](#)

MR. REYNOLDS responded that, presuming all assumptions had always been met and none had ever needed to be revised, no past service rate would ever develop. He noted that the past service rate has developed from a variety of factors, including experience different from assumptions and program changes to the benefit levels.

[8:30:08 AM](#)

REPRESENTATIVE LYNN offered his understanding that a person retired from the National Guard can "buy ... 5 years into the plan," while a person retired from the active duty Army cannot. He said he cannot understand that.

[8:31:32 AM](#)

MS. MILLHORN offered to get back to Representative Lynn regarding that question. In response to a related question from Chair Seaton, she said, "Military service is covered in statute."

[8:32:19 AM](#)

REPRESENTATIVE GRUENBERG said he had read that Congress has changed law to allow recent veterans to buy into the federal civil service upon their return from Iraq. He asked if there is anything that Alaska should do on the state level.

[8:33:00 AM](#)

MS. MILLHORN deferred all military-related questions to Ms. Lea.

[8:33:25 AM](#)

CHAIR SEATON said he would like the questions focused on what the effects of allowable buy-ins are on the retirement system and whether other people in the system are being taxed to pay for the benefits that people are accruing.

[8:34:26 AM](#)

KATHY LEA, Retirement Manager, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, regarding Representative Lynn's previously stated question, noted that in 1986 the legislature passed a cost-containment bill that created Tier II. Part of that bill contained a "double dipping" rule pertaining to military service; it stated

that if a member was receiving a federal retirement benefit based on the same service, he/she could not claim that military service in PERS. She noted that the U.S. Government passed a law in Title 10 that contravenes the state law as it refers to National Guard and Reserve members. She clarified that the federal law did not include career military people. She told Representative Gruenberg that he is correct that "they have allowed that claiming into the federal retirement system, but it is not a federal law - it's a provision of that retirement system." Regarding [Chair Seaton's previously stated question] regarding the cost effect to the [retirement] systems, she said:

We have several different kinds of ... service that can be purchased into the system. Some of them are at ... full actuarial cost, and what that means is that the employee that's claiming it pays all the costs that are associated with that service. Military service is different - it is a subsidized service. The member pays 8.5 percent of their vesting-year salary for every year they claim, up to five years of service, but the employer pays the rest. So, when they do claim military service, it does create a past-service liability to the employer.

CHAIR SEATON indicated to Ms. Lea that he would like more details submitted to the committee regarding this issue.

MS. LEA agreed to his request.

[8:37:01 AM](#)

MS. MILLHORN directed attention to page 24 of the handout, which shows the normal cost rate and actuarial computed rate from FY 83 through FY 06 for both PERS and TRS. She said changes in the normal cost rate are caused by changes in the assumptions and new tiers being introduced.

[8:39:17 AM](#)

MS. MILLHORN turned to page 2, slide 3, which shows the current financial summary for TRS, including the normal cost rate, the past service rate, the total contribution rate, and the board adopted rate. She offered further details.

[8:40:45 AM](#)

REPRESENTATIVE GRUENBERG observed that the third line of slide 2, relating to PERS, shows the average contribution rate, while the third line of slide 3, relating to TRS, shows the total contribution rate.

[8:41:01 AM](#)

MS. MILLHORN explained as follows: "The difference being is that for the Teachers' Retirement system, it is one single employer rate, and they share the liabilities of the system together."

[8:42:40 AM](#)

MS. MILLHORN, in response to Representative Ramras, explained that as new legislators are appointed to their positions and begin participation with PERS, their contribution is set in statute. That contribution rate that is made on behalf of a legislator's benefits is 6.75 [percent]. That employee contribution rate was established in 1986 and has not changed since then. As increases in benefits costs arrive and the assumptions take place, such as rising medical costs, the employer bears the additional cost to the system to "pay for your future benefits." It is the employer's responsibility to make up the difference in the past service rate to pay off the unfunded liability.

[8:44:19 AM](#)

REPRESENTATIVE RAMRAS asked if it would be likely that a legislator would create a liability to the system after 20 years in office.

