

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

March 24, 2005

8:10 a.m.

MEMBERS PRESENT

Representative Paul Seaton, Chair
Representative Carl Gatto, Vice Chair
Representative Jay Ramras - via teleconference

MEMBERS ABSENT

Representative Jim Elkins
Representative Bob Lynn
Representative Berta Gardner
Representative Max Gruenberg

OTHER LEGISLATORS PRESENT

Representative Bruce Weyhrauch (via teleconference)

COMMITTEE CALENDAR

PERS/TRS LEGISLATIVE WORKGROUP

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

HEATH HILYARD, Staff
to Representative Mike Kelly
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Offered comments during the PERS/TRS
Legislative Workgroup session.

MELODY DOUGLAS, Financial Officer
Kenai Peninsula Borough School Board
Soldotna, Alaska

POSITION STATEMENT: Testified during the PERS/TRS Legislative
Workgroup session.

KEVIN RITCHIE
Alaska Municipal League (AML)

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of AML during the PERS/TRS Legislative Workgroup session.

TOM HARVEY, Executive Director

NEA Alaska

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of NEA Alaska during the PERS/TRS Legislative Workgroup session.

SAM TRIVETTE, President

Retired Public Employees of Alaska (RPEA)

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of RPEA during the PERS/TRS Legislative Workgroup session.

ACTION NARRATIVE

CHAIR PAUL SEATON called the House State Affairs Standing Committee meeting to order at [8:10:36 AM](#). Present at the call to order were Representatives Gatto and Seaton.

PERS/TRS LEGISLATIVE WORKGROUP

[8:11:16 AM](#)

CHAIR SEATON announced that the committee would engage in a legislative workgroup regarding the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

[8:12:12 AM](#)

CHAIR SEATON said reports of "a \$5 billion problem over 25 years" in the news is not correct. He said today's presentation will show that there is actually a \$15.6 billion problem over 25 years, which could be solved if the legislature chose to take \$5 billion "out of our pocket" now, invested it, and let it grow. He indicated that the reason so much work is being done to modify the system is to "prevent that kind of unfunded liability in the future."

CHAIR SEATON stated that the current retirement system is a good one. He said he has "looked deeply into it" and wants to assure everyone that he does not blame the boards for the work that's been done. He specified that only the legislature can set benefits, and thus is responsible for the changes to the system. Likewise, he emphasized that the current situation is not the

fault of the employees. He stated, "The problem is that we have this potential for ... additional unfunded liabilities." The focus will be on attempting to find solutions for those additional unfunded liabilities.

[8:14:26 AM](#)

CHAIR SEATON directed attention to a Power Point presentation that is also printed as a handout [included in the committee packet], entitled, "Understanding PERS/TRS."

CHAIR SEATON directed attention to an unnumbered work draft [labeled 24-LS0761\F, Craver, 3/23/05]. He explained that it is unusual to release such a document; however, the purpose of doing so is to join forces with employers, employees, and other committees, to hear comments on the work draft and make changes where needed in order to come up with the best plan possible.

[8:16:14 AM](#)

CHAIR SEATON turned to the Power Point presentation. He said there are two plans: a defined benefit plan, in which the benefits paid to the employee are based upon a formula set in law and not determined by the account balance; and a defined contribution plan, in which the member and their employer contribute a fixed amount into the system. He talked about the term "actuarial," which is the statistical calculation of future costs and benefits based on adopted assumptions.

[8:19:03 AM](#)

CHAIR SEATON continued to the second slide on page 2 of the Power Point to review the following definitions: past service cost - the payment needed to account for the amount of benefits that were not collected because the adopted assumptions about the future were not correct; past service cost rate - an actuarial determination of the yearly cost rate charged on total salary needed to pay off the past service cost over a specified number of years; unfunded liability - the sum of the actuarially computed payments that will be required to be made for benefits that were not accounted for in normal cost rate collections; and present dollar value of unfunded liability - the amount needed to be deposited today into a separate account that would grow with projected interest in order to be able to make the payments over time as they became due. He noted that the unfunded liability is equal to the past service cost.

[8:22:38 AM](#)

CHAIR SEATON said the present dollar cost of the unfunded liability is approximately \$5.5 billion. He said another figure that is talked about is \$5 billion. He said the lower figure is from 2002, and since then the increased past service cost to 2004 brings the total to the \$5.5 billion mark. He reminded the committee that, like the work draft, the numbers are not set in concrete.

CHAIR SEATON returned to the Power Point presentation, to the first slide on page 3, which provides definitions for: gross normal cost rate - the percentage of salary needed to pay for future benefits of a retiree and made up of both the employee and employer normal cost rates; member normal cost rate - the percentage of salary an employee contributes to paying for his/her future retirement benefits; member contribution rate - the percentage of salary an employee contributes towards paying the actuarial computed rate; and employer normal cost rate - the percentage of salary an employer contributes towards paying the employee's projected future retirement benefits. Chair Seaton said it is important to be careful when talking about a normal cost rate to specify whether it is only "the employer's section," or the gross or total, for example. He stated that normal cost is the funding for all the anticipated benefits, while past service cost is about catching up "because you didn't collect enough to pay for the benefits that ... we are constitutionally obligated to pay to the employees in the system that we created."

[8:24:51 AM](#)

CHAIR SEATON moved on to the second slide on page 3 of the Power Point presentation, which defines: actuarial computed rate - the percentage of salary, calculated by the actuary based on a set of assumptions that would be needed to pay the unfunded liability and the future benefits of the retiree minus the employee's contribution to those benefits; and health reimbursement account - an employer paid account that reimburses employees for medical expenses up to the deposited dollar amount. Chair Seaton said the actuarial computed rate includes both the normal cost rate and the past service cost. He noted that the health reimbursement account is between the employer and individual employee and is not shared with a group.

[8:25:58 AM](#)

CHAIR SEATON turned to the first slide on page 4, which shows that potential and anticipated variables can create additional unfunded liability. He explained, "Now this is the whole reason why we're going through this exercise, ... because we're worried that there are additional factors that are going to come into play in the next several years that will create an additional unfunded liability, in addition to the \$15.6 billion that we're talking about now." The first of those variables [as shown in the second slide on page 4] is mortality rate assumptions. He reviewed that, since 1984, the legislature has been using the 1984 mortality table. Finally, in 2002, the legislature adopted the 1994 baseline mortality table, which "jumped everybody's retirement lifetime expectancy by 2.5 years." He explained that that meant an insufficient amount of money had been collected from 1984-2002 to fund the additional 2.5 years of lifespan of all those employees. Currently, the legislature is working off of a 1994 table. He said, "They have a 2000 table that is being set forward to 2004." He offered his understanding that it may be about one year before the legislature may adopt that table.

