

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

April 9, 2005

9:35 a.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Representative Jay Ramras

**COMMITTEE CALENDAR**

HOUSE BILL NO. 208

"An Act authorizing the Department of Military and Veterans' Affairs to establish and maintain an Alaskan veterans' cemetery; and establishing the Alaska veterans' cemetery fund in the general fund."

- MOVED HB 208 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. 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 208

SHORT TITLE: STATE VETERANS' CEMETERY

SPONSOR(s): REPRESENTATIVE(s) GUTTENBERG

03/07/05	(H)	READ THE FIRST TIME - REFERRALS
03/07/05	(H)	MLV, STA, FIN
03/31/05	(H)	MLV AT 1:00 PM CAPITOL 124
03/31/05	(H)	Moved CSHB 208(MLV) Out of Committee
03/31/05	(H)	MINUTE(MLV)
04/01/05	(H)	MLV RPT CS(MLV) NT 5DP
04/01/05	(H)	DP: GRUENBERG, DAHLSTROM, ELKINS, THOMAS, LYNN
04/09/05	(H)	STA AT 9:30 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
04/02/05	(H)	Heard & Held
04/02/05	(H)	MINUTE(STA)
04/05/05	(H)	STA AT 8:00 AM CAPITOL 106
04/05/05	(H)	Heard & Held
04/05/05	(H)	MINUTE(STA)
04/07/05	(H)	STA AT 8:00 AM CAPITOL 106
04/07/05	(H)	Scheduled But Not Heard
04/09/05	(H)	STA AT 9:30 AM CAPITOL 106

**WITNESS REGISTER**

REPRESENTATIVE DAVID GUTTENBERG

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented HB 208 as sponsor.

DANIELLE BROWN, Staff  
to Representative David Guttenberg  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 208, on behalf of Representative Guttenberg, sponsor.

BENNO H. CLEVELAND  
Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of the Alaska Native Veterans' Association, Chapter 1, and the Military Order of Purple Heart, Chapter 675, in support of HB 208.

MORGAN SOLOMON  
Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of the Veteran of Foreign Wars (VFW) 3629 and the Alaska Native Veterans Association during the hearing on HB 208.

DANA NACHTRIEB  
Fairbanks, Alaska

POSITION STATEMENT: Testified as a life member of the Marine Corps League, Detachment 674, and on behalf of the Veterans of Foreign Wars (VFW) 3629, during the hearing on HB 208.

DENNIS GOLDBACH  
Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of the Purple Heart Society during the hearing on HB 208.

DARREL DORSHER, State Legislative Officer  
Veterans of Foreign Wars of Alaska  
Douglas, Alaska

POSITION STATEMENT: Testified on behalf of the Veterans of Foreign Wars of Alaska in support of HB 208.

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

POSITION STATEMENT: Reviewed a portion of Version L and answered committee questions during the hearing on HB 238.

KATHY LEA, Retirement Manager  
Health Benefits Section

Division of Retirement and Benefits  
Alaska Department of Administration  
Juneau, Alaska

POSITION STATEMENT: Answered questions on behalf of the division during the hearing on HB 238.

KATHERINE SHOWS, Staff  
to Representative Seaton  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Explained the existence of certain language in HB 238, Version L, on behalf of Representative Seaton, sponsor.

#### **ACTION NARRATIVE**

**CHAIR PAUL SEATON** called the House State Affairs Standing Committee meeting to order at [9:35:11 AM](#). Representatives Seaton, Gatto, Elkins, Lynn, and Gardner were present at the call to order. Representatives Gruenberg arrived as the meeting was in progress.

#### HB 208-STATE VETERANS' CEMETERY

[9:36:29 AM](#)

CHAIR SEATON announced that the first order of business was HOUSE BILL NO. 208, "An Act authorizing the Department of Military and Veterans' Affairs to establish and maintain an Alaskan veterans' cemetery; and establishing the Alaska veterans' cemetery fund in the general fund."

[9:36:40 AM](#)

REPRESENTATIVE DAVID GUTTENBERG, Alaska State Legislature, as sponsor of HB 208, stated that the proposed legislation would provide veterans who live in Alaska with a place to be laid to rest. He referred to the sponsor statement [included in the committee packet].

[9:38:17 AM](#)

REPRESENTATIVE GARDNER directed attention to [a two-page e-mail in the committee packet, sent by Bill Jayne of the U.S. Department of Veterans Affairs, showing an estimate of the total grant cost for design, construction, and operating equipment for the Interior]. She suggested that the costs incurred when a

veteran is buried would be a cost already incurred rather than an additional cost.

REPRESENTATIVE GUTTENBERG concurred.

[9:39:19 AM](#)

CHAIR SEATON offered his understanding that there would be a federal offset amount for design, construction, and operating equipment, but the state would be responsible for the land and the operation and maintenance. He asked Representative Guttenberg to discuss the plot allowance.

REPRESENTATIVE GUTTENBERG said the veteran plot allowance is \$300. He stated his understanding that that would cover the interment.

CHAIR SEATON asked if that would depend upon whether the veteran was going to be buried at no charge by the state.

DANIELLE BROWN, Staff to Representative David Guttenberg, Alaska State Legislature, on behalf of Representative Guttenberg, sponsor, clarified that the [Department of Veterans Affairs (federal - succeeded the Veterans Administration in 1989, called VA)] plot allowance is \$300 per veteran, and it would include the interment.

CHAIR SEATON offered clarification that the state is required to bury the veteran at no cost, at which time the plot allowance would compensate the state for conducting that burial. He asked if that statement is accurate.

MS. BROWN answered in the affirmative.

[9:41:25 AM](#)

REPRESENTATIVE ELKINS asked who would pay for the spouse of a veteran.

[9:41:32 AM](#)

REPRESENTATIVE GUTTENBERG said he imagines anyone who is eligible would receive the plot allowance. He said the purpose of the bill is not to add or subtract to the eligibility requirements that are set by the VA.

[9:41:54 AM](#)

REPRESENTATIVE LYNN asked where the proposed cemetery might be located and how the land would be acquired.

[9:42:06 AM](#)

REPRESENTATIVE GUTTENBERG responded that there is no designated place. He suggested that someone could donate the property or the state could find a piece of land to purchase. He said that issue is not addressed in the bill.

REPRESENTATIVE GUTTENBERG, in response to a follow-up question from Representative Lynn, said the land would need to be a minimum of 20 acres.

[9:43:29 AM](#)

CHAIR SEATON asked a question regarding spouses.

[9:43:43 AM](#)

MS. BROWN directed attention to [a seven-page handout included in the committee packet, entitled, "Burial & Memorial Benefits"]. She indicated that the state will mirror the national requirements. In response to a question from Chair Seaton, she pointed out that there are guidelines regarding spouses and dependents on page 5 of the handout, which detail who is eligible for burial in a national cemetery.

[9:45:31 AM](#)

CHAIR SEATON, in response to a comment by Representative Elkins, stated his presumption that "non-service" means a person no longer in the active military. In response to Representatives Lynn and Gardner, he said:

Everything that I've seen says [there will] be a \$300 plot allowance to the veteran. There are other people that are eligible to be buried there. I just want to make sure ... that we have in the record whether the plot allowance is given to spouses [and] eligible dependents, or whether the state is required to pick up the full tab for those eligible dependents without charge, or whether the state ..., as operating this cemetery, will be charging at some rate - whatever that variable rate is.

