

HOUSE FINANCE COMMITTEE

April 18, 2019

1:30 p.m.

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CALL TO ORDER

Co-Chair Wilson called the House Finance Committee meeting to order at 1:30 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Tammie Wilson, Co-Chair  
Representative Jennifer Johnston, Vice-Chair  
Representative Ben Carpenter  
Representative Andy Josephson  
Representative Bart LeBon  
Representative Kelly Merrick  
Representative Cathy Tilton

MEMBERS ABSENT

Representative Gary Knopp  
Representative Dan Ortiz, Vice-Chair  
Representative Colleen Sullivan-Leonard

ALSO PRESENT

Representative Chuck Kopp, Bill Sponsor; Tom Wescott, Anchorage Police Department, Anchorage; Paul Miranda, Alaska Professional Firefighters, Anchorage; Jeremy Conklin, Anchorage Police Department Employee Association, Anchorage; Tyler Greensfeder, Anchorage Police Department Employee Association, Palmer; Nathen Ellis, Alaska Professional Firefighters, Anchorage; Angie Fraize, Anchorage Police Department Employees Association, Chugiak; Kevin Johnson, Alaska Professional Firefighters, Fairbanks; Ken Truitt, Staff, Representative Chuck Kopp.

PRESENT VIA TELECONFERENCE

William Forna, Actuary, Fellow of the Society of Actuaries; Kathy Lee, chief Pension Officer, Division of Retirement and Benefits, Department of Administration; Justin Doll, Chief Police Anchorage, Anchorage; Justin

Mack, Anchorage Firefighter, Anchorage; Doug Schrage, Alaska Fire Chiefs Association, Fairbanks; Casey Luecker, Kenai Fire Department, Kenai; Cody Carver, Bellingham Fire Department, Bellingham, Washington; Steve Nelson, LEOFF Plan 2, Olympia Washington; Paul Seaton, Self (Former Legislator), Homer; Jacob Wilson, Alaska Correctional Officers Association, Anchorage; Michael Oden, Self, Kenai.

SUMMARY

HB 79 PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

HB 79 was HEARD and HELD in committee for further consideration.

Co-Chair Wilson reviewed the agenda for the meeting.

#hb79

HOUSE BILL NO. 79

"An Act relating to participation of certain peace officers and firefighters in the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska; relating to eligibility of peace officers and firefighters for medical, disability, and death benefits; relating to liability of the Public Employees' Retirement System of Alaska; and providing for an effective date."

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REPRESENTATIVE CHUCK KOPP, BILL SPONSOR, introduced himself. He thanked members for hearing the bill. He read from a prepared statement:

"Thank you Co-Chairs Wilson and Foster and committee members for hearing this bill today which I believe powerfully addresses both themes of our Legislature, the public safety challenges across our state, at the heart of which is our recruitment and retention crisis, and the budget, keeping our fiscal house in order.

I want to thank the many municipal and borough leaders across our state who have so strongly supported this effort, the Alaska Professional Firefighters Association, PSEA, Anchorage Firefighter

Local 1264 and the APDEA who have worked for more than a dozen years to bring forward a retirement plan that would keep our best and brightest public safety employees here at home, and God forbid if they perish, provide their loved ones with a measure of security into the future. Seated with me is Tom Wescott of the Anchorage Fire Department.

I served 23 years as a police officer, all here in Alaska. It was a great honor to serve communities from Kenai, to Anchorage, to Bristol Bay in the profession. The best and toughest experiences of my life came with the job. It was hard on my wife and kids, and hard on my police family. But I would do it all again.

The job is different, it begins with an oath -As a law enforcement officer, my fundamental duty is to serve mankind, to safeguard lives and property; to protect the innocent against deception, the weak against oppression or intimidation, and the peaceful against violence or disorder; and to respect the Constitutional rights of all to liberty, equality and justice.

In this work You save people's lives; solve terrible crimes; walk with people through unbelievable grief and loss; help people put their lives back together, and if you're lucky, you help keep lives from falling apart by being ready and willing to do what is necessary at the moment it is needed. But it comes at a cost to our men and women in these professions. Nobody does this for the money, frankly, you can't pay people enough to do this job. Run towards gunfire. Fight violently with bad guys. Confront evil almost every day. Get hurt. Risk your life. And sometimes die.

Police and firefighters do all this together. We can bicker like siblings, but like brothers and sisters, we are close as hands and feet. On December 25, 2003 I was working for the Kenai police department when Senior Patrol Officer John Watson was shot and killed in the line of duty, we could not recover his body because the shooter had a clear view of a large area where he was gunned down with nowhere for approaching officers to be concealed. It wasn't police officers that helped us, it was the Kenai Fire Department that

drove an Engine right up to the shooters residence and turned the truck sidewise blocking his line of fire. This was not practical, it was not planned, and it was not safe. But it was necessary. And they did it.

The job is harder now. Less political, public, and media support for the policing profession, greatly increased liability for officers personally and for their municipal and state employers. The small reward I had for hanging in there through the tough times, a predictable retirement benefit, has gone away. And now we have the greatest recruitment and retention challenge in the public safety professions that our state has ever seen. You will hear from police and fire agencies from the North slope to Ketchikan, from the Bristol Bay to the Kenai Peninsula that they are losing millions of dollars in training on a regular basis when new officers and firefighters leave after getting trained and certified to agencies that offer a defined benefit retirement.

HB 79 takes the lessons we learned from Tier 3 (unfunded liability due to unaffordable benefits) and Tier 4 (losing our employees) and brings forward something brand new that avoids the pitfalls of earlier plans and provides a sure foundation for employee retirement planning and employer cost stability into the future.

Thank you, Mr. Chairman. If I may, I would like to now turn it over to Tom Wescott of the Alaska Professional Firefighters Association for some remarks."

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TOM WESCOTT, CAPTAIN, ANCHORAGE FIRE DEPARTMENT, read from a prepared statement.

