

HOUSE FINANCE COMMITTEE
March 17, 2020
3:17 p.m.

3:17:35 PM

CALL TO ORDER

Co-Chair Johnston called the House Finance Committee meeting to order at 3:17 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Jennifer Johnston, Co-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
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Representative Chuck Kopp, Sponsor; Ken Truitt, Staff,
Representative Chuck Kopp.

PRESENT VIA TELECONFERENCE

David Kershner, Buck Global, Florida; Lacey Sanders,
Administrative Services Director, Department of Education
and Early Development, Office of Management and Budget,
Office of the Governor.

SUMMARY

HB 79 PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

CSHB 79(FIN) was REPORTED out of committee with
four "do pass" recommendations, three "do not

pass" recommendations, three "no recommendation" recommendations, one "amend" recommendation and with one previously published fiscal impact note: FN2 (ADM/Retirement Payments).

HB 181 PUBLIC SCHOOLS: MENTAL HEALTH EDUCATION

CSHB 181(EDC) was REPORTED out of committee with one "do pass" recommendation, three "do not pass" recommendations, and one "no recommendation" recommendation and with one new fiscal impact note by the Department of Education and Early Development.

HB 268 MUNI BOND BANK: UA, LOAN AND BOND LIMITS

HB 268 was SCHEDULED but not HEARD.

Co-Chair Johnston reviewed the agenda for the afternoon. The meeting would be ending at 4:30 p.m.

#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 invited the bill sponsor and his staff to the table.

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REPRESENTATIVE CHUCK KOPP, SPONSOR, reminded the committee that HB 79 provided for a hybrid between the Defined Benefit (DB) system and the Tier 4 system. He believed the bill created a good middle ground between a costly DB plan and a system designed to maintain retention. He mentioned the cost saving features to preserve full funding of the plan. He realized that any retirement plan costs something,

however, he thought his bill could help resolve some of the problems regarding public safety.

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Representative Knopp expressed reservation with HB 79 because it was offered to only a select group and not all employees. He was also concerned with the notion of costs increasing over time if the plan grew. He asked for clarification. Representative Kopp indicated that there was a risk associated if the number of employees grew, but the plan was only available to a small group. Representative Knopp heard from employees in other unions that with passage of HB 79 they would want to "jump on the bandwagon." He wondered how that would be handled and who would deny the plan to other employees. Representative Kopp indicated the issue was difficult. He elaborated that the bill targeted the most sensitive group of employees relative to job turnover. He felt that there was a need for the state to prove the model and stated that it could not be duplicated identically to other employee groups. Other proposed plans would need to be modeled and he could not speak to how the analysis would turn out. He added that with a mere 2 percent turnover in the plan's employees - comparing the state costs in lost training versus the cost of the plan, the state would save more in saved training costs. He noted that with the more realistic 10 percent turnover rate the state would lose \$3.5 million for the plan versus \$14.5 million in lost training costs. He communicated that the bill would ultimately result in "considerable" savings to the state. Representative Knopp replied that the original bill applied to first responders. He thought that the category was too broad. He asked whether eligibility was narrowed. Representative Kopp replied that eligible employees included: police, firefighters, state troopers, and correctional officers.

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Vice-Chair Ortiz asked what factors would make the plan riskier with an increased number of employees. He noted that more members meant more contributors.

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DAVID KERSHNER, BUCK GLOBAL, FLORIDA (via teleconference), responded that as a DB plan grew, and new peace officers

joined the DB plan the assets and liabilities became larger. He elaborated that any adverse experience as seen with the COVID 19 market losses, created a larger loss that had to be covered by the state via a higher state contribution. He added that the recent projections showing the HB 79 plan well-funded was forecast before the market reactions to COVID 19. He reported that using current market data, the plan would not be as well funded as the projections showed. The state would see higher contributions than the fiscal note contained.

Representative Kopp interjected that no actuarial analysis was done based on one devastating week in the markets. He reminded the committee that actuarial analysis was performed on an annualized basis.

