

HB

238

ALASKA STATE LEGISLATURE

Chair
STATE AFFAIRS

Member
RESOURCES

Member
HEALTH, EDUCATION AND SOCIAL SERVICES

Member
WAYS AND MEANS



Session:
State Capitol Building
Juneau, Alaska 99801
Phone 907-465-2689
Fax 907-465-3472
1-800-665-2689
Rep.Paul.Seaton@legis.state.ak.us

Interim:
345 W. Sterling Highway
Suite 102B
Homer, Alaska 99603
Phone 907-235-2921
Fax 907-235-4008

REPRESENTATIVE PAUL SEATON
House District 35

Sponsor Statement CSHB 238

House Bill 238 creates a mechanism to help non-State and non-School District employers pay their portions of the Public Employees Retirement System (PERS) unfunded liability. Unassisted, the \$3.2 billion unfunded liability of PERS will result in unsustainable employer contribution rates of up to 30%. The legislature recognizes that making such high payments would require many municipalities to cut basic services. In response, HB 238 proposes the creation a Past Service Cost Offset Account (PSCOA), which would make annual payments towards the past service cost of employers. To make these payments over the next 25 years would require an up-front deposit of approximately \$300 million (according to 2004 numbers).

Under the bill, payments from the PSCOA would be linked to the employer's total number of defined contribution (Tier IV) employees. The following equation shows how these contributions on behalf of municipal employers would be calculated.

$(\text{employer's PSC rate}) * (\text{wage base} * \text{No. of Tier IV employees}) = \text{PSCOA payment}$

Although defined contribution employees do not individually have any unfunded liability associated with them, all previous proposals used the employers entire wage base for calculation of contribution rates and HB 238 continues this format.

Many employers have higher than average past service cost rates due to poor financial decisions in the past or the composition of their workforce. State PSCOA payments to the PERS pension fund, made on behalf of the employers is limited under HB 238 to the average past service cost rate for all non-State and non-school PERS district employers.

HB 238 proposes a long-term solution to assist communities with the growing unfunded liability payments. Creating a mechanism that aids employers as new defined contribution hires enter the workforce allows them to handle the complexities of a changing labor market and maintain much needed community services. Over the course of the 25-year amortization period the PSCOA would reduce non-State and non-school district employer past service cost contributions by approximately 44%.



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Sectional Analysis for CSHB 238

Sec. 1. (a) Establishes the public employees' pension fund past service cost offset account (PSCOA). Suggests the legislature appropriate funds into the account.

(b) Establishes that the administrator may pay into the pension fund account of the employer the past service cost offset contributions corresponding to the defined contribution employees. States that the amount paid on behalf of employers will be actuarially calculated but the contribution will be limited to the blended employer past service cost rate.

(c) Clarifies how the past service offset contribution will be calculated.

(1) Specifies that the past service cost rate used in calculating PSCOA payments will be calculated based on the entire wage base of the employer. This wage base is calculated including all defined contribution and defined benefit employees. Clarifies that the PSCOA will only pay up to the system wide average past service cost rate for employers as applied to Tier IV employees.

(d) Definitions

- (1) "account" refers to the PSCOA established in this Act
- (2) "blended employer past service cost rate" refers to the average past service cost rate of all PERS employers excluding the State of Alaska and School Districts.
- (3) "past service cost" refers to the annual lump sum payment made towards the PERS system unfunded liability.
- (4) "past service cost rate" means the annual payment as a percentage of total wage base of employee salary required to pay the past service cost as an amortized contribution in percentage of a stipulated number of years.
- (4) "unfunded liability" refers to amount that would need to be paid into the PERS system to cover all of its liabilities.

Sec. 2. Effective date of July 1, 2006



Payment to Unfunded Liability per Tier - Actual Dollar Value

Based on 2003 valuation data

	2005	2010	2015	2020	2025	2028	Total
Matanuska-Susitna Borough	29,537	258,664	337,610	360,085	347,357	80,531	6,701,689
Total	371,161	918,285	839,712	692,614	531,339	110,681	6,701,689
Palmer, City of (Tier 4)	7,324	94,425	123,244	131,448	126,802	19,958	3,563,445
Total	92,030	335,217	306,535	252,837	193,964	27,443	2,360,741
Anchorage Parking Authority (Tier 4)	3,448	35,307	68,498	108,594	155,709	58,205	879,892
Total	40,284	91,263	111,091	136,802	171,316	61,456	1,907,304
Anchorage, Municipality of (Tier 4)	444,182	7,310,690	14,183,299	22,485,682	32,241,566	7,498,837	174,120,449
Total	5,190,006	18,897,098	23,002,843	28,323,628	35,473,261	7,917,684	366,261,047
Fairbanks North Star Borough (Tier 4)	56,943	670,241	1,300,319	2,061,479	2,955,894	961,328	16,558,048
Total	665,343	1,732,479	2,108,892	2,596,974	3,252,175	1,015,023	35,429,486
Fairbanks, City of (Tier 4)	19,500	448,276	917,993	1,509,025	2,201,842	329,204	10,621,260
Total	227,845	1,158,729	1,488,825	1,901,014	2,422,541	347,592	23,077,136
Homer, City of (Tier 4)	14,982	199,049	386,169	612,219	877,843	252,929	4,863,093
Total	175,054	514,512	626,300	771,251	965,932	267,036	10,304,816
Kenai Peninsula Borough (Tier 4)	42,579	768,351	1,490,660	2,363,238	3,388,578	718,840	18,126,201
Total	497,515	1,986,075	2,417,591	2,977,119	3,728,228	758,990	36,021,273
Kachemak, City of (Tier 4)	77	1,781	3,648	5,997	8,750	1,308	42,207
Total	905	4,605	5,916	7,554	9,627	1,381	91,704
Total	905	4,605	5,916	7,554	9,627	1,381	133,911

Prepared by the office of Rep. Paul Seaton

Payment to Unfunded Liability per Tier - Actual Dollar Value

Based on 2003 valuation data

	2005	2010	2015	2020	2025	2028	Total
SYSTEM PERS TOTAL							
Total PERS (Tier 4)	5,070,292	88,999,019	172,841,421	274,195,360	393,278,131	86,810,086	2,094,609,781
Total	59,243,379	230,049,857	280,318,713	345,421,143	432,697,892	91,447,688	4,408,064,674
							6,502,674,455

LEGEND

-  Past Service Cost Associated with Tiers 1, 2 & 3
-  Past Service Cost Associated with Tier 4
-  Total Past Service Costs Payment Amount

***Note:** The past service cost payments are calculated for each individual employer only up to the system wide average. Therefore, the total of payments will be less than the actual unfunded liability for 2003. For example, the total unfunded liability for communities such as Fairbanks that have a higher past service cost payment than the average are not reflected in this chart.

Past Service Cost Offset Account

Helping Employers with the Unfunded Liability



Definitions of Relevant Terms:

- ✓ **Blended employer past service cost rate:** refers to the average past service cost rate of all non-State non-school district PERS employee
- ✓ **Past service cost:** refers to the annual lump sum payment made towards the PERS system unfunded liability.
- ✓ **Past Service Cost Rate:** means the annual payment as a percentage of total wage base of employee salary required to pay the past service cost as an amortized contribution in percentage over a stipulated number of years.
- ✓ **Unfunded Liability:** refers to amount that would need to be paid into the PERS system to cover all of its liabilities.



What is the Past Service Offset Account? (PSCOA)

- The PSCOA is a mechanism to help municipalities pay their unfunded liability over 25 years. The payments are based on a municipality's number of Tier IV employees and contributions are limited to the average experience of the system



How the PSCOA is Calculated

A few hypothetical situations

Example: An sample city's experience the second year of PSCOA

City X



City X has 25 employees



20 are DB employees,
Tier 1, 2 & 3



5 are DC employees, Tier IV –*the PSCOA will pay the PSC for these employees*

Assumptions about City X 2005



Past Service Cost Rate of City X: 30%

Average Past Service Cost Rate: 20%

Average Salary for City X: \$40,000

City's X's Wage Base: \$1 million

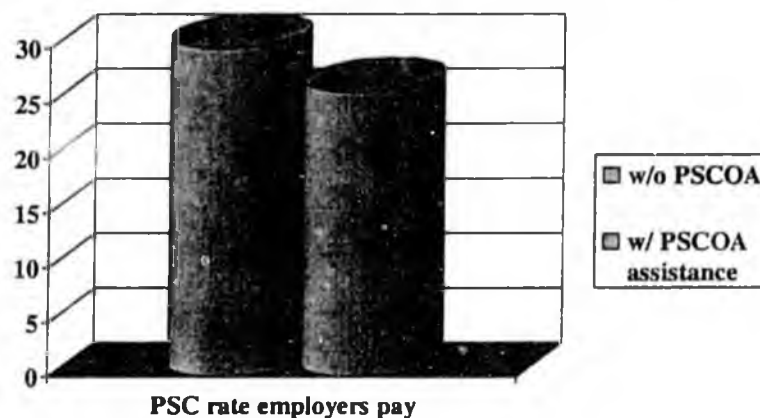
The PCSOA will pay on behalf of the 5 DC employees:

(average salary * average employer PSC rate) * number of DC employees =
PSCOA assistance

$$(\$40,000 * .2) * 5 = \$40,000$$

*Present Dollar Value

The PCSOA payment reduces City X's PSC contribution from \$300,000 to \$260,000, or their PSC rate from 30% to 26%



What about 20 years out?

How much of an employers past service cost will the PSCOA pay in the future?

Example: An sample city's experience the twentieth year of PSCOA

City X





City X has 30 employees



3 are DB employees,
Tier 1, 2 & 3



27 are DC employees, Tier IV –*the PSCOA will pay the PSC for these employees*

Assumptions about City X

2025



Past Service Cost Rate of City X: 30%

Average Past Service Cost Rate: 20%

Average Salary for City X: \$40,000

City's X's Wage Base: \$1.2 million

The PSCOA will pay on behalf of the 27 DC employees:

(average salary * blended employer PSC rate) * number of DC employees =
PSCOA assistance

(\$40,000 * .2) * 27 = \$216,000

*Present Dollar Value

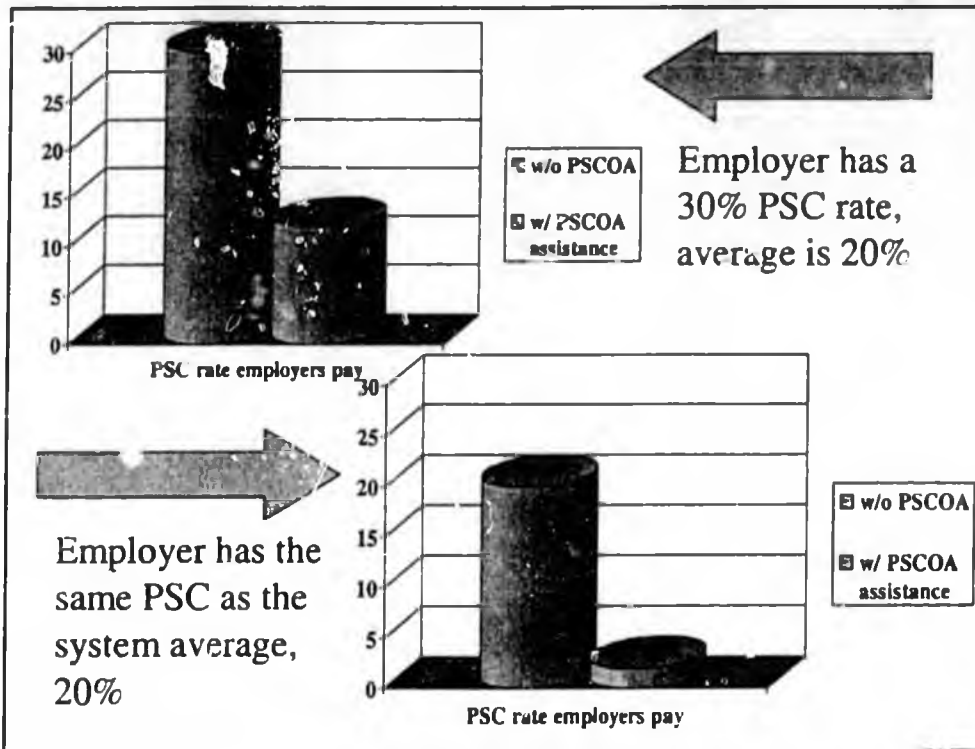
The PSCOA payment reduces City X's PSC contribution from \$360,000 to \$144,000, or their PSC rate from 30% to 12%



Why not a greater reduction in PSC payments for City X?

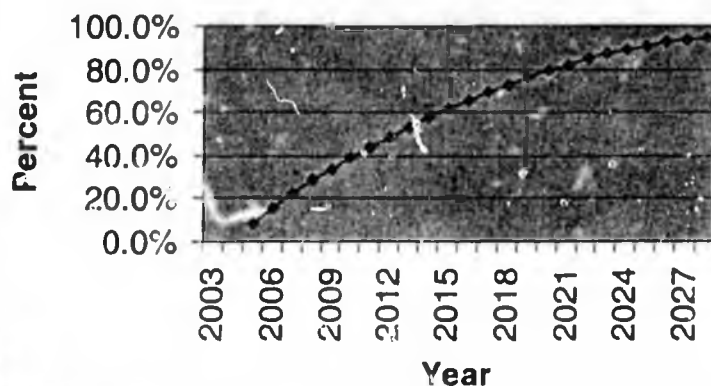
City X is only receiving aid for the average PSC rate (20%) when their actual rate is 30%

If city X had the same PSC rate as the system (20%) the PSCOA would pay 18% of the city's PSC for the twentieth year, the city left to make up the difference of \$24,000



PSCOA payments will increase over time until by the end of the amortization period the PSCOA is paying almost all of the past service cost payment for that year

PSCOA Contributions as Percent of Total PSC



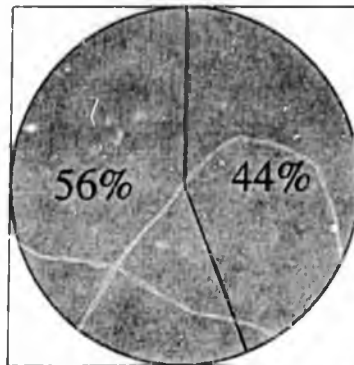
*based on blended employer contribution rate. Does not control for employers that will have to pay more due to their individual experiences.

System Impact of PSCOA

- ✓ Unfunded liability of PERS non-State non-school district : **679 million**
- ✓ What the PSCOA will pay over 25 years: **299 million**

Over the 25 year amortization period the PSCOA pays for a little less than half the past service cost payments

This would be less than \$300 million in present dollar value



- ▣ PSCOA aid
- ▣ PSC payments by employers

AMENDMENT #1 *Adopted*

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSHB 238(), Draft Version "R"

- 1 Page 2, line 5, following "to":
- 2 Insert "the average salary of all employees of the employer multiplied by"

AMENDMENT #2 ALA-A

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSHB 238(), Draft Version "R"

- 1 Page 2, lines 20 - 21:
- 2 Delete all material:
- 3 Insert "contribution plan established in AS 39.35.700 - 39.35.990 and the defined
- 4 benefit plan established in AS 39.35.095 - 39.35.680;"

Amendment #3 Adopted

**Amendment to CS HB 238 version 24-LS0791/R.4
By: Rep. Seaton**

Page 2, lines 7-14

Delete all material

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
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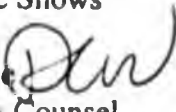
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

February 2, 2006

SUBJECT: Hiring and firing with tier 4 preference
(Work Order No. 24-LS0597)

TJ: Representative Paul Seaton
Attn: Katie Shows

FROM: Dan Wayne 
Legislative Counsel

You have asked for an opinion as to whether it is legal for public employers in Alaska to make hiring or firing decisions based on whether or not an applicant or employee is in tier 4, perhaps by favoring tier 4 in order to save money.¹

Regarding firing the short answer is no; it is illegal and unconstitutional. In 1999, the Alaska Supreme court said:²

This court has recognized a covenant of good faith and fair dealing in all at-will employment contracts. This covenant does not lend itself to precise definition, but it requires at a minimum that an employer not impair the right of an employee to receive the benefits of the employment agreement. We have also stated that this covenant . . . requires that an employer treat like employees alike. The covenant of good faith and fair dealing . . . includes an objective standard, under which the employer must act in a manner which a reasonable person would regard as fair. The covenant also includes a subjective element. An employer engages in subjective bad faith when it discharges an employee for the purpose of depriving him or her of one of the benefits of the contract. (Citations omitted).

Terminating either an at-will or permanent tier 1-3 employee in order to deny retirement benefits is illegal because it violates the covenant of good faith and fair dealing, and is unconstitutional because of the Article XII, section 7 prohibition in the Constitution of

¹ I understand tiers 1-3 to mean the PERS/TRS defined benefit plan and tier 4 to mean the PERS/TRS defined contribution plan.

² Holland v. Union Oil Co., 993 P.2d 1026, 1032 (Alaska, 1999).

the State of Alaska against diminishing or impairing an employee's accrued benefits in a public employee retirement system.

Regarding hiring, the answer is yes; it is legal to consider tier 4 status in selecting an applicant if doing so does not impair a contractual or legal hire preference of another applicant, or (because it would be unconstitutional if it occurred) *rejection* of an applicant does not occur as a result of the applicant's participation in tiers 1-3.

A supervisor hiring on the basis of retirement system participation should be concerned that Article XII, section 7's protection from impairment or diminution of benefits might inspire a legal challenge based on an argument that denying employment to someone based on their retirement plan status violates Alaska's constitution.³

It is axiomatic that an employee denied a new position for not being in tier 4 would suffer a resulting impairment or diminution of *prospective* retirement benefits. I do not know if the courts would interpret Article XII, Section 7 so broadly as to give force to this argument. An argument in the same vein might also be made that an employee's accrued benefits in tiers 1-3 are impaired by the employee's inability to transfer to a better job or, if the employee is not in work status, to obtain a new job.

A feature of the new "tier 4" is that an employee from an earlier tier may elect to change tiers and participate in tier 4. If hiring and firing decisions are made based on tier participation, then it is conceivable that employees might find themselves in the position of choosing between a job (keeping one or obtaining one) and complete forfeiture of retirement benefits accrued in another tier. It would be unconstitutional under Article XII, section 7 to force an employee to switch from an earlier tier to tier 4, and a forced choice could occur either as the result of the employer making a tier switch mandatory, or as the result of an employee's subjective belief that future employment requires a tier switch.

