

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

April 25, 2006

5:04 p.m.

MEMBERS PRESENT

Senator Gene Therriault, Chair
Senator Thomas Wagoner, Vice Chair
Senator Charlie Huggins
Senator Bettye Davis
Senator Kim Elton

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 293

"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, 2008; providing for an effective date by amending the effective date section of sec. 148, ch. 9, FSSLA 2005; and providing for an effective date."

MOVED SB 293 OUT OF COMMITTEE

CS FOR HOUSE JOINT RESOLUTION NO. 27(MLV)

Urging the United States Congress to pass legislation amending the Alaska Native Vietnam Veterans Allotment Act to allow deserving veterans to obtain allotments of vacant land within the State of Alaska; and to reopen and legislatively approve allotments in the Tongass National Forest.

MOVED CSHJR 27(MLV) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 293

SHORT TITLE: PUBLIC EMPLOYEES'/TEACHERS' RETIREMENT

SPONSOR(S): SENATOR(S) ELTON

02/14/06	(S)	READ THE FIRST TIME - REFERRALS
02/14/06	(S)	STA, FIN
04/25/06	(S)	STA AT 3:30 PM BUTROVICH 205

BILL: HJR 27

SHORT TITLE: ALLOTMENTS FOR NATIVE VIETNAM VETERANS

SPONSOR(S): REPRESENTATIVE(S) COGHILL

01/18/06 (H) READ THE FIRST TIME - REFERRALS
01/18/06 (H) MLV, STA
03/02/06 (H) MLV AT 1:00 PM CAPITOL 120
03/02/06 (H) Moved CSHJR 27(MLV) Out of Committee
03/02/06 (H) MINUTE(MLV)
03/03/06 (H) MLV RPT CS(MLV) 4DP
03/03/06 (H) DP: THOMAS, ELKINS, DAHLSTROM, LYNN
03/21/06 (H) STA AT 8:00 AM CAPITOL 106
03/21/06 (H) Heard & Held
03/21/06 (H) MINUTE(STA)
03/30/06 (H) STA RPT CS(MLV) 4DP 1NR 1AM
03/30/06 (H) DP: LYNN, GATTO, ELKINS, RAMRAS;
03/30/06 (H) NR: GARDNER;
03/30/06 (H) AM: SEATON
03/30/06 (H) STA AT 8:00 AM CAPITOL 106
03/30/06 (H) Moved CSHJR 27(MLV) Out of Committee
03/30/06 (H) MINUTE(STA)
04/11/06 (H) RLS AT 1:30 PM CAPITOL 106
04/11/06 (H) <Bill Hearing Canceled>
04/18/06 (H) TRANSMITTED TO (S)
04/18/06 (H) VERSION: CSHJR 27(MLV)
04/19/06 (S) READ THE FIRST TIME - REFERRALS
04/19/06 (S) STA
04/25/06 (S) STA AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

Representative John Coghill
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of HJR 27

Charles Hubbard, Vietnam Veteran
Sterling, AK

POSITION STATEMENT: Supported HJR 27

Dee Hubbard
Sterling, AK

POSITION STATEMENT: Supported HJR 27

Carol Yateman, Supervising Attorney
Native Allotment Program
Alaska Legal Services

Anchorage, AK

POSITION STATEMENT: Supported HJR 27

Melanie Millhorn, Director
Division of Retirement and Benefits
Department of Administration
Juneau, AK 99801

POSITION STATEMENT: Represented administration in opposition to SB 293

John Alcantra, Government Relations Director
NEA-Alaska
4100 Spenard Road
Anchorage, AK 99517

POSITION STATEMENT: Supported SB 293

Bruce Ludwig
Alaska Public Employees Association (APEA/AFT)
Juneau, AK 99801

POSITION STATEMENT: Supported SB 293

Vernon Marshal, Lobbyist
Public Safety Employee Association (PSEA)
Juneau, AK 99801

POSITION STATEMENT: Supported SB 293

Carey Reardon, Teacher
Anchorage, AK

POSITION STATEMENT: Supported SB 293

ACTION NARRATIVE

CHAIR GENE THERRIAULT called the Senate State Affairs Standing Committee meeting to order at [5:04:51 PM](#). Present were Senators Bettye Davis, Thomas Wagoner, Kim Elton, and Chair Gene Therriault.

