HOUSE FINANCE COMMITTEE
March 4, 2020
1:35 p.m.

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CALL TO ORDER

Co-Chair Johnston called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Jennifer Johnston, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton
Representative Adam Wool

MEMBERS ABSENT

Representative Ben Carpenter

ALSO PRESENT

Representative Chuck Kopp, Bill Sponsor; Ken Truitt, Staff, Representative Chuck Kopp; David Kershner, Buck Global LLC; Kevin Worley, chief Financial Officer, Department of Administration; Kathy Lea, Chief Pension Officer, Division of Retirement and Benefits, Department of Administration.

SUMMARY

HB 79 PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

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

Co-Chair Johnston 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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Co-Chair Johnston indicated that the bill was last heard on March 2, 2020 when the committee adopted a Committee Substitute (CS) work draft version 31-LS0462\O. She announced that amendments for the bill were due on March 6, 2020 by 5:00 pm.

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KEN TRUITT, STAFF, REPRESENTATIVE CHUCK KOPP, indicated that the bill was the same as the prior version apart from the identifier "O".

Co-Chair Johnston asked for a brief review of HB 79 for the committee.

REPRESENTATIVE CHUCK KOPP, BILL SPONSOR, reported that the bill introduced a hybrid Defined Benefit (DB) pension system. The legislation was three-fold; it contained cost saving features, plan asset enhancement adjustments, and plan benefit reductions. He briefly outlined the cost saving provisions. He indicated that the plan did not offer retirement medical insurance and the medical benefit was the same as the Tier 4 plan, which was a Health Reimbursement Arrangement (HRA). He explained that the retirement age was fixed at age 55 with 20 years of service and prohibited retirement at any earlier age. The retirement income average was based on the highest 5 years and precluded a cost of living adjustment (COLA). The plan’s asset enhancement allowed for increases to the employee contribution to keep the plan funded at 90 percent predicated on market conditions. The employer contribution was 22 percent comprising a mandatory 12 percent for the employee benefit and the remaining 10 percent allocated to the current plan unfunded liability. The plan’s benefit reductions included withholding the post retirement pension adjustment if the plan was funded at less than 90 percent.

He pointed out that the plan was a hybrid due to the lack of a guaranteed medical benefit. The plan transferred a significant amount of risk to the employee.

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DAVID KERSHNER, BUCK GLOBAL LLC, reviewed the actuarial analysis. He explained that the analysis involved projections of potential contributions to the Public Employees' Retirement System (PERS) both currently and after the adoption of HB 79. The projections were based on three different economic scenarios. The first scenario was based on what the assets were expected to earn under the ongoing funding of PERS at 7.38 percent. The second scenario included a below expected return for five years from FY 21 through FY 25 based on 5.75 percent, which represented the actual return averaged over the prior 5 years. The third scenario modeled poor asset returns and was unlikely. However, the actuaries had to include a scenario with unfavorable asset returns to create conditions that caused the plan's cost saving measures to "kick in." He exemplified the post retirement pension adjustment as one of the cost saving provisions. He noted that two pie charts were included in the fiscal note and thought the charts simplified the analysis. [The pie charts were included in the untitled actuarial analysis narrative document by Buck Global, LLC. (copy on file)]. Both charts depicted the distribution of the 22 percent statutory employer contribution rate for the members affected by HB 79 based on FY 22 projections.

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Mr. Kershner explained that the first chart showed how the percentages were currently distributed. He pointed out that the yellow slice denoting 1.8 percent represented the amount for the DCR Trust or the death and disability benefits and the retirement medical benefits. The average HRA contributions were shown in green at 3 percent. The maroon piece signifying 5 percent represented the defined contribution accounts of the plan's members. The amount dedicated to paying down the unfunded liability in the existing PERS defined benefit plan for members hired prior

to July 2006 was 12.2 percent depicted in orange totaling 22 percent.

Mr. Kershner continued to the second pie chart representing the plan percentages after passage of the bill. He noted that the average HRA contributions shown in green remained the same at 3 percent. He explained that HB 79 provided a minimum of 12 percent for employee contributions hence, the yellow portion signifying 9 percent represented the contribution for the HB 79 trust. The orange piece depicted the remaining 10 percent used to pay down the unfunded liability in the existing PERS defined benefit plan. The decrease of 2.2 percent for the unfunded liability had to be made up by additional statewide contributions. He concluded that the out years would look similar to FY 22.

