

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

April 2, 2005
10:05 a.m.

MEMBERS PRESENT

Representative Paul Seaton, Chair
Representative Jim Elkins
Representative Bob Lynn
Representative Berta Gardner
Representative Max Gruenberg

MEMBERS ABSENT

Representative Carl Gatto, Vice Chair
Representative Jay Ramras

COMMITTEE CALENDAR

HOUSE BILL NO. 133

"An Act relating to regulations of the Local Boundary Commission to provide standards and procedures for municipal incorporation, reclassification, dissolution, and certain municipal boundary changes; and providing for an effective date."

- MOVED CSHB 133(STA) OUT OF COMMITTEE

HOUSE BILL NO. 238

"An Act relating to contribution rates for employers and members in the defined benefit plans of the teachers' retirement system and the public employees' retirement system and to the ad-hoc post-retirement pension adjustment in the teachers' retirement system; requiring insurance plans provided to members of the teachers' retirement system, the judicial retirement system, the public employees' retirement system, and the former elected public officials retirement system to provide a list of preferred drugs; relating to defined contribution plans for members of the teachers' retirement system and the public employees' retirement system; and providing for an effective date."

- HEARD AND HELD

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."

- SCHEDULED BUT NOT HEARD

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."

- SCHEDULED BUT NOT HEARD

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."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 133

SHORT TITLE: MUNICIPAL BOUNDARY CHANGES/ COMMISSION

SPONSOR(S): REPRESENTATIVE(S) COGHILL

02/09/05	(H)	READ THE FIRST TIME - REFERRALS
02/09/05	(H)	CRA, STA
02/16/05	(H)	SPONSOR SUBSTITUTE INTRODUCED
02/16/05	(H)	READ THE FIRST TIME - REFERRALS
02/16/05	(H)	CRA, STA
02/24/05	(H)	CRA AT 8:00 AM CAPITOL 124
02/24/05	(H)	Heard & Held
02/24/05	(H)	MINUTE(CRA)
03/03/05	(H)	CRA AT 8:00 AM CAPITOL 124
03/03/05	(H)	Moved CSSSHB 133(CRA) Out of Committee
03/03/05	(H)	MINUTE(CRA)
03/04/05	(H)	CRA RPT CS(CRA) 5DP 2NR
03/04/05	(H)	DP: SALMON, NEUMAN, KOTT, THOMAS, OLSON;
03/04/05	(H)	NR: LEDOUX, CISSNA
04/02/05	(H)	STA AT 10:00 AM CAPITOL 106

BILL: HB 238

SHORT TITLE: PUBLIC EMPLOYEE/TEACHER RETIREMENT

SPONSOR(S): STATE AFFAIRS

03/30/05 (H) READ THE FIRST TIME - REFERRALS
03/30/05 (H) STA, FIN
03/31/05 (H) STA AT 8:00 AM CAPITOL 106
03/31/05 (H) Heard & Held
03/31/05 (H) MINUTE(STA)
04/02/05 (H) STA AT 10:00 AM CAPITOL 106

WITNESS REGISTER

RYNNIEVA MOSS, Staff
to Representative John Coghill
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced HB 133 on behalf of
Representative Coghill, sponsor.

MIKE BLACK, Director
Division Community Advocacy
Department of Commerce, Community, & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Testified on behalf of the department in
opposition to HB 133.

JOHN B. "JACK" COGHILL, SR.
Nenana, Alaska

POSITION STATEMENT: Testified as a former Representative in the
Alaska Territorial Legislature, Senator in the Alaska State
Legislature, and lieutenant governor of Alaska, during the
hearing on HB 133.

PETE ROBERTS, President
Citizens Concerned About Annexation
Homer, Alaska

POSITION STATEMENT: Testified on behalf of Citizens Concerned
About Annexation during the hearing on HB 133.

ROBERT KALLIO
Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of himself in support
of HB 133.

CAM CARLSON
Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of herself in support
of HB 133.

GARY PETERSON

Homer, Alaska

POSITION STATEMENT: Testified on behalf of himself in support of HB 133.

VI JERREL, Ph.D.

Anchor Point, Alaska

POSITION STATEMENT: Testified on behalf of herself and Alaskans Opposed to Annexation during the hearing on HB 133.

ALAN LeMASTER

Gakona, Alaska

POSITION STATEMENT: Testified on behalf of himself during the hearing on HB 133.

BILL BJORK, President

NEA-Alaska

Anchorage, Alaska

POSITION STATEMENT: Highlighted key points from his written testimony during the hearing on HB 238.

WILLY DUNNE, President

Kachemak Bay Chapter

Alaska State Employees' Association (ASEA)

Homer, Alaska

POSITION STATEMENT: Testified on behalf of ASEA during the hearing on HB 238.

KATIE SHOWS, Staff

to Representative Paul Seaton

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of Representative Seaton, Chair of the House State Affairs Standing Committee, sponsor of HB 238.

TOM HARVEY, Executive Director

NEA-Alaska

Anchorage, Alaska

POSITION STATEMENT: Testified on behalf of NEA-Alaska during the hearing on HB 238.

BRADLEY FLUETSCH

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of himself during the hearing on HB 238.

HEATH HILYARD, Staff

to Representative Mike Kelly
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of Representative Kelly during the hearing of HB 238.

ACTION NARRATIVE

CHAIR PAUL SEATON called the House State Affairs Standing Committee meeting to order at [10:05:33 AM](#). Representatives Elkins, Lynn, Gardner, and Seaton were present at the call to order. Representative Gruenberg arrived as the meeting was in progress.

[10:05:54 AM](#)

HB 133-LOCAL BOUNDARY COMMISSION REGS & POWERS

[10:06:08 AM](#)

CHAIR SEATON announced that the first order of business was HOUSE BILL NO. 133, "An Act relating to regulations of the Local Boundary Commission to provide standards and procedures for municipal incorporation, reclassification, dissolution, and certain municipal boundary changes; and providing for an effective date."

[10:06:40 AM](#)

REPRESENTATIVE ELKINS thanked the chair and vice chair of the boundary commission for their helpfulness and e-mail correspondence [included in the committee packet].

[10:06:48 AM](#)

REPRESENTATIVE LYNN moved to adopt the committee substitute (CS) for the sponsor substitute (SS) for HB 133, Version 24-LS0512\F, as a work draft. No objection was stated and Version F was before the committee.

