

HOUSE FINANCE COMMITTEE  
April 21, 2022  
9:17 a.m.

[9:17:12 AM](#)

CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 9:17 a.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Kelly Merrick, Co-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Bryce Edgmon  
Representative Andy Josephson  
Representative Steve Thompson  
Representative Adam Wool

MEMBERS ABSENT

Representative DeLena Johnson  
Representative Bart LeBon  
Representative Sara Rasmussen

ALSO PRESENT

Representative Grier Hopkins, Staff; Ajay Desai, Director, Division of Retirement and Benefits, Department of Administration.

PRESENT VIA TELECONFERENCE

Gene Kalawarski, CEO and Principal Consulting Actuary, Cheiron, Inc.; Peter Hardcastle, Actuary, Cheiron, Inc.; Jim Puckett, Retirement and Benefits, Department of Administration.

SUMMARY

HB 220 RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

CSHB 220 (FIN) was REPORTED out of committee with five "do pass" recommendations, two "do not pass" recommendations, and with one "no recommendation" recommendation and with one new fiscal impact note by the Department of Administration.

CONSIDERATION: GOVERNOR'S APPOINTEES: ALASKA MENTAL HEALTH TRUST AUTHORITY

Co-Chair Merrick reviewed the agenda for the day.

#hb220

HOUSE BILL NO. 220

"An Act relating to the Public Employees' Retirement System of Alaska and the teachers' retirement system; providing certain employees an opportunity to choose between the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska and the teachers' retirement system; and providing for an effective date."

9:17:52 AM

Co-Chair Merrick indicated the committee had last heard the bill on April 14, 2002, and the meeting was the bill's third hearing. There were 2 amendments before the committee.

REPRESENTATIVE GRIER HOPKINS, STAFF, indicated there were two amendments. One amendment was a technical fix to a drafting error. The actuaries at Cheiron would be providing a short presentation to answer Representative LeBon's questions and request for a Monte Carlo analysis of the risks and rewards of HB 220. They would also review the potential cost changes if Vice-Chair Ortiz's amendment was adopted. He was happy to answer any questions of members.

9:19:03 AM

AT EASE

9:19:42 AM

RECONVENED

Co-Chair Merrick indicated there were several new slides for review by Cheiron. She invited Mr. Kalawarski to begin.

GENE KALAWARSKI, CEO AND PRINCIPAL CONSULTING ACTUARY, CHEIRON, INC. (via teleconference), began to review the additional slide deck dated, April 21, 2022 (copy on file)[There is no formal title to the presentation]. He began on slide 0 reviewing the impact of the original version of HB 220. The slide was a reprint of what Buck had in its March 24, 2022 presentation which, in the bottom right corner, showed that the original HB 220 had a cost impact of just under \$230 million.

Mr. Kalawarski continued to slide 1: "Breakdown of Increased Costs." He relayed that in the prior week he showed that \$229.8 million consisted of 2 parts: pension and health. The information could be seen on the left portion of the bar graph. He had also presented that with the modification of HB 220 and an 8 percent contribution rate the cost increase dropped to \$125 million.

Mr. Kalawarski advanced to slide 2 showing the breakdown of increased costs and the effect of eliminating health changes which would make HB 220 cost neutral. He continued that not only would the bill be cost neutral, but it would also result in a small cost savings to the state resulting from the cost savings related to teachers. He would turn the presentation over to Mr. Hardcastle to review the Monte Carlo demonstration Representative LeBon had requested.

[9:21:43 AM](#)

PETER HARDCASTLE, ACTUARY, CHEIRON, INC. (via teleconference), would review the following four slides. Slide 3 described the Monte Carlo projections. A Monte Carlo projection integrated actuarial projections with capital market projections set by investment consultants. It allowed for the development of a range of possible results to show best case and worst case scenarios and a range of outcomes in between. It also reflected the volatility and returns that would likely be experienced by the portfolio in which the assets were invested.

Mr. Hardcastle continued to slide 4 to review the capital market assumptions used. In order to come up with what he was going to test he looked at the 10-year return expectations from a survey Horizon Actuarial undertook each year. The latest survey was from August 2021 and looked at capital market expectations from over thirty investment consultants and providers. For the current asset mix of the

systems, the 1-year expected average return was 6.82 percent, but there was a significant standard deviation of 12.73 percent in line with other systems. The chart in the lower section of the slide showed a normal distribution between the mean and the standard deviation. The black line represented probabilities; the red line showed the mean of the distribution; and the green line was the assumption of 7.38 percent. The assumption was slightly more than the 1-year expectation but well within probability.