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Co-Chair Johnston asked that besides adding to member population, would it make a difference if the actuarial base had a lengthy period of employee contributions. She noted that the HB 79 group retired earlier than teachers who typically worked for 30 to 35 years. Mr. Kershner confirmed that it did make a difference. He had factored earlier retirement into the analysis. Co-Chair Johnston clarified that she was speaking to adding to the population. She inquired whether the actuarial report would be affected if there was an addition of plan members that stayed in the workforce much longer. Mr. Kershner responded that by adding teachers the liability would be lower if all other elements of the plan remained equal.

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Representative LeBon asked Mr. Kershner if he was aware of other plans that "shared" the participation rate adjustments between the state, employee, and employer. Mr. Kershner responded that typically members paid a fixed amount and were not typically tied to the performance of plan assets. He added that sometimes Cost of Living Adjustments (COLA) increases were based on the performance of the plan. Since the membership participation was typically fixed, any losses would fall to the employer or the state unless specified otherwise by a plan amendment or statute.

Representative LeBon asked whether it was not standard for the investment risk to be shared between the state and the participants. Mr. Kershner replied in the affirmative. He added that the risk typically fell to the plan sponsors, in the case of HB 79, the state.

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Representative Carpenter referenced the present market conditions. He asked what would work under the present market conditions. Mr. Kershner clarified that the plan would not necessarily underperform. He explained that the projections would differ from the analysis because the plan's asset values would not be as well funded as currently projected, increasing plan costs. The cost for the group would be higher than he calculated, which could mean more funding might be diverted away from the DB trust. However, he could not confirm that supposition nor comment further without updated analysis. Representative Carpenter asked if the additional cost would fall on the state or members or both. Mr. Kershner responded that the members' contribution was 8 percent and could increase to 10 percent at the discretion of the Alaska Retirement Management Board (ARM). He elucidated that there was no automatic formula for increasing member participation; it was a discretionary decision. He spoke to a provision in the bill that would automatically withhold the Post Retirement Pension Adjustments (PRPA) if the trust fell below a 90 percent funding level. The increase in the member contribution would be a result of the board initiating a change. Representative Carpenter asked whether the ARM Board would act swiftly to increase member contributions based on poor market performance. Mr. Kershner replied that there was no simple answer to the question. There was no set provision in the bill that provided a formula for how much the board can increase the member contribution based on percentages by how much the fund dipped under 10 percent. The board was limited to the 10 percent limit and guidance was necessary to determine how or if that would be raised incrementally.

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Representative Carpenter noted that the plan had levers and mechanisms to ensure there were measures to keep the plan solvent. He expressed hesitation in supporting the bill if it was difficult to manipulate the levers when necessary.

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Representative Kopp clarified that the plan would start at 100 percent funded under any circumstances. He expounded that members had to buy into the plan based on assets already accrued and their value at the time. He concluded that "no matter what," the plan would start at 100 percent funded. Representative Carpenter asked if, by starting at 100 percent, some employees might choose not to buy into the plan. Representative Kopp responded in the affirmative.

Mr. Kershner added to Representative Kopp's comments. He relayed that the amount of service members would start at when transitioning from the Defined Contribution (DC) to the DB plan was not dependent on the assets, it had to do with the present value or the liability associated with their projected benefits, which was independent of whether the plan was 100 percent funded. He expounded that the amount of money that was used from a DC account was not related to the asset amounts in the plan. Market fluctuations causing asset losses would affect members DC account balances, but it would not affect the assets of the plan because the amount they had to transfer from the account was dependent on the liability associated with their service which was independent on asset values. In his prior statements, he was attempting to point out that if he performed a current analysis it could be different from the analysis used for the fiscal note. He emphasized that his point was that in a DB plan the risk of adverse asset performance fell not to the participants but to the plan sponsor due to the fixed contribution rates of the employers. Any losses due to poor assets performance rests on additional state contributions.

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Representative Carpenter asked if the losses had to be made up by the state in the future when an employee retired. Mr. Kershner answered that the following fiscal year's state contribution would be affected by present asset performance. He provided an example of the assets dropping by minus 25 percent in FY 20, consequently, the state contribution would be affected beginning in FY 22 and for several years after. Representative Carpenter wondered whether he had a current projection of what the numbers would be. Mr. Kershner replied that he did not perform any projections based on recent market performance.

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Representative Josephson provided a hypothetical scenario about transferring service credit. He deduced that based on an analysis the employee would need to make the plan whole and there would not be a year for year service credit. He wondered if he was correct.