[10:07:42 AM](#)

RYNNIEVA MOSS, Staff to Representative John Coghill, Alaska State Legislature, introduced HB 133 on behalf of Representative Coghill, sponsor. She said that under state law, in order for an area to be annexed, it has to be approved by a majority of the people who vote in the area that's being annexed. She

stated, "This aggregate regulation undermines that intention. What it says is that the people within the existing borough and the people who live in an area to be annexed would all vote on the annexation All of the votes would be pulled together, and if a majority of that aggregate vote approves, then the area's annexed." She said Representative Coghill feels strongly that that's not legislative intent, nor is it the intent of the Alaska State Constitution. She added, "This piece of legislation says that regulations that are adopted by the local boundary commission have to be consistent with state statute. The commission has, in the past, said that they felt that the constitution gave them separate authority from the legislature to do as they want, but that is not Representative Coghill's contention."

[10:09:24 AM](#)

MS. MOSS said that, at the request of the speaker [of the House], Section 1 was added during the House Community and Regional Affairs Standing Committee meeting, regarding the limitations of the local boundary commission. Ms. Moss said the constitution allows [the boundary commission] to consider petitions, but does not give it authority to amend a petition or impose additional conditions on the incorporation. She said Section 2 was added to the sponsor substitute, which specifies that, even if the local boundary commission wants to bring a proposal for incorporation to the legislature, there still has to be two public hearings and an election of the people.

[10:11:05 AM](#)

MS. MOSS noted that Representative Coghill has recommended an amendment [to be labeled Amendment 1] for the committee to consider, which would bring annexation in line with how service areas are formed. When a service area is altered, there is an election of the people in the service area and, separately, the people in the proposed annexed area hold an election. Both elections require a majority vote of the people. This serves two purposes: it allows people in an area to be annexed to voice whether or not they want to be in a new municipality, and it also avoids what could be termed as a hostile takeover. She offered an example.

[10:12:38 AM](#)

CHAIR SEATON directed attention to [lines 11-12 as numbered on Amendment 1], which read:

(1) a proposed annexation must be approved by a majority of votes on the question cast by voters residing in the annexing municipality;

CHAIR SEATON said that is the language that establishes a separate vote for the municipality, and he asked where the language was regarding the proposed vote in the area being annexed.

[10:13:15 AM](#)

MS. MOSS replied that that language [is now found in paragraph (2)], which read as follows:

(2) a proposed annexation or [AND] detachment must be approved by a majority of votes on the question cast by voters residing in the area proposed to be annexed or detached;

[10:14:14 AM](#)

REPRESENTATIVE ELKINS asked if [HB 133] deals only with annexation, not unification or consolidation.

[10:14:29 AM](#)

MS. MOSS answered affirmatively.

[10:15:51 AM](#)

MIKE BLACK, Director, Division of Community Advocacy, Department of Commerce, Community, & Economic Development, testified on behalf of the department in opposition to HB 133. He stated that the proposed legislation would encumber [the Local Boundary Commission's] ability to perform under its job description in the constitution and regulations. In response to Chair Seaton, he said he has no response to Amendment 1.

[10:16:59 AM](#)

JACK COGHILL testified as a former Representative in the Alaska Territorial Legislature, Senator in the Alaska State Legislature, and lieutenant governor of Alaska. He reminded the committee that he was also a member of the Alaska Constitutional Convention, as well as the chair of the committee that ran the convention. He said his position is that the first Article in

the constitution is clear: all government originates with the people and is instituted solely upon the people as a whole. He said the legislature is the defender of the constitution to ensure that government structure does not override the will of the people. The government structure has to have a legislative approval or vote of the people in order to be able to establish people within a government unit.

[10:19:13 AM](#)

MR. COGHILL directed attention to Section 12, Article 10 of the Alaska State Constitution, which says the commission or boards subject to law may establish procedures whereby boundaries may be adjusted by local action. He stated, "It's the local action that refers back to Article 1 of the constitution, which establishes under Section 2 that all government is created by the people, and by the people solely." He explained that, on that basis, he has lobbied for many years with the legislature and now with his son [Representative John Coghill] to ensure that this provision gets established within the state government's procedure to allow the people that are going to be annexed to have the vote.

[10:20:15 AM](#)

REPRESENTATIVE ELKINS thanked Lieutenant Governor Jack Coghill for testifying, and congratulated him on his upcoming award as "Man of the Year."

[10:20:47 AM](#)

CHAIR SEATON expressed his appreciation of Lieutenant Governor Jack Coghill's past service.

[10:20:59 AM](#)

REPRESENTATIVE GRUENBERG noted that the copy of the constitution that he carries around with him has one autograph on the front. He added, "And I'm going to not have to tell you whose autograph that was."

[10:21:49 AM](#)

MR. COGHILL responded, "Time tells that this document that we have is a good document; it's a breathing document and it lives everyday." He noted that there are only five [participants in

the Alaska Constitutional Convention] still living, and 2005 marks the convention's 50th anniversary.

CHAIR SEATON asked Lieutenant Governor Jack Coghill if Section 1 of HB 133 would have been acceptable to those in the constitutional convention.

MR. COGHILL answered affirmatively.

10:24:03

PETE ROBERTS, President, Citizens Concerned About Annexation, told the committee that he was "intensely involved with the hostile annexation in Homer." Regarding HB 133, he said he thinks the bill is a very good change; it goes a long way to take out the anti-constitutional bias by the LBC that has existed for years. Mr. Roberts said, "They cram down annexations in surrounding areas to cities, they claim that the state constitution has a preference for cities and a bias against service areas, and they are talking apples and oranges here." He indicated that the LBC was talking about utility districts before there were municipalities in Alaska, and the service areas the LBC talks about today have nothing to do with those old utility districts; they're merely an area function of the boroughs.

MR. ROBERTS concurred with Mr. Coghill. He said, "The problem here is that small groups of people with vested interests - a city administration or a city council - can hijack their neighbors, and the LBC lets them choose the method in which they do it. And the only last resort is if those people can garner enough support in the legislature to have it voted down; otherwise, the annexation rides through." He said Homer was hijacked. He continued as follows:

We effected the process greatly with our fight with the LBC. We're still in court; we won one ... [Alaska] Supreme Court case and we're probably headed for another So, in a general sense, I have to say that I think that this bill should be passed. The LBC should not get to operate as the commissar of boundaries in Alaska. The idea that, in general, a city and a small area surrounding it could have one vote, even, is likely to hijack the people in the surrounding area.

In the case of the Homer annexation: if the city had been willing to put it to a vote of the people in the city -- it became such a divisive issue here, it would have been voted down, and they didn't dare let it go to a vote.

[10:27:40 AM](#)

REPRESENTATIVE GRUENBERG asked Ms. Moss for her opinions regarding the constitutionality of the bill.

