

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

March 22, 2005

8:04 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 114

"An Act relating to the retaining of certain privileges of a parent in a relinquishment and termination of a parent and child relationship proceeding; relating to eligibility for permanent fund dividends for certain children in the custody of the state; relating to child in need of aid proceedings and juvenile delinquency proceedings; and providing for an effective date."

- MOVED CSHB 114(STA) OUT OF COMMITTEE

HOUSE BILL NO. 170

"An Act relating to the qualifications of public members of the Public Employees' Retirement Board and the Alaska Teachers' Retirement Board."

- HEARD AND HELD

HOUSE BILL NO. 177

"An Act relating to employee and employer contributions to the teachers' retirement system and the public employees' retirement system; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 191

"An Act relating to defined contribution systems for members of the teachers' retirement system and the public employees' retirement system; and providing for an effective date."

- HEARD AND HELD

PERS/TRS LEGISLATION WORKGROUP

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 114

SHORT TITLE: TERM. PARENTAL RTS/CINA/DELINQUENCY CASES

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/26/05	(H)	READ THE FIRST TIME - REFERRALS
01/26/05	(H)	STA, HES, JUD
03/01/05	(H)	STA AT 8:00 AM CAPITOL 106
03/01/05	(H)	Heard & Held
03/01/05	(H)	MINUTE(STA)
03/05/05	(H)	STA AT 8:30 AM CAPITOL 106
03/05/05	(H)	<Subcommittee Meeting>
03/05/05	(H)	STA AT 9:30 AM CAPITOL 106
03/05/05	(H)	Heard & Held
03/05/05	(H)	MINUTE(STA)
03/15/05	(H)	STA AT 8:00 AM CAPITOL 106
03/15/05	(H)	Scheduled But Not Heard
03/19/05	(H)	STA AT 9:00 AM CAPITOL 106
03/19/05	(H)	<Subcommittee Meeting>
03/19/05	(H)	STA AT 9:30 AM CAPITOL 106
03/19/05	(H)	Scheduled But Not Heard
03/22/05	(H)	STA AT 7:45 AM CAPITOL 106
03/22/05	(H)	STA AT 8:00 AM CAPITOL 106

BILL: HB 170

SHORT TITLE: PUB EMPLOYEES/TEACHERS RETIREMENT BOARDS

SPONSOR(S): REPRESENTATIVE(S) KELLY

02/23/05	(H)	READ THE FIRST TIME - REFERRALS
02/23/05	(H)	STA, FIN
03/22/05	(H)	STA AT 8:00 AM CAPITOL 106

BILL: HB 177

SHORT TITLE: STATE EMPLOYEE RETIREMENT CONTRIBUTIONS

SPONSOR(S): REPRESENTATIVE(S) KELLY

02/25/05 (H) READ THE FIRST TIME - REFERRALS
02/25/05 (H) STA, FIN
03/22/05 (H) STA AT 8:00 AM CAPITOL 106

BILL: HB 191

SHORT TITLE: PUBLIC EMPLOYEE/TEACHER RETIREMENT

SPONSOR(S): REPRESENTATIVE(S) KELLY

03/02/05 (H) READ THE FIRST TIME - REFERRALS
03/02/05 (H) STA, FIN
03/22/05 (H) STA AT 8:00 AM CAPITOL 106

WITNESS REGISTER

REPRESENTATIVE MIKE KELLY

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented an overview of HB 170, HB 177, and HB 191, as sponsor; introduced HB 170 and answered questions, as sponsor; introduced HB 177 and answered questions, as sponsor.

HEATH HILYARD, Staff

to Representative Mike Kelly

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Answered questions regarding HB 170 on behalf of Representative Kelly, sponsor.

LESLIE TEDERS, President

APEA/AFT Local 6070, Alaska Higher Education Crafts & Trades

Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of AFT Local 6070, during the hearing on HB 170; testified on behalf of AFT Local 6070, during the hearing on HB 177.

CHRIS BLUST

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of herself and the Juneau Education Support Staff during the hearing on HB 177.

JULIA BLACK

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of herself during the hearing on HB 177.

ACTION NARRATIVE

CHAIR PAUL SEATON called the House State Affairs Standing Committee meeting to order at [8:04:22 AM](#). Present at the call to order were Representatives Gatto, Elkins, Lynn, Ramras, Gardner, Gruenberg, and Seaton.

HB 114-TERM. PARENTAL RTS/CINA/DELINQUENCY CASES

[8:05:07 AM](#)

CHAIR SEATON announced that the first order of business was HOUSE BILL NO. 114, "An Act relating to the retaining of certain privileges of a parent in a relinquishment and termination of a parent and child relationship proceeding; relating to eligibility for permanent fund dividends for certain children in the custody of the state; relating to child in need of aid proceedings and juvenile delinquency proceedings; and providing for an effective date."

[8:05:17 AM](#)

VICE CHAIR GATTO announced that the committee substitute (CS) for HB 144, Version 24-GH1108\I, Mischel, 3/21/05, was reported out of the House State Affairs subcommittee.

[8:05:55 AM](#)

REPRESENTATIVE GRUENBERG moved to adopt the committee substitute (CS) for HB 114, Version 24-GH1108\I, Mischel, 3/21/05, as a work draft. There being no objection, Version I was before the committee.

REPRESENTATIVE GRUENBERG suggested that the committee be allowed to move Version I out of committee with the ability to later [switch the order of] subsections (k) and (l).

CHAIR SEATON noted that the bill would be combined with HB 53 when it is heard by the House Health, Education and Social Services Standing Committee, at which point the consideration could be made to switch the order of subsections (k) and (l).

