

HOUSE FINANCE COMMITTEE
FOURTH SPECIAL SESSION
June 14, 2016
4:13 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 4:13 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

John Boucher, Deputy Commissioner, Department of Administration; Michele Michaud, Chief Health Officer, Department of Administration; Representative Sam Kito; Representative Liz Vasquez.

SUMMARY

HB 4002 INS. FOR DEPENDS. OF DECEASED FIRE/POLICE

HB 4002 was HEARD and HELD in committee for further consideration.

#hb4002
HOUSE BILL NO. 4002

"An Act relating to major medical insurance coverage under the Public Employees' Retirement System of Alaska for certain surviving spouses and dependent children of peace officers and firefighters; and providing for an effective date."

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Co-Chair Thompson discussed the meeting agenda.

JOHN BOUCHER, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, provided a PowerPoint presentation titled "Alaska Department of Administration Department Overview" dated June 14, 2016 (copy on file). He turned to slide 2: "HB4002: What the Bill Does":

Goal: Provide premium-free medical coverage to families of peace officers and firefighters killed in the line of duty

- Issue 1: Surviving spouses/dependents are not eligible to receive premium-free health benefits until survivor becomes eligible for those benefits at retirement age.
- Solution 1: Bill allows surviving spouses/dependents to start premium-free medical coverage upon occupational death of peace officer /firefighter.
- Issue 2: Defined Contribution Plan (Tier IV) does not allow access to health coverage until the time at which the deceased member would have reached 25 years of service. At that time, coverage may be accessed with 100% cost to surviving spouses/dependents until the time at which the survivor reaches Medicare age.
- Solution 2: Bill allows 100% premium subsidy for surviving spouses/dependents of peace officers/fire fighters upon occupational death of peace officer/firefighter until survivor reaches Medicare age. At Medicare age, premium subsidy and access to health reimbursement arrangement begin.

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Representative Gattis asked what age dependents "age out." Mr. Boucher answered that it was 23 if a person was in college; it was 19 otherwise.

Representative Guttenberg pointed to the last line of solution 2 on slide 2. He inquired about access to a health reimbursement arrangement (HRA). Mr. Boucher answered that as part of each Tier IV employee's employer contribution a monthly payment to an account was set up with the intention that later they could access the account to use the money to offset the premium share or other eligible medical costs.

Vice-Chair Saddler asked about the health reimbursement arrangement, as he did not understand Mr. Boucher's answer. Mr. Boucher replied that for each employee in the Public Employees' Retirement System (PERS) Tier IV a contribution was made by the employer to an individual account earmarked for use by the individual. The state held the account for the individual until they were eligible to use the funds. For example, a retired person used a portion of their HRA to offset the monthly premium they would have to pay. It was a way of defraying future healthcare costs for the retired individual.

Co-Chair Thompson surmised that if someone was 25 years old, became a police officer, served 25 years, then retired, they would be 50 at the time of their retirement. He suggested that from 50 to 65 years of age the individual would be able to access the account to offset their premiums. He asked if he was correct. Mr. Boucher deferred to Ms. Michaud.

MICHELE MICHAUD, CHIEF HEALTH OFFICER, DEPARTMENT OF ADMINISTRATION, agreed with the scenario provided by Co-Chair Thompson. She elaborated that a peace officer or firefighter with 25 years of service was eligible to retire from the plan but was not eligible to access a premium subsidy until turning 65 Medicare age eligible. The healthcare reimbursement arrangement could be used to pay the full premium in the interim period. Similarly, someone with 10 years of service that retired at age 65 had to pay a portion of their premium. The healthcare reimbursement arrangement could be used for that individual to pay for their portion of the premium.

Vice-Chair Saddler asked if there was money put away in an account every pay period for someone as soon as they started working which could be accessed later in their career or upon retirement. Mr. Boucher responded in the affirmative.

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Mr. Boucher continued to slide 3: "HB4002: What the Bill Does":

- Issue 3: Current law requires DCR retirement plan members to retire directly from PERS plan in order to be eligible for medical benefits.
- Solution 3: HB 4002 removes this requirement, but only for survivors of peace officers/fire fighters that experience occupational death.
- Issue 4: Benefits not available to dependent children of PERS plan members if member dies and there is no surviving spouse.
- Solution 4: HB 4002 extends eligible medical care expenses to include deceased peace officer/firefighter member's dependents.