"I would like to start by thanking the committee for the willingness to work on this important issue. This is an issue that is important to the men and women serving Alaska in public safety jobs. It is also important to the state as it wrestles with serious budget issues and a desire to tackle important public safety problems facing the state. Having experienced and fully staffed departments is critical when taking on crime, handling the prison population, or

delivering emergency medical care. Dollars are crucial, and they are being siphoned off as we are forced to deal with separations and an already difficult recruiting process made worse by our benefit package. That is why labor, and management are united in our effort to pass HB 79.

That brings me to Tier 4. I will spare the history and instead just stick to the facts. On the pension side, Tier 4 provides a 5 percent 401A match - less than a Social Security contribution. It does not mandate Social Security or SBS and it makes no distinctions for public safety careers. You cannot find a plan like it anywhere in the country. I am aware of 3 different sets of modeling on how Tier 4 would perform over a career, and all paint a dismal picture. Our Actuary William Forna looked at it and predicted a 31 percent income replacement after a 25-year career.

The Division of Retirement and Benefits within the Department of Administration also did some modeling, and they predicted 38 percent after a 25-year career. The model had a finite retirement period vs that being unknown. If you outlived their period, you were out of money.

Bob Mitchell, the CIO for the state, ran scenarios. He did not do a model for a 25-year police officer without SBS or Social Security, but he did a 30-year teacher without SBS and Social Security and determined a high likely hood they would run out of money in a 30-year retirement. Two notes - if the average PS employee where to get 30 years they would be 61 at the end of their career. That is not always feasible. A Teacher receive a higher contribution, so our likely hood would be even worse dues to the lower employer contribution.

We provided the legislature with a table of PS plans from every state. You cannot find one like Tier 4 and no amount of education or salesmanship will change the reality that the referenced modeling has exposed, this is not an adequate plan

The described inadequacy leads us to our next set of problems the recruitment and retention of in demand PS professionals. Alaska is at a clear disadvantage in

this process. Police officers and paramedics are in high demand across our nation. we must compete in the recruitment arena and right now we are doing so with one hand tied behind our backs.

Once Alaska agencies find an employee and invest time and money into then there is a need to keep them in order to get a ROI. The troopers have listed 190,000 as the cost for training a new trooper. Over the last several years you have heard from DPS as they have described losing non-retirement eligible employees. Last year they testified they had lost 67 in the last 3 years alone. That is nearly 13 million dollars walking out the door. Correction this year testified to large numbers of separation and talked about the hollowing out of their agency. I am not here to say pension is the only factor, but it is no doubt a large one.

If we look out into the future, we can theorize about future problems. What PS agencies will look like when they are staffed by an older workforce that lacks the financial security to retire. Tier 4 is too new to see the results, but we are likely to see things like increased workers comp costs. According to a rand study in Cal older employees in physical jobs are going to get hurt more frequently and take significantly longer to recover. I am fast approaching 50 and I can tell you my body feels a whole lot different after a fire now than I did when I was 34. We also may see a struggle to fill upper management as we see some of our best and brightest leave when they should be moving up the ranks and becoming sergeants, captains, and chiefs.

With these problems in mind we set out to find a solution. A solution that took into consideration the legitimate concerns of the state and also the real need for improvement. We started by looking at why certain plans got into trouble and also why other plan avoided trouble. How did the most successful plans manage to stay that way. It was not about reinventing the wheel but rather copying the best ideas and avoiding the bad ones. You heard from R&B on Monday that the state holds all the risk in a DB plan. That is not HB 79.

HB 79 does 3 things:

- It greatly reduces benefits from Tier 3 levels
- It is built of more conservative assumptions
- It contains mechanisms to share risk and deal with adverse experience.

Benefits reductions:

There are no paid Pre-Medicare health premiums under HB 79. Health care accounts for somewhere in the neighborhood of 36 percent of the PERS liability. Again, Pre-Medicare premiums are off the table and 100 percent on the participant. Our plan has identical medical benefits to Tier 4 - health reimbursement account, post Medicare secondary coverage with 25 years of service. You must be 55 with 20 years of service to begin collecting a benefit. The COLA benefit is removed (10 percent for remaining in Alaska). The final benefit is based on 5 years as opposed to 3 years. This is a larger smoothing period. The plan was built on a more conservative 7 percent expected rate of return. The plan requires steady consistent funding from both the employee and employer.

Triggers:

We allow for employee's rates to adjust upward to 10 percent but never below 8 percent. The post retirement pension adjustment can be withheld from retirees if the funding falls below 90 percent. When you couple all the benefit reductions with the best practices and triggers, you get a reasonable plan with reasonable risk - A plan that greatly reduces the risk through benefit reductions and more conservative estimates and then has built in mechanisms to share risk among employees, retirees and employers. This is unlike any plan Alaska has seen.

Alaska faces a real problem related to recruitment and retention. It should not be shocking that employees are speaking with their feet. We are not exempt from the laws of economics. If you offer the most frugal plan in the nation, we should not be shocked that individuals with better options elect to act on them. Sunk cost is a real cost. When individuals are in a

defined benefit plan, they have the sunk cost of time. That is why we do not see Tier 3 members leaving at the pace of Tier 4.

Let me close by saying it is totally appropriate for this committee to consider risk and cost. I only ask that both sides are measured. We have heard the testimony on risk and cost and seen the documents. What is the risk in maintaining the status quo? House Bill 79 has risk, greatly reduced and shared but still risk. We don't live in a riskless world. You can't walk across the street with absolute certainty. A police officer walking into a domestic disturbance faces risk, a corrections officer handling a violent criminal faces risk, a fire fighter entering a burning structure faces risk. We measure it and then deal with it appropriately, and that is what we ask of the legislature.

The problems are real. Management and Labor are speaking with one voice on this issue. House Bill 79 is the result of years of work. It is a well thought out, well-constructed plan that is built to address the problems Alaska faces. I look forward to addressing the committee's questions and concerns, and again I thank you for taking the time to work on this important issue."

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WILLIAM FORNIA, ACTUARY, FELLOW OF THE SOCIETY OF ACTUARIES (via teleconference), introduced himself and the PowerPoint presentation: "Alaska Public Safety Pension Fix: HB 79."