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Representative Wool pointed to the maroon defined contribution slice reflected in the top pie chart and wondered why it was not included in the second chart. Mr. Kershner responded that under HB 79 they would receive a defined benefit rather than a defined contribution pension.

Mr. Kershner referred to the handout, "PERS - 20-Year Projection of Additional State Contributions" (copy on file). The table reflected three scenarios. He pointed to note 2 on the bottom of the page. He explained that in all cases the analysis reflected the actual return of 6 percent that the PERS DB plan experienced in FY 19. He reported that 6 percent applied in all 3 cases. He varied the assumed return in future years. In scenario one, the return was assumed at 7.38 percent. In scenario two, it was assumed that for 5 years (FY 21 through FY 25) the return was only 5.75 percent based on the actuals ending on June 30, 2019 and after FY 25 he assumed a return of 7.38 percent. He emphasized that the third scenario was unlikely. He explained that he had to present a situation with very poor returns to create a situation that required a sizeable increase in state contributions. The analysis assumed a zero percent return from FY 21 through FY 25 and a 2 percent return for two more years then returning to 7.38 percent in the remaining years. He pointed to the "Current" or first scenario. The projections showed the state contribution to be $198 million in FY 22 based on 7.38 percent returns. Under Scenario 2 at 5.75 percent returns the state contribution was projected at $201.5

million in FY 22. In scenario 3 at zero percent returns the contribution was projected to be $215 million. The three scenario columns reflected the projected additional state contributions from fiscal years 2022 to 2041. The 20 year totals column showed the increase in state contribution between scenario 1 and scenario 2 at $1.8 billion and increase "dramatically" under scenario 3. He moved to the columns titled "HB 79G." The columns included the provisions of HB 79 that included the redistribution of the employer contributions under the three scenarios. He pointed out that under Scenario One, the 20 - year total increased by roughly $100 million from $4.3 billion to $4.4 billion. Under Scenario 2, the increase over 20 years was not a significant number, about $2 million. He explained that the reason the large numbers popped up in 2040 and 2041 under Scenario 3 was due to the cumulative effect of the poor asset returns. The contribution rates significantly increased, and less money was going towards the DB trust and therefore, the state's contribution had to make up the difference. He further explained that the higher state contribution rate was the difference between the actuarially determined contribution rate and the 22 percent statutory rate. The main message he wanted to present was that because less money from the HB 79 payroll was directed towards the DB plan, the shortfall had to be made up by state contributions. He determined that costs would increase under the plan. He cautioned that when a DB plan was replaced with a defined contribution system, as the state did in 2006, the risk was shifted from the state's investment returns to the individual. He furthered that in a defined contribution arrangement, the employee invested the contribution and the returns on the investments determined how much funding was available for retirement. Conversely, under a DB plan when assets underperformed and created deficiencies, the deficiency fell to the state. He concluded that a combination of decreased DB contributions and the risk of underperforming future returns increased the state's risk for future higher contributions.

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Co-Chair Johnston surmised that with the state's current arrangement the state paid 12.2 percent for all employees towards the unfunded liability. The added liability in the HB 79 plan changed the 12.2 percent for the unfunded

liability to 10 percent. Mr. Kershner responded in the affirmative.

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Representative Kopp asked Mr. Kershner to comment regarding the HB 79 plan's risk being "pushed" to the employer, which was shared with the employee.

Mr. Kershner affirmed that there was some risk sharing that was passed onto the employee. The members contribution rate started at 8 percent and the plan contained two features that were initiated when and if the fund fell below 90 percent. The post retirement pension adjustments were reduced, and the Retirement Board could adopt a higher employee contribution rate; higher than 8 percent and limited to 10 percent.

Co-Chair Johnston recounted that inherent in the hybrid program in HB 79 was the risk of increasing the state's liability towards the unfunded liability. She wondered whether she was correct. Mr. Kershner asked for clarification. Co-Chair Johnston restated the question. Mr. Kershner concurred that she was correct. He delineated that a smaller portion of the HB 79 contribution would be deposited to the DB plan trust for the unfunded liability. He voiced that the shortfall had to be made up in some way. He concluded that if the peace officers and firefighter members were contributing less to the liability, the state had to cover the shortfall via the state contribution.