An employee might choose to switch tiers without being objectively or subjectively forced, but the practice of using tier participation as a screening device in hiring and firing would probably still be considered unconstitutional because of the potential for employees to be forced.

³ Article XII, section 7 of the Constitution of the State of Alaska says:

SECTION 7. Retirement Systems. Membership in employee retirement systems of the State or its political subdivisions shall constitute a contractual relationship. Accrued benefits of these systems shall not be diminished or impaired.

Representative Paul Seaton

February 2, 2006

Page 3

Finally, AS 18.80.220 prohibits discrimination in employment based on age, regardless of whether an employee is at-will or permanent. The purpose of discrimination in hiring based on tier participation might not be based on age, but the effect is potentially age-discriminatory if, as one would expect, tier 4 participants will usually be younger than participants in tiers 1-3. Inevitably, the age-discriminatory effect of a tier 4 preference policy will in time become more pronounced, because participants in tiers 1-3 are generally at least 18 years of age on June 30, 2006.

DCW:imb
06-039.imb

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CS HB 238() 24-LS0781R
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: An Act ...establishing a past service cost offset RDU: Centralized Administrative Services
 account for: payments to the public employee's pension fund Component: Retirement and Benefits
 Sponsor: House State Affairs Committee Requester: House State Affairs Committee Component No.: 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 238 establishes a new account in the State general fund, the Past Service Cost Offset (PSCO) account. The purpose of the account is to provide assistance to participating employers of the Public Employees' Retirement System (PERS), other than the State of Alaska, in paying past service costs related to the unfunded liability of the PERS defined benefit (DB) plan.

Under the proposed new section, the Administrator of the retirement systems will transfer a calculated amount from the PSCO account to the asset accounts in the DB trust fund for each employer that participates in the defined contribution retirement (DCR) plan under AS 39.35.700-39.35.990.

Prepared by: Melanie Millhom, Director Phone 465-4408
 Division: Retirement and Benefits Date/Time 2/2/06 8:06 AM
 Approved by: Mike Tibbles, Deputy Commissioner Date 2/2/2006
 Agency: Department of Administration

FISCAL NOTE

**STATE OF ALASKA
2006 LEGISLATIVE SESSION**

BILL NO. CSHB238

ANALYSIS CONTINUATION

The calculation is the lesser of the individual PERS employer's past service rate or the average past service rate, actuarially calculated, multiplied against the wage base of VCR plan members. Subsection (c)(2) makes an adjustment to the transfer amount based on any "unpaid past service costs" for elected officials eligible to participate in the DB plan.

This bill has no fiscal impact on the Division of Retirement and Benefits.

24-LS0761\R
Wayne
1/31/06

CS FOR HOUSE BILL NO. 238() *Amend.*

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): HOUSE STATE AFFAIRS COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to establishing a past service cost offset account for required past
2 service cost offset payments owed by employers other than the state to the public
3 employees' pension fund; and providing for an effective date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 * Section 1. AS 39.35 is amended by adding a new section to read:

6 Sec. 39.35.287. Past service cost offset account. (a) The public employees'
7 pension fund past service cost offset account is established in the state treasury and
8 shall be administered by the Department of Administration. The legislature may
9 appropriate money to the account.

10 (b) The administrator shall pay from the account into the public employees'
11 pension fund, on behalf of each employer, other than the state, under the defined
12 contribution plan in AS 39.35.700 - 39.35.990, the employer past service cost offset
13 contributions for that year, not to exceed the blended employer past service cost rate.
14 The amount shall be determined by actuarial method.

1 (c) Contributions for each employer under (b) of this section shall be
2 determined by

3 (1) applying the employer's past service cost rate, up to an amount
4 equal to the blended employer past service cost rate, as calculated on the employer's
5 entire wage base, ^{The average salary of all employees of the employer multiplied by} to the number of employees of that employer who are members of
6 the public employees' defined contribution plan in AS 39.35.700 - 39.35.990; and

7 (2) reducing the calculation made in (1) of this subsection by the
8 amount of the political subdivision's unpaid past service cost for that fiscal year for
9 each elected official serving on or after the effective date of this Act who is eligible
10 for the plan but not paid an hourly wage or a salary based on an hourly wage, unless
11 the contribution for that official during that fiscal year by the political subdivision
12 meets or exceeds the contribution required of a participating employer for an
13 employee who was paid the average salary of all employees in the retirement plan
14 established under AS 39.35.095 - 39.35.680.

omit

15 (d) Unless the context requires otherwise, in this section,

16 (1) "account" means the public employees' pension fund past service
17 cost offset account;

18 (2) "blended employer past service cost rate" means the average past
19 service cost rate of all employers, other than the state, in the public employees' defined
20 contribution established in AS 39.35.095 - 39.35.680 and the defined benefit plan
21 established in AS 39.35.700 - 39.35.990; ^{switched}

22 (3) "past service cost" means the amount of an annual payment made
23 over a stipulated number of years to amortize the unfunded liability of the public
24 employees' pension fund under AS 39.35.095 - 39.35.680;

25 (4) "past service cost rate" means the annual payment as a percentage
26 of total wage base of employee salary required to pay the past service cost as an
27 amortized contribution in percentage over a stipulated number of years;

28 (5) "unfunded liability" means the excess of the accrued liability over
29 the assets of the public employees' pension fund under AS 39.35.095 - 39.35.680.

30 * Sec. 2. This Act takes effect July 1, 2006.

24-LS0761VL
Craver
4/8/05

CS FOR HOUSE BILL NO. 238()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION**

BY

**Offered:
Referred:**

Sponsor(s): THE HOUSE STATE AFFAIRS COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to contribution rates for employers and members in the defined benefit**
2 **plans of the teachers' retirement system and the public employees' retirement system**
3 **and to the ad-hoc post-retirement pension adjustment in the teachers' retirement**
4 **system; requiring insurance plans provided to members of the teachers' retirement**
5 **system, the judicial retirement system, the public employees' retirement system, and the**
6 **former elected public officials retirement system to provide a list of preferred drugs;**
7 **relating to defined contribution plans for members of the teachers' retirement system**
8 **and the public employees' retirement system; and providing for an effective date."**

9 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

10 *** Section 1. AS 14.25 is amended by adding a new section to read:**

11 **Article 1. Teachers First Hired before July 1, 2005.**

12 **Sec. 14.25.005. Applicability of AS 14.25.005 - 14.25.012, 14.25.040 -**

1 14.25.169, 14.25.173, 14.25.175, and 14.25.220. The provisions of AS 14.25.005 -
2 14.25.012, 14.25.040 - 14.25.169, 14.25.173, 14.25.175, and 14.25.220 apply only to
3 members first hired before July 1, 2005.

4 * Sec. 2. AS 14.25.050(a) is amended to read:

5 (a) Except as provided in (c) of this section, beginning July 1, 2005
6 [JANUARY 1, 1991], each member shall contribute to the plan a percentage
7 [SYSTEM AN AMOUNT EQUAL TO 8.65 PERCENT] of the member's base salary
8 accrued from July 1 to the following June 30, as determined under AS 14.25.052.
9 The employer shall deduct the contribution from the member's salary at the end of
10 each payroll period, and the contribution shall be credited by the plan [SYSTEM] to
11 the member [CONTRIBUTION] account. The contributions shall be deducted from
12 employee compensation before the computation of applicable federal taxes and shall
13 be treated as employer contributions under 26 U.S.C. 414(h)(2). A member may not
14 have the option of making the payroll deduction directly in cash instead of having the
15 contribution picked up by the employer.

16 * Sec. 3. AS 14.25 is amended by adding a new section to read:

17 **Sec. 14.25.052. Calculation of member contribution rate.** (a) Each active
18 member shall contribute a percentage of the member's base salary to be determined
19 annually in advance by the administrator. The member contribution rate is the greater
20 of

21 (1) 8.65 percent; or

22 (2) one-half of the normal cost rate actuarially calculated to fund the
23 benefits expected to be earned by active members during the fiscal year.

24 (b) Notwithstanding (a) of this section, the member contribution rate may not
25 increase more than one-half of a percentage point annually.

26 * Sec. 4. AS 14.25.070 is amended to read:

27 **Sec. 14.25.070. Contributions by employer.** An employer shall contribute to
28 the plan [SYSTEM] an amount equal to the percentage, as certified by the board
29 [ADMINISTRATOR], of the sum total of the base salaries of all members that is
30 required in addition to member contributions to provide the benefits of AS 14.25.009 -
31 14.25.220 [THIS CHAPTER] times the sum total of the base salaries paid to members,

1 including any adjustments to contributions required by AS 14.25.173(a), by the
2 employer.

3 * Sec. 5. AS 14.25.070 is amended by adding a new subsection to read:

4 (b) When added to the member contribution rate calculated under
5 AS 14.25.052, the employer contribution may not be less than the amount required as
6 actuarially calculated to fully fund the future liabilities of active members.

7 * Sec. 6. AS 14.25.143(a), as that subsection read following amendment by sec. 3 ch. 146,
8 SLA 1980, until amended by sec. 12, ch. 106, SLA 1988, is amended to read:

9 (a) When the administrator determines that the cost of living has increased and
10 that the financial condition of the retirement fund permits, the administrator shall
11 increase benefit payments to persons receiving benefits under this system. The value
12 of assets of the retirement fund must be equal to or exceed the accrued liability of
13 the retirement fund before benefit payments are increased. In this subsection,
14 "accrued liability" means the present value of all member benefits accrued by
15 member service in this system.

16 * Sec. 7. AS 14.25.143(a), as that subsection read following amendment by sec. 12, ch.
17 106, SLA 1988, until amended by sec. 12, ch. 57, SLA 1990, is amended to read:

18 (a) When the administrator determines that the cost of living has increased and
19 that the financial condition of the system permits, the administrator shall increase
20 benefit payments to persons receiving benefits under this system. The value of assets
21 of the system must be equal or exceed the accrued liability of the system before
22 benefit payments are increased. In this subsection, "accrued liability" means the
23 present value of all member benefits accrued by member service in this system.

24 * Sec. 8. AS 14.25.220(37) is amended to read:

25 (37) "retirement fund" or "fund" means the fund in which the assets of
26 the defined benefit retirement plans [SYSTEM], including income and interest
27 derived from the investment of money, are deposited and held;

28 * Sec. 9. AS 14.25.220(41) is amended to read:

29 (41) "system" means the Teachers' Retirement System of Alaska,
30 which includes all retirement plans in this chapter;

31 * Sec. 10. AS 14.25.220 is amended by adding a new paragraph to read:

1 (46) "defined benefit retirement plans" means the retirement plans
2 provided to members in AS 14.25.005 - 14.25.012, 14.25.040 - 14.25.169, 14.25.173,
3 14.25.175, and 14.25.220.

4 * **Sec. 11.** AS 14.25 is amended by adding new sections to read:

5 **Article 2. Teachers First Hired on or after July 1, 2005.**

6 **Sec. 14.25.310. Applicability of AS 14.25.310 - 14.25.495.** The provisions of
7 AS 14.25.310 - 14.25.495 apply only to members first hired on or after July 1, 2005.
8 For purposes of AS 14.25.310 - 14.25.495, a teacher is considered to be first hired on
9 the first day of employment as a teacher.

10 **Sec. 14.25.320. Defined contribution retirement plan established; federal**
11 **qualification requirements.** (a) A defined contribution retirement plan for teachers
12 of the state is created.

13 (b) The retirement plan established by AS 14.25.310 - 14.25.495 is intended to
14 qualify under 26 U.S.C. 401(a) and 414(d) (Internal Revenue Code) as a qualified
15 retirement plan established and maintained by the state for its employees, for the
16 employees of school districts and regional educational attendance areas in the state,
17 and for the employees of other employers whose participation is authorized by
18 AS 14.25.310 - 14.25.495 and who participate in this plan.

19 (c) An amendment to AS 14.25.310 - 14.25.495 does not provide a person
20 with a vested right to a benefit if the Internal Revenue Service determines that the
21 amendment will result in disqualification of the plan under the Internal Revenue Code.

22 **Sec. 14.25.330. Purpose and effective date.** (a) The purpose of
23 AS 14.25.310 - 14.25.495 is to encourage qualified teachers to enter and remain in
24 service with participating employers by establishing a defined contribution retirement
25 plan on behalf of the members.

26 (b) All eligible employees first hired on or after July 1, 2005, shall participate
27 in the plan set out in AS 14.25.310 - 14.25.495.

28 **Sec. 14.25.340. Contributions by members.** (a) Each member shall
29 contribute to the plan an amount equal to 11 percent of the member's base salary
30 accrued from July 1 to the following June 30. The employer shall deduct the
31 contribution from the member's salary at the end of each payroll period, and the

1 contribution shall be credited by the plan to the member account. The contributions
2 shall be deducted from employee compensation before the computation of applicable
3 federal taxes and shall be treated as employer contributions under 26 U.S.C. 414(h)(2).
4 A member may not have the option of making the payroll deduction directly in cash
5 instead of having the contribution picked up by the employer.

6 (b) In this section, "base salary" means the total remuneration paid under
7 contract to a member for services rendered during a school year, excluding cost-of-
8 living differentials, payments for leave that is actually used by the member, the
9 amount by which the member's wages are reduced under AS 39.30.150(c), the amount
10 deferred under an employer-sponsored deferred compensation plan or the tax shelter
11 annuity plan approved by the Department of Education and Early Development,
12 retirement benefits, welfare benefits, per diem, expense allowances, workers'
13 compensation payments, or payments for leave not used by the member, whether those
14 leave payments are scheduled payments, lump-sum payments, donations, or cash-ins;
15 compensation paid includes any payment made after June 30 of a school year for
16 services rendered before the end of the school year.

17 **Sec. 14.25.350. Contributions by employer.** (a) An employer shall
18 contribute an amount equal to 11 percent of each member's base salary as provided in
19 (b) - (d) of this section.

20 (b) An employer shall contribute to the member account an amount equal to
21 5.75 percent of each member's base salary determined under AS 14.25.340 from July 1
22 to the following June 30.

23 (c) An employer shall also contribute an amount equal to 3.75 percent of each
24 member's base salary determined under AS 14.25.340 from July 1 to the following
25 June 30 to pay for retiree major medical insurance. This contribution shall be paid
26 into the group health and life benefits fund established by the commissioner of
27 administration under AS 39.30.095 and shall be accounted for in accordance with
28 regulations established by the commissioner.

29 (d) An employer shall also contribute an amount equal to 1.5 percent of each
30 member's base salary determined under AS 14.25.340 to each member's health
31 reimbursement account plan under AS 39.30.300.

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Sec. 14.25.360. Transmittal of contributions. (a) All contributions deducted in accordance with AS 14.25.340(a) shall be transmitted to the plan for deposit in the retirement fund not later than 15 days following the close of the payroll period, with the final contributions due for any school year transmitted not later than July 15.

(b) The contributions of employers under AS 14.25.350 must be transmitted to the plan for deposit in the appropriate fund at the close of each pay period. If the contributions are not submitted within 15 days after the close of each payroll period, interest must be assessed on the outstanding contributions at one and one-half times the most recent actuarially determined rate of earnings for the plan from the date that contributions were originally due. In addition, the amount of the contributions and interest may be deducted by the Department of Education and Early Development from the state funds due the school district and the amount so deducted transmitted to the plan for deposit in the retirement fund. Amounts due from the University of Alaska and interest as prescribed in this section may be deducted by the commissioner of administration from any state funds due the University of Alaska and the amount deducted transmitted to the administrator for deposit in the retirement fund.

Sec. 14.25.370. Retirement benefits and vesting. A participating member is immediately and fully vested in that member's contributions and in the employer contributions made on that member's behalf to an account under AS 14.25.310 - 14.25.495.

Sec. 14.25.380. Investment of individual accounts. (a) The Alaska State Pension Investment Board shall provide a range of investment options and permit a participant to exercise investment control over the participant's assets in the member account as provided in this section. If a participant exercises control over the assets in the account, the participant is not considered a fiduciary for any reason on the basis of exercising that control.

(b) A participant may direct investment of plan funds held in an account among available investment funds in accordance with rules established by the board.

(c) To the extent that a member account has been divided as provided in a qualified domestic relations order between participants, each participant shall be

1 treated as the holder of a separate individual account for purposes of investment
2 yields, decisions, and transfers under this section.

3 **Sec. 14.25.390. Distributions.** (a) A participating member is eligible to
4 receive distribution of that person's accumulated balance in the plan upon becoming a
5 former participating member.

6 (b) Upon the death of a participating member or former participating member,
7 the accumulated balance of that deceased participant is considered to belong to the
8 refund beneficiary, if any, of that deceased participant. If a valid nomination of refund
9 beneficiary is not on file with the board, the board, in a lump sum distribution, shall
10 distribute the accumulated balance to a legal representative, if any, of the deceased
11 participant's estate.

12 (c) A former participating member or refund beneficiary may elect one or a
13 combination of several of the following methods of distribution of the accumulated
14 balance:

15 (1) a lump sum distribution to the recipient;

16 (2) a lump sum direct rollover to another qualified plan, to the extent
17 allowed by federal law;

18 (3) periodic distributions, as authorized by the board;

19 (4) no current distribution, in which case the accumulated balance
20 must remain in the plan until the former participating member or refund beneficiary
21 elects a method or methods of distribution under this section, to the extent allowed by
22 federal law.

23 (d) If the former participating member's vested account balance is less than
24 \$5,000, the board shall automatically refund the member's vested account balance
25 upon termination of employment. The member may waive the refund if the member
26 submits a written statement to the board, within 120 days after termination, requesting
27 that the member's vested account balance remain in the plan.

28 **Sec. 14.25.400. Refund upon termination.** (a) Except as provided in (b) of
29 this section, a terminated member is entitled to a refund of the balance of the member
30 account.

31 (b) A member who is terminated and who is married at the time of application

1 for a refund or whose rights to a refund are subject to a qualified domestic relations
2 order is entitled to receive a refund of the balance of the member account only if the
3 member's present spouse and each person entitled under the order consent to the
4 refund in writing on a form provided by the administrator. The administrator may
5 waive written consent from the person entitled under the order if the administrator
6 determines that the person cannot be located or for other reasons established by
7 regulation. The administrator may waive written consent from the spouse if the
8 administrator determines that

9 (1) the member was not married to the spouse during any period of the
10 member's employment with an employer;

11 (2) the spouse has no rights to benefits under AS 14.25.310 -
12 14.25.495 because of the terms of a qualified domestic relations order;

13 (3) the spouse cannot be located;

14 (4) the member and spouse have been married for less than one year
15 and the member establishes that they are not cohabiting; or

16 (5) another reason established by regulation exists.

