

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

March 27, 2018

3:41 p.m.

MEMBERS PRESENT

Representative Jonathan Kreiss-Tomkins, Chair
Representative Gabrielle LeDoux, Vice Chair
Representative Adam Wool
Representative Chris Birch
Representative DeLena Johnson

MEMBERS ABSENT

Representative Chris Tuck
Representative Gary Knopp
Representative Andy Josephson (alternate)
Representative Chuck Kopp (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 83

"An Act relating to new defined benefit tiers in the public employees' retirement system and the teachers' retirement system; providing certain employees an opportunity to choose between the defined benefit and defined contribution plans of the public employees' retirement system and the teachers' retirement system; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 83

SHORT TITLE: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

SPONSOR(S): REPRESENTATIVE(S) KITO

01/27/17	(H)	READ THE FIRST TIME - REFERRALS
01/27/17	(H)	L&C, STA, FIN
03/25/17	(H)	L&C AT 1:00 PM BARNES 124
03/25/17	(H)	Heard & Held
03/25/17	(H)	MINUTE(L&C)
04/12/17	(H)	L&C AT 3:15 PM BARNES 124
04/12/17	(H)	Scheduled but Not Heard
04/14/17	(H)	L&C AT 3:15 PM BARNES 124
04/14/17	(H)	Scheduled but Not Heard

04/19/17	(H)	L&C AT 3:15 PM BARNES 124
04/19/17	(H)	<Bill Hearing Canceled>
02/16/18	(H)	L&C AT 3:15 PM BARNES 124
02/16/18	(H)	Heard & Held
02/16/18	(H)	MINUTE(L&C)
02/17/18	(H)	L&C AT 1:00 PM BARNES 124
02/17/18	(H)	Heard & Held
02/17/18	(H)	MINUTE(L&C)
02/19/18	(H)	L&C AT 3:15 PM BARNES 124
02/19/18	(H)	Moved HB 83 Out of Committee
02/19/18	(H)	MINUTE(L&C)
02/21/18	(H)	L&C RPT CS(L&C) 4DP 2DNP
02/21/18	(H)	DP: STUTES, WOOL, JOSEPHSON, KITO
02/21/18	(H)	DNP: SULLIVAN-LEONARD, BIRCH
03/20/18	(H)	STA AT 3:15 PM GRUENBERG 120
03/20/18	(H)	-- MEETING CANCELED --
03/27/18	(H)	STA AT 3:15 PM GRUENBERG 120

WITNESS REGISTER

REPRESENTATIVE SAM KITO
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Presented CSHB 83(L&C), as prime sponsor.

EDRIC CARILLO, Staff
 Representative Sam Kito
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Presented the sectional analysis for CSHB 83(L&C), on behalf of Representative Kito, prime sponsor.

ACTION NARRATIVE

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CHAIR JONATHAN KREISS-TOMKINS called the House State Affairs Standing Committee meeting to order at 3:41 p.m. Representatives LeDoux, Wool, Birch, and Kreiss-Tomkins were present at the call to order. Representative Johnson arrived as the meeting was in progress.

HB 83-TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

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CHAIR KREISS-TOMKINS announced that the only order of business would be CS FOR HOUSE BILL NO. 83(L&C), "An Act relating to new defined benefit tiers in the public employees' retirement system and the teachers' retirement system; providing certain employees an opportunity to choose between the defined benefit and defined contribution plans of the public employees' retirement system and the teachers' retirement system; and providing for an effective date."

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REPRESENTATIVE SAM KITO, Alaska State Legislature, as prime sponsor of CSHB 83(L&C), relayed that the proposed legislation would provide an opportunity for people coming into state service as employees to select a defined benefit (DB) retirement plan or a defined contribution (DC) retirement plan. This would give those who wish to have a career in state service the option to select a DB retirement plan and those who expect to be with the state for a short period of time the option to select a DC retirement plan. He stated that the employee healthcare plan would not change.

REPRESENTATIVE KITO reported that much of the cost of the pension system and volatility in that cost is due to healthcare costs. Over the past 15 years, during which the state has been dealing with the unfunded liability for the PERS program, actuarial science has become much better, and information about life expectancy is much better; therefore, the ability to predict the success of a DB retirement program is much better now than when the investment market was less stable.

