

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

April 20, 2005

8:11 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

SENATE BILL NO. 141

"An Act relating to the teachers' and public employees' retirement systems and creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2005; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; and providing for an effective date."

- MOVED HCS CSSB 141(STA) OUT OF COMMITTEE

HOUSE JOINT RESOLUTION NO. 12

Proposing amendments to the Constitution of the State of Alaska relating to the repeal of the budget reserve fund.

- SCHEDULED BUT NOT HEARD

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."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 141

SHORT TITLE: PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS

SPONSOR(S): FINANCE

03/14/05	(S)	READ THE FIRST TIME - REFERRALS
03/14/05	(S)	FIN
03/16/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/16/05	(S)	Heard & Held
03/16/05	(S)	MINUTE(FIN)
03/17/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/17/05	(S)	Heard & Held
03/17/05	(S)	MINUTE(FIN)
03/21/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/21/05	(S)	Heard & Held
03/21/05	(S)	MINUTE(FIN)
03/22/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/22/05	(S)	Heard & Held
03/22/05	(S)	MINUTE(FIN)
03/23/05	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/23/05	(S)	Heard & Held
03/23/05	(S)	MINUTE(FIN)
03/29/05	(S)	FIN AT 4:30 PM SENATE FINANCE 532
03/29/05	(S)	Heard & Held
03/29/05	(S)	MINUTE(FIN)
03/30/05	(H)	FIN AT 9:00 AM HOUSE FINANCE 519
03/30/05	(S)	Heard & Held
03/30/05	(S)	MINUTE(FIN)
03/31/05	(H)	FIN AT 9:00 AM HOUSE FINANCE 519
03/31/05	(S)	Heard & Held
03/31/05	(S)	MINUTE(FIN)
04/01/05	(H)	FIN AT 9:00 AM HOUSE FINANCE 519
04/01/05	(S)	Heard & Held
04/01/05	(S)	MINUTE(FIN)
04/02/05	(S)	FIN AT 10:00 AM SENATE FINANCE 532

04/02/05 (S) Heard & Held
 04/02/05 (S) MINUTE(FIN)
 04/03/05 (S) FIN AT 10:00 AM SENATE FINANCE 532
 04/03/05 (S) Heard & Held
 04/03/05 (S) MINUTE(FIN)
 04/04/05 (S) FIN AT 9:00 AM SENATE FINANCE 532
 04/04/05 (S) Scheduled But Not Heard
 04/05/05 (S) FIN AT 9:00 AM SENATE FINANCE 532
 04/05/05 (S) Heard & Held
 04/05/05 (S) MINUTE(FIN)
 04/06/05 (S) FIN AT 9:00 AM SENATE FINANCE 532
 04/06/05 (S) Moved CSSB 141(FIN) Out of Committee
 04/06/05 (S) MINUTE(FIN)
 04/08/05 (S) FIN RPT CS 5DP 1DNP 1AM
 NEW TITLE
 04/08/05 (S) DP: GREEN, WILKEN, BUNDE, DYSON,
 STEDMAN
 04/08/05 (S) DNP: HOFFMAN
 04/08/05 (S) AM: OLSON
 04/12/05 (S) ENGROSSED
 04/14/05 (S) TRANSMITTED TO (H)
 04/14/05 (S) VERSION: CSSB 141(FIN)
 04/14/05 (H) READ THE FIRST TIME - REFERRALS
 04/14/05 (H) STA, FIN
 04/14/05 (H) STA AT 8:00 AM CAPITOL 106
 04/14/05 (H) <Pending Referral>
 04/16/05 (H) STA AT 9:30 AM CAPITOL 106
 04/16/05 (H) <Bill Hearing Canceled>
 04/19/05 (H) STA AT 8:00 AM CAPITOL 106
 04/19/05 (H) Heard & Held
 04/19/05 (H) MINUTE(STA)
 04/20/05 (H) STA AT 8:00 AM CAPITOL 106

WITNESS REGISTER

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

POSITION STATEMENT: Offered clarification on amendments to SB
 141.

TRACI CARPENTER, Staff
 to Senator Lyda Green
 Alaska State Legislature

POSITION STATEMENT: During hearing of SB 141, answered
 questions.

ACTION NARRATIVE

CHAIR PAUL SEATON called the meeting back to order at [8:11:28 AM](#). Present at the call back to order were Representatives Gatto, Elkins, Lynn, Ramras, Gardner, Gruenberg, and Seaton.