Mr. Hardcastle turned to slide 5 and explained that a Monte Carlo projection used random numbers to sum poll the many possible paths for the investments of the fund. It also ranked the paths from best to worst. The result was the chart on the slide showing the state contributions (defined benefits and defined contributions) to the Public Employees' Retirement System (PERS) prior to HB 220. Green in the chart represented low contributions and was good. Red was bad. The line across the middle was the median result of the projections.

[9:25:07 AM](#)

Mr. Hardcastle moved to slide 6 which was not really a projection. He indicated the monochrome bars in the current chart represented the range seen in the previous chart. The Magenta line across the middle was the median result. The colored bars with green being good and red being bad represented the system prior to HB 220. The charts showed a range of possible results. As time passed and with more uncertainty, the range between the top of the bar and the bottom of the bar widened.

Mr. Kalawarski added that the gold row at the bottom of the slide showed what was being modeled in the Monte Carlo in the colored bars: a return of 6.82 percent; a standard deviation of 12.3 percent; asset smoothing at 5 percent; zero people electing defined contributions; and the contribution contributions rates for safety and the others. The gray row showed the exact same statistics with the same provisions being compared.

Mr. Kalawarski moved to slide 7 which showed HB 220 as modified with an 8 percent member contribution rate. He pointed to the magenta and black hashed lines. In the post HB 220 Monte Carlo projection the expectation was lower and became about equal at the end of the period. However, the

distribution was lower in the first 3 years. He relayed that 90 percent of the time results would fall within the same color. HB 220 also had a range of 8 percent to 12 percent of member contributions.

Mr. Kalawarski continued to slide 8 which reflected a member contribution rate of 9 percent. The comparisons were even more favorable. The black hash marks were always lower than the Magenta hash marks. With the exception of the last year, the top of the bars were less than the top of the black and gray bars.

Mr. Kalawarski turned to slide 9 which showed a 10 percent membership rate. He pointed out the difference became larger as the contribution rates increased. The dynamic could be seen on slide 10 (showing 11 percent) and slide 11 (showing 12 percent). There were several different risk tools that could be applied if results fell into the bad areas. Member contributions could be lowered. He concluded the presentation and was available for questions.

Co-Chair Merrick thanked the presenters.

Representative Wool wondered if the height of the bar and the different percentage probabilities had to do with the return on stock market investments.

Mr. Kalawarski replied that Representative Wool was correct. Poor returns appeared in red and strong returns were represented in green or light gray.

Co-Chair Merrick invited Mr. Desai to review the fiscal note.

AJAY DESAI, DIRECTOR, DIVISION OF RETIREMENT & BENEFITS, DEPARTMENT OF ADMINISTRATION, deferred to Mr. Worley to review the fiscal note.

9:31:41 AM

At EASE

9:31:58 AM

RECONVENED

Co-Chair Merrick invited Mr. Puckett to review the fiscal note.

JIM PUCKETT, RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION (via teleconference), was locating his notes.

9:33:04 AM

AT EASE

9:33:57 AM

RECONVENED

Co-Chair Merrick indicated that Representative Wool, Representative Thompson, and Representative Carpenter had joined the meeting.

Mr. Puckett reviewed the fiscal note by the Department of Administration, component code PPvWg. The vast majority of expense would occur in the first fiscal year in the amount of \$1.5 million. In order to administer the conversion of employees moving from their original tier to the new tier, temporary information technology (IT) assistance was needed to do some programming of the IT platform and was explained in the fiscal note narrative. The division would need to hire 9 non-permanent positions consisting of 5 Technician II positions, 3 Accountant III positions, and 1 Publication Technician position. The division would also have commodity expenses. The division would have to produce significant education materials for the affected members of PERS and TRS. Some of the Senior Benefit Counselors would have to travel to work one-on-one with some interested members. He spoke of the fiduciary responsibility to ensure that the affected membership understood the consequences of their decisions and whether they would make the conversion. He was available for questions.

Co-Chair Merrick indicated the committee would take up 2 amendments.

9:37:01 AM

Vice-Chair Ortiz MOVED to ADOPT Amendment 1, 32-LS0717\B.1 (Klein, 4/19/22) (copy on file):

Page 9, line 11, following "2006,":  
Insert "retired directly from the plan,"

Page 14, line 29, through page 15, line 5:  
Delete all material.

