

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

March 13, 2021

1:04 p.m.

MEMBERS PRESENT

Representative Jonathan Kreiss-Tomkins, Chair
Representative Matt Claman, Vice Chair (via teleconference)
Representative Geran Tarr
Representative Andi Story
Representative James Kaufman
Representative David Eastman

MEMBERS ABSENT

Representative Sarah Vance

COMMITTEE CALENDAR

HOUSE BILL NO. 55

"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

PREVIOUS COMMITTEE ACTION

BILL: HB 55

SHORT TITLE: PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

SPONSOR(s): REPRESENTATIVE(s) JOSEPHSON

02/18/21	(H)	PREFILE RELEASED 1/15/21
02/18/21	(H)	READ THE FIRST TIME - REFERRALS
02/18/21	(H)	STA, FIN
03/13/21	(H)	STA AT 1:00 PM GRUENBERG 120

WITNESS REGISTER

REPRESENTATIVE ANDY JOSEPHSON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As the prime sponsor, introduced HB 55.

ELISE SORUM-BIRK, Staff
Representative Andy Josephson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented a sectional analysis of HB 55 and a PowerPoint presentation, titled "House Bill 55," on behalf of Representative Josephson, prime sponsor.

JIM PUCKETT, Deputy Director
Division of Retirement and Benefits
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Answered questions pertaining to HB 55.

PAUL MIRANDA, President
Alaska Professional Fire Fighters Association
Anchorage, Alaska

POSITION STATEMENT: Answered questions pertaining to HB 55.

ACTION NARRATIVE

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CHAIR JONATHAN KREISS-TOMKINS called the House State Affairs Standing Committee meeting to order at 1:04 p.m. Representatives Tarr, Story, Claman (via teleconference), and Kreiss-Tomkins were present at the call to order. Representatives Eastman and Kaufman arrived as the meeting was in progress.

HB 55-PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

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CHAIR KREISS-TOMKINS announced that the only order of business would be HOUSE BILL NO. 55, "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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REPRESENTATIVE ANDY JOSEPHSON, Alaska State Legislature, prime sponsor, introduced HB 55. He recalled 2006, when the legislature ended the defined benefit plan for any person hired after the effective date of the legislation. He pointed out that [defined benefits] are subject to constitutional protection, which is the cause of some anxiety should that option be returned to. Nonetheless, he expressed his desire to "fully assuage" those concerns. He explained that since the defined benefit plan was eliminated in 2006, new employees have received a defined contribution [plan], also referred to as a 401K, 401A, or 403, which are all variations of the same model. He described a defined contribution as "portable," indicating that employees can take the employer share along with their own. He added that based on actuarial assessments of anticipated coverage, the replacement of income is in the low thirtieth percentile; however, under a defined benefit plan, individuals could receive closer to 50 percent. He stated that HB 55 is essentially identical to what was proposed under House Bill 79 in the Thirty-First Alaska State Legislature. The bill would create a retirement plan option for state and municipal peace officers and firefighters. He noted that this cohort of public safety employees is made up of 1,400 individuals. To stay solvent, the proposed option may need to make a variable contribution that would be no less than 8 percent, which could rise to 10 percent. He explained that a person who chooses this plan could see some diminishment in his/her paycheck during active service, which was designed to be implemented if the Alaska Retirement Management (ARM) Board declares that the investment is less than 90 percent solvent.

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CHAIR KREISS-TOMKINS surmised that Representative Josephson had stated that in response to the threat of an emerging unfunded liability there would be an increased employee contribution to "autocorrect" [the solvency].

REPRESENTATIVE JOSEPHSON confirmed. He added that the "autocorrect" would presumably cease if [the investment] returned to 100 percent for some period of time. He resumed his introduction of HB 55 by highlighting a provision that stipulates a minimum retirement age of 55 with 20 years of service. He noted that the proposed plan is modeled, in part, after Washington's defined benefit [plan], which is overfunded. The proposal includes additional provisions to effectively [safeguard and] moderate the plan, such as the constructing the

final calculation on five years of salary versus three, mechanisms to prevent pension spiking, and the ability to withhold post-retirement pension adjustments (PRPAs) should the plan's funding drop below 90 percent. Lastly, he said, to avoid burdening state and local government, the proposed option creates a health retirement account similar to Tier IV, which is three percent of a PERS salary, that can be used to pay doctor fees or purchase premiums. He pointed out that after identifying multiple tools that make the bill more affordable, one might wonder whether it is "so affordable that it's unattractive." He stated that the answer is no, because people of a certain age group are being persuaded to leave Alaska for other states that offer more generous plans. He further noted that current retention rates are problematic, as the cost of DPS [Department of Public Safety] training in towns, such as Sitka, is upwards of \$100,000 per recruit.

