

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

March 20, 2019

3:19 PM

**MEMBERS PRESENT**

Representative Adam Wool, Co-Chair  
Representative Gabrielle LeDoux, Co-Chair  
Representative Zack Fields  
Representative Sara Hannan  
Representative Josh Revak  
Representative Dave Talerico

**MEMBERS ABSENT**

Representative Louise Stutes

**COMMITTEE CALENDAR**

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."

- HEARD & HELD

HOUSE BILL NO. 44

"An Act relating to fees for using an automated teller machine; and providing for an effective date."

- MOVED HB 44 OUT OF COMMITTEE

HOUSE BILL NO. 48

"An Act removing from the exempt service of the state persons who are employed in a professional capacity to make a temporary or special inquiry, study, or examination as authorized by the governor and including those persons in the partially exempt service of the state."

- MOVED HB 48 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 79

SHORT TITLE: PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

SPONSOR(S): REPRESENTATIVE(S) KOPP

03/06/19 (H) READ THE FIRST TIME - REFERRALS  
03/06/19 (H) L&C, FIN  
03/20/19 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 44

SHORT TITLE: AUTOMATED TELLER MACHINES: FEES

SPONSOR(S): REPRESENTATIVE(S) ORTIZ

02/20/19 (H) READ THE FIRST TIME - REFERRALS  
02/20/19 (H) L&C  
03/18/19 (H) L&C AT 3:15 PM BARNES 124  
03/18/19 (H) Heard & Held  
03/18/19 (H) MINUTE(L&C)  
03/20/19 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 48

SHORT TITLE: TEMP STATE EMPLOYEES IN PART EXEMPT SVCE

SPONSOR(S): REPRESENTATIVE(S) WILSON

02/20/19 (H) READ THE FIRST TIME - REFERRALS  
02/20/19 (H) L&C, FIN  
03/18/19 (H) L&C AT 3:15 PM BARNES 124  
03/18/19 (H) Heard & Held  
03/18/19 (H) MINUTE(L&C)  
03/20/19 (H) L&C AT 3:15 PM BARNES 124

**WITNESS REGISTER**

REPRESENTATIVE CHUCK KOPP

Alaska State Legislature

Juneau, Alaska

**POSITION STATEMENT:** As prime sponsor, introduced HB 79.

TOM WESCOTT, President

Alaska Professional Firefighters Association

Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 79.

WILLIAM FORNIA, President/Consultant

Pension Trustee Advisers (PTA)

Greenwood Village, Colorado

**POSITION STATEMENT:** Provided a PowerPoint presentation entitled, "Alaska Public Safety Pension Fix; HB 79," dated 3/20/19, during the hearing on HB 79, and answered questions.

**ACTION NARRATIVE**

[3:19:09 PM](#)

**CO-CHAIR ADAM WOOL** called the House Labor and Commerce Standing Committee meeting to order at 3:19 p.m. Representatives Hannan, Talerico, Fields, Revak, LeDoux, and Wool were present at the call to order.

**HB 79-PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS**

[3:19:30 PM](#)

CO-CHAIR WOOL announced that the first order of business would be 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."

[3:20:28 PM](#)

REPRESENTATIVE CHUCK KOPP, Alaska State Legislature, introduced HB 79, as prime sponsor. He stated that he served 23 years as a police officer in Alaska, adding that the best and toughest experiences of his life were on the job. On this job, he said, you save peoples lives, you solve terrible crimes, you help people put their lives back together, and, hopefully, you can keep people's lives from ever coming apart. Police and firefighters do all of this together, he noted. He reflected on an experience he had, in which both police and firefighters worked together to recover the body of an officer who was shot and killed on the job. The job is harder now, he said, there is less political support, less public support at times, and there is heavy media scrutiny on the public safety profession. There's increased liability for police officers and firefighters, both personally and for their municipal state employers. He explained that, currently, Alaska has one of the greatest recruiting and retention challenges that the profession has ever seen. Across the state, millions of dollars in

training are being lost every year when new officers and firefighters leave shortly after being trained and certified to other agencies that have a defined benefit and retirement [plan]. He stated that HB 79 takes the lessons that were learned from Tier 3, which was unfunded liability due to unaffordable benefits, and Tier 4, losing employees to other agencies, and it brings something brand new that avoids the pitfalls of earlier plans. It provides a sure foundation for employee retirement planning and employer cost stability into the future.