Renumber the following bill sections accordingly.

Page 31, line 27, following "2006,":  
Insert "retired directly from the plan,"

Page 37, line 28, through page 38, line 6:  
Delete all material.

Renumber the following bill sections accordingly.

Page 41, lines 7 - 8:  
Delete "sec. 79"  
Insert "sec. 77"

Page 41, line 16:  
Delete "sec. 79"  
Insert "sec. 77"

Page 41, line 23:  
Delete "sec. 79"  
Insert "sec. 77"

Page 43, line 25:  
Delete "secs. 29 and 30"  
Insert "secs. 28 and 29"

Page 43, line 30:  
Delete "secs. 1 - 28 and 31 - 80"  
Insert "secs. 1 - 27 and 30 - 78"

Page 44, line 5:  
Delete "Section 81"  
Insert "Section 79"

Page 44, line 6:  
Delete "sec. 82"  
Insert "sec. 80"

Co-Chair Merrick OBJECTED for discussion.

Vice-Chair Ortiz explained that the purpose of the amendment was to make the legislation a pure pension, cost neutral bill. Adopting the amendment would reduce the fiscal impact of the bill removing the \$125 million attributed to healthcare costs. By keeping healthcare status quo eliminating the provision from HB 220, a person

would not need to retire from public employment to access healthcare. A person would need to retire at age 65 at which time they would become eligible for Medicare or they could pay a monthly premium until they were eligible. He reiterated the amendment would make the bill a "pension only" bill. He deferred to the bill sponsor who could further elaborate on the impacts of the adoption of Amendment 1.

Representative Hopkins relayed that the goal of the amendment was to keep healthcare status quo through the way a person accessed the system. HB 220 would not change the structure of the system, just how a person would access it. The amendment made the bill cost neutral. He referred to slide 1 of the Cheiron presentation. He noted that the left bar reflect \$104 million, the amount the state would have to pay in additional pension payments. The action taken in the committee substitute in the prior week, eliminated the need for the \$104 million because the employee contribution rate was increased to between 8 percent and 12 percent. The amendment by Vice-Chair Ortiz looked to eliminate the \$125 million cost for healthcare. If the legislature made the change, it would eliminate the need for additional payments by the state. Employees who switched to the defined benefits system would have to pay the required amount in order to have earlier access to healthcare. He offered that Betsy Woods from the Division of Retirement and Benefits was in the room and available for questions.

[9:40:34 AM](#)

Representative Wool suggested the healthcare benefit in HB 220 was being stripped from the bill. He asked if it only applied to someone retiring prior to age 60 and who was not eligible for Medicare until age 65. He wondered if the healthcare benefit was to fill the gap between age 60 to 65.

Representative Hopkins indicated that without HB 220 in place, a person leaving state employment at age 60 would have to pay a monthly premium until they reached age 65 to access the healthcare currently available in the defined contribution system. The state put aside 1.5 percent of the average salary of state employees into a health reimbursement account (HRA) for the individual. The funds in the HRA could be used for medical payments or to pay the monthly premium. Originally, HB 220 proposed not requiring

employees to pay the monthly premium. The current version of the bill would keep the healthcare benefits status quo.

Representative Wool provided a hypothetical scenario.

Representative Hopkins replied that the 1.5 percent that the state put away for defined contribution employees (in an HRA) could be used towards the gap premium until a person turned 65. It could also be used for other eligible medical costs.

Representative Wool provided another hypothetical scenario to ensure that he understood the bill correctly.

Representative Hopkins replied that it was status quo.

Representative Josephson was aware of 3 percent, yet Representative Hopkins mentioned 1.5 percent.

Representative Hopkins appreciated the correction. It was 3 percent from the state.

Representative Josephson asked if the HRA would have the lifespan of an employee's wage which might last a few years. He wondered if the employee would have to pay out of pocket for the remainder of the gap period or find other healthcare. He asked if he was correct.

Representative Hopkins responded in the affirmative. It was not a requirement that a person opt for the state medical plan. It would be the choice of the employee. For example of their spouse had a healthcare plan, they would not have to opt in.

[9:44:58 AM](#)

Representative Josephson indicated that if a person could manage the payments until they were 65, they would qualify in perpetuity for secondary insurance after Medicare.

Representative Grier responded that Representative Josephson was correct.

Representative Wool asked what a person's benefits would be once they reached age 65 if they had not paid the gap payments from the time they left state service to the time they turned 65. He asked if there was any difference in

benefits if a person jumped out at age 55 and jumped back in at age 65.

