

**ALASKA STATE LEGISLATURE  
HOUSE STATE AFFAIRS STANDING COMMITTEE**

March 7, 2023

3:02 p.m.

**MEMBERS PRESENT**

Representative Laddie Shaw, Chair  
Representative Stanley Wright, Vice Chair  
Representative Ben Carpenter  
Representative Craig Johnson  
Representative Jamie Allard  
Representative Jennie Armstrong  
Representative Andi Story

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 2

"An Act relating to contracts with public agencies; and relating to the State of Israel."

- HEARD & HELD

HOUSE BILL NO. 22

"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; ASSIGNED TO SUBCOMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 2

SHORT TITLE: CONTRACTS: PROHIBIT ISRAEL DISCRIMINATION

SPONSOR(S): REPRESENTATIVE(S) VANCE

01/19/23	(H)	PREFILE RELEASED 1/9/23
01/19/23	(H)	READ THE FIRST TIME - REFERRALS
01/19/23	(H)	STA

02/28/23 (H) STA AT 3:00 PM GRUENBERG 120  
02/28/23 (H) Heard & Held  
02/28/23 (H) MINUTE(STA)  
03/07/23 (H) STA AT 3:00 PM GRUENBERG 120

BILL: HB 22

SHORT TITLE: PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS  
SPONSOR(S): REPRESENTATIVE(S) JOSEPHSON

01/19/23 (H) PREFILE RELEASED 1/9/23  
01/19/23 (H) READ THE FIRST TIME - REFERRALS  
01/19/23 (H) CRA, STA, L&C, FIN  
01/24/23 (H) CRA AT 8:00 AM BARNES 124  
01/24/23 (H) Heard & Held  
01/24/23 (H) MINUTE(CRA)  
01/31/23 (H) CRA AT 8:00 AM BARNES 124  
01/31/23 (H) Heard & Held  
01/31/23 (H) MINUTE(CRA)  
02/02/23 (H) CRA AT 8:00 AM BARNES 124  
02/02/23 (H) Moved HB 22 Out of Committee  
02/02/23 (H) MINUTE(CRA)  
02/14/23 (H) CRA AT 8:00 AM BARNES 124  
02/14/23 (H) Fiscal Note Adopted  
02/15/23 (H) CRA RPT 3DP 2DNP 1NR  
02/15/23 (H) DP: HIMSCHOOT, MEARS, MCCORMICK  
02/15/23 (H) DNP: MCKAY, MCCABE  
02/15/23 (H) NR: RUFFRIDGE  
03/07/23 (H) STA AT 3:00 PM GRUENBERG 120

**WITNESS REGISTER**

JOSH WALTON, Staff  
Representative Laddie Shaw  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Provided a summary of changes in the proposed CS for HB 2, Version B, on behalf of Representative Shaw.

JAKE ALMEIDA, Staff  
Representative Sarah Vance  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Offered information on the proposed CS for HB 2, Version B, on behalf of Representative Vance, prime sponsor.

REPRESENTATIVE ANDY JOSEPHSON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 22, as the prime sponsor.

**ACTION NARRATIVE**

[3:02:00 PM](#)

**CHAIR LADDIE SHAW** called the House State Affairs Standing Committee meeting to order at 3:02 p.m. Representatives C. Johnson, Allard, Armstrong, Story, Wright, and Shaw were present at the call to order. Representatives Carpenter arrived as the meeting was in progress.

**HB 2-CONTRACTS: PROHIBIT ISRAEL DISCRIMINATION**

[3:02:46 PM](#)

CHAIR SHAW announced that the first order of business would be HOUSE BILL NO. 2, "An Act relating to contracts with public agencies; and relating to the State of Israel."

[3:03:39 PM](#)

JOSH WALTON, Staff, Representative Laddie Shaw, Alaska State Legislature, presented a summary of changes in the proposed CS for HB 2, [Version 32-LS0084\B, Dunmire, 3/1/23], "Version B," which read as follows [original punctuation provided]:

The CS for HB 2 adds a provision to Section 2 on page 2 at line 20 specifying that the section does not apply to the Alaska Permanent Fund Corporation.

[3:04:16 PM](#)

JAKE ALMEIDA, Staff, Representative Sarah Vance, Alaska State Legislature, confirmed that Version B made the simple change of excluding the Alaska Permanent Fund Corporation (APFC) from the bill, so that any investments made by the independent, quasi-governmental corporation, would not be interfered with.

