

HOUSE FINANCE COMMITTEE
May 8, 2007
8:46 a.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [8:46:26 AM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Richard Foster
Representative Les Gara
Representative Mike Hawker
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas, Jr.

MEMBERS ABSENT

Representative Reggie Joule

ALSO PRESENT

Kevin Brooks, Deputy Commissioner, Department of Administration; Pat Shier, Director, Division of Retirement and Benefits, Department of Administration; Kathy Lea, Retirement Manager, Division of Retirement and Benefits Department of Administration

PRESENT VIA TELECONFERENCE

None

SUMMARY

CSSB 125(FIN) "An Act relating to the accounting and payment of contributions under the retirement plans of the Public Employees' Retirement System of Alaska and the Teachers' Retirement System, to calculations of contributions under those retirement plans, and to participation in, and termination of and amendments to participation in, the defined benefit plans of those systems; relating to employer contributions to the health reimbursement arrangement plan; making conforming amendments; and providing for an effective date."

CSSB 125 (FIN) was heard and HELD in Committee for further consideration.

[8:47:24 AM](#)

CS FOR SENATE BILL NO. 125(FIN)

"An Act relating to the accounting and payment of contributions under the retirement plans of the Public Employees' Retirement System of Alaska and the Teachers' Retirement System, to calculations of contributions under those retirement plans, and to participation in, and termination of and amendments to participation in, the defined benefit plans of those systems; relating to employer contributions to the health reimbursement arrangement plan; making conforming amendments; and providing for an effective date."

KEVIN BROOKS, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, introduced testifiers for SB 125.

Representative Gara asked how this bill works in conjunction with the PERS fix bill that passed out of committee. Co-Chair Meyer replied that SB 125 is the cost share bill. Mr. Brooks pointed out that the two bills work together; one makes some technical fixes and this bill creates a cost share program so that PERS mirrors TRS in that regard and provides funding to cover the transition as well as unfunded liability costs of the systems.

[8:49:45 AM](#)

PAT SHIER, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, provided a sectional analysis of the bill:

Section 1 repeals and reenacts the employer contribution section of the TRS defined benefits (DB) status to 12.56 percent. It specifies that the rate applies to the entire payroll base - regardless of tier - for DB and Defined Contribution Retirement (DCR) normal costs. It stipulates that any money in excess of what is needed to pay the system's normal costs is applied to the accrued unfunded liability.

Section 2 talks about the state's commitment to adding money to the plan in excess of the set rate, determined by what the actuary calculates the plan needs for the coming year. That is the sum total of both the normal cost and the past service cost.

Section 3 defines "past service liability" and "system" and makes clear the calculation methodology.

Section 4 clarifies the health reimbursement plan contributions that are established in AS 39.30.370, not AS 39.30.300.

Section 5 says there is no longer any employer asset reserve account. It also talks about how the state will disperse any payments made by employees of a voluntary basis.

Section 6 is slightly reworded to match language already passed in SB 123.

Sections 7 and 8 move references to participation amendments, if employers want to opt in or out of the plan.

Section 9 is similar to Section 1 in that it addresses the PERS rate, sets the annual rate to 22 percent, and applies it to the entire payroll base regardless of tier. The payroll base used in calculation is the current year or FY 07, whichever is greater. Any money in excess of what is needed to pay the system's normal costs, are applied to the accrued unfunded liability. The 22 percent rate applies also to retiree rehires that may be in the payroll base. This section also defines "normal cost".

Section 10, as in Section 2 for TRS, describes the state's commitment to make up the difference between the actuarial rate of 22 percent and what the actuaries say the plan needs in order to pay off the unfunded liability and cover normal costs.

Section 11 moves references as mentioned earlier, some that are repealed in Section 20.

Section 12 describes the process whereby the administrator may claim funds from other agencies of the state if an employer is behind in retirement contributions or interest owed. It was discovered that there was no language that brought employers to the table to have discussions about how arrears might be solved. This section establishes such a process, including appeal rights.

Section 13 is language to prevent an employer from awarding past service credit to employees who were added to the plan by amendment. Elected officials cannot be added unless they make a minimum of \$2,001 a month.

Section 14 discusses that an entity must be paid up if they want to re-enter or if they want to bring a group in that has been excluded.

Section 15 talks about a previously terminated employer having the opportunity to re-enter if they pay costs associated with the termination. They would only participate in the DCR plan.