Representative Kopp responded that Representative Josephson was correct.

Representative Knopp asked whether the plan would currently have serious pension liabilities because of the market downturn if the bill was enacted two months ago. He wondered whether the state was better off for not acting on the legislation sooner. Mr. Kershner replied that if he currently perfumed the analysis the DC accounts balances would be significantly lower for purchasing service. The DC benefits at the time the fiscal note analysis was done (as of 6/30/2018) were higher and presently would be significantly lower, reducing the amount of service members could purchase. He was uncertain of what the impacts might be on the state contributions. He emphasized that the risk to the state was increased in a DB plan versus a DC plan. The asset decline over the prior week could produce different results if an analysis were performed based on current data.

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Representative Josephson thought Mr. Kershner's analysis applied to all the tier plans. Mr. Kershner answered in the affirmative. He added that the current additional state contribution would be higher than what was previously projected because the assets were lower.

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AT EASE

[3:52:04 PM](#)

RECONVENED

Representative Carpenter noted that Mr. Kershner had commented several times about the current market conditions versus at other times and how that affected the analysis. He recounted that the HB 79 plan had levers and mechanisms

to keep the plan solvent and weather future downturns. He wondered where the state would be currently.

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KEN TRUITT, STAFF, REPRESENTATIVE CHUCK KOPP, responded that as directed by statute, the ARM Board would perform an annual actuarial valuation at the close of the fiscal year to determine how the plan was performing. The plan administrators would currently be waiting for the valuation. He reminded the committee that the annual actuarial analysis was implemented with the creation of Tier 4 because the state had gone a number of years without an actuarial evaluation of asset performance. The annual actuarial analysis was built into the Public Employees Retirement System (PERS).

Representative Carpenter attempted to clarify his point of view. He pointed out that the plan carried a "high" risk to the state and thought the liability to the state would increase. He emphasized that the present market downturn would cost the state in the future. He voiced that the levers and mechanisms did not provide him confidence they would reduce the state's risk in the future.

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Representative Kopp responded that the modeling showed a 5 percent growth in the fund over 10 years. He cautioned that the discussion was gauging the plan with a "micro" focus on current market conditions instead of looking at the horizon. He speculated that the COVID 19 pandemic would pass and the market would stabilize. The current situation did not make Tier 4 any better or lessen the need for change. He suggested that other similar plans were stable, like the state of Washington's Law Enforcement and Firefighters Fund, which would weather the current "storm." The plan was funded at 110 percent. He thought the state needed to look beyond the current storm and out to the horizon to address the problem of retention. He maintained that the plan was conservative. He characterized the retention issue as "high risk turnover" and relayed that Alaska's public safety agencies were operating in a "crisis mode" because of it. He reiterated that the savings in training dollars kept in the state was significantly greater than the cost of the plan. He stressed that

conditions would stabilize. He advised against getting "caught up in the moment" when deciding on the legislation.

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Representative Carpenter felt that it was not reasonable to speculate that the current conditions would stabilize in under 10 years. He emphasized that current events should prove that increasing risk to the state with future obligations was unwise. The state was still struggling to figure out its long-term fiscal future. He stressed that adopting the plan was a "bad policy decision." He related a story from personal experience having a conversation with a policeman who preferred the Tier 4 plan. He suggested that there were other ways to solve the recruitment problem without the HB 79 plan.

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Representative Wool indicated that the current market "crash" closely resembled scenario 3. [He referred to the document titled "PERS - 20-Year Projection of Additional State Contributions" (copy on file) discussed in a prior hearing.] He noted that scenario 3 modeled a 5-year period of zero growth followed by 5-years of 2 percent growth. He relayed from the prior meeting that the scenario was dire and unlikely. He assumed the markets would rebound over time. He pointed to the scenario 3 projections for the Tier 4 plan and noted that the state had a \$14.2 billion [million] liability and under HB 79 that liability was \$15.8 [million]. He calculated that it was a difference of 1.6 percent. He offered that scenario 3 was dire and hoped the current conditions were short-term. He wondered whether under the "current scenarios" column on the document, the levers were accounted for.