CSHJR 27(MLV)-ALLOTMENTS FOR NATIVE VIETNAM VETERANS

[5:05:08 PM](#)

CHAIR GENE THERRIAULT announced HJR 27 to be the first order of business.

REPRESENTATIVE JOHN COGHILL, sponsor, characterized HJR 27 as an expression of support for two bills sponsored by U.S. Senator Lisa Murkowski and Congressman Don Young to reopen discussion on

Native allotments and to extend the definition for Vietnam era veterans to include the years 1964 through 1975.

A second part of the resolution asks for examination of the Tongass area where up to 300 people were denied the ability to apply for an allotment as the result of a court.

[5:10:12 PM](#)

SENATOR THOMAS WAGONER stated that several of his constituents would like this resolution to pass.

CHARLES HUBBARD, Vietnam Veteran from Sterling, testified in support of HJR 27 saying it would right wrongs that have been done to Alaska Natives and Alaska Native veterans. He related that his mother's attempts to get an allotment took more than 30 years and she didn't live long enough to celebrate her victory.

[5:15:51 PM](#)

DEE HUBBARD, Sterling, testified that HJR 27 addresses a fairness issue, which is that the federal code doesn't allow family members of deceased veterans to apply for an allotment.

SENATOR WAGONER asked how many veterans or surviving family members might be affected.

MS. HUBBARD replied she didn't have that information.

[5:20:43 PM](#)

CAROL YATEMAN, Supervising Attorney of the Native Allotment Program with Alaska Legal Services, testified that HJR 27 is a crucial statement of support for the legislation before Congress to get the Alaska Native Vietnam Veterans Act amended. Congressional members want to act in accordance with the wishes of the State of Alaska.

Addressing why the law should be amended, she said she couldn't understand why the current law is so restrictive because the intention was to give veterans a chance to get what they should have gotten in the first place had they not been away serving in the armed services. As it turns out, the allotment land that was available to Vietnam veterans was minimal compared to what would have been available had they applied prior to 1971. The primary problem is that under current law there isn't any land available around many Alaska villages. A secondary problem is the requirement that a veteran use the land in a certain way for a minimum of five years.

The amendments before Congress would remove those requirements and establish legislative approval for veterans, which is logical because that's the way it is for other allotment applicants. Also, receiving legislative approval would drastically reduce the time it takes to process an application.

MS YATEMAN informed members that under current law the heirs of a veteran who died for reasons unrelated to a war injury were not allowed to apply for a veteran's allotment. The bills in Congress would correct that injustice.

REPRESENTATIVE BILL THOMAS reported that he is a Vietnam veteran and he strongly supported HJR 27.

[5:31:47 PM](#)

SENATOR KIM ELTON asked if including an heir was discussed in the House hearings and whether there is a reason that the issue isn't addressed in the resolution.

REPRESENTATIVE COGHILL replied the issue is addressed in the two bills before the U.S. Congress. The resolution is to broaden the scope and reopen the discussion.

SENATOR ELTON said he was prepared to offer an amendment to include heirs if the sponsor agreed.

REPRESENTATIVE COGHILL expressed appreciation but he didn't believe it was necessary.

SENATOR WAGONER motioned to report CSHJR 27(MLV)and attached fiscal notes from committee with individual recommendations. There being no objection, it was so ordered.

SB 293-PUBLIC EMPLOYEES'/TEACHERS' RETIREMENT

[5:34:35 PM](#)

CHAIR THERRIAULT announced SB 293 to be up for consideration. He explained that he intended to put the issue on the record and then forward the bill to the Finance Committee for further consideration.

SENATOR KIM ELTON, sponsor, explained that SB 293 extends, to July 1, 2008, the effective date for SB 141, which is a bill that creates a Tier IV defined contribution retirement system. The reasons for extending the effective date are that SB 141 is not well understood and that it's inadvisable to move forward with implementation prior to a mandated IRS review.

SENATOR ELTON stated that the House "fix it" bill has grown to 34 pages in an effort to address the issues that weren't considered in SB 141. Some of the changes are fundamental including: addressing the potential for double dipping on disability; identifying where death and disability benefits come from; survivor benefits; and qualifying for both PERS and TRS before getting access to a health retirement account. Noting that amendments were added on the House floor, one of which would extend the effective date for a year, he asserted that it would be counterintuitive to believe that more issues wouldn't arise over time.