SB 141-PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS

CHAIR SEATON announced that the only order of business would be CS FOR SENATE BILL NO. 141(FIN), "An Act relating to the teachers' and public employees' retirement systems and creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2005; relating to university retirement programs; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; providing for nonvested members of the teachers' retirement system defined benefit plans to transfer into the teachers' retirement system defined contribution plan and for nonvested members of the public employees' retirement system defined benefit plans to transfer into the public employees' retirement system defined contribution plan; providing for political subdivisions and public organizations to request to participate in the public employees' defined contribution retirement plan; and providing for an effective date."

[8:11:56 AM](#)

REPRESENTATIVE GRUENBERG [moved to adopt] Amendment 17, labeled 24-LS0637\L.12, Craver, 4/19/05. [A motion had previously been made to adopt Amendment 17, during the 4/19 portion of this meeting, but the motion was withdrawn]. Amendment 17 read as follows:

Page 7, lines 9 - 30:
Delete all material.

Renumber the following bill sections accordingly.

Page 8, lines 9 - 10:
Delete "calculated under AS 14.25.052,"

Page 68, line 15, through page 69, line 13:
Delete all material.

Renumber the following bill sections accordingly.

Page 72, lines 5 - 6:
Delete "calculated under AS 39.35.162,"

Page 105, line 23:
Delete "sec. 59"
Insert "sec. 57"

Page 108, line 21, following "14.25.047,":
Insert "14.25.050(a),"

Page 109, line 19:
Delete "SECTIONS 139 AND 140"
Insert "SECTIONS 135 AND 136"

Page 109, line 20:
Delete "secs. 139 and 140"
Insert "secs. 135 and 136"

Page 109, lines 21 - 22:
Delete "secs. 139 and 140"
Insert "secs. 135 and 136"

Page 109, line 23:
Delete "Sections 11, 12, 14, 15, 20, 89 - 94,
107, 114, and 131"
Insert "Sections 6, 10, 12, 13, 18, 85 - 90, 103,
110, and 127"

Page 109, line 25:
Delete "Section 141"
Insert "Section 137"

Page 109, line 26:
Delete "secs. 142 and 143"
Insert "secs. 138 and 139"

REPRESENTATIVE GRUENBERG explained that the amendment would remove provisions that provide for increases in the contribution rate for members of both the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

CHAIR SEATON reviewed Amendment 17, noting that it would increase the contribution rate by 0.5 percent. He pointed out that the committee had adopted an amendment by Representative Ramras that limited the total contribution by an employee to 10 percent for current PERS employees. He explained that Amendment 17 would repeal any employee increase for current members of PERS or TRS.

[8:13:26 AM](#)

CHAIR SEATON objected [to the adoption of Amendment 17].

REPRESENTATIVE GRUENBERG offered further details for Amendment 17; he said:

It rolls back the rate increase. Sections 7 and 8 currently provide for increases in the contribution rate for TRS, [and] sections 87 and 88 provide for increases in the contribution rate for PERS. And all existing TRS and PERS ... members ... were hired with the reasonable expectation that their contribution rates to retirement systems were fixed at a contractual rate. And, by the way, Article 12, Section 7, of the constitution says that membership in employee retirement systems ... shall constitute a contractual relationship. And it's my contention [that] to be certain that ... the bill is constitutional, we need to keep that contribution, rate, the same for existing employees, and therefore this [amendment] deletes those provisions.

[8:15:10 AM](#)

A roll call vote was taken. Representatives Elkins, Lynn, Gardner, and Gruenberg voted in favor of Amendment 17. Representatives Ramras, Gatto, and Seaton voted against it. Therefore, Amendment 17 passed by a vote of 4-3.

[8:16:14 AM](#)

CHAIR SEATON returned the committee's attention to Amendment 9, as follows [original punctuation provided]:

p.8 line 10. Delete "less than" and insert "the lesser of"
line 11 after "active members" insert "11 percent for TRS employer and 10 percent for PERS employers"

The committee took an at-ease from 8:17:54 AM to [8:19:29 AM](#).

[8:19:31 AM](#)

CHAIR SEATON [moved to adopt Amendment 9].

REPRESENTATIVE GATTO objected for discussion purposes.

CHAIR SEATON explained:

Amendment 9 establishes a floor for the employer contributions at 11 percent for TRS and 10 percent for PERS. And this is the employer contribution only; it does not affect the employee contribution. What brought us into part of our unfunded liability at our past service cost is that the systems lowered their contribution rates ... as far as 6.75 [percent] in one system. ... This does not affect the match; the employee will still be required to match at 50 percent of the normal cost rate. All this does is say that the employer contribution can't go down less than this. ... If we do go down to a low contribution rate by the employer, we have a statutory limit of 5 percent, so then all of a sudden if we need to go up, like we do now, we cannot return up. So this [amendment] is a smoothing mechanism that keeps the employer at a fairly constant contribution rate and also doesn't dig us into holes when the stock market goes up or down.