Mr. Boucher elaborated that in the instance where an individual was killed in the line of duty they obviously did not have the opportunity go through what he described as the "retirement gate" to become eligible. The department had to address the issue within the legislation. He noted that there was a special exception written to resolve the issue for those individuals that would be eligible for the healthcare.

Co-Chair Thompson noted issue 4 and asked if children would only be eligible until the age of 23. Mr. Boucher answered that 23 years of age was the maximum. They would age out at 19 if they were not meeting the requirements for eligibility.

Co-Chair Thompson suggested that going to college was a requirement.

Mr. Boucher addressed who was covered by the legislation on slide 4: "HB 4002 - Who is Covered":

- 3,639 members designated as peace officers/firefighters in PERS system
- 1,916 are state employees
- 1,723 are employed by 43 political subdivisions
- Statutory-defined "peace officer" and "firefighter" includes: police, chief of police, regional public

safety officer, correctional officers, correctional superintendents, firefighter, fire chief

- Does NOT include VPSOs or any contracted police or firefighter positions

Co-Chair Thompson asked for a breakdown of firefighters. He asked if the number of employees included the Division of Forestry. Mr. Boucher would follow up with an answer to Co-Chair Thompson's question.

Co-Chair Thompson requested that the answers be provided to his staff.

Representative Guttenberg asked how a regional public safety officer differed from a Village Public Safety Officer (VPSO). Mr. Boucher would have to find out and get back to the committee.

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Representative Wilson wondered if the employees on slide 4 included state, borough, and other municipality employees. She wondered if the boroughs and municipalities would be paying for their employees or if the state was picking up the tab for all 3,639 members. Mr. Boucher answered that currently due to the PERS contribution rate being capped, a change in the contributions for the individual employers would mean an increase in the overall liability to the system. Since the employers were currently held harmless at 22 percent and the rate was over 22 percent, it would result in an increase in the annual state assistance payment. However, should the rate fall below 22 percent, the individual employers with peace and fire employees would potentially bear the cost of increased contribution rates. It would only be those employers who had peace and fire employees that could experience increased contributions.

Representative Wilson provided a scenario. She asked for verification that the percentage would have more of an impact on the municipalities rather than the bill itself. Mr. Boucher responded that there would be employer contribution increases associated with the benefit. He continued to address slide 4. He noted that the legislation did not apply to any VPSOs or any contracted police or fire positions because they were contractual relationships lacking a participation agreement in PERS.

Mr. Boucher turned to slide 5: "HB 4002 - Bill History":

- Governor Parnell worked with legislators on HB 66 and SB 202, which included all PERS & TRS employees and removed the DCR requirement to retire directly from the plan, resulting in large fiscal note.
- Leg Legal revised HB 66 (version P) to expand health insurance under AS 39.30.090 (Group Insurance), but this statute does not apply to Troopers because they have their own health trust and thus were not included in this version of the bill.
- Law and Leg Legal drafted a new version of HB 66 (version S), but no hearings were held. Rep. Millet pulled the bill and rolled it into SB 91.
- House removed HB 66 from SB 91.

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Mr. Boucher continued on slide 6: "HB 4002 - Where we are Now":

- Governor Walker introduced HB 4002, modeled on HB 66 (version S)
 - HB 4002 returns to the PERS system Occupational Death benefit as the vehicle
 - Limits application to peace officers and firefighters, resulting in a smaller group and a lower cost

Co-Chair Thompson assumed that volunteer firefighters would not be included under the legislation. Mr. Boucher agreed. He detailed that if there were no ties to PERS they would have no vehicle to gain access to the benefits.

Co-Chair Thompson assumed volunteer firefighters were not employees. Mr. Boucher answered, "Correct." It was an important distinction and narrowed the scope of the bill to those who were covered by existing PERS relationships.

Mr. Boucher addressed slide 7: "HB 4002 - Costs":

Why is this a state cost versus an employer cost?