17 **Sec. 14.25.410. Rights under qualified domestic relations order.** A former
18 spouse shall be treated as a spouse or surviving spouse under AS 14.25.310 -
19 14.25.495 to the extent required by a qualified domestic relations order. Rights under
20 the order do not take effect until the order is filed with the administrator.

21 **Sec. 14.25.420. Rollover distributions and rollover contributions.** (a) A
22 teacher entering the plan may elect, at the time and in the manner prescribed by the
23 administrator, to have all or part of a direct rollover distribution from an eligible
24 retirement plan owned by the member paid directly into the member's account.

25 (b) Rollover contributions do not count as a purchase of membership service
26 for the purpose of determining years of service.

27 (c) A distributee may elect, at the time and in the manner prescribed by the
28 administrator, to have all or part of an eligible rollover distribution paid directly to an
29 eligible retirement plan specified by the distributee in the direct rollover.

30 (d) In this section,

31 (1) "direct rollover" means the payment of an eligible rollover

1 distribution by the plan to an eligible retirement plan specified by a distributee who is
2 eligible to elect a direct rollover;

3 (2) "distributee" means a member or a beneficiary who is the surviving
4 spouse of the member;

5 (3) "eligible retirement plan" means

6 (A) an individual retirement account described in 26 U.S.C.
7 408(a);

8 (B) an individual retirement annuity defined in 26 U.S.C.
9 408(b);

10 (C) an annuity plan described in 26 U.S.C. 403(a);

11 (D) a qualified trust described in 26 U.S.C. 401(a);

12 (E) an annuity plan described in 26 U.S.C. 403(b); or

13 (F) a governmental plan described in 26 U.S.C. 457(b);

14 (4) "eligible rollover distribution" means a distribution of all or part of
15 a total account to a distributee, except for

16 (A) a distribution that is one of a series of substantially equal
17 installments payable not less frequently than annually over the life expectancy
18 of the distributee or the joint and last survivor life expectancy of the distributee
19 and the distributee's designated beneficiary, as defined in 26 U.S.C. 401(a)(9);

20 (B) a distribution that is one of a series of substantially equal
21 installments payable not less frequently than annually over a specified period
22 of 10 years or more;

23 (C) a distribution that is required under 26 U.S.C. 401(a)(9);

24 (D) the portion of any distribution that is not includable in
25 gross income;

26 (E) a distribution that is on account of hardship; and

27 (F) other distributions that are reasonably expected to total less
28 than \$200 during a year.

29 **Sec. 14.25.430. Distribution requirements.** (a) The entire interest of a
30 member must be distributed or must begin to be distributed not later than the member's
31 required beginning date.

1 (b) If a member dies after the distribution of the member's interest has begun
2 but before the distribution has been completed, the remaining portion of the interest
3 shall continue to be distributed at least as rapidly as under the method of distribution
4 being used before the member's death.

5 (c) If a member has made a distribution election and dies before the
6 distribution of the member's interest begins, distribution of the member's entire interest
7 shall be completed by December 31 of the calendar year containing the fifth
8 anniversary of the member's death. However, if any portion of the member's interest
9 is payable to a designated beneficiary, distributions may be made over the life of the
10 designated beneficiary or over a period certain not greater than the life expectancy of
11 the designated beneficiary, commencing on or before December 31 of the calendar
12 year immediately following the calendar year in which the member died, and, if the
13 designated beneficiary is the member's surviving spouse, the date distributions are
14 required to begin may not be earlier than the later of December 31 of the calendar year
15 (1) immediately following the calendar year in which the member died, or (2) in which
16 the member would have attained 70 1/2 years of age, whichever is earlier. If the
17 surviving spouse dies after the member but before payments to the spouse have begun,
18 the provisions of this subsection apply as if the surviving spouse were the member.
19 An amount paid to a child of the member will be treated as if it were paid to the
20 surviving spouse if the amount becomes payable to the surviving spouse when the
21 child reaches the age of majority.

22 (d) If a member has not made a distribution election before the member's
23 death, the member's designated beneficiary must elect the method of distribution not
24 later than December 31 of the calendar year (1) in which distributions would be
25 required to begin under this section, or (2) that contains the fifth anniversary of the
26 date of death of the member, whichever is earlier. If the member does not have a
27 designated beneficiary or if the designated beneficiary does not elect a method of
28 distribution, distribution of the member's entire interest must be completed by
29 December 31 of the calendar year containing the fifth anniversary of the member's
30 death.

31 (e) For purposes of (c) of this section, distribution of a member's interest is

1 considered to begin (1) on the member's required beginning date, or (2) if the
2 designated beneficiary is the member's surviving spouse and the surviving spouse dies
3 after the member but before payments to the spouse have begun, on the date
4 distribution is required to begin to the surviving spouse. If distribution in the form of
5 an annuity irrevocably commences to the member before the required beginning date,
6 the date distribution is considered to begin is the date that the distribution actually
7 commences.

8 (f) Notwithstanding any contrary provisions of AS 14.25.310 - 14.25.495, the
9 requirements of this section apply to all distributions of a member's interest and take
10 precedence over any inconsistent provisions of AS 14.25.310 - 14.25.495.

11 (g) All distributions required under this section are determined and made in
12 accordance with 26 U.S.C. 401(a)(9) and regulations adopted under that statute,
13 including any minimum distribution incidental benefit requirement.

14 (h) In this section,

15 (1) "designated beneficiary" means the individual who is designated as
16 the beneficiary under the plan in accordance with 26 U.S.C. 401(a)(9) and regulations
17 adopted under that statute;

18 (2) "required beginning date" means the first day of April of the
19 calendar year following the calendar year in which the member either attains 70 1/2
20 years of age or actually retires, whichever is later.

21 **Sec. 14.25.440. Designation of beneficiary.** (a) Each member shall
22 designate the beneficiary or beneficiaries to whom the administrator shall distribute
23 benefits payable under AS 14.25.310 - 14.25.495 as a consequence of the member's
24 death. Notwithstanding a previous designation of beneficiary, a person who is the
25 spouse of a member at the time of the member's death automatically becomes the
26 designated beneficiary if the spouse was married to the member during part of the
27 member's employment for an employer

28 (1) except to the extent a qualified domestic relations order filed with
29 the administrator provides for payment to a former spouse or other dependent of the
30 member; or

31 (2) unless the member filed a revocation of beneficiary accompanied

1 by a written consent to the revocation from the present spouse and each person entitled
2 under the order; however, consent of the present spouse is not required if the member
3 and the present spouse had been married for less than one year on the date of the
4 member's death and if the member established when filing the revocation that the
5 member and the present spouse were not cohabiting.

6 (b) Except as provided in (a) of this section, the member may change or
7 revoke the designation without notice to the beneficiary or beneficiaries at any time.
8 If a member designates more than one beneficiary, each shares equally unless the
9 member specifies a different allocation or preference. The designation of a
10 beneficiary, a change or revocation of a beneficiary, and a consent to revocation of a
11 beneficiary shall be made on a form provided by the administrator and is not effective
12 until filed with the administrator.

13 (c) If a member fails to designate a beneficiary, or if no designated beneficiary
14 survives the member, the death benefit shall be paid

15 (1) to the surviving spouse or, if there is none surviving;

16 (2) to the surviving children in equal parts or, if there are none
17 surviving;

18 (3) to the surviving parents in equal parts or, if there are none
19 surviving;

20 (4) to the estate.

21 (d) A person claiming entitlement to benefits payable under AS 14.25.310 -
22 14.25.495 as a consequence of a member's death shall provide the administrator with a
23 marriage certificate, divorce or dissolution judgment, or other evidence of entitlement.
24 Documents establishing entitlement may be filed with the administrator immediately
25 after a change in the member's marital status. If the administrator does not receive
26 notification of a claim before the date 120 days after the member's death, the person
27 claiming entitlement is not entitled to receive from the division of retirement and
28 benefits any benefit already paid by the administrator.

29 **Sec. 14.25.450. Adjustments.** (a) When a change or error is made in the
30 records maintained by the plan or in the contributions made on behalf of an employee
31 or an error is made in computing a benefit, and, as a result, a teacher or member or

1 beneficiary is entitled to receive from the plan more or less than the teacher or member
2 or beneficiary would have been entitled to receive had the records or contributions
3 been correct or had the error not been made, the records, contributions, or error shall
4 be corrected. An adjustment to contributions shall be picked up by the employer in
5 accordance with AS 14.25.360 or treated as an adjustment to the employer's
6 contributions in accordance with this section, depending upon the nature of the
7 adjustment. If no future benefit payments are due, a person who was paid any amount
8 to which the person was not entitled is liable for repayment of that amount, and a
9 person who was not paid the full amount to which the person was entitled shall be paid
10 that amount.

11 (b) An adjustment that requires the recovery of benefits may not be made
12 under this section if

13 (1) the incorrect benefit was first paid two years or more before the
14 member or beneficiary was notified of the error;

15 (2) the error was not the result of erroneous information supplied by
16 the member or beneficiary; and

17 (3) the member or beneficiary did not have reasonable grounds to
18 believe that the amount of the benefit was in error.

19 (c) At each regularly scheduled meeting of the Alaska Teachers' Retirement
20 Board, the administrator shall report to the board on all situations since the
21 administrator's last report in which an adjustment has been prohibited under (b) of this
22 section. If the board finds that there is reason to believe that one or more of the
23 conditions set out in (b) of this section have not been met, the administrator shall
24 notify the member or beneficiary that an adjustment will be made to recover the
25 overpayment. A member or beneficiary who receives notice of adjustment under this
26 subsection may appeal to the board for a waiver of the adjustment under
27 AS 14.25.460. An adjustment that requires the repayment of benefits may not be
28 required while the appeal is pending.

29 (d) The plan shall pay interest on amounts owed to a member or beneficiary.
30 Interest shall be charged on amounts owed to the plan by a member or beneficiary if
31 the amount owed is the result of erroneous information supplied by the member or

1 beneficiary, or the member or beneficiary had reasonable grounds to believe the
2 amount of the benefit was in error. The interest paid under this subsection is at the
3 rate established by regulation for indebtedness contributions owed. Interest accrues
4 from the date on which the correct payment was due and continues until an actuarial
5 adjustment to the benefit is effective or the amount owed is paid. Accrued interest for
6 periods less than 60 days or in amounts less than the limit established in regulation for
7 writing off small indebtedness and refund balances may not be collected or paid under
8 this subsection.

9 **Sec. 14.25.460. Waiver of adjustments.** (a) Upon appeal by an affected
10 member or beneficiary under (b) of this section, the board may waive an adjustment or
11 a portion of an adjustment made under AS 14.25.450 if, in the opinion of the board,

12 (1) the adjustment or portion of the adjustment will cause undue
13 hardship to the member or beneficiary;

14 (2) the adjustment was not the result of erroneous information supplied
15 by the member or beneficiary;

16 (3) before the adjustment was made, the member or beneficiary
17 received confirmation from the administrator that the member's or beneficiary's
18 records were correct; and

19 (4) the member or beneficiary had no reasonable grounds to believe
20 the records were incorrect before the adjustment was made.

21 (b) In order to obtain consideration of a waiver under this section, the affected
22 member or beneficiary must appeal to the board in writing within 30 days after receipt
23 of notice that the records have been adjusted. The ruling of the board shall be in
24 writing.

25 (c) The board may conduct a hearing on an appeal under this section.

26 (d) The board may impose conditions on granting a waiver that it considers
27 equitable. These conditions may include requiring the member or beneficiary to make
28 additional contributions to the plan.

29 (e) The board may reconsider a ruling under this section upon request of the
30 member or beneficiary or the administrator if the request is received within 30 days
31 after the initial ruling. Any modification of the initial ruling must be made within 30

1 days after receipt of a request for reconsideration.

2 **Sec. 14.25.470. Retirement.** (a) In order to obtain medical benefits under
3 AS 14.25.480 and access to the health reimbursement account plan under
4 AS 39.30.300, a member must retire directly from the plan. A member is eligible to
5 retire from the plan if the member has been an active member for at least 12 months
6 before application for retirement and

7 (1) the member has at least 30 years of service; or

8 (2) the member reaches the normal retirement age and has at least 10
9 years of service.

10 (b) The normal retirement age is 60 months less than the age set for Medicare
11 eligibility.

12 (c) A member must apply to the administrator for appointment to retirement.
13 Application shall be made on forms and in the manner prescribed by the administrator.

14 (d) A member who continues in the employ of the employer after reaching
15 normal retirement age shall continue to participate in the plan and to have
16 contributions allocated to the member's account.

17 **Sec. 14.25.480. Medical benefits.** (a) The medical benefits available to
18 eligible persons are access to the retiree major medical insurance plan and to the
19 health reimbursement account. Access to the retiree major medical insurance plan
20 means that an eligible person may not be denied insurance coverage except for failure
21 to pay the required premium.

22 (b) The following persons are eligible for the retiree major medical insurance
23 plan provided under this section and the health reimbursement account:

24 (1) a member with at least 30 years of service and who retires directly
25 from the plan;

26 (2) the surviving spouse of a member who elected coverage under (1)
27 of this subsection;

28 (3) a member who reaches the normal retirement age as provided in
29 AS 14.25.470, has at least 10 years of service, and retires directly from the plan;

30 (4) the surviving spouse of a member who elected coverage under (3)
31 of this subsection.

1 (c) Retiree major medical insurance plan coverage elected by an eligible
2 member under this section covers the eligible member, the spouse of the eligible
3 member, and the dependent children of the eligible member.

4 (d) Retiree major medical insurance plan coverage elected by a surviving
5 spouse of a eligible member under this section covers the surviving spouse and the
6 dependent children of the surviving spouse.

7 (e) Major medical insurance coverage takes effect on the first day of the
8 month following the date of the election and stops when the person who elects
9 coverage under (b) of this section dies or fails to make a required premium payment.

10 (f) The coverage for persons who are eligible for Medicare is the same as that
11 available for persons who are not yet eligible for Medicare. The benefits payable to
12 those Medicare eligible persons supplement any benefits provided under the Medicare
13 program.

14 (g) The medical and optional insurance premiums owed by the person who
15 elects coverage under (b) of this section shall be deducted from the health
16 reimbursement account. If the amount of the health reimbursement account becomes
17 insufficient to pay the premiums, the person who elects coverage under (a) of this
18 section shall pay the premiums directly.

19 (h) The administrator shall set separate retiree health coverage premiums for
20 participants who are Medicare eligible and for participants who are not yet Medicare
21 eligible. An increase in the premium amount may not exceed five percentage points
22 annually. A participant's share of the applicable premium shall be determined
23 according to (i) of this section.

24 (i) The portion of the cost of premiums payable by the participant is 70
25 percent if the member had 10 years of service; for each additional year of service after
26 the member's 10th year of service, the cost of premiums decreases by three percentage
27 points; however, the minimum employee portion of the premium is 10 percent if the
28 member has 30 or more years of service.

29 (j) The eligibility for retiree major medical insurance coverage for an alternate
30 payee under a qualified domestic relations order shall be determined based on the
31 eligibility of the member to elect coverage. The alternate payee shall pay the full

1 monthly premium for retiree major medical insurance coverage.

2 (k) The administrator shall establish monthly group premiums for retiree
3 major medical insurance coverage under AS 39.30.095. Nothing in AS 14.25.310 -
4 14.25.495 guarantees a person who elects coverage under (a) of this section a monthly
5 group premium rate for retiree major medical insurance coverage other than the
6 premium in effect for the month in which the premium is due for coverage for that
7 month.

8 (l) In this section,

9 (1) "health reimbursement account" means the plan established in
10 AS 39.30.300;

11 (2) "retires directly from the plan" means that the member is an active
12 member at the time that the member applies to the administrator for appointment to
13 retirement and that the member continues as an active member up through the day
14 before the day the member is appointed to retirement.

15 **Sec. 14.25.495. Definitions.** In AS 14.25.310 - 14.25.495, unless the context
16 requires otherwise,

17 (1) "administrator" has the meaning given in AS 14.25.220;

18 (2) "beneficiary" has the meaning given in AS 14.25.220;

19 (3) "board" has the meaning given in AS 14.25.220;

20 (4) "compensation" has the meaning given in AS 14.25.220;

21 (5) "employer" has the meaning given in AS 14.25.220;

22 (6) "former participating member" means a terminated member;

23 (7) "fund" or "retirement fund" means the assets of the defined
24 contribution plan established in AS 14.25.310 - 14.25.495;

25 (8) "Internal Revenue Code" has the meaning given in AS 14.25.220;

26 (9) "member" has the meaning given "teacher" in AS 14.25.220;

27 (10) "member account" means the total maintained by the plan of the
28 member's mandatory contributions, employer contributions on behalf of the employee,
29 indebtedness principal and interest payments, interest credited to each of those
30 accounts, and adjustments to the account in accordance with AS 14.25.450;

31 (11) "qualified domestic relations order" has the meaning given in

1 AS 14.25.220;

2 (12) "school year" has the meaning given in AS 14.25.220;

3 (13) "teacher" has the meaning given in AS 14.25.220;

4 (14) "terminated" means a person no longer employed by an employer
5 participating in the plan;

6 (15) "year of service" has the meaning given in AS 14.25.220.

7 * Sec. 12. AS 14.40.671(e) is amended to read:

8 (e) An employee whose rights to transfer assets out of a state retirement
9 system are subject to a qualified domestic relations order is entitled to transfer assets
10 from the state retirement system to the program only if the requirements for receiving
11 a refund under AS 14.25.150(b), 14.25.400, [OR] AS 39.35.200(c), or 39.35.790, as
12 appropriate, are met.