[8:06:30 AM](#)

REPRESENTATIVE GRUENBERG moved to report CSHB 114, Version 24-GH1108\I, Mischel, 3/21/05, out of committee with individual recommendations and the accompanying fiscal notes. There being

no objections, CSHB 114 (STA) was reported out of the House State Affairs Standing Committee.

HB 170-PUB EMPLOYEES/TEACHERS RETIREMENT BOARDS
HB 177-STATE EMPLOYEE RETIREMENT CONTRIBUTIONS
HB 191-PUBLIC EMPLOYEE/TEACHER RETIREMENT

[8:07:57 AM](#)

CHAIR SEATON announced that the committee would hear an overview of HB 170, HB 177, and HB 191, the full bill titles for which are listed in the committee calendar.

[8:09:07 AM](#)

REPRESENTATIVE MIKE KELLY, Alaska State Legislature, presented an overview of HB 170, HB 177, and HB 191.

As you know, Alaska has a \$5 billion-plus unfunded liability in its public service pensions and teacher pensions. The future payout of that liability is estimated to be over [\$15 billion]. The problem is nationwide to one degree or another. ... However, anyone who tells you we don't have a problem, or that it will just go away, or that we should raise investment target expectations above the current 8.25 percent, or that Alaskans will simply allow us to write a check out of the Permanent Fund earnings reserve may not be right.

[8:10:51 AM](#)

REPRESENTATIVE KELLY noted that prior to 2000, the funds were typically nearly 100-percent funded and had remained so for decades. He remarked that, sometimes, negative factors can combine and create 100-year events. He explained:

Our defined [benefit] pension funds experienced the perfect storm when: the investment markets [plummeted] ...; health care costs - particularly for the retired age group - skyrocketed; [and] pension plan actuarials were updated, reflecting the fact that the baby boomers are entering our retirement rolls and ... will live longer than expected. And as a result of cutbacks in state government over the past decade, there are fewer new and younger employees coming in the front door to replace those retiring.

REPRESENTATIVE KELLY listed those who often get the blame and reasons why they should not, as follows: The public employees, who did nothing wrong and whose pension program was [provided by the legislature]; the pension boards and money managers, who may have made some bad calls, but who have worked under close scrutiny, professional reporting requirements, and audits; the legislature, who is blamed for being too generous with public employee voters, but whose benefits passed out "didn't cause a tenth of the problem"; and the employers, who are blamed for not paying enough into the fund even though they historically paid in what the PERS/TRS boards required for 100-percent funding. Representative Kelly said [the employers] increased contributions fairly dramatically in years when it was required and were permitted to reduce payments when full funding was reported. Representative Kelly stated, "So, maybe if you worked long and hard you could scare up 20 percent to blame on someone or another that might be in some way justifiable or legitimate; but we'd still be stuck with a huge and growing problem."

[8:15:19 AM](#)

REPRESENTATIVE KELLY emphasized he does not want to see the legislature wait until next year - an election year - to solve the problem. He said he senses that there is little will among some legislators to act now, but he pointed out that next year there will be nearly no desire to take the steps required to fix the problem "if there's anything unpalatable or difficult about the solution."

REPRESENTATIVE KELLY noted that there are three related bills to be heard by the committee, and he said the Senate is working on its own solution. He stated, "I believe the package before you would provide a workable solution." He told the committee that yesterday he heard a legislator opine to a union leader that it might be best to write a check from the permanent fund earnings to extinguish the unfunded liability. He said he doesn't believe that [Alaskans who are not in PERS or TRS] would support that action. He said others suggest that the employers pay, even if it equals as much as 25 to 40 percent or more of the wages over the next 25 years. Representative Kelly asked how employers could possibly sustain that impact on their labor costs. Local governments would have to resort to large increases in property or sales taxes, and he stated his belief that voters [not in PERS or TRS] would [rebel].

REPRESENTATIVE KELLY observed that some say the liability should be reduced to less than 100 percent, but he questions the wisdom of this approach. The Alaska pension system has maintained a 100-percent funding goal for retirement and retiree medical benefits. Recent federal rulings have confirmed that such a conservative approach is favored. He stated, "Our problem is simple ... - we can no longer afford a defined benefit plan where the government absorbs all risk associated with the retirement and the retirement health benefits for our employees and teachers."

[8:17:44 AM](#)

REPRESENTATIVE KELLY opined that attracting and retaining high-quality public employees and teachers must be a goal underlying any pension fix. He added, "If we fail at that, we risk our future completely." He said he agrees with those who point out that public pay in Alaska has slipped and that generous benefits have helped "maintain our employees."

REPRESENTATIVE KELLY said he has 11 grandchildren - 6 in public schools, and 4 in private schools. He noted that he is related to many teachers and public employees in the Alaska system. He stated his belief that the bills before the committee today could help to unify a larger number of Alaskans behind a solution than ignoring the problem and hoping it goes away, writing a check out of permanent fund earnings, or dramatically raising local taxes.

REPRESENTATIVE KELLY noted that Chair Seaton told him he intends to introduce a committee bill that will incorporate elements of [HB 170, HB 177, and HB 191] with other ideas from the House State Affairs Standing Committee. He said he supports that approach, but encourages Chair Seaton to hurry. Representative Kelly noted that there are about 40 days left in the legislative session. He predicted that the desired solution will not be reached if the legislature allows the issue to go unresolved until election year [2006].