[9:47:02 AM](#)

REPRESENTATIVE GUTTENBERG said he doesn't have that answer at present, but would provide one to the committee. He reiterated that this bill is not changing any of the VA's already existing requirements.

CHAIR SEATON said he is not meaning that the committee would "make it different for this veteran cemetery than the other," but he said it's incumbent on the committee to understand the program.

[9:48:41 AM](#)

REPRESENTATIVE GUTTENBERG, in response to a question from Representative Gatto, said he is not certain how dishonorable discharges are treated. In response to a follow-up question from Representative Gatto, he said, for example, a deceased veteran in Fairbanks who left wishes to be buried in a veteran's cemetery would be interred in Anchorage or Sitka. He said, "From that cemetery's perspective, they probably have a quarterly report for the VA [regarding] how many people were buried, and it would just become a billing situation; ... it's a standing grant program - how many we buried. It would be the same thing whether you were buried up on the hill ... in the local community cemetery." He emphasized the importance of leaving clear instructions regarding last wishes.

[9:51:19 AM](#)

REPRESENTATIVE GARDNER noted that in the previously mentioned e-mail from Mr. Jayne, a sentence read: "The allowance is payable for each veteran buried at no cost." She said she thinks the implication is that the \$300 allowance is for the veteran only.

CHAIR SEATON told Representative Guttenberg that, before the bill is heard in the House Finance Committee, it would be advisable to find out whether all the other eligible people would pay for the interment services or whether the state is required to pick up that tab. He stated that he doesn't want to hold up the bill.

REPRESENTATIVE ELKINS echoed Chair Seaton's remark that he doesn't want to hold the bill in the committee.

[9:52:48 AM](#)

BENNO H. CLEVELAND testified on behalf of the Alaska Native Veterans' Association, Chapter 1, and the Military Order of Purple Heart, Chapter 675, in support of HB 208. He noted that he is also associated with: the American Legion; the Disabled American Veterans (DAV); and the Marine Corps League, Detachment 674. He stated that one of the rights of a veteran is to have full military services when he/she dies. He said there is a large population [of veterans] in Fairbanks and there are not enough burial plots available.

CHAIR SEATON assured Mr. Cleveland that the committee has no intention of questioning the right and privilege of every veteran, but is looking to establish a new cemetery in Fairbanks for Interior Alaska.

[9:56:44 AM](#)

MORGAN SOLOMON, Veteran of Foreign Wars (VFW) 3629; Alaska Native Veterans Association, said, "I'm a life member there and also a life member up in Barrow, Alaska." He said he was surprised to see HB 208. He said Birch Hill Cemetery in Fairbanks is filling to capacity. He said a new cemetery in Fairbanks would benefit the veterans. He indicated that a veteran from the Interior should not have to be buried in Anchorage. Mr. Solomon concluded, "For your information, in the Interior we have many veterans that are forgotten, one way or the other."

[9:58:43 AM](#)

CHAIR SEATON noted that data shows there are 11,164 veterans in the Fairbanks North Star Borough "and the three adjoining areas," and "we definitely want to make sure that we have area to take care of them."

[9:59:03 AM](#)

DANA NACHTRIEB testified as a life member of the Marine Corps League, Detachment 674, and the Veterans of Foreign Wars (VFW) 3629. He noted that he is also a 32-year member of the Elks Lodge, a member of the American Legion, and a member of the Alaska Native Veterans Association. Regarding the previous committee discussion regarding dishonorable discharge, he drew attention to the first page of the "Burial Benefits Eligibility" handout, which shows who is eligible as follows:

(1) Any member of the Armed Forces of the United States who dies on active duty.

(2) Any veteran who was discharged under conditions other than dishonorable. With certain exceptions, service beginning after September 7, 1980, as an enlisted person, and service after October 16, 1981, as an officer, must be for a minimum of 24 continuous months or the full period for which the person was called to active duty (as in the case of a Reservist called to active duty for a limited duration). Undesirable, bad conduct, and any other type of discharge other than honorable may or may not qualify the individual for veterans benefits, depending upon a determination made by a VA Regional Office. Cases presenting multiple discharges of varying character are also referred for adjudication to a VA Regional Office.

MR. NACHTRIEB noted that the sixth page of the same handout shows categories of those who would not be qualified for burial in a VA national cemetery. [The third category, "Disqualifying Characters of Discharge," read as follows:]

A person whose only separation from the Armed Forces was under dishonorable conditions or whose character of service results in a bar to veterans benefits.

MR. NACHTRIEB said the Marine Corp League, Detachment 674, at last count is 100 percent in favor of having a veterans' cemetery in Fairbanks so that families don't have to drive to Anchorage. Personally, he stated his belief that there should be a veterans' cemetery "in every county, borough, and parish throughout the United States" because it is "ridiculous" to make people travel across their state to visit the burial site of their past friends and loved ones.

[10:01:21 AM](#)

DENNIS GOLDBACH, Purple Heart Society, told the committee he wears many other hats like the previous testifiers. He said nothing is being requested that other cities don't already have. He said he is retired and volunteers his time to work with veterans. Many of them, he said, don't have the peace of mind that they had before joining the military. He indicated that providing a cemetery those veterans know will be waiting for them would provide them with that piece of mind while they're

still alive, and may cut down the cost of counseling. Because of the distance to drive to the existing cemeteries, visiting buried loved ones becomes an annual trip for people. He said people are also deprived of the personal aspect of a military funeral. He expressed appreciation for the concerns of "everybody" regarding the bill.

[10:04:19 AM](#)

DARREL DORSHER, State Legislative Officer, Veterans of Foreign Wars of Alaska, stated support of HB 208 on behalf of those veterans, particularly for the cemetery and "the concept of the license plates and the \$300 veterans' death benefit allowance." He added, "I'm sure that the criteria will be set to follow the federal VA standards for veterans and their families ...." He indicated that having a cemetery in Fairbanks would allow veteran's families in the Fairbanks area to honor their families on holidays such as Memorial Day.

MR. DORSHER told the committee that his wife's cremated remains were interred at a VA national cemetery in Minnesota, and when he dies he will join her there. He emphasized the importance of having a DD 214 available, which is required for the \$300 allowance. He said, "Every veteran should have that very handy, and their family should know where it is located at all times."

[10:06:54 AM](#)

REPRESENTATIVE GRUENBERG thanked his constituent, Mr. Dorsher, for his testimony.

[10:07:09 AM](#)

REPRESENTATIVE LYNN stated for the record that a [DD 214] is "a military port of separation" that every veteran has.

[10:07:24 AM](#)

CHAIR SEATON announced that public testimony was closed.

[10:07:36 AM](#)

REPRESENTATIVE GATTO remarked that there is a lot he didn't know about burials before reading the information provided to the committee. For example, there is a requirement that the land provided must be able to hold veterans, their spouses, and their minor children for 20 years.

[10:08:12 AM](#)

REPRESENTATIVE GUTTENBERG, in response to a question from Representative Gatto, reiterated that he has not yet addressed the subject of where the land will be found. In response to a follow-up question from Representative Gatto, he said there is a grant program for the construction of the cemetery up to 100 percent. He explained that the \$300 is just to cover the interment. He said he imagines the other costs, such as the ceremony and flowers, would be the family's responsibility.