13 * Sec. 13. AS 39.30.090(a) is amended to read:

14 (a) The Department of Administration may obtain a policy or policies of group
15 insurance covering state employees, persons entitled to coverage under AS 14.25.168,
16 14.25.480, AS 22.25.090, AS 39.35.535, 39.35.870, or former AS 39.37.145,
17 employees of other participating governmental units, or persons entitled to coverage
18 under AS 23.15.136, subject to the following conditions:

19 (1) A group insurance policy must

20 (A) [SHALL] provide one or more of the following benefits:
21 life insurance, accidental death and dismemberment insurance, weekly
22 indemnity insurance, hospital expense insurance, surgical expense insurance,
23 dental expense insurance, audiovisual insurance, or other medical care
24 insurance; and

25 (B) require the insurance plan to provide a preferred drug
26 list or formulary and must provide that beneficiaries use the appropriate
27 medication on the preferred drug list or pay the difference in cost between
28 the medication listed on the preferred drug list and the cost of a
29 nonformulary medication; however, if a medication is not on the
30 preferred drug list as a generic or nongeneric drug, the insurance plan
31 shall cover the cost of the medication. For purposes of this subparagraph,

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a nonformulary medication is one that is not listed on the formulary, such as a nongeneric form of the medication when a generic form of the medication is in the formulary.

(2) Each eligible employee of the state, the spouse and the unmarried children chiefly dependent on the eligible employee for support, and each eligible employee of another participating governmental unit shall be covered by the group policy, unless exempt under regulations adopted by the commissioner of administration.

(3) A governmental unit may participate under a group policy if

(A) its governing body adopts a resolution authorizing participation, and payment of required premiums;

(B) a certified copy of the resolution is filed with the Department of Administration; and

(C) the commissioner of administration approves the participation in writing.

(4) In procuring a policy of group health or group life insurance as provided under this section or excess loss insurance as provided in AS 39.30.091, the Department of Administration shall comply with the dual choice requirements of AS 21.86.310, and shall obtain the insurance policy from an insurer authorized to transact business in the state under AS 21.09, a hospital or medical service corporation authorized to transact business in this state under AS 21.87, or a health maintenance organization authorized to operate in this state under AS 21.86. An excess loss insurance policy may be obtained from a life or health insurer authorized to transact business in this state under AS 21.09 or from a hospital or medical service corporation authorized to transact business in this state under AS 21.87.

(5) The Department of Administration shall make available bid specifications for desired insurance benefits or for administration of benefit claims and payments to (A) all insurance carriers authorized to transact business in this state under AS 21.09 and all hospital or medical service corporations authorized to transact business under AS 21.87 who are qualified to provide the desired benefits; and (B) to insurance carriers authorized to transact business in this state under AS 21.09, hospital

1 or medical service corporations authorized to transact business under AS 21.87, and
2 third-party administrators licensed to transact business in this state and qualified to
3 provide administrative services. The specifications shall be made available at least
4 once every five years. The lowest responsible bid submitted by an insurance carrier,
5 hospital or medical service corporation, or third-party administrator with adequate
6 servicing facilities shall govern selection of a carrier, hospital or medical service
7 corporation, or third-party administrator under this section or the selection of an
8 insurance carrier or a hospital or medical service corporation to provide excess loss
9 insurance as provided in AS 39.30.091.

10 (6) If the aggregate of dividends payable under the group insurance
11 policy exceeds the governmental unit's share of the premium, the excess shall be
12 applied by the governmental unit for the sole benefit of the employees.

13 (7) A person receiving benefits under AS 14.25.110, AS 22.25,
14 AS 39.35, or former AS 39.37 may continue the life insurance coverage that was in
15 effect under this section at the time of termination of employment with the state or
16 participating governmental unit.

17 (8) A person electing to have insurance under (7) of this subsection
18 shall pay the cost of this insurance.

19 (9) For each permanent part-time employee electing coverage under
20 this section, the state shall contribute one-half the state contribution rate for permanent
21 full-time state employees, and the permanent part-time employee shall contribute the
22 other one-half.

23 (10) A person receiving benefits under AS 14.25, AS 22.25, AS 39.35,
24 or former AS 39.37 may obtain auditory, visual, and dental insurance for that person
25 and eligible dependents under this section. The level of coverage for persons over 65
26 shall be the same as that available before reaching age 65 except that the benefits
27 payable shall be supplemental to any benefits provided under the federal old age,
28 survivors, and disability insurance program. A person electing to have insurance
29 under this paragraph shall pay the cost of the insurance. The commissioner of
30 administration shall adopt regulations implementing this paragraph.

31 (11) A person receiving benefits under AS 14.25, AS 22.25, AS 39.35,

1 or former AS 39.37 may obtain long-term care insurance for that person and eligible
2 dependents under this section. A person who elects insurance under this paragraph
3 shall pay the cost of the insurance premium. The commissioner of administration
4 shall adopt regulations to implement this paragraph.

5 (12) Each licensee holding a current operating agreement for a vending
6 facility under AS 23.15.010 - 23.15.210 shall be covered by the group policy that
7 applies to governmental units other than the state.

8 * **Sec. 14.** AS 39.30 is amended by adding new sections to read:

9 **Article 5. State of Alaska Teachers' and Public Employees' Retiree Health**
10 **Reimbursement Account Plan.**

11 **Sec. 39.30.300. State of Alaska Teachers' and Public Employees' Retiree**
12 **Health Reimbursement Account Plan established.** The State of Alaska Teachers'
13 and Public Employees' Retiree Health Reimbursement Account Plan is established for
14 teachers and teachers' spouses and dependants who first become members of the
15 defined contribution plan under AS 14.25.310 - 14.25.495 on or after July 1, 2005, and
16 members and spouses and dependents of members of the state, political subdivisions
17 of the state, and public organizations of the state who first become members of the
18 defined contribution plan under AS 39.35.700 - 39.35.895 on or after July 1, 2005.

19 **Sec. 39.30.310. Purpose and effective date.** (a) The purpose of the plan is to
20 allow medical care expenses to be reimbursed from individual savings accounts
21 established for qualified participants.

22 (b) The plan becomes effective July 1, 2005, at which time contributions by
23 employers begin.

24 **Sec. 39.30.320. Attorney general.** The attorney general of the state is the
25 legal counsel for the plan and shall advise the administrator and represent the plan in a
26 legal proceeding.

27 **Sec. 39.30.330. Administrator.** The commissioner of administration or the
28 commissioner's designee is the administrator of the plan.

29 **Sec. 39.30.340. Powers and duties of the administrator; fund.** The
30 administrator shall establish a teachers' and public employees' retiree health
31 reimbursement account plan trust fund in which the assets of the plan shall be

1 deposited and held. The administrator has the same powers and duties with regard to
2 the plan and the trust fund as provided in AS 14.25.020.

3 **Sec. 39.30.350. Employer contribution fund.** The fund established under
4 AS 39.30.340 is an employer contribution fund. The value of the fund reflects
5 employer contributions, expenses, and investment gains and losses. Employee
6 contributions to the fund are not permitted.

7 **Sec. 39.30.360. Management and investment of the fund.** The Alaska State
8 Pension Investment Board is the fiduciary of the fund and has the same powers and
9 duties under this section in regard to the fund as are provided under AS 37.10.220.

10 **Sec. 39.30.370. Termination of employment.** A person who terminates
11 employment before appointment to normal retirement loses any right to the
12 contributions made on behalf of the person to the teachers' and public employees'
13 retiree health reimbursement account trust fund. If a person returns to employment
14 with a participating employer, the person's account balance shall be restored in the
15 amount recorded on the date of termination from the trust, with interest.

16 **Sec. 39.30.380. Eligibility and enrollment.** A qualified participant is eligible
17 for reimbursement from the appropriate individual account established for a member
18 under the plan when the member becomes eligible for medical benefits under
19 AS 14.25.480 or AS 39.35.870. The administrator shall enroll a participant in the plan
20 upon receipt of the member's request for appointment to retirement.

21 **Sec. 39.30.390. Benefits payable from the individual account.** (a) The
22 administrator shall pay the cost of monthly premiums for retiree major medical
23 insurance on behalf of a participant if the participant elected retiree major medical
24 insurance under AS 14.25.180 or AS 39.35.870.

25 (b) Upon application of a participant, the administrator shall reimburse to a
26 participant the costs for medical care expenses as defined in 26 U.S.C. 213(d).

27 (c) When the member's individual account balance is exhausted, the insurance
28 premium payments under (a) of this section and the reimbursement of medical care
29 expenses under (b) of this section end.

30 (d) If a participant dies before exhausting the participant's individual account,
31 the surviving spouse and the surviving spouse's dependent children are eligible to be

1 reimbursed for medical care expenses as defined in 26 U.S.C. 213(d) until the
2 individual account is exhausted. If any amount remains in an individual account after
3 the death of the surviving spouse and the death or nondependency of the surviving
4 spouse's dependent children, the account balance shall revert to the trust.

5 **Sec. 39.30.400. Exemption from taxation and process.** (a) Contributions
6 and other amounts held in the plan on behalf of a member or other person who is or
7 may become eligible for benefits under the plan may be used only to reimburse
8 eligible medical expenses, are exempt from Alaska state and municipal taxes, and are
9 not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance,
10 or charge of any kind, either voluntary or involuntary, before they are received by the
11 person entitled to the amount under the terms of the plan. Any attempt to anticipate,
12 alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of any
13 right to amounts accrued in the plan is void. However, a member's right to receive
14 benefits may be assigned

15 (1) under a qualified domestic relations order; or

16 (2) to a trust or similar legal device that meets the requirements for a
17 Medicaid-qualifying trust under AS 47.07.020(f) and 42 U.S.C. 1396p(d)(4).

18 (b) Notwithstanding AS 09.38.065, contributions and other amounts held in
19 the plan and benefits payable under this plan are exempt from garnishment, execution,
20 or levy.

21 **Sec. 39.30.410. Amendment and termination of plan.** (a) The state has the
22 right to amend the plan at any time and from time to time, in whole or in part,
23 including the right to make retroactive amendments referred to in 26 U.S.C. 401(b).

24 (b) The plan administrator may not modify or amend the plan retroactively in
25 such a manner as to reduce the benefits of any member accrued to date under the plan
26 by reason of contributions made before the modification or amendment except to the
27 extent that the reduction is permitted by the Internal Revenue Code.

28 (c) The state may, in its discretion, terminate the plan in whole or part at any
29 time without liability for the termination. If the plan is terminated, all investments
30 remain in force until all individual accounts have been completely distributed under
31 the plan, and, after all plan liabilities are satisfied, excess assets revert to the employer.

1 (d) Any contribution made by an employer to the plan because of a mistake of
2 fact must be returned to the employer by the administrator within one year after the
3 contribution or discovery, whichever is later.

4 **Sec. 39.30.420. Exclusive benefit.** (a) The corpus or income of the assets
5 held in trust as required by the plan may not be diverted or used for other than the
6 exclusive benefit of the participants.

7 (b) If plan benefits are provided through the distribution of annuity or
8 insurance contracts, any refunds or credits in excess of plan benefits due to dividends,
9 earnings, or other experience rating credits, or surrender or cancellation credits, shall
10 be paid to the trust fund.

11 (c) The assets of the plan may not be used to pay premiums or contributions of
12 the employer under another plan maintained by the employer.

13 **Sec. 39.30.495. Definitions.** Unless the context requires otherwise, in
14 AS 39.30.300 - 39.30.495,

15 (1) "administrator" means the commissioner of administration or the
16 commissioner's designee;

17 (2) "board" means the Alaska State Pension Investment Board
18 established under AS 37.10.210;

19 (3) "dependent child" has the meaning given in AS 14.25.220;

20 (4) "employer" has the meaning given in AS 14.25.495 for employers
21 of teachers in the defined contribution plan established in AS 14.25.310 - 14.25.495
22 and has the meaning given in AS 39.35.895 for employers of public employees in the
23 defined contribution plan established in AS 39.35.700 - 39.35.895;

24 (5) "fund" means the assets of the teachers' and public employees'
25 retiree health reimbursement account plan trust fund;

26 (6) "individual account" means the record established by the
27 administrator for individual employees under the teachers' and public employees'
28 retiree health reimbursement account plan;

29 (7) "member" means a member of the teachers' retirement system
30 defined contribution plan in AS 14.25.310 - 14.25.495 or a member of the public
31 employees' retirement plan in AS 39.35.700 - 39.35.895;

1 (8) "participant" means a member, spouse of a member, dependent
2 child of a member, dependent child of a spouse of a member, or former spouse under a
3 qualified domestic relations order;

4 (9) "qualified domestic relations order" has the meaning given in
5 AS 14.25.495.

6 * **Sec. 15.** AS 39.30 is amended by adding new sections to read:

7 **Article 6. Past Service Cost Offset Account.**

8 **Sec. 39.30.500. Past service cost offset account established.** The past
9 service cost offset account is established for employers in the defined contribution
10 plans established in AS 14.25.310 - 14.25.495 and employers in the defined
11 contribution plans established in AS 39.35.700 - 39.35.895.

12 **Sec. 39.30.510. Purpose and effective date.** (a) The purpose of the account
13 is to assist employers in paying past service cost obligations to each employer's
14 respective retirement plan. The account consists of legislative appropriations and
15 investment gain: and losses.

16 (b) The plan becomes effective July 1, 2005, at which time contributions from
17 the account into the appropriate retirement fund on behalf of an employer shall begin.

18 **Sec. 39.30.520. Attorney general.** The attorney general of the state is the
19 legal counsel for the account and shall advise the administrator and represent the plan
20 in a legal proceeding.

21 **Sec. 39.30.530. Administrator.** The commissioner of administration or the
22 commissioner's designee is the administrator of the account.

23 **Sec. 39.30.540. Powers and duties of the administrator.** The administrator
24 has the same powers and duties with regard to the plan and the trust fund as provided
25 in AS 14.25.020.

26 **Sec. 39.30.550. Management and investment of the fund.** The Alaska State
27 Pension Investment Board is the fiduciary of the fund and has the same powers and
28 duties under this section in regard to the fund as are provided under AS 37.10.220.

29 **Sec. 39.30.560. Contributions on behalf of employers in the teachers'**
30 **retirement plan.** The administrator shall pay into the teachers' retirement fund on the
31 employer's behalf the employer's past service cost for each member in the employer's

1 defined contribution plan.

2 **Sec. 39.30.570. Contributions on behalf of employers in the public**
3 **employers' retirement plan.** The administrator shall pay into the public employees'
4 retirement fund on each employer's behalf, that employer's past service cost for each
5 member in the employer's defined contribution plan, up to the blended past service
6 cost rate for all employers in the plan.

7 **Sec. 39.30.595. Definitions.** Unless the context requires otherwise, in
8 AS 39.30.500 - 39.30.595,

9 (1) "accrued liability" means the present value of all member benefits
10 in all plans accrued by member service;

11 (2) "administrator" means the commissioner of administration or the
12 commissioner's designee;

13 (3) "blended employer past service cost rate" means the average past
14 service cost rate of all employers in the public employees' retirement plan established
15 in AS 39.35.010 - 39.35.690;

16 (4) "member" means a member of the defined contribution plan in
17 AS 14.25.310 - 14.25.495 or a member of the defined contribution plan in
18 AS 39.35.700 - 39.35.895,

19 (5) "past service cost" means the annual payment amount needed to
20 pay for benefits that were not funded by past contributions into the retirement plan, as
21 apportioned over a stipulated number of years;

22 (6) "past service cost rate" means the annual payment as a percentage
23 of employee salary required to pay the past service cost as an amortized contribution
24 in percentage over a stipulated number of years.

25 * **Sec. 16.** AS 39.35 is amended by adding a new section to article 1 to read:

26 **Sec. 39.35.005. Applicability of AS 39.35.010 - 39.35.690 to employees first**
27 **hired before July 1, 2005.** The following provisions of this chapter apply only to the
28 defined benefit plans established for members first hired before July 1, 2005:
29 AS 39.35.010, 39.35.120 - 39.35.165, 39.35.180 - 39.35.650, and 39.35.675 -
30 39.35.680.

31 * **Sec. 17.** AS 39.35.010 is amended to read:

1 **Sec. 39.35.010. Purpose and effective date; federal qualification**
2 **requirements.** (a) The purpose of AS 39.35.010 - 39.35.680 [THIS CHAPTER] is to
3 encourage qualified personnel to enter and remain in the service of the state or a
4 political subdivision or public organization of the state by establishing a plan
5 [SYSTEM] for the payment of retirement, disability, and death benefits to or on behalf
6 of the employees.

7 (b) [THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF ALASKA
8 IS HEREBY CREATED.] The plan [SYSTEM] created becomes effective as of
9 January 1, 1961, at which time contributions by the state and its employees begin.

10 (c) The retirement plan [SYSTEM] established by AS 39.35.010 - 39.35.680
11 [THIS CHAPTER] is intended to qualify under 26 U.S.C. 401(a) and 414(d) (Internal
12 Revenue Code) as a qualified retirement plan established and maintained by the state
13 for its employees and for the employees of political subdivisions, public corporations,
14 and public organizations of the state, and for the employees of other employers whose
15 participation is authorized by AS 39.35.010 - 39.35.680 [THIS CHAPTER] and who
16 participate in this plan [SYSTEM].

17 (d) An amendment to AS 39.35.010 - 39.35.680 [THIS CHAPTER] does not
18 provide a person with a vested right to a benefit if the Internal Revenue Service
19 determines that the amendment will result in disqualification of the plan under the
20 Internal Revenue Code.

21 * **Sec. 18.** AS 39.35.158 is amended to read:

22 **Sec. 39.35.158. Administrative director of courts.** An administrative
23 director of the Alaska court system who withdraws from the judicial retirement system
24 under AS 22.25.012 is eligible for membership in the plan [SYSTEM] and shall
25 receive credited service in the plan [SYSTEM] for service rendered as administrative
26 director. To be eligible for membership in the plan [SYSTEM] under this subsection,
27 the administrative director must contribute to the plan [SYSTEM]

28 (1) the amount the director would have contributed if the director had
29 been a member during the director's period of membership in the judicial retirement
30 system; and

31 (2) any contributions for services as administrative director refunded

1 by the plan [SYSTEM] at the time the director became a member of the judicial
2 retirement system.