Since the PERS employer contribution rates are capped at 22 percent and the effective rate is projected to

be above 22 percent, any increase in total liability or contributions by employers results in an increase in the annual State Assistance payment, currently the statutory responsibility of the state.

What if the PERS total contribution rate falls below the 22 percent cap?

The increased contribution rate for PERS P/F employers associated with this benefit would be a cost borne by employers that have P/F employees.

Mr. Boucher reported that the total costs related to the bill started out at about \$174 thousand annually and would increase to \$226 thousand. A fiscal note was put forth with the legislation because of the current situation with PERS. If additional benefits were needed in the contribution rates it essentially, in the state's current paradigm, resulted in an increase in the state assistance payment. However, if the paradigm changed at any point in the future the participating employers contributing on a regular basis to police and fire retirement would experience an increase in their contribution.

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Representative Gattis asked what the state had done in reference to the families since the prior administration's initiation of the bill. Mr. Boucher answered that some of the state troopers and the families affected by a particular incident that occurred in 2013 had received medical care coverage by the Department of Public Safety (DPS) out of its budget.

Co-Chair Thompson clarified that in the operating budget there was a \$174 thousand line item that covered families of deceased police officers. The bill aimed at getting the insurance in statute.

Representative Gattis noted that there were peace officer deaths going back to the 80's. She wondered if the state had always included compensation for the families in a line item since that time. Mr. Boucher answered that he was unaware of individuals being covered until recently.

Representative Gattis reiterated her understanding of Mr. Boucher's statement. Mr. Boucher agreed and elaborated that

the bill would also deal retroactively with the individuals affected by the 2013 incident.

Representative Gattis asked for additional clarification. Mr. Boucher responded that the effective date of the bill was January 1, 2013.

Representative Gattis queried about the retroactive date since the state was already paying the bill since 2013. Ms. Michaud answered that the benefits vested were based on the member and not their survivors. A survivor could not be vested into a benefit. The retroactivity date was necessary in the bill in order for the deceased individuals to be vested.

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Mr. Boucher turned to slide 8: "HB 4002 - Potential Expansion of the Bill":

Option: Expand scope of bill to include National Guard, VPSOs and other contractors who do similar work to peace officers/fire fighters

Problem: These groups are not part of PERS and do not contribute to PERS retiree health plan

- IRS prohibits non-participants from benefiting from pre-tax health trust funds
- Including these groups jeopardizes tax-exempt status of PERS retiree plan

Representative Guttenberg understood the relationship between employees and PERS. He wondered if individuals that were in the National Guard or who were VPSOs or other contractors had any death benefits. He wondered what the National Guard did. Mr. Boucher was not familiar with National Guard benefits but offered to follow up with the information. He also offered to look into the benefits for VPSOs.

Representative Guttenberg thought it would be interesting to have the information. There were a variety of places that VPSOs worked. He added that there were several volunteer fire fighters. He was interested in knowing if they bought insurance. Mr. Boucher presumed the individuals would be part of state workers' compensation. He was uncertain beyond that.

Mr. Boucher turned to slide 9: "HB 4002 - Potential Narrowing of Bill":

Request: Limit scope of bill to only state employees, i.e. Troopers

Problem: Definition of "peace officers/firefighters" would have to be changed for this bill, creating two groups:

- State employees who qualify for benefits under PERS
- Non-state employees who qualify for benefits under PERS
- Limiting benefit to state employees would provide one group with enhanced benefit
- Would require substantial, potentially costly change to existing PERS system

Mr. Boucher discussed the challenge of potentially redefining the definition of "peace officers/firefighters." There was a concern that it would set a precedence similar to that of California which had trillions of benefit packages to administer. He acknowledged that the state already had enough programs in place to have to administer. He was concerned about having the ability to administer the program if it was taken to such an extreme.

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Mr. Boucher moved to slide 10: "HB 4002 - Compromise Solution":

- Applies to existing statutorily-defined group of peace officers and firefighters
- Consistent with existing legal distinction of this group from other state employees
- Reduces fiscal impact compared to previous iterations of legislation
- Provides solution to three Trooper families, after 2 years of working on issue

Mr. Boucher concluded his remarks and offered to take questions.

