

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

April 12, 2005

8:03 a.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

CONFIRMATION HEARING(S)

State Commission for Human Rights

M. Chris Hayes - Fairbanks  
Lester Charles Lunceford - Whittier  
Barbara J. "Tamie" Miller - Wasilla  
Randall H. Eledge - Anchorage

- CONFIRMATION(S) ADVANCED

HOUSE BILL NO. 215

"An Act relating to the investment responsibilities of the Alaska Permanent Fund Corporation; relating to regulations proposed and adopted by the Board of Trustees of the Alaska Permanent Fund Corporation and providing procedures for the adoption of regulations by the board; and providing for an effective date."

- MOVED HB 215 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

SENATE BILL NO. 87

"An Act relating to motor vehicle safety belt violations."

- MOVED HCS SB 87(STA) OUT OF COMMITTEE

HOUSE BILL NO. 167

"An Act relating to providing a death certificate for a deceased veteran without cost."

- SCHEDULED BUT NOT HEARD

HOUSE BILL NO. 160

"An Act limiting the use of money of the state and its political subdivisions to affect an election."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 215

SHORT TITLE: PERM FUND CORP. INVESTMENTS/REGULATIONS

SPONSOR(S): REPRESENTATIVE(S) ROKEBERG BY REQUEST

03/09/05	(H)	READ THE FIRST TIME - REFERRALS
03/09/05	(H)	STA, FIN
04/12/05	(H)	STA AT 8:00 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  
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  
04/09/05 (H) Heard & Held  
04/09/05 (H) MINUTE(STA)  
04/12/05 (H) STA AT 8:00 AM CAPITOL 106

BILL: SB 87

SHORT TITLE: SEAT BELT VIOLATION AS PRIMARY OFFENSE  
SPONSOR(s): SENATOR(s) BUNDE

02/02/05 (S) READ THE FIRST TIME - REFERRALS  
02/02/05 (S) STA, JUD  
02/17/05 (S) STA AT 3:30 PM BELTZ 211  
02/17/05 (S) Moved SB 87 Out of Committee  
02/17/05 (S) MINUTE(STA)  
02/18/05 (S) STA RPT 2DP 2NR  
02/18/05 (S) NR: THERRIAULT, HUGGINS  
02/18/05 (S) DP: ELTON, WAGONER  
03/01/05 (S) JUD AT 8:30 AM BUTROVICH 205  
03/01/05 (S) Moved SB 87 Out of Committee  
03/01/05 (S) MINUTE(JUD)  
03/02/05 (S) JUD RPT 3DP 2NR  
03/02/05 (S) DP: SEEKINS, FRENCH, GUESS  
03/02/05 (S) NR: THERRIAULT, HUGGINS  
03/03/05 (S) TRANSMITTED TO (H)  
03/03/05 (S) VERSION: SB 87  
03/04/05 (H) READ THE FIRST TIME - REFERRALS  
03/04/05 (H) STA, JUD  
03/19/05 (H) STA AT 9:30 AM CAPITOL 106  
03/19/05 (H) Heard & Held  
03/19/05 (H) MINUTE(STA)  
04/12/05 (H) STA AT 8:00 AM CAPITOL 106

**WITNESS REGISTER**

M. CHRIS HAYES

Fairbanks, Alaska

POSITION STATEMENT: Testified as appointee to the Human Rights Commission.

LESTER CHARLES LUNCEFORD

Whittier, Alaska

POSITION STATEMENT: Testified as appointee to the Human Rights Commission.

BARBARA J. "TAMIE" MILLER

Wasilla, Alaska

POSITION STATEMENT: Testified as appointee to the Human Rights Commission.

RANDALL H. ELEDGE

Anchorage, Alaska

POSITION STATEMENT: Testified as appointee to the Human Rights Commission.

MICHAEL J. BURNS, Executive Director

Alaska Permanent Fund Corporation

Department of Revenue

Juneau, Alaska

POSITION STATEMENT: Presented HB 215 on behalf of the department.

LAURA ACHEE, Research and Communications Liaison

Alaska Permanent Fund Corporation

Department of Revenue

Juneau, Alaska

POSITION STATEMENT: Answered questions on behalf of the department during the hearing of HB 215.

KATHERINE SHOWS, Staff

to Representative Paul Seaton

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Provided clarification during the hearing on HB 238, on behalf of Representative Seaton, sponsor.

MR. BRAD LAWSON

Mercer Human Resource Consulting

Seattle, Washington

POSITION STATEMENT: Reviewed the projected values for health reimbursement accounts prepared by Mercer Resource Consulting, on behalf of the Division of Retirement & Benefits, during the hearing on HB 238.

MELANIE MILLHORN, Director

Health Benefits Section

Division of Retirement & Benefits

Department of Administration  
Juneau, Alaska

POSITION STATEMENT: Offered closing remarks on behalf of the division during the hearing on HB 238.

SENATOR CON BUNDE  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Testified as sponsor of SB 87.

#### **ACTION NARRATIVE**

**CHAIR PAUL SEATON** called the House State Affairs Standing Committee meeting to order at 8:03 a.m. Representatives Gatto, Elkins, Lynn, and Seaton were present at the call to order. Representatives Ramras, Gardner, and Gruenberg arrived as the meeting was in progress.