[10:09:40 AM](#)

REPRESENTATIVE LYNN moved to report HB 208 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 208 was reported from the House State Affairs Standing Committee.

#

The committee took an at-ease from [10:09:40 AM](#) to [10:16:27 AM](#).

HB 238-PUBLIC EMPLOYEE/TEACHER RETIREMENT

CHAIR SEATON announced that the last 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."

REPRESENTATIVE GATTO moved to adopt the committee substitute (CS) for HB 238, Version 24-LS0761\L, Craver, 4/8/05, as a work draft. There being no objection, Version L was before the committee.

[10:19:11 AM](#)

CHAIR SEATON directed attention to page 15 [of Version L], and asked the representatives of the Division of Retirement &

Benefits to offer their feedback. Specifically, he noted that a phrase [on page 15, line 4] read, "retire directly from the plan", while a phrase [in the next sentence on line 5] read, "retire from the plan". He asked if the division would like to see the word "directly" in both places.

MELANIE MILLHORN, Director, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, responded that she thinks "it works" [to add "directly"].

[10:21:21 AM](#)

REPRESENTATIVE GATTO said he thinks the language is "clumsy."

[10:22:30 AM](#)

MS. MILLHORN, in response to a remark by Chair Seaton, said the definition for "plan" is found on page 17, beginning on line 15.

[10:22:49 AM](#)

CHAIR SEATON said he would flag the area on page 15 as needing a definition of "plan". Notwithstanding that, he asked which terminology would be best regarding retiring and the plan.

[10:23:32 AM](#)

MS. MILLHORN clarified as follows:

Retirement, under the defined contribution plan, can be at any point in time .... What this is really speaking to is when you become eligible for medical benefits under the plan. So, ... that's the distinction when we're talking about retiring from the plan is that you also, satisfying certain criteria, would be eligible for medical benefits.

[10:24:37 AM](#)

CHAIR SEATON said he would flag that area for future discussion. Continuing the discussion of page 15, he highlighted that one of the options that "the member has at least 30 years of service" is applicable at any age. The other option is that "the member reaches the normal retirement age and has at least 10 years of service." He read lines 10-11: "(b) The normal retirement age is 60 months less than the age set for Medicare eligibility."

10:25:29 AM

REPRESENTATIVE GATTO asked what would happen if the Medicare eligibility age is changed during a person's career.

10:26:03 AM

MS. MILLHORN speculated that the number to go by would be the age set for Medicare eligibility on a person's retirement date.

10:26:33 AM

CHAIR SEATON said he wants that to be clear on the record. He suggested adding "at the time of retirement" after "the age set for Medicare eligibility." He said he would flag that, as well.

10:27:56 AM

REPRESENTATIVE GRUENBERG offered his understanding that, constitutionally, when a person's rights vest, he/she then has a constitutional right that cannot be changed without violating that section of the constitution. He offered further details.

CHAIR SEATON told Representative Gruenberg that it's anticipated that the government will move that number back and has already done so to the age of 67 "for some folks." He said original language in the bill is 60 and 65, "because those are the current ones." He said the intent is to vest employees and have everyone knowledgeable about what benefits they will accrue. Those benefits that accrue are related to Medicare eligibility. He added, "Because that's when the premium split comes between what this plan can supply and what is supplied by the federal government."

REPRESENTATIVE GRUENBERG said he understands that but is considering what people's reasonable expectations are and what their constitutional rights are. He gave an example.

CHAIR SEATON said, "If you tell somebody they have a benefit at 60 when they come to work, they'll have a benefit at age 60. If you tell them, and their agreement is, that they will get 60 months pre-Medicare premium support, then I don't know how they could attach a particular age to that, because what you're saying is, "This is the amount of benefit you're going to have; you're going to have 60 months of pre-Medicare eligibility benefit." Chair Seaton stated that so far he doesn't think

there is a problem with this issue, but Legislative Legal and Research Services could be asked for a further opinion.

10:33:04 AM

REPRESENTATIVE ELKINS stated, "That's what we're here for; we want to build a plan that protects the retirees. And if the [federal] law does change, and we haven't got that area covered so that we've drawn enough money, we're still responsible, I feel, to pick that up until Medicare kicks in."

CHAIR SEATON said the committee must make a policy call in deciding whether to set the age at 60 and, no matter what happens, provide the unanticipated amounts, or to set a time of 60 months pre-Medicare premium support. In response to a comment by Representative Gruenberg, he said, "I don't want to go beyond this until we wrestle with it and decide what we want to do."

REPRESENTATIVE GRUENBERG said he doesn't want the committee and the public to think that those are the only two choices.

CHAIR SEATON replied, "Those are the two choices that we have in the two bills before us. We have HB 191, which has Medicare eligibility being the start point for a subsidy on health care costs, and we have HB 238, which currently ... [in Version L] gives 60 months pre-Medicare eligibility." He told Representative Gruenberg that if he wants to offer an amendment for another option, that would be fine.

10:36:35 AM

REPRESENTATIVE ELKINS said every time the committee meets it becomes more apparent to him that this issue needs a lot of work. He continued:

I don't see how we can pass this out this session. And I would think for the safety of the retirees and future retirees of the State of Alaska, that we need some committee work this summer just to -- you know, this issue is too important to slam it through here and put out a bad piece of ... legislation. I come to one meeting [and] I think I've got a handle on it; I come to the next and I don't know.

CHAIR SEATON questioned whether meetings would take place when the committee members are spread across the state during the

Interim. He noted that the committee is meeting on Saturdays for the purpose of dealing with this issue. He said, "I think we're doing exactly the right thing in discussing the philosophy of where we want to go ...."

[10:38:08 AM](#)

REPRESENTATIVE GARDNER expressed her appreciation of Chair Seaton's leadership and his years dealing with the issue in advance of the rest of the committee. She said in the issue at hand that it seems clear that the question is whether to put the state's interest first or the employees' interest.

CHAIR SEATON answered that's correct. He said he thinks people are very cautious not to create a system that will have unfunded liabilities built into it. He said, "It's not just the state; it's ... 154 employers that are in this system with us. And every one of them gets stuck with whatever we design." He offered further details.

[10:41:26 AM](#)

REPRESENTATIVE GATTO said it will be impossible to supply a benefit to employees if the state goes into ruin; therefore, the goal of the legislature is to save the employees' benefits by ensuring the state doesn't get itself so deeply entrenched in paying benefits that it can't afford.

[10:41:57 AM](#)

REPRESENTATIVE GRUENBERG responded, "I guess when Chicken Little said the sky was falling, the real question was whether it was."

[10:42:14 AM](#)

CHAIR SEATON said that's true. He added that, considering the payment schedules that will have to be made over the next years, by the year 2015, the state will be paying \$300 million of the retirement benefits that haven't been collected. He continued:

Now, we can put that all on the school districts, but they have no tax base. So, what the legislature's done to date with the \$38 million that ... we put into the budget - and that's just the very tip of this escalating curve - is ... picked up that PERS/TRS money to the school district. But that grows to \$300 million a year, instead of \$38 million. And ... the

question is, "Is that sustainable? Can we do that? ... If we have those kinds of liabilities, will we be able to pass school budgets that increase anything for the classes?" I mean, that is more why we're here, I think, and why we're wrestling with this, than the retirement system is: "What is the budgetary effect going to be on everything else we do?"