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REPRESENTATIVE WRIGHT moved to adopt the proposed committee substitute (CS) for HB 2, Version 32-LS0084\B, Dunmire, 3/1/23,

as the work draft. There being no objection, Version B was before the committee.

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CHAIR SHAW announced that HB 2, Version B, would be held over.

**HB 22-PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS**

[3:06:05 PM](#)

CHAIR SHAW announced that the final order of business would be HOUSE BILL NO. 22, "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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The committee took a brief at-ease.

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REPRESENTATIVE ANDY JOSEPHSON, Alaska State Legislature, introduced HB 22, as the prime sponsor. He paraphrased the sponsor statement [included in the committee packet], which read as follows [original punctuation provided]:

HB 22 creates a new hybrid retirement plan option for state and municipal peace officers and firefighters under the Alaska Public Employees' Retirement System (PERS) with new protections for the state against unforeseen future liabilities.

Alaska ended the Defined Benefit Plan in 2006 after discovering that the accounts were too underfunded to meet anticipated retiree obligations. Since these plans were eliminated, one of Alaska's greatest public safety challenges has become employee retention and recruitment. Alaska is one of the few jurisdictions that does not presently offer a defined benefit retirement for new public safety employees. Additionally, many municipal public employees do not participate in Social Security or the Supplemental

Annuity Plan (SBS-AP). HB 22 is crafted to retain and attract quality peace officers and firefighters while protecting the state from unnecessary financial risks in the future. The proposed option would allow future peace officers and firefighters under the PERS system and current ones under the PERS Tier IV plan to join the defined benefit plan.

The proposal includes several safeguards modeled after the most fiscally responsible plans in the nation. These safeguards provide stability and would provide the state with fiscal certainty about its ability to maintain adequate funding for this plan into the future. These provisions include a minimum retirement age of 55 with 20 years of service, flexibility setting employee contribution rates, minimum 12 percent employer contribution rates, mechanisms to prevent costly "pension spiking," and the ability to withhold post-pension retirement adjustments should the plan's funding drop below 90 percent. This hybrid tier will closely mirror Tier III of PERS for public safety employees, with the exception of two cost saving measures: the continued inclusion of the Tier IV Defined Contribution Retirement health reimbursement arrangement (HRA) and the absence of cost-of-living adjustments.

HB 22 is a step toward making Alaska more attractive to public safety employees. The nature of the jobs that peace officers and firefighters hold are unique, physically demanding, and hazardous compared to other public employees, and all Alaskans pay the cost for understaffed public safety agencies.

REPRESENTATIVE JOSEPHSON emphasized that the bill would not impact the old tiers. He further reported that, per expert analyses, the indebted liability would be amortized in 16 years with or without the passage of HB 22. The only imposition, he explained, albeit slight, would be an extension period of 6 months upon the repayment of the unfunded liability, as 2 percent would be redirected to pay for each individual's trust in the new tier system ("Tier V"). He conveyed that the cost to the state associated with that 6-month shift would be \$6 million. He discussed the cost of training public safety officers and the high rate of turnover, indicating that cities and states could benefit from the proposed legislation because

the program would save \$12 million in training costs, as fewer officers would leave.

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REPRESENTATIVE JOSEPHSON pivoted to the Senate Finance Committee hearing requested by Senator Stedman in which defined benefits (DB) were compared to defined contributions (DC). He reported the takeaway from the hearing was that DC was not on par with DB, especially for police and fireman, the group most harmed by the new 401(k) DC system. He reported that on average, the difference between DC and DB plans was 3 percent after 30 years of service; however, for public safety employees, the difference was 8 percent, indicating that they were impacted significantly more by a DC plan.

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REPRESENTATIVE JOSEPHSON reported that Title V included the following triggers if the fund were to underperform: the Alaska Retirement Management (ARM) Board could request higher employee contribution rates to maintain solvency and the post-retirement pension adjustment (PRPA) could be frozen. He also noted the cost saving measures in the bill, such as the elimination of the 10 percent cost of living allowance (COLA) on pensions, and a high five versus high three calculation. He concluded by discussing the Reason Foundation - a critic of defined benefits - reporting that the organization recently recommended doubling DC for police and fire to provide adequate benefits.

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REPRESENTATIVE JOSEPHSON directed attention to a PowerPoint presentation on HB 22 [included in the committee packet]. He directed attention to slide 2, titled "Sections of Note in HB 22," which read as follows [original punctuation provided]:

Section 14: • Allows employee contribution rate to be increased from 8% to 10% if needed.