SENATOR ELTON explained that when a retirement system changes, the IRS must conduct a review of the plan details and, he said, it would be presumptuous to think that the IRS review will go smoothly if the Legislature is still trying to fix the bill. SB 293 isn't an effort to do away with the new Tier IV; it's simply an effort to slow implementation until the bill is understood and the problems are fixed.

He advised that extending the effective date comes at no cost; it does not implicate the unfunded liability or increase costs to the employer. He encouraged the committee to pass this important component on to the Finance Committee for further consideration.

[5:42:03 PM](#)

JOHN ALCANTRA, Government Relations Director for NEA-Alaska, testified that the bill is necessary because of the many flaws associated with SB 141. He advised that NEA-Alaska would have an actuary from Washington D.C. available over the weekend to address the issues that are important to lawmakers and urged members to move the bill to the Finance Committee for further consideration.

BRUCE LUDWIG, Business Manager for the Alaska Public Employees Association and the American Federation of Teachers, stated that he was also speaking for the Alaska AFL/CIO. He opined that because SB 141 has many problems and errors and because the plan does not have IRS approval, it would be dangerous to go forward. Doing so could result in up to a 20 percent increase in tax liability on employees' income. He urged the committee to pass the bill.

[5:47:33 PM](#)

VERNON MARSHAL, Lobbyist for the Public Safety Employee Association (PSEA), testified in support of SB 293. He related concerns from both employer and employee standpoints and stressed that additional time is needed so that: new employees are assured of entering a qualified plan that meets IRS review; new employees entering PERS and TRS service understand the workings of the new Alaska 401K; and employers are knowledgeable regarding the benefits and structure of the system and its new accounting. This information is necessary to ensure a seamless transition from one retirement system to another.

MR. MARSHALL reported that PSEA recognizes that Alaska has a shortage of troopers and it views the retirement plan as a tool to attract qualified applicants. Furthermore, it believes that proper marketing of available positions is vital and that higher levels of information will be required than in past.

Using proper due diligence will reduce ambiguity and the possibility of error and misunderstanding. Investing additional time is a prudent step to ensure that a proper workforce is built in Alaska so that the people can get business done and provide service, he concluded.

CAREY REARDON, Anchorage Teacher, testified in support of moving the bill to the Finance Committee for the reasons previously stated. She described SB 141 as a bill that was passed in haste and now requires fixing. She urged the committee to take the same amount of time for state employees and teachers as is being taken with the oil tax structure.

[5:54:29 PM](#)

MELANIE MILLHORN, Director, Division of Retirement and Benefits, testified that the administration opposes delay of implementation of SB 141. She recapped SB 141 and said it recognizes the key factors underlying the unfunded liability, which are: rising healthcare costs; loss of investment income; and change in actuarial assumptions.

SB 141 redesigned the medical benefit in a way that aligns with other state pension programs and the national trend associated with receiving medical benefits. She elaborated that 75 percent of the current costs for medical benefits accrue from the normal retirement age of 55 to 65 for Tier I while other state pension systems have 50 percent of the costs coming from normal retirement age of 65.

MS. MILLHORN reported that Buck Consultants, which provides actuarial services to Alaska and some 300 other state and government pension systems, states that Alaska is its first client that cannot increase the deductible, the co-pay, and the prescription drug costs because they are protected under Article XII, Section 7 of the Alaska State Constitution. She related that other states are able to make changes as costs increase.

When PERS and TRS employers were surveyed in 2004 regarding tier redesign, those stakeholders indicated that they didn't want to shoulder the rising healthcare costs and loss of investment income. Their voice is important, she said.

MS. MILLHORN advised that delaying implementation of SB 141 would add approximately 8,800 new members to the retirement system who would have constitutionally protected benefits. The medical normal cost already exceeds the pension normal cost making it clear that the escalation of healthcare costs are a primary driver. SB 141, if implemented on July 1, 2006, deals with that issue.

MS. MILLHORN addressed the comments related to IRS plan determination process saying that Ice Miller LLP was hired to use its tax expertise to review the provisions of SB 141 and conform the benefits in the way the Legislature intended. The division did file for plan determination in a timely fashion thereby preserving the opportunity to move forward and make changes to provide beneficial tax benefits to members and employers. She assured the committee that there is no adverse consequence in the sequence of events or the measures that the division has undertaken in concert and partnership with Ice Miller.

She asked for the opportunity to move forward and implement the plan in accordance with legislative intent from the previous session and not add additional unfunded liability to the pension system.