3 * **Sec. 19.** AS 39.35.160(a) is amended to read:

4 (a) Beginning July 1, 2005 [JANUARY 1, 1987], each peace officer or fire
5 fighter shall contribute to the plan a percentage [SYSTEM AN AMOUNT EQUAL
6 TO SEVEN AND ONE-HALF PERCENT] of the peace officer's or fire fighter's
7 compensation as determined under AS 39.35.162. Except as provided in (d) of this
8 section, beginning July 1, 2005 [JANUARY 1, 1987], each other employee shall
9 contribute to the system a percentage [AN AMOUNT EQUAL TO SIX AND
10 THREE-QUARTERS PERCENT] of the employee's compensation as determined
11 under AS 39.35.162. The contributions shall be deducted by the employer at the end
12 of each payroll period. The contributions shall be deducted from employee
13 compensation before computation of applicable federal taxes, and the contributions
14 shall be treated as employer contributions under 26 U.S.C. 414(h)(2). A member may
15 not have the option of making the payroll deduction directly instead of having the
16 contribution picked up by the employer.

17 * **Sec. 20.** AS 39.35 is amended by adding a new section to read:

18 **Sec. 39.35.162. Calculation of employee contribution rate.** (a) Each peace
19 officer or fire fighter shall contribute a percentage of the peace officer's or fire fighter's
20 compensation to be determined annually in advance by the administrator. Each other
21 employee shall contribute a percentage of the employee's compensation to be
22 determined annually in advance by the administrator. The employee contribution rate
23 is the greater of

24 (1) 7.5 percent for a peace officer or fire fighter;
25 (2) 6.75 percent for each other employee; or
26 (3) one half of the normal cost rate actuarially calculated to fund the
27 benefits expected to be earned by active members during the fiscal year.

28 (b) The normal cost rate for peace officers or fire fighters and the employee
29 contribution rate for other employees shall be separately calculated based on the
30 actuarially calculated costs for each group of employees.

31 (c) Notwithstanding (a) of this section, the employee contribution rate may not

1 increase more than one-half of a percentage point annually.

2 * Sec. 21. AS 39.35.270 is amended to read:

3 **Sec. 39.35.270. Amount of employer's contributions.** The amount of each
4 employer's contributions shall be determined by applying the employer's contribution
5 rate, as certified by the board, to the total compensation paid to the active employees
6 of the employer for each payroll period and by including any adjustments to
7 contributions required by AS 39.35.520(a). This amount shall be remitted by the
8 employer to the administrator in accordance with AS 39.35.610.

9 * Sec. 22. AS 39.35.270 is amended by adding a new subsection to read:

10 (b) When added to the member contribution rate calculated under
11 AS 39.35.162, the employer contribution may not be less than the rate required, as
12 actuarially calculated, to fully fund the future liabilities of active members.

13 * Sec. 23. AS 39.35.300(a) is amended to read:

14 (a) An active employee is entitled to credited service for periods of
15 employment with the state after January 1, 1961, regardless of the office, department,
16 division, or agency of the state in which the person was employed. For purposes of
17 AS 39.35.010 - 39.35.680 [THIS CHAPTER], the University of Alaska is not an
18 office, department, division, or agency of the state. Service credit may not be granted
19 under AS 39.35.010 - 39.35.680 [THIS CHAPTER] for service that is creditable under
20 the teachers' retirement plan under AS 14.25.010 - 14.25.220 [SYSTEM, AS 14.25].

21 * Sec. 24. AS 39.35.360(i) is amended to read:

22 (i) An employee who completes three years of credited service with an
23 employer, for which the employee makes contributions required by AS 39.35.010 -
24 39.35.680 [THIS CHAPTER], is entitled to credited service on a year-for-year basis
25 for service credited in the Civil Service Retirement System, rendered as an employee
26 of an Alaska Bureau of Indian Affairs (BIA) school, other than service as a teacher.
27 When eligibility for retroactive credited service under this subsection has been
28 established, an indebtedness of the employee to the plan [SYSTEM] shall be
29 determined as follows: (1) the employee's actual annual compensation, or the
30 calculated annual compensation for an employee who works fewer than 12 months, for
31 the most recent calendar year in which service is rendered to an employer before the

1 calendar year in which the employee first becomes eligible to claim service under this
2 subsection, multiplied by (2) the number of years of service in Alaska BIA schools
3 that is credited under this subsection, and this product multiplied by (3) six percent for
4 employees first eligible to claim this service before January 1, 1987, or eight and one-
5 half percent for employees first eligible to claim this service on or after January 1,
6 1987. Interest as prescribed by regulation accrues on the indebtedness beginning on
7 the date the employee y first claim the retroactive credited service. Any outstanding
8 indebtedness that exists at the time the employee retires requires an actuarial
9 adjustment to the benefits that are based on retroactive credited service under this
10 subsection. A retirement benefit payable under this subsection for Alaska BIA service
11 shall be reduced by an amount equal to the retirement benefits paid to the member by
12 the United States government for the same service.

13 * Sec. 25. AS 39.35.360(l) is amended to read:

14 (l) An administrative director of the Alaska Court System who withdraws
15 from the judicial retirement system under AS 22.25.012(b) is eligible for membership
16 in the public employees retirement plan [SYSTEM] and shall receive credited service
17 in this plan [SYSTEM] for service rendered as administrative director. To be eligible
18 for membership in this plan [SYSTEM] under this subsection, the administrative
19 director must contribute to the plan [SYSTEM]

20 (1) the amount that would have been contributed if the administrative
21 director had been a member during the period of the membership in the judicial
22 retirement system; and

23 (2) any contributions for service as administrative director refunded
24 from the public employees' retirement plan [SYSTEM] at the time the administrative
25 director became a member of the judicial retirement system.

26 * Sec. 26. AS 39.35.375(a) is amended to read:

27 (a) An active or inactive member who has never been vested in this plan
28 [SYSTEM] or in the teachers' retirement plan under AS 14.25.010 - 14.25.220
29 [SYSTEM UNDER AS 14.25], who has at least two years of credited service in this
30 system, and who has membership service in the teachers' retirement plan [SYSTEM]
31 may claim credited service in this plan [SYSTEM] in an amount equal to the

1 membership service the member has in the teachers' retirement plan [SYSTEM]. The
2 claimed credited service may be added to service earned under AS 39.35.010 -
3 39.35.680 [THIS CHAPTER] to enable the member to qualify for a public service
4 benefit under this section. The member may not claim credited service for
5 membership service for which the member has received a refund under AS 14.25.150
6 unless the member fully pays the indebtedness as established under AS 14.25.063.
7 The member may not claim credited service in this plan [SYSTEM] based on unused
8 sick leave under AS 14.25.115.

9 * Sec. 27. AS 39.35.375(b) is amended to read:

10 (b) To claim credited service under this section, the member shall file a
11 written request with the administrator when the member applies to retire. The
12 administrator shall determine the full actuarial cost of benefits based on the member's
13 total credited service and shall transfer from the teachers' retirement plan [SYSTEM]
14 to this plan [SYSTEM] an amount equal to the sum of the member contributions and
15 any indebtedness payments to the teachers' retirement plan [SYSTEM] and the
16 employer contributions to the teachers' retirement plan [SYSTEM] made on behalf of
17 the employee together with interest earned on those contributions and indebtedness
18 payments. If the amount to be transferred, when combined with the amount of
19 employee contributions and indebtedness payments to this plan [SYSTEM] and the
20 amount of employer contributions on behalf of the employee in this plan [SYSTEM],
21 and interest earned on contributions and indebtedness payments for the employee, is
22 less than the full actuarial cost computed under this subsection, an indebtedness to the
23 plan [SYSTEM] equal to the amount of the difference is established. Interest as
24 prescribed by regulation accrues on the indebtedness. The member must pay any
25 outstanding indebtedness existing at the time the member applies for retirement in full
26 before the member is appointed to retirement under this section.

27 * Sec. 28. AS 39.35.375(c) is amended to read:

28 (c) A member is entitled to receive a public service benefit under this section
29 if the member has at least a total of five years credited service under AS 39.35.010 -
30 39.35.680 [THIS CHAPTER] and credited service from the teachers' retirement plan
31 [SYSTEM] claimed under this section. A public service benefit shall be calculated

1 using the higher of the average monthly compensation for service in this plan
2 [SYSTEM] or the average base salary for service in the teachers' retirement plan
3 [SYSTEM]. The amount of the benefit shall be calculated in accordance with
4 AS 39.35.370(c).

5 * Sec. 29. AS 39.35.375(d) is amended to read:

6 (d) Credited service earned under either this plan [SYSTEM] or the teachers'
7 retirement plan [SYSTEM] that has been claimed for a public service benefit under
8 this section may not be used for any other purpose. A member who claims credited
9 service under this section loses all rights to benefits under AS 14.25.010 - 14.25.220
10 [AS 14.25] based on the claimed credited service. A member may not claim credited
11 service under this section unless the member claims all of the membership service the
12 member has in the teachers' retirement plan [SYSTEM]. A public service benefit
13 does not constitute a normal or early retirement benefit for purposes of qualifying for a
14 conditional service retirement benefit under AS 14.25.125 or AS 39.35.385.

15 * Sec. 30. AS 39.35.375(f) is amended to read:

16 (f) Notwithstanding AS 14.25.063 and AS 39.35.350, a former member of the
17 teachers' retirement plan [SYSTEM] who is an active member or inactive member of
18 this plan [SYSTEM] may reinstate, under this section, membership service earned
19 under AS 14.25.010 - 14.25.220 [AS 14.25] for which the member received a refund
20 of contributions.

21 * Sec. 31. AS 39.35.375(g) is amended to read:

22 (g) If a member retires under this section and subsequently returns to work for
23 an employer under this plan [SYSTEM] or the teachers' retirement plan [SYSTEM],
24 benefits under this section shall cease during the period of reemployment and shall
25 recommence when the reemployment is ended. The credited service earned during the
26 period of reemployment may not be added to the credited service claimed for a public
27 service benefit under this section. If a member vests and meets the other eligibility
28 requirements under this plan [SYSTEM] or the teachers' retirement plan [SYSTEM]
29 during the reemployment, the member is entitled to a benefit under AS 14.25.010 -
30 14.25.220 [AS 14.25] or AS 39.35.010 - 39.35.680 [AS 39.35], as appropriate.

31 * Sec. 32. AS 39.35.381(a) is amended to read:

1 (a) An elected public officer is eligible for a public officer benefit if the officer
2 is retired under AS 14.25.010 - 14.25.220 [AS 14.25] (teachers' retirement plan
3 [SYSTEM]). Only fully paid credited service as an elected public officer of a
4 municipality or other political subdivision, earned while the municipality or political
5 subdivision was an employer under this plan [SYSTEM] and while the person was
6 employed full-time under AS 14.25, may be counted under this section.

7 * Sec. 33. AS 39.35.680(21) is amended to read:

8 (21) "member" or "employee"

9 (A) means a person eligible to participate in the plan
10 [SYSTEM] and who is covered by the plan [SYSTEM];

11 (B) includes

12 (i) an active member;

13 (ii) an inactive member;

14 (iii) a vested member;

15 (iv) a deferred vested member;

16 (v) a nonvested member;

17 (vi) a disabled member;

18 (vii) a retired member;

19 (viii) an elected public officer under AS 39.35.381;

20 (C) does not include

21 (i) former members;

22 (ii) persons compensated on a contractual or fee basis;

23 (iii) casual or emergency workers or nonpermanent
24 employees as defined in AS 39.25.200;

25 (iv) persons covered by the Alaska Teachers'
26 Retirement System except as provided under AS 39.35.131 and
27 39.35.381, or persons covered by the optional university retirement
28 program;

29 (v) employees of the division of marine transportation
30 engaged in operating the state fer. system who are covered by a union
31 or group retirement system to which the state makes contributions;

1 (vi) justices of the supreme court or judges of the court
2 of appeals or of the superior or district courts of Alaska;

3 (vii) the administrative director of courts appointed
4 under art. IV, sec. 16 of the state constitution unless the director
5 becomes a member under AS 39.35.158;

6 (viii) members of the elected public officers' retirement
7 system (former AS 39.37); and

8 (ix) contractual employees of the legislative branch of
9 state government under AS 24.10.060(f);

10 (D) may include employees of the division of marine
11 transportation excluded under (C)(v) of this paragraph provided that

12 (i) the State of Alaska formally agrees to their inclusion
13 through the process of collective bargaining; and

14 (ii) no collective bargaining agreement has the effect of
15 obligating contributions made by the state under AS 39.30.150 in the
16 event the state resumes participation in the federal social security
17 system;

18 * Sec. 34. AS 39.35.680 is amended by adding a new paragraph to read:

19 (41) "plan" means the retirement plan established in AS 39.35.010 -
20 39.35.680.

21 * Sec. 35. AS 39.35 is amended by adding new sections to read:

22 **Article 9. Employees First Hired on or after July 1, 2005.**

23 **Sec. 39.35.700. Applicability of AS 39.35.700 - 39.35.895.** The provisions of
24 AS 39.35.700 - 39.35.895 apply only to members first hired on or after July 1, 2005.

25 **Sec. 39.35.710. Defined contribution retirement plan established; federal**
26 **qualification requirements.** (a) A defined contribution retirement plan is established
27 for employees of the state or a political subdivision or public organization of the state.

28 (b) The retirement plan established by AS 39.35.700 - 39.35.895 is intended to
29 qualify under 26 U.S.C. 401(a) and 414(d) (Internal Revenue Code) as a qualified
30 retirement plan established and maintained by the state for its employees and for the
31 employees of political subdivisions, public corporations, and public organizations of

1 the state, and for the employees of other employers whose participation is authorized
2 by AS 39.35.700 - 39.35.895 and who participate in the plan set out in AS 39.35.700 -
3 39.35.895.

4 (c) An amendment to AS 39.35.700 - 39.35.895 does not provide a person
5 with a vested right to a benefit if the Internal Revenue Service determines that the
6 amendment will result in disqualification of the plan under the Internal Revenue Code.

7 **Sec. 39.35.720. Purpose and effective date.** (a) The purpose of
8 AS 39.35.700 - 39.35.895 is to encourage qualified personnel to enter and remain in
9 the service of the state or a political subdivision or public organization of the state by
10 establishing a plan for the payment of defined contribution retirement benefits to or on
11 behalf of the employees.

12 (b) All eligible employees first hired on or after July 1, 2005, shall participate
13 in the plan set out in AS 39.35.700 - 39.35.895.

14 **Sec. 39.35.730. Contributions by members.** (a) Each member shall
15 contribute to the plan an amount equal to 10 percent of the member's base salary. The
16 contributions shall be deducted by the employer at the end of each payroll period. The
17 contributions shall be deducted from employee compensation before computation of
18 applicable federal taxes, and the contributions shall be treated as employer
19 contributions under 26 U.S.C. 414(h)(2). A member may not have the option of
20 making the payroll deduction directly instead of having the contribution picked up by
21 the employer.

22 (b) In this section, "base salary" means the total remuneration paid under
23 contract to a member for services, including extra payments, but does not include
24 retirement benefits, welfare benefits, per diem, expense allowances, workers'
25 compensation payments, or payments for leave not used by the member, whether those
26 leave payments are scheduled payments, lump-sum payments, donations, or cash-ins.

27 **Sec. 39.35.740. Contributions by employers.** (a) An employer shall
28 contribute an amount equal to 10 percent of each member's base salary as provided in
29 (b) - (d) of this section.

30 (b) An employer shall contribute to each member's account an amount equal
31 to 5.5 percent of the member's base salary from July 1 to the following June 30.

1 (c) An employer shall also contribute an amount equal to 3.5 percent of each
2 member's base salary to pay for retiree major medical insurance. This contribution
3 shall be paid into the group health and life benefits fund established by the
4 commissioner of administration under AS 39.30.095 and shall be accounted for in
5 accordance with regulations established by the commissioner.

6 (d) An employer shall also contribute an amount equal to one percent of each
7 member's base salary to each member's health reimbursement account plan under
8 AS 39.30.300.

9 (e) In this section, "base salary" is the base salary determined under
10 AS 39.35.730.

11 **Sec. 39.35.750. Transmittal of contributions.** The contributions of an
12 employer and the contributions of its employees shall be transmitted to the
13 administrator as soon as practicable after the close of the payroll period for which the
14 contributions are made. If an employer is delinquent in transferring the contributions
15 for more than 15 days, interest shall be assessed on the outstanding contributions at
16 one and one-half times the most recent actuarially determined rate of earnings for the
17 retirement system from the date that the contributions were originally due.

18 **Sec. 39.35.760. Retirement benefits and vesting.** A participating member is
19 immediately and fully vested in that member's contributions and in the employer
20 contributions made on that member's behalf to an account under AS 39.35.700 -
21 39.35.895.

22 **Sec. 39.35.770. Investment of individual accounts.** (a) The Alaska State
23 Pension Investment Board shall provide a range of investment options and permit a
24 participant to exercise investment control over the participant's assets in the member
25 account as provided in this section. If a participant exercises control over the assets in
26 the account, the participant is not considered a fiduciary for any reason on the basis of
27 exercising that control.

28 (b) A participant may direct investment of plan funds held in an account
29 among available investment funds in accordance with rules established by the board.

30 (c) A participant may elect to change or transfer all or a portion of the
31 participant's existing account balance among available investment funds not more

1 often than once each day in accordance with the rules established by the administrator.
2 Only the last election received by the administrator before the transmittal of
3 contributions to the trust fund for allocation to the individual account will be used to
4 direct the investment of the contributions received.

5 (d) Except to the extent clearly set out in the terms of the investment plans
6 offered by the employer to the employee, the employer is not liable to the participant
7 for investment losses if the prudent investment standard has been met.

8 (e) The employer, administrator, state, board, or a person or entity who is
9 otherwise a fiduciary is not liable by reason for any participant's investment loss that
10 results from the participant's directing the investment of plan assets allocated to the
11 participant's account.

12 (f) To the extent that a member account has been divided as provided in a
13 qualified domestic relations order between participants, each participant shall be
14 treated as the holder of a separate individual account for purposes of investment
15 yields, decisions, transfers, and time limitations imposed by this section.

16 **Sec. 39.35.780. Distributions.** (a) A member is eligible to receive
17 distribution of that person's accumulated balance in the plan upon becoming a former
18 participating member.

19 (b) Upon the death of a member or former member, the accumulated balance
20 of that deceased member is considered to belong to the refund beneficiary, if any, of
21 that deceased participant. If a valid nomination of refund beneficiary is not on file
22 with the board, the board, in a lump sum distribution, shall distribute the accumulated
23 balance to a legal representative, if any, of the deceased participant's estate.