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REPRESENTATIVE STORY sought verification that the new tier would not be optional for new recruits.

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ELISE SORUM-BIRK, Staff, Representative Andy Josephson, Alaska State Legislature, on behalf of Representative Josephson, prime sponsor, confirmed that is correct. She added that if the bill were to pass, individuals under Tier IV would be given the option to buy in to the new tier's defined benefit plan. She reiterated that any employee hired after the bill's effective date would be part of the new tier.

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REPRESENTATIVE EASTMAN asked how the proposed option compares to the current option in regard to high inflation.

MS. SORUM-BIRK deferred to Mr. Puckett.

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JIM PUCKETT, Deputy Director, Division of Retirement and Benefits, Department of Administration, explained that Tiers I, II, and III have a PRPA based on the consumer price index (CPI) for the urban area of Anchorage per the statutory formula. He noted that Tier IV does not have a PRPA whereas the proposed plan includes a PRPA, which is why the new tier would be

attractive to young public safety workers. He added that [the proposed plan] does not contain total inflation proofing, "but it's a good percentage of it, and it is very beneficial to the retirees."

REPRESENTATIVE EASTMAN shared his understanding that the proposed plan includes an option to set aside or suspend the PRPA. He questioned how the new tier would compare to Tier IV if that option were enacted and the PRPA withheld.

MR. PUCKETT reiterated that Tier IV does not have a PRPA provision. He explained that with the implementation of this bill, the ARM Board would have the ability to withhold PRPA should the cost of PRPA for employees under the new tier make up more than 10 percent of the overall (indisc.), at which time the benefit would be similar to Tier IV.

REPRESENTATIVE EASTMAN questioned which plan would be more attractive if inflation were high and the inflation proofing was set aside.

MR. PUCKETT pointed out that Tier IV is a defined contribution plan. He stated that if HB 55 were to pass, the peace officers and firefighters who chose the new tier would be placed into a defined benefit pension. He explained that the appeal of a pension is that everything is calculated by mathematical formulas and upon retirement, employees know the amount they will receive monthly for the rest of their lives. In contrast, under Tier IV, both the employee and the employer make contributions into the employee's personal account, which can be invested in a variety of different options and is personally managed by the employee in his/her retirement years. He went on to explain that if the ARM Board determined that the new tier's PRPA had to be withheld, then the two plans would be similar in the fact that they both would lack any type of inflation proofing provision; however, Tier IV would still be a defined contribution and the other a defined benefit.

REPRESENTATIVE EASTMAN asked if an employee would be able to return to Tier IV after selecting the "hybrid" [Tier V] plan.

MR. PUCKETT said joining the new tier would be an irrevocable decision.

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MS. SORUM-BIRK presented a sectional analysis of HB 55 [included in the committee packet], which read [original punctuation provided]:

Section 1: Amends AS 37.10.220(a) regarding the powers and duties that the Alaska Retirement Management (ARM) board shall carry out including:

- Adding new duties to account for appropriate employer contributions for peace officers and fire fighters and adjustments to these employees' contributions;
- Determining the amount of the monthly employer contributions under new subsection AS 39.35.255(i) for peace officers and firefighters participating in the defined benefit plan after June 30, 2006.

Section 2: Amends AS 37.10.220(b) regarding the powers and duties of the Alaska Retirement Management (ARM) board, adding the ability to adjust the post-retirement pension adjustment (PRPA) amounts and the employee contribution rates for peace officers and firefighters participating in the defined benefit plan after June 30, 2006.

Section 3: Adds to the ARM board statute the definitions for "peace officer" and "firefighter" the existing in AS 39.35.680 (the PERS defined benefit definitions section).