[10:43:37 AM](#)

REPRESENTATIVE GRUENBERG said Chair Seaton is right. This issue deals with fiscal policy - where the state is going to raise money and where it will spend it. He indicated that federal taxes are something over which the state has no control. He said he thinks this is a solvable problem, but it needs to be put into perspective.

[10:45:23 AM](#)

CHAIR SEATON stated, "Really what we're coming to here, folks, is: What [are] the medical benefits that we're willing to charge the employers and the employee? Because, under our defined contribution program, ... we had a 10 percent employee/10 percent employer match, and ... if we want to crank up the contribution, all of the medical has to come from the employer." He offered further details. He said no one is coming to the legislature with an answer on a silver platter; the committee must create the best benefit package that it can.

CHAIR SEATON turned to page 5 of Version L, which shows that the employer contribution under [HB 238] would be 11 percent. The breakdown of that 11 percent is shown [in the following subsections]. [Subsection (b)] shows what goes into the retirement portion, and [subsection (c)] shows that the health care benefit would be at 3.75 percent. [Subsection (d)] shows that the employer would contribute 1.5 percent for the health care reimbursement account (HRA). If the committee wants to provide a larger benefit it can "crank up these numbers." He noted that the normal cost rate from 1980 through 2003 was 11.16 percent average. [HB 238] would keep that rate the same. Chair Seaton said the \$300 million liability will still have to be paid, but [HB 238] offers a plan to replace the system that created that liability.

[10:49:11 AM](#)

REPRESENTATIVE GARDNER remarked that benefits work in harmony with salary levels - one can be less if the other is higher. She said, "We don't know what the other half of the whole package is, so when we try to figure out what is adequate and responsible for recruiting and retaining good employees, we're operating in a vacuum to some extent here."

CHAIR SEATON said he agrees. Furthermore, he said Representative Gardner is talking about today, while the committee is trying to project the retirement life of new employees coming in over the next 25 years. He said there are employee/employer surveys available. He mentioned other issues that need to be considered.

[10:51:57 AM](#)

REPRESENTATIVE GRUENBERG mentioned a related bill that he thought moved out of committee too fast and said he thinks it's important to give this important issue careful consideration so that constituents are happy with the outcome.

CHAIR SEATON assured Representative Gruenberg he doesn't think [HB 238] is anywhere near ready to be moved out of committee.

[10:55:56 AM](#)

REPRESENTATIVE ELKINS directed attention page 15, [lines 28-29], which shows one category eligible for major medical insurance as follows:

(3) a member who reaches the normal retirement age as provided in AS 14.25.470, has at least 10 years of service, and retires directly from the plan;

REPRESENTATIVE ELKINS asked if that would affect those who already qualified at 5 years.

[10:56:58 AM](#)

CHAIR SEATON reminded Representative Elkins that the plan before the committee is for a new tier level and would not affect those in Tier I.

[10:57:32 AM](#)

REPRESENTATIVE ELKINS responded as follows:

I understand what you're saying. But I still believe that school board members, city council members, and people in that category contribute such a small amount in. ... I'm one of those people, and I can tell you I've taken out of the system 50 or 100 times more than was ever paid out on my behalf. And I think it's wrong. I love the system, but I think to protect the health of any future system, ... those people who serve on those governing bodies should be excluded. I've always thought that; when I was on the borough assembly I fought against it and kept it off for the three years I was there - we didn't join. But I'd like to see us address that in detail ....

[10:58:32 AM](#)

CHAIR SEATON said Representative Elkins is right regarding medical eligibility.

[10:58:53 AM](#)

MS. MILLHORN reported that, currently, "elected officials" need to have 10 years of service in order to be eligible for medical benefits. She indicated that there are currently 375 active members of the retirement system who are elected officials, and she surmised that many of those may be in Tier III and would have to serve 10 years of service in order to be eligible. That group of 375 represents .003 percent of the total active PERS and TRS members.

CHAIR SEATON said he thinks Representative Elkins' concern is that the design of that system means that "you have somebody getting a free lunch," because hardly anything is being collected from their employment status "at 50 bucks a month," but they receive the same benefits.

[11:00:13 AM](#)

REPRESENTATIVE ELKINS clarified his point as follows:

The way the system works, if I understand it right, even under the 10-year plan, if they put 10 years on the school board, for example, and come out and go to work driving [a] truck for the state for three years - their high three - then the ... municipality pays the biggest portion of the premium, based on that higher

salary. That's why, in my opinion, the municipalities can't afford to be in this system for the nonregular employees.

[11:00:59 AM](#)

MS. MILLHORN told Representative Elkins that right now employers have the opportunity - through their participation agreement - to exclude those parties from membership, so they have total control over the cost.

[11:01:22 AM](#)

CHAIR SEATON noted that at least one of the cities in his district has taken the option to exclude any future city council members from participation in the system. He indicated that this is in response to the bills the cities are finally getting totaling hundreds of thousands of dollars owed to the employees who did not contribute much.

[11:01:53 AM](#)

REPRESENTATIVE ELKINS stated one of his pet peeves is that the legislature opens the door and gives the responsibility [to the municipalities] to opt out and close that door. He said he thinks that onus should be on the legislature.

CHAIR SEATON indicated that he would accept an amendment to that effect as the committee moves forward with the bill.

[11:02:26 AM](#)

REPRESENTATIVE ELKINS, in response to a question from Representative Gruenberg, said he would not then allow the municipal employers to opt in.

[11:02:45 AM](#)

CHAIR SEATON said he would like to know at this point whether the committee is in general agreement regarding the normal retirement age being set at 60 months [less than the age set for Medicare eligibility].

REPRESENTATIVE GATTO said he agrees philosophically and wants to see the intentions put in "bold print" so that there are no surprises to new employees.

[11:04:11 AM](#)

REPRESENTATIVE LYNN said, "I don't want to be surprised when retirement time comes."

[11:04:24 AM](#)

CHAIR SEATON reviewed page 15, subsection (d), which read as follows:

(d) A member who continues in the employ of the employer after reaching normal retirement age shall continue to participate in the plan and to have contributions allocated to the member's account.

CHAIR SEATON directed attention to page 15, lines 17-21, which read as follows:

**Sec. 14.25.480. Medical benefits.** (a) The medical benefits available to eligible persons are access to the retiree major medical insurance plan and to the health reimbursement account. Access to the retiree major medical insurance plan means that an eligible person may not be denied insurance coverage except for failure to pay the required premium.

[11:06:08 AM](#)

MS. MILLHORN requested on behalf of the division that the committee strike the word "insurance" [throughout subsection (a)], because the plan is self-funded and the use of the word insurance may denote that the Division of Insurance would have regulatory authority. She also asked that the word "medical" be inserted after "denied".

[11:07:19 AM](#)

REPRESENTATIVE GRUENBERG said he thinks there should be notification to members and the legislature if the federal age for Medicare changes. He said the question is whether the presumption is "that the state will go along with it" and at that point will "decouple," or whether it would not and would have to "couple."

[11:09:12 AM](#)

CHAIR SEATON said he would oppose that because the decision has to be made at this point in time. The committee is designing a

plan and, under the Alaska state Constitution, the legislature sets the parameters and the employees have the ability to understand those parameters "throughout their lifetime of employment."

