

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

June 1, 2016

1:20 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Jim Colver
Representative Gabrielle LeDoux
Representative Cathy Tilton
Representative Andy Josephson
Representative Sam Kito
Representative Mike Chenault (alternate)

MEMBERS ABSENT

Representative Shelley Hughes, Vice Chair

OTHER LEGISLATORS PRESENT

Representative Lora Reinbold
Representative Liz Vazquez

COMMITTEE CALENDAR

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."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 4002

SHORT TITLE: INS. FOR DEPENDS. OF DECEASED FIRE/POLICE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

05/23/16	(H)	READ THE FIRST TIME - REFERRALS
05/23/16	(H)	L&C, FIN
05/26/16	(H)	L&C AT 11:00 AM BILL RAY CENTER 208
05/26/16	(H)	Heard & Held
05/26/16	(H)	MINUTE(L&C)
05/31/16	(H)	L&C AT 1:15 PM BILL RAY CENTER 208
05/31/16	(H)	-- MEETING CANCELED --

06/01/16

(H)

L&C AT 1:15 PM BILL RAY CENTER 208

WITNESS REGISTER

LARRY LANGER, Principal and Consulting Actuary
Buck Consultants
Chicago, Illinois

POSITION STATEMENT: Speaking as a consultant to the Division of Retirement and Benefits, Department of Administration, presented a letter/summary from Buck Consultants, dated 5/24/16, provided in the committee packet.

MELISSA BISSETT, Senior Consultant, Healthcare Actuary
Buck Consultants
Greenwood Village, Colorado

POSITION STATEMENT: Speaking as a consultant to the Division of Retirement and Benefits, Department of Administration, participated in the presentation of a letter/summary from Buck Consultants, dated 5/24/16, provided in the committee packet.

MICHELE MICHAUD, Chief Health Official
Division of Retirement and Benefits
Central Office
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 4002.

JOAN WILKERSON, Assistant Attorney General
Labor and State Affairs Section
Department of Law
Juneau, Alaska

POSITION STATEMENT: Answered a question during the hearing on HB 4002.

ACTION NARRATIVE

[1:20:25 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 1:20 p.m. Representatives Olson, LeDoux, Tilton, Colver, Josephson, Kito, and Chenault (alternate) were present at the call to order. Also present were Representatives Reinbold and Vazquez.

HB4002-INS. FOR DEPENDS. OF DECEASED FIRE/POLICE

1:20:32 PM

CHAIR OLSON announced that the only order of business would be 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."

1:20:52 PM

LARRY LANGER, Principal and Consulting Actuary, Buck Consultants, informed the committee his firm serves as actuary to the Division of Retirement and Benefits (DRB), Department of Administration (DOA), and directed attention to a letter/summary dated May 24, 2016, provided in the committee packet. Mr. Langer said the letter/summary is Buck Consultants' fiscal note for HB 4002, a proposal for occupational death benefits for the Public Employees' Retirement System (PERS) for [peace officer and firefighter (peace/fire)] members, and the Defined Contribution Retirement (DCR) medical plans for peace/fire members. Also attached is a summary of proposed provisions, and the financial impact of the bill. The purpose of the bill is to provide major medical coverage for the survivors of a PERS member employed as a peace officer or firefighter who suffered an occupational death. In addition, the bill removes the requirement that a peace officer or firefighter retire directly from the DCR medical plan. Mr. Langer described the provisions of the bill as follows:

- Extension of existing PERS occupation death benefits which provide retiree benefits including system-paid major medical benefits to survivors of Tier I members whose deaths occur as a result of their job duties. This bill extends the benefit to Tiers II and III members.
- Under the existing PERS DCR plans, no person is eligible for system-paid major medical benefits. The draft bill would allow for a 100 percent premium subsidy for major medical benefits for eligible persons who are survivors of employees who were peace officers or firefighters and whose death was occupational. The 100 percent premium subsidy changes to a normal premium subsidy at Medicare age. The health reimbursement arrangement can then be used to fund the portion of the premium for which the spouse is responsible.
- The PERS DCR plan requires members to retire directly from the plan in order to be eligible for medical

benefits. To effectuate the goals of the legislation, the draft bill removes that language from the plan only as it applies to eligible survivors of a peace officer and firefighter whose death occurs as the result of the job.