Section 4: Amends AS 39.30.090(a) by adding the AS 39.37.537 (the new health reimbursement arrangement (HRA) medical benefit for peace officers and firefighters participating in the defined benefit plan after June 30, 2006 found in section 29) to the list of retiree medical benefit programs that the Department of Administration has the power to procure group insurance for.

Section 5: Amends AS 39.30.097(a) regarding Alaska retiree health care trusts. Adds the new AS 39.35.537 (the peace officer/firefighter HRA found in section 29) to the list of medical benefit programs that the Department of Administration commissioner is authorized to prefund.

Section 6: Amends AS 39.30.097(b) regarding Alaska retiree health care trusts. Adds the new AS 39.35.537

(the peace officer/firefighter HRA found in section 29) to the list of medical benefit programs that the Department of Administration commissioner is authorized to prefund.

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CHAIR KREISS-TOMKINS asked whether a health reimbursement arrangement (HRA) is presently part of Tier IV.

MS. SORUM-BIRK confirmed it is.

CHAIR KREISS-TOMKINS questioned whether the HRA contemplated in Tier V is the same as or different than the HRA in Tier IV.

MS. SORUM-BIRK answered it is the same as Tier IV.

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MS. SORUM-BIRK resumed the sectional analysis of HB 55, which read [original punctuation provided]:

Section 7: Makes a Revisor's type technical change by using the new preferred term for referring to the state retirement system.

Section 8: Amends AS 39.30.380 regarding how the HRA medical benefits are handled for terminated employees who leave prior to retiring. A person who terminates employment prior to meeting the eligibility requirements under the new AS 39.35.537 (proposed peace officer and firefighter HRA found in section 29) lose rights to their contribution to the HRA trust fund, in line with other Tier IV HRAs.

Section 9: Amends AS 39.30.390 regarding eligibility for reimbursement under the HRA. Adds the new AS 39.35.537 (proposed peace officer and firefighter HRA found in section 29) as eligible for reimbursements from the HRA.

Section 10: Amends AS 39.30.400(a) regarding benefits payable from individual HRA accounts. The new AS 39.35.537 (proposed peace officer and firefighter HRA found in section 29) is added as a plan from which the administrator may deduct the cost of monthly premiums.

Section 11: Amends AS 39.30.495 which contains the definitions for the HRA statutes. Adds the new AS 39.35.537 (proposed peace officer and firefighter HRA found in section 29) to the definition of "eligible person" found in AS 39.30.495(5).

Section 12: Amends AS 39.35.095 which lays out the applicability of the defined benefit retirement plan statutes found in AS 39.35.095-39.35.680 to include peace officers and firefighters participating in the defined benefit plan after June 30, 2006.

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CHAIR KREISS-TOMKINS surmised that in effect, the bill mechanically piggybacks on the extant statutes pertaining to HRA.

MS. SORUM-BIRK confirmed that is correct.

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MS. SORUM-BIRK continued with the sectional analysis of HB 55, which read [original punctuation provided]:

Section 13: Conforming amendment to AS 39.35.160(a) which outlines the employee contribution rates for peace officers or firefighters hired before June 30, 2006, excepting the new AS 39.35.160(e) (found in section 14). Deletes material on page 9, lines 18-25 that is reproduced in a new AS 39.35.160(f) (found in section 14).

Section 14: Creates new subsection AS 39.35.160 (e) setting the employee contribution rate for peace officers and firefighters participating in the defined benefit plan after June 30, 2006, at 8 percent of the employee's compensation. The ARM board may adjust the contribution rate from 8 to 10 percent. Subsection (f) reproduces the deleted material from page 9, lines lines (sic) 18-25 in section 13 of the bill, ensuring that contributions conform with the federal Internal Revenue Code.

Section 15: Amends AS 39.35.255(a) by referring to a new subsection (i) and by doing so makes clear that

the total employer contribution remains 22% for peace officer and fire fighter employers.

Section 16: Amends AS 39.35.255(d) and is a technical conforming change to accommodate the new subsection (i) of this statute.

Section 17: Amends AS 39.35.255(e) and is a technical conforming change to accommodate the new subsection (i) of this statute.

Section 18: Adds new subsections (i) and (j) to AS 39.35.255.

- New subsection (i) establishes one of the new features that aim to make this new tier financially viable. It specifies that the employer contribution to the employee retirement benefit will remain constant at 12%. And, that the difference between the 12% contribution dedicated to employee benefits and the 22% total employer contribution will be available for the past liability of the PERS system.