[6:02:09 PM](#)

SENATOR WAGONER remarked he found it hard to comprehend that delaying the program for the requested time wouldn't add a burden to the state.

MS. MILLHORN responded the fiscal note speaks to the division's operational costs and not to the cost of adding an additional 8,800 members and their dependents if implementation is delayed.

SENATOR WAGONER questioned whether someone is working to determine the additional cost if implementation is delayed

MS. MILLHORN replied the actuaries haven't been charged with that task as yet, but it could be necessary depending on development of SB 293.

SENATOR ELTON asked Ms. Millhorn, as administrator of the program, if she would outline the difference in future costs to the retirement system for Tier III versus Tier IV employees.

MS. MILLHORN replied SB 141 redesigned the benefit plan to make costs going forward predictable for employers and it was very generous. Under SB 141 the fixed and guaranteed benefits for death and disability and healthcare have been redesigned so that costs going forward are known. With Tier III members the costs are all defined benefit components so there is associated volatility. Buck Consultants is looking at all 21 assumptions for the past four years and then recalibrating them to determine whether or not they will recommend changes.

SENATOR ELTON reiterated he would like her to outline the difference in future cost between someone hired on June 30, 2006 and someone hired on July 2, 2006.

MS. MILLHORN responded the difference is about two percentage points in normal cost and the new defined contribution members would bring in no past service cost.

SENATOR ELTON said he'd like to see the numbers when they're available. He wouldn't dispute that a Tier I or Tier II employee is more expensive than a Tier IV employee, but he hasn't seen any figures outlining the difference between a Tier III and Tier IV employee. Before a decision is made there must be some understanding of the real cost of a delay, he said.

CHAIR THERRIAULT agreed that the Finance Committee would want that information.

SENATOR HUGGINS asked if Tier I benefit plans would change in any way.

MS. MILLHORN replied the benefits for Tier I, Tier II, and Tier III employees are constitutionally protected and would not change.

SENATOR HUGGINS asked if that includes cost of living adjustments.

MS. MILLHORN said yes. She elaborated saying there are two post retirement pension adjustments (PRPAs). One is automatic and the other is ad hoc. The change in SB 141 establishes a ceiling such that the funding level must be at 105 percent before the administrator can authorize the ad hoc PRPA. The automatic PRPAs are still benefits that all members are entitled to in accords with the statute provisions.

SENATOR ELTON asked if it's true that new employees' retirement contracts can't be changed retroactively so any errors that aren't identified and corrected by HB 475 won't be changed until a future Legislature corrects the mistake.

MS. MILLHORN explained that Ice Miller would have the ability to file a revision to the plan determination letter that has been filed and the IRS would provide a determination associated with the filings. If additional changes are needed, the State would be given the opportunity to deal with the issue(s) that would result in any adverse action.

SENATOR ELTON clarified he wasn't asking about IRS filings that could lead to plan revisions; he was asking about new employees' retirement contracts and whether or not they could be revised if errors are subsequently found.

MS. MILLHORN expressed confidence that that problem has been addressed because the Department of Law has analyzed SB 141 and dealt with all benefit provisions. Some of the suggested changes are incorporated in HB 475 so the areas of benefit provision and the administration of the benefits have undergone due diligence and the bill will be implemented as the Legislature intended.

SENATOR ELTON referenced the timetable for receiving IRS determination and asked if the process might require legislative action.

MS. MILLHORN replied it would depend on the determination from the IRS.

SENATOR ELTON questioned whether the 90-day deadline might not be problematic if the Legislature isn't in session.

MS. MILLHORN said her understanding is that the IRS could ask for a course correction when it issues the determination. When

the State submits the correction it would include information relating to the timing of the next legislative session.

CHAIR THERRIAULT asked for the will of the committee.

SENATOR WAGONER motioned to report SB 293 and attached fiscal note(s) from committee with individual recommendations. There being no objection, it was so ordered.

Confirmation - Scott Nordstrand, Commissioner, Department of Administration

[6:21:04 PM](#)

CHAIR THERRIAULT announced that he had a letter for members to sign to report Scott Nordstrand's name to the full Legislature for consideration as Commissioner of Administration and that signing the letter in no way indicates a preference for voting on the confirmation.

There being no further business to come before the committee, Chair Therriault adjourned the meeting at [6:21:33 PM](#).