REPRESENTATIVE KITO relayed that CSHB 83(L&C) would reestablish the DB retirement program so that new members could be added. The Department of Administration (DOA) currently is reviewing an actuarial analysis based on the provisions in CSHB 83 (L&C) and its companion bill, SB 52.

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REPRESENTATIVE BIRCH expressed his concern with the \$7-8 billion unfunded liability for the PERS DB retirement program. He said that he is hesitant to support a program with an uncertain future liability. He mentioned that he was informed by a lobbyist that an actuarial assessment would cost \$20,000, which the lobbyist did not have. He reiterated that he was concerned that the state could incur a significant future liability and pointed out that the national trend is to avoid DB retirement

plans. He asked the sponsor when there might be an actuarial assessment for the proposed legislation.

REPRESENTATIVE KITO stated that his understanding is that DOA is currently ordering the actuarial analysis on the proposed legislation. He emphasized that there are many more data points that have been collected between the late '90s and the present. He stated that the existing unfunded liability resulted from a perfect storm of different events.

REPRESENTATIVE KITO offered that he is concerned for individuals who have 401(k) retirement plans. Nationwide those retirement plans are funded to about 52 percent of what a retiree needs for retirement; therefore, the DC retirement program may limit the liability for the state but put many people at risk of not meeting retirement goals and retiring with significantly less money than anticipated. He maintained that to be a universal consequence of DC retirement programs. He offered that a having a choice [between DB and DC retirement plans] is one method of fully funding retirement; and some states have adopted hybrid retirement systems, which share the risk. He said that with a DB retirement program, 100 percent of the risk is borne by the employer; with a DC retirement program, 100 percent of the risk is borne by the employee. He added that the employee must bank more money under the DC retirement program to ensure covering retirement, because the employee does not have the earning power of many sources of funds. The employee only has the earning power of his/her own 401(k); therefore, his/her retirement is significantly underfunded.

REPRESENTATIVE KITO suggested that if CSHB 83(L&C) or SB 52 does not pass this year, there may be interest in a true hybrid retirement system that shares the risk between employer and employee. He maintained that with the current DC retirement program, many Alaskan retirees will need additional assistance to cover their expenses, because they won't have adequate resources; that, in turn, will strain the state's senior services and benefits.

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EDRIC CARILLO, Staff, Representative Sam Kito, Alaska State Legislature, on behalf of Representative Kito, prime sponsor of CSHB 83(L&C), paraphrased from the sectional analysis, included in the committee packet, which read as follows [original punctuation provided]:

Sections 1 and 2 Clarify that the Teachers Retirement System (TRS) defined benefit (DB) statutes apply only to employees who participate in the DB plan and did not convert to defined contribution (DC). No employee can participate in both the DB and DC plans. Sec. 1 also puts all TRS employers on an equal footing by requiring them to offer new employees the choice between DB and DC systems.

Sections 3 and 4 Set employee contributions for the new DB tier at eight percent of pay, while leaving prior tier employees' contributions unchanged.

Sections 5 and 6 Require a person receiving disability benefits under the DB tiers to seek work and receive a medical examination. Sets limits on the frequency of the exams.

Section 7 Closes the Tier II DB health plan to new hires and those DC members who choose to convert to the new TRS DB tier.

Section 8 Establishes the eligibility standard for retiree medical benefits in the new TRS DB tier. In the new DB tier, a member with 25 years of service may receive medical benefits partially paid by the system at any age. A member without 25 years must have at least eight years of service and be eligible for Medicare. Disabled members also get system-paid medical benefits.

A TRS DB retiree who does not meet those qualifications can buy health care coverage from the system, but must pay the full cost of premiums.

Establishes a premium share schedule for retirees to pay a portion of their health insurance and requires actuarial adjustments to keep the pre-funding rate of the new DB tier no higher than the cost of the DC plan.

Sets vesting rules for the premium share percentages so that the schedule can change during an employee's working life, but is fixed at the date of retirement.

Section 9 Clarifies that the TRS DC statutes apply only to employees who participate in the DC plan and

did not convert to DB. No employees can participate in both the DB and DC plans.

Section 10 Puts all TRS employers on an equal footing by requiring them to offer new employees the choice between DB and DC.

Section 11 Gives a newly hired teacher the choice between DB and DC systems. This is a one-time irrevocable choice. Sets timeframes and rules for the process.