[3:24:31 PM](#)

TOM WESCOTT, President, Alaska Professional Firefighters Association, stated that the recruitment and retention problems created by Tier 4 are one of the driving factors, as well as the benefits provided under Tier 4, especially for the unique nature of the public safety career. With these problems in mind, he said, they set out to find a workable solution that took into consideration the concerns of the state, other employers, and the desire to provide benefits more in line with outside agencies and what they're offering. To create a sustainable plan and avoid repeating the mistakes of the past, it was important to understand how the old system fell short and how the most successful plans managed to stay well-funded. He pointed out that it is a mistake to think that all defined benefits (DB) plans are the same. He stated that they reviewed what got them into trouble and what the best plans did and found some common themes threaded through both reviews. The new plan must be built off more conservative assumptions; have reasonable costs; share risks between employers, employees and retirees; offer conservative benefits and have steady, consistent funding. He remarked that these traits were found in the all of the best plans in the country and can also be found in HB 79. He concluded by stating that they worked to incorporate the best practices into a plan with reasonable costs and benefits. The current plan also removes healthcare and replaced it with the defined contribution healthcare from Tier 4, which is a Health Retirement Account (HRA). The old systems, he said, had Pre-Medicare coverage, while this plan does not. It is replaced with the HRA. The employee's rates are adjustable between 8 and 10 percent and cannot go below 8 percent. They installed a minimum age of 55 to begin collecting retirement, whereas the old plan had a 20-year requirement. The inflation proofing that's awarded to retirees is optional and the ARM board will decide if they can afford it or not. If the funding were to fall below 90 percent that would not be granted, he added that

it's another way to save money. He stated that the COLA benefit, which is a 10 percent benefit that the old system provided, was also removed. HB 79, he said, is the smart, reasonable solution to Alaska's recruitment and retention problems. The benefits have been reduced and tools to share risk and deal with adverse experience have been added. He noted that the current plan also allows Alaska's public safety agencies to compete for those highly skilled and in demand employees. In closing, he asked that as members weigh the merits of this legislation, they also consider the risk of maintaining the status quo as there has been an acceleration in departures as the percentage of Tier 4 participants has grown.

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The committee took an at-ease from 3:29 to 3:31 p.m.

[3:32:06 PM](#)

WILLIAM FORNIA, President/Consultant, Pension Trustee Advisers (PTA), provided a PowerPoint presentation entitled, "Alaska Public Safety Pension Fix; HB 79." Mr. Fornia informed the committee of his credentials, adding that he has all the appropriate qualifications for pensions. He stated that he is very active in national organizations, a frequent author and speaker on the subject, and a regular expert witness (slide 2). He remarked that he was the corporate actuary for Boeing for 4 years and has had a decent history of work experience here in Alaska. In 2005 he was hired for Alaska's first review actuary. In 2009 he audited Alaska's Public Employees' Retirement System (PERS)/TRS, and since 2011 he has worked for various labor groups in Alaska on this very issue (slide 3). Mr. Fornia went on to address why change is necessary, stating that Tier 3 provided adequate benefits while Tier 4 does not, which is why retention of public safety workers has become an issue (slides 5 and 6).

[3:37:03 PM](#)

CO-CHAIR LEDOUX asked if firefighters in Alaska receive social security.

[3:37:36 PM](#)

MR. FORNIA stated that firefighters do not receive social security unless they held a different job in which they do receive it from. However, if a firefighter is receiving social

security from another job it is reduced because they currently have a job that qualifies for PERS. He explained that even if a private sector employee, who has a similar earnings profile to public safety employees, only paid their social security then they would have a benefit almost as good as what public safety workers receive from Tier 4. He asked Representative LeDoux if this answered her question.

[3:38:22 PM](#)

CO-CHAIR LEDOUX answered yes.