24 (c) A former member or refund beneficiary may elect one or a combination of
25 several of the following methods of distribution of the accumulated balance:

26 (1) lump sum distribution to the recipient;

27 (2) lump sum direct rollover to another qualified plan, to the extent
28 allowed by federal law;

29 (3) periodic distributions, as authorized by the board;

30 (4) no current distribution, in which case the accumulated balance
31 must remain in the plan until the former participating member or refund beneficiary

1 elects a method or methods of distribution under this section, to the extent allowed by
2 federal law.

3 (d) If the former member's vested account balance is less than \$5,000, the
4 board shall automatically refund the member's vested account balance upon
5 termination of employment. The member may waive the refund if the member
6 submits a written statement to the board, within 120 days after termination, requesting
7 that the member's vested account balance remain in the plan.

8 **Sec. 39.35.790. Refund upon termination.** (a) Except as provided in (b) of
9 this section, a terminated member is entitled to a refund of the balance of the member
10 account.

11 (b) A member who is terminated and who is married at the time of application
12 for a refund or whose rights to a refund are subject to a qualified domestic relations
13 order is entitled to receive a refund of the balance of the member account only if the
14 member's present spouse and each person entitled under the order consent to the
15 refund in writing on a form provided by the administrator. The administrator may
16 waive written consent from the person entitled under the order if the administrator
17 determines that the person cannot be located or for other reasons established by
18 regulation. The administrator may waive written consent from the spouse if the
19 administrator determines that

20 (1) the member was not married to the spouse during any period of the
21 member's employment with an employer;

22 (2) the spouse has no rights to benefits under AS 39.35.700 -
23 39.35.895 because of the terms of a qualified domestic relations order;

24 (3) the spouse cannot be located;

25 (4) the member and spouse have been married for less than one year
26 and the member establishes that they are not cohabiting; or

27 (5) another reason established by regulation exists.

28 **Sec. 39.35.800. Rights under qualified domestic relations order.** A former
29 spouse shall be treated as a spouse or surviving spouse under AS 39.35.700 -
30 39.35.895 to the extent required by a qualified domestic relations order. Rights under
31 the order do not take effect until the order is filed with the administrator.

1 **Sec. 39.35.810. Rollover distributions and rollover contributions.** (a) An
2 employee may elect, at the time and in the manner prescribed by the administrator, to
3 have all or part of a direct rollover distribution from an eligible retirement plan owned
4 by the member paid directly into the member's account established under
5 AS 39.35.770.

6 (b) Rollover contributions do not count as a purchase of membership service
7 for the purpose of determining years of service.

8 (c) A distributee may elect, at the time and in the manner prescribed by the
9 administrator, to have all or part of an eligible rollover distribution paid directly to an
10 eligible retirement plan specified by the distributee in the direct rollover.

11 (d) In this section,

12 (1) "direct rollover" means the payment of an eligible rollover
13 distribution by the plan to an eligible retirement plan specified by a distributee who is
14 eligible to elect a direct rollover;

15 (2) "distributee" means a member or a beneficiary who is the surviving
16 spouse of the member;

17 (3) "eligible retirement plan" means

18 (A) an individual retirement account described in 26 U.S.C.
19 408(a);

20 (B) an individual retirement annuity defined in 26 U.S.C.
21 408(b);

22 (C) an annuity plan described in 26 U.S.C. 403(a);

23 (D) a qualified trust described in 26 U.S.C. 401(a);

24 (E) an annuity plan described in 26 U.S.C. 403(b); or

25 (F) a governmental plan described in 26 U.S.C. 457(b);

26 (4) "eligible rollover distribution" means a distribution of all or part of
27 a total account to a distributee, except for

28 (A) a distribution that is one of a series of substantially equal
29 installments payable not less frequently than annually over the life expectancy
30 of the distributee or the joint and last survivor life expectancy of the distributee
31 and the distributee's designated beneficiary, as defined in 26 U.S.C. 401(a)(9);

1 (B) a distribution that is one of a series of substantially equal
2 installments payable not less frequently than annually over a specified period
3 of 10 years or more;

4 (C) a distribution that is required under 26 U.S.C. 401(a)(9);

5 (D) the portion of any distribution that is not includable in
6 gross income;

7 (E) a distribution that is on account of hardship; and

8 (F) other distributions that are reasonably expected to total less
9 than \$200 during a year.

10 **Sec. 39.35.820. Distribution requirements.** (a) The entire interest of a
11 member must be distributed or must begin to be distributed not later than the member's
12 required beginning date.

13 (b) If a member dies after the distribution of the member's interest has begun
14 but before the distribution has been completed, the remaining portion of the interest
15 shall continue to be distributed at least as rapidly as under the method of distribution
16 being used before the member's death.

17 (c) If a member has made a distribution election and dies before the
18 distribution of the member's interest begins, distribution of the member's entire interest
19 shall be completed by December 31 of the calendar year containing the fifth
20 anniversary of the member's death. However, if any portion of the member's interest
21 is payable to a designated beneficiary, distributions may be made over the life of the
22 designated beneficiary or over a period certain not greater than the life expectancy of
23 the designated beneficiary, commencing on or before December 31 of the calendar
24 year immediately following the calendar year in which the member died, and, if the
25 designated beneficiary is the member's surviving spouse, the date distributions are
26 required to begin may not be earlier than the later of December 31 of the calendar year
27 (1) immediately following the calendar year in which the member died, or (2) in which
28 the member would have attained 70 1/2 years of age, whichever is earlier. If the
29 surviving spouse dies after the member but before payments to the spouse have begun,
30 the provisions of this subsection apply as if the surviving spouse were the member.
31 An amount paid to a child of the member will be treated as if it were paid to the

1 surviving spouse if the amount becomes payable to the surviving spouse when the
2 child reaches the age of majority.

3 (d) If a member has not made a distribution election before the member's
4 death, the member's designated beneficiary must elect the method of distribution not
5 later than December 31 of the calendar year (1) in which distributions would be
6 required to begin under this section, or (2) that contains the fifth anniversary of the
7 date of death of the member, whichever is earlier. If the member does not have a
8 designated beneficiary or if the designated beneficiary does not elect a method of
9 distribution, distribution of the member's entire interest must be completed by
10 December 31 of the calendar year containing the fifth anniversary of the member's
11 death.

12 (e) For purposes of (c) of this section, distribution of a member's interest is
13 considered to begin (1) on the member's required beginning date, or (2) if the
14 designated beneficiary is the member's surviving spouse and the surviving spouse dies
15 after the member but before payments to the spouse have begun, on the date
16 distribution is required to begin to the surviving spouse. If distribution in the form of
17 an annuity irrevocably commences to the member before the required beginning date,
18 the date distribution is considered to begin is the date that the distribution actually
19 commences.

20 (f) Notwithstanding any contrary provisions of AS 39.35.700 - 39.35.895, the
21 requirements of this section apply to all distributions of a member's interest and take
22 precedence over any inconsistent provisions of AS 39.35.700 - 39.35.895.

23 (g) All distributions required under this section are determined and made in
24 accordance with 26 U.S.C. 401(a)(9) and regulations adopted under that statute,
25 including any minimum distribution incidental benefit requirement.

26 (h) In this section,

27 (1) "designated beneficiary" means the individual who is designated as
28 the beneficiary under the plan in accordance with 26 U.S.C. 401(a)(9) and regulations
29 adopted under that statute;

30 (2) "required beginning date" means the first day of April of the
31 calendar year following the calendar year in which the member either attains 70 1/2

1 years of age or actually retires, whichever is later.

2 **Sec. 39.35.830. Designation of beneficiary.** (a) Each member shall
3 designat the beneficiary or beneficiaries to whom the administrator shall distribute
4 benefits payable under AS 39.35.700 - 39.35.895 as a consequence of the member's
5 death. Notwithstanding a previous designation of beneficiary, a person who is the
6 spouse of a member at the time of the member's death automatically becomes the
7 designated beneficiary if the spouse was married to the member during part of the
8 member's employment for an employer

9 (1) except to the extent a qualified domestic relations order filed with
10 the administrator provides for payment to a former spouse or other dependent of the
11 member; or

12 (2) unless the member filed a revocation of beneficiary accompanied
13 by a written consent to the revocation from the present spouse and each person entitled
14 under the order; however, consent of the present spouse is not required if the member
15 and the present spouse had been married for less than one year on the date of the
16 member's death and if the member established when filing the revocation that the
17 member and the present spouse were not cohabiting.

18 (b) Except as provided in (a) of this section, the member may change or
19 revoke the designation without notice to the beneficiary or beneficiaries at any time.
20 If a member designates more than one beneficiary, each shares equally unless the
21 member specifies a different allocation or preference. The designation of a
22 beneficiary, a change or revocation of a beneficiary, and a consent to revocation of a
23 beneficiary shall be made on a form provided by the administrator and is not effective
24 until filed with the administrator.

25 (c) If a member fails to designate a beneficiary, or if no designated beneficiary
26 survives the member, the death benefit shall be paid

27 (1) to the surviving spouse or, if there is none surviving;

28 (2) to the surviving children in equal parts or, if there are none
29 surviving;

30 (3) to the surviving parents in equal parts or, if there are none
31 surviving;

1 (4) to the estate.

2 (d) A person claiming entitlement to benefits payable under AS 39.35.700 -
3 39.35.895 as a consequence of a member's death shall provide the administrator with a
4 marriage certificate, divorce or dissolution judgment, or other evidence of entitlement.
5 Documents establishing entitlement may be filed with the administrator immediately
6 after a change in the member's marital status. If the administrator does not receive
7 notification of a claim before the date 120 days after the member's death, the person
8 claiming entitlement is not entitled to receive from the division of retirement and
9 benefits any benefit already paid by the administrator.

10 **Sec. 39.35.840. Adjustments.** (a) When a change or error is made in the
11 records maintained by the plan or in the contributions made on behalf of an employee
12 or an error is made in computing a benefit, and, as a result, a member or beneficiary is
13 entitled to receive from the plan more or less than the member or beneficiary would
14 have been entitled to receive had the records or contributions been correct or had the
15 error not been made, the records, contributions, or error shall be corrected. An
16 adjustment to contributions shall be picked up by the employer in accordance with
17 AS 39.35.740 or treated as an adjustment to the employer's contributions in
18 accordance with this section, depending upon the nature of the adjustment. If no
19 future benefit payments are due, a person who was paid any amount to which the
20 person was not entitled is liable for repayment of that amount, and a person who was
21 not paid the full amount to which the person was entitled shall be paid that amount.

22 (b) An adjustment that requires the recovery of benefits may not be made
23 under this section if

24 (1) the incorrect benefit was first paid two years or more before the
25 member or beneficiary was notified of the error;

26 (2) the error was not the result of erroneous information supplied by
27 the member or beneficiary; and

28 (3) the member or beneficiary did not have reasonable grounds to
29 believe that the amount of the benefit was in error.

30 (c) At each regularly scheduled meeting of the board, the administrator shall
31 report to the board on all situations since the administrator's last report in which an

1 adjustment has been prohibited under (b) of this section. If the board finds that there
2 is reason to believe that one or more of the conditions set out in (b) of this section
3 have not been met, the administrator shall notify the member or beneficiary that an
4 adjustment will be made to recover the overpayment. A member or beneficiary who
5 receives notice of adjustment under this subsection may appeal to the board for a
6 waiver of the adjustment under AS 39.35.850. An adjustment that requires the
7 repayment of benefits may not be required while the appeal is pending.

8 (d) The plan shall pay interest on amounts owed to a member or beneficiary.
9 Interest shall be charged on amounts owed to the plan by a member or beneficiary if
10 the amount owed is the result of erroneous information supplied by the member or
11 beneficiary, or the member or beneficiary had reasonable grounds to believe the
12 amount of the benefit was in error. The interest paid under this subsection is at the
13 rate established by regulation for indebtedness contributions owed. Interest accrues
14 from the date on which the correct payment was due and continues until an actuarial
15 adjustment to the benefit is effective or the amount owed is paid. Accrued interest for
16 periods less than 60 days or in amounts less than the limit established in regulation for
17 writing off small indebtedness and refund balances may not be collected or paid under
18 this subsection.

19 **Sec. 39.35.850. Waiver of adjustments.** (a) Upon appeal by an affected
20 member or beneficiary under (b) of this section, the board may waive an adjustment or
21 a portion of an adjustment made under AS 39.35.840 if, in the opinion of the board,

22 (1) the adjustment or portion of the adjustment will cause undue
23 hardship to the member or beneficiary;

24 (2) the adjustment was not the result of erroneous information supplied
25 by the member or beneficiary;

26 (3) before the adjustment was made, the member or beneficiary
27 received confirmation from the administrator that the member's or beneficiary's
28 records were correct; and

29 (4) the member or beneficiary had no reasonable grounds to believe
30 the records were incorrect before the adjustment was made.

31 (b) In order to obtain consideration of a waiver under this section, the affected

1 member or beneficiary must appeal to the board in writing within 30 days after receipt
2 of notice that the records have been adjusted. The ruling of the board ... all be in
3 writing.

4 (c) The board may conduct a hearing on an appeal under this section.

5 (d) The board may impose conditions on granting a waiver that it considers
6 equitable. These conditions may include requiring the member or beneficiary to make
7 additional contributions to the plan.

8 (e) The board may reconsider a ruling under this section upon request of the
9 member or beneficiary or the administrator if the request is received within 30 days
10 after the initial ruling. Any modification of the initial ruling must be made within 30
11 days after receipt of a request for reconsideration.

12 **Sec. 39.35.860. Retirement.** (a) In order to obtain medical benefits under
13 AS 39.35.870 and access to the health reimbursement account plan under
14 AS 39.30.300, an active member must retire directly from the plan. A member is
15 eligible to retire from the plan if the member has been an active member for at least 12
16 months before application for retirement and

17 (1) the member has at least 30 years of membership service; or

18 (2) the member reaches the normal retirement age and has at least 10
19 years of membership service.

20 (b) The normal retirement age is 60 months less than the age set for Medicare
21 eligibility.

22 (c) A member must apply to the administrator for appointment to retirement.
23 Application shall be made on forms and in the manner prescribed by the administrator.

24 (d) A member who continues in the employ of the employer after reaching
25 normal retirement age shall continue to participate in the plan and to have
26 contributions allocated to the member's account.

27 **Sec. 39.35.870. Medical benefits.** (a) The medical benefits available to
28 eligible persons are access to the retiree major medical insurance plan and to the
29 health reimbursement account. Access to the retiree major medical insurance plan
30 means that an eligible person may not be denied insurance coverage except for failure
31 to pay the required premium.

1 (b) The following persons are eligible for the retiree major medical insurance
2 plan provided under this section and the health reimbursement account:

3 (1) a member with at least 30 years of service and who retires directly
4 from the plan;

5 (2) the surviving spouse of a member who elected coverage under (1)
6 of this subsection;

7 (3) a member who reaches the normal retirement age as provided in
8 AS 39.35.860, has at least 10 years of service, and retires directly from the plan;

9 (4) the surviving spouse of a member who elected coverage under (3)
10 of this subsection.

11 (c) Retiree major medical insurance plan coverage elected by an eligible
12 member under this section covers the eligible member, the spouse of the eligible
13 member, and the dependent children of the qualified member.

14 (d) Retiree major medical insurance plan coverage elected by a surviving
15 spouse of a eligible member under this section covers the surviving spouse and the
16 dependent children of the surviving spouse.

17 (e) Major medical insurance coverage takes effect on the first day of the
18 month following the date of the election and stops when the person who elects
19 coverage under (b) of this section dies or fails to make a required premium payment.

20 (f) The coverage for persons who are eligible for Medicare is the same as that
21 available for persons who are not yet eligible for Medicare. The benefits payable to
22 those Medicare eligible persons supplement any benefits provided under the Medicare
23 program.

24 (g) The medical and optional insurance premiums owed by the person who
25 elects coverage under (b) of this section shall be deducted from the health
26 reimbursement account. If the amount of the health reimbursement account becomes
27 insufficient to pay the premiums, the person who elects coverage under (a) of this
28 section shall pay the premiums directly.

29 (h) The administrator shall set separate retiree health coverage premiums for
30 participants who are Medicare eligible and for participants who are not yet Medicare
31 eligible. An increase in the premium amount may not exceed five percentage points

1 annually. A participant's share of the applicable premium shall be determined
2 according to (i) of this section.

3 (i) The portion of the cost of premiums payable by the participant is 70
4 percent if the member had 10 years of service; for each additional year of service after
5 the member's 10th year of service, the cost of premiums decreases by three percentage
6 points; however, the minimum employee portion of the premium is 10 percent if the
7 member has 30 or more years of service.

8 (j) The eligibility for retiree major medical insurance coverage for an alternate
9 payee under a qualified domestic relations order shall be determined based on the
10 eligibility of the member to elect coverage. The alternate payee shall pay the full
11 monthly premium for retiree major medical insurance coverage.

12 (k) The administrator shall establish the monthly group premiums for retiree
13 major medical insurance coverage under AS 39.30.095. Nothing in AS 39.35.700 -
14 39.35.895 guarantees a person who elects coverage under (a) of this section a monthly
15 group premium rate for retiree major medical insurance coverage other than the
16 premium in effect for the month in which the premium is due for coverage for that
17 month.

18 (l) In this section,

19 (1) "health reimbursement account" means the plan established in
20 AS 39.30.300;

21 (2) "retires directly from the plan" means that the member is an active
22 member at the time that the member applies to the administrator for appointment to
23 retirement and that the member continues as an active member up through the day
24 before the day the member is appointed to retirement.

25 **Sec. 39.35.880. Management and investment of fund.** (a) The Alaska State
26 Pension Investment Board is the fiduciary of the fund. In managing the fund, the
27 Alaska State Pension Investment Board shall

28 (1) consider the status of the fund's investments and the plan's
29 liabilities on both a current and a probable future basis;

30 (2) determine the appropriate investment objectives for the fund;

31 (3) establish investment policies aimed at achieving the objectives; and

1 (4) act only in regard to the best financial interests of the plan and
2 beneficiaries.

3 (b) The Alaska State Pension Investment Board may invest the fund on the
4 basis of probable total rate of return without regard to the distinction between principal
5 and income or to the generation of income.

6 (c) In carrying out investment duties under AS 39.35.700 - 39.35.895, the
7 Alaska State Pension Investment Board has the same powers and duties in regard to
8 the teacher's retirement trust fund as are provided in AS 37.10.071, except that the
9 standard of prudence that the board must obey under AS 37.10.071(c) shall be in
10 regard to the management of large trust investments rather than large investments.

