

HOUSE FINANCE COMMITTEE
May 15, 2019
8:59 a.m.

8:59:36 AM

CALL TO ORDER

Co-Chair Wilson called the House Finance Committee meeting to order at 8:59 a.m.

MEMBERS PRESENT

Representative Tammie Wilson, Co-Chair
Representative Jennifer Johnston, Vice-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton

MEMBERS ABSENT

Representative Neal Foster, Co-Chair

ALSO PRESENT

Kris Curtis, Legislative Auditor, Alaska Division of Legislative Audit; Sara Chambers, Director, Division of Corporations, Business and Professional Licensing, Department of Commerce, Community and Economic Development; Representative Chuck Kopp, Bill Sponsor; Erika McConnell, Director, Alcohol and Marijuana Control Office, Department of Commerce, Community and Economic Development; Senator Peter Micciche, Sponsor; Kent Truitt, Staff, Representative Chuck Kopp; Bob Mitchell, Chief Investment Officer, Department of Revenue.

SUMMARY

HB 79 PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

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

SB 10 EXTEND SUICIDE PREVENTION COUNCIL

SB 10 was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the House Finance Committee for the Department of Health and Social Services.

CSSB 16 (FIN)

ALCOHOL LIC:FAIRS,THEATRES,CONCERTS;BONDS

HCS CSSB 16 (FIN) was REPORTED out of committee with a "do pass" recommendation and with two previously published fiscal notes: FN2 (REV), FN3 (CED).

CSSB 43 (FIN)

EXTEND BIG GAME BOARD; OUTFITTER LICENSE

HCS CSSB 43 (FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note by the Department of Commerce, Community and Economic Development.

Co-Chair Wilson relayed the agenda for the day. The committee had a full schedule.

#sb10

SENATE BILL NO. 10

"An Act extending the termination date of the Statewide Suicide Prevention Council; and providing for an effective date."

9:01:19 AM

AT EASE

9:01:40 AM

RECONVENED

Co-Chair Wilson drew attention to the new fiscal impact note from the Department of Health and Social Services (DHSS)/House Finance Committee, Behavioral Health, OMB Component Number 2651. She read directly from the comments box on the first page:

This revised fiscal note reflects a funding level of \$400.0 for pass-through grants in FY20. Additionally, the following intent language will be added:

It is the intent of the legislature that grant funding be divided 50% to rural school districts and 50% to urban school districts. Further, it is the intent of the legislature that the Suicide Prevention Council and the Department of Education and Early Development work together to develop a long-term sustainability plan for suicide prevention training. The plan should include implementation of a "Train the Trainer" model so districts can provide ongoing training. The plan should be submitted to the Presiding Officers of the legislature and the Legislative Finance Division by December 1, 2019

Co-Chair Wilson thanked Representative Tarr for her comments regarding the language. She reported that obtaining detailed information about the grants was difficult, and she wanted to ensure the grantees were getting the "right type" of training. She had spoken to Commissioner Johnson, Commissioner, Department of Health and Social Services (DHSS) and with his permission put his comments on record: "He commits to working during the interim on transparency and accountability with the school districts on these grants going forward to ensure that when a suicide happens the right team would respond and focus more on the prevention portion and help students identify when they might be experiencing major issues and identify who receives the reporting." She noted that the grant was made a one-time increment. She requested that the department testify to the committee in the following session to discuss the improvements regarding the intent language and whether it implemented the "Train the Trainer" model. Currently, the program consists of online training for teachers and others. She envisioned the program aimed more directly at the students. She thanked the House and Senate bill sponsors for assisting with the changes and felt the changes were positive.

[9:04:44 AM](#)

Representative Carpenter appreciated the new language in the fiscal note. However, he was concerned with being able to "measure" the effectiveness of the program. He noted that the suicide rate had hardly decreased in the seven

years the program was operating. He questioned whether the program was effective in preventing suicides. He wanted "some sort of a gauge" to ensure the training reduced suicide. He opined that the state provided training was unable to address the real issue that existed at the family and community level. He thought the state would be spending a significant amount of money yet, not address the root cause of the problem.