[3:38:34 PM](#)

MR. FORNIA returned attention to key considerations with Alaska's Public Safety Pension Fix (PSF). He pointed out that Tier 3 is defined benefits (DB) and Tier 4 is Defined Contributions (DC). He explained that DB plans are more cost effective at providing retirement benefits; however, with DC plans there is no risk of unfunded liabilities to the employer (slide 7). For this reason, the goal was to design a DB plan that doesn't have much likelihood of an unfunded liability that grows. He added that he thinks they've done that with HB 79. He further described how the current bill strikes a compromise between a DB and a DC. It starts with a 12 percent fixed employer contribution and manages the plan within that target range. The benefits have been designed to be a slightly lower than current level and adjustment mechanisms have been built in. The current plan also utilizes a lower discount rate to provide a cushion against adverse experience (slide 8). Changes from the old DB system include removal of full medical coverage, the funding level built on a more conservative 7 percent rate of return versus the current 8 percent that the ARM board uses, the employee contribution can adjust upward from 8 percent to 10 percent, the COLA benefit was eliminated, PPRA is not automatic and can be withheld if the funding level is below 90 percent, the retirement age is 55 years old, and the final average salary is based on high 5 year instead of high 3 years (slides 9, 10, and 11).

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MR. FORNIA turned attention to the way in which Tier 4 members would transfer into the current plan without creating an unfunded liability; the ARM board will create an actuarially equivalent formula for purchasing time, the individual will have 90 days from implementation to decide on joining the plan and

can use their Tier 4 DC account to purchase service credit or start from 0 (slide 12). He further described the safeguards that were created to help prevent unfunded liabilities. The first being lowered benefits in Tier 3 compared to tier 5. The second safeguard is "actuarial methods," which involved building a margin into actuarial assumptions and building reserves in good times to provide added funding during bad times (slides 15, 16, and 17). The third and final safeguard is that the entire plan was built using a reduced discount rate, otherwise known as a reduced assumed rate of return, which is 7 percent rather than 8 percent. The idea is, going forward, to monitor the experience and adjust the benefits and/or the contributions if necessary (slide 18). Mr. Fornia highlighted a simulation that analyzed an assumed investment return of 6.6 percent annually for the next 10 years and 7.38 thereafter, which resulted in the plan starting at 100 percent funded and gradually growing to 110 percent without ever decreasing (slide 19). More advanced simulations are in the works that would better reflect reality, which will inevitably have good years as well as bad ones (slide 20).

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CO-CHAIR LEDOUX asked why 6.6 percent was chosen for the first 10 years and 7.38 percent thereafter.

MR. FORNIA explained that those numbers were chosen to be conservative as well as consistent with what other consultants believe. He pointed out that they were reasonable based on the current bond market.

[3:53:19 PM](#)

REPRESENTATIVE HANNAN referenced Mr. Fornia's work history in 2006, asking how, if at all, he was involved with the decision to do away with the public employees DB retirement system and if, at the time, he supported the decision to switch to a DC system without social security backup.

[3:53:58 PM](#)

MR. FORNIA replied that he was not involved with the decision to switch plans and he was pleased that they were coming up with a compromise program that provides reasonable levels of benefits with a low risk of unfunded liabilities. He also pointed out that, although Alaska may have lost some good workers because

they wanted to move to a state with a pension, it's not too late to fix the benefits program.

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REPRESENTATIVE HANNAN asked whether the entirety of the contributions made to HRA are accrued during the working years of the employee or if they are annually contributed to during retirement.

[3:56:00 PM](#)

MR. FORNIA explained that it is accrued while working and then, while in retirement, individuals use that account to pay the premiums for their pre-65 healthcare.

[3:56:16 PM](#)

REPRESENTATIVE HANNAN established a scenario in which a public safety worker has worked for 20 years and wants to retire at age 45. She inquired as to whether that individual would have to wait for their HRA to be available to them at age 55 and what they might do for healthcare during that 10-year gap.

[3:57:01 PM](#)

REPRESENTATIVE KOPP acknowledged that, under that scenario, public safety workers would need to find an alternative healthcare plan during the gap years.