11 **Sec. 39.35.884. Special rules for treatment of qualified military service.**
12 Notwithstanding any contrary provisions of AS 39.35.700 - 39.35.895, with respect to
13 qualified military service, contributions shall be made and benefits and service credit
14 shall be provided in accordance with 26 U.S.C. 414(u).

15 **Sec. 39.35.888. Exemption from taxation and process.** (a) Except as
16 provided in AS 29.45.030(a)(1) or in (c) of this section, member contributions and
17 other amounts held in the plan on behalf of a member or other person who is or may
18 become eligible for benefits under the plan are exempt from Alaska state and
19 municipal taxes and are not subject to anticipation, alienation, sale, transfer,
20 assignment, pledge, encumbrance, or charge of any kind, either voluntary or
21 involuntary, before they are received by the person entitled to the amount under the
22 terms of the plan. Any attempt to anticipate, alienate, sell, transfer, assign, pledge,
23 encumber, charge, or otherwise dispose of any right to amounts accrued in the plan is
24 void. However, a member's right to receive benefits or the member account may be
25 assigned

26 (1) under a qualified domestic relations order;

27 (2) to a trust or similar legal device that meets the requirements for a
28 Medicaid-qualifying trust under AS 47.07.020(f) and 42 U.S.C. 1396p(d)(4); or

29 (3) as provided in (c) of this section.

30 (b) Member contributions and other amounts held in the plan and benefits
31 payable under AS 39.35.700 - 39.35.895 are exempt from garnishment, execution, or

1 levy as provided in AS 09.38.

2 (c) An inactive member may elect to have the taxable portion of the member
3 account transferred directly to another plan or an individual retirement arrangement
4 that is qualified under the federal Internal Revenue Code and that accepts the transfer.

5 **Sec. 39.35.890. Time limit for application.** If an application for benefits or
6 for refund has not been filed with the administrator by July 1 following the date on
7 which an inactive member (except a member on leave of absence without pay) would
8 attain age 75, or if an application for benefits or for refund has not been filed with the
9 administrator within the 50 years following the most recent date on which the person
10 was an active member, benefits or refunds may not be paid under AS 39.35.700 -
11 39.35.895 and the member's records may be destroyed.

12 **Sec. 39.35.892. Penalty for false statements.** (a) A person who knowingly
13 makes a false statement, or falsifies or permits to be falsified any record of this plan,
14 in an attempt to defraud this plan, is guilty of a class A misdemeanor and forfeits all
15 rights under AS 39.35.700 - 39.35.895.

16 (b) In this section, "knowingly" has the meaning given in AS 11.81.900(a).

17 **Sec. 39.35.895. Definitions.** In AS 39.35.700 - 39.35.895, unless the context
18 requires otherwise,

19 (1) "active member" means an employee who is employed by an
20 employer, is receiving compensation for seasonal, permanent full-time, or permanent
21 part-time services, and is making contributions to the plan;

22 (2) "actuarial adjustment" means the adjustment necessary to obtain
23 equality in value of the aggregate expected payments under two different forms of
24 pension payments, considering expected mortality and interest earnings on the basis of
25 assumptions, factors, and methods specified in regulations issued under this plan that
26 are formally adopted by the board that clearly preclude employer discretion in the
27 determination of the amount of any member's benefit;

28 (3) "administrator" has the meaning given in AS 39.35.680;

29 (4) "beneficiary" means a person designated by an employee to receive
30 benefits that may be due from the plan upon the employee's death;

31 (5) "board" has the meaning given in AS 39.35.680;

1 (6) "calendar year" has the meaning given in AS 39.35.680;

2 (7) "compensation" means the remuneration earned by an employee
3 for personal services rendered to an employer, payments for leave that is actually used
4 by the employee, and any amount deferred under an employer-sponsored deferred
5 compensation plan, but does not include retirement benefits, severance pay or other
6 separation bonuses, welfare benefits, per diem, expense allowances, workers'
7 compensation payments, or payments for leave not used by the employee whether
8 those leave payments are scheduled payments, lump-sum payments, donations, or
9 cash-ins; for a member first hired on or after July 1, 1996, compensation does not
10 include remuneration in excess of the limitations set out in 26 U.S.C. 401(a)(17)
11 (Internal Revenue Code);

12 (8) "employer" has the meaning given in AS 39.35.680;

13 (9) "former member" means a terminated member;

14 (10) "fund" means the assets of the retirement plan established in
15 AS 39.35.700 - 39.35.895;

16 (11) "inactive member" means an employee who is terminated and
17 who has not received a refund from the plan or an employee on leave-without-pay
18 status or layoff status;

19 (12) "member" or "employee"

20 (A) means a person eligible to participate in the plan and who
21 is covered by the plan;

22 (B) includes

23 (i) an active member;

24 (ii) an inactive member;

25 (iii) a vested member;

26 (iv) a deferred vested member;

27 (v) a nonvested member;

28 (vi) a retired member;

29 (C) does not include

30 (i) former members;

31 (ii) persons compensated on a contractual or fee basis;

1 (iii) casual or emergency employees or nonpermanent
2 employees as defined in AS 39.25.200;

3 (iv) persons covered by the teachers' retirement system
4 or persons covered by the optional university retirement program;

5 (v) employees of the division of marine transportation
6 engaged in operating the state ferry system who are covered by a union
7 or group retirement system to which the state makes contributions;

8 (vi) justices of the supreme court or judges of the court
9 of appeals or of the superior or district courts of Alaska;

10 (vii) the administrative director of courts appointed
11 under art. IV, sec. 16, Constitution of the State of Alaska, unless the
12 director becomes a member under AS 39.35.158;

13 (viii) members of the elected public officers' retirement
14 system (former AS 39.37); and

15 (ix) contractual employees of the legislative branch of
16 state government under AS 24.10.060(f);

17 (D) may include employees of the division of marine
18 transportation excluded under (C)(v) of this paragraph if

19 (i) the State of Alaska formally agrees to their inclusion
20 through the process of collective bargaining; and

21 (ii) no collective bargaining agreement has the effect of
22 obligating contributions made by the state under AS 39.30.150 in the
23 event the state resumes participation in the federal social security
24 system;

25 (13) "member account" means the total maintained by the plan of the
26 employer's contributions, employee's mandatory contributions, voluntary
27 contributions, indebtedness principal, and interest contributions, interest credited to
28 each of those accounts, and adjustments to the accounts in accordance with
29 AS 39.35.840;

30 (14) "military service" has the meaning given in AS 39.35.680;

31 (15) "peace officer" or "fire fighter" has the meaning given in

1 AS 39.35.680;

2 (16) "plan" means the defined contribution retirement plan in
3 AS 39.35.700 - 39.35.895;

4 (17) "public organization" means an organization or entity

5 (A) created by the constitution or laws of the state for the
6 purpose of administering state programs;

7 (L) whose officers and employees are paid by a method other
8 than by the state payroll prepared by the Department of Administration; and

9 (C) whose employees are not required by law to participate in
10 the plan;

11 (18) "qualified domestic relations order" means a divorce or
12 dissolution judgment under AS 25.24, including an order approving a property
13 settlement, that

14 (A) creates or recognizes the existence of an alternate payee's
15 right to, or assigns to an alternate payee the right to, receive all or a portion of
16 member account or the benefits payable with respect to an employee;

17 (B) sets out the name and last known mailing address, if any, of
18 the employee and of each alternate payee covered by the order;

19 (C) sets out the amount or percentage of the employee's benefit,
20 or of any survivor's benefit, to be paid to the alternate payee, or sets out the
21 manner in which that amount or percentage is to be determined;

22 (D) sets out the number of payments or period to which the
23 order applies;

24 (E) sets out the plan to which the order applies;

25 (F) does not require any type or form of benefit or any option
26 not otherwise provided by this plan;

27 (G) does not require an increase of benefits in excess of the
28 amount provided by this plan, determined on the basis of actuarial value; and

29 (H) does not require the payment to an alternate payee of
30 benefits that are required to be paid to another alternate payee under another
31 order previously determined to be a qualified domestic relations order;

1 (19) "retired member" means an employee who is terminated, who has
2 not received a refund from the plan, and who is receiving a retirement benefit from the
3 plan;

4 (20) "retirement" means that period of time from the first day of the
5 month following (A) the date of termination, and (B) application for retirement, in
6 which a person is appointed to receive a retirement benefit;

7 (21) "surviving spouse" means the spouse of an employee who has
8 been married to the employee for at least one year at the time of the employee's death;

9 (22) "terminated" means a person no longer employed by an employer
10 participating in the plan.

11 * Sec. 36. AS 39.35.680(39) is repealed.

12 * Sec. 37. The uncodified law of the State of Alaska is amended by adding a new section to
13 read:

14 OPTION TO PARTICIPATE IN DEFINED CONTRIBUTION RETIREMENT
15 PLAN AND ENROLLMENT PERIOD FOR NONVESTED, ACTIVE MEMBERS OF THE
16 TEACHERS' RETIREMENT DEFINED BENEFIT PLAN. (a) Notwithstanding
17 AS 14.25.310, added by sec. 11 of this Act, an active member of the defined benefit
18 retirement plan of the teachers' retirement system is eligible to participate in the defined
19 contribution retirement plan established under AS 14.25.310 - 14.25.495, added by sec. 11 of
20 this Act if that member has not vested. Participation in the defined contribution retirement
21 plan is in lieu of participation in the defined benefit retirement plan established under
22 AS 14.25.012.

23 (b) A member who has vested in a defined benefit retirement plan is not eligible to
24 transfer under this section. An active member who is on a leave of absence during the entire
25 90-day enrollment period is not eligible.

26 (c) Each eligible member who elects to participate in the defined contribution
27 retirement plan shall have transferred to a new account the present value of the member
28 contribution account balance held in trust for the member under the defined benefit retirement
29 plan of the teachers' retirement system. The employer contribution made on behalf of that
30 employee shall also transfer and the appropriate percentage of the employer contribution shall
31 be applied to the employee's health reimbursement account and to the employee's medical

1 benefits. Upon a transfer, all service credit previously earned under the defined benefit
2 retirement plan shall be nullified for purposes of entitlement to a future benefit under the
3 defined benefit retirement plan, but shall be credited for purposes of vesting in the medical
4 benefits under AS 14.25.480, added by sec. 11 of this Act. A participant is precluded from
5 transferring the member contribution account balance from the defined benefit retirement plan
6 upon the expiration of the period afforded to enroll in the defined contribution retirement
7 plan. An eligible member whose accounts are subject to a qualified domestic relations order
8 may not make an election under this subsection unless the qualified domestic relations order
9 is amended or vacated and court-certified copies of the order are received by the
10 administrator.

11 (d) As directed by the participant, the board shall transfer or cause to be transferred
12 the appropriate amounts to the designated account. The board shall establish transfer
13 procedures by regulation.

14 (e) The period of enrollment for eligible members electing to participate in the
15 defined contribution retirement plan is from the effective date of this Act until the 91st day
16 after the effective date of this Act. The election must be made in writing on forms and in the
17 manner prescribed by the administrator. Before accepting an election to participate in the
18 defined contribution plan, the administrator must provide the employee planning on making
19 an election to participate in the defined contribution plan with information including
20 calculations to illustrate the effect of moving the employee's retirement plan from the defined
21 benefit plan to the defined contribution plan as well as other information to clearly inform the
22 employee of the potential consequences of the employee's election. An election made under
23 this subsection to participate in the defined contribution retirement plan is irrevocable. Upon
24 making the election, the participant shall be enrolled as a member of the defined contribution
25 retirement plan, the member's participation in the plan shall be governed by the provisions of
26 AS 14.25.310 - 14.25.495, added by sec. 11 of this Act, and the member's participation in the
27 defined benefit retirement plan under AS 14.25.012 shall terminate. The participant's
28 enrollment in the defined retirement contribution plan shall be effective the first day of the
29 month after the administrator receives the completed enrollment forms. An election made by
30 an eligible member who is married is not effective unless the election is signed by the
31 individual's spouse.

1 (f) A member who fails to elect to participate in the defined retirement contribution
2 plan within the prescribed time period is considered to have elected to retain membership in
3 the defined benefit plan of the teachers' retirement system, and the member's option to elect to
4 participate in the defined contribution retirement plan is forfeited.

5 (g) In this section,

6 (1) "administrator" has the meaning given in AS 14.25.220;

7 (2) "board" has the meaning given in AS 14.25.220;

8 (3) "defined benefit retirement plan" means the retirement plan established in
9 AS 14.25.012;

10 (4) "defined contribution retirement plan" means the retirement plan
11 established in AS 14.25.320;

12 (5) "Internal Revenue Code" has the meaning given in AS 14.25.220;

13 (6) "member" has the meaning given in AS 14.25.220;

14 (7) "member contribution account" has the meaning given in AS 14.25.220;

15 (8) "qualified domestic relations order" has the meaning given in
16 AS 14.25.220.

17 * **Sec. 38.** The uncodified law of the State of Alaska is amended by adding a new section to
18 read:

19 **OPTION TO PARTICIPATE IN DEFINED CONTRIBUTION RETIREMENT**
20 **PLAN AND ENROLLMENT PERIOD FOR NONVESTED, ACTIVE MEMBERS OF**
21 **PUBLIC EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN.** (a)
22 Notwithstanding AS 39.35.700, added by sec. 35 of this Act, an active member of the defined
23 benefit retirement plan of the public employees' retirement system is eligible to participate in
24 the defined contribution retirement plan established under AS 39.35.700 - 39.35.895, added
25 by sec. 35 of this Act. Participation in the defined contribution retirement plan is in lieu of
26 participation in the defined benefit retirement plan established under AS 39.35.115.

27 (b) A member who has vested in a defined benefit retirement plan is not eligible to
28 transfer under this section. An active member who is on a leave of absence during the entire
29 90-day enrollment period is not eligible.

30 (c) Each eligible member who elects to participate in the defined contribution
31 retirement plan shall have transferred to a new account the present value of the employee

1 contribution account and the employee savings account held in trust for the member under the
2 defined benefit retirement plan of the public employees' retirement system. The employer
3 contribution made on behalf of that employee shall also transfer and the appropriate
4 percentage of the employer contribution shall be applied to the employee's health
5 reimbursement account and to the employee's medical benefits. Upon a transfer, all service
6 credit previously earned under the defined benefit retirement plan shall be nullified for
7 purposes of entitlement to a future benefit under the defined benefit retirement plan, but shall
8 be credited for purposes of vesting in the medical benefits under AS 39.35.870, added by sec.
9 35 of this Act. A participant is precluded from transferring the employee contribution account
10 balance and the employee savings account balance from the defined benefit retirement plan
11 upon the expiration of the period afforded to enroll in the defined contribution retirement
12 plan. An eligible member whose accounts are subject to a qualified domestic relations order
13 may not make an election under this subsection unless the qualified domestic relations order
14 is amended or vacated and court-certified copies of the order are received by the
15 administrator.

16 (d) As directed by the participant, the board shall transfer or cause to be transferred
17 the appropriate amounts to the designated account.

18 (e) The period of enrollment for eligible members electing to participate in the
19 defined contribution retirement plan is from the effective date of this Act until the 91st day
20 after the effective date of this Act. The election must be made in writing on forms and in the
21 manner prescribed by the administrator. Before accepting an election to participate in the
22 defined contribution plan, the administrator must provide the employee planning on making
23 an election to participate in the defined contribution plan with information including
24 calculations to illustrate the effect of moving the employee's retirement plan from the defined
25 benefit plan to the defined contribution plan as well as other information to clearly inform the
26 employee of the potential consequences of the employee's election. An election made under
27 this subsection to participate in the defined contribution retirement plan is irrevocable. Upon
28 making the election, the participant shall be enrolled as a member of the defined contribution
29 retirement plan, the member's participation in the plan shall be governed by the provisions of
30 AS 39.35.700 - 39.35.895, added by sec. 35 of this Act, and the member's participation in the
31 defined benefit retirement plan under AS 39.35.115 shall terminate. The participant's

1 enrollment in the defined retirement contribution plan shall be effective the first day of the
2 month after the administrator receives the completed enrollment forms. An election made by
3 an eligible member who is married is not effective unless the election is signed by the
4 individual's spouse.

5 (f) A member who fails to elect to participate in the defined retirement contribution
6 plan within the prescribed time period is considered to have elected to retain membership in
7 the defined benefit plan of the public employees' retirement system, and the member's option
8 to elect to participate in the defined contribution retirement plan is forfeited.

9 (g) In this section,

10 (1) "administrator" has the meaning given in AS 39.35.680;

11 (2) "board" has the meaning given in AS 39.35.680;

12 (3) "defined benefit retirement plan" means the retirement plan established in
13 AS 39.35.005;

14 (4) "defined contribution retirement plan" means the retirement plan
15 established in AS 39.35.710;

16 (5) "employee contribution account" has the meaning given in AS 39.35.680;

17 (6) "employee savings account" has the meaning given in AS 39.35.680;

18 (7) "Internal Revenue Code" has the meaning given in AS 39.35.680;

19 (8) "member" has the meaning given in AS 39.35.680;

20 (9) "qualified domestic relations order" has the meaning given in
21 AS 39.35.680.

22 * Sec. 39. The uncodified law of the State of Alaska is amended by adding a new section to
23 read:

24 **LEGISLATIVE INTENT REGARDING INVESTMENT OPTIONS FOR**
25 **INDIVIDUAL ACCOUNTS.** It is the intent of the legislature that, under AS 14.25.380,
26 added by sec. 11 of this Act, for teachers, and under AS 39.35.770, added by sec. 35 of this
27 Act, for public employees, the administrator of the respective plans will provide investment
28 options that are similar to the investment options provided for individual employee annuity
29 accounts in the Department of Administration under the terms of the State of Alaska
30 Supplemental Annuity Plan under AS 39.30.150 - 39.30.180.

31 * Sec. 40. The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 REVISOR INSTRUCTION. (a) In the following statutes, the revisor of statutes shall
3 substitute the spanned reference "AS 14.25.010 - 14.25.220" for references to "this chapter":
4 AS 14.25.010, 14.25.012, 14.25.040, 14.25.045, 14.25.047, 14.25.048, 14.25.061, 14.25.062,
5 14.25.063, 14.25.075, 14.25.105, 14.25.107, 14.25.110, 14.25.142, 14.25.150, 14.25.153,
6 14.25.160, 14.25.165, 14.25.166, and 14.25.220.