Co-Chair Johnston clarified the difference between the employers and the state. She instructed that employers were entities like municipalities, the university, and schools. After the state closed the DB program, employers had to pay their full amount for the unfunded liability for approximately one year until the state increased its contribution and capped the employer contribution at 22 percent.

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Representative Wool wondered how the current defined contribution plan paid for the unfunded liability. Co-Chair Johnston referred to the top pie chart as a depiction of how the unfunded liability was currently handled. She

exemplified that the university paid a certain percentage for each of the DB and DC plans.

Representative Kopp interjected that the plan by itself was structurally very sound and did not add to the structural liability. However, it was the existing liability that was a problem and burdened the plan. He relayed that according to Mr. Kershner, the HB 79 plan itself was projected to be funded at 99.3 percent and was expected to improve and increase to above 100 percent over the years because of the HB 79 trust's contribution rate. He surmised that the plan "was structurally very sound" but the unfunded liability was problematic.

Co-Chair Johnston maintained that one of the reasons the plan was structurally sound was because the HB 79 plan decreased its contribution to the unfunded liability from 12 percent to 10 percent.

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Representative Wool referred to Scenario 3. He noted that at the end of 20 years the first 2 scenarios had similar returns. He asked if HB 79 was not enacted, but the severe financial conditions modeled in the third scenario happened how it would affect repayment of the unfunded liability and if it "fell on the state." Mr. Kershner responded in the affirmative and noted that it fell to the state. He reiterated that the employer contribution was set at 22 percent and the excess difference between the actuarially required rate and the 22 percent fell to the state's contribution. He pointed to the three scenario columns under the current plan on the state contribution projection table. The Scenario 3 column portrayed significantly increased state contributions of up to $10 billion over 20 years above the 22 percent employer contribution because the draconian asset returns created large increases in the unfunded liability that had to be made up over 25 years.

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KEVIN WORLEY, CHIEF FINANCIAL OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, addressed the new Department of Administration (DOA) fiscal note appropriated to PERS State Assistance. He indicated that the fiscal note would not be effective until July 1,

2021 in FY 22. The state contribution increase in FY 22 was $3.5 million increasing to $4.1 million by FY 26.

Representative Wool asked Mr. Worley to restate his comment. Mr. Worley complied. He referred to the pie charts in the actuarial analysis and noted that because of the shift in plan contributions to the unfunded liability from 12.2 percent to 10 percent, the additional state contributions increased to about $99.8 million through FY 39.

Representative Josephson asked how a firefighter who was employed in 2007 would transition into the HB 79 plan.

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KATHY LEA, CHIEF PENSION OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, explained that the bill provided for a transition process. She elaborated that the division would look at a member's age, the member's account in the DC plan, and the amount of service the member needed to purchase. The actuary would calculate the amount necessary to purchase the same amount of service in the DB plan, if there were insufficient funds to buy all of the service, the division would calculate how much was paid for and the member would pay off the remainder in the future. Any excess would remain in their defined contribution plan account.

Representative Knopp presented a hypothetical scenario. He wondered what it would take for a person to buy into the plan. He posed the case of an employee that began in 2007 and had 14 years of service. He wondered what the maximum contribution was. Ms. Lee indicated the figure was difficult to calculate offhand. However, except for "a few outliers that were closer to retirement," she had learned from Buck Global' s information that the majority of the defined contribution participants would be able to purchase their service.

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Representative LeBon reported that the state still had employees under Tiers 1 to 3. He deduced that most of the Tier 1 population had already reached retirement age. He wondered about the size of the unfunded liability for the remaining DB members. Kevin Worley responded that the

amount was about $5 billion. Representative LeBon asked whether the HB 79 plan was neutral to the liability or helped to repay it in an indirect way.

Mr. Kershner replied that the plan did nothing to the existing liability, but it affected the amount of employer contribution used to pay back the liability. He referred to the pie charts. He reminded the committee that currently 12.2 percent was contributed to repayment of the liability and under the HB 79 plan only about 10 percent was attributed to repayment. The extra unfunded burden of roughly $3.5 million to $4 million per year for the next five years fell to the state, which was the reason for the increase in state contributions noted on the projection table.