Mr. Fornia reviewed his credentials on slide 2 titled "William B. Fornia, FSA Credentials":

- Highest Actuarial Credentials - Fellow of the Society of Actuaries (1986)
- Enrolled Actuary under ERISA (1984)
- Member of the American Academy of Actuaries (1983)
- Active in national actuarial organizations (elected to SOA board)

- Author and Frequent Speaker - "Still A Better Bang for the Buck" (with National Institute on Retirement Security), 2014
- "Are California Teachers Better off with a Pension or 401(k)" University of California Berkeley Labor Center and Journal of Retirement, 2016
- Frequent Testimony to Legislatures and City Councils
- Regular Expert Witness (Detroit, Stockton, Puerto Rico)

Mr. Fornia discussed a sample of his work history listed on slide 3 titled "Sample Work History":

- Corporate actuary for Boeing 1980-1984 • Alaska related experience - ARMB first ongoing review actuary 2005-2006
- Audited Alaska PERS/TRS actuarial valuations 2009
- Former leader of Buck Consultants' Denver retirement practice
- Advisors to labor groups since 2011, including testimony
- Consulting services for 22 statewide retirement systems in Alaska, Colorado, Missouri, North Dakota, Oklahoma, Puerto Rico, Utah, Texas, Wyoming and others. - Served as system actuary for most of these (including CO, MO, ND, OK, WY)
- Ongoing consultant to Ohio Retirement Study Council, including reform
- Expert testimony and consulting for pension systems, governments, and labor groups
- Other clients have included the US Department of State, Cities of Baltimore, New York and Philadelphia, IBM, US WEST and Ford

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Vice-Chair Johnston asked what kind of expert witness Mr. Fornia had been. [Mr. Fornia's phone connection was lost.]

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AT EASE

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RECONVENED

Vice-Chair Johnston repeated her question about Mr. Fornia's expert witness testimony. Mr. Fornia answered that in Detroit he had been hired by an overseas banker about the pension obligation bonds that they purchased from the city regarding the city's declaration of bankruptcy. He testified in federal bankruptcy court on their behalf. He explained that the City of Stockton had declared bankruptcy and he was hired by the municipal bond insurers. He had also worked for the pension fund for Puerto Rico.

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Mr. Fornia continued to slide 4: "Alaska Public Safety Pension Fix."

- Why is change necessary?
- Proposed structure of Public Safety Pension Fix (PSF)
- Illustration of Financial Projections

Mr. Fornia examined slide 5: "Why is change necessary? Tier 3 provided adequate benefits; Tier 4 does not."

Typical Average Pension Illustration for Police & Fire

Hire Age 31

Retirement Age 56

Years of Service 25

DB Benefit as Percent of Final Average

Compensation (based on Tier 3 provisions) 57%

DCR Benefit as Percent of Final Average Compensation (calculated based on reduced return and uncertain longevity) 31%

Reduction of Benefit % due to DCR program 26%

Mr. Fornia indicated that the Defined Contribution Retirement (DCR) would only return 31 percent of pay in retirement compared to 57 percent based on Tier 3 Defined Benefit (DB) provisions. He emphasized that it would be difficult to retire on the DCR amount. He continued to slide 6: "Illustration of hypothetical police/fire benefits: \$80,000 Final Average Salary." He pointed to the chart that showed a 25 year employee would receive approximately \$46 thousand in retirement under Tier 3, \$25 thousand under Tier 4 and \$21 thousand under Social Security. He highlighted that Tier 4 was only slightly

better than Social Security benefits, which were not eligible under the state plans.

Mr. Fornia discussed slide 7 titled "Key Considerations with PSF":

- DB Plans are more cost effective at providing retirement benefits
  - DB pension plans pool "longevity risks"
  - DB pension plans can maintain a better diversified portfolio because, unlike individuals, they do not age
  - DB pension plans achieve better investment returns because of professional asset management and lower fees
- DC Plans are more consistent with individual responsibility
  - Benefit is a clearly defined contribution from the employer and employee to a trust
  - Benefit is more under the control and full ownership of the individual
  - Benefit is much more portable
  - No risk of unfunded liabilities to employer

Mr. Fornia pointed out that the chart showed the pros and cons per plan. He explained that DC plans pay large bequests for employees who die shortly after they retire, and DB plans do not due to pooling longevity risks. He reported that the advantages to the DC plan was the absence of risk to the employer of assuming an underfunded liability, but poor returns merely shifted the underfunded liability risk to the employee.

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Co-Chair Wilson asked what other states offered the plan Mr. Fornia was suggesting. Mr. Fornia responded that every state had differently structured plans. He offered that South Dakota and Wisconsin had similar plans but not identical to the proposed plan. Co-Chair Wilson asked if any other states had similar plans currently in use. Mr. Fornia responded that South Dakota, Wisconsin, and Colorado all had similar plans already in place. Co-Chair Wilson asked if Wisconsin currently had an unfunded liability. Mr. Fornia could not recall but he thought the plan was at least 95 percent funded. He knew that the contributions were stable. He added that any plan could go above or below

its liability. He relayed that any plan would have risk over a long period of time, but the solution was to act in the bad years and avoid complacency in the good years.

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Mr. Fornia reviewed slide 8 titled "How HB 79 struck a compromise?":

- Start with 12% fixed employer contribution and manage plan within that target as possible
  - Design current target benefit levels
- Consider benefits provided by DCR and latest Mr. Boyle
- Build in benefit and/or employee contribution adjustment mechanisms
  - Utilize lower discount rate to provide cushion against adverse experience

Mr. Fornia addressed the last bullet point. He explained that actuaries used an assumed rate of investment return when measuring the unfunded liability and typically actuaries had been too optimistic. He built the current plan based on a 7 percent rate of return. He thought it was important to estimate returns conservatively.

Co-Chair Wilson asked if he knew what the fixed employer contribution was for the State of Alaska. Mr. Fornia answered that the current employer contribution was 22 percent.

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Co-Chair Wilson interjected that the state had several tiers of pension plans and was currently on Tier 4. She wanted to have a comparison between the employer contribution in Tier 4 versus the plan in HB 79.

Mr. Wescott indicated that the Tier 4 employer contribution was roughly 8.5 percent. The difference between Tier 4 versus the proposed plan in HB 79 was about 3.5 percent.