Section 16 deals with termination costs. If an employer terminates completely from the system, they will be required to pay the past service cost on that terminated wage base.

Section 17 conforms to other section changes in the CS.

Section 18 adds the definition of "past service liability".

Section 19 discusses the health reimbursement arrangement plan.

Section 20 repeals various portions of statute that are no longer effective.

Section 21 is transition language. It talks about those entities that had contributed excess funds or funds provided by the state or other source to their unfunded liability. This bill would hold them harmless. New subsection (b) sets contribution rates for those employers who are below 22 percent to allow them significant time to adjust to the higher rate.

[8:58:36 AM](#)

Representative Gara requested more information about section 21 (a). Mr. Shier explained that (a) describes those employers that had made contributions above those required in an effort to build employer-specific asset reserves against future rate increases. Subsection (b) is a description of a solution for those employers who are currently experiencing rates less than the 22 percent statutory rate. It is an effort to hold those communities harmless from the negative effects of raising the rate. Representative Gara asked how that is done and if it is for PERS employers. Mr. Shier referred to pages 12 and 13 to answer. He said it is PERS and it fixes their rate. In response to a question by Representative Gara, Mr. Shier pointed out that subsection (a) is forward funding and subsection (b) it is merely that employer's experience rate.

Mr. Brooks addressed fiscal note #2 by the Department of Administration for \$193,113.2 million. He explained that currently \$180 million is appropriated in HB 95, leaving a difference of \$13,113.2 that would be required by the fiscal note. That amount is comprised of \$5.4 million that would hold harmless current employers that are below the 22

percent rate for a five-year period. The rebate provision of \$7.2 million recognizes that some communities have made additional payments and levels the playing field.

Representative Gara asked if in the five-year period, the communities that had overpaid would have received full compensation. Mr. Brooks replied that would happen the first year.

[9:03:09 AM](#)

Representative Kelly asked about the 13.32 percent floor. Mr. Shier said it was the actuarially set normal cost rate. Representative Kelly asked if the five-year time allotment accomplishes the goal of not losing employers. Mr. Brooks thought it was a reasonable approach.

Representative Hawker inquired if the bill deals with the unfunded past service cost liability. Mr. Brooks related that it requires the state to pay the difference between the actuarially determined rate, which includes the normal cost as well as the past service cost, and the two rates established in statute. The fiscal note shows the contribution that will be required by the state over the next couple years will continue to rise through 2010 and then go down. By 2032 the state will be at normal cost. Representative Hawker summarized that the mechanism is that communities are limited to a certain amount and the state pays the rest. Mr. Brooks concurred. Representative Hawker spoke in support of that mechanism.

[9:06:24 AM](#)

Representative Hawker voiced concern about the amount that the state must provide, as identified in Section 2 of the bill. He noted that TRS is paid at the contribution rate determined by the board. He asked if the board is required to adopt a contribution rate that fully amortizes the past service cost liability. Mr. Shier related that there are guidelines about determining those rates. He explained that there is a mechanism that returns it to a normal payment rate.

Representative Hawker asked when the bill would take affect. Mr. Shier said FY 09. Representative Hawker asked if the board has revised its actuarial rates for FY 08. Mr. Shier replied that the ARM board did consider and supports the action of the legislature. Representative Hawker asked if the decision is neutral or has a consequence on the growth of the unfunded past service cost liability. Mr. Shier said, given the fiscal notes, it should suffice.

[9:10:11 AM](#)

Representative Hawker asked if rates are high enough to stop the rate of growth of the unfunded past service cost liability. Mr. Brooks repeated that the costs would go up for two years and then decrease. Representative Hawker noted the proposal is a long way from the 65/35 split. He asked if two years of growth is anticipated, and then a decrease. Mr. Brooks said the payment would go up for two years and then the unfunded liability would go to zero in 25 years. Representative Hawker requested to see an amortization chart.

Co-Chair Meyer compared it to taking out a 25-year mortgage on a home. Mr. Brooks noted that the unfunded liability does go down. It is a 25-year payment based on a number of actuarial assumptions and is updated yearly.

[9:14:24 AM](#)

Representative Kelly summarized that the 22 percent exceeds the normal cost rate and will pay off the unfunded liability. He stated support for that concept. He asked if the legislature can change the 22 percent in the future. Mr. Brooks said it could. Under the defined contribution system, the 9.75 contribution rate should remain flat. The number of defined benefit plan members will decrease, so the normal cost of that plan, which is just under 15 percent, could climb.

