

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

March 28, 2007

7:05 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Representative Anna Fairclough, Vice Chair
Representative Bob Roses
Representative Paul Seaton
Representative Peggy Wilson
Representative Sharon Cissna (via teleconference)
Representative Max Gruenberg

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 204

"An Act relating to the public employees' and teachers' defined benefit retirement plans; relating to the public employees' and teachers' defined contribution retirement plans; relating to the judicial retirement system; relating to the health reimbursement arrangement plan for certain teachers and public employees; relating to the supplemental employee benefit program; relating to the public employees' deferred compensation program; relating to group insurance for public employees and retirees; making conforming amendments; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 206

"An Act relating to the accounting and payment of contributions under the defined benefit plan of the Public Employees' Retirement System of Alaska, to calculations of contributions under that defined benefit plan, and to participation in, and termination of and amendments to participation in, that defined benefit plan; making conforming amendments; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 204

SHORT TITLE: PUBLIC EMP./TEACHERS/JUDGES EMP. BENEFITS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/16/07 (H) READ THE FIRST TIME - REFERRALS
03/16/07 (H) W&M, FIN
03/28/07 (H) W&M AT 7:00 AM HOUSE FINANCE 519

WITNESS REGISTER

KATHLEEN LEA, Acting Director
Retirement Manager

Division of Retirement and Benefits (DRB)
Department of Administration (DOA)
Juneau, Alaska

POSITION STATEMENT: Presented HB 204 on behalf of the
Department of Administration and answered questions.

ANNETTE KREITZER, Commissioner Designee
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Explained the Department of
Administration's position on aspects of HB 204 and answered
questions regarding HB 204.

BRIAN ANDREWS, Deputy Commissioner
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Answered questions on HB 204.

ACTION NARRATIVE

CHAIR MIKE HAWKER called the House Special Committee on Ways and
Means meeting to order at [7:05:24 AM](#). Present at the call to
order were Representatives Hawker, Roses, Seaton, Wilson, and
Cissna (via teleconference). Representatives Fairclough and
Gruenberg arrived as the meeting was in progress.

HB 204-PUBLIC EMP./TEACHERS/JUDGES EMP. BENEFITS

CHAIR HAWKER announced that the first order of business would be
HOUSE BILL NO. 204, "An Act relating to the public employees'
and teachers' defined benefit retirement plans; relating to the
public employees' and teachers' defined contribution retirement
plans; relating to the judicial retirement system; relating to
the health reimbursement arrangement plan for certain teachers
and public employees; relating to the supplemental employee

benefit program; relating to the public employees' deferred compensation program; relating to group insurance for public employees and retirees; making conforming amendments; and providing for an effective date."

7:06:50 AM

CHAIR HAWKER explained that HB 204 and HB 206 are components of an integrated package to address the unfunded pension liabilities of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). Both of these bills were introduced by the House Rules Standing Committee at the request of the governor and were initially to be integrated into budget decisions. Subsequent discussions with House minority leadership led to an agreement that these bills would first be heard for overview purposes by this committee. He requested that this committee identify issues within these bills for further resolution by the House Finance Committee in conjunction with other budget issues.

7:08:30 AM

KATHLEEN LEA, Acting Director, Retirement Manager, Division of Retirement and Benefits (DRB), Department of Administration (DOA), provided the committee with a PowerPoint presentation titled "Technical Clarification Bill Overview-HB 204," and dated March 28, 2007. She said that HB 204 was introduced by Governor Palin and developed in conjunction with extensive review by the Department of Law (DOL), independent tax counsel, and DRB. It contains some provisions that were contained in last year's House bill 475, as well as some new sections. She stated that the bill's purpose is to ensure that the Defined Contribution Retirement (DCR) Plan benefits are provided as intended. She explained that HB 204 was drafted in consideration of the requirements of the federal Pension Protection Act of 2006 and in light of receipt of Internal Revenue Service plan determination letters regarding death and disability benefits and individual accounts. She said that federal law requires previously qualified government plans to apply for re-qualification every five years.