Section 18: • Sets employer contribution at 22%- 12% to employee and 10% remaining to unfunded liability

Section 21: • Establishes age of retirement at 55 years with 20 years of service or 60 years with 5 years of service.

Section 25: • Allows for the post retirement pension adjustment to be withheld in the plan if unfunded liability on the new tier is greater than 10%.

Section 29: • New section outlines medical benefit eligibility for the new tier.

Section 30: • Outlines the "high five" rule for the new tier.

Section 35 and 36: • Uncodified sections that outline process for current employees to buy in to the new tier.

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REPRESENTATIVE JOSEPHSON continued to slide 3, outlining the bill history in previous legislatures, which read as follows [original punctuation provided]:

HB 247 in 28th Legislature Rep. Holmes

HB 113 in 29th Legislature Sponsor: Rep. Millett

HB 395 in 30th Legislature Sponsor: Rep. Millett

HB 79 in 31st Legislature Sponsor: Rep. Kopp

HB 55 in 32nd Legislature Sponsor: Rep. Josephson

HB 22 in 33rd Legislature Sponsor: Rep. Josephson

[3:31:41 PM](#)

REPRESENTATIVE JOSEPHSON advanced to slide 4, titled "Details of Tier IV," which read as follows [original punctuation provided]:

401(a) is made up of 13% of payroll: Employee=8%, Employer=5%

HRA = 3% of average PERS salary

Medicare coverage with 25 years of service for Public Safety

Disability similar to Tier III

Most municipal employees not covered by Social Security or SBS

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REPRESENTATIVE JOSEPHSON summarized the table on slide 5, which provided a comparison of existing tiers. Slide 6 featured media articles that highlighted the retention issues with Tier IV. He listed the following issues with Tier IV retirement on slide 7: recruitment difficulties, retention costs, workers' compensation costs, operational capabilities, and unforeseen costs. He proceeded to slide 8, titled "Inadequacies of Tier IV," which read as follows [original punctuation provided]:

William Forna of Pension Trust Advisors says Tier 4 will replace 31% of income after 25 years.

DOA estimated 38.5% income replacement-Used a fixed time frame of 30 years.

Bob Mitchell, the CIO of the State of Alaska put the probability of a 25-year Public Safety employee replacing 70% of income for 30 years at 6% and a 30-year employee at 22%.

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REPRESENTATIVE JOSEPHSON turned to slide 9, which emphasized that HB 22 would impact the 2,358 Tier IV peace officers and fire fighters, amounting to only 7.7 percent of the 22,129 employees in the public sector. He continued to slide 10, titled "Cost Containment Measures in HB 22," which read as follows [original punctuation provided]:

Reduces benefits significantly from Tier III

Plan built on more conservative assumptions with reasonable costs

Requires a steady level of contributions from both employee and employer

Includes mechanisms for dealing with adverse experience

Shares risk between employees, employers, and retirees

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REPRESENTATIVE JOSEPHSON listed the benefit reductions in Tier V on slide 11, as follows: no pre-Medicare coverage; elimination of the 10 percent COLA on pensions; final calculation based on 5 years as opposed to 3 years; requires a minimum age of 55 with 20 years of service to collect benefits. He advanced to slide 12, titled "Best Practices," which read as follows [original punctuation provided]:

Built on a lower expected rate of return-7%

Require steady contribution from employees and employers

Allow the employee contribution to go up to 10% but not fall below 8%

Allow the PRPA (inflation proofing) to be withheld when funding falls below 90%

Replicates Tier IV defined contribution medical

Reasonable employer costs

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REPRESENTATIVE JOSEPHSON cited an article from the Alaska Reason Foundation on slide 13, titled "How Alaska's defined contribution plan and supplemental annuity plan compare to the gold standard." He highlighted the following paragraph from the article, which affirmed that public employees were hurting under the status quo [original punctuation provided]:

There is also a potential major shortcoming in the Alaska DCR for public safety employee participants. Public safety employees generally retire at an earlier age than general classification employees because of the requirements of their jobs. Funding an earlier retirement date requires a higher contribution rate. It is generally accepted that without Social Security and earlier retirement ages, the total contribution rate for police and fire employees should be a minimum of 30%. With public safety workers participating in PERS and not participating in Social Security, the combined 25.26% contribution rate is well below the suggested 30% contribution.