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Representative LeBon thought the elephant in the room was the $5 billion of unfunded liability and how HB 79 affected the state's ability to meet its obligation. Mr. Kershner responded that the Alaska Retirement Management Board (ARM) had taken on the funding policy and the plan had the unfunded liability paid off by 2039.

Representative LeBon asked whether the HB 79 model offered enough financial stability to ensure the state and municipalities that in the future there would not be an unfunded liability.

Co-Chair Johnston interjected that the committee had seen the actuarial projection that showed the plan was over 90 percent funded in the future. She noted that over 80 percent funded was considered stable with most plans.

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Representative Sullivan-Leonard asked what the employees currently had regarding healthcare compared to the most recent version of the bill. Ms. Lea responded that the CS adopted the same health plan as the current defined contribution system currently had at an 80 percent 20 percent cost share. The premiums were based on the number of years of service the employee had.

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Vice-Chair Ortiz asked if passage of HB 79 would not impact the unfunded liability. Mr. Worley responded in the negative. He offered that it did impact the ARM board funding plan by increasing the state contribution. He reiterated that the lower contribution by the HB 79 plan members towards the unfunded liability shifted an increase to the state's contribution.

Vice-Chair Ortiz asked about the figures going out to FY 26 in the fiscal note. He asked how accurate they were. Mr. Kershner responded that all the projections were based on assumptions of what would likely happen in the future. He pointed to Scenario One and explained the assumptions were based on no unexpected surprises with the assets or liabilities of the plan. He defined that unexpected surprises were underperforming assets and differences in retirement and mortality assumptions. He noted that the circumstances would result in higher state contributions. Vice-Chair Ortiz asked the likelihood of Scenario 3 happening. Mr. Kershner replied that Scenario 3 was a random scenario created to cause the plan's funding to drop below 90 percent to kick in the plan's cost saving measures. He referenced the 20 percent to 30 percent decline in the asset market in 2008. He reasoned that there was no way of quantifying another similar event like the market decline of 2008 in the projections and deduced that there was a low probability of generating a zero and two percent return over a number of years.

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Representative Wool thought that the chart reflected that the unfunded liability would be paid off by 2040. Mr. Kershner explained that the unfunded liability would not be paid off but would not require any further state contribution and would be covered under the employer contribution at less than 22 percent; any unfunded liability balance would be met by the employer.

Representative Wool asked if he meant 12.2 percent. Co-Chair Johnston reminded Representative Wool that the state would not be participating in repayment if employer contributions were under 22 percent.

Representative Wool asked if there was a scenario in which the state would not pay a contribution based on an exceptionally good year for returns. Mr. Kershner replied

that employer contributions were projected at 29 percent in FY 22 and was projected to remain in the 30 percent range over the next several years. He voiced that it would take significant asset returns in the "teens" for a number of years to generate the scenario that eliminated the additional state contribution.

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Representative LeBon inquired whether Mr. Kershner held an opinion regarding the effectiveness of the adjustment mechanism of the employee/employer contribution rates should the plan have an unfunded liability. He wondered if the plan had an ability to correct itself during the life of the plan. Mr. Kershner responded that the HB 79 trust was starting out at 100 percent funding. He relayed that even considering the 5 "bad" years simulated under Scenario 2, the funding status was still projected to be over 90 percent. The lowest funded percentage was roughly 99 percent funded. He thought it would take a lot to generate a funding percentage below 90 percent. He determined that the HB 79 plan was "fairly secure" with the built-in safeguards that would keep percentages from sky rocketing. He indicated that even with the safeguards in the bill, the state contribution was increasing under the HB 79 plan, but the safeguards made it unlikely the plan would ever be "poorly" funded.

Representative LeBon asked about a deposit made to the unfunded liability of $3 billion by the state approximately 7 years ago. He wondered if that deposit made things better and ultimately answered his own question by discerning that it did. He asked if the state had a legal obligation to be the safety net for HB 79 if something went wrong. Ms. Lea responded in the affirmative.