- New subsection (j) states that the ARM board may increase the employer contribution to the employee retirement benefit based on the board's decision to increase employee contributions. This is also a new feature, or "lever," added to help make the new tier financially viable.

MS. SORUM-BIRK said Section 18 is noteworthy because it specifies that under the new tier, 12 percent of the employer contribution would go the employee and 10 percent would go toward the unfunded liability. The bill also inserts a new subsection (j), which would allow the ARM Board to increase the employer contribution if the employee contribution increased.

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CHAIR KREISS-TOMKINS asked if the unfunded liability that a portion of the employer contribution would go towards is the existing unfunded liability from Tiers I, II, and III.

MS. SORUM-BIRK confirmed that is correct.

CHAIR KREISS-TOMKINS asked whether Tier V beneficiaries would be disproportionately subsidizing the unfunded liability compared to defined benefit (DB) beneficiaries in previous tiers.

MS. SORUM-BIRK clarified that she had been discussing the employer contribution. She said the 8 percent employee contribution goes toward retirement, which would not change under the new tier. What would change, she said, is how the employer allocates their 22 percent. Currently, the employer still contributes 22 percent, but only 5 percent goes toward the employee. She indicated that Tier IV employees receive a smaller amount of the [employer contribution].

CHAIR KREISS-TOMKINS asked whether the creation of a Tier V would benefit the state's long-term unfunded liability by reducing cost to future legislators.

MS. SORUM-BIRK answered that the state would be putting slightly less toward the unfunded liability [with the creation of a Tier V].

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MS. SORUM-BIRK added that currently, the bill has an indeterminate fiscal note; however, for the previous version of the bill, House Bill 79, the state estimated that \$3.5 million less would be paid toward the unfunded liability per year.

CHAIR KREISS-TOMKINS asked if the legislature [would be paying \$3.5 million less per year toward the unfunded liability].

MS. SORUM-BIRK answered yes.

CHAIR KREISS-TOMKINS surmised that in regard to his previous question, future legislatures would need to appropriate incrementally less if this bill were to pass.

MS. SORUM-BIRK answered no. She explained that the bill would cost the state about \$3.5 million, which would be less money paid toward the unfunded liability annually. She added that the amount of the unfunded liability would not decrease as fast.

REPRESENTATIVE JOSEPHSON added that the amount would be marginal, relative to how much is spent on the unfunded liability.

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MR. PUCKETT pointed out that all the tiers in PERS are valued separately on an annual basis by the actuary. The actuary then

consolidates to produce a single normal cost and a single service rate for the entire plan.

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REPRESENTATIVE TARR asked if each successive tier is less generous in the benefit offered, such that "the newest tiers proportionately may be contributing only because of the difference in the benefit."

MR. PUCKETT acknowledged that in an effort to reduce the cost to the state and participating employers, benefits have been reduced with each consecutive tier.

REPRESENTATIVE TARR pointed out that each successive tier contributes proportionally more to the unfunded liability because the overall benefit is lessened.

CHAIR KREISS-TOMKINS expressed his interest in the "anatomy" of the unfunded liability and how much is proportionally attributable to Tier I versus Tire II versus Tier III.

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REPRESENTATIVE EASTMAN proposed a scenario in which the state found a "pot of money" and paid the unfunded liability to completion. He asked if that would have any affect on the employees under Tier IV.

MR. PUCKETT said the benefits are locked in statute and cannot be diminished due to constitutional protection. He explained that if the state found a pot of money and used it to pay off the unfunded liability, the contribution rate from the employers would be reduced as there would not be an actuarial necessity to charge the current rate.

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REPRESENTATIVE EASTMAN asked how much the unfunded liability is now and when it would be paid to completion on the current trajectory. Further, he asked for a comparison between the proposed plan's trajectory and the current trajectory. He inquired, should the bill pass, how much it would cost if the debt were carried for a longer period of time.

MS. SORUM-BIRK offered to follow up with the requested information.