[8:20:39 AM](#)

REPRESENTATIVE KELLY asked the committee to imagine a cut in federal funding in the future. He spoke of state funds and taking care of future problems now. He said the bills before the committee would leave the current benefits in place for the existing and retired employees, but would make a bold attempt to protect those benefits "on out into the future." He reiterated

that he cares about and is related to some of the folks who are "counting on those dollars to be there."

8:22:15 AM

REPRESENTATIVE KELLY explained what each of the bills would do. He said [HB 170] would be a simple fix to PERS/TRS boards. He said that while he respects the fact that the Senate has studied all three boards with a view to conducting an overhaul, he looked at the positions on the boards and decided that perhaps a less dramatic approach may be best. He indicated that his intent is to combined employee- and management-type thinking.

REPRESENTATIVE KELLY said HB 170 specifies that the majority on the boards would [not be members of either system] and at least two of the public members on the boards would have certain professional skills. He said, "So, the board fix is a relatively simple non-invasive surgery attempt to bring in some perspective from ... the bill-paying side of the table."

8:24:40 AM

REPRESENTATIVE KELLY indicated that [HB 177] would bring active employees to the payment table to show a recognition that employers "just can't shoulder this entire burden." He predicted that that will be received favorably by Alaskans [not in either system]. He estimated that the active Alaskan work force is approximately 45,000, and by sharing the burden with the employer and the taxpayer, they send a signal that they are willing to work on it as well.

8:27:08 AM

REPRESENTATIVE KELLY indicated that [Legislative Legal and Research Services] informed him that accrued benefits [cannot be touched], but one solution to the retirement system problem could be to ask employees to come to the table and help with the payment. He stated he believes that the competitiveness of public employees' and teachers' pay has slipped in Alaska. He said, "It may well be [that] the generosity of our benefits are holding this together competitively; so I think [it's] a very honest aspect of this that we have to be mindful of." He said the "second bill" would require active employees to help out with the pension programs.

8:29:34 AM

REPRESENTATIVE KELLY commented that the Senate's version of the bill [SB 141] would make a change for existing employees regarding the normal cost rate - the rate in any given year - and it would not help to fund the unfunded liability.

8:30:05 AM

CHAIR SEATON clarified that when Representative Kelly referred to the "first bill" he meant HB 170, by "second bill" he meant HB 177, and by "third bill" he meant HB 191. He said the committee is not yet hearing those bills; it is just listening to a general review right now.

8:30:59 AM

REPRESENTATIVE KELLY pointed out that HB 191 would put new employees in a defined contribution plan. He noted that a defined contribution plan is similar to a defined benefit plan in that the employer and the employee both put money into the plan. In the defined benefit plan, the money buys a future benefit, "the cost of which - if it changes - is entirely on the employer, under the current situation." He indicated that the employees have "a percentage share" and the employers' shares are predicted - "in order to take out this unfunded liability" - to grow at a certain percent "up to that amount of pay." In a defined contribution plan, a dollar amount goes into the pot; it's not a benefit with an undefined amount. He explained, "If somehow the value of that purchase changes in any manner by changes in the investment market or any other impact, then that is on the employee" He mentioned similarities between the Senate's bill and his own plan in regard to the medical aspect, and he said he would send that information to the committee.

8:33:00 AM

REPRESENTATIVE KELLY said probably close to a dozen states have moved from a defined benefit plan to a defined contribution plan, or a hybrid of the two. He offered his understanding that there has been an increase up to 42 percent of employers having moved to defined contribution plans. He also stated his belief that the state will be able to attract and maintain qualified people with a defined contribution plan. He added, "It is simply about the numbers of the contributions." He stated his belief that the employees should be allowed to contribute money to their retirement above and beyond the amount put in through the employer/employee match.

[8:34:22 AM](#)

CHAIR SEATON stated for the benefit of those listening to the meeting that the [Alaska] Supreme Court has interpreted the Alaska State Constitution to say that the State of Alaska has a contract with retirees, and "those benefits must be paid." No matter the liability, unless the state declares bankruptcy, the state will be "making those payments as they were scheduled" Nothing in the proposed ideas for PERS/TRS bills would change that, he clarified.

CHAIR SEATON announced that the committee would address each bill, starting with HB 170. He outlined that the three elements to discuss would be regarding the [PERS/TRS] board, current employees, and new employees.

[8:35:48 AM](#)

REPRESENTATIVE LYNN asked how an upswing in Alaska's economy would affect the PERS/TRS situation.

[8:36:16 AM](#)

REPRESENTATIVE KELLY responded that it might change the perceived ability of the state to fund an unfunded liability; it might not be as difficult to make a payment. He clarified, "It wouldn't change the plans on the face of it, but it would give us more money to address unfunded liability."

[8:37:19 AM](#)

CHAIR SEATON said:

There has been one comment that has been made about municipal assistance and that our contribution on PERS/TRS has been municipal assistance over time, and I would draw to the members' attention that we have made contributions to PERS and TRS for school districts, which are not municipalities. Although sometimes they are related to the size of a borough, or some other entity, some of them aren't at all. ... I don't want to get the concept of municipal assistance and PERS and TRS contributions to the ... school districts confused, because they're not municipalities.

[8:38:14 AM](#)

REPRESENTATIVE GARDNER said she is having a difficult time understanding the scope of the whole issue. She surmised that the focus is to solve an existing problem, while simultaneously trying to avoid "a future manifestation of the same problem." She compared the situation to taking out a mortgage. She asked how having a defined contribution plan at the outset might have changed the financial situation for current retirees.

[8:39:25 AM](#)

REPRESENTATIVE KELLY said the current situation would not exist if a defined contribution plan had been used from the beginning.