[8:21:19 AM](#)

REPRESENTATIVE GATTO removed his objection.

CHAIR SEATON asked if there was any further objection to Amendment 9. There being none, Amendment 9 was adopted.

[8:21:27 AM](#)

CHAIR SEATON directed attention back to Amendment 11. [The motion to adopt Amendment 11 was left pending from the 4/19 portion of this meeting. Amendment 11 read as follows:]

p. 32 line 10, insert "'member contribution account' means the member's contributions to their defined contribution account plus any accumulated interest."

CHAIR SEATON withdrew his motion from 4/19/05 to adopt Amendment 11.

CHAIR SEATON [moved to adopt Amendment 18 as a modified version of withdrawn Amendment 11], as follows [original punctuation provided]:

p.32 line 10, insert "'member contribution account' means the member's contributions to their defined contribution account plus any change in market value."

REPRESENTATIVE GRUENBERG noted that Amendment 11 had included the phrase "accumulated interest". He moved to adopt an amendment to Amendment 18, which would change Amendment 18 to read:

p.32 line 10, insert "'member contribution account' means the member's contributions to their defined contribution account plus any change in market value and any accumulated interest."

[8:22:52 AM](#)

REPRESENTATIVE GATTO objected to the amendment to Amendment 18. He asked for clarification regarding the phrase "market value."

REPRESENTATIVE GRUENBERG pointed out that this question does not address the friendly amendment to Amendment 18.

REPRESENTATIVE GATTO withdrew his objection.

[The amendment to Amendment 18 was treated as adopted.]

[8:24:38 AM](#)

REPRESENTATIVE GRUENBERG noted that this amendment includes unrealized gains as well as realized gains.

[8:25:03 AM](#)

REPRESENTATIVE GARDNER commented that she was not exactly clear where [Amendment 18, as amended] would insert into the bill.

CHAIR SEATON clarified his intent for the language in Amendment 18 [as amended] to be inserted as paragraph (3) in the location specified in Amendment 18.

CHAIR SEATON asked if there was any objection to Amendment 18, as amended. There being none, it was so ordered.

8:26:50 AM

CHAIR SEATON returned to Amendment 5, which was adopted on 4/19/05 and read as follows [original punctuation provided]:

p.46 line 30. After "system;" insert, "The member shall be selected from no less than three and no more than five nominees put forward by the appropriate bargaining units."

p.46 line 31. After "system." Insert "The member shall be selected from no less than three and no more than five nominees put forward by the appropriate bargaining units."

p.47 line 2. After "terms of" delete "three" and insert "six". After "total of" delete "three" and insert "two". Line 4. insert "full" between "consecutive" and "terms".

p.105 line 26. After "AS 39.05.055(7)." Insert, "Upon establishment of the board one finance officer will be appointed to a three year term and one finance officer will be appointed to a six year tem [sic], one PERS/TRS member representative will be appointed to a three year term and the other PERS/TRS member representative will be appointed to a six year term."

CHAIR SEATON reviewed that Amendment 5 changed the term of the boards to six years on a rotating schedule. Regarding the system that uses nominees put forward by bargaining units, he said the committee "adopted two amendments that change this amendment." The first one was [Amendment 6], which changed the number of non-public members from three to one and [designated] two trustees from PERS and two from TRS. The second change was made by adopting Amendment 16, which provided for "election of those positions by those two systems." He concluded, "That still leaves in place the staggered terms and the term limits."

8:29:02 AM

CHAIR SEATON returned to [Conceptual] Amendment 7, regarding the health reimbursement arrangement (HRA).

The committee took an at-ease from 8:29:40 AM to 8:30:33 AM.

CHAIR SEATON noted that on April 19, 2005, the committee had adopted Conceptual Amendment 4 and Conceptual Amendment 7. He reminded the committee that Conceptual Amendment 7 dealt with the HRA, while Conceptual Amendment 4 dealt with a medical plan that the committee had adopted. He explained that Legislative Legal and Research Services combined those two conceptual amendments into one amendment, labeled 24-LS0637\L.7, Craver, 4/18/05 [what ultimately became Amendment 19]. [Original text of Amendment 19 can be found at the end of this set of minutes].

REPRESENTATIVE GRUENBERG stated that he was unaware that the committee had adopted [Conceptual Amendment 7]. He asked that the committee adopt [the Amendment 19] and repeal [the adoption of] Conceptual Amendment 4 and Conceptual Amendment 7.