MR. WESCOTT offered his understanding that if an individual is invested in the HRA there may not be an age limit to use it, whereas one must be 55 years old to draw the pension. He added that it would be ideal to have a system that could provide for anyone who put in their 20 years, but due to cost and risk associated with the plans adding the 55-year age requirement made sense. He noted that 55 was a common age requirement for public safety retirement plans and that it would be unusual to see an individual retire at age 45 without finding other employment thereafter.

REPRESENTATIVE HANNAN stated that she is a strong advocate for all public employees having a defined benefits system, noting that she herself is a retiree with that benefit. She asked about a scenario in which a firefighter retires at age 45 because their knees gave out and, therefore, would not be able to use their health retirement account for another 10 years.

That individual would not be eligible for public support for a private sector health contribution unless they don't have any assets; however, they have spent the last 20 years saving their assets in order to have a health retirement account that they would be able to access at age 55. She expressed concern that many public service employees are forced to retire because their bodies give out and, under the current bill, would have to wait in pain for 10 years until they could access their benefits.

[4:00:18 PM](#)

REPRESENTATIVE KOPP expressed his appreciation for Representative Hannan's passion regarding healthcare. He acknowledged that public service is "a young person's game," explaining that the work is physically demanding.

[4:01:08 PM](#)

MR. WESCOTT agreed that the issues being discussed are legitimate ones. He opined that the HRA will not be sufficient, in that the amount an individual acquires throughout their career will only provide minimal coverage during their retirement. The expense of healthcare and what it's done to pension systems, because it's grown at such a rate that has outpaced inflation, has caused problems for pension systems to keep up with that growth. Therefore, while finding a solution to this issue would be ideal, the priority is to avoid a plan that establishes another unfunded liability.

CO-CHAIR WOOL noted that healthcare is a big driver for many of these discussions, especially when it comes to retirement.

[4:02:59 PM](#)

REPRESENTATIVE FIELDS asked the actuary if he could address whether relationship exists between the size of the group being covered and the stability of the plan.

[4:03:22 PM](#)

MR. FORNIA replied that a bigger group is more stable, however the current group of several thousand is large enough.

[4:03:57 PM](#)

REPRESENTATIVE FIELDS asked why it is that a larger pool better.

[4:04:10 PM](#)

MR. FORNIA replied that there are two major reasons; one being that the actuaries have a very good idea of how long a group of 1,000 retirees will live versus one single person with a 401k. The second reason is that, on the investment side, a larger pool of assets has lower fees.

[4:05:06 PM](#)

CO-CHAIR WOOL asked if it was fair to say that by combining with the ARM board funds that it would reach that threshold of a large enough fund to get a good deal on fees.

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MR. FORNIA answered yes.

[4:05:41 PM](#)

CO-CHAIR LEDOUX asked for clarification on whether the problem that was articulate by Representative Hannan exists in both the present system and the current bill's plan.

[4:06:00 PM](#)

REPRESENTATIVE KOPP answered yes, adding that the current bill makes no changes to the present system's Tier 4 health retirement account system. He offered his belief that the average public safety worker would be looking at a 5-year gap between retirement and when they would be eligible to draw their health and cash benefit. That 5-year window, he said, incentives employees to plan ahead and prepare to take advantage of other options offered by the state and local municipalities during that window of time.

[4:07:11 PM](#)

CO-CHAIR LEDOUX questioned whether individuals use their HRA to pay medical bills or fund insurance.

[4:07:27 PM](#)

MR. WESCOTT offered his belief that it can be used for an IRS qualifying medical expense, for example a premium payment for insurance or a medical bill from a doctor's appointment; it can be used for either.

[4:08:04 PM](#)

REPRESENTATIVE HANNAN inquired as to how many people are predicted to be in the size of the group covered by the bill as it's currently constructed.

[4:08:18 PM](#)

MR. WESCOTT replied that it should start at around 1,800 people.

[4:08:56 PM](#)

REPRESENTATIVE HANNAN sought clarification as to whether the current bill was written to include all municipal fire departments, police departments, state troopers, and wildland firefighters.

[4:09:16 PM](#)

REPRESENTATIVE KOPP replied that wildland firefighters would only be covered if they worked fulltime. He mentioned that the current bill also includes police and fire for the Anchorage and Fairbanks airport systems.