#### CONFIRMATION HEARING(S)

##### Human Rights Commission

CHAIR SEATON announced the first order of business, the confirmation hearings for appointees to the Human Rights Commission.

[8:04:47 AM](#)

[Due to technical difficulties, the portion of Ms. Hayes' testimony from 8:04:22 to 8:05:40 has been taken from Gavel to Gavel.]

##### M. CHRIS HAYES - Fairbanks, Alaska

M. CHRIS HAYES, appointee to the Human Rights Commission, told the committee that she has lived in Alaska virtually her whole life and loves the state. She said she wants to ensure that people are guaranteed human rights and are not discriminated against. She said many cities have established their own human rights commissions that work in concert with the state's Human Rights Commission. Ms. Hayes stated her belief that she would offer a needed perspective to the commission, because she is a fair-minded person.

[8:05:56 AM](#)

CHAIR SEATON noted that Ms. Hayes is a current member of the U.S. Commission on Civil Rights.

8:06:04 AM

MS. HAYES said she is a member of the "area regional council of the area regional committee." She said the group meets only about twice a year, but is active when funding is available. She listed some of the issues that the group addressed.

8:07:07 AM

MS. HAYES, in response to a question from Representative Gatto, said "COGIC" - an acronym written on her resume - stands for Church of God in Christ. She offered details regarding COGIC, including that its members believe that everyone has the right to believe what they want.

8:07:41 AM

REPRESENTATIVE LYNN noted that Ms. Hayes had said the civil rights group dealt with the issue of exit exams, and he asked her how that relates to civil rights.

8:07:59 AM

MS. HAYES replied that it's an issue of discrimination. She explained, "It's not so much the exam, but the consequences of not passing it."

8:08:46 AM

REPRESENTATIVE GATTO asked, "Is it discrimination if everyone is subject to the same rules?"

8:09:01 AM

MS. HAYES answered, "If it's the law and the rule? No, it wouldn't be discrimination unless it goes against the basic human rights." She said there have been laws in the past that have been discriminatory in nature. She said issues are dealt with on a case-by-case basis. In response to a follow-up question from Representative Gatto, she explained that the previously mentioned exit exam was questioned by some Native Alaskan groups who felt that the resources for learning in preparation for the test were not being made available.

[8:10:45 AM](#)

REPRESENTATIVE GARDNER moved to forward the confirmation of M. Chris Hayes [to the joint session of the House and Senate for confirmation]. There being no objection, the confirmation was advanced from the House State Affairs Standing Committee.

LESTER CHARLES LUNCEFORD - Whittier, Alaska

[8:11:41 AM](#)

LESTER CHARLES LUNCEFORD, appointee to the Human Rights Commission, said he has served two years on the commission and has been reappointed by the governor for a second term. He reviewed that his background has been that of a career police officer. He was the former chief of police for the City of Whittier and is currently the mayor for that city, but his paying job is as a real estate manager for the Alaska Railroad Corporation. He stated that he has a wide variety of interests and experience and thinks his law enforcement background would be useful on the commission. He entertained questions from the committee.

[8:13:34 AM](#)

MR. LUNCEFORD, in response to a question from Representative Gatto, listed the top three discriminatory acts as: sexual [harassment], age discrimination, and race discrimination.

[8:14:18 AM](#)

REPRESENTATIVE GARDNER moved to forward the confirmation of Lester Charles Lunceford to the joint session of the House and Senate for confirmation. There being no objection, the confirmation was advanced from the House State Affairs Standing Committee.

BARBARA J. "TAMIE" MILLER - Wasilla, Alaska

[8:14:45 AM](#)

BARBARA J. "TAMIE" MILLER, appointee to the Human Rights Commission, told the committee that she has been a resident of Alaska for 44 years. She said she is a retired teacher whose work in the classroom afforded her the opportunity to ensure that all her students were treated equally. Ms. Miller said she looks for ways to enhance her community. In response to a

question from Chair Seaton, she said she has not previously served on the commission, but served on [the National Education Association, Alaska branch (NEA-Alaska)] for 18 years - 12 of those years as its president.

[8:16:25 AM](#)

CHAIR SEATON noted that Ms. Miller's application form is included in the committee packet.

[8:16:54 AM](#)

MS. MILLER, in response to a question from Representative Gardner regarding Ms. Miller's NRECA certification, explained that NRECA stands for "National Rural Electric Cooperative Association."

[8:17:13 AM](#)

REPRESENTATIVE GRUENBERG asked Ms. Miller if she or anyone she knows has ever been party to an adjudication before the Human Rights Commission or any other local human rights commission because of a discrimination issue.

[8:17:40 AM](#)

MS. MILLER responded that she doesn't believe so. She explained that if there were any issues during her time serving with [NEA-Alaska], they were probably handled by staff.

[8:17:48 AM](#)

REPRESENTATIVE GARDNER asked Ms. Miller if she has any experience directly related to civil rights.

[8:18:02 AM](#)

MS. MILLER reiterated that, as a teacher, she practiced her firm belief that every student deserves to be treated equally.