[9:06:41 AM](#)

Co-Chair Wilson did not believe some of his statements were accurate. She spoke of her experience with being a part of the state education taskforce when the program was initially implemented. The taskforce traveled to a community and created a student taskforce in the school district that were trained to communicate with other students. The school had the highest suicide rate in the state and currently had the lowest rate of suicide. The students learned to identify when a classmate was experiencing problems and had a reporting mechanism. She indicated that Representative Carpenter could be correct. However, the changes added parameters to the grant program and alerted the council to the committee's concerns. She knew of programs that were effective in lowering the rate of suicide. She agreed the problem began at home, but the student brought the issues to school and expressed them to their peers. She advocated for providing proper training to students to be able to recognize when their peers were in trouble and how to respond. She believed in making the program accountable and enable the collection and analysis of statistical data that was available. She had had personal discussions with folks in communities and the legislature and emphasized that all wanted to reduce the number of suicides in the state.

[9:09:06 AM](#)

Representative Carpenter wanted to see the data showing the effectiveness of the program. He agreed and understood the need to prevent and reduce suicide in the state and that some type of training was "warranted." He relayed his personal experience of receiving suicide prevention training for over 20 years. He had not heard about the effectiveness of the state's program. He was looking forward to seeing the results of the program the following session.

Co-Chair Wilson thought the committee had made it clear to the commissioner he would be held accountable. She related that the grant had previously been a pass through grant and the commissioner was aware that the committee wanted details by school district. She intended to hear from each member of the council regarding implementation of the changes in the following session.

[9:11:12 AM](#)

Vice-Chair Johnston MOVED to report SB 10 out of Committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

SB 10 was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the House Finance Committee for the Department of Health and Social Services.

[9:11:28 AM](#)

AT EASE

[9:14:15 AM](#)

RECONVENED

#sb43

CS FOR SENATE BILL NO. 43 (FIN)

"An Act extending the termination date of the Big Game Commercial Services Board; relating to a person's eligibility to hold a registered guide-outfitter license, master guide-outfitter license, class-A assistant guide license, assistant guide license, or transporter license; and providing for an effective date."

[9:14:15 AM](#)

Co-Chair Wilson explained that the sponsor of the bill allowed for the addition of the Barbers and Hairdressers Board that would otherwise sunset in June 2019 with a perfect audit. She noted that the bill granted the Big Game Commercial Services Board (BGCSB) a five year extension.

[9:15:07 AM](#)

Representative Knopp MOVED to ADOPT Conceptual Amendment 1.

Co-Chair Wilson OBJECTED for discussion.

Representative Knopp explained his Amendment. He pointed to Page 1, Line 12 of the bill and wanted to delete 2024 and insert 2022. He had concerns regarding the issues with the board and believed another three year extension was appropriate to ensure the board was rectifying the problems. He shared that his intent was to support a full term the following sunset.

Co-Chair Wilson clarified that a written amendment had been distributed to the committee that was the same except the year was changed to 2023. The committee was addressing the conceptual amendment.

Vice-Chair Ortiz asked whether the date change would affect the extension for Barbers and Hairdressers. Co-Chair Wilson responded in the negative and indicated the Barbers and Hairdressers board received an 8 year term.

Representative Tilton commented that the cost of the audit was \$70 thousand, and the auditors initially recommended a six year extension. The audit's concerns were administrative and not directed at the board's actions. She opposed the amendment.

[9:17:49 AM](#)

Vice-Chair Johnston surmised that the amendment would initiate the audit process in two years. She relayed that the issues were with "the investigations versus the administration." She wondered what Representative Knopp hoped to discern from the audit. Representative Knopp responded that some of the conflict was between the administration and the board's responsibilities and liabilities. He thought there were larger issues with the board. He questioned having to wait until another sunset audit occurred before being able to address issues that were presently known. He noted the lengthy process it took to initiate a performance audit through the Legislative Budget and Audit Committee (LBA). He wanted to ensure that the issues were addressed.

Representative Sullivan-Leonard echoed comments from her colleague, Representative Tilton. She pointed to a letter

included in the legislative audit [titled "A Sunset Review of the Department of Commerce, Community, and Economic Development, Big Game Commercial Services Board," September 14, 2018, Audit Control Number 08-20114-19] (copy on file) from the board chairman, Henry D Tiffany IV, dated January 2, 2019 that acknowledged the concerns outlined in the audit. The letter indicated that the board and division were implementing significant changes. She felt assured the issues were being addressed and favored the bill's sunset date.