[8:39:55 AM](#)

CHAIR SEATON offered his belief that about 40 percent of the unfunded liability in TRS is due to medical costs. He indicated that protecting against "the downside in the defined benefit [plan], as far as retirement, ... depends on what system's adopted for medical." He asked if that is correct.

[8:40:34 AM](#)

REPRESENTATIVE KELLY responded that the model used is the Mercer [Human Resource Consulting] Alternative 2 system. He said the medical component would be addressed in any defined contribution plan that is adopted. He reiterated that he would get his medical plan idea to the committee, but he said it would attempt to limit the exposure to risk in the cost of health care by involving the employee in sharing that risk.

[8:42:10 AM](#)

CHAIR SEATON stated that he wants to clarify that adoption of a defined contribution plan with a medical component would not eliminate all potential for unfunded liability. He said that subject would be discussed in depth.

[8:42:36 AM](#)

REPRESENTATIVE GARDNER mentioned big companies "going under," such as Enron, which leaves employees in a bad position. Ms. Gardner asked, "Leaving aside the medical cost question, if the employees from the State of Alaska or from our school districts had had a [defined contribution] plan to begin with, does

anybody know what their financial security would look like today?"

[8:43:16 AM](#)

REPRESENTATIVE KELLY replied that it is not known what that plan would have been. However, based on a comparison of the plans, for example, "when the market went down, ... the employee would not have been protected from that drop in return on the asset."

[8:43:44 AM](#)

CHAIR SEATON said, "I don't think any of the plans that I've seen would allow what has been done ..., [for example], with Enron in investing in their own stock. ... All of the options that are on the table would allow a spread like SBS for managed accounts." He reminded the committee that all the benefits of current participants are secured through the constitution, as well as all the future benefits that have to be paid.

[8:44:19 AM](#)

REPRESENTATIVE GARDNER responded that the proposal is to change that, and she said she's just curious to know how things would stand if the state had [used a defined contribution plan] to begin with. She pointed out that if people's retirement plans go under, the state is still responsible and "ends up supporting them in another way."

[8:44:33 AM](#)

REPRESENTATIVE RAMRAS stated his concern is how the state's solution to the PERS/TRS problem would be connected to the 155 municipalities that are "in for a dime/in for a dollar with the state." Specifically, he said he wants to know how Representative Kelly's proposed plans would affect the City of Fairbanks and the Fairbanks North Star Borough.

[8:45:35 AM](#)

REPRESENTATIVE KELLY answered that [his plan would] bring another plan and new money to the table to help fund the unfunded liability. The plan would bring active employees to the table. He predicted that the municipalities would see that as positive.

[8:46:17 AM](#)

REPRESENTATIVE RAMRAS asked if the same provisions would be adopted by the municipalities as by the state.

[8:46:25 AM](#)

REPRESENTATIVE KELLY answered that whatever is done for PERS and TRS employees would impact those municipal employees, because they are either PERS or TRS employees. He indicated that a concern which would be focused on is the ability of schools and municipalities to attract and maintain employees.

[8:47:20 AM](#)

REPRESENTATIVE RAMRAS stated that Fairbanks is arguably in the worst shape of all the municipalities in the state; there are 89 workers supporting 453 retirees. He asked if Representative Kelly's solution, if adopted, would solve the all municipalities' problems at the same rate.

[8:48:27 AM](#)

REPRESENTATIVE KELLY replied that he believes it would be an equitable solution for all players. Notwithstanding that, he said splitting an insurmountable cost to an employer with the employees still results in a challenge. He mentioned a pension obligation bond "to knock this thing down for everyone."

[8:50:16 AM](#)

REPRESENTATIVE KELLY, in response to a question from Representative Gatto, reviewed the differences between the defined contribution and defined benefit definitions. He said, "It's a definition of the dollar, versus the benefit."

HB 170-PUB EMPLOYEES/TEACHERS RETIREMENT BOARDS

[8:51:54 AM](#)

CHAIR SEATON announced that the committee would now focus solely on HOUSE BILL NO. 170, "An Act relating to the qualifications of public members of the Public Employees' Retirement Board and the Alaska Teachers' Retirement Board."

[8:52:11 AM](#)

CHAIR SEATON directed attention to the first sentence of the second paragraph of the sponsor statement [included in the committee packet], which read as follows:

When reviewing the past performance of the retirement systems, focusing attention on the decisions that have increased liabilities, it is clear that board decisions generally and the actions of any one board specifically have not been the primary cause of our sizeable unfunded liability.

CHAIR SEATON said there could have been some bad decisions made; however, the primary cause of the unfunded liability is not the doing of the boards.

[8:52:57 AM](#)

REPRESENTATIVE MIKE KELLY, Alaska State Legislature, as sponsor of HB 170, noted that new language was inserted into HB 170 on page 1, line 10, and page 2, line 21. The first insert would require that three of the five members appointed [to the Teachers' Retirement System (TRS) Board] by the governor must not ever have been or be employed by an employer participating in [TRS].

[8:53:37 AM](#)

REPRESENTATIVE KELLY, in response to a request from Chair Seaton, offered an introduction of HB 170 for clarification purposes. The proposed bill would change the makeup of both the PERS and TRS Boards so that all of the members of the boards are not beneficiaries. The intent of that change is to bring an outside view, perhaps a more management-oriented one, to the boards. At least two of the five would have to have significant private sector experience in administration, financing, accounting, or economic development.

[8:55:44 AM](#)

CHAIR SEATON asked for a review of the current members of the board.