Representative Josephson noted that the $3 billion contribution reduced the state's amortized amount to $8 billion. He asked how the unfunded amount decreased from $8 billion to $5 billion. Mr. Worley answered that several things contributed to the decrease. He reported that changes made to the healthcare plans through the Employee Group Waiver Plan (EGWP) in the prior year lead to significant savings. In addition, savings were achieved through a third party administrator for medications. Regarding pensions, the state did not have the ability to alter the current plan set out by the ARM board.

Representative Josephson asked about the $100 million increase in Scenarios 1 and 2 for the state contribution. He deduced that the amount constituted roughly a 2 percent increase to the unfunded liability. Mr. Worley answered that the number was the amount necessary to pay down the unfunded liability. Representative Josephson shared that he was "feeling some confidence in the legislation" in terms of the benefit of the bill and Mr. Kershner's assurances regarding the plan's viability and sustainability. In relation to the remainder of the unfunded liability, it did not appear that the plan added a large burden considering the state's increased contribution was spread out over 20 years. He asked Mr. Worley whether he had any comment. Mr. Worley responded in the negative. He related that he was acting in his capacity as an accountant to analyze the numbers in the plan.

Co-Chair Johnston commented that the program could be considered a pilot plan for other employees in the retirement system. She deemed that if the plan were expanded the cost of the program to the state would increase due to the employer's involvement in the state's unfunded liability. She asked whether her statement was accurate. Mr. Worley responded affirmatively.

Representative Wool thought that at some point the plan was cost neutral. He wondered, unfunded liability aside, if the plan was cost neutral in any scenario. Ms. Lea responded that HB 79 itself was cost neutral because it had leavers to address any unfunded liability and was starting out "very well-funded" as there was no one presently ready to retire. She relayed the actuarial analysis that it would take some very extraordinary circumstance for the HB 79 plan to accrue unfunded liability. She emphasized that the plan itself was cost neutral but the effects on the unfunded liability and who paid for it was established by the analysis. She elucidated that the state ended up paying the additional costs. She exemplified that instead of the employer paying $55.00 and the state paying $100.00 the state would pay $125.00. Representative Wool wondered whether there was an economy of scale to offset any potential downturn in the economy if the plan was expanded. He asked if a greater safety net was created with a larger employee base or was it all the same. Ms. Lea deferred the question to Mr. Kershner. She inferred that the impact on the state would be greater.

Mr. Kershner commented that when he heard cost-neutral he interpreted it as no additional cost to the state. He declared that HB 79 was not cost neutral. He furthered that the funding of the HB 79 trust was self-contained. However, the employer was contributing less to pay down the unfunded liability and the plan was not cost neutral in terms of total spend to the state for the benefits. He expounded that the risk to the state was higher as the DB plan grew larger because the liabilities and assets were larger so with any asset losses the state had to make up a larger shortfall over 25 years according to the ARM board policy. Representative Wool commented that since the Tiers 1, 2, and 3 recipients were a "defined quantity" and were diminishing overtime, he wondered if an expanded employee base would help with the unfunded liability having more employees paying towards the liability. Mr. Kershner responded that if the plan population expanded, payroll would expand, and the liability would increase. However, the increased payroll did help generate additional contributions. He surmised that extended payroll helped; however, as the plan's assets and liabilities became larger and larger the percentage decline in contributions grew and had to be made up. The risk to the state increased as the DB plan increased.

Representative Wool determined that under the medical plan the medical benefits were not continuing. He assumed that medical costs were a factor that largely contributed to the unfunded liability. The pension alone was self-sustaining, the unfunded liability component added the extra cost. He pondered that since the new plan did not offer medical benefits at retirement and employees would be retained longer under the plan, he wondered how that affected outcomes. He remarked that he was confusing himself.

Ms. Lea reminded committee members that the plan had medical benefits for active and retired members and it offered an HRA to help retirees pay for the premiums. The retiree health plan was entirely funded at 100 percent. The pension plan was not.

Co-Chair Johnston reminded members that DOA would speak to health savings later.

Vice-Chair Ortiz referenced Co-Chair Johnston's comments considering the plan as a pilot project. He remarked that Rep. Wool pointed out the cost saving elements of the plan.