[8:33:17 AM](#)

REPRESENTATIVE GRUENBERG moved to adopt the [Amendment 19, labeled 24-LS0637\L.7, Craver, 4/18/05]. There being no objection, Amendment 19 was adopted.

REPRESENTATIVE GRUENBERG [moved to rescind the committee's action in adopting Conceptual] Amendment 4. [There being no objection, Conceptual Amendment 4 was before the committee.]

CHAIR SEATON withdrew [Conceptual] Amendment 4.

[8:35:06 AM](#)

REPRESENTATIVE GRUENBERG moved to rescind the committee's action in adopting [Conceptual] Amendment 7. There being no objection, [Conceptual] Amendment 7 [was before the committee].

CHAIR SEATON withdrew [Conceptual] Amendment 7.

[8:35:45 AM](#)

CHAIR SEATON clarified the Amendment 19. He said:

When we're talking about retiring directly from the system, such as on page 5, line 22 through 24 [as numbered on the amendment], retiring from the system means 12 months before application for retirement. However, recall that if you work for 30 years you are eligible to retire and you are retiring directly from the system at that time - 30 plus years. Or, if you

reach normal retirement age and have at least 10 years, then you are retiring directly from the system.

[8:36:40 AM](#)

CHAIR SEATON continued:

There was one other clarification that we needed, and that was on the HRA language on page 8, ... lines 11-16 [as numbered on Amendment 19, labeled 24-LS0637\L.7]. And that's [that] a member's eligible to apply for reimbursement from the [HRA] plan after a minimum of 10 years of service and does not have to retire directly from the system. Just to clarify this: if you worked for 10 years, you have established an invested personal account in the HRA. When you reach 60 months pre-Medicare, that account is available to you, so you don't lose it, which is ... a change

[8:37:32 AM](#)

REPRESENTATIVE GARDNER stated:

In the original sheet that numbered the amendments 4,5, and 7, it talks about if an employee terminates employment before reaching the 10-year requirement for medical eligibility and doesn't come back to work within five years, they forfeit the accumulated balance of the HRA. And that's not specifically ... lined out in our new [Amendment 19], but that still holds ...?

[8:38:19 AM](#)

KATHERINE SHOWS, Staff to Representative Paul Seaton, Alaska State Legislature, explained that the intent of Amendment 7 was to repeal the provision in SB 141 that stipulated that if an employee left employment for five years, he/she would no longer have any access to the HRA. Also, she noted that the amendment would change the provision in SB 141 that said if the employee does return to employment, the HRA would be reinstated without the accumulation of any interest.

[8:39:20 AM](#)

REPRESENTATIVE GRUENBERG asked whether the language in the old Amendment 7 matches the language in the Amendment 19.

MS. SHOWS replied, "I believe it does." She pointed out that she was reading page 8, lines 11-16 of the Amendment 19.

[8:40:16 AM](#)

REPRESENTATIVE GARDNER interpreted the language to say that if a person leaves employment, he/she won't ever have the right to apply for reimbursement from the HRA.

CHAIR SEATON stated that was his interpretation as well. He suggested removing the line [in the withdrawn Conceptual] Amendment 7 that would delete "AS 14.25.470" on page 58, line 16, and insert "(b) of this section" and insert language that would restore the balance of an [HRA] account plus any accumulated interest to a person if he/she resumes employment. [This language was already incorporated into Amendment 19.]

[8:41:25 AM](#)

REPRESENTATIVE GARDNER expressed her concern that employees who are paying into an HRA and don't stay the 10 years would lose their entire amount. She said, "I'm not sure that that's fair or appropriate policy."

[8:41:42 AM](#)

MS. SHOWS pointed out that on page 5 of the Amendment 19, line 9 would delete "within five years after the date of termination" and line 12 would delete "without interest or adjustment".

[8:42:23 AM](#)

REPRESENTATIVE GRUENBERG turned that committee's attention back to the [Conceptual] Amendment 7 and said that he would like to be certain that the intent in that amendment is also in the final document.

[8:43:32 AM](#)

CHAIR SEATON again clarified the language in Amendment 19 [text provided at the end of this set of minutes].

[8:44:51 AM](#)

CHAIR SEATON turned to a table in the committee packet labeled, "State of Alaska, Division of Retirement and Benefits, Normal Cost Rate and Actuarial Computed Rate from FY 1983 through FY 2006." He pointed out that the average normal cost rate for employers under PERS between 1983 and 2006 is 10.86 percent, and the average normal cost rate for employers under TRS between 1983 and 2006 is 11.16 percent.