7:13:17 AM

MS. LEA explained that the bill amends the following provisions of the DCR Plan: Occupational Death and Disability (DD) benefit administration and funding; employer participation; member participation; and IRC contribution limits. Referring to slide

6, she explained that the bill provides funding for TRS' occupational DD benefits and clarifies that disabled peace officers and firefighters shall receive normal retirement benefits when they reach retirement age. It also adds annual cost of living adjustments to disability and retirement benefits similar to the PERS Tiers II and III benefits to comply with legislative intent.

[7:13:48 AM](#)

MS. LEA explained that Senate bill 141 [passed during the 24th legislative session] provided occupational DD benefits for the PERS/TRS plans, but omitted funding of the TRS portion of the benefits - this bill provides authorization for that funding. She went on to say that Senate bill 141 was ambiguous regarding accrual and treatment of survivor disability benefits, therefore HB 204 clarifies that periods of disability can be used to meet the service requirements for retirement and medical benefit eligibility. She said that both disability and survivor benefits cease when a member reaches, or would have reached, normal retirement eligibility. Ms. Lea opined that the legislature intended to provide a retirement benefit to the disabled member or to the survivor at the time of normal retirement eligibility. To meet that intent, Senate bill 141 required continued contributions be made to a member's account while survivor and disability benefits were being paid, she said. This bill clarifies that when a member or a member's survivor is receiving disability or survivor payments, the member or member's survivor is not also entitled to draw against the member's individual account balance. That balance will be preserved for normal retirement, she explained. She explained that a disabled member who reaches normal retirement eligibility by service is eligible to have a percentage of their medical premiums paid by the plan based on their years of service under the plan's medical cost share provisions, and referred to slide 7. She noted that other technical clarifications clarify that a member is not considered disabled if he or she can perform the duties of a comparable job for any employer.

[7:16:18 AM](#)

MS. LEA referred to slide 8 and explained that HB 204 adds provisions for new employers to join the DCR plan, or for existing employers to terminate their defined benefit (DB) plans. It provides a 12-month time limit during which non-vested DB employees may choose to convert to the DCR plan. The bill establishes a new trust, the Alaska Retiree Health Trust,

to receive DCR plan employer retiree health contributions. It sets uniform contribution amounts for all employers participating in the health reimbursement arrangement, she said.

[7:17:45 AM](#)

CHAIR HAWKER replied to a concern regarding the nature of the presentation by noting that his office had provided committee members with a copy of the sectional analysis. He explained that the witness had not been requested to provide written testimony.

[7:18:52 AM](#)

MS. LEA responded to a question by explaining that the ARH trust will be separate from the pension trusts, its trustees will be from the Alaska Retirement Management Board (ARMB), and it will be administered by the Commissioner of DOA. She explained that HB 204 adds the governor, lieutenant governor, and legislators as members of the DCR plan. The bill proposes that a defined benefit member employed by a DCR plan-only employer will participate in the DCR plan. She said that without this change, a non-vested defined benefit member employed by a DCR plan-only employer could not participate in either plan.

[7:20:16 AM](#)

REPRESENTATIVE WILSON asked whether a defined benefit plan member that switches to a DCR plan only employer is required to participate in the DCR plan.

MS. LEA agreed with the aforementioned situation. She said that as of last month, 27 employees who were in the DB plan have chosen to convert to the DCR plan.

[7:21:31 AM](#)

MS. LEA explained that HB 204 clarifies that DB members who do not reinstate service and contributions to the DB plan before July 1, 2010, will become members of the DCR plan if re-employed by the state after the July 1, 2010 deadline. Senate bill 141 specified that employers of non-vested defined benefit members who elect to convert to the DCR plan match 100 percent of the employee contribution account. However, there are limits to the amount of pre-tax contributions that can be placed in an employee's account during a tax year, she said. The bill makes provisions to meet the intent of Senate bill 141 and the

requirements of Internal Revenue Code (IRC) section 415(c) by allowing payments to be made the following tax year, she explained.

[7:23:20 AM](#)

REPRESENTATIVE ROSES asked for clarification regarding the changes to member participation and asked if a non-vested member who reinstates employment with the state after July 1, 2010 would be a member of the DCR plan regardless of which defined benefit plan may have covered that employee when first employed by the state.