CHAIR SEATON said some people have considered whether the legislature could solve this problem by adopting the 1970 mortality table, which set the average lifespan at six-seven years less than the table in use currently. He explained as follows:

It doesn't mean that if those people do live as we really expect them to from our current tables that we're not going to have to make those payments; it just means that we don't recognize those [payments]. And if we don't recognize those payments, what that means is when they have to do the overall report, the funding of the system - what percentage have we funded our plan at - instead of being at ... 68 percent, it goes to 40 percent, and goes to 30 percent, and pretty soon we're in the dire situation that some other states are in which haven't collected enough money for their health and ... retirement system[s].

[8:28:42 AM](#)

CHAIR SEATON said Alaska has a big problem; however, he said everyone should recognize that Alaska is in great shape compared to a lot of other states. He said he doesn't think it's advisable to make that comparison and decide not to do anything. He said, "I think that that's the whole purpose of the exercise is to make sure that we work for the fiscal responsibility of

the state and the employees, as well." Chair Seaton stated that some people have characterized this issue as an employer/employee battle, but he said it's not. He indicated that the state pays a certain amount of money towards municipal revenue sharing and direct funding of education, for example, and there is only a certain amount of money. He asked, "If we create unfunded liabilities and make \$300 million a year payment into ... TRS ..., how much money is there going to be to fund the education system for elevating teacher salaries [and] for doing those kind of things." He said everything is interconnected; it's a balancing act.

[8:29:49 AM](#)

CHAIR SEATON listed the medical inflation rate as another [potential and anticipated variable that can create additional unfunded liability]. He noted that the medical inflation rate was 7.5 percent for many years, and then in 2002, it raised to 12 percent. He said, "That's scheduled to be at 12 percent for three years and then decrease by .5 percent a year to 10 percent." He said 10 percent is Alaska's historic inflation rate. Having 7.5 percent throughout the 90s instead of 10 percent meant losing 2.5 percent a year. He explained that's one of the reasons that TRS has a 40 percent liability due to medical costs. Making the wrong assumptions, he said, can create "a huge hole."

CHAIR SEATON turned to the second slide on page 5, which shows the automatic cost of living adjustment (COLA). He noted that COLA was established in 1961 to encourage Alaskans to stay in Alaska; it provides a 10 percent cost of living adjustment for those living in Alaska. He noted that a [2004] court decision required Alaska COLAs to be distributed to all system members outside of Alaska if the cost of living in their community equals or exceeds Anchorage, Alaska. He said this is another example of an unfunded liability caused by an assumption, and he emphasized the importance of designing these plans carefully. The employees that are hired under a particular system maintain that system throughout their entire employment and retirement history with the State of Alaska.

[8:32:36 AM](#)

CHAIR SEATON addressed the Ad Hoc Post Retirement Pension Adjustment (PRPA). He explained that when there has been an increase in the cost of living and when the fund permits, the administrator may increase benefits to cover that increase in

cost of living. Unfortunately that means that whenever the fund is doing well it probably will not collect additional dollars to help smooth out leaner times but pay that as unfunded benefits. Chair Seaton said it's difficult to try to make a system healthy that is set up to give money away when it is flush. He said other people have other perspectives on that issue, but it is a challenge.

[8:34:02 AM](#)

CHAIR SEATON spoke about the Retirement Incentive Programs (RIPs) - a program established to encourage employees to retire early so employers would be able to hire lower wage employees. He said it turned out that the benefits under none of the RIPs were ever realized. The trouble with the RIPs, he explained, was that the schools looked for the most qualified teachers to replace the ones that had retired, which meant that the idea of hiring the lower paid entry-level teacher was not a reality.

[8:35:25 AM](#)

CHAIR SEATON turned to the subject of re-hire of retiree's [shown on the second slide on page 6]. The re-hire allows retirees to be hired back without contributing to the retirement system, which creates additional unfunded liability to the system. The employer does not pay the past service cost rate associated with the employee's wages. This, too, adds to the unfunded liability to the system. He said there are bills being heard by the legislature to address the issue.

[8:36:44 AM](#)

CHAIR SEATON discussed another issue currently in the legislature, which could impact the system's solvency: lowering vesting requirements for police/fire. He said the legislation asks that those in police and fire employment be allowed to qualify for full medical [benefits] five years earlier than currently. Making that change when the benefits are not paid for is what creates an unfunded liability.

[8:37:35 AM](#)

CHAIR SEATON directed attention to [the first slide on page 8 of the Power Point presentation], which shows that the system is currently 69.5 percent funded. He reminded the committee that there is another law that says the amount of contributions can only be increased by 5 percent a year. He gave an example of an

actuarial amount much higher than what is being collected. For every year that the gap between what is collected and what needs to be collected is bridged at the limit of 5 percent a year, the amount needed is not being met. He said, "So, that unfunded liability isn't created by [that], but it's pushed off into the future. And whenever you push something off, that means you don't have the 8.5 interest gain on the money by collecting it today. That's why the \$15 billion problem can be solved with \$5 billion today, ... because you're talking about the present dollars earning interest over time to work on it."

[8:38:49 AM](#)

CHAIR SEATON said some have asked if this isn't just related to the stock market. He directed attention to the second slide on page 8, which shows a graph compiled by the actuary, Mercer Human Resource Consulting, for TRS. The top [dashed] line shows that if there were a prolonged recession, it could drastically increase rates. The midline [showing below the dashed line] is where the state is presently. Just below that is [the bottom dotted line]. He said, "So, you can see that by just having good performance in the stock market, we're not going to get there." He noted that it's the same for PERS [shown in the first slide on page 9].

CHAIR SEATON turned to [the second slide on page 9], which he said shows a "projection of amortizing the past service cost over 25 years [for PERS]." He pointed to the dark bars, which show the population increase of 2 percent and reach 25-28 percent [contribution rate], but then decrease. He explained that as population grows there is a greater wage base and, thus, more dollars collected. Normally, he said, the population increase done throughout all projections is at 1 percent. He reminded the committee that "population" refers to number of employees. There is a bar on the graph that follows the 1 percent increase. Chair Seaton pointed to the bar that is higher when there is no increase in the population of employees. He said the same thing shows for TRS [on the graph in the first slide on page 10].

[8:41:24 AM](#)

CHAIR SEATON directed attention to the second slide on page 10, which shows an unfunded liability comparison between the present value and the total value over 25 years. He continued as follows:

... We are also going to put together what the real payments are. Because the payments aren't ... equally spread over 25 years, what we're trying to do is spread the pain over collecting for that money over 25 years. Most of it's going to be paid out in those 25 years; but the rate of payments and the actual payments that will be made are based on ... how many people retire, [and] whether they live in Alaska or don't live in Alaska. That's 10 percent right there. If all those retirees would leave Alaska and not go to some place that had a cost of living over Anchorage, the liability for the system would decrease by 10 percent overnight. So, that's the sensitivity that these portions of the unfunded liability have.