Co-Chair Wilson asked whether the employees under the proposed plan would contribute the same percentage of pay as employees currently under the Tier 4 plan.

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KATHY LEE, CHIEF PENSION OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION (via teleconference), clarified that the Tier 4 members do not pay anything towards the unfunded liability of the other tiers. The employer contributed 5 percent and additional contributions for the retiree medical plan, the occupational death and disability plan totaling 6.70 percent, and the health reimbursement arrangement plan, which was a flat dollar amount totaling approximately 8 percent. She furthered that employers were required to contribute 22 percent and anything over the amount required under the DCR plan was used towards the unfunded liability. The proposed plan in HB 79 excluded employer contributions toward the unfunded liability.

Vice-Chair Johnston clarified that the pilot program in HB 79 would not pay toward the unfunded liability. Ms. Lee responded that her statement was accurate, and the employer contribution was 12 percent. Vice-Chair Johnston looked at the fiscal note and asked whether the Department of Administration (DOA) addressed the issue in the fiscal note. Ms. Lee responded that DOA had not currently submitted an actuarial fiscal note. The fiscal note she was referring to was for administrative costs and she had recently learned that the actuarial fiscal note would be available in the following two weeks.

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Representative Kopp drew attention to section 16 of the bill on lines 20-21 that stated the increased contribution rates were included to cover the accrued actuarial liability. The contribution rate was set at up to 12 percent by the Alaska Retirement Management (ARM) Board and any remainder would be directed to the unfunded liability.

Mr. Wescott corrected that the "intention of the bill" was to continue collecting 22 percent with 12 percent going to the Public Safety Fix (PSF) plan and the remainder would go towards the unfunded liability.

Vice-Chair Johnston summarized that the employee rate would be discounted, and the employer's amount would not change. Mr. Wescott maintained that Vice-Chair Johnston was correct.

Co-Chair Wilson requested a side by side analysis of the plans from the division.

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Representative Josephson asked about the new "Tier 5" and whether Tier 4 employees would be allowed to buy into the new plan. Representative Kopp relayed that Tier 4 employees would have an opportunity to buy into the plan. He thought that only a "subset of eligible employees" would participate in the plan, because it would be more attractive to new hires. Mr. Fornia interjected that slide 12 showed how it would work.

Co-Chair Wilson asked Ms. Lee on how the plan will "play out" 15 years in the future. Ms. Lee indicated that the actuary report would predict the following 5 fiscal years. Co-Chair Wilson asked why the actuary could not forecast farther than 5 years. Ms. Lee indicated they could possibly extend out to 10 years, but no further. Co-Chair Wilson requested the 10 year actuarial outlook.

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Representative Carpenter suggested that since the plan would cover new hires no one would retire within the first 10 years. He deduced that the period to analyze was beyond 10 years.

Co-Chair Wilson did not understand why the actuary was only looking at a 10 year period if it wasn't enough time to provide answers regarding any unfunded liability. Ms. Lee relayed that the actuary was not comfortable going beyond 10 years. She could request that the actuary offer an opinion concerning how the "levers" in the plan would address an unfunded liability. Co-Chair Wilson wondered whether Representative Carpenter's deduction was correct and if there was a way to get such an analysis. Ms. Lee answered in the negative since the data did not exist. She could ask the actuaries if they could look at how the proposed plan would address ongoing liability past the 10 year period. The bill included "some levers" to adjust

contribution rates and cost of living rates if the funding was impaired.

Mr. Fornia responded that the unfunded liability was the projection of future benefits and much information would be available in 10 years regardless of whether anyone retired. He delineated that the actuaries measured all future anticipated events. While there would be a projection of the fiscal impact in the following 5 years, he believed that it would be beneficial to extend the analysis out into the future. Over the years if the fund was significantly underfunded, the state would be able to react. The state would likely manage the plan proactively within a 15-year timeframe. He encouraged the actuarial firm to review his projections as well as the plan projections well into the future.

Co-Chair Wilson commented that the state was already carrying a \$300 million unfunded liability and wanted to tread very carefully.

Representative Kopp commented that Co-Chair Wilson's caution was well taken. He highlighted that the current liability applied to all state employees. The pilot program was much smaller than the total pool.

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Mr. Fornia turned to slide 9: "Plan Comparison." The chart showed a comparison of plans between Tier 3 Public Safety, Tier 4 and PSF. He delineated that the employer contribution with the PSF plan was 22 percent with no less than 12 percent going to PSF. The largest change was the retirement age of 55 with 20 years or 60 without. The benefit multipliers were the same as Tier 3 Public Safety and Tier 4. The final average pay that was based on the highest 3 years under Tier 3 was based on the highest 5 years under PSF. The COLA was eliminated under the PSF plan.

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Mr. Fornia continued to review the plan comparison on slide 10. The Post-Retirement Pension Adjustment (PRPA) was Automatic for disabled, over 60 and 5 years retired but for PSF the benefits were the same as Tier 3 but could be

withheld if plan funding is below 90 percent. The medical coverage and disability would remain the same as Tier 4.

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Mr. Fornia reviewed slide 11 titled "The Changes from the Old Data Base System":

- Removal of full medical coverage
- Funding level built on more conservative 7% rate of return vs current 7.38% ARM board uses
- Employee contribution can adjust upward from 8% to 10% • COLA benefit is eliminated
- PPRA is not automatic and can be withheld if funding level is below 90%
- Minimum age of 55 year old
- Final average salary is based on high 5 year instead of high 3 years

Co-Chair Wilson referred to slide 10 and asked about disability. She reminded Mr. Fornia that he stated coverage would remain the same as Tier 4 and the slide showed Tier 3. She wondered what was correct. Mr. Fornia clarified that Tier 3 and Tier 4 coverage was very similar.

Mr. Wescott interjected that Tier 4 provided an option for the employee to opt back to Tier 3 for 40 percent of the gross monthly compensation and the employer paid the contribution. He furthered that when the employee reached retirement age at 25 years of service the person would have the option to continue with the 40 percent or take the amount accumulated under their Tier 4 account.