MS. LEA noted that the aforementioned characterization is correct. At the time Senate bill 141 passed, DRB notified all plan members in this situation and made further efforts to find current address for all members. She said that there are plans to give further notice in 2009 to affected persons.

[7:25:22 AM](#)

REPRESENTATIVE ROSES asked whether this provision requiring participation in the DCR plan for employees who separate, then reinstate service, only applies to those who requested a refund of their contributions.

MS. LEA agreed that the aforementioned statement is correct.

REPRESENTATIVE GRUENBERG asked if a member can request a partial refund of his or her contributions.

MS. LEA replied that a member can only request a refund of all contributions to the system.

REPRESENTATIVE GRUENBERG asked whether a member must make a payment to refund contributions.

MS. LEA responded that all a former member must do is re-employ and set up a reinstatement of indebtedness. The employee is not required to make a payment, but they are required to re-employ and become a member again before July 1, 2010.

REPRESENTATIVE GRUENBERG queried whether the employee could reinstate benefits if they are only re-employed with the state for a brief period.

MS. LEA replied that the employee must employ in a participating full- or part-time position. There is no requirement for how long the employee must work in that position. She explained that DRB has provided members notification and contact information regarding this issue.

[7:27:43 AM](#)

MS. LEA went on to explain that portions of HB 204 make changes so as to comply with applicable IRC requirements. She explained that if a DCR plan member became disabled prior to reaching their five-year vesting requirement, that member would be considered 100 percent vested upon disability. This bill also provides for survivor retirement benefits to be paid to the Occupational Death and Disability fund so as to comply with the legislature's intent in passing Senate bill 141 and with applicable IRC provisions. She said that Senate bill 141 omitted language necessary for compliance with the federal Uniformed Services Employment and Re-employment Rights Act (USERRA), and that although the DCR plans are administered in compliance with USERRA, the additional language in HB 204 is necessary to maintain plan compliance.

[7:30:06 AM](#)

REPRESENTATIVE ROSES questioned whether many of the DCR plan provisions parallel existing provisions for disability benefits and survivor provisions in the DB plans.

MS. LEA replied that it was the intent of the legislature to make the death and disability benefits in the DCR plan similar to PERS Tier III and TRS Tier II provisions and that the additions contained in HB 204 are intended to accomplish that.

[7:31:11 AM](#)

MS. LEA explained that the sections on contribution limits for survivor benefits have been removed due to non-compliance with the IRC, and replaced with new, tax-qualifying provisions for survivor benefits. She set forth that the second major focus of HB 204 are changes to the defined benefit plans. She explained that the federal Pension Protection Act of 2006 changed some rollover provisions allowed in DB plans, referring to slide 13.

[7:33:29 AM](#)

REPRESENTATIVE GRUENBERG asked about the date of some federal changes and whether there would be a retroactivity clause in HB 204.

MS. LEA replied that the federal changes were effective as of August, 2006. She went on to say that the plan has been administered in compliance with the Pension Protection Act since it passed in 2006. For example, DRB has been allowing an alternate payee to rollover contributions as allowed under federal law.

[7:35:01 AM](#)

REPRESENTATIVE GRUENBERG questioned whether DRB had the legal authority to so act, or whether the legislature must act to protect the agency.

MS. LEA replied that DRB had legal authority under the federal compliance law, and that the state statute needs to be amended to be in conformity with that law.

REPRESENTATIVE GRUENBERG reiterated his concern as to whether changes may need to be made retroactive so that DRB is not out of compliance with state law for actions previously taken.

[7:35:12 AM](#)

ANNETTE KREITZER, Commissioner Designee, Department of Administration, explained that DOL had ample opportunity to review HB 204, but did not make a recommendation that the bill be retroactive.

REPRESENTATIVE GRUENBERG suggested that this be "triple checked" because the bill could be amended if necessary.

[7:35:31 AM](#)

CHAIR HAWKER asked if there was a state statute that prohibited DOA from following the federal Pension Protection Act guidelines.