CHAIR SEATON turned to another handout from the committee packet that is not titled, but contains a conceptual amendment that would increase the 1.75 percent contribution to major medical in SB 141 to 3.75 percent for TRS employees and 3.5 percent for PERS employees.

CHAIR SEATON [moved to adopt Conceptual Amendment 20], which read [original punctuation provided]:

p.82, line 8 delete "1.75" and insert "3.5"
p. 16, line 10 delete "1.75" and insert "3.5" [sic]

REPRESENTATIVE GRUENBERG objected for discussion purposes. He asked if this amendment would have any effect on Amendment 17.

CHAIR SEATON replied that it would not.

REPRESENTATIVE GRUENBERG withdrew his objection.

[8:48:17 AM](#)

CHAIR SEATON realized that the written copy of Conceptual Amendment 20 contained a typographical error in the second line. He clarified that the amendment should read:

p.82, line 8 delete "1.75" and insert "3.5"
p. 16, line 10 delete "1.75" and insert "3.75"

REPRESENTATIVE RAMRAS asked what the cost of that would be.

CHAIR SEATON replied that the difference between 1.75 and 3.75 is 2 percent.

REPRESENTATIVE RAMRAS asked, "How many millions of dollars does that 2 percent represent?"

CHAIR SEATON deferred to the sponsor's staff.

[8:50:05 AM](#)

TRACI CARPENTER, Staff to Senator Lyda Green, Alaska State Legislature, replied that the cost of that particular increase is approximately \$47 million.

8:50:24 AM

REPRESENTATIVE RAMRAS asked, "Does this mean that the employers' contribution is increasing by \$47 million annually?"

MS. CARPENTER answered, "That is correct."

REPRESENTATIVE RAMRAS asked Chair Seaton why the committee would do this.

8:50:47 AM

CHAIR SEATON explained that there's a 2 percent HRA, and the committee adopted a major medical policy that kicks in 60 months before Medicare eligibility. He noted that the original SB 141 has no medical coverage or subsidy pre-Medicare eligible age. He commented that the committee's version of the bill, with the added medical components, has additional costs. He noted that the medical portion [of the benefits] has been identified by both employers and employees as the most important component of the retirement and benefit package.

REPRESENTATIVE RAMRAS asked, "This references a mechanism to pay for [Amendment 19]?"

CHAIR SEATON agreed and noted that the current normal cost rates are 13.24 percent for PERS and 14.28 percent for TRS, and therefore this bill would make a significant reduction of the employer's contribution.

8:52:50 AM

REPRESENTATIVE GRUENBERG moved to adopt a friendly amendment to Conceptual Amendment 20 to ensure that the amendment read as follows:

p.82, line 8 delete "1.75" and insert "3.5"
p. 16, line 10 delete "1.75" and insert "3.75"

There being no objection, the friendly amendment to Conceptual Amendment 20 was adopted.

REPRESENTATIVE GRUENBERG reiterated that he withdrew his objection to the adoption of Conceptual Amendment 20. There being no objection, Conceptual Amendment 20, as amended, was adopted.

[8:54:35 AM](#)

REPRESENTATIVE GATTO moved to report CSSB 141(FIN), as amended, out of committee with individual recommendations and the accompanying fiscal notes.

[8:54:54 AM](#)

REPRESENTATIVE GARDNER objected. She commented:

The crux of the course is moving from a defined benefit plan to a defined contribution plan. And I think that there clearly are some benefits, and a defined contribution plan I think could be constructed in a way that really meets the needs of the state - both employers and employees. I'm not convinced that this plan does that, and part of my concern is that this is all done in such a rush that I don't believe I fully understand it. I don't believe that the stakeholders fully understand it and have had every opportunity to really participate. If we're going to put in place a radical change and it has long-term consequences once we put it in - there's no going back for any employees hired under it - [then] I think it merits more careful discussion. ... I think [the committee chair has] done a really excellent job in laying out the problem and trying to keep the process moving forward. I think the amendments this committee has offered are improvements over the original bill, but I don't think we're ready to vote.

[8:57:39 AM](#)

REPRESENTATIVE LYNN stated:

I too would like to join in applauding the chair of this committee for wading through some thirty pounds of paperwork. ... I've had, and I continue to have, some very serious concerns about this bill. The intent is good, but the devil is in the details. I'm concerned about poor souls who could outlive their retirement I've had some concerns about the

makeup of the board and the process of putting someone on the board, and concerns about changing the contribution rates for people who are currently covered. But those concerns have been addressed by amendment It's helped me in my decision-making process. That said, I was elected to make some very hard decisions, and let the chips fall where they may. This bill, like all bills, is an attempt to balance the equities ... between the employees ... and the taxpayers of the state It's a tough decision. It's a tough medicine that we may have to take to help address the financial health of the state. I join some of my colleagues in being concerned about pushing too fast on this bill, but every day we do delay exacerbates the potential problems.