[8:18:30 AM](#)

CHAIR SEATON remarked that it's nice to see such diversity of candidates, because that's probably what is needed on the Human Rights Commission.

[8:19:06 AM](#)

REPRESENTATIVE GARDNER moved to forward the confirmation of Barbara J. "Tamie" Miller to the joint session of the House and Senate for confirmation. There being no objection, the confirmation was advanced from the House State Affairs Standing Committee.

RANDALL H. ELEDGE - Anchorage, Alaska

8:19:35 AM

RANDALL H. ELEDGE, appointee to the Human Rights Commission, noted that he is a 23-year resident of Alaska who will bring his business experience to the commission. He expressed his desire to serve on the commission to "give back to the state some of what it's given to me and my family."

8:20:33 AM

CHAIR SEATON noted that Mr. Eledge had sat on the board of directors for the Susitna Girl Scouts.

8:20:38 AM

REPRESENTATIVE GRUENBERG reiterated his question regarding experience with discrimination issues before the Human Rights Commission or any other related commission.

8:21:07 AM

MR. ELEDGE said he remembers some names that were brought forward, but they were not personal acquaintances. In response to further questions from Representative Gruenberg, he offered definitions for some of the acronyms found in his resume.

8:22:12 AM

REPRESENTATIVE GARDNER moved to forward the confirmation of Randall H. Eledge to the joint session of the House and Senate for confirmation. There being no objection, the confirmation was advanced from the House State Affairs Standing Committee.

The committee took an at-ease from 8:23:10 AM to 8:24:38 AM.

8:25:01 AM

CHAIR SEATON discussed the schedule for the remainder of the meeting.

The committee took an at-ease from [8:25:44 AM](#) to [8:27:44 AM](#).

HB 215-PERM FUND CORP. INVESTMENTS/REGULATIONS

CHAIR SEATON announced that the next order of business was HOUSE BILL NO. 215, "An Act relating to the investment responsibilities of the Alaska Permanent Fund Corporation; relating to regulations proposed and adopted by the Board of Trustees of the Alaska Permanent Fund Corporation and providing procedures for the adoption of regulations by the board; and providing for an effective date."

[8:28:44 AM](#)

MICHAEL J. BURNS, Executive Director, Alaska Permanent Fund Corporation, Department of Revenue, presented HB 215 on behalf of the department. He said the bill would change the [legal] list of permissible investments for the permanent fund currently found in statute to "the prudent-investor rule." He noted that currently, 45 of the 50 states' pension funds, including Alaska's, use the [prudent-investor] rule. He said Alaska's Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) have no statutory guideline, but use the [prudent-investor] rule. He said when the fund was originally created, it was 100 percent in fixed income, which made sense at the time. Over time, investments have been liberalized, and the fund's performance has reacted positively to that. Today, he emphasized, the statutory list is actually impeding progress, "causing us to take higher risks for lower returns."

MR. BURNS directed attention to page 4 of a handout from the Alaska Permanent Fund, included in the committee packet, which is entitled, "Reducing Risk, Increasing Return." On page 4 is a graph called, "Efficient Frontier." He noted that the lower blue line shows the expected returns of various asset mixes, and the blue square shows "where we are today." He added that that's where the trustees made their asset allocation, in [March 2004]. He explained that the vertical axis shows "expected historical returns" and the horizontal axis shows "increase in risk" from left to right. He continued as follows:

So, if you go directly above the blue box to the purple box [showing standard deviation], that's the efficient frontier without a statutory list; that is

the return that we could get today for exactly the same risk we are taking. Or conversely, if you look to the left at the green box [showing expected return], we could get the same return we're getting today for that much less risk. So, the statutory list is putting us in a position where we are taking more risk for less return.

8:32:30 AM

MR. BURNS, in response to a question from Representative Gardner, explained that the numbers 1-10 along the blue and red lines stand for different asset mixes that the trustees would look at. He added, "We landed on number 8, and that's probably 55 percent equities [and] ... 35 percent bonds." He indicated that he was also referring to page 5 of the handout. He said, "That's how the efficient frontier is - the different mixes of assets are those points along there, and we've highlighted the square one, because that's the one we decided on a year ago." He added, "Those are driven by the historical returns of the various asset categories."

8:33:26 AM

REPRESENTATIVE GARDNER responded that she didn't see "on the chart where 8 is." She indicated that what she could not see is what is corresponding to the current target or goal.

8:33:36 AM

LAURA ACHEE, Research and Communications Liaison, Alaska Permanent Fund Corporation, Department of Revenue, in response to a question from Representative Gardner, explained:

We don't have all of the possible portfolios; so, the triangles that you're looking at that are numbered - we don't have those in your packet. What we do have are the main points - the blue box, the green box, the brown box, the purple box - and those are on page 5. And, unfortunately, they're not labeled so clearly that you can immediately spot them, but they match up in color. ... For instance, the brown box is labeled, "expected return equals 8.5 percent," and so, if you look on page 5, there's a column [with a matching title] ..., and ... that shows you the asset allocation that corresponds to that point.