[10:28:12 AM](#)

MS. MOSS said there have been differences of opinion over the intent of the Constitutional Convention; it's a gray area. That is why, she explained, Representative John Coghill was asked to testify. She said she would provide those opinions to the committee. In response to an observation that the bill would not be heard by the House Judiciary Standing Committee, she said she thought it should be, because of the amount of contention and disagreement.

[10:28:58 AM](#)

REPRESENTATIVE GRUENBERG stated, "I have no problem in passing the bill out, but I will make a motion that we, in writing, request that this be referred to [the House Judiciary Standing Committee]."

CHAIR SEATON asked if the sponsor would have any objection to that.

MS. MOSS interjected, "I think it would help the whole case."

[10:29:29 AM](#)

ROBERT KALLIO, testifying on behalf of himself, referred to Article 1, Section 2, of the Alaska State Constitution, which read as follows:

SECTION 2. Source of Government.

All political power is inherent in the people. All government originates with the people, is founded upon their will only, and is instituted solely for the good of the people as a whole.

MR. KALLIO stated that it is clear that the founders of Alaska did not intend that a borough could annex additional areas or "be created by a state employee or five unelected commissioners." He urged the committee to pass HB 133, to protect the rights of residents in unincorporated areas against being annexed into any borough against their will. He said Lieutenant Governor Coghill stated this sentiment much better than he ever could; he was there at the convention and understood the intent. He stated his belief that [the legislature] is bound to, and thus must follow, the state constitution.

[10:31:24 AM](#)

REPRESENTATIVE GRUENBERG said he concurs with Mr. Kallio and the intent of the bill.

[10:31:36 AM](#)

CAM CARLSON testified on behalf of herself. She stated the following:

I am definitely not in favor of annexations that are proposed where we're going to take in large quantities of the state, not because we can provide them with anything, but just because we can pick their pockets. It comes off to me as totally immoral. The moment I heard that this was even being proposed by the Fairbanks North Star Borough Mayor, I was just absolutely appalled.

I agree with all the previous speakers that the people should be able to vote on their future and what happens to them, [and] that people that are employees of government and not elected by the people have frequently in the past and are still going way beyond what they are supposed to be doing to us and for us.

So, I'm very much in favor of this being a vote of the people that reside in the areas before they get annexed to anything, and I am very opposed to what is happening currently and being proposed by some of our officials, statewide. And I am very much in favor of HB 133, and also the amendments to it. I think it's a good idea to have a vote of both areas - the existing area and that proposed to be annexed - and that if both don't pass it, it doesn't happen.

[10:34:01 AM](#)

REPRESENTATIVE GRUENBERG offered a possible scenario in which a municipality wants to annex a large area that is only populated by five people. He asked if those five people would be able to "scotch the whole thing."

[10:34:41 AM](#)

MS. MOSS answered yes.

[10:34:45 AM](#)

GARY PETERSON testified on behalf of himself in support of HB 133. He stated that he would like two points outlined specifically: The first is that the people living in proposed annexed areas should have the exclusive right to decide whether or not they want annexation. The second is that the people in the city limits who are proposing annexation should not be allowed the aggregate vote to impose annexation in areas outside their city limits. He stated, "I believe that 'annexation' is a dirty word." He indicated that the rights of people who come to Alaska to enjoy their freedom, the wilderness, and the wildlife have eroded. Annexation imposes rules and regulations and, additionally, heavy taxation. He said he would like the staff of the local boundary commission fired and the governor to close it down.

[10:37:35 AM](#)

VI JERREL, Ph.D., testified on behalf of herself and Alaskans Opposed to Annexation. She stated support of having a vote by the people in the area proposed to be annexed, but voiced opposition to having a vote by the people in the city or area that files the annexation petition. She also stated opposition to aggregate votes, and to giving the LBC the authority to "amend a change or change a petition." Dr. Jerrel stated, "Public funds cannot be used to deny a person due process of law. Rights guaranteed by the state and U.S. Constitution guarantee that a person cannot be deprived of life, liberty, or property without due process of law." She stated objection to the State of Alaska's using public funds for misrepresentation and wrongful procedures by the current LBC.

DR. JERREL said she and Doris Cabana formed Alaskans Opposed to Annexation and hired Robert C. Erwin - a former Alaska Supreme

Court Justice - to represent them in the "wrongful and illegal - in our opinion - Homer annexation."

10:41:24 AM

CHAIR SEATON asked Dr. Jerrel to focus specifically on HB 133.

10:41:46 AM

DR. JERREL posited that the subject before the committee is in regard to authority of a local boundary commission, and she is talking about authority and lack of authority by the LBC. She reported that [the LBC] did not get the 26 square miles it asked for [in Homer] because "we fought for it." The case is currently in the Alaska Superior Court. In response to a request for clarification from Chair Seaton, she reiterated that she supports HB 133, but not the amendment that would allow a dual vote.

CHAIR SEATON clarified that the amendment would not allow an aggregate vote; it would be two separate votes.

DR. JERREL indicated that she had been advised by Mr. Erwin to say, "We want a vote only of the people in the area proposed to be annexed," not an aggregate vote.

10:43:03 AM

DR. JERREL, in response to a question from Representative Lynn, revealed that her Ph.D. is in administrative leadership and human behavior. She offered further personal history.

10:43:45 AM

ALAN LeMASTER, testifying on behalf of himself, stated that he is impressed with the testimony heard thus far and the support of the bill and its amendment. He offered his recollection that, during a hearing of HB 133 in the House Community and Regional Affairs Standing Committee, Commissioner Hicks said he felt that the bill was "objectively unconstitutional" and he didn't know of any attorneys in the state who could effectively defend it. Mr. LeMaster said he is especially cautious about the constitutionality of the bill and is happy to hear that the committee will be referring it to the House Judiciary Standing Committee.

10:44:58 AM

REPRESENTATIVE GRUENBERG said he would like the citation for the recent Homer case.

[10:45:19 AM](#)

CHAIR SEATON closed public testimony.

[10:45:34 AM](#)

REPRESENTATIVE GARDNER said she had not been, until today, aware of the pending issue regarding annexation and Homer, Alaska. She asked if there are other pending cases that she is aware of across the state.

[10:45:54 AM](#)

MS. MOSS answered that there is a related issue regarding Whittier and Valdez. She added that Delta [Junction] is "in the process of petitioning for a borough to have an election." Additionally, she noted that the Fairbanks North Star Borough is looking at annexing everything to the south bank of the Yukon River, including Pogo Mine, which is part of the land that Delta is petitioning to annex. She said, "The big concern with that whole situation is the fact that the borough mayor ... publicly said that he intended to use an aggregate vote that was created by regulation that is, without a question, inconsistent with state law."

[10:47:09 AM](#)

REPRESENTATIVE GRUENBERG requested that any other court opinions be sent to him.