CHAIR SEATON said nobody is trying to get rid of retirees, so this is not a solution, simply a change that is not calculable at present. He said "our" job is to give the actuary the best data possible and the most honest assumptions to try to avoid ending up with unfunded liabilities.

[8:43:42 AM](#)

CHAIR SEATON pointed out that [the first slide on page 11] shows the actual dollar value of increase in past service cost payments, which depicts "what the payments are going to be." [That concluded the "Understanding PERS/TRS" Power Point presentation.]

[8:44:07 AM](#)

CHAIR SEATON directed attention to [a two-page handout included in the committee packet], entitled, "Summary Of State Affairs PERS/TRS Bill." He said he would review this handout first, rather than "going through page by page in the bill." He pointed to the first category: "Changes to Existing Tier." The changes listed are: equal employee and employer contributions; preferred drug list; and definition of Ad Hoc Post Retirement Pension Adjustment (PRPA). Chair Seaton said in the House State Affairs Standing Committee's bill, [the employee would contribute half of the actuarially computed rate], but there would be a ceiling of 13 percent for PERS and 14 percent for TRS. The employer [would contribute half of the actuarially computed rate], but there would be a floor of 10 percent [for PERS] and 11 percent [for TRS]. He explained that 10 percent is a reasonable number. Allowing that number to drop to 8 percent

when the stock market is doing well, for example, would not provide the money needed in leaner times.

[8:47:48 AM](#)

REPRESENTATIVE GATTO offered his recollection that the City of Chicago set its contribution rate at 0 percent in the early 90s when times were good, but now the city is in trouble.

[8:48:42 AM](#)

CHAIR SEATON said this proposed change is based on a Legislative Legal and Research Services analysis that said the legislature can change the contribution rate; the benefits cannot be changed.

HEATH HILYARD, Staff to Representative Mike Kelly, Alaska State Legislature, [speaking off microphone from the back of the committee room], mentioned that Representative Kelly had requested a revised opinion from Legislative Legal and Research Services regarding this issue and a court case, and would supply the answer to the committee when it was made available.

[8:51:38 AM](#)

CHAIR SEATON addressed the proposed preferred drug list. He noted that the current insurance provider to the state is Aetna. He said this provision is estimated to save about \$6.5 million a year. The PERS and TRS Boards and the Division of Retirement & Benefits have been trying to educate employees to use generic drugs. The use of generic instead of brand name drugs has increased from 37 percent to 41 percent. Every 1 percent, he noted, saves \$1 million. He said there are some exceptions. For example, a doctor may write on a prescription that a brand name drug is medically necessary. If an employee has a preference for any reason for a brand name drug, he/she can get it, but will pay the difference in price between the brand name and generic drug.

[8:53:53 AM](#)

CHAIR SEATON, regarding the definition of ad hoc PRPAs, said the committee's bill would ensure that the administrator of the system understands that "if the system can support it," means it's fully funded. He offered further details.

[8:55:33 AM](#)

CHAIR SEATON moved on to the next heading on the handout: "Creating a Defined Contribution (DC) Tier." He said the employee contribution would be 10 percent for PERS and 11 percent for TRS "into their own account." The employer contribution would be equal. The employer contribution would be broken down to 3.5 percent for medical, 1 percent for the health reimbursement account (HRA), and 5.5 percent to the retiree's defined contribution (DC) account for PERS, and 3.75 percent for medical, 1.5 percent for HRA, and 5.75 percent to the retiree's DC account for TRS.

[8:56:24 AM](#)

MR. HILYARD pointed out a drafting error on the committee's [yet unnamed] bill: on page 38, line 4, "11 percent" should be "10 percent".

[8:57:00 AM](#)

CHAIR SEATON encouraged everyone to flag mistakes as they see them.

[8:57:36 AM](#)

CHAIR SEATON stated that for PERS, 20 percent of base salary would go into the retirement system. That number for TRS would be 22 percent. He opined that that would be a good system that "gives people enough money for real retirement." He commented that some say people who are self-employed should be putting 10 percent of wages away towards retirement. He said in this scenario, the employer is matching the amount that the employee puts in, so he predicted that this would be viewed as one of the best contribution plans in the country. He explained that the choice to have the employer pay 11 percent has to do with trying to design a plan that is good for both employees and employers. Employers need to attract good employees and 11 percent is close to the historic average. He said he has not talked to one employer yet who said, if they had stability and were contributing 11 percent, that that was something that would concern them. He said, "I worry when we start talking about trying to squeeze pennies out of the employer contribution rate that we actually go backwards and we get a plan that isn't going to be sufficient for recruiting and retaining employees in the system."

[9:00:03 AM](#)

REPRESENTATIVE GATTO proffered that when new teachers are hired, their number one issue is salary; however, after 3 or 4 years, their major issue becomes their retirement plan. He concluded that good teachers would generally be more attracted to come teach with a good retirement plan than with a better salary.

[9:00:44 AM](#)

CHAIR SEATON said employees would have a [one-time] choice to contribute based on their base salary only or full salary. This would give an employee the option not to have to pay 10 percent on money given as reimbursement, for example, for living in the Bush. Chair Seaton said employees would be immediately vested in both their portion of their DC account and their employers - excluding medical and HRA, which cannot be included because of federal law. Chair Seaton opined, "I think that ... employees that are happy with the system - that don't feel like they're getting squeezed or undermined by the system - are much more likely to stay in the system than to stay ... because they are told they must in order to get anything."

[9:03:38 AM](#)

CHAIR SEATON said employees would be able to choose between several investment options. He explained that employees would be able to change some of the risk and reward parameters, but [the investment options] would all be within the fiduciary responsibility of money managers approved by the state. He presumed the board would use the same system as the Supplemental Benefits System (SBS).

[9:04:34 AM](#)

CHAIR SEATON said the plan would allow someone who is not a vested member to roll his/her money into an account that will build at a certain percentage. He said those who come to the state and plan to stay four to five years want portability in a plan. Allowing a one-time transfer for nonvested employees is unique to the plan, he stated.

[9:07:02 AM](#)

CHAIR SEATON said the most unique part of the plan is regarding state aide to past service cost. He asked the committee to remember from the previous discussion of past service cost that an employer must pay the rate for the normal cost and past

service cost for all employees. He said his intent is to try to find out how to provide relief in the system. The solution would be to create a past service offset account, which would pay the individual employer's past service cost rate associated with their DC tier employees, [new hires and transfers], up to the average past service cost rate for all members.