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Mr. Fornia advanced to slide 12 titled "Current Tier 4 members transferring into plan":

- ARM board will create an actuarially equivalent formula for purchasing time.
- Individual will have 90 days from implementation to decide on joining plan
- Individual can use their Tier 4 DC account to purchase service credit or start from 0.
- Tier 4 balance may not be enough to cover actual time employed
- Example individual with 6 years and \$100,000 balance

in Tier 4. ARM board determines the cost of purchasing 6 years is \$120,000. Individual could elect to just purchase 5 years or pay the difference between the two amounts and purchase the 6 years.

Mr. Fornia detailed slide 13 and slide 14 titled "Benefit Comparison." He shared that the left portion of the slide pertained to Tier III and the right side showed the proposed public safety fix. He highlighted the public safety fix attributes as follows:

Public Safety Fix:

Final average salary - final 5 high=\$95,564

25 years at age 55 -  $57.5\% \times \$95,564 = \$54,949 / 12 = 4,579$  monthly

No COLA

Same Formula and criteria, but PRPA is withheld whenever fund falls below 90% funded.

HRA = 3% contribution and market return over career.  
Defined contribution benefit.  
Health care only after Medicare eligibility

Final Benefit retiree and spouse =  
\$54,949 pension + fixed HRA amount  
Final Benefit Retiree and family = Same as above

Mr. Fornia summarized the slides. He highlighted that the PSF benefits were not as generous as the Tier 3 benefits. He specified the final average salary differences; Tier 3 offered a final high 3 year average salary of \$98.374 thousand versus the fix plan at the 5 year average high of \$95,564. He noted the Tier 3 final benefit for the retiree and spouse receiving a \$56.565 thousand pension plus \$5.6 thousand of COLA and \$19.764 thousand in medical benefits totaling \$81.985 versus the final PSF pension noted above.

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Co-Chair Wilson interjected that Tier 3 was no longer available. Mr. Fornia replied that the comparison to Tier 3 was to demonstrate that PSF would be more stable than Tier 3.

Representative Carpenter asked if the \$95,000 average salary was accurate for Alaska employees. Ms. Lee answered that it was a reasonable high for a 3 or 5 year average over a long career.

Mr. Fornia moved to slide 15 titled "Safeguard #1: Reduce benefits vis-à-vis Tier 3":

- Minimum Age 55 eligibility
- Five year average salary
- Eliminate Alaska 10% COLA
- Suspend Post-Retirement Pension Adjustment when not well-funded
- Increase employee and employer contributions up to 2% each if not well funded

Mr. Fornia noted that the idea was to do what was possible to avoid an unfunded liability.

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Mr. Fornia addressed slide 16 titled "Preliminary Cost Estimates." He reported that the chart depicted the estimated cost of the proposed Tier 5. The baseline Tier 3 Public Safety Plan based on a return of 8 percent cost 17.3 percent of pay based on its defined benefit features. He directed attention to the middle column Based on 7 percent return and 0.62 percent drop in inflation for PSF. The plan differences from Tier 3 saved the following percentage points for the Minimum Age 55 Retirement Eligibility, 1.3 percent; Average Earnings Period to Five Years, 0.7 percent; Eliminate COLA, 0.7 percent; Withhold PRPA if Underfunded, up to 2 percent; and if underfunded would Increase Employee/Employer Contributions up to 4 percent. He reported that the Public Safety Fix Pension Cost would be 15.7 percent and was contributing 16.9 percent after health care cost resulting in a Contribution Margin of 1.2 percent and an Additional Margin for Adverse Experience of 6 percent. He favored margins that minimized the downside risks.

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Mr. Fornia turned to slide 17 titled "Safeguard #2: Actuarial Methods":

- Build in margin in actuarial assumptions

- Build reserves in good times to provide added funding during bad times
- Compare 12% + 8% = 20% contributions with costs Above
  - 15.9% for pension based on 7% returns
  - HRA & Medicare Supplement are another 3.1%
  - This provides cushion of 1.0%
  - Additional 6.0% available through PRPA suspension and additional 2%+2% employee and employer

Mr. Fornia advanced to slide 18 titled "Safeguard #3: Reduced Discount Rate":

- Target the pension and health care benefits to be equal to latest tier DB
- Determine the costs based on 7% discount rate rather than 8% or 7.38% assumed by PERS actuary
- Seek additional funding for this level, and then commit to this fixed employer contribution rate going forward
  - This is 12% employer contribution for Police and Fire employers
  - This is 8% to 10% employer contribution for employees
- Monitor experience and adjust benefits and/or Contributions as necessary going forward

Mr. Fornia restated that he wanted to ensure that the plan was structured conservatively. The slide showed the reduced discount rate. Historically the return was based on an 8.25 percent rate. The actuaries had suggested an 8 percent rate. However, he employed a 7 percent rate to be conservative. He reminded the committee that benefits would be adjusted downward at a 90 percent funding level.

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Mr. Fornia discussed slide 19 titled "Benefit Plan Simulations - Baseline":

- We modelled how plan might have worked under various returns
- If fund earns 6.6% for next ten years, as ARMB investment consultant estimates, then 7.38% (consistent with long-term PERS actuarial

consultants) thereafter

- Plan will grow to 107% funded by 20 years
- Never below 100% funded
- Funded ratios based on conservative 7.00%
  
- Current actuary uses 7.38%

Mr. Fornia related that the following 10 slides showed plan simulations.

Mr. Fornia reviewed slide 20 titled "Benefit Plan Simulations - Historical":

- We modelled how plan might have worked under various returns consistent with PERS returns
- Considering each 20 year period from 1980-2000 to 1998-2008
  
- Median case was if 1994-2004 was replicated
  
- Never falls below 90%
  
- Worst case was if 1998-2008 was replicated
  
- Falls below 90% for 2 of those 20 years, by end would be 99% funded
  
- 75%ile best case was if 1985-2005 replicate
  
- Would be 133% funded after 20 years

Mr. Fornia noted that the slide contained an error and 2008 should read 2018.