[10:47:33 AM](#)

MS. MOSS agreed to research to find any past decisions. She said:

We have been pressing this bill on the issue of equity and constitutional intent. Because the constitution is quite clear that the people are the power. And the Local Boundary Commission on several occasions has stated that the constitution has given them independent authority to create law. And the constitution is quite clear that the term - and I'm looking at Article 12, Subsection 11 - the term "by

law" and "by legislature" are interchangeable. So law is what the legislature enacts.

Ms. Moss, in response to a question from Representative Gruenberg, she said Article 12 is about general provisions.

[10:49:10 AM](#)

REPRESENTATIVE GRUENBERG read that subsection.

[10:49:27 AM](#)

REPRESENTATIVE ELKINS moved to report CSHB 133(CRA), as amended, out of committee with individual recommendations and the accompanying fiscal notes.

CHAIR SEATON objected to note that the committee had not yet proposed or adopted Amendment 1.

[10:50:12 AM](#)

REPRESENTATIVE ELKINS, as a point of order, withdrew his motion.

[10:50:21 AM](#)

REPRESENTATIVE LYNN moved to adopt Amendment 1 [text provided previously].

[10:51:14 AM](#)

REPRESENTATIVE GRUENBERG objected for discussion purposes.

MS. MOSS, in response to a question from Representative Gruenberg, affirmed that the sponsor approves of Amendment 1.

REPRESENTATIVE GRUENBERG stated for the record, "We'll look at this with the rest of bill in [House Judiciary Standing Committee]." He removed his objection to Amendment 1.

[10:51:32 AM](#)

CHAIR SEATON announced that, there being no further objection, Amendment 1 was adopted.

[10:51:40 AM](#)

REPRESENTATIVE ELKINS moved to report CSHB 133(CRA), as amended, out of committee with individual recommendations and the accompanying fiscal notes.

[10:52:31 AM](#)

CHAIR SEATON reminded the committee that the bill has been assigned an additional referral to the House Judiciary Standing Committee, and that referral has been agreed to by the sponsor.

[10:52:33 AM](#)

REPRESENTATIVE ELKINS revealed that he came into the meeting today agreeing with the chair of the Local Boundary Commission, but after the testimony of everyone, he changed his position.

[10:53:13 AM](#)

CHAIR SEATON announced that there being no objection, CSHB 133(STA) was reported out of the House State Affairs Standing Committee.

[10:53:22 AM](#)

MS. MOSS thanked the committee, in particular Representative Gruenberg for his efforts to allow the bill the scrutiny of the House Judiciary Standing Committee.

The committee took an at-ease from [10:54:00 AM](#) to [10:59:55 AM](#).

[10:59:58 AM](#)

HB 238-PUBLIC EMPLOYEE/TEACHER RETIREMENT

[11:00:05 AM](#)

CHAIR SEATON announced that the next order of business was HOUSE BILL NO. 238, "An Act relating to contribution rates for employers and members in the defined benefit plans of the teachers' retirement system and the public employees' retirement system and to the ad-hoc post-retirement pension adjustment in the teachers' retirement system; requiring insurance plans provided to members of the teachers' retirement system, the judicial retirement system, the public employees' retirement system, and the former elected public officials retirement system to provide a list of preferred drugs; relating to defined contribution plans for members of the teachers' retirement

system and the public employees' retirement system; and providing for an effective date."

CHAIR SEATON noted that there is a sectional analysis in the committee packet. He opened public testimony.

11:00:45 AM

BILL BJORK, President, NEA-Alaska, said he represents 12,500 employees in Alaska. He highlighted key points from his written testimony [included in the committee packet]. He said the purpose of the retirement system is stated in AS 14.25.012, which read as follows:

(a) The purpose of this chapter is to encourage qualified teachers to enter and remain in service with participating employers by establishing a system for the payment of retirement, disability, and death benefits to or on behalf of the members.

MR. BJORK read from his written testimony as follows:

Although there is some anecdotal evidence that the retirement benefits can be used for recruitment, its main attraction is a tool for retaining educators. Job satisfaction, competitive compensation and retirement benefits are the three major reasons for a person to remain in education.

11:02:34 AM

MR. BJORK said currently the average number of years a teacher serves before retiring is 27. He addressed some of the key assumptions made going into deliberations over changes in the retirement system. He stated assumption 1: "An educator with 27 years of service ought to be able to receive an annual annuity of at least 55 percent of their salary at retirement to be able to retire with dignity." He noted that he provided information regarding the average [teacher] salary and "what that represents as a percentage." He said HB 238 would require teachers to work at least 30 years [before retiring], which is three more years than the current average.

MR. BJORK said assumption 2 is in regard to the level of investment return. He stated, "We agree with the assumption currently in the retirement systems of 8.25 percent; ... it's

consistent with permanent fund assumptions, as well." He stated assumption 3: "The combined contribution of the employee and the employer to the pension must be at least 20 percent of salary" He said assumption 4 is in regard to inflation. The present actuarial assumption is 3.5 percent annually. He said that is not consistent with permanent fund assumptions. He asked, "Given that inflation has been 2.6 percent over any 10-year period in Alaska, why would we adopt a 3.5 percent inflation rate?" That half a percent over 25 years would add a huge amount of money to the past service cost. He stated that assumptions are critical in determining the necessity of a new and improved retirement system and making the wrong ones today will only lead to retirees having no dignity and becoming dependent on the State of Alaska for Welfare. He said, "We must take time to reach agreement on the actuarial assumptions to be used."

11:05:10 AM

MR. BJORK stated his belief that there is agreement that "the actuarial assumptions made in the past have brought us to this point, particularly in the area of health care." He noted that the delayed use of [updated] mortality rates and the addition of benefits in the retirement system, without a corresponding increase in contributions, are major factors. Two of the factors can be corrected without the adoption of a new tier for TRS and PERS. He stated that the legislature could mandate the use of the most recent mortality tables, and it could also require an actuarial evaluation of any proposed benefit changes and require an increased contribution "to cover past service cost at the time of passage." He offered an example.

11:06:28 AM

MR. BJORK stated that NEA-Alaska believes that health care costs can be managed to provide a more predictable rate increase. He stated, "It seems that the health cost trend actuarial assumptions provided to the administration June 30, 2002, absolutely defied common sense or logic." He said the projections provided, as printed in the retirement booklet, showed increases in health care of: 7.5 percent for [Fiscal Year 2001 (FY 01)], 6.5 percent for FY 02, 5.5 percent for FY 03, 5 percent for FY 04-08, and declining after that. He stated, "Anyone using health care services could tell you that those rate projections were not based in reality." He said the next year the assumptions were changed to show: 12 percent for FY 04, 12 percent for FY 05, 11.5 percent for FY 06, and

declining until the increases would only be 5 percent in FY 17. He questioned how such a drastic change could occur in one year. He queried, "These numbers, when graphed, would make a pretty downhill slope, but are they based in reality?" He stated that this kind of dramatic change does not inspire credibility in the actuary. He asked, "Is this the kind of assumption that the \$5 billion unfunded liability is based upon?"