[9:20:39 AM](#)

Vice-Chair Ortiz asked Representative Knopp about the time change in the amendment and whether he would effectively be able to address his concerns with his constituents or if his assessment depended on the audit. Representative Knopp responded, "not necessarily." He referenced Ms. Curtis's testimony noting that some issues were not subject to an audit via statute. He mentioned that some of his concerns could not be addressed in an audit, which was the reason for his amendment.

Co-Chair Wilson invited Ms. Curtis to comment about whether there was some other mechanism to look at specific issues being reviewed without requesting an earlier audit date.

[9:22:28 AM](#)

KRIS CURTIS, LEGISLATIVE AUDITOR, ALASKA DIVISION OF LEGISLATIVE AUDIT, observed that in the past legislators had reached out to the board and posed questions that addressed concerns or provided additional information that was not part of the sunset process. She continued that the purpose of an audit was limited to an extension and roughly 85 percent of the bills were "clean" and merely requested an extension. Concerns that required statutory or policy changes were better addressed though a separate bill that could be introduced at any time. She stressed that the division and board would be open to providing the legislature its desired information.

[9:23:41 AM](#)

SARA CHAMBERS, DIRECTOR, DIVISION OF CORPORATIONS, BUSINESS AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, offered that she

appreciated feedback. She assured the committee that her office took concerns extremely seriously. She had heard rumors and viewed letters "based on rumor and incomplete facts with a political spin" regarding SB 43. She had sought out necessary facts to discover whether there was actually a problem. She was "keenly aware" of best practices and the division's approach was "grounded in law and administrative process." She reiterated that the rumors were not based on facts, but she took the issue "very seriously." She indicated that she did not wait for an audit or sunset to address concerns that were brought to the division's attention. She intended to immediately address any concerns regarding the Big Game Commercial Services Board.

Representative Knopp had no idea what rumors had been expressed to Ms. Chambers. He had heard concerns and wanted to further investigate the issues on his own as soon as time permitted. He did not want to report rumors or innuendo to the department. He requested a shorter length of time in case the legislature wanted to address issues before waiting another 5 years but was aware another bill could address any desired statutory changes.

Co-Chair Wilson interjected that the question was whether the issue was better handled through an audit request or a review by the department. She suggested that a departmental review might best address the concerns.

Representative Knopp WITHDREW Conceptual Amendment 1. He conceded that he had other options including requesting an LBA audit.

Co-Chair Wilson suggested that during the interim Representative Knopp investigate the issues and the committee could discuss the matter without introducing legislation in the following session.

[9:28:27 AM](#)

Representative Josephson expressed concern. He noted that the department was attempting to improve its processes. He mentioned an email (copy on file) from Jason Bunch, member, BGCSB, that accounted for the current 56 open cases. He also cited a letter from Ms. Chambers dated March 10, 2019 [copy on file] that stated, "during the three-year audit period, this investigator opened 382 cases and closed 450

cases." He thought that the amount of complaints was extraordinary and troubling.

Ms. Chambers responded that based on its resources the division was complaint driven and Representative Josephson's concerns were valid. However, many of the opened cases were administrative relating to document delays and was not egregious. She noted there was a significant amount of paperwork that had to be submitted by the guides. However, even minor complaints were counted. Complaints generally came through the Alaska Wildlife Troopers. There was a significant amount of activity that did not rise to a disciplinary level. She indicated that in 2018 there were 118 activities, only 16 of which required disciplinary actions due to wildlife, regulation, or statute violation. The activities were complaints, investigations, monitoring, and probation. The board only had one investigator and prioritized and managed complaints. Administrative complaints were managed differently than criminal activity. Representative Josephson provided an example in his own office of hiring staff for the interim and forgetting to submit the proper paperwork. He asked whether the administrative issues were similar and were merely a "technical flaw." Ms. Chambers concurred with his scenario. She indicated that the division had to identify whether the administrative complaints were a wanton violation or a mere mistake by a busy individual in the field that missed a deadline.

[9:34:12 AM](#)

Vice-Chair Johnston MOVED to REPORT SB 43 out of committee with individual recommendations and the accompanying fiscal note.

HCS CSSB 43(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note by the Department of Commerce, Community and Economic Development.

[9:34:32 AM](#)

AT EASE

[9:41:08 AM](#)

RECONVENED

#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."