[9:10:07 AM](#)

CHAIR SEATON directed attention to a graph in the committee packet, labeled, "PERS Aide to Communities From Past Service Offset Account: Actual Dollar Value." He explained that the "red" [top] line shows the total past service cost payments that will be made from 2005 to 2021; the existing tiers are shown on the "green" [bottom] line. He explained that the red line shows a steady increase because new employees are being hired all the time and, thus, become an increasingly higher percentage of the employee population. He stated, "The difference between what's being paid for existing tiers and the total up there is Tier IV." He noted that the dollar amounts to the left side of the graph are in millions of dollars.

CHAIR SEATON directed attention to a 4-page chart labeled, "State of Alaska Public Employees' Retirement System Projections Based on July 1, 2003 Valuation Population Growth 1 Percent." He said it shows how much is paid annually to the past service cost, with a total of [approximately] \$9 billion. The current tiers are Tiers I, II, and III, while Tier IV would be the new DC tier. The annual payments to the past service cost for Tier IV over time would total [approximately] \$6.1 billion.

CHAIR SEATON said there are some employers with huge past service costs. He offered the example of the Fairbanks North Star Borough, which basically sold off its utility. He said, "To get the high value for the utility they retained the liability for retirement. So, now they have ... [approximately] 87 employees in the system who are supporting 470 retirees." If there hadn't been any past service cost that wouldn't have been a problem, he said. He offered another example in the City of Seward. He said he doesn't want people to think bad decisions are being rewarded. Sometimes, he explained, the decisions were not bad at the time they were made.

[9:15:40 AM](#)

CHAIR SEATON directed attention to the right-hand side of the chart, which shows the present value of past service cost

payments. The chart shows the total payments at [approximately] \$2.8 billion. Regarding Tier IV, the total that would need to be deposited today to "make all of those payments" is [\$1,660,287,000]. He turned to page 3 of the same handout, which shows the figures for TRS. The total is [approximately] \$6.6 billion, while the total [annual payment to the past service cost] for Tier III [which would be the new tier in TRS] is [approximately] \$4.8 billion. The total for the present value of past service cost payments [for Tier III] is [\$1,292,193,000]. He talked about giving employers reason for wanting to go to a DC plan.

9:19:08 AM

CHAIR SEATON returned to the "Summary of State Affairs PERS/TRS bill." He addressed the medical components of a defined contribution tier. He noted that a retiree would have to retire directly from the system to be eligible for medical benefits, either at the age of 60 with 10 years of service, or with 30 years of service. The member must be employed in the system a minimum of 12 continuous months before retiring. A retiree who has satisfied 30 years of service but has not yet reached [60] will receive access to the medical plan. He offered details. Normal retirement is at age 60 whereupon the retiree is granted access to a [medical] plan and a subsidy [to pay the premium for that plan] depending on the years of service. The subsidy amount begins at 30 percent for 10 years of service, increasing incrementally by 3 percent for each additional year of service [until 30 years or a 90 percent subsidy]. Upon becoming eligible for Medicare - currently at age 65, but not specified in this plan - the retiree's plan will remain the same, however his/her premium is reduced. He offered further details. An HRA is established for each member to help pay for premiums, co-pays, deductibles, and any other applicable health care expenses the member or their dependents may have. He noted that the employer will contribute 1 percent [for PERS and 1.5 percent for TRS]. He said one of the problems with paying cash for services is that the hospital charges three times as much. Therefore, part of the plan is that "people providing service must provide those HRAs ..., which are cash dollars to them at the time, at the lowest cost available through the system."

9:24:28 AM

CHAIR SEATON noted that age 60 is in the plan, but if a new mortality table is adopted, that could change to 61.

[9:25:12 AM](#)

REPRESENTATIVE GATTO noted that the mortality tables show that in an 18-year span the longevity went up 2.5 years. He surmised that the legislature should [adopt new adjusted] mortality tables once a year. In regard to RIPS, he offered an extreme case scenario where everybody retires and gets rehired again. He said all the people who are rehired contribute zero into the retirement system, but they all would receive benefits. Regarding retirement age, he said, "There is some thought to tying the retirement age to the mortality tables," as Chair Seaton mentioned. He said maybe that age ought to "float." He predicted that the plan may be received negatively because it places an additional burden on members; however, if the plan is to work forever, certain adjustments have to be made. He added, "And naturally you would expect that the burden falls upon the plan members."

[9:28:18 AM](#)

REPRESENTATIVE GATTO mentioned a single mother who had testified the prior day who suggested that the committee not make any changes. He said if the legislature doesn't make changes to protect that person, then 10 years from now there'll be another person just like that person who will be in a bankrupt system and have to make enormous contributions. He said that second person will ask, "If you've known about this for 10 years, why didn't you do something about it then?" He said he has an interest as a recipient to save the system for others. He said this issue is difficult for the members of the legislature and he apologized to those who would face increased costs. He said he hopes the legislature has the support of members in these changes.

[9:32:20 AM](#)

CHAIR SEATON directed attention to a [two-sided, 3-page] chart [included below and in the committee packet], which shows current PERS & TRS benefit plans with proposed plans by the Senate and House. [The chart was prepared by Representative Seaton's staff]. He began comparisons starting with the second [labeled] column from the left and moving right.

	Current PERS Tier I/II & TRS Tier DB Plan	Current PERS Tier II/III & TRS Tier II DB Plan	State Affairs DC PERS/TRS Bill	Senate Bill 141 - DC	House Bill 191 - DC
--	---	--	---	-------------------------	------------------------

PERS employee contribution rate	6.75% other 7.5% Police/fire 9.6% school district	7.5% Police/fire 9.6% school district 6.75 or 7.5% others	10% all members	8% all members voluntary % up to IRS limit	8% other police/fire 8.5%
TRS employee contribution rate	8.65%	8.65%	11% all members	8% all members	10% all members
Vesting	5 years PERS 8 years TRS	5 years PERS 8 years TRS	Employee is immediately vested in both employee and employer contribution	Immediate for employee contributions Fully vested in employer contributions after 5 years (graduated scale of 25%/yr)	Employee is immediately vested in both employee and employer contribution (however employer contribution is graduated)
Retirement Age	55 normal - 50 early 30 "others" 20 police/fire 20 teachers	60 normal - 55 early 30 "others" 20 police/fire 20 teachers	Any age	Any age	Any age
PERS & TRS Benefit Formula	2% up to 2.5% multiplier per year DB multiplier X years of service X high 3 year average salary	2% up to 2.5% multiplier per year DB multiplier X years of service X high 3 (TRS) or 5 (PERS) year average salary	20% PERS (includes 1% for HRA & 3.5% for medical) 22% TRS (includes 1.5% for HRA & 3.75% for medical)	16% per year to a DC account and investment earnings (includes 1% for HRA & 3.5% for medical) 5 yr graduated vesting scale of 25% increase per year) HRA - 1% average salary of employee subgroup up to \$500 annual limit	16% after five years of service - before 5 years a percentage of the employer contribution is distributed at (1 st yr 0%, 2 nd yr 25%, 3 rd yr 50%, 4 th yr 75%, 5 th yr+ 100%)
Medical	Do not have to retire directly from the system to be service or age eligible for medical coverage Medical plan premium	Do not have to retire directly from the system to be service or age eligible for medical coverage Must have 10 years of service for	Must retire directly from the system with either 60 years adjusted to the change in mortality rate when adopted w/ 10 years of service OR	Must retire directly from the system at age 65 w/ 10 years of service OR 25 yrs police/fire 30 yrs other Access to medical coverage with one year of active service prior to retirement and age	Must retire directly from the system at age 65 w/ 10 years of service OR 25 yrs police/fire 30 yrs other Access to medical coverage with one year of active service prior to