He asked if there was anything in place that would track the savings from year-to-year and use the information as part of the cost benefit analysis.

Co-Chair Johnston answered that the committee could ask DOA to perform the analysis. She indicated the state would also need to include the municipalities in the analysis.

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Representative Josephson was surprised to learn that the HRA was fully funded and that the liability was the cash pension portion. He thought the idea behind HB 79 was not to offer retirees health benefits because it made the outcomes more unpredictable. Ms. Lea pointed to Sections 26 through 29 of the bill that contained the provisions about the eligibility for the medical benefits and the premium payments. She indicated that the benefits were the same for the defined contribution members. She deferred to Mr. Worley regarding the funding of the health plan. Representative Josephson wondered why the author of the bill was going with the defined contribution plan rather than a defined benefit plan.

Co-Chair Johnston interjected that one difference with the employee pool for the HB 79 plan was that employees typically began their employment in their twenties retired in 20 years. The time gap between retirement and benefit age "could be an additional cost."

Mr. Worley was unclear what Representative Josephson was referring to. He explained that the HRA was a health reimbursement arrangement that equated to a defined contribution dollar amount and was different than the defined benefit plan healthcare trust that was over 100 percent funded.

Co-Chair Johnston asked if Representative Josephson wanted to hear from Representative Kopp.

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Representative Kopp responded that under HB 79 a person would not be eligible for the health savings account benefit until the employee had 25 years of service. He explained that even though the plan required 20 years of service an employee had to wait until they were 55 years of

age to retire. In order to access healthcare sooner, a person would have to work a minimum of 25 years prior to being able to access the medical savings plan. The HRA was a bridge to Medicare that enabled the employee to purchase a plan until eligibility. He spoke to the value of retention. He reported that a fire fighter trained in their first 3 years received training equal to about $1 million. Employees who "walk out the door" early took the monies spent in training employees. He considered the situation "devastating" to municipalities. He cited the increased state contribution in one year at $3 million and equated that to the many millions more lost to municipalities dealing with lost retention. He reported that the Alaska State Troopers had 40 trooper positions vacant and still had 40 positions vacant after hiring 40 new troopers due to lack of retention. He stated that even with salary increases to attract new applicants, retention remained an issue. He believed that a retirement plan was critical to solving the retention problem. The financial loss to the state was minute compared to the collective losses suffered by the municipalities from lack of retention.

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Vice-Chair Ortiz asked if there was a way to track the amount of savings from the plan over a period of time. Representative Kopp indicated that most agencies tracked their employee attrition. He thought that the state could easily monitor the information to determine whether the plan affected retention.

Co-Chair Johnston invited Mr. Truitt to provide a sectional analysis.

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Mr. Truitt informed the committee that there were 11 substantive sections which he would exclusively review. He began with Section 1, page 3, lines 6 through 9 authorizing the ARM board to activate the cost saving mechanisms or "plan asset enhancement adjustments" to the employer contributions and employee contributions if necessary. He offered that Section 2, page 4, lines 23 through 26 worked in conjunction with Section 1 and contained further adjustment authority for the ARM board as follows:

(5) adjust the amount of the increase in benefits payable to a peace officer or firefighter who first becomes a member after June 30, 2006, as provided under AS 39.35.475; (6) adjust employee contribution rates under AS 39.35.160(e).

Mr. Truitt disclosed that page 4 through page 8 contained technical and conforming language that inserted the statutory language in the current draft CS. He reported that the next major change was in Section 12, beginning on page 9 that created the new version of the retirement plan. He noted that the term "Tier 5" was not used in the bill. He pointed to the language on page 9, line 9, "first hired after July 1, 2006" as the designation for the employee group in HB 79. He highlighted that Section 13, beginning on line 12 defined how the employees contributed to the plan. He cited line 28 [Section 14] that mandated the employee contribution of 8 percent.

Mr. Truitt turned to Section 15, page 10, beginning on line 10 that made clear that the total employer contribution remains 22 percent for peace officer and fire fighter employers. He moved to Section 18 on page 11, which contained asset enhancement adjustment language and the contribution formula of the plan. He elucidated that Section 19, page 11, beginning on line 19 defined the medical benefit that was the same as Tier 4. He delineated that the CS assumed the new plan's medical benefit contributions would be deposited into the current Tier 4 HCR trust. However, in conversations with the division about how the contributions to the plan would be handled a second trust might be created. He indicated there might be a statutory change needed to establish a separate trust.