[11:07:48 AM](#)

MR. BJORK said NEA-Alaska appreciates the efforts made through HB 238 to provide important access to health care and payment of premiums for retirees. He said once everyone agrees on which health care inflation assumption to use, it will be possible to "evaluate the proposal and its impact on retirees' standard of living." Mr. Bjork stated for the record that a teacher that begins a career at age 22 and works nonstop for 30 years, as outlined in HB 238, will be eligible to retire at age 52. Since the teacher must retire directly out of the system, he/she would have to teach for 38 years to reach age 60, or pay for his/her health care for 8 years, which would erode the pensions annuities significantly.

MR. BJORK said NEA-Alaska believes that several things can be done to provide a new and improved retirement system for both teachers and public employees and "stands ready to work with the [House State Affairs Standing] Committee to determine the appropriate actuarial assumptions upon which a new retirement system could be built that meets the purpose of recruiting and retaining qualified educators and public employees."

[11:09:29 AM](#)

CHAIR SEATON expressed appreciation for the focus of Mr. Bjork's testimony, which he said parallels the committee's own focus.

[11:09:33 AM](#)

REPRESENTATIVE LYNN asked how the legislature would use more up-to-date mortality tables when they only are produced every 10 years.

[11:10:15 AM](#)

MR. BJORK said Representative Lynn raises an excellent point. He continued as follows:

We just believe that we ought to implement the most recent actuarial table ... available. The mortality table, as you correctly point out, is a key driver of cost. If we change from one mortality table to a new mortality table and it shows increased longevity, then the actuarial assumptions trigger a huge past service increase. So, you're absolutely right. When these are published, though, we ought to be using them.

But the actuarial assumption that is a particular problem ... is the increase in medical coverage costs. Those projections ... were just simply not real world based. To say that, at some point in the magic future, medical cost increases would only be 4 percent just simply isn't ... reflecting the kind of reality that all of us experience when we need medical coverage.

[11:11:36 AM](#)

REPRESENTATIVE LYNN asked if the health cost is "a bigger driver of the problem" than the actuarial tables.

[11:11:51 AM](#)

CHAIR SEATON explained that the two systems are different. The "health cost" is the largest driver in TRS, accounting for approximately 40 percent of the unfunded past service cost, but it's much less in PERS. He said the two systems contribute at different rates and the age at which a person qualifies is different.

[11:12:58 AM](#)

CHAIR SEATON asked:

Do you have an analysis at all on how much those [RIPs] lowered the retirement age, and how much of that 3-year gap between the 30 that [HB] 238 calls for and the 27 which is your average coming out of the system - how much of that do you think would be accounted for by the different [RIPs] that went forward?

[11:14:01 AM](#)

MR. BJORK noted that both state and local RIPs were offered. He said it's difficult to answer Chair Seaton's question, because only a small number of the total retirees actually got access to those RIPs; therefore, it's hard to "spread that number across the retired population to give you a straight up answer on that." He noted that about 27 years of active service is that average for "those retirees," not factoring in the RIP, whatsoever.

[11:15:08 AM](#)

CHAIR SEATON returned to assumption 3, which Mr. Bjork noted would require that the contribution must be 20 percent. He noted that the current version of HB 238 would require that the contribution be 22 percent. He asked, "Does that fit within your range of expectation for a plan that would provide those equality of benefits?"

[11:15:47 AM](#)

MR. BJORK stated, "It's our experience that 20 percent of salary needs to go towards the pension." Regarding the 22 percent in HB 238, he noted that "a chunk of that goes toward major medical coverage and also the health reimbursement rate"; therefore, "those percentages are not going directly into the pension." He stated his experience with [NEA-Alaska's] own employees is that it takes about 20 percent of salary into the pension to accomplish retirement with dignity.

[11:16:24 AM](#)

CHAIR SEATON offered some statistics and explained, "I'm trying to figure out where the 20 percent into the retirement plus medical comes from if that hasn't been the history in any of the last 20 years in the current program."

[11:17:37 AM](#)

MR. BJORK responded that he agrees with the numbers that Chair Seaton put forward. Notwithstanding that, he said, "That is our experience that it takes 20 percent of salary to accomplish a defined ... contribution program that would allow an annuity of sufficient size to last a person throughout their retirement years."

[11:18:03 AM](#)

CHAIR SEATON said he appreciates knowing that Mr. Bjork is talking about "the amount that would be necessary under a defined contribution [plan]." He asked if Mr. Bjork is factoring in an 8.25 percent rate or a lower percentage investment rate based on the history of defined contribution programs, such as 401K, versus a defined benefit program.

[11:18:30 AM](#)

MR. BJORK said he is factoring in an 8.25 percent [rate].

[11:18:39 AM](#)

WILLY DUNNE, President, Kachemak Bay Chapter, Alaska State Employees' Association (ASEA), which includes approximately 60 state employee members, noted that he sent in written testimony [included in the committee packet]. He stated that the members of the chapter are concerned about any increase to their current contribution. They have not seen a pay increase in a couple of years and are due for a small one this year, which would be lost if there was any increase in the contribution rate.

MR. DUNNE said most of the employees are doing their jobs because they like doing them; they could make more money in the private sector or working with the federal government, and many employees are lost to both. He stated that retirement benefits are one of the factors that keeps state employees going. He asked the committee to carefully evaluate any changes to current employees' benefits, and he cautioned the committee to think carefully before structuring a new tier. He said the latter could negatively impact recruitment. He stated his understanding that "there's a big, \$5 billion problem out there that has to be dealt with."

MR. DUNNE said he read a study that shows that state employees have lost approximately 30 percent buying power in their wages over the past 25 years. He predicted that any further reduction would cause employees to "think about jumping ship and not sticking it out." He expressed appreciation for the work that Chair Seaton and his staff have put into [HB 238], but reiterated that he would like the committee to think carefully about [what may] harm employees "any more than we already have been."

[11:23:13 AM](#)

CHAIR SEATON said one segment of the retirement program being considered would be switching to a defined contribution program. No element of that program would change [the benefits of] existing employees, unless they were not vested and opted to change from the current Tier III defined benefit to a new Tier IV defined contribution plan.