Representative Hopkins replied that there would be a difference. The person would not have access to the medigap coverage if they left the system and did not make the monthly premium.

Co-Chair Merrick asked how the healthcare portion of the plan contributed to the unfunded liability when the state switched to a defined contribution plan. She asked how much of the problem was due to the costs of healthcare.

Representative Hopkins clarified if Co-Chair Merrick was referring to 2006 when the plan was implemented. He would have to do some research regarding the presentations to the legislature at the time. He noted that it was a hefty portion of the problem. The concern was that healthcare costs could escalate out of control. By eliminating the promise of medical coverage to retirees, the pension was nearly 100 percent funded presently.

Co-Chair Merrick spoke with a couple of former legislators who were present when the defined contributions plan was crafted who expressed concerns with the healthcare portion of HB 220.

Representative Wool asked about the time span as it related to the \$125 million.

Representative Hopkins responded that it would be over the following 6 years.

Vice-Chair Ortiz urged support of the amendment.

Co-Chair Merrick WITHDREW the OBJECTION.

There being NO OBJECTION, it was so ordered. Amendment 1 was ADOPTED.

[9:48:39 AM](#)

Co-Chair Merrick MOVED to ADOPT Amendment 2, 32-LS0717\B.2 (Klein, 04/19/22) (copy on file):

Page 4, line 8:  
Delete "before"

Insert "on or after"

Co-Chair Foster OBJECTED for discussion.

Co-Chair Merrick indicated the amendment was a technical change. She asked Representative Hopkins to review the amendment.

Representative Hopkins explained the amendment was the result of a drafting error discovered late in the prior week as the actuaries were going through the new committee substitute in version B. They discovered there was a typo on page 4, line 8. Before the amendment, the bill stated that anyone hired before July 1, 2006 - the date the new defined contributions system went into place. The bill's pension system would only impact employees who were hired after 2006 at the time the change went into place. The amendment was simply switching the word "before" to "on or after" to ensure the plan only applied to those employees hired into the defined contributions system.

Co-Chair Foster WITHDREW the OBJECTION.

There being NO OBJECTION, it was so ordered. Amendment 2 was ADOPTED.

Representative Wool thanked the bill sponsor for bringing the legislation forward. Another member who was not at the meeting presently had mentioned the risk involved in adopting a defined benefit plan. However, Alaska was the only state in the entire nation that did not offer a defined benefit plan for teachers and other public employees. He suggested there was more risk in not adopting the plan in HB 220. The state had felt the impacts of recruitment and retention difficulties. He thought the bill would be helpful. He would have liked to see health coverage offered but understood trying to avoid additional costs to the state. He suggested the issue could be addressed at a later date.

Representative Josephson thanked the bill sponsor for his work.

Co-Chair Foster MOVED to report CSHB 220(FIN) 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: Josephson, Ortiz, Wool, Edgmon, Foster, Merrick  
OPPOSED: Thompson, Carpenter

The MOTION PASSED (6/2).

CSHB 220 (FIN) was REPORTED out of committee with five "do pass" recommendations, two "do not pass" recommendations, and with one "no recommendation" recommendation and with one new fiscal impact note by the Department of Administration.

[9:52:26 AM](#)

AT EASE

[9:53:13 AM](#)

RECONVENED

^CONSIDERATION: GOVERNOR'S APPOINTEES: ALASKA MENTAL HEALTH TRUST AUTHORITY

[9:53:17 AM](#)

Co-Chair Merrick brought up consideration of the Governor's appointees for the Alaska Mental Health Trust Authority. Her office communicated with members and determined the committee did not have concerns with the governor's appointees referred to the House Finance Committee for consideration. She invited Co-Chair Foster to make a motion.

Co-Chair Foster MOVED that the House Finance Committee had reviewed the qualifications of the governor's appointees and recommended that the following names be forwarded to the joint session for consideration: Alaska Mental Health Trust Authority Board of Trustees, Kevin Fimon and Agnes Moran. The action did not reflect an intention by any member to vote for or against the individuals during any further session for the purpose of confirmation.

There being NO OBJECTION, it was so ordered.

[9:54:08 AM](#)

AT EASE

9:54:53 AM

RECONVENED

Co-Chair Merrick reviewed the agenda for the afternoon meeting.

#

ADJOURNMENT

9:55:14 AM

The meeting was adjourned at 9:55 a.m.