[8:59:38 AM](#)

REPRESENTATIVE GATTO noted that in 2003 the governor appointed a subcommittee of the PERS and TRS Boards that was charged with researching and evaluating the concept of a new retirement tier. This subcommittee worked throughout 2004 as well. He said that the Senate has done so much work to [prepare this bill], and the House has been working on the issue since February. He commented, "It may seem rushed, but everything we do, to some degree is within timeframes, otherwise we would have HB 1 still in front of us if we took all the time that was necessary, and we would never get to HB 2" He opined that [SB 141, as amended] is an imperfect document. He noted that he is in Tier 1, and enjoys a good retirement, and he said, "I want everybody to enjoy a good retirement, I do. But on the other hand, ... I feel like I'm hired by the public to take care of the state's business. And the state's business is, when everybody's walking toward a cliff, somebody's got to put a barrier up there because we will fall off the cliff."

[9:05:19 AM](#)

REPRESENTATIVE GRUENBERG commented on behalf of the minority members of the committee as follows:

There is a statute that we discussed ... that provides occupational death benefits: AS 39.35.430. I see there is nothing in the bill that amends or repeals that statute, and I would just like that on the record. ... I just want it to be crystal clear that that statute remains on the books.

9:06:36 AM

REPRESENTATIVE GRUENBERG stated, "I think what we've done has improved [SB 141]... and I think that the work of the chair and his staff has been really good, and we all appreciate them a lot." He voiced two concerns:

I want to be certain that we are not too far ahead of the population, because if people don't understand what we've done and don't have the popular support, that can be a real problem, and I don't want to see that occur. ... I'm not going to vote to pass this out because I think this is the committee that should be making certain that whatever product we have has the external support it needs to be the best bill it can be, and that the people support what we've done on a bipartisan basis. And secondly, I am concerned that all of the work that's been done in this committee can be undone farther down the line than the next 20 days. And I think we should have some agreements before this bill moves to make certain it's not instantly undone.

9:09:09 AM

CHAIR SEATON expressed appreciation for the entire committee's work on this bill. He [moved to report] CSSB 141(FIN), as amended, out of committee with individual recommendations and the accompanying fiscal notes.

A roll call vote was taken. Representatives Lynn, Ramras, Gatto, Elkins, and Seaton voted in favor of CSSB 141(FIN), as amended. Representatives Gardner and Gruenberg voted against it. Therefore, HCS CSSB 141(STA) was reported out of the House State Affairs Standing Committee by a vote of 5-2.

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:10:20 AM.

AMENDMENTS

The new Amendment 19, labeled, 24-LS0637\L.7, Craver, 4/18/05:

Page 2, following line 4:

Insert a new bill section to read:

"* Section 1. The uncodified law of the State of Alaska is amended by adding a new section to read:

LEGISLATIVE INTENT REGARDING RETIREE HEALTH CARE COST SAVINGS IN SECS. 33 AND 121. It is the intent of the legislature for the division of retirement and benefits to implement by regulation cost-saving measures appropriate to current and future retirees in the health care system. This includes using manufacturer's rebates, co-pay levels, and multi-tiered co-payment structures; mandating the use of generic drugs; determining the type of drug classes in a formulary; dispensing fees; mandating or providing incentives for mail order pharmaceuticals; using a reduction in the average wholesale price; providing case management services for certain users of pharmaceuticals; capping the number of prescriptions filled each month; and restricting the number of refills that users can have at one time."

Page 2, line 5:

Delete "**Section 1**"

Insert "**Sec. 2**"

Renumber the following bill sections accordingly.

Page 26, line 3, through page 28, line 19:

Delete all material and insert:

"Sec. 14.25.470. Retirement. (a) In order to obtain medical benefits under AS 14.25.480 a member must retire directly from the plan. A member is eligible to retire from the plan if the member has been an active member for at least 12 months before application for retirement and

(1) the member has at least 30 years of service; or

(2) the member reaches the normal retirement age and has at least 10 years of service.

(b) The normal retirement age is 60 months less than the age set for Medicare eligibility at the time the member retires.

(c) A member must apply to the administrator for appointment to retirement. Application shall be made on forms and in the manner prescribed by the administrator.

(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.

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

(b) The following persons are eligible for the retiree major medical plan provided under this section and may elect coverage under it:

(1) a member with at least 30 years of service and who retires directly from the plan;

(2) the surviving spouse of a member who elected coverage under (1) of this subsection;

(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;

(4) the surviving spouse of a member who elected coverage under (3) of this subsection.