[8:55:58 AM](#)

HEATH HILYARD, Staff to Representative Mike Kelly, on behalf of Representative Kelly, sponsor, noted that currently at least one member must be a beneficiary. He offered his understanding that

presently there is only one member between the two boards who has no connection to either of the systems. In general, there are five full-voting members on each board. Additionally, there are two physicians and two alternate physicians available to review disability claims.

[8:57:36 AM](#)

REPRESENTATIVE GARDNER asked if there has been a problem, historically, in finding physicians willing to serve on the boards.

[8:58:10 AM](#)

MR. HILYARD offered his understanding that there has been no difficulty in that regard. He noted that statute stipulates that the physicians are paid fair-market wage for their services. In response to a question from Chair Seaton, he said the requirement to pay applies only to the physicians, not to all board members.

[8:58:26 AM](#)

REPRESENTATIVE GARDNER asked why the language on page 2, beginning on line 11, was included, which read: "if the administrator, after making a reasonable effort to secure the participation of two physicians to serve on a disability appeal, is unable to do so, the board may hear the appeal with the participation of only one physician or alternate".

MR. HILYARD surmised that that language is there in case there is difficulty securing participating physicians; however, he said to his knowledge and through speaking with the director of the Division of Retirement & Benefits, he is not aware that [securing physicians] has been difficult thus far.

[8:59:38 AM](#)

MR. HILYARD, in response to a question from Chair Seaton, clarified that Section 1 addresses the TRS board, while Section 2 addresses the PERS board.

[9:01:28 AM](#)

CHAIR SEATON stated, "Currently ... there are three public members that are appointed by the governor for PERS and two that are elected by their association; and in ... TRS, all five

members are appointed by the governor, of which none necessarily need to be associated with the system at all."

MR. HILYARD responded that's correct.

[9:02:21 AM](#)

REPRESENTATIVE RAMRAS remarked that HB 170 strikes him as the equivalent of good corporate governance in the private sector.

[9:03:01 AM](#)

REPRESENTATIVE KELLY agreed with Representative Ramras. He said HB 170 "attempts to provide that kind of input to the deliberations that would come from the management side of the table." He said there are some stellar folks serving on the boards and his intention is not to [totally restructure the boards].

[9:03:39 AM](#)

CHAIR SEATON asked Representative Kelly why he wants to have members serve on the boards who are not involved in teaching, for TRS, or public employment, for PERS. He questioned who would be willing to do a job with no remuneration.

[9:04:18 AM](#)

REPRESENTATIVE KELLY suggested some may serve because of having a desire to have a positive impact, to do something good, or to respond to the governor's call. He stated, "A significant portion of the bill, for this, is being paid by ... those Alaskans that have no stake whatsoever in the programs, but step up to the payment plate. So, I ... doubt that we'll have trouble attracting people to these positions." He indicated that he thinks the mix of being able to elect or recommend would be helpful. Having people on the boards who have a different perspective is healthy, he opined.

[9:06:29 AM](#)

CHAIR SEATON responded that most boards have members who are associated with a specific profession; however, he said he can see Representative Kelly's point in looking at the liability that the state might have and [considering that] people might be willing to serve.

[9:06:46 AM](#)

REPRESENTATIVE RAMRAS noted that many of the folks in Fairbanks who weighed in on a teleconferenced meeting this morning were not members of PERS or TRS, but nonetheless were "very much engaged in the PERS/TRS debate." He said he doesn't think there will be a problem finding a pool of appropriate applicants.

[9:07:46 AM](#)

REPRESENTATIVE GRUENBERG asked what the reason is for requiring there be physicians as board members, and if elimination is being considered, why Representative Kelly is not considering elimination of a physician.

[9:08:53 AM](#)

REPRESENTATIVE KELLY explained that the physicians serve a technical purpose on the board relating to the hearing of appeals to determine medical eligibility for disability benefits.

[9:09:23 AM](#)

CHAIR SEATON opened public testimony.

[9:09:36 AM](#)

LESLIE TEDERS, President, APEA/AFT Local 6070, Alaska Higher Education Crafts & Trades, testified on behalf of AFT Local 6070. She expressed concern about mandating that board members have no experience in PERS or TRS. She stated her belief that working in the public sector is different than working in the private sector. Ms. Teders said she thinks there has to be a pretty good understanding [among board members] of what public employees deal with, and members should not only have excellent accounting and investment knowledge, but must also have a strong interest in the retirement system.

[9:11:42 AM](#)

CHAIR SEATON closed public testimony.

[9:11:52 AM](#)

CHAIR SEATON noted that the end of the sponsor statement read: "Please support HB 163." He suggested the sponsor's staff may want to change that to HB 170.

[9:12:13 AM](#)

REPRESENTATIVE LYNN questioned the balance of board members with outside experience, versus those who are members of PERS or TRS. He asked, "Who should be the driving horse on here?" He added that he thinks both should exist on the boards.

[9:13:07 AM](#)

CHAIR SEATON suggested a further question might be whether there should be "any requirement that somebody has experience with the system."

[9:13:37 AM](#)

REPRESENTATIVE LYNN reiterated that he thinks both sides should be represented, but questions who should hold majority.

[9:13:55 AM](#)

CHAIR SEATON asked Representative Kelly if he would have a problem with language requiring that two or three of the members appointed by the governor would be selected from the recommended nominees of the system.

[9:14:19 AM](#)

REPRESENTATIVE KELLY said he would have to think about that.

[9:14:45 AM](#)

REPRESENTATIVE RAMRAS stated that there's nothing that would preclude members on the board from being PERS/TRS members, but he doesn't think two positions on the PERS/TRS boards should be reserved. He explained that he doesn't want to see a situation where there are two "yes votes" on a potentially divisive issue.