[2:42:21 PM](#)

Mr. Fornia turned to the graph showing the benefit plan simulations based on historical information on slide 21. The orange line represented the average median case from 1994 to 2014. The average case depicted the plan funded at 130 percent in year six and began to fall in 2008 dropping to the current 100 percent funded. The grey line, starting in 1998 represented the worst-case scenario dipping twice when the market dropped in year three and again in 2008 leaving the plan funded under 90 percent in 2014. The 90 percent triggers would have been activated that included

increasing employee contributions by one half percent, helping the plan recover by 2018 in year 20. The yellow line depicted the 75th percentile best case scenario that he favored. The plan would have started in 1985 and reached a funding level of 160 percent by year 15, falling to 125 percent funded after one market crash. He indicated that the current slide and slides 22 through 25 attempted to depict what happened to the plans in the real world.

[2:45:58 PM](#)

Representative Josephson suggested that there were two triggers. The first trigger eliminated the COLA (Cost of Living Allowance) and the second bumped up the employee contribution. Mr. Fornia answered that "one trigger fired three guns." He explained that the trigger suspended the inflation adjustment, increased the employee contribution by up to 2 percent, and bumped up the employer contribution. The Alaska Retirement Management (ARM) Board had the discretion to control the levers and activate the triggers according to the situation. He deduced that the plan's main cost savers beside the triggers were that the plan did not supply health care between the ages of 55 and 65 and postponed retirement by some measure. Mr. Fornia responded in the affirmative. He elaborated that delaying retirement until age 55 for young hires "saved a ton of money."

Representative Carpenter asked about the activation of triggers and who was responsible for triggering them. Mr. Fornia responded that the triggers would be activated by the ARM Board. He explained that the state's actuary would forecast the plan's performance and suggest the activation of triggers if necessary. The ARM Board had complete discretion on how to activate the triggers.

[2:50:26 PM](#)

Representative Carpenter suggested that the legislature would not have chosen the previous plans had someone warned of the unfunded liability the state currently had. Mr. Fornia was not sure how the state made its prior decisions regarding the state's retirement plans.

Co-Chair Wilson commented that the current legislature was not present when the prior decisions were made which made

them wary of the predictions for the performance of the pension fix plan.

Representative Kopp noted that he was the active manager for the City of Kenai during the previous pension plans. He recalled that there was "passive management of the trust" and active audits were not performed; actuaries were sued over their inaccurate guidance. He concluded that the state "learned a lot of lessons" from prior management issues.

Vice-Chair Johnston reported that the problems of the past were caused by a huge actuarial issue and by placing many different funds "into one basket."

Representative Josephson commented that the bill responded to the problems of the past by the postponed retirement and healthcare benefits and triggers and adjustments. He observed that the plan required retiree participation through the adjustment mechanisms and felt that it was a substantial concession by the supporters of the plan.

[2:53:28 PM](#)

Representative Kopp responded in the affirmative. He believed the concession was significant. He relayed his own personal experience about retiring at age 44 and the ability to receive benefits. He presumed that the benefit gap would be a hardship. He offered that the proposed plan was significantly different than the prior plans.

Co-Chair Wilson halted the presentation due to time considerations.

[2:54:41 PM](#)

Co-Chair Wilson OPENED Public Testimony.

[2:55:05 PM](#)

PAUL MIRANDA, ALASKA PROFESSIONAL FIREFIGHTERS, ANCHORAGE, read a prepared statement:

"My name is Paul Miranda, and I am testifying today on behalf of the Alaska Professional Firefighters Association. I am also an 8-year Firefighter/Paramedic with the Anchorage Fire Department and a Tier 4 member.

Thank you for the opportunity to testify before you today.

I would like to say thank you to Representative Kopp and his staff for their work on House Bill 79 and thank you to the committee for hearing this bill.

In 2006 Alaska began placing all new state and municipal employees into the new defined contribution plan known as Tier 4.

Since the change to Tier 4, our state has experienced many unintended consequences. Perhaps the clearest consequence is the competitive disadvantage Alaska now faces in recruiting and retaining public safety employees. This problem is widespread throughout Alaska's Fire and Police Departments. It has been brought to our attention in many letters from Fire and Police Chiefs from across the state as well as extensive testimony in House Labor and Commerce. Alaska is the only state in our country to offer a mandatory defined contribution retirement plan to public safety employees, and several jurisdictions across the country have switched from a defined contribution plan back to a defined benefit plan specifically to address the same problems that we are now seeing in Alaska.

Another unintended consequence from the switch to Tier 4 is the lack of retirement security that Tier 4 provides for our public safety employees, who dedicate a career to serving Alaska in jobs that take a very physical and mental toll. For years, our professional actuary has told us that Tier 4 will be inadequate for public safety in retirement, however this has now been validated by testimony of the State Investment Officer at a 2018 Alaska Retirement Management Board meeting, as well as additional predictions from the Department of Administration. There is no longer a question of whether Tier 4 works for public safety - it simply does not. To make matters worse, most firefighters in Alaska do not receive social security or SBS. They only receive a 5% contribution to a 401A account.

To be clear, for Alaska's firefighters, the State of Alaska contributes less to our Tier 4 retirement accounts than a social security contribution would be

in the private sector. Let that sink in. This is the value that the state has placed on our first responders.

I have heard people say that most of the problems with recruitment and retention are due to a lack of information or education of employees about the benefits of their DC plan. I am here to disagree. The more I learn about Tier 4, the worse it looks. I AM educated, and no amount of education will convince me that Tier 4 is adequate for public safety, or is competitive with what other agencies offer their employees.

House Bill 79 aims to make Alaska competitive in the hiring and retaining of public safety employees. It is a conservative plan built by incorporating the best practices of some of the most successful plans in our country. It works to provide reasonable, competitive benefits and at the same time protect the state from adverse experience. It starts out by being built on a 7 percent expected rate of return. This is more conservative than the return assumptions that the ARM board uses. Next, it mandates a minimum retirement age of 55, eliminates the COLA benefit provided in the old defined benefit tiers, allows the employee contribution to be adjusted up to 10 percent from the 8 percent minimum, calls for steady consistent employer contributions, allows the withholding of the PRPA if funding should fall below 90 percent, uses a high 5 year average as opposed to high 3 for final benefit calculation and lastly, uses the Tier 4 health reimbursement arrangement account as opposed to providing full pre-Medicare coverage as in previous retirement tiers.