	<p>paid by retirement system for all retirees and dependents.</p> <p>Except Tier II retirees and survivors pay full premium under age 60.</p>	<p>system-paid coverage over age 60.</p> <p>Employees with less than 10 years pay full premium for access to coverage.</p>	<p>30 years service</p> <p>Early retirees - Access to system, no subsidy till age 60 adjusted Retirees over 60 adjusted- Access to defined dollar medical with subsidy depending on length of service.</p> <p>Retires over Medicare eligible age - Access to medical with a reduced premium and percent subsidy based on years of service</p> <p>Reimbursed for qualified medical expenses from HRA.</p>	<p>65 with 10 years of service, or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others</p> <p>Retiree and survivors pay full premium until Medicare eligible</p> <p>After Medicare eligible, retiree shares cost based on years of service.</p> <p>Reimbursed for qualified medical expenses from HRA.</p>	<p>retirement and age 65 with 10 years of service, or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others</p> <p>Retiree and survivors pay full premium until Medicare eligible</p> <p>After Medicare eligible, retiree shares cost based on years of service.</p> <p>Reimbursed for qualified medical expenses from HRA.</p>
<p>Employer Normal Cost Rate PERS</p>	<p>Current Normal Cost Rate 13.24%</p> <p>20 year average 10.86%</p>	<p>Current Normal Cost Rate 13.24% (8.68% medical, rest pension)</p> <p>20 year average 10.86%</p>	<p>10% (3.5% medical, 1% HRA)</p>	<p>8.25% (3.5% pension, 3.75% medical, 1% max \$500 HRA)</p>	<p>8% w/ following conditions - 1st yr 0%, 2nd yr 25%, 3rd yr 50%, 4th yr 75%, 5yr+ 100%</p>

Employer Normal Cost Rate TRS	Current Normal Cost Rate 13.24% 20 year average 11.16%	Current Normal Cost Rate 13.24% (9.07% medical, rest pension) 20 year average 11.16%	11% (3.75% medical, 1.5% HRA)	8.25% (3.5% pension, 3.75% medical, 1% HRA)	8.75% w/ following conditions - 1 st yr 0%, 2 nd yr 25%, 3 rd 50%, 4 th yr 75%, 5yr+ 100%
Risk	Employer bears all the risk	Employer bears all the risk	Employer risk is minimal, employee bears investment risk	Employer risk is minimal, employee bears investment risk	Employer risk is minimal, employee bears investment risk
Salary only	All salary (including overtime, bonuses, etc)	All salary (including overtime, bonuses, etc)	Employee option base salary or total salary	Unknown	Base salary only
Roll Over	Accepts rollover from qualified programs	Does not accept roll over from qualified programs nor can you rollover into a qualified program	Roll over accepted from qualified programs and you can roll over into a qualified program	Roll over accepted from qualified programs and you can roll over into a qualified program	Does not accept roll over from qualified programs but you can roll over into a qualified program
Investment Options	ASPIB manages investments	ASPIB manages investments	ASPIB manages investments similar to SBS	Participant controls investments and has access to a range of investment options from the ARM Board ARM has all fiduciary responsibility. Managed similar to SBS	ASPIB manages investments
State Financial Help	N/A	N/A	Past Service Cost Offset Account 2.681 billion	69.5 million to compensate 5% increase in employer costs FY05 -FY06 (for school districts this is inc. in the BSA)	None
Transfer of employee to a DC plan	N/A	N/A	Allows the transfer of current, non-vested	None	None

			employees to a DC account within 90 days from the enactment of legislation		
--	--	--	--	--	--

CHAIR SEATON said he thinks the committee will be changing the access to medical coverage requirement from age 65 to Medicare eligible age, in order to have flexibility in the system to respond when the federal government makes changes. Regarding the investment risk, he said, "That investment risk is somewhat ameliorated by the choices that the board allows the employee to make with the money." Regarding investment options, he reminded the committee that SB 141 would combine the Alaska State Pension Investment Board (ASPIB) with the PERS and TRS Boards, and he stated his presumption that the model would be similar to the SBS plan.

[9:40:19 AM](#)

CHAIR SEATON, regarding state financial help, said the \$2.681 billion deposit under the committee's plan would be what pays the employer costs on all the new DC employees over time. Regarding the transfer of employees to a DC plan, after noting that the committee's plan is the only one that offers that option, he said it is not known how many people will want to do that; therefore, all the calculations on the past service cost account are based on all the actuarial models of 1 percent employment growth and when people are retiring and being replaced. He said there are some possible glitches in the plan; perhaps the rate of retirement would not match the actuarial. That would mean that not as much money would be needed in the offset account.

[9:43:32 AM](#)

CHAIR SEATON noted that Representative Kelly's proposed HB 170 addresses changing the PERS and TRS Boards. He said, "We may well be looking at rolling the PERS and TRS Boards together; there doesn't seem to be a good reason to have the functions of the boards and the actuaries in two different boards." He said he thinks there is agreement among members that there is a need to ensure employee members are on the board. He said, "We haven't seen, at this point, the justification for taking the investment board - ASPIB - and rolling that into the ... kind of things that [the] PERS and TRS [Boards do]." He said he's heard

that the PERS and TRS Boards don't really "talk together well" and "the actuarials aren't corresponding well." He stated that he wants to ensure a consistent program over time. He expressed his willingness to work with Representative Kelly regarding the boards. He added, "We have some concerns of taking financial managers and then rolling them into the other kind of decisions that are being made."

[9:45:33 AM](#)

REPRESENTATIVE RAMRAS, via teleconference, applauded the chair for making excellent progress on a difficult matter.

[9:46:37 AM](#)

CHAIR SEATON asked Representative Ramras to bring back "real life opinions" from Fairbanks.

[9:48:17 AM](#)

REPRESENTATIVE RAMRAS noted that the City of Fairbanks has 89 active employees supporting 453 retirees because of decisions that were made in the past.

[9:48:59 AM](#)

MELODY DOUGLAS, Financial Officer, Kenai Peninsula Borough School Board, thanked the committee for its work on the issue and expressed appreciation for the recap on the comparison. She said it's a weighty issue, and she stated her appreciation of Chair Seaton's diplomacy and care in talking about the issues that have "brought us to the conversation today," particularly in his effort to avoid finger pointing.