[9:16:30 AM](#)

CHAIR SEATON said it sounds like some committee members may be thinking that the PERS/TRS boards have the ability to change benefits. He said that is 100 percent the purview of the legislature. The boards recommend the contribution rate based

upon the actuarial computations, at which time the Department of Administration actually has to adopt the employer contribution rate. The boards also serve as an adjudicatory body that considers people's disputes with the system.

[9:17:53 AM](#)

REPRESENTATIVE LYNN said he was talking about having different perspectives on the boards.

[9:18:21 AM](#)

CHAIR SEATON said the committee would have a chance to hear from someone on the boards, to get a better perspective of what the boards do.

[9:18:33 AM](#)

REPRESENTATIVE GARDNER directed attention to [language beginning on line 8, in subsection (a)], which read: "statewide teacher organizations may submit to the governor a list of recommended nominees to serve on the board". She asked, "But this does not mean that the governor's appointees have to come from that list, is that correct?"

[9:19:02 AM](#)

REPRESENTATIVE KELLY answered in the affirmative.

[9:19:13 AM](#)

REPRESENTATIVE GRUENBERG, in response to Representative Ramras' remark that there shouldn't be a requirement that some members should be PERS/TRS members, noted that the bill would specify that there shall be people who are not retirees - a flipside of the same issue. He said the question is whether people are going to be able to access their retirement benefits, or be denied or allowed early retirement. He said, "This is, in some ways, a little bit like worker's [compensation], where you really do kind of have two sides: people who want to access and the people who may not."

[9:19:55 AM](#)

CHAIR SEATON said he would request a statement from the PERS and TRS boards as to how they function.

[9:20:14 AM](#)

REPRESENTATIVE RAMRAS said he respects Representative Gruenberg's point; however, he said "you don't need to have been an injured worker in order to be able to weigh in on a [worker's compensation] board." He reiterated that he doesn't want there to be a stacked board. He offered further details.

[9:21:33 AM](#)

CHAIR SEATON observed that it seems some committee members think that the PERS/TRS boards have been making bad decisions. He said he would like any member who thinks so to be prepared with details. He said, "We want to make sure we're hearing the problem that exists."

[9:21:56 AM](#)

REPRESENTATIVE RAMRAS responded that that's not his impression.

[9:22:03 AM](#)

REPRESENTATIVE LYNN added that it is not his either.

[9:22:09 AM](#)

CHAIR SEATON announced that HB 170 was heard and held.

HB 177-STATE EMPLOYEE RETIREMENT CONTRIBUTIONS

[9:22:16 AM](#)

CHAIR SEATON announced that the next order of business was HOUSE BILL NO. 177, "An Act relating to employee and employer contributions to the teachers' retirement system and the public employees' retirement system; and providing for an effective date."

[9:22:28 AM](#)

REPRESENTATIVE MIKE KELLY, Alaska State Legislature, introduced HB 177, as sponsor. Currently, employee contributions are fixed in statute and the employer contributions "float" to make up the difference between the employee contributions and the actuarial cost of supporting the program. The proposed legislation would require active employees to move from a fixed percentage to a 50/50, employee/employer split of the actuarially adjusted cost

of the program. It would provide the same limits for the employee annual increase, as currently in effect, which is a maximum of 5 percent in any given year.

[9:24:36 AM](#)

REPRESENTATIVE GARDNER said Representative Kelly had previously alluded that there is some dispute regarding whether "we can do this." She asked if it is Representative Kelly's understanding that the proposed change cannot be made retroactively, and the benefit cannot be changed, but the contribution rates can be changed from this point forward, under existing tiers.

[9:25:10 AM](#)

REPRESENTATIVE KELLY answered yes.

[CHAIR SEATON turned the gavel over to Vice Chair Gatto.]

[9:25:14 AM](#)

REPRESENTATIVE GARDNER asked if there would be a legal challenge if [HB 177] were to pass.

[9:25:28 AM](#)

REPRESENTATIVE KELLY said some believe the intention of the law is that the contribution rate not be changed; however, based on the legal opinion he received, the legislature would be complying with the constitution if it does not change the benefits, but changes the contribution in order to support those benefits.

HB 170-PUB EMPLOYEES/TEACHERS RETIREMENT BOARDS

[9:26:15 AM](#)

VICE CHAIR GATTO reverted back to discussion of HB 170. He made comments regarding the statutory requirements for PERS board membership, and he noted that the requirements differ between the PERS and TRS boards.

[9:27:22 AM](#)

REPRESENTATIVE KELLY said that's correct, and he added, "I haven't heard of problems with that."

HB 177-STATE EMPLOYEE RETIREMENT CONTRIBUTIONS

9:28:32 AM

[CHAIR SEATON took back the gavel.]

CHAIR SEATON returned discussion to HB 177. He directed attention to page 2, lines 6 and 7, which read:

The employee contribution rate is the percentage of the employee compensation needed to fund the system under AS 14.25.053.

CHAIR SEATON asked for confirmation that HB 177 would require the employee to share a 50/50 split with the employer, not "fund the entire system."

9:29:17 AM

REPRESENTATIVE KELLY said that's the intent.

9:29:22 AM

CHAIR SEATON said that's a little unclear in the language. He directed attention to [page 2, beginning on line 11], which read as follows:

(a) The administrator shall determine the annual amount that is required in addition to the amounts in the retirement fund to provide the benefits of this chapter to all members.