[8:34:23 AM](#)

CHAIR SEATON said what is being considered in HB 215 is changing the philosophy from having the legislature dictating what the basket of investments will be to requiring the prudent-investor rule to be used for the management of the permanent fund.

[8:34:46 AM](#)

MR. BURNS, in response to a question from Representative Gatto, said there is an existing definition of the prudent-investor rule.

[8:34:59 AM](#)

MS. ACHEE said the idea of the "prudent man rule" has existed for a long time, and the prudent-investor rule was defined in the early 90s.

[8:35:33 AM](#)

MR. BURNS pointed out that one of the important concepts of the prudent-investor rule is that "you don't have to be right, but you have to ... document ... your thought process ...." He said he thinks that's what the board meetings are about, and that's why there are investors and advisors. He stated, "The fund is governed today by the prudent-investor rule and further governed by the statutory limitations; so, we do operate as prudent investors today."

[8:36:04 AM](#)

REPRESENTATIVE GATTO gave opposite examples of what two different investors may call "prudent." He asked, "Isn't that kind of a self concept?"

[8:36:32 AM](#)

MR. BURNS replied that both of Representative Gatto's examples would defy [the term] prudent investor, because they lack diversity, which is necessary. He stated, "A very important thing today is lack of correlation." He explained that portfolios were previously constructed whereby a great deal of thought was given to each particular asset. Today, he continued, the same thought is given to the asset, but also to how it interacts within the whole portfolio. He said it's important to have things that don't correlate, but rather

respond to different things. He added, "A lot of those [uncorrelated] assets that we're talking about are really not available to us today, and that's, I think, one of the things that's impeding our performance, or holding us back."

[8:37:39 AM](#)

REPRESENTATIVE RAMRAS asked if it would follow the prudent-investor rule to borrow money on \$400 million at standard bond rates and then pay it back with permanent fund earnings. He said, "I'm thinking about the Amerada Hess [Corporation]-type of approach that the House is contemplating. Does that follow the prudent-investor rule?"

[8:38:43 AM](#)

MR. BURNS responded as follows:

We would actually not be making that investment. I think from just the financial mathematics, any time you can borrow tax exempt and invest taxable ..., or use it in a taxable fashion, I think that makes ... a great deal of sense. The Amerada Hess [Corporation] - that's not a decision that the trustees would make, so it doesn't fall under the prudent-investor [rule]; that's not an investment that they would be making, or the leverage is a decision that they would not be making .... They would continue to invest the Amerada Hess [Corporation] dollars just as they did the rest of the fund.

[8:39:58 AM](#)

CHAIR SEATON, in response to further comments from Representative Ramras, asked that the discussion be focused on the issue at hand.

[8:40:23 AM](#)

REPRESENTATIVE GARDNER asked Mr. Burns if he knows of anyone who is or may be opposed to the change proposed in HB 215.

[8:40:33 AM](#)

MR. BURNS said the permanent fund has historically been supported in changes to its asset mix by the legislature. He said the only reluctance he has heard from some people is that

perhaps this [change] should be taken more incrementally. He said, "I think with the asset types that we're talking about - that doesn't really work." He offered an example as follows:

We have a commitment today under the basket clause of, I believe, \$600 million to private equity. We have a commitment today of ... about \$240 million to private equity of that commitment of \$600 million. Actually outstanding, that people have drawn down, is \$2.6 million. So, there's a real execution risk in trying to incrementally do this in a process that's incremental already .... We're looking at - today - our commitment to private equity. And to get to the point where we want to be, we need to commit more than we want to get to, just because it takes so long. And some of them, you have returns starting to come back before the money is actually drawn down. So, you need to commit beyond what you want. If you have statutory limitation, that's a real problem.

MR. BURNS offered an example regarding the University of Alaska foundation.

[8:42:54 AM](#)

REPRESENTATIVE ELKINS moved to report HB 215 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 215 was reported out of the House State Affairs Standing Committee.

HB 238-PUBLIC EMPLOYEE/TEACHER RETIREMENT

[8:44:31 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."

[Before the committee as a work draft was committee substitute (CS) for HB 238, Version 24-LS0761\L, Craver, 4/8/05.]

[8:44:42 AM](#)

CHAIR SEATON directed attention to a series of 15 tables showing the "Projected Values for Health Reimbursement Accounts," which were added to the committee packet to replace an inaccurate set of tables previously in the packet.

[8:46:18 AM](#)

KATHERINE SHOWS, Staff to Representative Paul Seaton, Alaska State Legislature, on behalf of Representative Seaton, sponsor, reminded the committee that the retirement for all the categories about to be discussed is set at 30 years in HB 238.

[8:46:38 AM](#)

MR. BRAD LAWSON, Mercer Human Resource Consulting, referring to the 15 tables, reviewed the contents page, which lists the types of accounts, and read as follows:

1. PERS "other" early hire - 1% HRA
2. PERS "other" early hire - 2% HRA
3. PERS "other" late hire - 1% HRA
4. PERS "other" late hire - 2% HRA
5. PERS "other" with spouse late hire - 2% HRA
6. PERS police/fire early hire - 1% HRA
7. PERS police/fire early hire - 2% HRA
8. PERS police/fire late hire - 1% HRA
9. PERS police/fire late hire - 2% HRA
10. PERS police/fire with spouse late hire - 2% HRA
11. TRS early hire - 1% HRA
12. TRS early hire - 2% HRA
13. TRS late hire - 1% HRA
14. TRS late hire - 2% HRA
15. TRS late hire with spouse - 2% HRA

[8:47:34 AM](#)

CHAIR SEATON noted that the upper-left corner of each chart shows the assumptions.