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REPRESENTATIVE KAUFMAN, referencing the pie chart on page 7 of the DPS Commissioner Employment Engagement Survey [included in the committee packet], noted that 9 percent of employees indicated that a defined benefit retirement package was one factor that would most improve their employment. He pointed out that a higher percentage of employers chose other factors, such as improve department leadership and culture; more training; and increased staffing. He asked if [HB 55] is the lever that would improve retention and recruitment.

MS. SORUM-BIRK said this is one lever that would improve retention and recruitment, which has been requested by individuals in the public safety field who are being recruited by states with better retirement plans. She further noted that the cost of retention and recruitment in Alaska is high, which would be discussed further in a future presentation by the Alaska Professional Fire Fighters Association (AKPFFA). She stated that [a defined benefit retirement plan] might not be the only way to improve retention and recruitment, but it's a big part of it.

REPRESENTATIVE KAUFMAN maintained his understanding that a defined benefit plan appeared to be a minor lever according to the DPS survey. He questioned what else could be done to increase employment satisfaction at a quicker pace. He suggested that improving department leadership and culture could be "a better bang for the buck." Additionally, he recommended focusing on low-cost factors, such as alternate schedule options and employee recognition programs to improve retention.

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REPRESENTATIVE JOSEPHSON, in reference to the pie chart identified on page 7 of the DPS survey, pointed out that the separation of opinion is not large. He relayed that there is "incredible passion" about this issue. However, he noted that the Alaska State Troopers (ASTs) had expressed some concern that the benefits [proposed under HB 55] are not great enough, as the proposed plan would prohibit them from drawing retirement until age 55. He reported that ASTs typically begin their service at a younger age; consequently, many wish they could collect retirement at age 45. He emphasized that the proposed plan is equipped with triggers and mechanisms to maintain solvency. He acknowledged the desire to return to Tier I for groups that want

to retire earlier, but it would put the plan at risk of creating an unfunded liability.

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MS. SORUM-BIRK resumed the sectional analysis of HB 55, which read [original punctuation provided]:

Section 19: Amends AS 39.35.282 regarding employer contributions for medical benefits, conforming that section to changes in the bill affecting peace officers and firefighters first participating in the defined benefit plan after June 30, 2006.

Section 20: Conforming amendment to AS 39.35.370(a) which outlines the years of service requirements to become eligible for retirement benefits under the defined benefit retirement plan. The conforming language specifies that the credit service requirements in subparagraphs 1-3 only apply to persons who became members of the defined benefit retirement plan prior to July 1, 2006.

Section 21: Amends AS 39.35.370 by adding a new subsection (1) detailing the service requirements for peace officers and firefighters participating in the defined benefit plan after June 30, 2006. Members are eligible for a normal retirement benefit:

- At age 60 with at least five years of credited service as a peace officer or firefighter, or
- At age 55 with at least 20 years of credited service as a peace officer or firefighter.

Section 22: Amends AS 39.35.381 concerning the alternative benefits for elected public officials. The new AS 39.35.537 (proposed peace officer and firefighter HRA found in section 29) is added to the list of plans that elected public officials are not entitled to under the alternative benefit for elected public officials.

Section 23: Conforming amendment to AS 39.35.475(a) concerning the schedule for making the annual postretirement pension adjustments (PRPA), making those payments subject to the exceptions in the new subsection (g) (found in section 25).

Section 24: Conforming amendment to AS 39.35.475(b) concerning the calculation of the annual postretirement pension adjustments (PRPA), making those payments subject to the new subsection (h) (found in section 25).

Section 25: This section contains one of the new features, or "levers," added to help keep the new tier financially viable. The section is intended to allow the ARM board to reduce a benefit, the automatic post-retirement pension adjustment, to keep the new tier financially viable. The proposed new subsections:

- Subsection (g) sets up the adjustment feature of the next subsection.
- Subsection (h) allows the ARM board to reduce PRPA payments to peace officers and firefighters participating in the defined benefit plan after June 30, 2006, if the plan has an unfunded liability greater than 10 percent and clarifies that the feature can be used if the liability to PERS is attributable to the employees of this new tier.

Section 26: Conforming amendment to AS 39.35.535(a) concerning the medical benefits for employees under the defined benefit retirement plan. Adds a new subsection (g) (found in section 28) as an exception to the defined benefit retirement plan medical benefits for peace officers and firefighters participating in the defined benefit plan after June 30, 2006.