[8:44:52 AM](#)

MS. MILLHORN answered that it would be subject to the variables that occur year after year and any changes in actuarial assumptions. She continued as follows:

The design of the system is that your contribution rate, along with the employer contribution rate, is designed that at the time ... you are appointed to retirement ... there is all of the necessary funds to begin your payment stream into retirement. The plan is designed to accomplish that goal, and it does that over that period of time, recognizing that there will be changes in investment income; there will be

actuarially changed assumptions that will contribute to what the employer has to pay in order to collect all of those funds at the time of your retirement. Based on the historical look back, the employee contribution amount, coupled with the employer contribution amount, represents 25 percent of the funding for the system. The remaining 75 percent is collected over the working lifetime of that individual, and that is the investment income that is earned. So, that's the historical look back on the funding and the percentages that contribute to the retirement system.

[8:47:13 AM](#)

MS. MILLHORN explained that a person is vested into the tier level at which they start, through a contractual agreement with the state.

[8:51:33 AM](#)

MS. MILLHORN, in response to a question from Representative Gruenberg regarding the administration's responsibility to the fund, said the division looks at the actuarial report that is provided to the boards each year and is often asked for its recommendation for setting the employer contribution rate. The division's position has been to support Mercer Human Resource Consulting's recommendation to increase the contribution rate to properly fund the system.

[8:52:24 AM](#)

CHAIR SEATON offered his understanding that there is a provision in statute that restricts the increase in the contribution rate to 5 percent a year.

[8:52:46 AM](#)

MS. MILLHORN said the provision is in PERS, in regulation 2 AAC 35.900, and it will not allow, on average, the employer contribution rate to be higher than or lower than 5 percent in any one year. She said that regulation was adopted by the Public Employees' Retirement board at the request of the Municipality of Anchorage in 1981, for budgetary purposes. She emphasized that it is not a regulation with TRS.

[8:53:29 AM](#)

MS. MILLHORN directed attention to pages 3 and 4, which show the funding ratios for PERS and TRS. She listed the studies and reports that can be found on [the division's web site]. Ms. Millhorn turned the presentation over to Mr. Reynolds.

[8:54:37 AM](#)

MR. REYNOLDS explained that the discussion would now move into the subject of the new tier proposals. He directed attention to page 5, slide 5, which shows the financial context, including: rising contribution levels; volatile investment returns and investment uncertainty; and rising medical costs.

[8:56:33 AM](#)

MR. REYNOLDS highlighted information on slide 6, page 5, which shows key information, including: an employer survey; member focus groups with plan members; benchmarking to compare system benefits to benefits provided by other states; benefit levels; demographic projections; implications of Medicare changes; trends, issues, and alternatives; and cost [analyses] and projections. Mr. Reynolds said one of the primary findings of the benchmarking activity was the discovery that PERS and TRS provide relatively rich medical benefits compared to other programs. Mr. Reynolds asked Ms. Millhorn to further discuss the employee survey.

[8:58:13 AM](#)

MS. MILLHORN said the survey was important and comprehensive. She noted that surveys were sent out to approximately 155 employers and 89 responded back, while 10 indicated they would not participate in the PERS survey. For TRS, surveys were sent to 57 employers and 36 responded. She noted that the survey was also sent to all collective bargaining units and unions and, out of 11, only 1 sent it back, while one refused.

[9:00:38 AM](#)

REPRESENTATIVE GRUENBERG said he would like to know why people refused or didn't respond.

[9:01:07 AM](#)

MS. MILLHORN said she would get an answer back to him. She turned the presentation back over to Mr. Reynolds.

[9:01:28 AM](#)

MR. REYNOLDS noted that, [beginning on page 34], the response to the survey can be seen.

[9:02:31 AM](#)

MR. REYNOLDS directed attention to page 6, slides 7 and 8, which list important conclusions regarding [the surveys for] PERS and TRS, respectively. He outlined the concerns in the PERS survey, including that employers want the retirement program to continue to provide medical coverage. Many employers were open to the possibility of providing differing levels of medical coverage, depending on length of service, or having members share in the cost of coverage. PERS employers showed they were also open to lowering the post-retirement cost-of-living adjustment and not providing medical coverage to vested, terminated members. Most systems studied only provide medical coverage to members who actually retire from the system. He explained that vested, terminated members are those who leave prior to reaching retirement age, but with sufficient service to be entitled to a pension benefit from the system. He noted that some of the responses did seem to favor continuing a defined benefit approach in that there was a desire to reward long-service membership in the system. However, responses did also lean toward shifting some of the investment risk to members.