[9:41:14 AM](#)

REPRESENTATIVE CHUCK KOPP, BILL SPONSOR, indicated the hearing was the second for HB 79 in the House Finance Committee. He explained that since the prior hearing he had met with individuals from the Division of Retirement and Benefits and the Attorney General's office, which resulted in a committee substitute version. He also had received an actuary report from the state's actuary, Buck Consultants. In addition, the state's Chief Investment Officer, Bob Mitchell, Department of Revenue, was available to testify. He indicated that Mr. Mitchell had performed modeling on the current effectiveness of the plan for the peace officers and firefighters. The brief presentation would put into perspective why HB 79 was important. He wanted to also hear from the state's actuary.

[9:43:10 AM](#)

AT EASE

[9:45:23 AM](#)

RECONVENED

#sb16

CS FOR SENATE BILL NO. 16 (FIN)

"An Act relating to certain alcoholic beverage licenses and permits; relating to the bond requirement for certain alcoholic beverage license holders; and providing for an effective date."

[9:45:28 AM](#)

Vice-Chair Johnston MOVED to ADOPT proposed committee substitute for CSSB 16 (FIN), Work Draft 31-LS0283\H (Bruce, 5/14/19) (copy on file).

There being NO OBJECTION, it was so ordered.

Co-Chair Wilson commented on the changes. She noted that the committee substitute (CS) addressed surrendering a license for renewal and removed the proposed Fair license. The bill was solely a bill that grandfathered in the 11 licenses where renewals were revoked due to new statute interpretations by the Alaska Alcoholic Beverage Control (ABC) Board.

[9:46:44 AM](#)

ERIKA MCCONNELL, DIRECTOR, ALCOHOL AND MARIJUANA CONTROL OFFICE, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, introduced herself.

Co-Chair Wilson spoke of an undisclosed business with a unique problem that she had discussed with Ms. McConnell. She asked whether the establishment would be allowed to sell one of its licenses even if it took a year or two and would not be an issue for the board. Ms. McConnell responded that it would not be an issue.

Representative Knopp asked whether the CS contained a new fair license. Co-Chair Wilson commented that the new fair license was removed because the Palmer Fair was grandfathered in with their current recreational license in the CS and did not desire a new type of license. They would remain under the recreational license.

Representative Knopp noted that Section 4 of the CS dealt with fair license language.

[9:48:44 AM](#)

AT EASE

[9:51:16 AM](#)

RECONVENED

Co-Chair Wilson explained that the fair license was in the bill and she was incorrect. The language allowed the fair to do what it had previously done and was moved from regulation and placed in statute. The bill disallowed any new entity to participate or any new type of activity. She noted the date had been changed to ensure that the businesses would be allowed to renew as a recreational license instead of the fair license if preferred. The fair license only allowed for specific activities. She provided a clarifying example.

Representative Josephson learned that recreational site licenses for ski areas and bowling alleys lack all the benefits proposed under the fair license. He believed that the provision "should be cleaned up."

[9:53:23 AM](#)

SENATOR PETER MICCICHE, SPONSOR, introduced himself.

Co-Chair Wilson asked whether there was another bill that "cleaned up" alcohol statutes and dealt with the issue identified by Representative Josephson.

Senator Micciche responded in the affirmative but cautioned that unless the bill passed in the current session the fair issue would not be addressed and that eliminating the ski areas and bowling alleys would significantly impact the current businesses.

Co-Chair Wilson indicated that the state currently had 11 businesses that under no fault of their own were revoked.

Representative Josephson asked whether the CS included provisions dealing with pub licenses to allow them to move within noncontiguous areas on a campus. Co-Chair Wilson responded in the negative.

[9:54:57 AM](#)

Representative LeBon MOVED to ADOPT Conceptual Amendment 1.

Co-Chair Wilson OBJECTED for discussion.

Representative LeBon explained his amendment. He highlighted that the amendment was for music festivals in rural unorganized boroughs to allow serving alcohol through vendors that hold a restaurant or eating place license. He specified that the event was held in Chicken, Alaska for the last 12 years and a local restaurant called the Chicken Goat Camp had been selling beer and wine during the event. He welcomed committee comments.

Co-Chair Wilson indicated that the event was currently able to use the catering license for Chena Hot Springs and had the ability to sell beer and wine. She indicated that the festival desired its own license and she believed the issue

was a policy call and should be entertained in the other bill. She objected to the amendment.