Section 27: Conforming amendment to AS 39.35.535(c) concerning the major medical insurance coverage for those under the defined benefit retirement plan. It specifies that the section only applies to those members or their surviving spouse who joined prior to July 1, 2006.

Section 28: Amends AS 39.35.535 by adding a new subsection (g) that states peace officers and firefighters participating in the defined benefit plan after June 30, 2006, are to receive benefits under the HRA as allowed under the new AS 39.25.537 (found in section 29).

Section 29: Adds a new section AS 39.35.537 creating an HRA medical benefit for peace officers and

firefighters first participating in the defined benefit plan after June 30, 2006. The section specifies the eligibility, cost of premiums for the major medical insurance, and procedures for participation.

Section 30: Amends AS 39.35.680 (4) which contains the definitions for the defined benefit retirement plan statutes. Adds a new paragraph (F) under the definition of "average monthly compensation" that states the calculation for peace officers and firefighters first participating in the defined benefit plan after June 30, 2006, will be based on the highest five consecutive payroll years during the employee's career.

Section 31: Conforming amendment to the definition of "employer" under AS 39.35.680(18) to include peace officers and firefighters participating in the defined benefit plan after June 30, 2006.

Section 32: Conforming amendment to the definition of "normal retirement" under AS 39.35.680(26) to include AS 39.35.370(1) detailing the service requirements for peace officers and firefighters participating in the defined benefit plan after June 30, 2006.

Section 33: Conforming amendment to AS 39.35.720 regarding the membership in the defined contribution retirement system, stating that all employees who become members on or after July 1, 2006, except as provided in AS 39.35.095, are part of the defined contribution plan, thus excepting peace officers and firefighters participating in the defined benefit plan after June 30, 2006.

Section 34: Adds a new subsection to AS 39.35.750 regarding employer contributions to the defined contribution retirement plan, stating those contribution requirements do not apply to peace officers and firefighters participating in the defined benefit plan after June 30, 2006, whose employer contribution requirements are found in the new AS 39.35.255(i) (found in section 18).

Section 35: Adds a new section to the uncodified law of the State of Alaska allowing peace officers and

firefighters hired after June 30, 2006 and before the bill's effective date to elect, within 90 days of the effective date of this section, to transfer their contributions to their defined contribution retirement plan to the defined benefit retirement plan. Those transfers will be used to purchase credited service under the defined benefit retirement plan on an actuarially equivalent basis set by the ARM board.

Section 36: Adds a new section to the uncodified law of the State of Alaska creating procedures set out by the Department of Administration for employees to transition their contributions under the defined contribution retirement plan to the defined benefit retirement plan. This section also states that the election to transition from the defined contribution to the defined benefit plan is irrevocable. If there is a difference between the actual years of service and the equivalent years of service calculated by an employee's contributions to the defined benefit retirement plan, then the Department of Administration will allow persons to buy the difference. If the equivalent years of service are in excess of the actual years of service, then the excess remains under the defined contribution retirement plan.

Section 37: Adds a new section to the uncodified law of the State of Alaska instructing the Department of Administration commissioner to make conforming regulations.

Section 38: States that section 37 takes immediate effect under AS 01.10.070(c).

Section 39: Sets effective date of July 1, 2021

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REPRESENTATIVE EASTMAN sought clarification on the significance of the [June 30,] 2006, date that is present in various sections of the bill.

MS. SORUM-BIRK said Tier IV went into effect in 2006. She explained that throughout the bill, the language in question specifies what applies to individuals who join the defined benefit after 2006.

REPRESENTATIVE EASTMAN asked for verification that the language in question separates Tier IV from the other three tiers.

MS. SORUM-BIRK clarified that the language indicates that there is a new defined benefit tier that would exist after 2006.

REPRESENTATIVE EASTMAN asked whether an individual could receive credit for previous work if he/she opts into the new plan.

MS. SORUM-BIRK stated that anyone under Tier IV could buy into the new tier; however, it would be significantly more expensive for those that had served longer. She expounded that it would cost more to buy into the new tier for a person who started his/her career in 2006; further, he/she may not get credit for every year of service because it's calculated by the ARM Board at a certain rate, which is outlined in Sections 35 and 36 of the bill. She conveyed that to buy in, there is a base percentage and an additional annual percentage.