11:24:10 AM

REPRESENTATIVE GARDNER asked for verification that going to a defined contribution plan with a new tier level would not in any way affect the shortfall; it would only deal with the future.

11:24:27 AM

CHAIR SEATON answered that's correct. As a point of general information, he reviewed that the past service cost is generated by looking at the projected payments of state, municipal, and school employers and figuring out what the projected expenditures are going to be, amortized over the next 25 years. He explained that the benefits expected to be accrued by employees are looked at to determine their cost. Based on the amount of money in the bank, the percentage of the future benefits that will be covered can be predicted at an 8.25 percent growth rate. The payments that would have to be made over the next 25 years add up to \$15.6 billion.

CHAIR SEATON noted that there are charts [included in the committee packet] that show that. He indicated that it's only the present dollar value that is \$15.6 billion. He explained that "if you take those costs and back ... calculate, subtracting 8.25 percent interest per year," the result is an unfunded liability of \$5 billion in 2003 present dollar value. He said the assumption is that if the \$5 billion in 2003 was put in the bank and earned 8.25 [percent], that amount would grow to [meet the future payments of expected benefits]. That deposit was not made in 2003; therefore, the 2004 numbers basically escalated by 8.25 percent and, because there was one less year to grow that amount, the unfunded liability is now \$5.6 billion.

CHAIR SEATON stated that \$5.6 billion is "the present dollar cost that we would need to have invested at 8.25 [percent] to cover the projected liabilities of \$15.6 billion." Chair Seaton indicated that if nothing is done this year, the \$5.6 billion will grow by 8.25 percent, resulting in an even larger present dollar value unfunded liability next year. The \$15.6 billion of projected payments are still the same, but there won't be as

many years to invest an initial sum of money now that can grow to cover the shortfall.

11:27:09 AM

CHAIR SEATON said one option would be to spend \$5.6 billion from the general fund this year and let it grow at 8.25 percent, which would cover every bit of the past service cost, without having to have an increase in employer contribution rates. He described another option as increasing the employer contribution rates. A third way, he proffered, would be a combination of paying off some of the unfunded liability and increasing the employer rate or having a matching employer/employee rate.

CHAIR SEATON said the calculations [presented by Mercer Human Resource Consulting - "Mercer"] are all based on the employer rates [escalating to as much as] 44 percent of the total salary of all the school districts. Because the calculations are made on the total [population] base growing at 1 percent a year, even if a defined contribution plan is instituted and there is no actual past service cost associated with [those individual employees] under that plan, the employer is still going to have to pay the same amount of money into the system because the calculations of [the past service cost] rates [from Mercer] are based on the total salary of the employer. Chair Seaton stated that it gets confusing. He indicated that there is a past service cost liability to the employer even though a defined contribution program would mean that each individual employee does not have a past service cost associated with him/her, and the employer would be responsible for that liability.

11:29:29 AM

CHAIR SEATON explained that if the wage base of the new employees under the defined contribution plan is not included, then as soon as there are an equal number of new employees [under the defined contribution plan] and old employees [under the defined benefit plan], the contribution rate - instead of being at 44 percent - would be at 88 percent and would result in [the same dollar rate distributed among] fewer employees. The actuaries, he explained, have tried to calculate a [past service cost] rate that is reasonably fixed over time - amortized over time - to give a stable percentage, and they have to use the entire wage base [to make those calculations]. If a declining wage base is used, pretty soon there would be 200-300 employees left that hadn't retired yet, and "you'd be paying 10,000 percent of their salary," because [the employer] still has to

contribute the same dollar amount and would not be spreading it over the [entire] wage base.

[11:30:21 AM](#)

REPRESENTATIVE GRUENBERG asked Mr. Dunne about a study he previously mentioned that shows that, over last 25 years, the earning power of governmental employees has declined 30 percent.

[11:30:51 AM](#)

MR. DUNNE recollected that that study was part of the public safety employees' negotiation, and he offered to track down a copy.

[11:31:14 AM](#)

CHAIR SEATON echoed that he would like a copy of the study.

[11:31:51 AM](#)

CHAIR SEATON noted that Mr. Dunne had mentioned the existing tiers during his testimony. He noted that HB 238 would change three things: First, a preferred provider drug list would be required for existing employees. Second, the bill would change the definition of the Ad Hoc Post Retirement Pension Adjustments (PRPAs), so that "when the system can support it" means when the system is 100 percent funded. Third, the bill would equalize contributions between employers and employees. He noted that Mr. Dunne had testified to that and indicated that the committee would give that careful consideration.

[11:33:15 AM](#)

REPRESENTATIVE GRUENBERG said Representative Elkins had asked a question regarding the meaning of "qualified domestications relations order" (QDRO). He said QDROs are required under both federal and state law to meet the requirements "of these statutes" and the Employment Retirement Income Security Act (ERISA). He offered further details.

[11:34:45 AM](#)

CHAIR SEATON explained that in the bill, "member" means someone who was in a retirement program and "participant" could include a child or spouse, for example.

[11:35:19 AM](#)

REPRESENTATIVE GRUENBERG added that those two words are terms of art that are known throughout the industry.

The committee took an at-ease from [11:35:42 AM](#) to [11:36:49 AM](#).

[11:36:50 AM](#)

CHAIR SEATON mentioned the article in the March 6, 2005, Anchorage Daily News, written by David Reume entitled "State's salaries are falling behind". [The article is included in the committee packet.]

[11:37:46 AM](#)

KATIE SHOWS, Staff to Representative Paul Seaton, Alaska State Legislature, on behalf of Representative Seaton, Chair of the House State Affairs Standing Committee, sponsor, directed attention to a [single-page, double-sided] handout in the committee packet. She said the handout is a model showing a defined contribution pension account amount, based on a model by Richard Solie, Ph.D. She stated, "All offices have this model and have been working with it." She directed attention to the front page, entitled, "Projected Benefits-Rate of Return 6.73 percent." She said that is based on the Anchorage "CPI" of 3.73 percent and a [real rate of interest] of 3 percent. She noted that the real rate of interest mistakenly shows on the page as 4.52 percent, and should read 3 percent. It's a conservative rate of return based on the assumption that individually managed accounts will collect less interest than a group-managed account, because the employee will choose more conservative investment options.