All of these tools and benefit modifications contained in House Bill 79 help to build a reasonable and conservative retirement plan for public safety employees, reduce risk for the state, make Alaska competitive in the recruitment and retention of public safety employees, and provides a secure retirement for our first responders. This is a bill that both management and labor strongly agree on. Becoming competitive will help Alaska's public safety agencies retain highly skilled employees and better fulfill their missions and responsibilities to the communities

they serve, as well as preserve important dollars being lost when employees leave our state.

On behalf of the over 500 professional firefighters in Alaska, the Alaska Professional Firefighters Association strongly supports House Bill 79, and recognizes that it is a good compromise to address the issues that public safety faces in Alaska today. We cannot afford to do nothing to address these issues, the costs are too great.

On a personal note, I was born and raised in Alaska. I have thought very seriously about leaving. I realize that the unfortunate reality of what Tier 4 provides will not be adequate to provide for myself and my family in retirement. What has kept me here is not Tier 4 retirement. Maybe I'm naïve, but I'm an optimist. What HAS kept me here is my optimism that the Legislature will recognize this problem and will do the right thing to fix it.

Thank you for your time."

[2:59:56 PM](#)

JEREMY CONKLIN, ANCHORAGE POLICE DEPARTMENT EMPLOYEE ASSOCIATION, ANCHORAGE, spoke in favor of HB 79. He spoke to the issue of recruitment and retention. He talked about opportunities available in other states. Consequently, the state's lack of defined benefits had left many employees to take advantage of the opportunities in other states. He spoke of an employee getting a position in a small town in Texas. Although the employee accepted a pay reduction of \$300 per month, he received defined benefits in a town with a much lower cost of living. He urged members to pass the bill.

[3:02:58 PM](#)

TYLER GREENSFEDER, ANCHORAGE POLICE DEPARTMENT EMPLOYEE ASSOCIATION, PALMER, spoke in support of HB 79. He was a product of Alaska and a firefighter. However, the lack of defined benefits was forcing him out of Alaska to another job out of state. He spoke to the proposed defined benefits program and urged members to support the bill.

[3:06:05 PM](#)

NATHEN ELLIS, ALASKA PROFESSIONAL FIREFIGHTERS, ANCHORAGE, spoke in support of HB 79. He provided his brief background as a third generation Alaskan living in Girdwood with two children and his native Alaskan wife from Chenega. He had been in Anchorage for the past 12 years. He had been a firefighter in Nevada prior to that and gave up a defined benefit job due to his love of family and Alaska. He had a family and had no intention of leaving the state. He was told by an orthopedic surgeon that he would need a hip replacement due to the rigors of the job and would not be able to handle another training academy at the age of 46. He desired to remain in his current job. He wanted defined benefits and asked the state legislature to take care of its people and to provide a little more support. He urged support of the legislation.

3:09:19 PM

JUSTIN DOLL, CHIEF POLICE ANCHORAGE, ANCHORAGE (via teleconference), favored the legislation. He had operational concerns. He shared that the Anchorage Police Department (APD) had successfully recruited officers until more recently. He spoke to the difficulty of retaining officers that Alaska had trained. The approximately 75 to 80 Tier 4 officers that were vested were very "portable," but were experienced and very valuable to APD, who invested money into their initial and continuing training. He was very concerned about retaining those officers. He also spoke to the number of people eligible to retire. Anchorage was in very good shape presently, but he was concerned that many officers were due to retire and coupled with the recruitment and retention issues warranted attention. He continued to speak about the difficulty of recruiting and retaining officers under the current tier system.

3:14:00 PM

ANGIE FRAIZE, ANCHORAGE POLICE DEPARTMENT EMPLOYEES ASSOCIATION, CHUGIAK, spoke in support of the legislation. She and her husband were both police officers having joined the force together after they had returned from college. She emphasized the benefits of being a Tier 3 employee. She was involved in recruitment and received feedback about the state not having "an end game" with Tier 4 benefits. She urged members to consider HB 79. She believed the bill provided a long-term solution.

[3:17:01 PM](#)

KEVIN JOHNSON, ALASKA PROFESSIONAL FIREFIGHTERS, FAIRBANKS, spoke in favor of HB 79. He was a sixth generation Alaskan. His grandfather was a member of the Butrovich family. He was currently an employee of the Fairbanks Fire Department. He was looking at leaving the state because of the lack of attractive benefits. He talked about the challenge of recruiting firefighters under the current tier system. The department hired 8 recruits in the prior year. He reported that 6 of the 8 employees were starting to look outside of the state for employment. He urged support of the bill.

[3:19:52 PM](#)

JUSTIN MACK, ANCHORAGE FIREFIGHTER, ANCHORAGE (via teleconference), spoke to the importance of passing HB 79. He cited prior testimony by the Division of Retirements and Benefits that reported the defined benefit plans lead to unfunded liabilities that rested solely on the state. He did not believe that was the experience in other parts of the country with well-run defined benefit plans. He addressed the pension fix attributes that kept the plan stable and noted that the state would not offer pre-Medicare medical benefits. However, he thought that the plan still provided an opportunity for a "dignified retirement". He felt that the gap in health benefits was not ideal and characterized the plan as "modest" but emphasized that the risk was shared between the employer and public safety employees.

[3:21:50 PM](#)

DOUG SCHRAGE, ALASKA FIRE CHIEFS ASSOCIATION, FAIRBANKS (via teleconference), spoke in support of HB 79. He described the issue as a "very real management problem." He communicated that municipal fire departments had become "revolving doors" and "training grounds for fire departments in other states, particularly in the Pacific Northwest." He explained that firefighters were training in Alaska, serving their probationary periods and were subsequently recruited by fire departments in Washington state that allowed "lateral hires." Lateral hires skipped the usual training and were offered the post-probationary pay rate, which saved the fire department training costs. Consequently, Alaskan fire departments were "perpetually" recruiting and training which left the state with mostly

newer inexperienced firefighters. He observed that the out migration of firefighters significantly increased with the implementation of Tier 4 benefits and fewer Alaskans were applying for firefighting jobs in the state. He noted that prior to that, it was virtually unheard of for firefighters to leave their jobs for employment in other states. Mr. Schrage urged support of the bill.