MS. LEA answered no.

MS. LEA explained that the bill makes some changes to employer participation in DB plans, referring to slide 14. The changes include redefining the rates so that they can be applied to the total employer payroll. She noted the bill does not change the

amount of employer contributions for past and current service costs. She explained that the proposed changes reduce the employer rate amount and expand the salary base upon which the rate is calculated. Additionally, these changes provide a salary base to apply past service rates of employers who no longer have active DB members, but still have DB liability.

[7:36:55 AM](#)

CHAIR HAWKER asked for clarification as to why this provision is in the bill and how it may relate to the disparate cost allocation and accounting provisions for employees depending on participation in the DCR plan or Tier III of the DB plans.

[7:37:44 AM](#)

REPRESENTATIVE ROSES asked for further clarification on the proposed changes to the employer participation provisions.

MS. LEA explained that redefining the salary base to include the DCR plan and DB plan participants' salaries does not increase the employers' contribution amount. She said that the change is necessary because, under current law, the employer rate can only be applied to the defined benefits salary base. Therefore, if an employer has no active members, there is no salary base on which to calculate their employer rate. The employer still has liability for retired members, but no salary base, she explained. She said that expanding the salary base to include defined contribution salaries provides the salary base necessary to calculate the employers' contribution rate, as well provides as a mechanism by which to pay DRB.

[7:39:01 AM](#)

REPRESENTATIVE SEATON asked if employer contribution rates would rise or appear to rise, if the state did not expand to consideration of the full wage base.

MS. LEA replied that the aforementioned characterization was correct. She agreed that rates would appear to be increasing, when in actuality the contribution rates may be the same or decreasing.

REPRESENTATIVE SEATON noted that the average PERS contribution rate is around 39 percent and asked what it would be if calculated on the entire wage base.

MS. LEA replied that she could obtain that information.

7:40:28 AM

CHAIR HAWKER set forth a hypothetical to illustrate mechanical problems with current law. Under the current law, DB past service costs are allocated only to that DB population and are not calculated for accounting purposes and assessment to participants across the entire population base. That could result in a situation where an employer, such as the city of Anchorage, would only have a few employees, but there could be many retirees drawing on the system.

7:41:55 AM

MS. LEA explained that under current law, in the aforementioned hypothetical, the city of Anchorage would only pay the liability for its employees. However, without the change proposed by HB 204, the state would have no ability to collect the liabilities from other employers.

7:42:27 AM

REPRESENTATIVE WILSON set forth the example of an employee who has three different municipal employers over the years. She asked whether this suggested change allows the state to continue collecting for that employee's costs from all past employers as well as from the present employer.

MS. LEA agreed that Representative Wilson's description is correct. She went on to say that HB 204 requires employers who choose to terminate participation in a plan pay for actuarial studies to determine termination costs. It further requires that the termination costs be paid in a lump-sum, or through a payment plan with DRB. In response to a question regarding the cost of actuarial studies, she explained that the cost of an actuarial study depends on the time it takes to do the study. She indicated it may take longer to complete a study for a large employer with many employees. She said that past studies for smaller employers have cost approximately \$1500 to \$8000.

REPRESENTATIVE WILSON asked whether these studies occur when an employee dies or retires.

MS. LEA explained that these studies occur when an employer chooses to terminate its entire participation in PERS.

7:46:10 AM

MS. LEA told the committee that another addition proposed in HB 204 will allow the state to intercept funds for payment of delinquent contributions if those funds are held for an employer and are not restricted by statute or otherwise appropriated for a specific purpose.

REPRESENTATIVE SEATON asked whether TRS employers could withdraw from participation.

MS. LEA acknowledged that participation in TRS is mandatory for all school districts.

7:47:00 AM

REPRESENTATIVE GRUENBERG expressed his concern that allowing the state to intercept funds targeted for a certain community could potentially bankrupt some smaller communities.

MS. LEA clarified that the bill's provisions would allow intercept only of funds that were not restricted or appropriated for a particular purpose.