[11:40:32 AM](#)

MS. SHOWS said the chart shows what the amount of the defined benefit account lump sum would be at termination at 10, 20, 30, and 40 years. She said the lump sum amounts would be the same for both males and females, assuming a base salary of \$37,538 and a salary increase, including inflation, of 5.73 percent. She highlighted further details regarding the lump sums. In response to a question from Chair Seaton, she stated her understanding that the column which shows the lump sum at termination is "in the real dollar value at retirement," whereas the column that shows the beginning annuity in 2004 dollars shows the annual pension benefit for the retiree, calculated in

2004 dollars. She noted that the reason the number is higher for men than women, under the beginning annuity in 2004 dollars column, is because women tend to live longer than men. She directed attention to the last column, which shows the percent funded compared to the current defined benefit plan. She offered an example. She added, "And that also assumes the defined contribution pension account percentage of 15.5 percent, which is what HB 238 has for PERS employees. It's slightly higher - 15.75 percent - for TRS employees. So, after medical benefits are taken out of the equation, this is what is attributed to a defined contribution account."

[11:43:48 AM](#)

REPRESENTATIVE GRUENBERG directed attention to a portion of the fourth paragraph of previous testifier Mr. Dunne's written testimony, which read:

Most state employees have not had a pay raise in several years. We are scheduled to receive a small (1.5%) raise this year

REPRESENTATIVE GRUENBERG said it looks like the charts being reviewed assume a salary increase of 5.73 percent the first five years, then 4.23 percent, based on the assumptions of Mercer. He said that seems to be contrary to what Mr. Dunne has said.

[11:44:37 AM](#)

MS. SHOWS responded as follows:

The assumptions included here [are] a real salary increase of 1.5 percent for the first five years, and then .5 percent for the following years. So, the additional percentage is indexed for inflation. And we are going off of - as is Dr. Solie's table - Mercer's assumptions.

REPRESENTATIVE GRUENBERG said he is just trying to compare the chart in front of the committee with the conflicting previous testimony.

[11:45:17 AM](#)

CHAIR SEATON answered that's correct.

[11:45:42 AM](#)

MS. SHOWS turned to the back of the page, which shows the same headings, but for a rate of return of 8.25 percent. She said it's a far more generous percentage compared to the current plan. She noted that she could make available the computer program which she used to project these assumptions. In response to a question from Chair Seaton, she confirmed that the chart is calculated for PERS.

[11:47:11 AM](#)

CHAIR SEATON made the following observation:

Basically, the analysis is showing that, if the defined contribution rate of return is equal to Mercer's rate of return ..., then ... the defined contribution plan actually - other than the 10 years - ... for 20, 30, or 40 years of service is generating a much more lucrative plan for the employee than the current plan. However, if we're looking at a 2 percent or ... less return rate ..., [and] if we assume that employees managing their own money are going to earn less than the PERS investment, then we see that it doesn't compare nearly as well, unless you're a male and you've been in the system for 40 years.

CHAIR SEATON said he thinks those are issues the committee needs to wrestle with.

[11:48:31 AM](#)

REPRESENTATIVE GRUENBERG noted that during a divorce, one question often involves what a pension is worth. Many of the arguments revolve around the assumptions that are made.

[11:49:31 AM](#)

CHAIR SEATON reminded the committee that Mercer [Human Resource Consulting] is the company that projects the actuarials. He also mentioned Milman, another actuarial firm used in 2001 specifically to audit the results provided by Mercer. Chair Seaton said that information is available through his office.

[11:51:36 AM](#)

CHAIR SEATON indicated that HB 238 would set "a 20 percent rate." Subtracting out the medical portion, which is 3.5 percent medical and 1 percent health care reimbursement rate, what is left is "a very good plan that's better than the defined benefit plan that we have, if we are using the 8.25 percent return rate on the account." He added, "Or we have a plan that doesn't match up if we say that we're going to earn 1.5 percent less than retirement and benefits currently earns on the assumptions." He explained that all the assumptions are "the same on both, except for the rate of return."

[11:52:42 AM](#)

REPRESENTATIVE GRUENBERG asked if there could be a plan made available to give people the option of investing their retirements themselves or having someone else do it.

[11:53:09 AM](#)

CHAIR SEATON answered, "Sure." He clarified that HB 238 would not allow people to individually manage their funds; it would provide for a selection of money managers, similar to that in [the state's Supplemental Benefits System (SBS)], to manage the fund. There have been a number of studies that have shown that the employee managing his/her own money is more conservative and thus receives less reward from his/her pension fund. He suggested one option may be to have one board manage the money, but in individual accounts.

[11:55:52 AM](#)

REPRESENTATIVE GRUENBERG responded that he thinks that's a great idea; however, he suggested that it should be left to the employee to choose one way or the other.

[11:56:17 AM](#)

CHAIR SEATON said that's what is being considered "with these diversities."

[11:56:50 AM](#)

REPRESENTATIVE GARDNER referred to a white paper from NEA-Alaska showing Nebraska's experience of changing to a defined contribution plan and then changing back to a defined benefit plan.

MR. BJORK explained that that happened because the individually directed accounts had a lower rate of return and could not sustain retirement. He noted that West Virginia made a similar decision a week ago to return from a defined contribution plan to a defined benefit plan for the same reason.

[11:58:09 AM](#)

REPRESENTATIVE GARDNER asked what those states' rate of return was.

[11:58:17 AM](#)

MR. BJORK answered that the rate of return in Nebraska was approximately 6 percent, and it is recognized that it takes 8.25 percent to generate the kind of return needed to have a viable retirement. He said the numbers were about the same for West Virginia.

[11:59:15 AM](#)

REPRESENTATIVE GRUENBERG said he would like to hear from witnesses from one of those two states.

[11:59:35 AM](#)

CHAIR SEATON said paper work will be made available regarding West Virginia. He asked if some of Mr. Bjork's concerns would be alleviated if [the Alaska State Pension Investment Board (ASPIB)] was investing the money at the same rate that the defined benefit plan would generate.

[12:00:46 PM](#)

MR. BJORK answered yes. He stated, "This rate of return is a critical money-management assumption within any retirement system, and we believe ASPIB has done a very good job ... - it models the Alaska Permanent Fund."

[12:01:18 PM](#)

CHAIR SEATON noted that a report last year showed that the retirement funds were actually producing, over time, a higher rate of return than the Alaska Permanent Fund did. He offered further details.

[12:01:52 PM](#)

MR. BJORK said employees are naturally "risk averse" and ASPIB has the capacity to "dot that professional management."

[12:02:10 PM](#)

REPRESENTATIVE GRUENBERG suggested that a common theme is security and rate of investment. He applauded the work of the chair and the work that the committee is doing. He said "the other bill" that would change the makeup of the boards concerns him, and he opined that it is imperative to have "the best, most honest people" on the boards to "maximize the return and the security."