[11:11:05 AM](#)

MS. MILLHORN said she would like to address the issue of notification. She said the division has the responsibility to educate, counsel, and notify members about plan benefits at the time those members are employed, and at any time in the future in which the plan changes. She said the division takes that responsibility seriously and would endeavor to ensure that members, the legislature, and any interested parties would know about changes with adequate notice. She said the information is also listed on the division's Web page.

[11:12:09 AM](#)

REPRESENTATIVE GATTO noted that the word insurance also appears on page 15, line 22.

[11:13:07 AM](#)

CHAIR SEATON continued reviewing Version L, on the rest of page 15, and on to page 16.

[11:14:02 AM](#)

MS. MILLHORN directed attention to page 16, [lines 4-6], which read as follows:

(d) Retiree major medical insurance plan coverage elected by a surviving spouse of a [sic] eligible member under this section covers the surviving spouse and the dependent children of the surviving spouse.

MS. MILLHORN asked that line 6 be changed to read, "dependent children of the eligible member who are dependent on the surviving spouse."

[11:15:36 AM](#)

REPRESENTATIVE GRUENBERG stated:

At least for tax purposes ..., I think you can be a dependent of somebody if you're living in their

household and you're dependent upon them. You don't have to be a child. Here, if you want to limit it to ... the child who is the child by ... blood or adoption of both the surviving spouse and the deceased eligible member, then you should say it a little differently. I think ... what you should say is, "dependent children of the surviving spouse and the eligible member."

CHAIR SEATON proffered, "Therefore, if they were children of the spouse who had married the member, they would not be eligible, because they weren't children of the member and spouse."

REPRESENTATIVE GRUENBERG said that's exactly his point.

[11:18:10 AM](#)

CHAIR SEATON indicated that, regarding the health care reimbursement account, there are projections of premiums going up \$28-30,000 "in the time-frame of when somebody comes into this system and retires." He illustrated that it is one thing to cover the spouse and dependents of a retired active employee, yet quite another to cover the spouse and any adopted children from a marriage that occurs after the member retires. He said, "This is totally a policy call." As health care premiums start increasing to \$30,000, there could be many types of structures within the system. For example, he said, "We could have grandparents adopting their grandchildren for coverage, and they would be covered for 20-some years." He offered other examples of how people could work the system to their advantage.

[11:21:24 AM](#)

MS. MILLHORN responded that there is a tax-qualified plan for medical benefits. She emphasized the importance of having a clear definition of who is eligible, and said that definition must comport with 26 U.S.C. 152. She said, "We have looked at this issue very carefully and we understand the consequences of not being clear with that language."

CHAIR SEATON asked if there is any language in the U.S. code that states that coverage must be provided for a spouse who was not a spouse during active employment.

[11:23:32 AM](#)

MS. MILLHORN offered her understanding that the code "doesn't differentiate; it just defines 'spouse'."

CHAIR SEATON said he wants to get the opinion of the attorney general and Legislative Legal and Research Services to find out whether the legislature can restrict the definition of "spouse" and "dependent" children to those spouses and dependent children that existed during the period of the members active employment.

[11:24:45 AM](#)

REPRESENTATIVE GARDNER asked for confirmation that "when somebody gets divorced they split the retirement benefits on occasion" and "they can require as part of the divorce decree that whoever has the medical coverage retain[s] the premiums so that the other spouse retains medical coverage."

KATHY LEA, Retirement Manager, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, answered Representative Gardner as follows:

Currently, an ... ex-spouse can have access only through qualified domestic relations order. So, if there is a divorce after the member has retired, all that the alternate payee can get is access to the medical plan; they have to pay full premium for it, regardless of what the member's eligibility for system-paid premiums are.

MS. LEA, in response to a question from Chair Seaton, said that is the case after a member's death, as well. She clarified, "Any alternate payee only has access to the medical plan. Regardless of whether the member is living or ... the domestic relations order becomes effective upon the member's death, they must pay the full premium for medical coverage."

[11:26:29 AM](#)

REPRESENTATIVE GRUENBERG offered his understanding that there is "even COBRA [Comprehensive Omnibus Budget Reform Act] coverage for three years." He concluded that the ex-spouse is eligible for that coverage but has to pay the premium for three years.

[11:26:48 AM](#)

REPRESENTATIVE GATTO made up a scenario in which an 85-year-old retired active member has lost his wife and children, has been

told he has three months to live, and marries the woman next door who has a dozen adopted children. He asked if the plan would cover them all.

11:27:50 AM

MS. LEA answered that a member who retires unmarried can remarry and cover that spouse and dependent children while he/she is living; however, once that person dies that coverage ends.

11:28:58 AM

CHAIR SEATON said he doesn't think that language is in [HB 238]. He asked Ms. Lea to pull that language out of existing statutes and get it to the committee.

11:29:09 AM

REPRESENTATIVE GARDNER asked for clarification that the committee is proposing that the spouse and dependents that exist for an active member before retirement would be covered after the member's retirement and after the member's death. However, if the member is not married at the time his/her retirement, but marries a spouse with children after retirement, that spouse and children are covered while the retiree is alive, but not after he/she dies.

CHAIR SEATON responded yes. He offered his understanding that "the spouse and dependents that come on after retirement are access only." He asked if that is correct.

MS. LEA responded as follows:

Currently, they come under the retiree's eligibility. So, if the retiree is living, they can cover them with system-paid premiums if the retiree's eligible for system-paid premiums. After death, if it's an after-death coverage, that would end in the current system. And that's principally because, in the [defined benefit (DB)] plan, you're required to elect a joint and survivor option if you want medical coverage to continue after your death for your spouse and dependent children. So, that's the mechanism by which you pay it under the DB plan. If no joint and survivor option is elected, regardless of whether the spouse was a spouse at the time of retirement, the coverage would end at the end of the member's life,

because there was no provision for continuing benefit. So, that's the mechanism we're using currently in the DB plans.

The difference with this [defined contribution (DC)] plan is ... you've broken off the medical from really any tie to a retirement pension benefit.

[11:31:32 AM](#)

REPRESENTATIVE GATTO revisited his previous scenario and asked if the member who was 85 and had three months to live gets himself appointed to the school board just before dying, would the wife with the dozen adoptees retain the benefits?

[11:32:01 AM](#)

MS. LEA responded as follows:

Under the current system, if you had not retired, or if you had elected to stop your benefit and participate again in the retirement system, you could elect a joint survivor, and yes, you could provide that coverage for the new spouse and new children.

Under the way this is currently written, they also would be covered, because you would have a surviving spouse, and if you adopted the children they would be your legal, dependent children.

REPRESENTATIVE GATTO said the purpose of the current conversation of the committee is to prevent the state from sinking under the weight of "things that we've never anticipated."

CHAIR SEATON reminded Representative Gatto that Representative Elkins had suggested exempting those types of employees that don't put in sufficient time to help cover the cost of their benefits, such as a school board member or city council member.

[11:34:56 AM](#)

MS. MILLHORN asked:

Is it accurate to say that your intent would be to change the language to ensure that the member who was married, and those dependents, would ... have coverage

at the time that they were appointed to retirement, but if they were to divorce, that future coverage for those dependents would ... not exist. Is that accurate?