Senator Micciche emphasized that the current bill was an attempt to "literally save" the 11 business at risk. He requested that the committee take into consideration that it was the last day of the legislative session. He offered to help the other businesses in the other bill but felt that they could continue to operate another year without interruption.

Representative LeBon asked if the Chicken Festival would lose its ability to sell beer and wine to event attendees. Senator Micciche responded that there were many other types of Beverage Dispensary Licenses in the state and the festival had other choices. He was focused on the other 11 businesses that did not have another choice.

Co-Chair Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: LeBon, Ortiz, Sullivan-Leonard
OPPOSED: Johnston, Knopp, Merrick, Tilton, Carpenter, Josephson, Wilson

Co-Chair Foster was absent from the vote.

The MOTION to adopt Conceptual Amendment 1 FAILED (3/7).

9:59:24 AM
AT EASE

10:00:25 AM
RECONVENED

Vice-Chair Johnston MOVED to REPORT HCSCS 16(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

There being NO OBJECTION, it was so ordered.

HCS CSSB 16 (FIN) was REPORTED out of committee with a "do pass" recommendation and with two previously published fiscal notes: FN2 (REV), FN3 (CED).

#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."

Co-Chair Wilson invited Representative Kopp to the table.

10:02:10 AM

AT EASE

10:04:16 AM

RECONVENED

BOB MITCHELL, CHIEF INVESTMENT OFFICER, DEPARTMENT OF REVENUE, began the PowerPoint Presentation titled " Target Date Fund Simulation Exercise." He explained that in July 2006, the state moved from a defined benefit plan to a defined contribution plan. He turned to slide 2 titled "Background":

- In 2017, the Department of Administration requested that the Department of Revenue build a stochastic model that simulates the experience of defined contribution employees enrolled in the Alaska Target Date Retirement Trusts.
- The purpose of the model was to test the likelihood that 30-year employees will have sufficient assets to last 30 years into retirement.
- Four cases were tested: PERS with SBS, Police/Fire with SBS, TRS, and TRS with 6.13% deferred compensation contributions.
- In 2019, the ARMB requested an update to this analysis at the upcoming June defined contribution committee meeting.
- Also in 2019, Representative Kopp requested an update to this analysis, incorporating additional occupational scenarios, including Police/Fire without SBS, 25-Year Career Police/Fire with SBS, 25-Year Career Police/Fire without SBS.

Mr. Mitchell delineated that he built a Monte Carlo simulation model. The model calculated, based on the participants income each month, what the employee and employer contributions were and how the investments grew over time. The department used the target date fund simulation exercise, which took a default investment fund based on participants age and retirement date where the asset allocation adjusted automatically. The division built the model and ran it 10,000 times, called "trials." The trials were ranked from the lowest terminal asset value to the highest. He indicated that if there was a positive number, the trial was a success. The analysis occurred in 2017.

[10:08:50 AM](#)

He moved to slide 3 titled "Target Date Fund Glide Path." He elucidated that the slide showed a graphic depiction of the target date glide path and was what the asset allocation would look like over time beginning 30 years prior to retirement. He noted that it began as 90 percent equity and 10 percent fixed income allocation that became more conservative as retirement approached; at retirement equity was 30 percent. He highlighted slide 4 titled "Callan 2019 Return and Risk Assumptions." The slide contained a chart of capital market assumptions, which were estimates of returns and their volatility and the correlation of the performance of each of the asset classes. The information compiled by Callan and Associates was used as the engine of investment performance.

Mr. Mitchell outlined slide 5 titled "Assumptions."

- A blend of Callan's 2019 10-year & long-term capital market assumptions were used. 10-year assumptions were assumed during the first 10 years, were scaled linearly to the long-term assumptions during the next 10 years, and the long-term assumptions were assumed thereafter. Callan's generic fixed income assumption was used in place of the specific fixed income mix employed by the target date funds.
- Inflation was set at 2.25%/year, with employee salaries assumed to grow at 2.75%/year. Initial consumption in retirement was set at 70% of earnings at retirement. Consumption was assumed to grow with inflation thereafter.

- 10,000 trials were used for each simulation. The trials were rank-ordered, and the simulations that represented the 25th-, 50th-and 75th-percentiles of the distribution of outcomes are displayed.
- A summary of the scenarios examined can be found in the table below.

Mr. Mitchell explained that given the model focused on replacement income, the model results was not overly sensitive to the salary assumption.