[9:05:24 AM](#)

MR. REYNOLDS, in response to a question from Chair Seaton, said contributions are supposed to match future retirement benefits for the system as a whole when all the membership is averaged together. He offered an example. He said the contribution levels would differ by individual, within the state's membership, and the contribution levels would be higher for older, longer-service members than for newer ones. However, when the rates are developed, they are averaged so that the employer is contributing the appropriate amount for the workforce.

MR. REYNOLDS noted that there are two primary types of retirement programs: defined benefit programs, such as PERS and TRS, and defined contribution programs, which are account-based, such as a 401(k). The programs are different in the way that the dollars get distributed between people. One of the differences is that defined benefit plans tend to direct more of

the money towards older, longer-service members than defined contribution plans do.

[9:07:30 AM](#)

MR. REYNOLDS, in response to a follow-up question from Chair Seaton, explained that each type of retirement program builds up benefits over a person's lifetime. The rate at which benefits build up will be different, depending on which type of retirement program a person has. In response to a question from Chair Seaton, he said it's not that one plan is worse than another. He clarified as follows:

It's that, in the defined contribution plan, at the end of the day, when you walk out the door with your account, the majority of that account will be from contributions that you made at the beginning of your career, because that money will have grown with investment returns. The \$1,000 dollars you put in last year is just \$1,000, but the \$1,000 you put in when you were 20 has doubled several times, so that the value of the account comes from the contributions that were paid early. In the defined benefit plan, it's more difficult to understand, but it's basically the other way around: The value of your benefits grows fastest in the later years.

CHAIR SEATON asked if [the reason the greatest growth in the defined benefit plan is in the later years] is because the person takes the highest three years, which would be the last ones.

MR. REYNOLDS said that certainly is one of the reasons.

[9:10:11 AM](#)

MR. REYNOLDS turned to page 7, slides 9 and 10, which show an overview of system objectives and constraints. Slide 9 shows the objectives as follows: the system should provide medical benefits to retirees, but members should bear a greater share of the cost and should have to retire from the system in order to be eligible for medical coverage; benefits should, to some extent, favor longer-service members; employer contributions should be more predictable and stable; investment risks should be shared by employers and members; and healthcare inflation risk should be shared by employers and members. Slide 10 shows the constraints as follows: non-medical benefits must be

sufficient to satisfy minimum requirements for employers who do not participate in Social Security; benefit changes must take the form of new tiers; and annual cost of benefits should be less than the current systems' normal cost rates.

[9:12:17 AM](#)

MR. REYNOLDS, in response to a question from Representative Gruenberg, said the system of objectives and restraints was drafted by the tier committee as a result of the information it gathered, which is described on slide 6. He offered further details.

[9:13:12 AM](#)

MR. REYNOLDS directed attention to page 8, slides 11 and 12, which show trends and alternatives related to defined benefit observations. The observations on slide 11 show: plans have experienced higher cost levels and greater cost volatility; funded status has declined in the last 3 years; and there are some advantages to the employer of defined benefit plans, such as retention incentives and lower turnover cost, workforce management, and costs allocated to longer-service employees retirement benefit alternatives. The observations in Slide 12 show: advantages to employees of defined benefit plans, including the pooling of longevity risk, the employer - in most cases - bearing the investment risk, and predictable, stable retirement income; and challenges for the employer of defined benefit plans, including investment risk and cost volatility.

[9:15:26 AM](#)

MR. REYNOLDS turned to slides 13 and 14, on page 9. Slide 13 shows: advantages to the employer of defined contribution plans, including predictable cost, stable cost, the employee assuming investment risk, no long-term administrative commitment, and contribution equity among employees; and advantages to the employee of defined contribution plans, including portability, the ability to direct investments, and contribution equity among employees. Slide 14 shows challenges for defined contribution plans, including: increased difficulty to manage the workforce; employee directed money often earning less; the amount needed at retirement often being underestimated; the necessity of employees to contribute in excess of 10 percent, while most do not; and retirees generally not being equipped to transform the lump sum into monthly payments that last for a lifetime.

[9:17:30 AM](#)

MR. REYNOLDS responded to a question from Representative Ramras as follows:

What we are addressing here is the nonmedical part of the program - the pension part - and the defined contribution approach would eliminate any underfunding that could occur related to the pension part of the program. The medical part of the program still could develop future liabilities. Now, there is a fair amount of description here about proposed changes to the medical program that would help alleviate that situation, but nothing that was contemplated would entirely eliminate that ... risk from the medical program.