Vice-Chair Saddler asked for the total number of employees covered by the Public Employees' Retirement System (PERS). Mr. Boucher would follow up with a precise number. He estimated the number to be in excess of 40,000.

Vice-Chair Saddler referenced a comment Mr. Boucher had made regarding fiscal notes showing the cost of providing premium-free health insurance for all PERS employees. He asked for the amount of the fiscal note. Mr. Boucher believed it was in excess of \$2.5 million to \$3 million per year and escalating.

Vice-Chair Saddler asked what DCR stood for. Mr. Boucher answered, "Defined contribution retirees, as opposed to defined benefit."

Vice-Chair Saddler asked if the occupations of police and fire fighters experienced the highest occupational death rate. Mr. Boucher replied that the state did not have occupational related death rates. However, when the department looked at the experience of the peace/fire group versus the "all other" group the peace/fire group had a higher death rate. He added that the department could see that there could be other high hazard occupations in the "all other" groups. They might be in a pool of occupations that had a wide variety or very low death risk.

Vice-Chair Saddler queried about the potential for litigation for unequal coverage. He wondered if the department had considered the issue. Mr. Boucher responded that the department believed that constructing the bill along the lines of existing groups provided the best defense going forward. To say that the state would be impervious to a law suit would be foolish. He acknowledged that department recognized that there might be high hazard occupations outside of police and fire. However, when looked at as a pool, the particular group had a lower rate of death than the peace/fire group.

Vice-Chair Saddler asked for any information on occupational death rates. He provided some examples of other potentially hazardous professions and expressed concerns about disparity in providing death benefits. Mr. Boucher would provide the information.

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Representative Wilson referred to slide 7. She asked how the benefit worked. Mr. Boucher provided an example. He suggested that if an individual died prior to the 25 years and received an occupational death benefit, they would continue to accrue service and contributions to the HFA until the time they would have reached retirement age. At that time they would change to retirement status in the system.

Representative Wilson believed the cost seemed high. She did not have a problem with the benefit part of the bill. She noted how high the health costs were and wondered about them. Mr. Boucher responded that comparisons were legitimate. However, money was also being set aside for an anticipated future occurrence of incidents.

Representative Wilson asked for a breakdown of the \$174 thousand. Mr. Boucher answered that it would be part of the occupational death benefit, which was part of a larger pool. There was also some retroactivity in the bill. The state would potentially be liable for some retroactivity.

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Representative Wilson asked if the state had already been paying \$174 thousand before the bill was introduced. Mr. Boucher answered in the negative. His understanding was the \$174 thousand was being paid from DPS' budget. In other words, the department was taking a portion of its allocation to cover the cost.

Co-Chair Thompson relayed that the budget showed the number in anticipation of the passage of the bill.

Representative Wilson was dividing \$174 thousand by 3 which equaled \$58,000 per family. She thought the amount was high. She asked how much the state would be setting aside for 3 specific families and how much was being saved in the event of tragedy in the future. Mr. Boucher responded that there were other eligible individuals who fell under the umbrella of the bill.

Co-Chair Thompson announced that in about 3 minutes he would be recessing the meeting.

Representative Gattis asked if Mr. Boucher could breakdown the numbers and provide them to the chairs. She had more

than 3 families on a list. She asked him to provide the related numbers. She queried what "SO" meant. Mr. Boucher believed "SO" stood for significant other.

Co-Chair Thompson asked Mr. Boucher to provide the information to his staff.

Representative Edgmon requested that Mr. Boucher provide information regarding any benefits for VPSOs through non-profits.

Co-Chair Thompson believed VPSOs were under contract. The state provided grants to communities and tribal organizations who then hired VPSOs.

HB 4002 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson recessed the meeting to a call of the chair [Note: the meeting never reconvened]. He discussed the schedule for the following meeting. He mentioned that if there were amendments that members wanted to put forward for HB 4002 they should be submitted to his office no later than 5:00 p.m. the following day.

#

ADJOURNMENT

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The meeting was adjourned at 4:55 p.m.