[8:48:44 AM](#)

MR. LAWSON selected the first chart to review the assumptions.

[8:52:00 AM](#)

REPRESENTATIVE GARDNER asked why the subsidy base is calculated from 2003, when the hire date is 2005.

[8:52:20 AM](#)

MR. LAWSON explained as follows:

We have the premium rate, from which we subtract a subsidy base that's established by the legislature, and we arrive then at a retiree contribution. ... The subsidy base that we established at 7/1/2003 was equivalent to the claims cost. Each retiree then is entitled to a portion of that subsidy base towards their health care cost. ... So, the subsidy base multiplied by the percentage determines the amount of dollars that will go towards that retiree's health care cost, ... with the retiree making up the balance of the premium.

[8:54:54 AM](#)

MR. LAWSON, in response to Chair Seaton, said the subsidy base represents the known or fixed responsibility of the system toward the health care coverage.

[8:55:04 AM](#)

CHAIR SEATON said this is the point, during discussion of the bill on a previous day, when the committee had to remove a section regarding a 5 percent limit on premiums, because it is not feasible to set that limit with fluctuating health care costs and service. He indicated the result is that "the 5 percent is limiting the amount of escalation that the system is paying over time."

[8:55:39 AM](#)

MR. LAWSON answered that's correct. He added, "And with the retiree making up that remaining portion."

[8:55:50 AM](#)

MR. LAWSON continued with the first chart, reading the columns from left to right.

[8:59:53 AM](#)

REPRESENTATIVE GRUENBERG asked if there is a column that totals the amount of contributions over the 30 years.

[9:00:10 AM](#)

MR. LAWSON noted that that amount is shown in the column entitled, "End of Year HRA Balance." He offered further details.

[9:01:21 AM](#)

REPRESENTATIVE GRUENBERG said he wants to know if there are totals listed before interest.

[9:01:51 AM](#)

MR. LAWSON indicated that the committee doesn't have that listed, but, based on a spreadsheet he had open in front of him, he said, "That is just a hair over \$20,000." He continued with his review. He noted that the pre-Medicare composite trend factor represents an average of medical and prescription drugs.

[9:03:17 AM](#)

MR. LAWSON, in response to Representative Seaton, confirmed that the pre-Medicare composite trend uses rounding of numbers. He added, "And some of that also is an interplay of the prescription drug assumptions, which is a higher ... starting trend amount, and the medical inflation, which we have decreasing at a slower rate, but starting at a lower point."

[9:04:36 AM](#)

REPRESENTATIVE GARDNER asked, "So, this number of \$7,319 ... is the subsidy base of \$5,962, increased by roughly 12 percent per year for the two years here?"

[9:04:45 AM](#)

MR. LAWSON answered that's correct, but he said that 11 percent would perhaps be more accurate.

9:06:04 AM

MR. LAWSON noted that the subsidy base increases year to year, but at a slower pace than the composite premium. He explained that is because it is being limited to 5 percent, versus the 9-11 percent seen in the premium growth. He pointed out that the subsidy, beginning at age 55 through age 59, is zero. He explained, "That is a result of the provision that the subsidy will not begin until five years prior to Medicare eligibility. During that five years ..., the retiree will then be responsible for the entire premium amount, receiving zero subsidy." At age 60, the retiree is eligible for a subsidy. He offered further details.

MR. LAWSON highlighted where the table shows that the retiree would be required to make a contribution at age 55, the year after retirement. The retiree would be responsible for the entire premium and remain so for five years, until the system-sponsored subsidy begins, at which point the retiree's contribution would drop. He explained that that's the result of subtracting the retiree subsidy from the composite premium amount.

9:11:00 AM

MR. LAWSON, regarding the beginning year health reimbursement account balance and the health care reimbursement "spend down," said the "HRA spend" amount in the first year [of retirement] would equate to the entire premium amount for which the retiree is responsible. He stated that after pulling that amount out, one would expect a difference in the HRA balance; however, it is important to remember that the money left will grow with interest over the remainder of the year. The amount in the HRA spend column reflects that interest. He offered further details.

9:13:14 AM

CHAIR SEATON observed:

In ... the last column and the third to the last column we have ... [\$42,751], and that actually shows a retiree contribution of that amount, but it's actually being spent from the HRA. Now that was an employer contribution into the employer-funded HRA, but it is still money that's available for health care

to the retiree. So, this is assuming that money will make that payment. Is that correct?

9:13:50 AM

MR. LAWSON answered in the affirmative. He stated, "I believe that the way the bill was written, the payment will come out of the HRA until it's exhausted, but the retiree can also designate ... that balance to pay for other expenses, as well, such as [a] deductible or if they have some other permissible expenses that they wanted to get reimbursed for."