CHAIR SEATON asked, "Is this where we are talking about the past service cost, as well as the normal cost rate?"

9:29:49 AM

REPRESENTATIVE KELLY responded, "I believe that to be the case."

9:29:55 AM

REPRESENTATIVE GATTO directed attention to the last sentence on page 2, [beginning on line 31 and continuing through page 3, line 2], which read as follows:

The maximum increase in the contribution rate for employers from one year to the next may not be more

than five percentage points, as actuarially calculated.

REPRESENTATIVE GATTO asked, "5 percent points above the previous number, or no more than 5 percent above the previous number?"

REPRESENTATIVE KELLY answered it's the former.

REPRESENTATIVE GATTO said, "So, it could go from 6 to 11, as I understand it."

[9:30:24 AM](#)

REPRESENTATIVE KELLY answered that's correct.

[9:30:36 AM](#)

REPRESENTATIVE GARDNER asked if the employees' portion could increase by more than the employers'.

[9:30:52 AM](#)

REPRESENTATIVE KELLY answered no. He added, "There could be a circumstance where initially that could be the case." He clarified that if the employer is currently paying more than the employee, the employee will be temporarily be paying more to catch up to the 50/50 match.

[9:32:04 AM](#)

CHAIR SEATON observed that with a maximum increase of 5 percent, unfunded liability could still be building while the goal is met.

[9:32:19 AM](#)

REPRESENTATIVE KELLY confirmed that is so.

[9:32:28 AM](#)

CHAIR SEATON opened public testimony.

[9:32:36 AM](#)

CHRIS BLUST, testifying on behalf of herself and the Juneau Education Support Staff, told the committee that the support

staff includes, for example, nurses, custodians, and electricians.

[9:34:04 AM](#)

MS. BLUST revealed that she has worked as a paraeducator in Juneau for 11 years. She said when she moved to Alaska she was able to make the same amount of money in a classified job in Juneau than she made as a schoolteacher in Northern California. She expressed that of prime importance to her was the ability to have good benefits, because her husband is self-employed. Ms. Blust detailed her levels of satisfaction regarding her [health] insurance, retirement benefits, and salary. She said the expected pay increases were not consistent and the school district has had to revamp its plan to adjust to rising health insurance costs that, along with the cost of prescriptions, continue to increase each year.

[9:37:20 AM](#)

CHAIR SEATON reminded Ms. Blust that the issue before the committee was solely retirement benefits.

[9:37:24 AM](#)

MS. BLUST indicated that she was trying to illustrate her situation and [how it would be affected by] the 5 percent increase. She noted that there is large group of people in the state who earn under \$25,000 a year. She reported that every four years there is a 50 percent turnover in the classified staff; therefore, retention and recruitment is a big issue. She stated, "We are not the ones who are foolishly spending ... what we should be putting away for our retirement. The reason we're not foolishly spending it: we don't have a dime to spare." She stated that all classified employees are "on the same boat together." She said sometimes those employees are overlooked and there are not many that are willing to come forward [to testify] because they are intimidated by the process.

[9:38:42 AM](#)

MS. BLUST said she heard a Senator question why employees haven't been putting money away and why the state should be burdened with their retirement. She said, "We cannot afford 5 percent this year."

[9:39:57 AM](#)

MS. BLUST, in response to a question from Representative Gardner, indicated the reason she had previously spoken about the medical insurance was because the cost for it has increased, which effects how much people can afford towards other aspects of their retirement.

[9:40:32 AM](#)

CHAIR SEATON said he thinks the committee realizes the possible impacts. He continued as follows:

And part of the problem is that when the state is talking about having to put \$39 million for PERS/TRS retirement fund into their -- that means the increases are not [then] available for wage increases or for other classroom things. So, that's what we're trying to solve here. And if we go to where we're paying \$200 million a year for PERS and TRS, which is in the schedule up to \$300 million a year, what's that do for the ability to fund the educational system to where we want it for our kids?

CHAIR SEATON stated his understanding that Ms. Blust's point is that an increase on the individual employees account of 5 percent a year would be difficult.

[9:41:49 AM](#)

LESLIE TEDERS, President, APEA/AFT Local 6070, Alaska Higher Education Crafts & Trades, testified on behalf of AFT Local 6070. She said the average wage of the 250-280 members she represents is \$15. She offered further details regarding specific salaries, and she said the contractual yearly increase does not keep up with other increased costs. She said, "We're looking at a 200 percent increase that the employee contribution has been towards our health care." She stated, "Along that same line, we haven't seen our increases in our wages; ... it does, in a [way], have an effect on what we have available on our paycheck to be able to live." She offered examples of jobs that already have been opened for a long time and predicted that a 5 percent increase a year to meet a 50/50 match with the employer would seriously affect recruitment.

[9:45:06 AM](#)

JULIA BLACK, testifying on behalf of herself, told the committee that she is a single mother of two children and a Para educator, and is passionate about both. She handed out a copy of one of her paychecks for the committee to see what she lives on. She illustrated the importance of her job, and gave examples of how she has positively affected children's lives. She warned that if another solution is not found, the people who are hired in the future will not be passionate about their jobs and will not help those children. If they cannot survive in this type of work, they will find other jobs. Ms. Black stated that the education system is already in trouble. She said:

You folks all had to be educated to be [in] this room.
... It floors me that we keep taking money from our system and from our educators and expect our education to be good.

[9:47:28 AM](#)

MS. BLACK said she understands through her board experience that the committee is facing some tough questions. However, so far, she said, she has not seen an adequate solution for the existing problem. She asked the committee to continue to search for as many solutions as possible until one is found that will not jeopardize the quality of employees working in the system.