- Corrects the PERS peace officer or firefighter occupational death benefit statute to extend benefits to the dependent children, in those instances when there is no surviving spouse, of peace officers and firefighters whose deaths occur while in the performance and within the scope of their duties.

MR. LANGER stated the legislation would be retroactive to January 1, 2013 and the financial impact of retroactivity is not significant due to the small number of those affected.

CHAIR OLSON asked what definitions were used for firefighter and peace officer. He read from definitions in Alaska Statutes [sections not identified].

[1:27:41 PM](#)

MELISSA BISSETT, Consultant, Buck Consultants, speaking as the healthcare actuary for DRB, answered that the members who were studied for the letter/summary were indicated as peace/fire members on the State of Alaska data.

[1:28:29 PM](#)

MICHELE MICHAUD, Chief Health Official, DRB, DOA, informed the committee the information reported to Buck Consultants is based on occupational codes in the retirement system, and the peace officer and firefighter occupational codes include all of the positions covered in the statutory definition. In further response to Chair Olson, she said municipal employees are included and would be provided with the same benefit.

REPRESENTATIVE JOSEPHSON asked why village public safety officers (VPSOs) are excluded from AS 39.35, and would not be covered under the proposed bill.

MS. MICHAUD explained that VPSOs are temporary employees and do not participate in PERS, thus including coverage for them through the retirement system would jeopardize the tax qualification of PERS.

REPRESENTATIVE LEDOUX expressed her understanding that VPSOs are not hired directly by the state, but through grants given to

nonprofit organizations, which subsequently hire VPSOs as contract employees.

CHAIR OLSON questioned why VPSOs wear "a State of Alaska badge."

REPRESENTATIVE JOSEPHSON added that they are trained at the Department of Public Safety Training Academy in Sitka.

MS. MICHAUD said she did know.

[1:31:25 PM](#)

REPRESENTATIVE JOSEPHSON recalled the recent loss of a VPSO in Nondalton.

CHAIR OLSON referred to a document entitled, "Work Related Deaths," dated 5/25/16, provided in the committee packet, which listed twenty-one fatalities. The number one cause of loss of life to state employees was airplane or helicopter crashes; in fact, four or five deaths were from gunshots, three or four were from traffic accidents, and all were spread across different agencies. He expressed concern about the proposed legislation creating two classes of employees - one granted benefits and one not - resulting in litigation.

REPRESENTATIVE LEDOUX opined that a policy call to offer a benefit to only one group of employees would not cause the state to have liability. Unless the state is making a distinction based upon race, religion, or a suspect classification, distinctions can be made between groups of people on a rational basis.

REPRESENTATIVE JOSEPHSON pointed out that the list of work related deaths does not include the Village Public Safety Officer from Nondalton.

CHAIR OLSON noted other deaths that were not listed, including firefighters.

REPRESENTATIVE LEDOUX questioned the state's procedures related to the status of VPSOs, such as their coverage under workers' compensation law, and suggested these issues need to be discussed at another time. In response to Chair Olson, she said some VPSOs are armed.

[1:36:10 PM](#)

MR. LANGER directed attention to page 3, which was a table that illustrated the financial impact of the bill. Costs were split between PERS benefits and the DCR plan for "others" and "P/F" and "Total." The 2015 valuation results are as of 6/30/15. He said the actuarial accrued liability is the amount that ideally should be in the fund now, which is the cost of benefits accrued. The normal cost rate is the cost of benefits accruing during the year, and the amount shown is net of any member contributions received. The total actuarial required contribution rate reflects the additional amount to pay off the unfunded liability of the fund. He pointed out the increases in cost that result by implementing HB 4002: the PERS total actuarial required contribution rate increases from 3.16 percent to 3.17 percent, and for the DCR plan, the total increases from 1.03 percent to 1.04 percent. However, Mr. Langer explained that the real increases are in the P/F percentages, and he read the results shown on the table. On page 4, the table projects costs of the bill for fiscal year 2017 (FY 17) through FY 22, split between the defined benefit and the DCR plans, and total increases, split between normal cost, and past service cost. The total projected cost in FY 17 is \$174,000, increasing to \$226,000 by FY 22. Mr. Langer paraphrased from the following assumptions on pages 4 and 5 [original punctuation provided]:

Impact and Methodology

Surviving spouses and dependents would be allowed to commence subsidized medical coverage immediately upon the occupational death of a current member. This change did not impact Tier 1 members of PERS nor any members of PERS Others or Teachers.