[10:10:38 AM](#)

Vice-Chair Ortiz asked how important the accuracy of the 2.5 percent estimated inflation rate was and its impact. Mr. Mitchell answered that 2.5 percent had been chosen because it was the inflation number used by Callan. He delineated that the rate was important because it made the model internally consistent. He expected that if inflation was materially different, asset class performance would move in a similar direction over a long period of time. The actual number should not overly impact the results.

Co-Chair Wilson cited the 2.75 percent salary assumption amount and wondered whether it reflected the contractual amount or were the steps incurred over the years. Mr. Mitchell explained that the 2.75 percent was the number discussed with the Division of Retirement and Benefits and was not connected to salary schedules. He noted that given that retirement consumption was a percentage of final salary, if changes were made over time it would not be "directionally different" than what was experienced. He stated that the definition of success was a percentage of final salary. He did not think there would be a very different result using different numbers.

Co-Chair Wilson surmised that unlike the prior tiers, the outcome was accumulated over years and was not based on the earnings of the participants top 3 or 4 years. Mr. Mitchell responded that she was correct.

[10:13:27 AM](#)

Representative Carpenter suggested that if a random number was used such as 2.75 percent and an employee's salary was much higher than what their rate had been over their lifetime of employment, a spike in liability would occur at

the time of retirement. He deduced the 2.75 percent was not reflective of what would happen at retirement for the employee.

Co-Chair Wilson asked Mr. Mitchell if Representative Carpenter's statement was accurate.

Mr. Mitchell responded in the affirmative. He indicated that a model was simplification of reality. He provided an example of an employee with compensation higher than the assumption over the several years of employment. The question became whether the 70 percent was still a relevant number of the much higher income. He voiced that a model had difficulty with the scenarios. The utility of a model was to provide a directional sense of the effectiveness of the program.

Representative Carpenter ascertained that that the plan incentivized maximizing earnings in the final years before retirement in order to gain the most amount out of retirement. He thought it was counterproductive when forecasting costs and risks from the state's perspective.

[10:15:39 AM](#)

Representative Kopp did not believe Representative Carpenter was correct. He clarified that the model was based on Tier 4 and compared it to what a new program would look like. He suggested that the new model would disallow the spiking that occurred in Tier 4. The model was designed to prevent income spiking because it was spread out over a longer time period and had to be averaged. Representative Carpenter was only referring to the slide and information presented to the committee presently. He wanted to point out the "fallacy" to the thinking.

Mr. Mitchell pointed to the table at the bottom of slide 5. He noted that the table reflected the information requested by Representative Kopp. He pointed out that for each case the information portrayed the level of employee and employer contribution as a percentage of the participants salary that was summed on the bottom line. He viewed the data as a reference to determine the percent of salary that was invested for retirement ranging from 25 percent to 13 percent.

[10:18:00 AM](#)

Mr. Mitchell moved to slide 6 titled "Illustration of Simulated Outcomes." The slide showed the simulated initial retirement balance and the balances over time for 250 cases. He pointed to the very high cases and viewed them as "unrealistic." He offered that for that reason he ranked the outcomes at the fiftieth percentile, the twenty-fifth percentile, and seventy-fifth percentile as guiding data.

10:19:02 AM

Mr. Mitchell addressed slide 7 titled "Results." The graph reflected a PERS and SBS retirement 30-year retirement. The participant had an estimated \$1.86 million in retirement assets, which grew to about \$2.5 million over 30 years and was the median case. The lower green line showed the twenty-fifth percentile and the higher green line represented the seventy-fifth percentile. He noted that not all the trial outcomes were successful. The amount of contribution based on percentage of income and the number of years were the variables of all the plans.

Vice-Chair Ortiz asked Mr. Mitchell to define what it meant to be unsuccessful. Mr. Mitchell responded that success was defined as a participant consuming at 70 percent of their final income that grew with inflation over a 30 year period.

Vice-Chair Ortiz asked whether "unsuccessful" meant the money ran out. Mr. Mitchell replied in the affirmative.

10:21:38 AM

Mr. Mitchell described slide 7 that showed the total contributions at 25 percent. He moved to slide 8 that depicted the 30-Year Police/Fire Plan with SBS. He explained that the success rate was similar, but the dollar figures were slightly different. Directionally it was the same from a success perspective. He discussed slide 9 that showed the 30-Year Police/Fire Plan without SBS. He recalled that PRS plus SBS comprised 25 percent and SBS represented 12 percent of the amount. The slide depicted the contributions at 13 percent resulting in the assets being depleted over time in the median case depicted by the dark blue line. He added that even the 75th percentile showed a declining trend.