[9:51:42 AM](#)

CHAIR SEATON invited Ms. Douglas to look up the committee's work draft through the Legislative Information Office or on his own Website and offer feedback when she's read it. He added that he would also like to hear how the school district and employees feel about the level of the DC plan at 20 or 22 percent and the medical plan.

[9:52:07 AM](#)

MS. DOUGLAS said she expects to [respond] to the committee by the first of the week.

[9:52:21 AM](#)

MR. HILYARD said Representative Kelly has a work draft for HB 191 that he would like the committee to adopt in order to discuss.

[9:53:12 AM](#)

CHAIR SEATON replied that there would be no problem doing so.

[9:53:34 AM](#)

MR. HILYARD, regarding Chair Seaton's previous comment about restructuring the PERS/TRS Boards, asked, "Do you anticipate incorporating that into the corpus of your broad bill, or are you looking at, perhaps, an individual bill on that?"

[9:53:53 AM](#)

CHAIR SEATON answered that he thinks he would look at an individual bill and hopes Representative Kelly would be amenable to that. I said he thinks that would fix some of the problems people perceive in having the two different boards. He acknowledged that Representative Kelly's HB 170 addresses that issue and has begun a good structure. He stated that no one has really identified to him where the PERS Board or the TRS Board has independently "come out and done something wrong." He explained, "They adopted some numbers that didn't turn out to be right, but they did [that] in conjunction with the legislature."

[9:56:25 AM](#)

MR. HILYARD, on behalf of Representative Kelly, said, "I think we would be absolutely willing to entertain that notion. And if you would like to have it in a version coming specifically from [the House State Affairs Standing Committee], that would certainly be your option, but I think that Representative Kelly would entertain the notion of allowing you to essentially strip out what he has currently in HB 170 and making the appropriate changes as you suggest"

[9:57:16 AM](#)

CHAIR SEATON said his preference would be to have Representative Kelly "carry ... a board fix from the House side," and then speak to Senator Stedman to see "how we can get the best

aggregation of the plan." He reiterated that he hopes people will come forward as soon as possible with comments.

9:58:11 AM

KEVIN RITCHIE, Alaska Municipal League (AML), testifying on behalf of AML, noted that there has been a "school district, municipal, university working group" meeting for the last six months, and the former testifier, Ms. Douglas, is an active member of that group. He stated, "As employers, we're all in the same boat - the university, the school districts, the municipalities, and the state." He said one of the top priorities of AML and the Alaska Conference of Mayors is to have a PERS fix and a "reordering of the plan" to avoid repeating past mistakes.

MR. RITCHIE stated that the health portion of the benefit plans have been the cause of more of the liability problem than the pension portion. He said AML considers the proposed solutions to issues regarding health care are the most important part of the equation. He offered information from the Division [of Retirement & Benefits] that shows that three-quarters of the entire cost of the retirement system accrues to providing health benefits to people that are under 65; only 25 percent of [that cost] goes toward providing health benefits to people over 65. He explained that is "largely because of the Medicaid issue."

MR. RITCHIE said his second point is that whenever additional money is taken out of employees' take-home pay, "it's going to be an issue at the bargaining table."

10:01:05 AM

MR. RITCHIE suggested three points to focus on: First, he opined that at this point it's important to look at comparisons to ensure the plan will attract and retain employees. He suggested that some comparisons be made against other potential employers who might be competing for employees the state may be considering. He also suggested making employees more comfortable by illustrating base cases to show what kind of retirement they can look forward to.

MR. RITCHIE turned to his second point. He noted that the state only hires approximately one third of the employees in the system; the other two-thirds work in the school districts, university, or municipalities. He emphasized the importance of having direct representation on the boards from that two thirds,

which he said would create accountability. He opined that some of the best comments that would be heard would come from those people.

[10:03:53 AM](#)

MR. RITCHIE brought the committee to his third point by directing attention back to page 10 of the Power Point presentation, which shows the unfunded liability comparison. He continued as follows:

I think you may have heard from some folks about the possibility of pension bonds. ... The ... possible advantage of pension bonds is that [the] total value over 25 years of \$16 billion is predicated upon 8.25 percent increases in that liability over time. If ... a pension bond ... [that] was either ... 5.5 or 6 percent was purchased, it would be interesting to see what it would do to that value of unfunded liability over 25 years. And it may be possible to do that, but it may not be possible for municipalities, school districts, and the university to access that without specific state ... help.

... A municipality cannot do a general obligation bond for pension benefits; it's unconstitutional. However, our pension liability with this program is as stringent as a bond; ... we can't get out of that liability. So, the possibility of doing a pension - if it could ... reduce the liability for the state and municipalities of maybe 25 percent - and looking at what those possible savings could be over time could be very, very valuable.

[10:06:04 AM](#)

REPRESENTATIVE GATTO asked Mr. Ritchie if he thinks it's too generous to assume an 8.25 return.

[10:06:16 AM](#)

MR. RITCHIE responded that the 8.25 percent return over the next 25 years may or may not be achievable. He indicated that it would be scary if the average return over time falls below "whatever you would be able to purchase a pension bond at." But if that happened the whole system would collapse. He said, "This may or may not be a good option for all municipalities ...

or ... the state, but it's certainly one that seems worthy of exploration."

[10:07:09 AM](#)

CHAIR SEATON reiterated the previously provided information regarding the past service offset account. He offered further details, and then remarked that he is not an actuarial and the committee could seek more information on this subject.

[10:08:53 AM](#)

MR. RITCHIE stated, "Your looking to the finances of school districts, ... communities, the university, and the state for the future is very, very much appreciated." He said AML is at the disposal of the committee.

[10:11:01 AM](#)

TOM HARVEY, Executive Director, NEA Alaska, testifying on behalf of NEA Alaska, stated he thinks it's clear to everybody that it's the assumptions that are made that ultimately produces past service costs, the normal cost rate, and the actuarial cost rate. The issue, he said, is deciding which assumption to make and knowing how to adjust for those assumptions in the future if they are wrong. He proffered, "What is the assumption around the growth rate of compensation of employees, since it is the percentage of their compensation that is the real basis for this whole change?"

[10:12:51 AM](#)

MR. HARVEY, in response to a question from Representative Gatto, clarified that he is referring to what the assumption is by the actuary as to what the increases are going to be.

[10:13:05 AM](#)

CHAIR SEATON responded that one factor is how many employees there are. All the tables are calculated upon a 1 percent population growth. He indicated that there was some information that he would get to Mr. Harvey.