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REPRESENTATIVE JOSEPHSON discussed slide 14, titled "PERS - Tier III and Tier IV Comparison," which featured two tables comparing hypothetical salaries to actual salaries as of 2/1/23 for peace officers and firefighters. He noted that the data was repurposed from the meeting on retirement and benefit options in SFIN at Senator Stedman's request. He highlighted the low rate of revenue replacement after 15 years of service.

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REPRESENTATIVE JOSEPHSON concluded on slide 15, titled "Treasury Accomplishments," which read as follows [original punctuation provided]:

Professional Certifications:

- Increase in professional designations: CFAs, CPAs, CIPMs & CTPs

Delivered outstanding investment performance results:

- In FY 22, PERS and TRS performance of -4.1% resulted in an average of 9.0% during the 38-year history of the retirement systems. Over the past decade, the systems have outperformed their benchmark by 126 basis points and the median peer plan by 98 bps. This performance places the systems well into the top quartile, outperforming over 85% of peer plans.
- State assets have grown by 9.0% in the last 12 months, largely outperforming fund benchmarks.

ARMB Savings:

\$35 million annual savings in management fees by reducing the amount of assets invested with external investment managers and investing those assets utilizing Treasury Investment Officers.

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CHAIR SHAW invited questions from members of the committee.

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REPRESENTATIVE ALLARD asked whether other professions, such as nurses, electricians, plumbers, business owners, and restaurant workers, should be entitled to a system of defined benefits.

REPRESENTATIVE JOSEPHSON emphasized the importance of distinguishing between routine services, such as plumbing, and lifesaving services, like those provided by public safety officers.

REPRESENTATIVE ALLARD asked whether the U.S. military and members of the armed services should be entitled to defined benefits.

REPRESENTATIVE JOSEPHSON answered, "110 percent."

REPRESENTATIVE ALLARD reported that members of the uniformed services ceased to receive defined benefits under former President Obama. Instead, military members received the Thrift Savings Plan (TSP), which she defined as continuation pay with a 5 percent match. She opined that military members were on the same level as first responders and for that reason, she characterized HB 22 as a "hard sell."

REPRESENTATIVE JOSEPHSON stated, "Here's how you and I may differ philosophically: If I can feed a Juneauite who is hungry but can't get to the boy in Africa who is hungry, I'm going to just feed the Juneauite."

REPRESENTATIVE ALLARD asked whether the bill sponsor would be amenable to granting U.S. military members who reside in Alaska a lifelong defined benefits plan upon retirement.

REPRESENTATIVE JOSEPHSON answered no, unless they were state employees. He further clarified that military members would not be covered under HB 22 unless they were public safety officers.

REPRESENTATIVE ALLARD stated that all Alaskans were important regardless of their line of work.

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REPRESENTATIVE ARMSTRONG reported that last year, the legislature spent \$420 million on one single energy relief payment. She calculated that at an annual cost of \$6 million, that one-time payment of \$420 million would cover 70 years of contributions for public safety workers. She asked whether her calculations were correct.

REPRESENTATIVE JOSEPHSON answered yes. Alternatively, he indicated that reducing the PFD by \$20-\$30 would yield the same

amount. He acknowledged the importance of the dividend; however, he argued that equally important was a quick response to emergency situations.

REPRESENTATIVE ARMSTRONG asked how the high rate of turnover among police and firefighters impacted public safety.

REPRESENTATIVE JOSEPHSON equated more years of experience to better community integration and better performance. He referenced the "train and drain" in Alaska, in which officers were trained at a high level and then poached by other states.

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REPRESENTATIVE CARPENTER opined that DB plans tended to result in costly, unsustainable options. He took exception to the sponsor's characterization of the Reason Foundation's assessment of Alaska's retirement plans. He shared his understanding that the foundation was opposed to HB 22 and all DB plans. Further, he expressed concern that HB 22 would result in a \$3 billion increase to the unfunded liability. He asked whether the actuarial analysis in question was recent.