CHAIR SEATON replied:

It would be that the dependents and spouse acquired after active service would not be covered.

MS. MILLHORN said that was her understanding.

[11:35:39 AM](#)

REPRESENTATIVE GARDNER, in reference to Ms. Millhorn's question, clarified:

If there's a divorce, children who are covered at any time - the natural children, biological children - should retain coverage.

CHAIR SEATON added that "dependents are only through their term of dependency." He offered further clarification.

[11:36:36 AM](#)

REPRESENTATIVE GRUENBERG added that a child who is adopted during a member's employment would have the same legal rights as a biological child.

MS. MILLHORN confirmed that's correct.

[11:37:47 AM](#)

CHAIR SEATON asked Ms. Millhorn to shed light on [subsection (g)], page 16, which read as follows:

(g) The medical and optional insurance premiums owed by the person who elects coverage under (b) of this section shall be deducted from the health reimbursement account. If the amount of the health reimbursement account becomes insufficient to pay the premiums, the person who elects coverage under (a) of this section shall pay the premiums directly.

[11:38:57 AM](#)

MS. MILLHORN said [subsection (g)] allows for the premium amount to be deducted from the health reimbursement account. In response to a remark from Chair Seaton, she confirmed that if the health reimbursement account runs out and the person wants to maintain coverage, he/she would have to pay the premium.

[11:39:25 AM](#)

MS. MILLHORN, in response to Representative Gardner, said if a person fails to make a premium payment, he/she would be given approximately a 60-day notice period that coverage is about to lapse. She added, "It would go back to the date they need to make the premium and it would go back to the date to ensure there's no break in coverage. But ... if they go beyond that point, then they would not receive coverage." In response to a follow-up question from Representative Gardner, she clarified that if a person exceeds that period and the coverage completely lapses, that person would not be able to reinstate coverage.

[11:41:14 AM](#)

REPRESENTATIVE GATTO asked, "If my HRA is exhausted, as you mentioned, and January and February are the months when I don't have any money in there, and I haven't paid anything, but I've accumulated expenses, do you pay those with that 60-day extension, or not?"

MS. MILLHORN answered yes, "so long as you're within that time period and if you did have medical expenses that were incurred during that time period, you would ... pay your premiums and it would reinstate your coverage. It would go back to the last date that you were covered, and it would pay those expenses."

[11:42:01 AM](#)

REPRESENTATIVE GATTO clarified, "I was rather thinking in terms: You really don't care; you're not going to pay them ever. You still cover me for those two months?"

MS. MILLHORN answered yes.

CHAIR SEATON directed attention to subsection (h), which read as follows:

(h) The administrator shall set separate retiree health coverage premiums for participants who are Medicare eligible and for participants who are not yet

Medicare eligible. An increase in the premium amount may not exceed five percentage points annually. A participant's share of the applicable premium shall be determined according to (i) of this section.

CHAIR SEATON said, "My understanding was that the 5 percent ... limit on escalation was on what the system would pay, but as I read this you're saying that we're capping the whole premium and just telling Aetna, 'Eat it,' because you're going to provide these medical benefits and we're limiting to 5 percent growth. Do we have this 5 percent in the wrong place?"

MS. MILLHORN said it sounds like there may be an issue there.

[11:44:21 AM](#)

CHAIR SEATON said the intent is to say that a premium subsidy is provided based on the number of years served, but that premium subsidy is capped so that it cannot grow at over 5 percent a year.

MS. MILLHORN responded that's correct.

CHAIR SEATON said, "And so, don't ... believe this language here because it's in the wrong place."

[11:45:17 AM](#)

MS. MILLHORN, in response to a question from Representative Gruenberg, repeated her previous explanation of the notification period someone would receive if he/she failed to make a payment. In response to a follow-up questions from Representative Gruenberg, she said this is not a change from current law. She said she supposes there would be discretion by the PERS and TRS Boards; however, if a person was given a longer period of time, the plan would be exposed to additional costs. She said it would be a policy call of the legislature if it wanted the division to adopt a regulation to look at circumstances on a case-by-case basis. That could be done through statute or by making a recommendation to the division. She said she has not had the personal experience whereby she has witnessed injustice occurring because that provision does not currently exist.

[11:49:54 AM](#)

MS. LEA noted that there currently is a situation involving an alternate payee who did not make a premium payment. That person

appealed to the board. The board did not find extenuating circumstances for that person not to have made the premium payment and upheld the administrator. That person then took the case to superior court. Ms. Lea said she believes the court found in favor of the division, as well.

REPRESENTATIVE GRUENBERG concluded, "So, currently the board does have jurisdiction to consider such a claim."

MS. LEA answered that's correct. She said the board can consider any health claim other than one regarding [that which is] "usual and customary."

REPRESENTATIVE GRUENBERG asked if that would continue to be the case under [HB 238].

MS. LEA offered her understanding that HB 238 would not change the authority of the board.

REPRESENTATIVE GRUENBERG asked that Ms. Lea and Ms. Millhorn let him know if, during the discussion of the bill, they see that that provision would be changed.

[11:51:27 AM](#)

REPRESENTATIVE GARDNER asked if, for example, the board can step in for someone who is mentally ill and has gone beyond the time allowed to miss payment.

MS. LEA answered that's correct.

[11:52:22 AM](#)

CHAIR SEATON directed attention to subsection (i), which read as follows:

(i) The portion of the cost of premiums payable by the participant is 70 percent if the member had 10 years of service; for each additional year of service after the member's 10th year of service, the cost of premiums decreases by three percentage points; however, the minimum employee portion of the premium is 10 percent if the member has 30 or more years of service.

CHAIR SEATON said this is a bit of a change from some of the other schedules. He said, "I incorporated this in here because

I have trouble with the policies that jump and ... make people make decisions based on, 'Oh, I've got to stay four years to get to the next category,' or 'I may as well quit because I have to be here three more years before I can get any more health care benefits.'" He said this is a policy call.

REPRESENTATIVE GRUENBERG said he supports Chair Seaton in this matter.

REPRESENTATIVE ELKINS echoed that support.

[11:54:23 AM](#)

MS. MILLHORN, in response to a question from Chair Seaton, said the division doesn't have a problem with the benefits, as a matter of policy, because it is the purview of the legislature to make that decision. She said, "We would ... re-cost that, so that the members know what that change may be as far as [an] increase or monetary cost associated with that."

REPRESENTATIVE GRUENBERG surmised that there would be a more positive fiscal note under Version L than the current system.

MS. MILLHORN stated her understanding of the language in Version L is that a member would pay 3 percent less for each year of service. She asked if that is accurate.

REPRESENTATIVE GRUENBERG said, "So, you're saying it actually would cost the system more."

MS. MILLHORN answered that's correct.

CHAIR SEATON said, "It would have kept the person at the higher contribution level until they reached the step."

MS. MILLHORN concurred.

[11:57:31 AM](#)

CHAIR SEATON directed attention to subsection (j), which read as follows:

(j) The eligibility for retiree major medical insurance coverage for an alternate payee under a qualified domestic relations order shall be determined based on the eligibility of the member to elect coverage. The alternate payee shall pay the full

monthly premium for retiree major medical insurance coverage.

REPRESENTATIVE GRUENBERG said he would like to have additional conversation regarding this issue.