Mr. Kershner replied that scenario 3 was the only scenario where the plan performed under 90 percent, which activated withholding the PRPA benefits. However, the member contributions were not increased due to the discretionary feature of the mechanism under any scenario. Representative Wool asked if the member contribution increased to the maximum of 10 percent, would the state's contributions be lower under scenario 3. Mr. Kershner answered in the affirmative and added that increasing member contributions lowered the costs to the state.

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Representative Wool asked if the employee contribution were increased under the current column of scenario 3 to the maximum of 10 percent, would it alleviate the state's liability. He wondered what the figure would be and if it was modeled. Mr. Kershner clarified that under the "current" column there were no adjustment to employee contributions. The adjustments were only possible under the HB 79 plan. He reiterated that under HB 79, the costs to the state would be lower with increased employee contributions. He indicated that it had not been modeled.

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AT EASE

[4:09:13 PM](#)

RECONVENED

Co-Chair Foster MOVED to report CSHB 79(FIN) out of Committee with individual recommendations and the accompanying fiscal note

Representative Carpenter OBJECTED.

Representative Josephson commented that he was confident that HB 79 presented the best path forward for public safety and the citizens of the state.

Representative Wool agreed with Representative Josephson's comments. He pointed out that the levers and mechanisms were not modeled under the current scenario. He ascertained that they were a significant piece of the plan and wished they had been modeled to better reflect the effects of the plan.

Representative Knopp thanked the sponsor for his hard work on the bill. He would not be supporting the bill because it only addressed one group of employees. However, with the comments made about the current fiscal situation, he was not comfortable with voting in favor of the bill. He believed that the markets were "artificially inflated" and thought market growth would slow down.

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Representative LeBon appreciated the sponsor's efforts for attempting to find a middle ground for a defined benefit plan. He wished there were a mechanism that changed the contribution rate to minimize the risk to the state. He desired more future "skin in the game" on the part of the plan's members to increase their contribution rate and share more of the risk with the state.

Co-Chair Johnston thought several good points had been made by the committee. She hoped new actuarial reports would be a part of the presentation on the floor and in the other body.

Representative Carpenter believed a better solution existed that did not impose risk on the state. He was opposed to the bill.

Representative Carpenter MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Wool, Josephson, LeBon, Merrick, Ortiz, Johnston, Foster

OPPOSED: Tilton, Carpenter, Knopp, Sullivan-Leonard

The MOTION PASSED (7/4). There being NO further OBJECTION, it was so ordered.

CSHB 79(FIN) was REPORTED out of committee with four "do pass" recommendations, three "do not pass" recommendations, three "no recommendation" recommendations, one "amend" recommendation and with one previously published fiscal impact note: FN2 (ADM/Retirement Payments).

[4:15:30 PM](#)

AT EASE

[4:16:00 PM](#)

RECONVENED

Co-Chair Johnston indicated the committee would be hearing HB 181 next.

#hb181

HOUSE BILL NO. 181

"An Act relating to mental health education."

4:16:20 PM

Co-Chair Johnston indicated there was a new fiscal note for the bill.

4:16:39 PM

LACEY SANDERS, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR (via teleconference), reported that the department took into consideration the committee's concerns about costs. The department revised the fiscal note [Department of Education and Early Development (DEED) appropriated to Education Support and Administrative Services] decreasing it to \$71 thousand. She explained that the department eliminated \$12 thousand for the creation and printing of standards booklets and planned to distribute the standards via electronic copies. The department also reduced travel significantly from \$60 thousand to \$30 thousand. The funding would cover costs for travel for one in-person meeting.

4:18:26 PM

AT EASE

4:21:30 PM

RECONVENED

Co-Chair Foster MOVED to report CSHB 181(EDC) out of Committee with individual recommendations and the accompanying fiscal note.

Representative Carpenter OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Wool, Josephson, Knopp, LeBon, Merrick, Ortiz, Foster, Johnston

OPPOSED: Carpenter, Sullivan-Leonard, Tilton

The MOTION PASSED (8/3). There being NO further OBJECTION, it was so ordered.

CSHB 181(EDC) was REPORTED out of committee with one "do pass" recommendation, three "do not pass" recommendations, and one "no recommendation" recommendation and with one new fiscal impact note by the Department of Education and Early Development.

Co-Chair Johnston relayed the agenda for the following meeting.

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ADJOURNMENT

4:23:38 PM

The meeting was adjourned at 4:23 p.m.