[4:10:12 PM](#)

MR. FORNIA returned attention to the presentation, discussing other states that have operated with similar public safety workers' retirement and benefit plans. Wisconsin has a well-funded plan that is similar in terms of the Cost of Living Adjustment (page 22). Colorado Fire and Police Pension Association created a new statewide plan in 1980 with fixed contributions that are sufficient for a core DB plan and board discretion over COLA (page 23). Very similarly, South Dakota has triggers that require corrective actions in terms of COLA (page 24). Ohio, like Alaska, includes retiree healthcare as part of the pension fund (page 25). He concluded by reminding the committee that Alaska is largely concerned with potential future unfunded liabilities and that HB 79 is a solid potential solution (page 27).

[4:12:57 PM](#)

REPRESENTATIVE FIELDS asked if there was any reason why a hybrid plan of this structure wouldn't be a sound approach for a broader group of employees beyond public safety employees. He

further noted that he was in full support of the current bill, adding that "we have to start somewhere."

[4:13:17 PM](#)

MR. FORNIA stated that the approach would need to be finetuned as there were very specific public safety features that were modified such as the "25 year with no age requirement." He suggested that it could work by adding a new Tier for teachers or other PERS that's not as good as the old DB Tier and has similar triggers and safeguards.

[4:13:48 PM](#)

CO-CHAIR WOOL observed that the proposed plan eliminates risk by increasing employee contributions if returns are less than expected; accordingly, he asked if there is a mechanism in the current bill that increases benefits if returns are better than expected.

[4:14:28 PM](#)

MR. FORNIA explained that the increased employee contributions would be reversed. If returns are low the employee contributions would go up from 8 to 9 percent, whereas if several years later returns are better than expected the contributions would go back down to 8 percent. He further noted that there is no mechanism that retroactively restores the suspended COLA. He cautioned the legislature from restoring features 15 years later even if returns were prosperous, referencing California in particular, who made excessive increases to their police and fire plans while increases were "booming" in the late 1990s and are still paying for it today.

[4:15:45 PM](#)

REPRESENTATIVE HANNAN shared her understanding that most pension plans fund at 80 to 85 percent, which is the "industry norm." She asked if this was true, and if so, why the proposed plan seeks to be 100 to 110 percent funded.

[4:16:28 PM](#)

MR. FORNIA explained that all plans target 100 percent because that means taxpayers are paying the current cost of the plan. The goal, he said, is to be 100 percent funded so that the cost is not being transferred to future generations. He added that,

although many plans are only 80 percent funded, very few actuaries would call that sufficient because at that percentage costs are continually being shifted to future generations.

[4:18:02 PM](#)

CO-CHAIR WOOL announced that HB 79 was held over.

[4:18:25 PM](#)

The committee took an at-ease from 4:18 p.m. to 4:20 p.m. [During the at-ease, Co-Chair Wool handed the gavel to Co-Chair LeDoux.]

**HB 44-AUTOMATED TELLER MACHINES: FEES**

[4:20:23 PM](#)

CO-CHAIR LEDOUX announced that the next order of business would be HOUSE BILL NO. 44, "An Act relating to fees for using an automated teller machine; and providing for an effective date."

[4:21:08 PM](#)

CO-CHAIR WOOL moved to report HB 44 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 44 was reported out of the House Labor and Commerce Standing Committee.

**HB 48- TEMP STATE EMPLOYEES IN PART EXEMPT SVCE**

[4:21:44 PM](#)

CO-CHAIR LEDOUX announced that the final order of business would be HOUSE BILL NO. 48, "An Act removing from the exempt service of the state persons who are employed in a professional capacity to make a temporary or special inquiry, study, or examination as authorized by the governor and including those persons in the partially exempt service of the state."

[4:22:10 PM](#)

CO-CHAIR LEDOUX opened public testimony on HB 48. After ascertaining that no one wished to testify, she closed public testimony.

[4:22:43 PM](#)

CO-CHAIR WOOL moved to report HB 48 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 48 was reported out of the House Labor and Commerce Standing Committee.

[4:23:26 PM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:23 p.m.