(c) Retiree major medical plan coverage elected by an eligible member under this section covers the eligible member, the spouse of the eligible member, and the dependent children of the eligible member.

(d) Retiree major medical plan coverage elected by the surviving spouse of an eligible member under this section covers the surviving spouse and the dependent children of the eligible member who are dependent on the surviving spouse.

(e) A person other than an eligible member is not eligible for coverage if, during the time the eligible member was an active member, the person was

(1) not married to the member; or

(2) not a dependent child of the member.

(f) Major medical coverage takes effect on the first day of the month following the date of the election and stops when the person who elects coverage under (b) of this section dies or fails to make a required premium payment.

(g) The coverage for persons who are eligible for Medicare is the same as that available for persons who are not yet eligible for Medicare. The benefits payable to those Medicare eligible persons supplement any benefits provided under the Medicare program.

(h) 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 arrangement. If the amount of the health reimbursement arrangement becomes insufficient to pay the premiums, the person who elects coverage under (b) of this section shall pay the premiums directly.

(i) The administrator shall set on an annual basis 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 (j) and (k) of this section.

(j) Participants who have not attained normal retirement age are required to pay the full amount of the applicable medical health coverage premium.

(k) Participants who have attained normal retirement age are eligible for a subsidy applicable to the cost of the applicable premium. The subsidy percentage applicable to the cost of premiums payable by the participant is 30 percent if the member had 10 years of service; for each additional year of service after the member's 10th year of service, the discount increases by three percentage points; however, the maximum discount is 90 percent if the member has 30 or more years of service. The applicable subsidy percentage shall be applied to the subsidy base to determine the dollar amount of the subsidy which is applied against the cost of the premium.

(l) Participants who are eligible for Medicare will use the subsidy base for Medicare-eligible premiums. Participants who are not yet eligible for Medicare will use the subsidy base for non-Medicare eligible premiums.

(m) The subsidy base for Medicare-eligible participants will be the same as the premium amount for Medicare-eligible participants in the first year of this plan and the subsidy base for non-Medicare eligible participants will be the same as the premium amount for non-Medicare eligible participants in the first year of this plan. Each subsidy base will increase five percent each year or the rate at which the actual premium amount increases for the corresponding aged participants, whichever is less.

(n) The eligibility for retiree major medical

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 coverage.

(o) The administrator shall establish monthly group premiums for retiree major medical coverage. Nothing in AS 14.25.310 - 14.25.590 guarantees a person who elects coverage under (b) of this section a monthly group premium rate for retiree major medical coverage other than the premium in effect for the month in which the premium is due for coverage for that month.

(p) A member is eligible to apply for reimbursement from the health reimbursement arrangement plan after a minimum of 10 years of service and does not have to retire directly from the system.

(q) In this section,

(1) "health reimbursement arrangement" means the plan established in AS 39.30.300;

(2) "retires directly from the plan" means that the member has been an active member for at least 12 consecutive months immediately before 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."

Page 35, line 31, following "normal retirement age":

Delete "means 65 years of age"

Insert "means 60 months less than the age set for Medicare eligibility at the time the member retires"

Page 58, lines 19 - 20:

Delete "within five years after the date of termination"

Page 58, line 21, following "trust":

Delete ", without interest or other adjustment."

Insert "with interest. The prior period of employment with a participating employer shall be credited towards eligibility for medical benefits."

Page 58, line 24, following "plan":

Insert ", except members do not have to retire directly from the system"

Page 92, line 1, through page 94, line 18:

Delete all material and insert:

"Sec. 39.35.870. Retirement. (a) In order to obtain medical benefits under AS 39.35.880 an active member must retire directly from the plan. A member is eligible to retire from the plan if the member has been an active member for at least 12 months before application for retirement and

(1) the member has at least 30 years of membership service; or

(2) the member reaches the normal retirement age and has at least 10 years of membership service.

(b) The normal retirement age is 60 months less than the age set for Medicare eligibility at the time the member retires.

(c) A member must apply to the administrator for appointment to retirement. Application shall be made on forms and in the manner prescribed by the administrator.

(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.

Sec. 39.35.880. Medical benefits. (a) The medical benefits available to eligible persons are access to the retiree major medical plan. Access to the retiree major medical plan means that an eligible person may not be denied medical coverage except for failure to pay the required premium.