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REPRESENTATIVE EASTMAN considered a scenario in which a full-time, Tier IV employee started his/her career on June 30, 2006. He questioned whether all years would be eligible [for credit under the new plan] or if something else determines eligibility.

REPRESENTATIVE JOSEPHSON said they would be eligible for the purpose of running the calculation; however, the individual would not receive 15 years of service under the new tier. He approximated that 11 or 12 years of the 15 would be transferred. He reiterated that under the new plan, there would be a difference in cost, which is mostly a reflection of factors such as the later age of retirement; reduction mechanisms if the ARM Board does not see sufficient returns; and medical provisions different from Tiers I-III. He stated that the aforementioned factors allow for an attractive plan that would keep people in Alaska for the entirety of their career. He returned to Representative Kaufman's question and noted that in reference to the DPS survey, 23 percent of employees indicated that a return to a defined benefit would help retention within the department.

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REPRESENTATIVE TARR opined that the minimum retirement age of 55 with 20 years of service is sensible, but the retirement age of 60 with 5 years of service seems overly generous in comparison. She asked for further clarification on that provision.

CHAIR KREISS-TOMKINS, echoing Representative Tarr's sentiments, asked if an individual who became a firefighter at age 55 and retired at age 60 would receive a defined benefit pension.

MS. SORUM-BIRK explained that the provision in question would be for a person "who worked five or more years in the system and was vested." She added that the individual would not be able to access his/her retirement until the age of 60 rather than 55.

REPRESENTATIVE TARR surmised that under that scenario, if a person aged 25 worked five years and then left state service, he/she would be eligible [for retirement] at age 60.

MS. SORUM-BIRK deferred to Mr. Miranda.

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PAUL MIRANDA, President, Alaska Professional Fire Fighters Association, in response to Representative Tarr, answered yes. He said if someone had five years of service and then left his/her public service job, that person would collect two percent of the final average salary for those five years of service after age 60. He noted that the benefit would likely be quite small.

REPRESENTATIVE EASTMAN asked to be pointed to further information on this provision to compare the difference in benefit per age of retirement.

MS. SORUM-BIRK stated that the calculation referenced by Mr. Miranda exists under AS 39.35.370(c), which read as follows:

(c) The monthly amount of a retirement benefit for a peace officer or fire fighter is two percent of the average monthly compensation times the years of credited service through 10 years, plus two and one-half percent of the average monthly compensation times the years of service over 10 years. For all other employees it is

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MS. SORUM-BIRK introduced a PowerPoint presentation, titled "House Bill 55" [hard copy included in the committee packet]. She began on slide 3, which highlighted previous versions of the bill going back to the Twenty-Eighth Alaska State Legislature.

CHAIR KREISS-TOMKINS inquired about the differences that exist in HB 55 compared to House Bill 79 [proposed in the Thirty-First Alaska State Legislature].

MS. SORUM-BIRK said the only difference is that the name of a trust fund was changed. She added that the mechanics of HB 55 are the same as in House Bill 79.

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MS. SORUM-BIRK resumed the presentation on slide 4, which detailed Tier IV. She explained that Tier IV is a 401A made up of 13 percent payroll - 8 percent from the employee and 5 percent from the employer. The HRA is 3 percent of the average PERS salary. The plan includes Medicare coverage at the eligible age or with 25 years of service for public safety [workers]; further, disability in Tier IV is similar to Tier III. She additionally noted that Tier IV employees have the 401A in addition to a supplemental annuity plan (SBS) - the state's "opt-out" for Social Security - offering them slightly more security than municipal employees, many of whom are not covered by Social Security or SBS. She turned to slide 5 and reviewed three independent evaluations that all found inadequacies in Tier IV: William Fornia of Pension Trust Advisors indicated that Tier IV would replace 31 percent of income after 25 years; the Department of Administration (DOA) estimated 38.5 percent of income replacement after 30 years; and Bob Mitchell, State of Alaska CIO, put the probability of a 25-year public safety employee replacing 70 percent of income in 30 years at 6 percent and a 30-year employee at 22 percent.