REPRESENTATIVE JOSEPHSON agreed that the Reason Foundation disliked HB 22; however, he maintained his belief that the paragraphs featured on slide 13 from a September 2022 article [by Richard Hiller and Rod Crane] "had a strange way of saying it." He paraphrased the article in question, emphasizing that there was no way HB 22 could impose anything close to \$3 billion on the unfunded liability. He reported that, per the actuaries, Tier V would cost \$60 million over 10 years. He further reported the state's actuary was Buck [formerly Buck Consultants], adding that consultants from Buck were hired to analyze the status of the unfunded liability each year, followed by a secondary analysis every four years to avoid repeating mistakes of the past. Additionally, the firefighters hired their own actuary, William "Flick" Forna. He emphasized that the unfunded liability was analyzed under a microscope and that the plan had been well vetted.

REPRESENTATIVE CARPENTER suggested that an actuarial analysis should be conducted by a nonbiased third party. He agreed with the sponsor that Alaska's DC plan was not competitive in comparison to other plans throughout the nation. He contended that instituting defined benefits was not the only solution to help retain public safety workers. He suggested "sweetening" the DC plan. He expressed concern that Tier V, as proposed in

HB 22, would reduce employee pay if the fund was underperforming. He expressed further concern that the bill, which addressed a complex issue with major implications to the state's long-term fiscal plan, was being rushed through the committee process with little scrutiny. He recommended sending the bill to a subcommittee to be further studied.

REPRESENTATIVE JOSEPHSON stressed the credentials of Buck consultants, opining that the firm would be quick to report a problem. He acknowledged that the previous committee of referral could have vetted the bill further. Nonetheless, he said the contention that the bill wasn't "ready for prime time" or that it lacked clear explanation was unfair, as the legislation almost made it through the Senate in recent years. He concluded by reminding the committee that the Reason Foundation, a critic of the bill, had recommended that the state solve the problem by paying 4 percent more into retirement, which would double existing costs. He argued that HB 22 was a cheaper solution.

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The committee took a brief at-ease.

[3:56:59 PM](#)

CHAIR SHAW invited additional comments from members of the committee.

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REPRESENTATIVE ALLARD contended that Ryan Frost, a senior policy analyst at the Reason Foundation, contradicted the statements made by the bill sponsor, adding that Mr. Frost characterized the plan as "[lacking] sufficient controls to justify the proponents' assertion." She agreed that HB 22 should be referred to a subcommittee, arguing that the legislature needed to avoid pulling from the PFD to fund a specific cohort's retirement without a full audit.

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REPRESENTATIVE C. JOHNSON recalled the errors in Mercer's actuarial analysis of the state's unfunded liability. He opined that some actuaries were paid to come up with a specific answer, adding that the bill should be referred to a subcommittee for further consideration.

3:58:58 PM

CHAIR SHAW made the following prepared remarks [original punctuation provided]:

The subject matter of this bill is both important and of a complex nature. I'll note that while this bill is narrowly focused to public safety employees, the companion legislation in the other body, Senate Bill 88 is significantly different and has a much broader scope.

We are reliably informed by the leader of the minority caucus that this bill, among others, requires "a higher level of attention". I fully agree with the Minority Leader on this.

That having been said, the House State Affairs Committee has quite a large roster of bill referrals. While this bill - and the matter of recruitment and retention in general - require "a higher level of attention", the work of the committee must nonetheless continue apace.

In that spirit, and pursuant to Uniform Rule 20 (b), I am establishing a subcommittee which shall be called the "House State Affairs Subcommittee on House Bill 22 and Senate Bill 88".

This shall be a three-member subcommittee and shall be chaired by Representative Craig Johnson. The other two members shall consist of Representative Ben Carpenter and Representative Andi Story.

It is my intent that Senate Bill 88 - when it comes over from the other body - will also be referred to this subcommittee. At that point, the Subcommittee on House Bill 22 and Senate Bill 88 will evaluate the relative advantages and disadvantages of the two proposals and shall report back to the House State Affairs with their findings and recommendations for a unified proposal.

To that end and pursuant to Mason's Manual Section 651, the Subcommittee on House Bill 22 and Senate Bill

88 is authorized to make whatever efforts and undertakings are needed to carry out this task.

I thank the new chair of the Subcommittee on House Bill 22 and Senate Bill 88 for his willingness to take on this responsibility, and I trust that our two offices will work closely together on this matter.

Thus, the Subcommittee on House Bill 22 and Senate Bill 88 is established.

And at this time, I am referring House Bill 22 to the House State Affairs Subcommittee on House Bill 22 and Senate Bill 88.

CHAIR SHAW moved to establish the House State Affairs Subcommittee on HB 22 and SB 88 to which HB 22 was referred.

[HB 22 was held over.]

[4:01:53 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 4:01 p.m.