[10:14:02 AM](#)

MR. HARVEY stated his appreciation of the work of Chair Seaton and his staff and how open the process has been. He said, "I

think that if people understand that what you're trying to do is create something better, ... that will help in terms of some of the emotion that is here on this issue." Previous changes to the system have made the system less desirable than it once was. He interpreted that Chair Seaton is attempting to create a tier system that is more attractive than the present Tiers II and III. He added that if people were attracted to the new system and actually elected it, that would reduce the past service liability amount.

[10:15:33 AM](#)

MR. HARVEY turned to the subject of salary fees. He stated the following:

I have not seen the data on the assumptions, but if the assumptions have been based on a 4 percent increase in compensation of employees over the past two decades, and ... [legislative] ... and local effort ... haven't been such that 4 percent increases ... have not been happening, then one of the major factors to the past service cost is the fact that we haven't been providing enough funding in order to provide for those compensation levels that are assumed in the [actuarial] to be reached at the collective bargaining table. And I think that now becomes a new factor that we all just look at, in terms of: When we make decisions in this legislature, ... do we have an unintended consequence on the other side of the issue?

MR. HARVEY explained that he "did some scenarios at the request of some folks." When he did them, he assumed a 2.6 increase in salary. He said the reality is that someone making \$27,000 can't afford retiring under this plan. He said, "I'll be glad to share that information with you to show you the assumptions made when those tables were created." He reiterated the importance of reaching assumptions that everyone believes are realistic and [attainable].

MR. HARVEY stated his belief that recent and past PERS/TRS Board members should be heard. He named the following immediate past members: Jerry Patterson and Charlie Arteaga.

[10:18:55 AM](#)

CHAIR SEATON said past members of the boards will be invited.

MR. HARVEY said the past service cost that Chair Seaton has been talking about will be the same with or without a new tier system. What will be different is the future normal cost rates.

[10:20:38 AM](#)

CHAIR SEATON, in response to Mr. Harvey, directed attention back to the previously noted handout, entitled, "State of Alaska Public Employees' Retirement System Projections Based on July 1, 2003 Valuation Population Growth 1 Percent." He said, "If people will look on these tables, you'll see that there's a total over there, and that is if we have a new Tier IV system; ... [it] breaks ... down ... what's happening in Tier IV or Tier III in TRS. But that's because those are new employees coming on in the system.

CHAIR SEATON turned to page 2 of the handout, which he noted shows the number of employees and the projected employee replacement. Particularly, he noted the chart shows that after 25 years, the employee base would be mostly comprised of Tier IV employees. He said "these payments" are based on the calculations on [the right-hand side of page 2], which shows total projected salaries. He said, "So, it doesn't matter if a new employee comes in ... [under] Tier II or Tier III TRS, or Tier III or Tier IV, or [a] defined benefit or [a] defined contribution plan, the past service cost amortization is based on the total salary base." He continued as follows:

And there's been a lot of misunderstanding on that; people thought that you can wave and say, "Okay, now it's a DC plan - now we don't have to collect any past service cost." Well, the past service cost in the employer graphs is still paid on the entire wage base, no matter what plan they're in. And so, I'm glad you brought that up, because that's really critical for everybody to understand: the past service cost is identical if you are under a DC plan or the current defined benefit plan.

[10:22:18 AM](#)

MR. HARVEY, regarding retirement, said, under "the present proposal," employees who start their careers at the age of 30 and work for 30 years can retire directly from the system and get 90 percent of their health care costs paid for "through this fund." However, a "normal individual" who graduates from college at the age of 22 and begins his/her teaching career at

22 or 23 would have to teach for 38 years, because he/she has to retire directly from the system in order to qualify for health care costs partially paid for by the system. He suggested that it is a rare person who can survive the rigors of the classroom and teach for 38 years. He said he doesn't think most people consider how rigorous working in schools is today. He added, "All you have to consider is the safety issues and the fear that is in people's minds as they go to work, and how that plays on them in terms of the stress of the day." Mr. Harvey revealed that he is 56 years of age and indicated that he has worked in his job for 34 years. He said someone could decide to terminate his employment. He noted, "After 34 years, I can't access my retirement - my health care portion, because I haven't retired directly out of the system. I think that's a problem."

10:25:28 AM

MR. HARVEY stated that portability is good in most professions, but he's not so sure it's good in education. He explained that stability is a major factor in student achievement. Mr. Harvey reported that the number one reason that people stay in their jobs is job satisfaction. If a teacher is successful in his/her job, then compensation and retirement place second and third as factors in decision-making. He added, "[They] quickly become number one and number two if job satisfaction isn't there. You only have to look to what's happening in rural Alaska to see that, and to see the migration to the urban centers in Alaska over the last decade."

MR. HARVEY said the portability at the end of five years, under the "present proposal," coincides with what is called "the five-year itch." Currently, the state is losing 48 percent of the teachers in the first five years. He pointed out that if the legislature gives them the option of leaving at five years and taking everything with them, teachers would have the ability to move to the Lower 48 and find a defined benefit plan "where they can have a guaranteed retirement." He said he thinks that would exacerbate the already existing supply and demand issue. He recommended considering the factors that have resulted in the past service cost and trying to limit future liability.

MR. HARVEY listed three factors to consider: updating the mortality rate in a timely manner, dealing with health care costs, and addressing "the Christmas tree effect." He explained that the Christmas tree is the retirement system. Once it's built, there is a continual lobbying of legislators to add ornaments to the tree, for example, a RIP, an ad hoc PRPA, or a

shorter investment period for any particular group of employees. He stated his appreciation that Chair Seaton has pointed out that it is not the fault of employees that the benefits system is in the shape it's in. He said he thinks the statement should be made up front when there's no ability to put any more ornaments on the tree.

[10:31:12 AM](#)

MR. HARVEY stated, "I do think that what you're attempting to do is not have to be dependent upon actuaries and not have to be dependent upon the strong will of legislators to say no. And I would suggest that what we have to do is find some place in the middle where we can have a guarantee that allows employees to retire in dignity because they do have a predictability for themselves, and at the same time have a far greater predictability in the system."

[10:31:56 AM](#)

CHAIR SEATON reiterated that the legislators are the only ones who create the changes to the system and it is "an extremely hard process." He said, "That is one of the beauties of a DC program is it takes our ability to make changes in that system - that aren't funded - away." Chair Seaton said an employee could retire under the committee's plan with 30 years of service. Until the age of 60, the person pays the premiums. After the age of 60, a subsidy is paid, which can be up to 90 percent, until Medicare eligible age.

[10:34:26 AM](#)

MR. HARVEY asked Chair Seaton to confirm that a person 22 years of age who retired after 30 years, at 52 years of age, would have the ability to draw retirement and pay fully for medical insurance, and then, when that person reached age 60, the state would pay 90 percent of whatever the premium would be.