9:14:14 AM

CHAIR SEATON observed that the employee at year 32 on the table will have to come up with approximately \$13,500 in order to supplement the HRA.

9:15:02 AM

MR. LAWSON responded that's correct, "as the remainder of the premium contribution."

9:15:16 AM

CHAIR SEATON made some other observations based on the first table. He indicated that the good thing about the table is that it shows that there is a huge problem. He said the numbers are "incredible to most of us." He offered further details. He noted that the medical base is one-sixth of total salary, but by the year before retirement, 40 percent of salary is eaten up in medical costs. With an advance apology to Mr. Lawson, he said, "Actuarials are kind of fortune tellers or soothsayers, and they're projecting out these numbers, and they just become kind of incredible to me." He said the committee is attempting to create a system that "works within the numbers" and won't put an employee at risk of losing all his/her medical [coverage]. He stated, "We're assuming in the model that health care is really only growing at 5 percent." However, if it grows at 10 percent, an employee would be paying more in medical than his/her total salary.

9:18:49 AM

MR. LAWSON responded that he thinks it's important to keep in mind that "these are retired medical valuation trends" and, according to actuarial guidelines and standards, those high

medical trends do need to decrease on a long-range projection. He pointed out that using 5 percent rather than the standard 3.5 percent assumption used for inflation purposes adds an element of conservatism.

CHAIR SEATON said he did not intend his previous comments to be a challenge; he wants the committee to be aware that staying at 6 percent, rather than 5 percent, for example, would result in a much greater discrepancy between the subsidy base and the composite medical amount.

[9:20:57 AM](#)

CHAIR SEATON said, "You can see why my staff and I, and everybody that's been trying to deal with these numbers, is going kind of nuts trying to figure out what there is that can work." He warned that the legislature must be careful not to create a system that says a person has access to medical care, but he/she doesn't have money for that access and is out of the plan and then ineligible when he/she turns 65 because coverage lapsed. He also warned against a system where people cannot retire before age 65 without losing medical coverage. He stated that medical coverage is the most important component and that is the challenge of the committee in working on HB 238.

CHAIR SEATON directed attention to the next page, which shows the PERS "other" early hire at 2 percent. He said it shows that "the HRA actually pays for three years and there's only [a] one-year gap in the coverage." He offered further details.

[9:25:42 AM](#)

MR. LAWSON said it's important to note that, under the current system, the entire gross retiree premium cost would be paid for by the system so that the retiree is incurring virtually no premium sharing or contribution expenses under the current program. He continued:

In this 2 percent scenario, we see that the total state subsidy of \$200,000 still remains constant. And that represents just a little bit under 40 percent of those entire costs. By the time you add the HRA reimbursement in, the system has contributed or been responsible for over 67 percent of the ... retiree health costs, at this point. And so, looking at it from a perspective of cost share ... that's actually a fairly large percentage or a substantial subsidy or

contribution towards their health care costs, particularly in relationship to looking at the current marketplace and what other employers and government agencies are doing.

[9:27:01 AM](#)

REPRESENTATIVE GATTO mentioned that his 21-year-old daughter signed off his plan and is [covered by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)], at about \$900 per month.

[9:27:38 AM](#)

MR. LAWSON, in response to a question from Representative Gatto regarding the price of insurance for someone if he/she were self-paying, said there is a starting base of \$7,318 for a group rate. He surmised that on an individual basis, that amount would probably be closer to \$10,000-\$11,000. He said there are two issues: One, a self-paid plan would certainly be more expensive; and two, it would be hard to find such a plan. He said, "That is why access, without evidence of insurability is, in itself, a benefit."

CHAIR SEATON observed that the individual, even continuing on COBRA, is "apparently costing more."

MR. LAWSON said to keep in mind "that we may not be comparing apples and apples in those two numbers."

[9:32:49 AM](#)

MR. LAWSON compared aspects of table 4, which shows PERS "other" late hire, to table 5, which shows PERS "other" with spouse at 2 percent HRA. He said, "All else remaining constant, the total premium amount is actually going to double for this individual" [with covered spouse]. He said, "So, while their contributions will double, their HRA balance ... remains constant. This results in ... a substantial increase to the net retiree."

[9:34:20 AM](#)

CHAIR SEATON said there is a lot for the committee to consider. He reviewed some previously stated considerations for the committee to make.

[9:36:41 AM](#)

MELANIE MILLHORN, Director, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, stated that she thinks Chair Seaton, through the tables and through his testimony, has accurately depicted that medical costs are a large issue and the balance needed by employers to provide the coverage and the employees' need to have the coverage is the issue before the committee.

[9:37:08 AM](#)

MS. SHOWS, in response to a question from Chair Seaton, suggested that the committee may want to consider the salary levels as slightly inflated.

[9:37:50 AM](#)

CHAIR SEATON clarified that the average salary equals the average salary in the system, not the average beginning salary. He also asked that the committee remember that the 1 percent or 2 percent is a percentage of the system class salary, not of individual salaries. He explained, "Because you can't have discrimination between people that are getting paid more and less under a federal health care reimbursement account."

[9:39:01 AM](#)

MS. MILLHORN said over 25 states have set their retirement age at 65. She said the reason is that that's when benefits commence and that's also the age at which those retirees would be entitled to medical benefits.