REPRESENTATIVE GRUENBERG asked for further clarification of which funds would be considered restricted or appropriated for a particular purpose, and thus be immune from interception for payment of delinquent contributions.

MS. LEA ventured that the intercept provisions would include revenue sharing funds, and for a TRS participant it may include some education formula funding. She emphasized that the decision to intercept funds would not be taken lightly, but would be taken only after much consideration. She explained that it would not apply to an employer that was only a few weeks behind, but would include an employer that refused to pay its contribution.

REPRESENTATIVE GRUENBERG asked whether this means the state would intercept funds in the situation where an employer with available funds willfully refused to pay its share of pension fund contributions.

MS. LEA replied that if there were funds, this proposed change would allow the state to intercept those funds.

REPRESENTATIVE GRUENBERG agreed that there had to be money to intercept. He set forth that his question is whether the state would have the ability to intercept funds if a municipality on the verge of bankruptcy states it will not make a contribution because it must pay other necessary costs, such as public safety.

7:49:23 AM

ANNETTE KREITZER, Commissioner Designee, Department of Administration, opined it is important to consider the totality of the PERS/TRS unfunded liabilities when considering possible approaches to solve funding issues. She set forth that it is advantageous to the state to have a broad array of tools to address the PERS/TRS funding issues. She agreed that the decision to intercept funds is a serious one that would take much consideration and evaluation prior to any action being taken.

REPRESENTATIVE GRUENBERG set forth his concern regarding this issue and that he considered municipality's ability to pay basic utility costs as paramount to that community making a contribution.

7:51:00 AM

REPRESENTATIVE SEATON referred to recent decisions in Fairbanks whereby the voters limited local taxation. He expressed concern as to whether other employers will become responsible for the costs of municipalities that voluntarily refuse to contribute to the pension liabilities. He asked whether the intercept agreement applies to DB and DCR plans.

COMMISSIONER DESIGNEE KREITZER said that it does apply to both the DB and DCR plans. She emphasized that the state has a responsibility to all participants in PERS and it is important to not let unfunded liabilities grow unchecked, or to let some employers refuse to pay as that will increase the liabilities. While the first tact of the state is to act to "chip away" at the unfunded liabilities, the intercept provision is an important reminder that employers cannot ignore their contribution responsibilities.

7:53:18 AM

REPRESENTATIVE ROSES noted that under certain circumstances poorly performing schools could be taken over by the state under

the provisions of the federal No Child Left Behind Act. He queried how this may affect employer liability. He also expressed concern about possible state law changes to charter school organization and the effect on employer responsibility for those employees.

COMMISSIONER DESIGNEE KREITZER opined a takeover would not resolve the school districts from liability. She indicate she could provide further information on this issue to the committee. She opined that most legislators see TRS as more of a mandate on the state, and PERS as more of a mandate on other employers and the state.

[7:56:12 AM](#)

REPRESENTATIVE ROSES agreed with the aforementioned description, but warned that higher rates could be very difficult for some employers to meet.

REPRESENTATIVE FAIRCLOUGH noted that charter schools are the responsibility of their district, and that districts may be wary of charter school authorization because of the contribution plans.

[7:58:00 AM](#)

REPRESENTATIVE WILSON set forth that without the intercept authorizations, there is a risk that municipalities will spend their state money on areas other than employer contributions to retirement.

COMMISSIONER DESIGNEE KREITZER agreed that although the intercept agreement provisions may seem "draconian" at first glance, the state has a responsibility to protect all plan participants. She emphasized that DOA is willing to discuss considerations for review prior to intercepting funds, and stated she would not like to see this removed from the bill.

[7:59:34 AM](#)

REPRESENTATIVE WILSON opined that this is a needed provision as sometimes municipalities may not make responsible decisions.

CHAIR HAWKER likened the intercept provision to a security agreement in a loan. He noted it is not intended to cause disruption of communities, but it is an important component of the state's management responsibilities.

REPRESENTATIVE GRUENBERG clarified that his concern is for municipalities in dire financial straits, rather than for a municipality that has the ability to pay, but does not.

REPRESENTATIVE ROSES indicated he was seeking clarification, not necessarily speaking against the intercept authority. He asked what provisions have been available to the state in the past to take care of a situation where an employer is not paying their share.