[12:03:33 PM](#)

CHAIR SEATON reviewed that ASPIB is an investing board, while the TRS and PERS Boards deal mainly with appeals and setting rates. He noted that one section of HB 238 would set an 11 percent floor on employer contributions. He mentioned the unfunded liability and said, "If ... the state and local governments have to write checks for \$15 billion over the next 25 years and have not collected that money, that is a big problem within the system." He stated his understanding that 86 percent of the TRS retirement section is funded, which means it's in much better shape; "it put a floor on and did not go down below 11 percent." He offered further details and said, "It's a question of the bottom line and how we get there." He said the committee members could come in individually to his office to view a Power Point presentation.

[12:06:45 PM](#)

REPRESENTATIVE ELKINS suggested that it might be advantageous to do the Power Point presentation before the entire committee.

[12:07:05 PM](#)

TOM HARVEY, Executive Director, NEA-Alaska, testifying on behalf of NEA-Alaska, commended Ms. Shows for "generating a mechanism of looking at lots of scenarios." He said NEA-Alaska has also developed several charts showing actual cases across the state, and he offered to make those charts available to the committee upon request. He said Mr. Bjork pointed out that the question to ask is, "What are the assumptions you're going to use?"

MR. HARVEY noted that, regarding salary increases, over the past 16 years, the teacher average salary has increased 1.36 percent. He said, "If you're making an assumption that somebody's salary's going to increase by ... 5.73 percent, then sure, their annuity's going to look good at the other end. But when in reality what they're getting are increases of 1.36 [percent], inflation alone is going to eat more of that up, because the inflation, which is another assumption that I'd like to check on ..., should be the assumption for everything that the state does." He recalled being continually told by actuaries during work on the Percent of Market Value (POMV) last year that 2.6 percent was the inflation rate over any 10-year period of time that "you would pick in the State of Alaska." He continued:

So, we generated charts at 2.6 [percent] and discovered some alarming things that occur at that rate of inflation, versus a salary increase of only 1.3 [percent].

MR. HARVEY stated his willingness to work with the committee on any number of scenarios. He said teachers do better in the first nine years because of the step increases. However, when they get to the top and there are either no raises or raises of only 1.36 percent, that's when the trouble begins, "particularly when you're suggesting that a male has to work 40 years in order to get to a defined contribution plan that will look the same as the defined benefit plan."

[12:11:08 PM](#)

CHAIR SEATON clarified, "That is if you calculate defined benefit at 8.25 [percent] and ... you calculate defined contribution at 6.73 [percent]." He offered further details.

[12:11:44 PM](#)

MR. HARVEY said Chair Seaton hit on a potential solution of ensuring that it is an entity like the ASPIB Board doing the management so that the 8.25 percent return can be guaranteed. He stated that the other issue will be the assumption on health care.

[12:13:00 PM](#)

MR. HARVEY, in response to a comment from Representative Gruenberg, reiterated that he has a simple chart that shows the teacher average salaries. He offered more details and, in

response to Chair Seaton, said he would send it to the committee.

12:14:04 PM

REPRESENTATIVE GRUENBERG suggested that his staff would benefit from some informal individual instruction regarding these issues.

12:15:10 PM

CHAIR SEATON said his staff is already doing that with other groups and would be happy to involve Representative Gruenberg's staff and anyone else's staff.

12:17:07 PM

CHAIR SEATON directed attention to a handout, "State of Alaska PERS & TRS Proposed Medical Program House State Affairs." He asked the committee to concentrate on the "pre-65" benefits. He said he doesn't want to go through this without the department representatives who have not yet arrived at the meeting. Notwithstanding that, he proffered that there should be a fair amount of difference in what the contribution rate must be, depending on how the medical program is designed. He discussed some differences between PERS and TRS that must be considered.

12:20:28 PM

BRADLEY FLUETSCH told the committee that he is a financial consultant with Wells Fargo Investment, but is testifying on behalf of himself. He referred to the "projected benefits - rate of return 6.73 percent" page and said if the defined contribution pension account percentage assumption of 15.5 is "ramped up" to 28.5 and the columns are "rerun," the [numbers] would be almost doubled. He indicated that when deferred [compensation] is added, the retirement plan becomes "fairly attractive."

MR. FLUETSCH, regarding West Virginia and Nebraska, said there is good evidence of how Alaskans invest their retirement through SBS. He suggested, "Let's take a look at the target retirement funds - target 2015, target 2020. These are retirement funds designed for employees retiring on or about a specific year. How are they doing relative to the 8.25 and the 6.73 [percent]?" Mr. Fluetsch also recommended looking at the Alaska Balanced Fund to see how it's doing. The last thing he recommended

asking is: "What is the break-even rate of return, where the assumptions zero out ... where the defined contribution equals the defined benefit, so that in this percentage column they're all zeros?"

[12:23:26 PM](#)

CHAIR SEATON informed Mr. Fluetsch that he has requested that information regarding SBS, the different funds, and how they've been faring. Another consideration will be whether or not SBS should be a factor in a rewrite of the program. He offered further details.

[12:24:48 PM](#)

MR. FLUETSCH, in response to a comment by Chair Seaton, stated that everybody participates in SBS at the same rate; therefore, he clarified that Chair Seaton is talking about deferred compensation.

[12:25:58 PM](#)

HEATH HILYARD, Staff to Representative Mike Kelly, Alaska State Legislature, on behalf of Representative Kelly, noted that the State of Michigan changed to a defined contribution plan about 10 years ago, and he recommended that Michigan's plan could be used as a comparison model.

[12:26:43 PM](#)

REPRESENTATIVE GRUENBERG asked whether any of the regional divisions of [the Council of State Governments (CSG)] or the National Conference of State Legislatures (NCSL) have any task forces or committees working on this issue on an ongoing basis.

[12:27:14 PM](#)

MR. HILYARD offered his belief that NCSL is, but perhaps CSG is not involved as much. He said he has also looked into the American Legislative Exchange Council. In response to a question from Chair Seaton and Representative Gruenberg, he said he doesn't know if there are any House Representatives from Alaska serving on [the NCSL] committee.

[12:28:20 PM](#)

REPRESENTATIVE GRUENBERG opined that as the Legislative session winds down and the Interim begins, it is important to have "somebody sitting on ... that committee, whatever it is." He offered to look into the matter.

[12:29:09 PM](#)

MR. HILYARD stated his belief that Representative Anderson serves on the Labor & Commerce labor committee for NCSL, but he doesn't know if that committee has purview over retirement and benefit issues.

[12:30:03 PM](#)

CHAIR SEATON noted that the information regarding the State of Michigan's plan was being distributed. He asked the committee members to go through the sectional and bill on their own time and be prepared to go through it on Tuesday, April 5. He indicated that it may be necessary to hold an informal work session and told people to let him know if they are interested in participating.

[HB 238 was heard and held.]

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at [12:31:29 PM](#).