[HB 238 was heard and held.]

#

The committee took an at-ease from [9:40:29 AM](#) to [9:43:49 AM](#).

SB 87-SEAT BELT VIOLATION AS PRIMARY OFFENSE

[9:43:52 AM](#)

CHAIR SEATON announced that the last order of business was SENATE BILL NO. 87, "An Act relating to motor vehicle safety belt violations."

[9:44:03 AM](#)

SENATOR CON BUNDE, Alaska State Legislature, as sponsor of SB 87, apologized for his absence from the House State Affairs Standing Committee's first hearing of SB 87. He asked the committee to indulge him while he addressed a couple of issues that "seemed to have been prominent in some of the discussions." He indicated that he has heard from a countless amount of people who have said that they don't mind a seatbelt law but don't want a primary one. The other comment heard frequently is that people say they always wear their seatbelts; they just don't want someone telling them to wear it. He added, "Of course, if they always wear their belt, they would not be subject to any penalty under this law."

SENATOR BUNDE reminded the committee that there currently is a primary seatbelt law for people under 16, and he observed that "the libertarian streak of Alaska did not seem to be irritated by that portion of a primary law." The other concern that he said he's heard voiced is that the police will use [a primary seatbelt law] as a trumped up excuse to make traffic stops. He said police have told him that if they want to make a preemptive stop, there are several issues that are far more visible than whether a person is wearing a seatbelt or not. He listed some of them.

[9:46:29 AM](#)

SENATOR BUNDE addressed the notion that "it's my right to not wear a belt and suffer the consequences." He said he would agree with that if not for the matter of the impact on the insurance pool that drivers belong to that is affected by the occurrence of accidents. He mentioned [the National Association for Stock Car Auto Racing (NASCAR)] and said there are two reasons NASCAR drivers are required to wear seatbelts: One is for safety, and the other is that seatbelts keep the driver in better control of the vehicle. He offered further details.

[9:48:12 AM](#)

SENATOR BUNDE said the state currently has a secondary seatbelt law, because not having it would have cost the state a great deal of money - federal funds. He stated that had the legislature passed a primary seatbelt law last year, 7-8 Alaskan lives would have been saved, according to statistics. He said a father who lost his 19-year-old son asked him to use his story during testimony. He said teenagers tend to think they are "bullet-proof" and often don't wear a seatbelt. He stated that with the adoption of a primary seatbelt law, the use of

seatbelts would go up approximately 10-12 percent. Senator Bunde passed out a [photo of a vehicle accident] to illustrate why seatbelt use is so important. He said people seem to accept the notion that a smoke detector in a home is a wise idea, and he mentioned carbon monoxide detectors.

[9:51:14 AM](#)

REPRESENTATIVE GARDNER asked Senator Bunde to expand on his comment regarding federal funds.

[9:51:31 AM](#)

SENATOR BUNDE revealed that last year the state lost \$4 million in highway safety funds. He said there's a total of \$18 million available; the first year's allotment would be \$4 million, then \$2 million for the next 4 years.

[9:52:04 AM](#)

REPRESENTATIVE GARDNER asked Senator Bunde if he anticipates that a primary seatbelt law would reduce insurance rates.

[9:52:25 AM](#)

SENATOR BUNDE said he doesn't expect a reduction, but "if we can have a decrease in the increase, I think that would be something we should strive toward."

[9:52:59 AM](#)

REPRESENTATIVE GATTO offered his understanding that Senator Bunde's remarks regarding the insurance rates and costs to others has to do with the possibility that someone may not be able to pay for hospital costs and those cost would be passed on. He said, "There's a second side to this sword, and that is: people in a seatbelt in a major accident could be horribly injured and not killed. And the killed person has very little cost, but the horribly injured person could have significant costs. So, I cannot guarantee or even have an indication that the use of a seatbelt will save you money." Regarding the 10-12 percent increase [in people who would wear seatbelts if there were a primary seatbelt law], he asked if that percentage is "from existing numbers or percentage points."

[9:54:04 AM](#)

SENATOR BUNDE responded that it's from existing numbers. He recollected that currently there is about an 84 percent usage rate and a statewide survey showed that 70-75 percent supported a primary seatbelt law.

[9:54:29 AM](#)

REPRESENTATIVE GATTO asked if the \$4 million in federal funds were truly lost or reappropriated.

[9:54:43 AM](#)

SENATOR BUNDE said his knowledge is that the \$4 million dollars was not received for highway safety.

[9:54:54 AM](#)

REPRESENTATIVE GATTO referred to Senator Bunde's mention of carbon monoxide detectors. He said not having one may risk a person's life, but it also may risk the lives of other people in the same facility. He said, "Not wearing a seatbelt will have no effect on me as a passenger wearing a seatbelt." He recalled that Senator Bunde mentioned "that if you can just stay in your car and maybe steer that you might prevent something." He added, "Although I think in these very tragic situations, usually everybody's a passenger and nobody's a driver when we suddenly turn upside-down or roll."