[9:48:34 AM](#)

CHAIR SEATON told Ms. Black that that is the intention of the committee.

[HB 177 was heard and held.]

CHAIR SEATON talked about the calendar for related bills and encouraged Representative Kelly to stay tuned to future meetings of the House State Affairs Standing Committee.

WORKGROUP: PERS/TRS

[9:50:24 AM](#)

CHAIR SEATON announced that the committee would now engage in the work group portion of the meeting.

CHAIR SEATON directed attention to a handout entitled, "Understanding PERS/TRS," and dated March 22 [included in the committee packet]. He reminded the committee that an actuary is

used all the time, and that the actuary is really a fortuneteller who uses a statistical model, inputs, and assumptions. He said, "If the ball is cloudy when you're looking into the globe, you're going to miss the target some of the time." Furthermore, if the assumption is changed at a later date, that changes all the outcomes.

CHAIR SEATON stated that he would like everyone to focus on the unfunded liability, which has been said to be \$5 billion, as of 2003. He said he views the situation of the unfunded liability as payments that will be needed to make payments to retirees when their benefits are due. Those benefits are due over a course of time. He added, "And if you look at the 25-year spread that the actuarials have used, that number ... is actually \$15.6 billion. That means those are the payments that have to be made in addition to paying for the benefits that people are going to receive."

CHAIR SEATON said if \$5 billion is put in a bank today at 8.25 percent earnings, "that will eat itself up over the next 25 years paying off those liabilities when they come due." He offered an example.

[9:54:03 AM](#)

CHAIR SEATON noted that if the state goes to a defined contribution plan, the employer will still have to contribute the exact same percentages paid currently for everyone's wages. He clarified:

In other words, the unfunded liability payoff is calculated - those percentages that are like 40 percent on TRS and 20-30 percent on PERS are calculated - on the total wages. So, if today we started with a defined contribution plan totally - no new employees on defined benefit - still you have to collect the money ... over those 20 years on all of the wages, even the people receiving a defined contribution plan. And that's in addition to the normal cost rate or what it takes to pay off whatever plan that is.

CHAIR SEATON directed attention to slide 7 of a Power Point presentation [not shown on the screen due to technical difficulties, but included in the committee packet], which shows the potential in anticipated variables that could create additional unfunded liabilities. He said, "The question is,

'Are we out of the woods on this?'" One of the assumptions, he noted, is mortality rates: From 1984 to 2002, a 1984 mortality table was used. He stated that the legislature should have realized throughout the 90s that "people were going to live longer." Money was not collected "for that longer life," thus that became an unfunded liability. By the time the legislature adopted the 1994 mortality table in 2002, which extended life expectance by 2.5 years, there was a "huge balloon in the unfunded liability." Currently there is a 2002 mortality table, which is adjusted to 2004, which, if adopted by the legislature, would increase the unfunded liability. If the legislature chooses not to adopt it, then it would not be collecting the money now that is needed to pay the benefits, thus it would still create an unfunded liability.

[9:56:48 AM](#)

REPRESENTATIVE GARDNER observed that because [the legislature] failed to keep the mortality tables current, "we were underpaying ourselves."

[9:57:30 AM](#)

CHAIR SEATON answered that's correct, "because we weren't collecting enough to pay for the years of potential retirement that we were going to have to pay under those defined benefits."

[9:57:47 AM](#)

CHAIR SEATON said there are other factors, as well. He directed attention to slide 9 of the Power Point presentation, which shows that the medical inflation rate was kept at 7.5 [percent] for many years, changing to 12 percent in 2002. That [resulted in] a huge unfunded liability, because now the state must look at projecting that 12 percent annual increase for three years, at which point it will slowly decline. Chair Seaton continued as follows:

Does that mean we know those expenses are there? No. I mean, if we had a catastrophe and half the retirees [die], then it wouldn't happen But if we expect medical science to do what it is doing, we need to have the medical inflation rate accurately reflect what we project as the future.

[9:58:42 AM](#)

REPRESENTATIVE LYNN asked how often the mortality rate changes.

[9:58:53 AM](#)

CHAIR SEATON answered that the federal mortality rate is updated every decade and changes for Alaska when the legislature adopts it. He reiterated that the state is currently working with the 1994 mortality table.

[9:59:45 AM](#)

CHAIR SEATON noted that there is an automatic cost of living adjustment, which was set at 10 percent in 1961 to "give a benefit for Alaskans." The courts decided in 2004 that that is unconstitutional, "unless you give it to everybody that has a cost of living equal or greater than Anchorage." That factor also increases the unfunded liability.

CHAIR SEATON stated that there is an Ad Hoc Post Retirement Pension Adjustment (PRPA), which means if the administrator of the system sees that there has been a cost of living increase and the system can support it, then he/she can give an increase in benefits. In response to a question from Representative Gardner, he said the administrator is not answerable to the boards; however, he noted that the boards suggest PRPAs. He said that the board suggested two PRPAs that were turned down by the administrator because the system could not support them.

CHAIR SEATON mentioned a couple of retirement incentive plans and "a number of House and Senate bills that have increased unfunded liabilities." He stated, "We've got those in there now that say, 'Okay, we're going to decrease the time in which you have to qualify for medical benefits.' Well, those schedules have not been paid over time, so what it would mean is you're going to be paying out benefits that you haven't collected for: unfunded liability."

[10:01:12 AM](#)

CHAIR SEATON asked the committee to study a summary of PERS/TRS in preparation for a future work session.

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at [10:01:44 AM](#).