Mr. Truitt continued with Section 21, page 12, line 7 that detailed the service requirements for the plan as follows:

(1) at age 60 with at least five years of credited service as a peace officer or firefighter; or (2) at age 55 with at least 20 years of credited service as a peace officer or firefighter.

Mr. Truitt pointed to Section 25 beginning on page 13, line 3 that allowed the ARM board to reduce Post-Retirement Pension Adjustments (PRPA) payments (inflation proofing) to peace officers and firefighters if the plan had an unfunded liability greater than 10 percent until the plan recovered.

He characterized the provision as one the "benefit reduction tools." He underlined that Section 28, pages 14 through 15 contained the statute that referred to Tiers 1, 2, and 3 medical plan and created a carve-out from the Tiers 1, 2, and 3 associated statutes for the HB 79 members to participate in the Tier 4 medical plan. He expounded that the section corresponded to Section 29 that added a new statute creating the HRA medical benefit and specified the qualifications and procedures. He added that the Section 29 new medical plan was identical to the Tier 4 medical plan with a few technical changes necessary in subsections (f), (g), and (h) to initiate the plan. He reported that the last major change was found in Section 30, pages 17 through 18. The provision contained the cost savings feature reflecting the calculation for an average retirement income based on 5 years of service rather than the 3 highest years for Tiers 1, 2, and 3 employees. He concluded that the remainder of changes were either technical or conforming changes. He reminded the committee that Section 5 through Section 11 contained the language and formulas for employee transition into the new plan.

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Representative Merrick had notes from last year. She showed the average cost of training for firefighters and paramedics as over $130 thousand for the first year and the average cost of training a public safety employee at over $200 thousand. She asked whether the analysis assumed better retention under the HB 79 plan than under the current Tier 4 plan. Mr. Kershner responded in the affirmative. He furthered that the employees transferring into the new plan were subject to the same termination of employment that applied to DB plan participants. He offered that a DB plan provided more incentive for employees to remain in the job than a defined contribution plan. The analysis projected lower termination rates for the HB 79 plan than the current defined contribution plan.

Representative Josephson remarked that Alaska was training employees who were then being poached by other states. He characterized it as "an endless cycle."

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Representative Kopp responded affirmatively. He mentioned that he included letters in the members packets (copy on

file) from police and fire chiefs relaying the exact situation. He maintained that the employees were lost to out of state departments offering "significant cash incentives for lateral hire." Based on the candidate's training resume other departments did not have to pay for training. There was a significant cost to Alaska when others recruited Alaska's troopers.

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Vice-Chair Ortiz asked about statistics since the change from Tier 3 to Tier 4. He asked whether the loss of public safety workers was tracked. Representative Kopp responded that every [police and fire] department had tracked the loss. He reported that one common consequence was a huge age gap between the younger employees cycling out between two and four years of service and the remainder with 15 years or more. The departments were losing its mentors, trainers, and supervisors to retirement and the young ones were leaving before promotion into those roles. He characterized it as an age and experience gap that created an artificial divide between the young and senior employees.

Representative Wool believed the effect on retention should be emphasized over the increased state contribution. He asked about the "medical aspect" of Tiers 1, 2, and 3. He thought that the reason the DB plans were discontinued was due to accelerated medical costs, reasoning that the pension costs were more predictable. He wondered how that had changed as he had assumed medical costs were the problem. He referenced testimony that medical costs were contained, and the pension costs were not. He asked for clarification. Representative Kopp responded that the state had had very poor actuarial advice, which precipitated the liability problem. He acknowledged that healthcare costs were a significant cost driver of pensions and it was no different in the state's situation.

Co-Chair Johnston recounted that healthcare attributed to one-third of the $3 billion payment to the Public Employees' Retirement System (PERS) and the Techers' Retirement System (TRS). She noted that there had been significant cost saving measures taken by DOA since then that "made a huge difference."

Co-Chair Johnston reviewed the agenda for the following morning.

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

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ADJOURNMENT

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The meeting was adjourned at 3:21 p.m.