[9:55:37 AM](#)

SENATOR BUNDE said, "I see very little difference in the libertarian attitude of Alaskans between requiring smoke detectors or carbon monoxide detectors and requiring seatbelts."

[9:56:01 AM](#)

REPRESENTATIVE GRUENBERG moved to adopt the committee substitute (CS) for SB 87, Version 24-LS0457\F, Luckhaupt, 4/11/05, as a work draft. There being no objection, Version F was before the committee.

[9:56:55 AM](#)

REPRESENTATIVE GRUENBERG reviewed the changes made to the bill through Version F. He said in current law, to "operate" a vehicle could mean to turn on the radio or the heater, without the engine even being on. The language on page 1, line 7 of the

bill was changed to use the word "drive" rather than "operate". Another term that was changed was "motor vehicle", because it was too broad. He directed attention to the language added on page 2, which read:

**(5) operators or passengers of motorcycles, motor-driven cycles, off-highway vehicles, electric personal mobility vehicles, snowmobiles, and similar vehicles not designed to be operated on a highway.**

REPRESENTATIVE GRUENBERG emphasized that "**not designed to be operated on a highway**" only refers to the off-highway vehicles. He also pointed out that "we have limited this to highways." He said highways are currently defined to include public roads.

SENATOR BUNDE said he is not aware of any enforcement problems that the current law and definitions had created; however, he stated his acceptance of the changes made in Version F.

[9:59:57 AM](#)

CHAIR SEATON asked again if there was any objection to adopting Version F. [Although there was no response, Version F was treated as adopted.]

[10:00:12 AM](#)

REPRESENTATIVE GARDNER, regarding Senator Bunde's previous comparison of this bill to a past bill regarding carbon monoxide (CO) detectors, asked, "How would you feel about allowing the police department to inspect your home for a CO detector?"

[10:01:02 AM](#)

SENATOR BUNDE admitted that he was "having a little fun with Representative Gatto." He said he thinks when there's an accident the fire department "does indeed inspect." He added that hotel units have inspections. He said, "I think by your question you're assuming that the police are going to make this a major enforcement issue, and I don't make that assumption."

[10:01:32 AM](#)

REPRESENTATIVE GARDNER said she recently had occasion to ask a friend who's a member of the Anchorage Police Department if "it would be something that ... traffic police would be looking

for," and [the officer] said yes. In fact, the police officer told her that it is something they love to do; it's called "fishing."

[10:02:15 AM](#)

SENATOR BUNDE said the police officer still has to prove probable cause for the initial stop.

[10:02:20 AM](#)

REPRESENTATIVE GARDNER responded, "But they would have probable cause if you weren't wearing a seatbelt."

[10:02:37 AM](#)

SENATOR BUNDE said the officer would have to prove that he/she would likely have seen that [before the stop]. He mentioned the "turnstile jumper laws" in New York. He said, "When they start enforcing the small laws, a lot of major criminals got captured, too."

[10:03:05 AM](#)

REPRESENTATIVE GATTO mentioned an amendment that would change the fine from \$15 to \$100. He asked if that would be offered.

[10:03:39 AM](#)

REPRESENTATIVE GARDNER explained that that was an amendment she had considered offering; however, some of the language in it she thought would not be a legal solution. She also noted that the fine for not wearing a seatbelt in Anchorage is already \$200 and she doesn't want to add an additional \$100 state fine to that amount.

[10:04:12 AM](#)

REPRESENTATIVE GRUENBERG said "operating" and "driving" only apply to the driver, not the passenger.

[10:04:44 AM](#)

SENATOR BUNDE responded that that's not his understanding of current law.

[10:04:57 AM](#)

CHAIR SEATON stated his understanding that current law provides for both the operator and for children or passengers.

[10:05:11 AM](#)

REPRESENTATIVE RAMRAS moved to report CSSB 87, Version 24-LS0457\F, Luckhaupt, 4/11/05 out of committee with individual recommendations and the accompanying fiscal notes.

[10:05:42 AM](#)

REPRESENTATIVE GATTO objected.

[10:05:56 AM](#)

REPRESENTATIVE GRUENBERG, in response to a request for clarification from Representative Gatto, explained that the current bill repeals the provision of law that says a person cannot have "a primary stop for the seatbelt," and thus would adopt the primary stop. He offered further details.

[10:07:12 AM](#)

REPRESENTATIVE LYNN asked how an officer will know if someone is wearing a seatbelt.

[10:07:30 AM](#)

SENATOR BUNDE said he's sure there are situations where the seatbelt would not be highly visible; however, he said an officer should be able to see a seatbelt in city traffic, where a shoulder strap would be visible.

[10:07:54 AM](#)

REPRESENTATIVE RAMRAS, in response to Chair Seaton, expressed his desire to maintain his previous motion.

[10:09:07 AM](#)

A roll call vote was taken. Representatives Lynn, Ramras, Gruenberg, and Seaton voted in favor of HCS SB 87, Version 24-LS0457\F, Luckhaupt, 4/1/05. Representatives Gatto, Elkins, and Gardner voted against it. Therefore, HCS SB 87(STA) was reported out of the House State Affairs Standing Committee by a vote of 4-3.

**ADJOURNMENT**

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at [10:09:17 AM](#).