COMMISSIONER DESIGNEE KREITZER recalled that there may be some broad statutory language.

REPRESENTATIVE ROSES agreed that he had not found anything specific in applicable statutes on this issue either.

[8:02:24 AM](#)

REPRESENTATIVE SEATON questioned whether it was possible to require that a portion of revenue sharing funds go to outstanding pension fund debt, although he opined that the intercept mechanism was a preferable approach.

COMMISSIONER DESIGNEE KREITZER recalled that there is a provision allowing garnishment of permanent fund dividends for child support arrearages.

[8:04:06 AM](#)

MS. LEA went on to explain that HB 204 codifies the use of forfeitures to be applied to future employer contributions. Forfeitures occur when a DB member terminates employment and elects to refund his or her own contributions. The employer contributions remain in the employers' asset base and are used for payment of benefits. She said this only applies to the DB plan, and that this provision codifies the forfeiture practice that DRB has been using. Ms. Lea responded to a question by agreeing that this is a standard administrative approach to plans that have both employee and employer contributions.

COMMISSIONER DESIGNEE KREITZER noted that DOL has not recommended a retroactivity clause.

CHAIR HAWKER asked whether there is a statutory prohibition to the division's current procedures.

MS. LEA answered that there is no prohibition to the current procedures.

8:06:20 AM

MS. LEA said that this bill clarifies that DB members who hire with a DCR only employer must participate in the DCR plan. She said that administrative changes include the creation of the Alaska Retiree Health Trust to account for retiree medical benefits. It will be an irrevocable trust under section 115 of the IRC and will have the ARMB trustees as its trustees. The Commissioner of DOA, or her designee, will be the administrator. It will be funded by employer health contributions and will pay retiree medical premiums. She set forth that the reason for this trust is because concerns have been raised regarding accounting issues. The division felt it was prudent to create a new health trust separate from the pension trusts. Currently, the health fund money is accounted for separately in the pension trust, but a separate trust would facilitate accounting and management responsibilities, she explained.

8:08:18 AM

REPRESENTATIVE SEATON asked about the effect of the new trust on determination of past service costs and expressed concern that the state be able to maintain the ability to determine past service costs.

MS. LEA said this new trust will not change how liabilities are calculated, but will simply change current accounting practices and will allow the state to insure that its accounting complies with applicable IRC provisions.

REPRESENTATIVE SEATON sought assurance that funds could not be shifted between the two trusts.

MS. LEA said that currently funds are not shifted between funds. She explained the retiree health amounts are accounted for separately and the assets are not co-mingled.

MS. LEA explained in response to a question, that since this is a qualified plan, the IRS requires separate accounting because of the tax nature of the plans authorized under section 115 of the IRC. She also agreed with an observation that this accounting change does not affect how rates are calculated.

REPRESENTATIVE WILSON asked whether the investment choices will change with the establishment of a new trust.

[8:12:41 AM](#)

BRIAN ANDREWS, Deputy Commissioner, Department of Revenue (DOR), explained that the investment strategy would not change and that there will not be a separate portfolio or policy for the health care trust.

[8:13:24 AM](#)

REPRESENTATIVE FAIRCLOUGH noted that separate trusts may better show fluctuations in the retirement fund accounts so that the ARMB board can better view and administer retirement benefits. She observed that if the health care account is separate, it would allow ARMB to consider varying outside factors that may influence the draw down or the contributions to this particular aspect of the retirement system. She opined that it may provide an "extra insulator" to examine management of medical benefits.

MR. ANDREWS agreed that with the aforementioned statement and noted it would give "more visibility" to the demands on the system.

COMMISSIONER DESIGNEE KREITZER added that this change is recommended by tax counsel.

[8:16:38 AM](#)

MS. LEA went on to explain that HB 204 removes the National Education Association-Alaska (NEA-Alaska) as an eligible employer, removes the social security tax wage base cap from employee and employer contributions, and conforms the plan administrator's duties across the all the plans. She explained that some NEA-Alaska retirees are currently drawing benefits.