[9:20:36 AM](#)

MS. MILLHORN, in response to a query from Representative Gruenberg, confirmed that defined contribution plans are often cheaper for the employer than defined benefit plans.

[9:21:01 AM](#)

CHAIR SEATON asked, "Is the cost necessarily less at a particular time, or is the volatility and liability for change less?"

[9:21:46 AM](#)

MS. MILLHORN responded that the defined contribution plan is designed to shift the risk and eliminate the volatility for those future benefits. She offered further details.

[9:23:58 AM](#)

MR. REYNOLDS elaborated that there is a difference between the two programs in terms of cost volatility. He concluded, "So, a defined contribution plan can be designed to be relatively the same cost, cheaper, or more costly, but there's nothing inherent between the programs that's cheaper. What is inherent is the volatility issue."

[9:24:41 AM](#)

MR. REYNOLDS directed attention to slide 16, on page 10, which shows that two alternatives were shown to the Public Employees' Retirement and Teachers' Retirement boards, with the tier committee recommending Alternative 1. Alternative 1 would: retain a defined benefit component, although a reduced one; introduce a defined contribution component; retain a medical component, but with revisions; and introduce a health reimbursement account (HRA), which is intended to provide dollars that can be applied solely towards medical benefits. Alternative 2 would: eliminate the defined benefit component and redirect those dollars towards the defined contribution portion; retain a medical program with the same revision relative to that in Alternative 1; and introduce the HRA. Member contributions under both alternatives were proposed to be higher than under the current tiers. Contribution rates for the defined contribution component were higher for Alternative 2 than for Alternative 1, due to the elimination of the defined benefit component. The post retirement medical program was proposed to be the same for each of the two alternatives.

[9:28:01 AM](#)

MR. REYNOLDS turned to slide 17, on page 11, which highlights the defined benefit alternative, showing that the percentage multiplier is lower relative to the current system. The current system has multipliers of 2 to 2.5 percent, while [Alternative 1] would use 1 percent. Pay would be averaged over a member's career, rather than using a "high three" concept; however, the pay would be indexed from the year received to the year preceding retirement, similar to the way the social security system indexes pay to age 62 before "averaging to develop average pay." Slide 18, he noted, includes some of the key features of the defined contribution components, showing: individual accounts are maintained for each member; contributions are a percentage of base pay; various member-directed investment options that are 100 percent vested; and that the terminating or retiring member takes the account, which is eligible for rollover.

[9:30:07 AM](#)

MR. REYNOLDS, in response to a question from Representative Gruenberg regarding the defined contribution alternative in slide 18, confirmed that the employer also makes a contribution.

[9:32:31 AM](#)

MR. REYNOLDS, in response to a series of questions from Chair Seaton, summarized that in developing the cost of the defined benefit portion, the assumption was continued that the investments behind the program would continue to earn 8.25 percent, on average. He said the actual costs would be shown later.

[9:33:02 AM](#)

MR. REYNOLDS brought attention to slides 19 and 20, on page 12, which compare the level of benefits that would be provided by each of the alternatives to a hypothetical member, relative to the current program's most recent tier. Slide 19 shows the comparison for TRS, while slide 20 shows the comparison for PERS. He noted that the current tiers tend to be higher at retirement age, but in each case "there are many ages prior to retirement where the proposed alternatives could actually deliver a higher benefit."

[9:34:39 AM](#)

REPRESENTATIVE GRUENBERG asked why it's in the state's best interest to have a system that encourages people to retire earlier rather than keeping them when they are more experienced and productive.

[9:35:40 AM](#)

MS. MILLHORN said the plans are designed to have recruit and retention incentives attached. Historically, the average credited service for a teacher, under the existing tier, is 10.5 years. The average credited service in PERS is 8.5 years. She said she thinks people will decide individually what their particular circumstances are. In response to a question from Representative Gruenberg, she said the studies that are being used are both from the Division of Personnel and the Department of Labor.

[9:38:34 AM](#)

REPRESENTATIVE RAMRAS mentioned hearing about a teacher mentoring system and an attrition rate of 50 percent, with pay being only a 4th or 5th deciding factor.

[9:39:26 AM](#)

MS. MILLHORN said she is not privy to that information, but suggested that many factors are involved in the longevity of teachers in the system, and not all of those factors relate directly to TRS. She offered some examples.