Section 12 Clarifies that the Public Employee Retirement System (PERS) DB statutes apply only to employees who participate in the DB plan and did not convert to DC. No employee can participate in both the DB and DC plans. This section also puts all PERS employers on an equal footing by requiring them to offer new employees the choice between DB and DC systems.

Section 13 Sets the same minimum wage threshold for elected officials in the new DB tier as the 2004 reforms implemented for prior tiers.

Sections 14 and 15 Set employee contributions for the new PERS DB tier at eight percent of pay, while leaving prior tier employees' contributions unchanged.

Sections 16 and 17 Require a person receiving disability benefits under the PERS DB tiers to seek work and receive a medical examination. Sets limits on the frequency of the exams.

Section 18 Establishes an eligibility standard for retiree medical benefits in the new PERS DB tier. In the new DB tier, a peace officer or firefighter with 25 years of service may receive medical benefits partially paid by the system at any age. A peace officer or firefighter who does not have 25 years of service must be eligible for Medicare and have at least 10 years. Other PERS employees require 30 years of service to get medical benefits partially paid by the system unless they are Medicare eligible, in which case they require a minimum of 10 years. Disabled members also get system-paid medical benefits.

A PERS DB retiree who does not meet those qualifications can buy health care coverage from the system, but must pay the full cost of premiums.

Establishes a premium share schedule for retirees to pay a portion of their health insurance and requires actuarial adjustments to keep the pre-funding rate of the new DB tier no higher than the cost of the DC plan.

Sets vesting rules for the premium share percentages so that the schedule can change during an employee's working life, but is fixed at the date of retirement.

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Sections 19 and 20 Put all PERS employers on an equal footing by allowing employers that return to PERS after terminating participation to hire employees the same way other PERS employers do, and allows employees to earn service credits in the appropriate tier when working for those employers.

Section 21 Clarifies that the PERS DC statutes apply only to employees who participate in the DC plan and did not convert to DB. No employees can participate in both the DB and DC plans.

Section 22 Puts all PERS employers on an equal footing by requiring them to offer new employees the choice between DB and DC systems.

Section 23 Gives a newly hired public employee the choice between DB and DC systems. This is a one-time irrevocable choice. Sets timeframes and rules for the process.

Section 24 Repeals sections that let non-vested employees convert from DB to DC and required employers to match the funds transferred dollar for dollar. Repeals sections related to political subdivisions that participate only in the DC plan. Repeals a requirement that DB employees who refunded contributions from the system and return to work after July 1, 2010 participate only in the DC plan. (Such employees will thus be treated as new hires.)

Section 25 Gives employees hired into the TRS and PERS DC plans who have not refunded out of those plans a 90-day period from the effective date of the bill to irrevocably convert into the new DB tier. Contributions move from the DC plan to the DB plan trust if they make the switch.

Section 26 Sets the procedure for the conversion election in Sec. 25 and allows the administrator to adopt regulations related to the conversion. The choice to convert is irrevocable, and certain information must be provided to the employee. An employee who transfers receives credited service in the defined benefit plan equal to the value of the employee's DC account. If that amount is insufficient to 'buy' the employee's actual service time, the employee may create an indebtedness to purchase the difference. If the employee's individual account has an excess, the difference is transferred into the Supplemental Benefits System or a comparable account, in keeping with federal tax law.

Section 27 Allows the Commissioner of Administration to adopt regulations to implement and make specific the bill's provisions.

Section 28 Is an immediate effective date for sections 26 and 27 of the bill.

Section 29 Makes the bill effective January 1, 2019, except as provided in Sec. 28.

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REPRESENTATIVE WOOL asked whether having people pay into a [DB] retirement system would help fund the unfunded liability.

REPRESENTATIVE KITO replied that he is in active discussion with DOA on that issue. He stated that there would be two options for moving forward: One option would be to link the new DB retirement program to the existing one, which would add money to the existing DB retirement fund; result in more dynamic management of the fund; and yield a different actuarial calculation, since the fund would no longer be a closed fund. The second option would be to establish a new DB retirement fund resulting in the management of two separate funds. The unfunded liability would still exist, and the fund for the new employees

would be managed. He offered that the net result of the two options would be the same; under the second option, one fund may generate more interest, yet most likely the funds would be separate for accounting purposes but managed co-mingled.

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CHAIR KREISS-TOMKINS announced that CSHB 83(L&C) would be held over.

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ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 4:01 p.m.