CHAIR SEATON said the intent in this language is to ensure that the premium paid does not exceed the premium that would have been paid through to the member.

11:59:45 AM

MS. MILLHORN said she and Ms. Lea found the first sentence in subsection (j) to be confusing and did not know if, based on a member's eligibility to elect coverage, it somehow might denote that the cost to the member would be attached to the eligibility portion for the member, and, if so, if it would be based on the criteria set out for the member. She added, "Because to us, the alternate payee would be fully responsible for 100 percent of the premium."

CHAIR SEATON asked if this language would jive in court.

12:01:22 PM

REPRESENTATIVE GRUENBERG said that first sentence is a matter of who owns [the major medical insurance coverage] and whose eligibility triggers it. He said, "This is a very important issue in family law." He stated there are two ways a qualified domestic relations order (QDRO - pronounced "qua-dro") can be done. One way is to access the former spouse's benefits. The other is to have a separate account and eligibility at the time the QDRO is entered. He said this becomes important when, for example, a bitter spouse won't retire so a former spouse can't access the retirement benefit.

12:03:04 PM

CHAIR SEATON asked Representative Gruenberg to draft a white paper outlining the options.

12:03:54 PM

CHAIR SEATON directed attention to [page 17, lines 11-14], which read as follows:

(2) "retires directly from the plan" means that the member is an active member at the time that the member applies to the administrator for appointment to retirement and that the member continues as an active member up through the day before the day the member is appointed to retirement.

CHAIR SEATON indicated that there had been a question in the past about perhaps requiring that a person coming back to work do so for 12 months before retiring, so that somebody couldn't come back to work for just one day and have his/her [plan] reactivated. He asked if language to that effect should be added to line 13.

MS. MILLHORN deferred to Ms. Lea.

[12:06:23 PM](#)

MS. LEA addressed the language: "and that the member continues as an active member up through the day before the day the member is appointed to retirement." She said, "Since retirement appointments are the first of the month, that would require everyone to terminate on the last day of the prior month and not earlier."

[12:06:55 PM](#)

CHAIR SEATON indicated that that portion of [paragraph (2)] could be deleted and in its place could be inserted, "and was an active member for the previous 12 months."

MS. LEA said that would take care of that.

CHAIR SEATON asked if any committee member would have a problem with doing that, and he said he would flag that language.

[12:07:29 PM](#)

REPRESENTATIVE LYNN asked for a definition of "qualified domestic relations order".

CHAIR SEATON explained it's when a court decides that a person who has been with a spouse for a significant amount of time is entitled to part of that spouse's retirement benefit.

[12:08:42 PM](#)

CHAIR SEATON directed attention to Section 13, page 18, which read as follows:

**\*Sec.13.** AS 39.30.090(a) is amended to read:

(a) The Department of Administration may obtain a policy or policies of group insurance covering state employees, persons entitled to coverage under AS 14.25.168, 14.25.480, AS 22.25.090, AS 39.35.535, 39.35.870, or former AS 39.37.145, employees of other participating governmental units, or persons entitled to coverage under AS 23.15.136, subject to the following conditions:

[12:09:22 PM](#)

REPRESENTATIVE GARDNER asked if the use of the word "insurance" is okay.

MS. MILLHORN answered yes.

[12:09:42 PM](#)

REPRESENTATIVE GRUENBERG directed attention to Section 12, page 18, which read as follows:

**\*Sec.12.** AS 14.40.671(e) is amended to read:

(e) An employee whose rights to transfer assets out of a state retirement system are subject to a qualified domestic relations order is entitled to transfer assets from the state retirement system to the program only if the requirements for receiving a refund under AS 14.25.150(b), 14.25.400, [OR] AS 39.35.200(c), or 39.35.790, as appropriate, are met.

REPRESENTATIVE GRUENBERG stated he thinks it's important that QDROs cover all types of benefits and he asked, "Is there anything that's being omitted?"

MS. MILLHORN said she doesn't think so.

MS. LEA concurred, because she said, "It's talking about transferring assets out of the DC plan."

REPRESENTATIVE GRUENBERG asked, "Do any of these people ever have ... any benefits that are in any of the other state retirement systems - the National Guard retirement system or a judicial retirement system?"

12:11:40 PM

MS. LEA responded that currently there are members of PERS who also have entitlements under the National Guard retirement system or the judicial system, who also have benefits rights in TRS. The only two systems that will recognize service in the other systems are TRS and PERS; the judicial and National Guard systems have no provisions for any benefits that are being paid out of the other systems. In response to a question from Representative Gruenberg, she explained that PERS and TRS have that recognition mostly because a lot of schoolteachers begin as aides or non-teaching positions and then go into a teaching position. She said that ability to cross over is called, "conditional service retirement benefit."

12:13:18 PM

CHAIR SEATON moved on to new language added in Section 13, beginning on page 18, line 25, and continuing through page 19, line 3, which read as follows:

**(B) require the insurance plan to provide a preferred drug list or formulary and must provide that beneficiaries use the appropriate medication on the preferred drug list or pay the difference in cost between the medication listed on the preferred drug list and the cost of a nonformulary medication; however, if a medication is not on the preferred drug list as a generic or nongeneric drug, the insurance plan shall cover the cost of the medication. For purposes of this subparagraph, a nonformulary medication is one that is not listed on the formulary, such as a nongeneric form of the medication when a generic form of the medication is in the formulary.**

CHAIR SEATON said there are savings through use of generic drugs that the PERS and TRS Boards have been voluntarily trying to stimulate. The savings could be up to \$6.5 million a year. There have been indications that putting this language in the bill might be seen as limiting. He noted that there is a letter included in the committee packet from the Department of Health & Social Services that lists 12 possibilities for savings. The question, he explained, is whether a letter of intent should be drafted, directing the administrator to accomplish all savings

applicable rather than designating it in statute. He asked Ms. Millhorn for feedback on this issue.

12:15:34 PM

MS. MILLHORN said the commissioner currently has the authority to make changes to the active and retiree plans, and two vehicles are used to accomplish that: One is through a health benefits evaluation committee, which is a group comprised of management and labor that looks at the plan provisions. In the past several years, the group has, to a large degree, considered cost containment issues. After review by the group, those particular issues come through the division and go to the commissioner for final approval. She said the process is effective, because it allows the commissioner an ongoing process available for making plan changes, and that discretion is something that the division would like to retain. The second vehicle is a similar process done through a retiree health group that considers initiatives and comes forward with recommendations. She said the last time that group met it addressed approximately six initiatives, one of which speaks to the issue of generic drugs and a closed formulary. She reiterated that she thinks it works well to allow the commissioner the final authority and flexibility to make changes.

MS. MILLHORN said the commissioner has tasked the division to look at cost initiatives, including positive open enrollment. She stated her intent to provide information to the committee members regarding all the initiatives that have happened in the last couple of years for the active and retiree plans. She reported that the positive open enrollment should produce a cost savings of \$4 million to the active plan and \$16 to the retiree plan.

12:18:29 PM

REPRESENTATIVE GRUENBERG indicated that [the previously noted subparagraph (B)] is not something that the House State Affairs Standing Committee should get into, but it is a matter for the House Health, Education and Social Services Standing Committee.