REPRESENTATIVE FAIRCLOUGH asked for clarification as to how the new flat PERS rate will be calculated and whether that determination will include an examination of who is in an employer's system.

[8:19:38 AM](#)

MS. LEA reminded the committee that new employers only participate in the DCR plan. If a current DB employer has an employee with NEA-Alaska time, the new employer is not

responsible for the NEA-Alaska time, but is only responsible for time the employee has spent in their employ. In responding to a question as to who picks up the past cost of NEA-Alaska members, Ms. Lea set forth that she believes NEA-Alaska went through a close-out procedure with the state at the time their last active employee left service, but she will provide the committee further information on this point.

REPRESENTATIVE ROSES explained that in the past, persons were given leave from their school districts to work for NEA-Alaska under agreements whereby NEA-Alaska would refund the costs to the school districts.

[8:24:08 AM](#)

MS. LEA explained that HB 204 also contains provisions to correct omissions and drafting errors in Senate bill 141 related to administrative appeals. She noted that the change would return regulation adoption authority to the commissioner of administration. Furthermore, it would correct an omission in Senate bill 141 by providing the Office of Administrative Hearings with authority to hear appeals from the Supplemental Benefits system, the Deferred Compensation and Health Reimbursement Arrangement. Without this change, appeals would be heard by the Superior court.

MS. LEA summarized that the technical changes proposed by HB 204 allow the state to administer retirement benefits as intended by the legislature, provide funding mechanisms for all benefits, address IRC requirements, and remove administrative ambiguities.

[8:27:20 AM](#)

REPRESENTATIVE FAIRCLOUGH asked for clarification regarding the inclusion of only the governor, lieutenant governor, and legislators in the DCR plan, but not other elected officials.

MS. LEA explained that Senate bill 141 did not include any elected officials. Furthermore, she said that many plan employers wish to remove elected officials from their plans because of the cost. She explained that municipal elected officials receive a stipend of approximately \$50 to \$100 per meeting, so that only a small amount of money goes into the DCR plans. In comparison, state elected officials receive a salary. She indicated it is a policy choice of the legislature whom to include in the plans.

REPRESENTATIVE FAIRCLOUGH explained that elected officials in Anchorage receive a salary comparable to that received by legislators.

COMMISSIONER DESIGNEE KREITZER explained this was a policy determination she made when crafting the bill, and noted she did not see a method to separate municipalities for purposes of inclusion in the plan.

CHAIR HAWKER queried whether it would be possible to set up a method by which municipalities could chose whether to opt in to the plan.

COMMISSIONER DESIGNEE KREITZER expressed reservations with the aforementioned approach absent other changes to the system.

REPRESENTATIVE FAIRCLOUGH asked whether there could be a minimum salary floor for an elected official to participate in a plan.

COMMISSIONER DESIGNEE KREITZER noted she would consider the effect of such a change and could get back to the committee. She emphasized that she spent considerable effort in her examination of this issue. In response to further questions, she noted that some elected officials, such as the mayor of Anchorage, may be considered an employee whereas other elected officials, such as assembly members, are not.

[8:33:48 AM](#)

REPRESENTATIVE FAIRCLOUGH opined that Anchorage assembly members are likely considered employees.

[8:34:23 AM](#)

REPRESENTATIVE SEATON set forth that under the current system, municipalities are responsible for their employee costs. However, if PERS becomes a unified system, all employers will share in all costs.

COMMISSIONER DESIGNEE KREITZER said she has analyzed this based on a cost share system, but not under the current system.

[8:35:42 AM](#)

REPRESENTATIVE ROSES noted that in the past, an elected official could receive a very small salary and serve eight years, yet

receive full retirement benefits despite contributing little to the system.

COMMISSIONER DESIGNEE KREITZER answered that the aforementioned scenario will not change unless the cost share bill [HB 206] passes. In response to a question, she opined that House bill 475 from last session captured most of the aspects from Senate bill 141 that required addressing. She said that HB 204 further expands and clarifies the provisions of House Bill 475.

[HB 204 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at [8:40:46 AM](#).