Representative Kelly said the defined contribution rate can be changed. He said it is the legislature's intent not to change the 22 percent. He stressed that there is exposure, and it is important not to change back to the defined benefits plan.

[9:18:31 AM](#)

Representative Gara asked if the major cost shown in fiscal note #2 shows numbers above this year's contribution. Mr. Brooks replied that they are numbers above the 22 percent and 12.56 percent - the equivalent of this year's calculation of the difference. Representative Gara asked if this year's \$193 million is \$193 million more than last year. Mr. Brooks reported that coincidentally the FY 07 rate is at 22 percent. The amount of \$193 million is the amount required over the current year. Representative Gara asked about the "stacking trend". Mr. Brooks explained that the base amount will be 22 percent, and the appropriation will be in addition to that and not building on subsequent years.

[9:21:31 AM](#)

Representative Gara asked if the 12 percent TRS contribution and the 22 percent PERS contribution is the employer's

contribution obligation based on percentage of salary. Mr. Brooks said that is correct. Representative Gara asked when the rates expire. Mr. Brooks said they are set in statute. Representative Gara requested an explanation of the PERS rate which will be leveled at 22 percent. Mr. Brooks said that is correct. He referred to a spreadsheet which depicts the impact on all employers of the hold harmless provision.

[9:24:25 AM](#)

Representative Gara asked if the legislation is fair to schools with more PERS employees. Mr. Brooks thought it was fair. Mr. Shier thought relative fairness is difficult to access. An attempt at a solution was found with involvement from communities around the state. Representative Gara wondered how many school districts have more PERS than TRS. Mr. Brooks listed several that do. Representative Gara gave an example of a PERS school district that does not get equal treatment. Mr. Brooks said that the PERS system has been in place for years. Mr. Shier referred to page 13 and noted that schools districts are participating in the hold harmless provision. Mr. Brooks noted that the school districts decide which plan to participate in.

[9:28:45 AM](#)

Representative Gara gave another hypothetical situation of unequal benefits in school districts.

KATHY LEA, RETIREMENT MANAGER, DIVISION OF RETIREMENT AND BENEFITS DEPARTMENT OF ADMINISTRATION, clarified that all school district teachers participate in TRS. All school districts can choose PERS or TRS for non-classified personnel. The issue of fairness is in the eye of the beholder.

Representative Hawker opined that the bill is an attempt at an elegant solution to a complex problem. He pointed to transition language that deals with the districts that would lose out because of this bill unless a solution was included. The current structure says that the current rate is frozen and then readjusted in five years. He spoke in favor of the hold harmless provision.

[9:36:12 AM](#)

Representative Hawker asked about alternative transitional mechanisms. Mr. Brooks said that has been considered. He concurred with Representative Hawker's analysis. Representative Hawker spoke to the five years of insurance and suggested it be revisited from time to time. Mr. Brooks noted that there will be a high level of scrutiny.

Co-Chair Meyer said the magic number is 40 percent, which is to be shared by communities and the state. On top of that the state has to pay for its own state employees at the full 40 percent rate. Mr. Shier reported that the original ARM board rate was 40 percent. The ARM board supports the 32 percent as allocated in the bill.

Co-Chair Meyer concluded the rate would be 40 percent without the bill. He asked if this is a form of revenue sharing. Mr. Brooks declined to answer.

[9:41:50 AM](#)

Representative Kelly asked for an opinion of Pension Obligation Bonds (POB)'s and their relationship to the bill. He related how the five-year timeframe came about and suggested that it shouldn't be messed with.

Mr. Brooks saw the use of POB's as a tool to address the state's payment in excess of 22 percent or 12.56 percent. It would help address appropriations in the out years. Representative Kelly requested administrative support for POB's given the timing and the interest rates now. Representative Hawker concurred with Representative Kelly.

[9:44:45 AM](#)

Representative Gara addressed the issue of new legislators being left out of the system for nine months. He suggested adding an amendment to the bill. Co-Chair Meyer asked if that has been addressed. Mr. Shier said it has not. Representative Hawker pointed to an effort to correct that language during another bill hearing.

Representative Gara thought no other state employees were excluded. He asked Mr. Brooks to research the issue. Mr. Brooks agreed.

CSSB 125 (FIN) was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 9:47 AM.