CHAIR SEATON said the House Health, Education and Social Services Standing Committee recently passed a preferred drug list, but the House State Affairs Standing Committee is the one that looks at the issues of retirement and benefits. He indicated that the potential for savings could be increased if

the use of generic drugs were made a requirement rather than a voluntary action.

12:21:20 PM

MS. MILLHORN responded that the division has looked at this issue, has worked with the boards, and is ready to implement something that "looks very much like this."

12:21:39 PM

CHAIR SEATON said he doesn't have a problem maintaining the flexibility, but he thinks the committee is in agreement that it wants cost efficiencies implemented in the system as soon as they are applicable and the division has the authority to do so.

REPRESENTATIVE GATTO related that when a pharmaceutical company comes out with new drugs, generic drugs are soon to follow.

CHAIR SEATON noted that there is a letter [included in the committee packet] from [Commissioner Joel Gilbertson], Department of Health and Social Services, which lists a dozen ways to save money through a comprehensive pharmacy program. He suggested that the committee could include a letter of intent asking the administrator to consider and implement good alternatives as soon as possible.

12:23:40 PM

REPRESENTATIVE GARDNER suggested replacing [subparagraph (B)] with "shall participate in cost-saving measures recommended by the administrator and approved by the board."

12:24:05 PM

REPRESENTATIVE GRUENBERG suggested a third approach, which would be to add a temporary section that would "basically have the same kind of a concept and a report to the legislature on the implementation of these reforms at the beginning of the next session."

12:25:00 PM

MS. MILLHORN, in response to Chair Seaton, said all the ideas are good and the division could do what the committee desires. Regarding Representative Gardner's suggestion, she said:

The board meets every so often and the division actually can implement cost-savings measures on a faster order. It's good to have the board involved because they can look at that issue, as well. But just for example, there's an issue that they have been studying for some period of time: ... disease management is an area that right now the federal government is going to have a pilot project on for Medicare to look at .... And I think that that pilot project is approximately three years.

Well, with disease management, when the board studied that for some period of time - a year and a half, almost two years - Aetna looked at what the cost was and the cost to the plan would be \$260,000 or \$300,000 a year. And it was a two-year pilot project that we would not have a return on investment for that expenditure, so about \$600,000 for that two-year period. And then what happens is that ... - because it was on a voluntary basis for diabetes and heart conditions - ... if the person was Medicare eligible, the savings would accrue to Medicare. And we can't treat our population pre-65 any differently than we would post-65.

[12:26:51 PM](#)

So, when that recommendation was studied, the analysis was done, [and] the cost was determined, we put that forward, and the board recommended that we enter into that particular initiative. However, when the commissioner looked at that, he looked at the cost to the plan; he looked at the two-year pilot project; he looked at the savings possibly never coming to the division, but actually accruing to Medicare; [and] he said, "No, not at this time." That's an initiative the board still wants to pursue. And I think that by looking at the pilot project that Medicare has now established, and letting that run its course, it will determine what the research concludes on the cost-savings to plans. So, perhaps if Medicare ends up finding that accrued savings and has that plan available, then other plans would benefit from that, as well.

So, I guess my point is that sometimes by leaving the board with the final approval, ... there's timing kinds of issues, and there may be some disagreement.

[12:28:08 PM](#)

CHAIR SEATON asked Ms. Millhorn to draft language for the committee based on Representative Gardner's idea.

[12:30:25 PM](#)

CHAIR SEATON, in response to a comment from Representative Lynn regarding two items in the previously mentioned letter from the commissioner of the Department of Health and Social Services, indicated that the committee's level of expertise does not include addressing the items in detail.

[12:30:50 PM](#)

REPRESENTATIVE GRUENBERG suggested taking the concept in [subparagraph (B)] and putting it in a separate bill. He said it's important, but it goes a little bit beyond HB 238.

CHAIR SEATON responded that the committee could talk about that at a different time.

[12:32:40 PM](#)

MS. MILLHORN, in response to a question from Chair Seaton, said she thinks the language on page 19, paragraph (2) is fine.

CHAIR SEATON, in response to a question from Representative Gardner, said he thinks "children chiefly dependent" relates to the Internal Revenue Service's way of saying a majority of dependency.

[12:33:34 PM](#)

MS. MILLHORN said the division uses that terminology. In response to a question from Chair Seaton regarding the meaning of "dual choice requirement" on page 19, line 18, she said she would have to research an answer.

[12:34:45 PM](#)

CHAIR SEATON turned to page 20, lines 13-16, which read as follows:

(7) A person receiving benefits under AS 14.25.110, AS 22.25, AS 39.35, or former AS 39.37 may continue the life insurance coverage that was in effect under this section at the time of termination of employment with the state or participating governmental unit.

CHAIR SEATON asked if that is existing statute.

MS. LEA answered yes. She said that current language applies to the state's optional life insurance plan.

CHAIR SEATON, in response to a question from Representative Gardner, clarified the state and employee division of the contribution rate shown on page 20, lines 19-22.

[12:37:56 PM](#)

CHAIR SEATON pointed out language that was not transferred correctly from the prior version to Version L: On page 20, lines 25-26, "persons over 65" should read "Medicare eligible persons", and "age 65" should read "Medicare eligible age".

[12:38:39 PM](#)

CHAIR SEATON turned to page 21, lines 5-7, which read as follows:

(12) Each licensee holding a current operating agreement for a vending facility under AS 23.15.010 - 23.15.210 shall be covered by the group policy that applies to governmental units other than the state.

CHAIR SEATON said he would like to know why this language is in the bill.

REPRESENTATIVE GRUENBERG read the statute, which he said has to do with vocational rehabilitation.

[12:40:24 PM](#)

KATHERINE SHOWS, Staff to Representative Paul Seaton, Alaska State Legislature, on behalf of Representative Seaton, sponsor, said the drafter of the bill informed her that the language is in the bill in order to include "a certain type of employees

that the state hires, ... usually developmentally disabled or blind." She offered an example. She explained, "It doesn't refer to the retirement plan, per se, but it refers to the group insurance that the state contracts for all active ... and retired employees. So, it's just ... language that needs to be included, but doesn't impact the retirement system."

[12:41:12 PM](#)

CHAIR SEATON asked Ms. Millhorn to address the next portion of the bill on page 21.

[12:42:08 PM](#)

MS. MILLHORN directed attention to line 11, where a provision establishes that new members enrolled under the plan would have a health reimbursement arrangement. She highlighted the language beginning on line 19, which read:

(a) The purpose of the plan is to allow medical care expenses to be reimbursed from individual savings accounts established for qualified participants.

[12:42:52 PM](#)

CHAIR SEATON asked everyone to review this portion of Version L. He said it would be good to get the previously flagged areas/ideas for amendments in writing. He characterized the biggest issues as encompassing health benefits, including pre-Medicare, post-Medicare, and the decisions related to health reimbursement accounts.

[12:44:17 PM](#)

MS. MILLHORN, in response to a question from Representative Gatto, confirmed that health reimbursement accounts (HRAs) are accounts into which members can deposit pre-tax money to spend on an as-needed basis.

CHAIR SEATON noted that available to the committee are printouts that show different contribution amounts over 20, 30, and 40 years, how they would grow, and what the expected premiums would cost for health care plans. He said his staff would distribute those printouts to committee members.

[House Bill 238 was heard and held.]

## **ADJOURNMENT**

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at [12:45:40 PM](#).