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MS. SORUM-BIRK continued to slide 6, which illustrated the following issues with the Tier IV retirement plan: recruitment, retention costs, workers' compensation costs, operational capabilities; and unforeseen costs. She noted that unforeseen costs include overtime payments caused by understaffing, for which municipalities or the state end up paying. She reviewed the cost containment measures in HB 55 on slide 7, including: significantly reduced benefit from Tier III; plan built on conservative assumptions with reasonable costs; [the necessity of] a steady level of contributions from both employee and employer; mechanisms for dealing with adverse experience; and shared risk between employees, employers, and retirees.

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MS. SORUM-BIRK moved to slide 8 and outlined the following benefit reductions in Tier V compared to the Tier III defined benefit: no pre-Medicare coverage; elimination of the 10 percent cost of living allowance (COLA) on pensions; final calculation based on five years as opposed to three years; and requirement of a minimum age of 55 with 20 years of service to collect full benefits. Slide 9 summarized the proposed plan's best practices: built on a lower expected rate of return; requires steady contribution from employees and employers; allows the employee contribution to go up to 10 percent but not fall below 8 percent; allows the PRPA inflation proofing to be withheld when funding falls below 90 percent; replicates Tier IV defined contribution medical; and reasonable employer costs.

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MS. SORUM-BIRK continued to slide 10, which illustrated the state's actuarial analysis of the previous version of this legislation, House Bill 79, Version G, which emphasized that the additional state contribution would increase because the percentage being deposited to the defined benefit trust would decrease from 12.2 percent to 10 percent. She further noted that the actuaries estimated that \$3.5 million less would be paid toward the defined benefit trust annually. Slide 12 showed a graph that compared the current cost of replacing employees to House Bill 79 costs.

CHAIR KREISS-TOMKINS, referencing slide 12, asked if DOT referred to Department of Transportation & Public Facilities.

MS. SORUM-BIRK clarified that DOT signified Airport Police and Fire.

CHAIR KREISS-TOMKINS asked what DOC denoted.

MS. SORUM-BIRK answered Department of Corrections.

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REPRESENTATIVE JOSEPHSON relayed that the turnover within DOC is "horrendous."

CHAIR KREISS-TOMKINS expressed concern with the analysis. He opined that there's rarely a fall through in reduction of the preempted costs. He added that he likes social impact bonds

because they codify the relationship of long-term savings and require them to materialize. He said he is inclined to be supportive of the bill; however, he noted his desire for budget decrements in DPS, DOT, and DOC in five years. Further, he acknowledged that there are decreased costs that materialize but conveyed "little faith" that the Thirty-Fifth Alaska State Legislature would have the experience if HB 55 were to pass this year.

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REPRESENTATIVE EASTMAN sought further clarification on the implication of slide 11.

MS. SORUM-BIRK explained that slide 11 estimated how much it costs the state in training costs to replace one, two, and three percent of the public safety workforce. She noted that the actual amounts are higher than one, two, or three percent.

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REPRESENTATIVE KAUFMAN asked if that is one percent per year.

MS. SORUM-BIRK confirmed [that slide 11 examined annual costs].

[2:23:06 PM](#)

REPRESENTATIVE EASTMAN asked how Alaska compares to the states and localities to which [public safety] employees relocate.

MS. SORUM-BIRK said Alaska is not very competitive. She deferred to Mr. Miranda for further explanation.

CHAIR KREISS-TOMKINS noted that Mr. Miranda would present the authoritative analysis on Alaska's comparative competitiveness at a future hearing.

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REPRESENTATIVE EASTMAN inquired about the legal liability if a state employee [who was not a public safety worker] sued the state for access to Tier V.

MS. SORUM-BIRK stated that legally, public safety retirement is treated differently. She explained that public safety employment is based on a 20-year standard; further, different tiers pay different percentages and receive benefits different

from those of other public employees. She emphasized that public safety employees have different retirement benefits in statute.

REPRESENTATIVE JOSEPHSON stated his understanding that there is no liability, noting that [the state] contracts with different bargaining units for different benefits. He added that there is real concern about the lack of defined benefits for teachers, spill prevention response, and other agencies. However, he expressed his desire to first see whether public safety workers secure this benefit. He emphasized that HB 55 is about providing a defined benefit to first responders, so they stay in Alaska and preventing other states from recruiting Alaska's workers and benefiting from them.

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CHAIR KREISS-TOMKINS announced HB 55 was held over.

[2:28:08 PM](#)

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 2:28 p.m.