[10:35:08 AM](#)

CHAIR SEATON said that's correct, up to the age of 65 when the person's Medicare kicks in and the premium amount would be less. He mentioned an audit that says, based on an assumed inflation rate of 3.5 percent; the reasonable range for wage growth would be between 3.75 and 4.5 [percent]. He said the Mercer assumption fits within that range. He explained, "So, what they're looking at is 1.5 percent per year above inflation."

[10:36:20 AM](#)

MR. HARVEY suggested looking at the actual versus the actuarial projection for the past decade. If wages in the public school sector didn't increase by the 3.75 to 4.5 percent, then enough contributions were not being collected, because the employees weren't making enough money to make those contributions.

[10:36:52 AM](#)

CHAIR SEATON noted, for example, that in fiscal year 2006 (FY 06) the projected salary total is \$532 million, and it increases to \$1.439 billion in 25 years.

[10:37:32 AM](#)

SAM TRIVETTE, President, Retired Public Employees of Alaska (RPEA), testifying on behalf of RPEA, told the committee that he has personally worked in PERS for 33 years in corrections and law enforcement. In his four years as president he has attended almost all the PERS and TRS meetings, and many of the ASPIB meetings around the state. He stated that he feels extremely good about the people working on the boards, as well as the staff and investment people affiliated with ASPIB. He said he agrees with the committee's efforts not to point fingers. He said, "At the hearings this week, both the actuaries were questioned in detail about any decisions that the PERS and TRS Boards have made that have been contrary to their recommendations, and there were none in the last decade, at least." He added, "And the same with the investment board people."

MR. TRIVETTE concurred with the committee's having identified that many of the current problems with the system have to do with liability. He said the PERS and TRS Boards have been spending considerable time "trying to work on containing the cost on the liability side." He said another thing the committee correctly identified is that there have been some real problems with some of the information given to the decision makers by the actuaries. He said the actuaries admit that.

[10:40:54 AM](#)

MR. TRIVETTE reported that the PERS and TRS Boards were so concerned about this issue a number of years ago that they actually hired a second actuarial firm to do an analysis of the

information that the boards were getting from the primary actuarial firm, and they turned up some significant problems. Part of the problem is that the actuary has done a poor job at looking at bills coming before the legislature and determining, actuarially, what it's really going to cost. There were bills passed that cost a lot more than what the legislature was told they would cost, which caused a liability. Mr. Trivette said there's a political component, too: both the State of Alaska, as well as municipalities, have put a lot of pressure on the system to downplay the potential costs in order to get bills passed. He offered examples of some of the bills.

MR. TRIVETTE said he knows there have been comments made in the Senate regarding a problem with the lack of communication between PERS, TRS, and ASPIB. He reported that those three groups do meet together regularly; they sit at the same table and carefully discuss the issues. He said, "They spend a ... huge amount of time in committees fine tuning ... the investments."

[10:43:31 AM](#)

MR. TRIVETTE said the PERS and TRS Boards are almost one in the same, except that their populations are quite different. The teachers' benefits are somewhat different than the public employees' benefits; they come from separate laws that were enacted at different times. The actual pension check for PERS retirees tends to be considerably lower than it is for teachers, while the PERS members, as a larger group, spend more money on health care. He noted that appeals are also another important part of the board process. The boards consistently encourage input from the membership and work together to try to contain and reduce costs.

MR. TRIVETTE indicated that the use of generic drugs over the more expensive brand name drugs has increased from the mid-30 percent range to over 40 percent. He noted that at a meeting last Tuesday, there was a list of initiatives that the PERS and TRS Boards are working on with Aetna, the Division of Retirement & Benefits, and "with us"; each initiative could result in millions of dollars in savings to the system in the next fiscal year. He noted that some of the people serving on the boards have been there at least 20 years. He echoed Mr. Harvey's idea of listening to recent past members; they know the history and are willing to work with the legislature. He stated that it's clear to him that the committee doesn't hold most of the misconceptions that he has heard coming from the other body

regarding how the boards operate. He said, "I very much think that you need to be applauded for walking into this with an open mind."

[10:47:55 AM](#)

MR. TRIVETTE noted that, currently in some municipalities, some of the labor agreements allow senior staff "to get any overtime." He added, "In some decisions, of course, there's [a] significant amount of overtime." He offered his understanding that under existing law, any overtime those staff members get is part of their base pay for purposes of calculating retirement and benefits. He said the question is whether or not that is fair. He also guaranteed that that was never part of the actuary's calculations.

[10:49:02 AM](#)

CHAIR SEATON said that can't be changed for existing employees, but the committee is looking to change that in a new tier. In the new tier, people will be growing their own retirement pool; the sooner they make more money, the better it will be.

[10:50:14 AM](#)

MR. TRIVETTE noted that skyrocketing medical costs are a national problem. He said a Medicare prescription drug bill made it illegal for the federal government to negotiate the cost of prescription drugs. He posited that that is bizarre, "with this being probably one of the areas in which the costs will be going up the highest." He continued as follows:

Our federal government now said, "No, you can't do that." Now, certain agencies, like the Veterans Administration and others have been able to do this for years, and they show that the cost savings are immense.

[10:51:35 AM](#)

CHAIR SEATON responded that he agrees, but "we can't control them." He said, "The big thing that we don't have included in here at all is the requirement of the federal law that the states ... reimburse the federal government for the prescription drug benefit. And I don't think anybody has even looked at that yet as to what the cost of the state is, because this is a federal benefit. But there's a little provision in there that

says, 'Oh and now state ..., even if you're not in the program you have to reimburse us for this multibillion dollar program that we created"

[10:52:30 AM](#)

MR. TRIVETTE noted, "They did look at the kickback that the state would get by maintaining a health plan under the prescription drug plan." He indicated that additional medical payments are being paid to Alaska physicians right now "under that same bill," but that is supposed to sunset by 12/31/05. The actuaries, he noted, believe that that will be continued rather than sunset; therefore, "those additional costs ... are offsetting the money we would get from the feds, in terms of the 28 percent for maintaining our health insurance plan." He said this is an area that legislators and citizens should pay attention to.

MR. TRIVETTE, in response to a request made by Chair Seaton, noted that the boards would be meeting the next day, and he said he would forward the committee's draft and let the members know that "if they have any suggestions on the medical side" to bring them to Chair Seaton's attention. He offered more examples of cost saving ideas.

[10:55:36 AM](#)

CHAIR SEATON invited people to submit comments to the committee. He ascertained that no other testimony was forthcoming. He noted that next Saturday there would be a House State Affairs Standing Committee meeting regarding PERS/TRS. He directed attention across the room to show a chart [the size of a standard door] that shows the past service cost for every PERS employer and school district. He said, "So this is the amount per year, through these 25 years, for every ... employer that would be paid through the offset account." He indicated that his staff would provide that chart online as an Excel spreadsheet.

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at [10:57:45 AM](#).