[3:23:52 PM](#)

CASEY LUECKER, KENAI FIRE DEPARTMENT, KENAI (via teleconference), supported the bill. He indicated that he was a firefighter and medic for 9 years. He had seen several firefighters leave the state due to the ability to obtain defined benefits in other locations. He spoke of an experience gap due to the Tier 4 firefighters leaving the state and the lower Tier firefighters on the verge of retirement. He was a fifth generation Alaskan and was considering a lateral transfer to Washington state. He was a recent father and the experience was driving his decision to seek defined benefits. He asked members to support the bill.

[3:26:28 PM](#)

CODY CARVER, BELLINGHAM FIRE DEPARTMENT, BELLINGHAM, WASHINGTON (via teleconference), was currently a firefighter in Bellingham, Washington. He shared that he grew up in Alaska and worked in Fairbanks, Juneau, and Anchorage as a firefighter and medic. He wanted to remain and retire in Anchorage. However, he had to consider a career which supplied defined benefits due to the lack of disability benefits in Alaska. He was forced to leave Alaska. He took a lateral hire job in Bellingham that included good benefits. He would have never left the state had it had defined benefits for firefighters and provided disability benefits for those injured doing their job. He urged support of the bill.

[3:28:57 PM](#)

STEVE NELSON, Executive Director, LEOFF PLAN 2, OLYMPIA WASHINGTON (via teleconference), He offered a few comments regarding the state's proposed plan that he was asked to review. He indicated that the LEOFF plan he represented began in 1977 and covered all the law enforcement officers and firefighters in the state with 18 thousand active

member and over 4 thousand retirees. The plan had over \$11 billion in assets and was funded at 109 percent. He noted that the plan had been funded at 100 percent or more since its inception. He listed the 5 provisions of the pension fix plan that he supported and believed were best practices:

- The cost sharing mechanism that allowed contributions to rise.
- The five year final average salary period also in the LEOFF plan that prevented salary spiking.
- The retirement age provision of 55 with a twenty year retirement.
- Conservative actuarial assumptions.
- Medical benefits separated from the pension plan.

[3:31:33 PM](#)

PAUL SEATON, SELF (FORMER LEGISLATOR), HOMER (via teleconference), was involved in recreating the retirement system in 2005. He urged caution. He indicated that actuaries across the country had a terrible track record of making correct assumptions over time. In 2003, the state had \$15.6 billion in unfunded scheduled payments. He stated that "the actuarial assumption had eaten the state's lunch." He believed that treating police and firefighters separately from other state employees was discriminatory. He reiterated his plea for caution.

[3:34:23 PM](#)

JACOB WILSON, ALASKA CORRECTIONAL OFFICERS ASSOCIATION, ANCHORAGE (via teleconference), spoke in support of HB 79. He thought Alaska was in the middle of the largest retention and recruitment crisis in the state's history due to the loss of defined benefits. He cited a report from 2016 by Alaska's Department of Corrections (DOC) that found several facilities operating at staffing levels insufficient to meet basic security operational requirements. The state lost 540 correctional officers since 2014, which equated to over 60 percent of its workforce and cost the state \$15 million annually. He provided some additional statistics. He reported that the current number of 110 Tier 4 officers with 4 to 5 years of service would drop by more than half to 45 officers with 5 to 6 years of service decreasing to 35 officers in the 6 to

7 years of range. Many move on to other states with defined retirement and benefit systems. New officers lacked the experience that the more experienced officers provided. He urged support of the bill.

[3:36:58 PM](#)

MICHEAL ODEN, SELF, KENAI (via teleconference), urged support of the bill. He had been a firefighter in Kenai for the past 4 years. He came from a long line of firefighters. He had received training at UAF (University of Alaska Fairbanks). Many of his classmates had left the state seeking positions that provided defined benefits. He spoke of the dedication of Alaska's public safety officers and felt that they needed to be taken care of by a defined benefit program. He talked about the increase of Worker's Compensation claims. He mentioned having to load and unload patients over 300 pounds in his capacity as a medic. He urged members to support HB 79 in order to keep trained public safety officers in the state rather than letting them leave Alaska. He noted the ease of transferring training to other states. He stressed that a pension was necessary to retain officers and keep people in the state.

[3:41:37 PM](#)

Co-Chair Wilson CLOSED Public Testimony.

Representative Josephson asked Mr. Greensfeder to hang in there for another year. He did not want to lose him to another state and felt that the administration would support the bill. He wondered how the disability benefit worked apart from Workers Compensation. Representative Kopp replied that a disability benefit was available to the employee immediately versus a worker's compensation claim. He deferred to Mr. Wescott for the answer.

[3:43:35 PM](#)

Mr. Wescott replied that the bill did not solve every problem and thought the medical coverage gap was problematic. He relayed that in his experience he had seen many work past the age of 55. However, he had also seen other medical issues impair public safety officers to the extent that they could not make it to 55 to retirement. He offered that the pension fix plan did not provide enough to live on considering the healthcare gap and required

personal responsibility to plan for the eventuality. In contrast, everything was individualized and market-based under Tier 4. He summarized that the plan fix required that the individual plan and save for retirement while still providing a more stable benefit.

[3:45:15 PM](#)

Representative Josephson stated that the diminution of benefits was illegal under the state's constitution. He asked whether the sponsors had legal concerns. Mr. Wescott responded that due to the fact the plan clearly stated that full benefits were predicated on the plan's funding level staying above 90 percent, it was not considered a diminishment.

KEN TRUITT, STAFF, REPRESENTATIVE CHUCK KOPP, indicated that Mr. Wescott's answer was sufficient. He added that the language built into the bill would avoid a constitutional issue.

Co-Chair Wilson relayed that the bill would be set aside.

Co-Chair Wilson reviewed the agenda for the following meeting on Monday, April 22, 2019.

HB 79 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[3:47:50 PM](#)

The meeting was adjourned at 3:47 p.m.