Co-Chair Wilson was concerned that if a new tier was introduced what guaranteed that the state would not end up with a huge unfunded liability. She mentioned concerns with negative effects on bonding if the state implemented a new tier. Mr. Mitchell thought it would be better to direct her question to the ARM board and the state's actuary. The key distinction of the defined benefit plan was that the risk for paying the benefits rested with the employers. The risk in the defined contribution plan was born by the employees. There was no additional unfunded liability as a result of the defined contribution component. He deferred to the actuary for detailed data.

[10:25:10 AM](#)

Co-Chair Wilson understood that the state placed a certain amount of funds to offset the prior Tiers liability. She asked if the obligation was the same with the proposed plan. Mr. Mitchell could not directly speak to the question. He offered that the proposed plan contained an assessment on employers that was a function of total payroll, which was comprised of defined benefit and defined contribution employees and was an assessment on the employer and the total number of employees. He noted that the defined contribution employees were not subsidizing the defined benefit employees.

Representative Knopp wondered what aspects had the potential to negatively impact the model. He asked if age or the number of participants were risk factors in terms of success.

[10:26:49 AM](#)

Representative Kopp responded that the current presentation only looked at the effects of Tier 4 and depicted that over time the result was only slightly better than a retirement based solely on Social Security. He advised that the state's actuary could comment on the proposed new tier and any risk for unfunded liability. He indicated that the presentation was focused on the current Tier 4 and how it impacted the class of employees. He was not proposing to open the proposed plan to other employees. The bill proposed the new plan for a small number of employees. He furthered that the plan was a hybrid and had a lot of parallels with the defined contribution plan that kept the

liability with the employees and contained self-correcting levers to ensure the fund would not go unfunded.

[10:28:32 AM](#)

Vice-Chair Ortiz asked what slide 9 showed. Mr. Mitchell observed that the assets were insufficient at retirement to sustain a participant for 30 years.

Co-Chair Wilson asked how the investments were chosen. Mr. Mitchell responded that the default plan was used, and different investments would provide different outcomes.

Representative LeBon asked how "self-correcting levers" would protect the state with the proposed plan and how had they failed the state in Tiers 1 to 3.

[10:29:57 AM](#)

Representative Kopp replied that in the proposed bill used annual true-ups to determine whether the employee contributions should increase, and the employer contributions could change. In addition, the post-pension retirement adjustments and COLA would be eliminated if the actuary showed that the plan was not maintaining a high funding standard. He noted that the elements were totally new and had never been implemented in any plan. He recalled earlier testimony from Washington state with a very similar program that was currently funded at 110 percent. Representative LeBon asked whether the employee bore the brunt of the obligation to self-corrected the plan.

[10:31:27 AM](#)

KENT TRUITT, STAFF, REPRESENTATIVE CHUCK KOPP, responded that the employer contribution was a variable lever. He indicated that if the ARM board found that the plan was accruing liability, they would have the ability to increase the employer contribution. Currently, the total employer contribution was 22 percent. In the proposed CS [not introduced] the total employer contribution was 22 percent and about 13 percent went to the plan, while the remainder went to the unfunded liability of the prior unfunded tiers.

Mr. Mitchell continued to slide 10. The slide showed TERS for Tier 4 with similar conclusions as the prior slide but

at approximately 15 percent (versus 13 percent in prior slide) of the total contributions.

Vice-Chair Ortiz conveyed that teachers no longer participated in Social Security. Mr. Mitchell understood that many members of the TRS opted out of Social Security and did not participate in SBS, but most state employees had access to SBS. Vice-Chair Ortiz noted that the term "opt out" presumed that a teacher had a choice, but teachers did not have the option to choose Social Security.

Co-Chair Wilson relayed that Vice-Chair Ortiz's statement was accurate.

Representative Kopp had worked for a municipality for many years that offered neither SBS nor Social Security. He added that many municipalities operated in the same manner.

[10:35:38 AM](#)

Co-Chair Wilson provided an example of a teacher working in the summer and receiving Social Security. Mr. Mitchell responded that the analysis did not take other employment into consideration. Co-Chair Wilson wanted more information regarding how outside employment would affect the plan.