[9:41:23 AM](#)

MR. REYNOLDS directed attention to slides 19 and 20, on page 12, which show the accrual of nonmedical benefits for both TRS and PERS. He noted that a great deal of cost savings was not built in to Alternative 1 and 2. He said that some members of the systems may benefit more from the current tier, while others may benefit more from one of the alternative tiers. He stated a key point is that the current systems do provide medical coverage to terminate vested members. He offered further details.

[9:43:22 AM](#)

MR. REYNOLDS said the next few pages deal with the proposals relative to the medical aspect of the program. Slide 21 shows that members would be required to retire directly from the system to be eligible to receive medical benefits. The systems would provide a health plan; levels of subsidy or cost to the member would vary. People who retire prior to being eligible for full normal retirement would get access to the medical program, but essentially would have to pay their own way.

MR. REYNOLDS said that may provide incentive for those close to retirement eligibility to stick around. He noted that the retirement period has been divided into three phases. The three phases would be: early-to-normal retirement, where the member pays all; "normal retirement to Medicare eligibility portion," where members would receive money from the system, but would be responsible for making up the difference; and upon Medicare eligibility, where members would enter a program more like the current one, but still would have some cost sharing elements implemented relative to the current program.

[9:46:47 AM](#)

CHAIR SEATON asked what effect there might be if, on a federal level, the age requirement of 65 was changed to 66 or 67.

[9:47:17 AM](#)

MR. REYNOLDS replied that no sensitivity analysis has been done because no prediction can be made regarding what changes might be contemplated by the administration "relative to that."

[9:48:36 AM](#)

MR. REYNOLDS, in response to a remark by Chair Seaton, stated that the idea was to make the system less vulnerable.

[9:48:53 AM](#)

MR. REYNOLDS, in the interest of time, encouraged the committee members to read slides 22-29 on their own.

[9:49:18 AM](#)

MR. REYNOLDS directed attention to slides 30-39, which he said address the HRAs. He said the key point is to understand that they are accounts with contributions put in each year, and they grow with earnings. Members would be able to use those accounts to provide for their expenses in retirement. In response to a question from Chair Seaton, he clarified that those dollars could be used for payment of insurance premiums prior to Medicaid eligibility, as well as for co-pays and deductibles.

[9:51:40 AM](#)

MR. REYNOLDS, in response to a question from Chair Seaton, offered details related to slide 39. In response to a follow-up question from Chair Seaton, he explained that medical expenses occur over time and the HRAs will be drained over time; therefore, it's not a simple matter of subtracting [HRA amounts from gross retiree cost amounts] to get the net retiree cost.

[9:54:21 AM](#)

REPRESENTATIVE GATTO noted that there is a reference to "Police/Fire" retirement on page 30. He asked how familiar Mr. Reynolds is regarding the procedures that are used to fund that medical retirement.

[9:55:05 AM](#)

MR. REYNOLDS responded that he is familiar with the provisions of the program itself. He said he would defer specific questions about administration to the division.

[9:55:32 AM](#)

REPRESENTATIVE GARDNER directed attention back to slide 39 and noted that the net retiree cost for late hires shows as significantly less than that of the early hires. She suggested that is counterintuitive.

[9:55:59 AM](#)

MR. REYNOLDS said the reason for the difference is that the early hire becomes eligible for retirement sooner than the late hire; therefore, the retirement period presumably is longer for the early hire and there is a much larger medical expenditure.

[9:57:01 AM](#)

MR. REYNOLDS, in response to a question from Chair Seaton, confirmed that that has to do with the Medicaid eligibility dollars that would have to be expended. He offered further details.

[9:57:30 AM](#)

MR. REYNOLDS, in response to an observation from Representative Ramras, confirmed that slides 37 and 38 define the parameters that go into slide 39.

[9:57:51 AM](#)

MR. REYNOLDS directed attention to slides 40 and 41, on pages 22 and 23, which show normal cost rates for Alternatives 1 and 2, respectively. Slide 40 shows two columns each for TRS and PERS, including the following components: medical normal cost rate, defined benefit normal cost rate, defined contribution rate, and HRA contribution rate. The normal cost rate for the current program in all tiers are shown in parentheses for comparative purposes. He offered further details.

[10:03:29 AM](#)

REPRESENTATIVE LYNN requested information relating to his previously stated question regarding military personnel and the issue of "buying in."

[10:04:08 AM](#)

CHAIR SEATON asked committee members to submit any further questions they would like answered to his committee aide.

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at [10:04:38 AM](#).