(b) The following persons are eligible for the retiree major medical insurance plan provided under this section and may elect coverage under it:

(1) a member with at least 30 years of service and who retires directly from the plan;

(2) the surviving spouse of a member who elected coverage under (1) of this subsection;

(3) a member who reaches the normal retirement age as provided in AS 39.35.860, has at least 10 years of service, and retires directly from the plan;

(4) the surviving spouse of a member who elected coverage under (3) of this subsection.

(c) Retiree major medical plan coverage elected by an eligible member under this section covers the eligible member, the spouse of the eligible member,

and the dependent children of the qualified member.

(d) Retiree major medical plan coverage elected by the surviving spouse of an eligible member under this section covers the surviving spouse and the dependent children of the eligible member who are dependent on the surviving spouse.

(e) A person other than an eligible member is not eligible for coverage if, during the time the eligible member was an active member, the person was

- (1) not married to the member; or
- (2) not a dependent child of the member.

(f) Major medical coverage takes effect on the first day of the month following the date of the election and stops when the person who elects coverage under (b) of this section dies or fails to make a required premium payment.

(g) The coverage for persons who are eligible for Medicare is the same as that available for persons who are not yet eligible for Medicare. The benefits payable to those Medicare eligible persons supplement any benefits provided under the Medicare program.

(h) 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 arrangement. If the amount of the health reimbursement arrangement becomes insufficient to pay the premiums, the person who elects coverage under (b) of this section shall pay the premiums directly.

(i) The administrator shall set on an annual basis 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 (j) and (k) of this section.

(j) Participants who have not attained normal retirement age are required to pay the full amount of the applicable medical health coverage premium.

(k) Participants who have attained normal retirement age are eligible for a subsidy applicable to the cost of the applicable premium. The subsidy percentage applicable to the cost of premiums payable by the participant is 30 percent if the member had 10 years of service; for each additional year of service after the member's 10th year of service, the discount

increases by three percentage points; however, the maximum discount is 90 percent if the member has 30 or more years of service. The applicable subsidy percentage shall be applied to the subsidy base to determine the dollar amount of the subsidy that is applied against the cost of the premium.

(l) Participants who are eligible for Medicare will use the subsidy base for Medicare-eligible premiums. Participants who are not yet eligible for Medicare will use the subsidy base for non-Medicare eligible premiums.

(m) The subsidy base for Medicare-eligible participants will be the same as the premium amount for Medicare-eligible participants in the first year of this plan and the subsidy base for non-Medicare eligible participants will be the same as the premium amount for non-Medicare-eligible participants in the first year of this plan. Each subsidy base will increase five percent each year or the rate at which the actual premium amount increases for the corresponding aged participants, whichever is less.

(n) The eligibility for retiree major medical 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 coverage.

(o) The administrator shall establish the monthly group premiums for retiree major medical coverage. Nothing in AS 39.35.700 - 39.35.895 guarantees a person who elects coverage under (b) of this section a monthly group premium rate for retiree major medical coverage other than the premium in effect for the month in which the premium is due for coverage for that month.

(p) A member is eligible to apply for reimbursement from the health reimbursement arrangement plan after a minimum of 10 years of service and does not have to retire directly from the system.

(q) In this section,

(1) "health reimbursement arrangement" means the plan established in AS 39.30.300;

(2) "retires directly from the plan" means that the member has been an active member for at least 12 consecutive months immediately before 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."

Page 101, line 28, following "normal retirement age":

Delete "means 65 years of age"

Insert " means 60 months less than the age set for Medicare eligibility at the time the member retires"

Page 105, line 23:

Delete "sec. 60"

Insert "sec. 61"

Page 107, following line 30:

Insert a new bill section to read:

*** Sec. 140.** The uncodified law of the State of Alaska is amended by adding a new section to read:

REPORT TO THE LEGISLATURE BY THE DIVISION OF RETIREMENT AND BENEFITS. The division of retirement and benefits will provide an annual report to the legislature regarding the cost savings measures it has implemented by regulation as described in sec. 1 of this Act."

Renumber the following bill sections accordingly.

Page 109, line 19:

Delete "SECTIONS 139 AND 140"

Insert "SECTIONS 141 AND 142"

Page 109, line 20:

Delete "secs. 139 and 140"

Insert "secs. 141 and 142"

Page 109, lines 21 - 22:

Delete "secs. 139 and 140"

Insert "secs. 141 and 142"

Page 109, line 23:

Delete "Sections 11, 12, 14, 15, 20, 89 - 94, 107, 114, and 131"

Insert "Sections 12, 13, 15, 16, 21, 90 - 95, 108, 115, and 132"

Page 109, line 25:

Delete "Section 141"
Insert "Section 143"

Page 109, line 26:

Delete "secs. 142 and 143"
Insert "secs. 144 and 145"