Representative Knopp asked if most of the public employees had bargaining units. He wondered if they participated in retirement plans through the bargaining units. Representative Kopp responded that all bargaining units were different, it depended on the municipality. Representative Knopp wondered the extent of who qualified for the proposed plan. Representative Kopp responded that volunteer firefighters would not be included in the plan. Representative Knopp asked about militia members. Representative Kopp responded that militia members did not fall under the definition of a peace officer.

Representative LeBon asked whether a participant in a defined contribution plan who subsequently secured employment accruing social security could receive both benefits. He relayed his own experience where he was entitled to both benefits. Representative Kopp responded in the affirmative. He added that it was difficult to maintain outside employment as a police officer and at retirement age many police and firefighters had limitations due to disabilities that limited other job opportunities.

Mr. Mitchell moved to slide 11 that graphically depicted "30-Year TRS + 6.13% Deferred Compensation" teachers with a deferred compensation amount that the employee would otherwise pay if they participated in SBS. He relayed that there was a match with SBS from 15 percent to 21 percent. The outcome was materially better than slide 10 without SBS.

[10:42:12 AM](#)

Mr. Mitchell reported that the following slides portrayed a variation; working 25 years with or without SBS. He briefly continued to slide 12 that graphically depicted "25-Year Police/Fire + SBS" and slide 13 illustrating "25-Year Police/Fire w/o SBS." He noted that the shorter career and lower contribution as a percentage of income demonstrated unsuccessful outcomes. He emphasized that length of career and contribution rate as a percentage of income were the largest factors in the success of the plan.

Co-Chair Wilson asked where the 25 years came from. Representative Kopp responded that Tier 3 with 25 years of continuous service entitled the participant to full retirement including medical benefits. Co-Chair Wilson asked whether it was realistic to expect that most police officers would make it to 25 years of employment. Representative Kopp replied that 25 years could be a hard lift for some officers. However, the cost of the plan had to remain manageable and affordable.

[10:45:33 AM](#)

Vice-Chair Johnston asked if retirement was 25 years or the age 55 to receive the medical benefits in tier 3 and tier 4. Representative Kopp answered that 20 years of work qualified tier 2 for full retirement benefits and the tier 3 qualifier was 25 years or age 60.

Mr. Mitchell returned to slide 13 and highlighted that in plans where a relatively low proportion of the participants compensation was invested for retirement the probability that their assets would last for 30 years after retirement was below 50 percent.

[10:47:39 AM](#)

Mr. Mitchell turned to slide 14 titled "Probability of Success":

- 30-Year PERS + SBS = 69%
- 30-Year Police/Fire + SBS = 69%
- 30-Year Police/Fire w/o SBS = 22%
- 30-Year TRS w/o SBS = 31%
- 30-Year TRS + 6.13% Deferred Comp. = 56%
- 25-Year Police/Fire + SBS = 43%
- 25-Year Police/Fire w/o SBS = 6%

Success = retirement assets surviving 30 years into retirement, assuming initial consumption level of 70% of final take-home pay, increasing with inflation.

Representative Josephson referred to the top 2 bullets on the slide. He surmised that the employee would not be able to "draw down" their plan in order to achieve the results. Mr. Mitchell answered in the affirmative. He added that adjustments were not made for personal circumstances.

[10:49:39 AM](#)

Representative Carpenter asked why 70 percent of final take-home pay was used in the model. Mr. Mitchell indicated the number had been provided by the Division of Retirement and Benefits as a reasonable goal.

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

#sb16

CS FOR SENATE BILL NO. 16(FIN)

"An Act relating to certain alcoholic beverage licenses and permits; relating to the bond requirement for certain alcoholic beverage license holders; and providing for an effective date."

[10:50:26 AM](#)

Co-Chair Wilson MOVED to RECIND action taken on SB 16.

There being NO OBJECTION, it was so ordered. Co-Chair Wilson explained that she wanted to make sure Representative LeBon's concerns were addressed properly

10:50:54 AM

AT EASE

11:01:48 AM

RECONVENED

Co-Chair Wilson WITHDREW her RECENSION. There being NO OBJECTION, it was so ordered.

11:02:48 AM

Co-Chair Wilson RECESSED TO THE CALL OF THE CHAIR [note: the meeting never reconvened].

#

ADJOURNMENT

11:02:09 AM

The meeting was adjourned at 11:02 a.m.