The impact to the normal cost rate for the DB plan for this change was 0.01315% for peace/fire only and 0.00175% overall; the impact did increase the past service cost amortization resulting in a 0.00250% impact to the total rate. Similarly for the DCR plan this change was a 0.08262% increase to the normal cost rate for peace/fire members and 0.00950% overall. The total contribution rate increased 0.09897% for peace/fire and 0.01138% overall. These results are slightly lower than the estimates in 2015 and reflect June 30, 2015 valuation results and the premium cost-sharing upon Medicare eligibility in the DCR plan.

We assumed 100% of eligible individuals would initially elect this subsidized coverage for all plans

except where contributions are required for Medicare-eligible survivors in the DCR plan. Retiree contribution provisions and health plan participation are assumed to apply according to DCR valuation assumptions upon Medicare eligibility. In addition, we assumed that surviving spouses and dependents would be eligible for coverage under their current respective DB or DCR retiree medical plan. For this study, we have assumed the proposed changes will be effective as of January 1, 2013. This retroactive applicability date is de minimis and does not materially impact our calculations below. In addition, we have assumed that on average 45% of survivors will be employed or remarried with primary coverage and the plan will pay secondary. We have assumed that the value after coordination of benefits is 20% of the benefit for valuation purposes. Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. In particular, retiree group benefits models necessarily rely on the use of approximations and estimates, and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements. An analysis of the potential range of such future differences is beyond the scope of this study.

[1:45:26 PM](#)

CHAIR OLSON surmised the state would be responsible for the accrued liability beginning on "day one."

MR. LANGER agreed the state is responsible; however, the terms show the liability is not due to be paid off until 2039, with payments of \$19,000 per year.

CHAIR OLSON opined the state is not in compliance at this time.

MR. LANGER affirmed that the state is not 100 percent funded at this time, and a portion of the annual contribution is to pay down the unfunded liability within the retirement systems. Having some unfunded liability is common in public plans.

CHAIR OLSON asked whether the PERS total of actuarial accrued liability of \$7,350,183, would be spread out over the next twenty to twenty-three years.

MR. LANGER explained that the total accrued liability does not reflect assets in the fund of \$7.24 billion, which means the liability is 98.5 percent funded. Overall, between pension and health care, the liabilities are 78 percent funded. He opined that for the health care liability, the state is "in very good shape," and a little less so "for the pension side."

REPRESENTATIVE LEDOUX inquired as to how the entire PERS liability is related to the effect of the proposed bill.

CHAIR OLSON acknowledged his question was related to the total liability [not the portion specific to HB 4002]. He then asked whether Alaska is the first state to address this issue.

[1:53:42 PM](#)

MR. LANGER related that the coverage of occupational death benefits varies from state to state. Some states do cover these benefits, as does Alaska for Tier 1 members. He stressed that coverage does not mean a lot in terms of the fund, but does mean a lot to the individuals affected, and states make adjustments in terms of ancillary benefits.

CHAIR OLSON asked whether the state has possible exposure [to a lawsuit] if the benefit is applied to one class of employees.

MR. LANGER declined to respond.

REPRESENTATIVE LEDOUX pointed out that the state does not worry about liability related to its distinction between the benefits of Tiers I, II, III, and IV.

CHAIR OLSON stressed that his point is the majority of loss of life has been due to aircraft crashes resulting in the deaths of employees from a variety of agencies.

[1:59:18 PM](#)

JOAN WILKERSON, Assistant Attorney General, Labor and State Affairs Section, Department of Law, informed the committee that there are separate subgroups - such as those for police and fire - which acquire different benefits already, thus it is

appropriate for HB 4002 to extend benefits to police/fire as a group. Unless there is a discriminatory intent or forming a group on the basis of a protected class status, it is possible to have a governmental plan extend different benefits to a subgroup.

REPRESENTATIVE KITO asked whether death benefits are contract-negotiable on a bargaining unit basis.

MS. MICHAUD explained that certain life, accidental death, and travel benefits are negotiated through collective bargaining agreements; \$10,000 basic life and \$100,000 travel accidental are currently negotiated in the Department of Public Safety agreement.

[2:01:36 PM](#)

[HB 4002 was held over.]

[2:02:22 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 2:02 p.m.