7 (b) In the following statute sections, the revisor of statutes shall substitute "the
8 defined benefit retirement plans" for references to "the system": AS 14.25.012(b), 14.25.015,
9 14.25.020(a), 14.25.022(g), 14.25.030, 14.25.035(c), 14.25.035(d), 14.25.035(e),
10 14.25.035(j), 14.25.040(d), 14.25.045(a), 14.25.047, 14.25.048(a), 14.25.048(c), 14.25.055,
11 14.25.060(a), 14.25.060(b), 14.25.060(d), 14.25.061(a), 14.25.062, 14.25.065, 14.25.075(a),
12 14.25.075(c), 14.25.075(d), 14.25.075(e), 14.25.075(g), 14.25.075(h), 14.25.075(i),
13 14.25.107, 14.25.110(a), 14.25.110(k), 14.25.110(l), 14.25.110(m) 14.25.143(b),
14 14.25.163(b), 14.25.163(c), 14.25.165(i), 14.25.167(g), 14.25.168(a), 14.25.168(c),
15 14.25.173(a), 14.25.173(d), 14.25.175(d), 14.25.220(1), 14.25.220(2), 14.25.220(7),
16 14.25.220(14), 14.25.220(20), 14.25.220(22), 14.25.220(23), 14.25.220(31), 14.25.220(34),
17 14.25.220(36), 14.25.220(40), and 14.25.220(42).

18 (c) In the following statute sections, the revisor of statutes shall substitute "the plan"
19 for references to "the system": AS 39.35.010(a), 39.35.010(c), 39.35.011, 39.35.020,
20 39.35.030(c), 39.35.040, 39.35.042(g), 39.35.050(a), 39.35.060, 39.35.070, 39.35.090,
21 39.35.100, 39.35.120, 39.35.125, 39.35.131, 39.35.154, 39.35.165(a), 39.35.165(c),
22 39.35.165(d), 39.35.165(e), 39.35.165(g), 39.35.165(h), 39.35.165(i), 39.35.170, 39.35.180,
23 39.35.195, 39.35.250, 39.35.280, 39.35.300(c), 39.35.310(a), 39.35.310(c), 39.35.340(a),
24 39.35.342(a), 39.35.342(d), 39.35.345(a), 39.35.345(d), 39.35.360(a), 39.35.360(g),
25 39.35.360(h), 39.35.360(i), 39.35.360(j), 39.35.360(k), 39.35.370(f), 39.35.370(g),
26 39.35.370(h), 39.35.370(i), 39.35.370(j), 39.35.370(k), 39.35.371(i), 39.35.381(b),
27 39.35.381(g), 39.35.385(c), 39.35.400(e), 39.35.450(g), 39.35.475(a), 39.35.475(b),
28 39.35.475(d), 39.35.500(a), 39.35.505, 39.35.520(a), 39.35.520(d), 39.35.522(d),
29 39.35.527(a), 39.35.527(b), 39.35.530, 39.35.535(a), 39.35.535(d), 39.35.550, 39.35.560,
30 39.35.570, 39.35.580, 39.35.590, 39.35.600, 39.35.610, 39.35.620(a), 39.35.620(h),
31 39.35.650, 39.35.670, 39.35.675(a), 39.35.680(1), 39.35.680(2), 39.35.680(5), 39.35.680(9),

1 39.35.680(12), 39.35.680(15), 39.35.680(16), 39.35.680(17), 39.35.680(20), 39.35.680(29),
2 39.35.680(32), 39.35.680(33), 39.35.680(34), and 39.35.680(35).

3 (d) In the following statutes, the revisor of statutes shall substitute the spanned
4 reference "AS 39.35.010 - 39.35.680" for references to "this chapter": AS 39.35.165,
5 39.35.200, 39.35.250, 39.35.300, 39.35.340, 39.35.350, 39.35.360(a), 39.35.360(b),
6 39.35.360(i), 39.35.360(j), 39.35.370, 39.35.371, 39.35.381, 39.35.480, 39.35.490, 39.35.495,
7 39.35.505, 39.35.530, 39.35.546, 39.35.547, 39.35.615, 39.35.620, 39.35.675, 39.35.677, and
8 39.35.680.

9 * Sec. 41. This Act takes effect July 1, 2005.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 238
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: An Act relation to TRS and PERS creating a RDU: Centralized Administrative Services
defined contribution and health reimbursement plans..... Component: Retirement and Benefits
 Sponsor: House State Affairs Committee
 Requester: House State Affairs Committee Component No.: 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	692.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)						
TOTAL OPERATING	1,054.0	577.0	523.6	570.1	570.1	570.1

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,054.0	577.0	523.6	570.1	570.1	570.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	1,054.0	577.0	523.6	570.1	570.1	570.1

Estimate of any current year (FY2005) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	3	3	3	3	3	3
Part-time	0	0	0	0	0	0
Temporary	2	1	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)
 This bill creates a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS/TRS hired after the effective date of July 1, 2005. It adds a Past Service Offset Fund to mitigate any negative effects to the unfunded liability of the current PERS/TRS by establishing the new plan. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new employee plans and two new employer accounts, create new plan publications and forms, develop and use new benefit education methods to train staff, employer contacts and new members, and to contract for financial planning services for members of the new plan. The bill also makes changes to the current PERS/TRS tiers by increasing employee contribution rates, defining when an ad hoc PRPA can be issued and requires the use of drug formularies. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate.

Prepared by: Melanie Millhorn, Director Phone 465-4408
 Division: Retirement and Benefits Date/Time 4/1/05 12:02 PM
 Approved by: Mike Tibbles, Deputy Commissioner Date 4/1/2005
 Agency: Department of Administration

FISCAL NOTE

**STATE OF ALASKA
2005 LEGISLATIVE SESSION**

BILL NO. HB 238

ANALYSIS CONTINUATION

	FY 2006	FY 2007	FY 2008	FY 09-11
PERSONAL SERVICES:				
1 - Analyst-Pgmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rpting / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
TRAVEL:				
Employer Reporting Software Upgrade Install & Help	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
CONTRACTUAL:				
Communications & Postage	82.0	17.0	17.0	17.0
Computer system mods - Employer Reporting	80.0	5.0	5.0	5.0
Computer system mods - PERS / TRS Record Integration	80.0	5.0	5.0	5.0
Computer system mods - DC / Web / Remit Modules	80.0	10.0	10.0	10.0
Computer system mods - HRA / Benefit system mods	80.0	10.0	10.0	10.0
Audit, Accting, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
One-time contract increase for additional actuarial services	25.0	0.0	0.0	0.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>692.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
SUPPLIES: Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
EQUIPMENT: Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs	30.0	0.0	0.0	0.0
TOTAL	1,054.0	577.0	523.6	570.1

The above funding source is initially listed as General Fund because the existing tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. The new tier members would have to repay the startup costs through fees as the size of the fund grows.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05, although they have not been provided for. Further, such startup costs also have the same issue, they really are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. Some arrangement will have to be worked out to allow expenditure of funds for the startup that will be reimbursed later. A legal opinion is being sought to determine if the new tier members could repay the startup costs through fees as the size of the fund grows.

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DRAFT

Sectional Analysis House Bill 238

State Affairs PERS/TRS Bill

DRAFT Sectional Analysis for HB 238

Sec. 1. Establishes applicability of the subsequent sections to teachers hired before July 1, 2005.

Sec. 2. Establishes that employees will contribute to the retirement system a percentage of their salary as determined in Sec. 4. This percentage will be deducted from the employee's compensation before federal taxes are applied.

Sec. 3. Establishes that an employer will contribute to the retirement plan as determined by Sec. 4.

Sec. 4. Gives the board authority to establish employer and employee contribution rates with the objective of fully funding the normal cost of the plan and paying off a portion of the past service cost. Employer and employee contributions must be equal with a ceiling on employee contributions at 14% and a floor on employer contributions of 11%.

Defines the terms: accrued liability, actuarially computed rate, employer contribution rate, member contribution rate, normal cost, normal cost rate, past service cost, past service cost rate, valuation rate.

Sec. 5. States that an ad hoc post pension retirement adjustment (an increase in the pension benefits due to an increase in the cost of living) may not be issued until the retirement system is 100% funded. (1988).

Sec. 6. States that an ad hoc post pension retirement adjustment (an increase in the pension benefits due to an increase in the cost of living) may not be issued until the retirement system is 100% funded. (1990).

Sec. 7. Defines "fund" as the assets of the defined benefit retirement plan for the purposes of this section.

Sec. 8. Defines "system" as the Teachers' Retirement System of Alaska.

Sec. 9. Specifies the statutes relating to defined benefit plan members.

Sec. 10. Specifies that the previous sections only apply to teachers first hired on or before July 1, 2005, and defines "first hired" as the first day of employment.

Sec. 14.25.320. Establishes a Defined Contribution Plan in compliance with federal regulations.

Sec. 14.25.330. States that the purpose of the legislation is to encourage qualified teachers to enter and remain in the state.

Sec. 14.25.340. Establishes the member contribution rate for TRS employees as 11% to be deducted from their salary at the end of each pay roll period and to be credited to their account. Allows the member to choose within the first 30 days of employment between having their member and employer contribution calculated from their basic salary or their total salary. Defines basic salary, salary base and total salary.

Sec. 14.25.350. Establishes an employer contribution rate at 11% of the member's salary, basic or total depending on the member's election as described in Sec. 14.25.340. Distributes the employer contribution in the following manner: 5.75% to the member's contribution account, 3.75% to the member's medical plan, and 1.5% to the members Health Reimbursement Account.

Sec. 14.25.360. Gives 15 days from the close of pay roll for member and employee contributions to be transferred to the member's retirement fund. Establishes consequences for non-transmittal.

Sec. 14.25.370. Establishes immediate vesting of a member in both the employer and employee contributions.

Sec. 14.25.380. Tasks the Alaska State Pension Investment Board with providing a range of investment options for members and exercising control over those options.

Establishes that if the account has been divided under a qualified domestic relations order, each individual exercises control over his or her account.

Sec. 14.25.390. Establishes requirements for the distribution of a member's account. A former member, or their beneficiary if the member is deceased, may choose between the following distribution options: a lump sum, a direct rollover of the lump sum into another qualified plan, periodic distributions, or no distribution until the member elects to do so. If a former member's account balance is less than \$5,000 that amount is automatically distributed out unless the former member submits a written statement within 120 days of termination requesting that the balance remain in the plan.

Sec. 14.25.400. Acknowledges the refund of members upon termination when a qualified domestic relations order applies.

Sec. 14.25.410. Establishes rights of participants if married or under a qualified domestic relations order upon termination of member.

Sec. 14.25.420. Allows a member to roll over funds from a previous qualified plan upon hire or into another qualified plan upon termination. Establishes that rollover contributions cannot count as service towards medical eligibility. Defines qualified plans eligible for rollover.

Sec. 14.25.430. Establishes distribution requirements for the interest of a member's account in the event that member dies, that member's dependents die, or no one claims the distributions. Defines designated beneficiary and required beginning date.

Sec. 14.25.440. Requires that each member designate a beneficiary and allows them to change that choice at any time except to the extent that a qualified domestic relations order applies. If a member fails to designate a beneficiary, at the time of the member's death the spouse if married to the member at some point during the member's employment automatically becomes the designated beneficiary. If there is no surviving spouse, the amount is distributed between the surviving children, if there are no surviving children to the surviving parents of those children. If none of the above, the account is distributed to the estate. Establishes a time limit on beneficiaries claiming benefits.

Sec. 14.25.450. Establishes procedures for correcting an error in the calculation of benefits. Gives the Alaska Teacher's Retirement Board responsibility for taking action on such claims.

Sec. 14.25.460. Allows the board to waive an adjustment that would be deemed unfair for a variety of reasons and provides a time period and process for appeals.

Sec. 14.25.470. Establishes requirement for eligibility of medical benefits. A member must retire directly from the system at any age with 30 years of service or at normal retirement age with 10 years of service. Defines the normal retirement age as 60 plus the increase in life expectancy from the current mortality table to the board adopted new mortality table.

Sec. 14.25.480. Establishes medical benefits to retirees as access to a major medical insurance plan and to the health reimbursement account. Establishes eligibility of members and any dependents for medical benefits. Outlines the eligibility of medical benefits for an early, normal, and Medicare eligible retiree.

Sec. 14.25.495. References the statutes that define the terms administrator, beneficiary, board, compensation, employer, fund, former participating member, fund, retirement fund, Internal Revenue Code, member, member contribution account, qualified domestic relation order, school year, teacher, and year of service. Defines terminated as a person no longer employed by an employer participating in the plan.

Sec. 11. Subjects an employee who wishes to transfer assets out of the system to a qualified domestic relations order and establishes relevant requirements.

Sec. 12. Allows the Department of Administration to obtain group insurance under the condition that it provides certain types of insurance, such as hospital expense, life, surgical, etc.

Requires members whenever possible to obtain drugs from a preferred drug list (formulary) established by the insurance provider. If the member opts for a non-formulary drug when the formulary version is available, they will pay the difference between the two.

Establishes eligibility of member's dependents for said group insurance policy.

Establishes the procedure for employers to participate in said group insurance policy.

Establishes the procedure for the Department of Administration to procure an insurance policy for members. Requires that the Department allow all eligible insurance carriers to bid and determine selection of carrier based on lowest bid amount to be reviewed at least once every 5 years.

Establishes that the level of benefits for persons over age 65 shall be the same as for persons under age 65, however the cost of post-65 member's benefits will be supplemented by any benefits provided under the federal old age, survivors, and disability insurance programs.

Allows a member to elect and pay for long-term care insurance for member and dependents.

Sec. 13. Establishes a Health Reimbursement Account Plan for State of Alaska Teachers and Public Employees and outlines eligibility.

Sec. 39.30.310. Establishes the purpose of the Health Reimbursement Account as the reimbursement of qualified medical expenses. Establishes an effective date of July 1, 2005.

Sec. 39.30.320. Establishes the attorney general of the State as legal council for the administrator of the plan.

Sec. 39.30.330. Establishes the commissioner of administration, or the commissioner's designee as the administrator of the plan.

Sec. 39.30.340. Establishes the powers and duties of the administrator of the Health Reimbursement Account fund.

Sec. 39.30.350. Specifies that only employer contributions are permitted to the Health Reimbursement Account.

Sec. 39.30.360. Establishes the Alaska State Pension Investment Board as the fiduciary of the fund.

Sec. 39.30.370. Establishes that when a person terminates employment before becoming eligible for medical they forfeit any access to their Health Reimbursement Account. However, if a person is re-employed at a later date their account balance will be restored without interest or other adjustments attributed to it.

Sec. 39.30.380. Establishes that a member is eligible for the plan when they become eligible for medical benefits.

39.30.390. Establishes that if the participant elects major medical insurance the administrator will pay the premium on behalf of that member from their Health Reimbursement Account. When the participant's member account is exhausted, the participant is responsible for those payments.

If a participant dies before exhausting their account their surviving dependents are eligible to use the remaining balance. If any amount remains in the account after the death of the member and all remaining dependents, the balance reverts to the trust.

Sec. 39.30.400. Exempts contributions to the plan from taxes, however a member's right to receive benefits may be assigned under a qualified domestic relations order, a trust or a similar qualifying legal device.

Sec. 39.30.410. Gives the state the right to amend the plan at any time. Bars the administrator from changing the plan in a manner to reduce the accrued benefits of any member. Allows the state to terminate the plan in whole or in part without any liability. If this occurs, all investments remain in the account until all accounts have been distributed.

Requires any contribution made to the plan by an employer because of a mistake of fact to be returned to the employer.

Sec. 39.30.420. Requires that the fund not be used for any other purpose than the benefit of the participants. The assets of the plan may not be used to pay other plans of an employer.

Sec. 39.30.495. Refers to the definition of the following terms in statute: administrator, board, dependent child, employer, and qualified domestic relations order. Defines the terms fund, individual account, member, and participant.

Sec. 39.30.500. Establishes a past service cost offset account for employers and employees in a defined contribution plan.

Sec. 39.30.510. The purpose of the account is to help employers pay their past service cost and will consist of legislative appropriations and investment returns.

Sec. 39.30.520. Establishes the attorney general of the State as legal council for the account.

Sec. 39.30.530. Establishes the commissioner of administration or the designee of the commissioner as administrator of the account.

Sec. 39.30.540. Establishes the powers and duties of the administrator.

Sec. 39.30.560. Requires the administrator to pay into the teacher's retirement fund on the employer's behalf the employer's past service cost for each member in a defined contribution plan.

Sec. 39.30.595. Defines the terms accrued liability, administrator, blended employer past service cost rate, member, past service cost, and past service cost rate.

Sec. 39.35.005. Establishes applicability of the following provisions only to members first hired before July 1, 2005.

Sec. 39.35.010. Substitutes the term "plan" for "system" in existing defined benefit statutes. Substitutes a specific statute reference for the term "this chapter" in existing statute referring to a defined benefit plan.

Sec. 39.35.158. Substitutes the term "plan" for "system" in existing defined benefit statutes.

Sec. 18. Establishes the procedure for collecting and transferring member contributions.

Sec. 19. Sec. 39.35.250. Establishes that an employer will contribute an amount to the plan as determined by the board.

Sec. 20. Sec. 39.35.272. Gives the board the authority to annually establish employer and employee contribution rates with the goal of paying the entire normal cost rate and some portion of the past service cost.

Establishes employer and employee contribution rates as equal with a ceiling on employee contributions at 13% and a floor on employer contributions at 10%. Neither can increase more than 5% annually.

Defines the terms accrued liability, actuarially computed rate, employer contribution rate, member contribution rate, normal cost, normal cost rate, past service cost, past service cost rate, and valuation date.

Sec. 21. Exempts the University of Alaska as eligible for credible service under the teachers retirement plan.

Section 24. Defines parameters under which member may claim credited service.

Section 25. Determines indebtedness of member to plan if contributions plus interest exceed actuarial benefit costs based on member's credited service.

Section 26. Defines method of calculation for public service benefits.

Sec. 27. Establishes that a member who claims credited service in a DC plan by transfer loses all rights to benefits under a defined contribution plan. Disqualifies public service benefits as counting towards years of service requirements.

Sec. 28. Allows a former member to reinstate service when they have received a refund of contributions.

Sec. 29. Establishes that when a member retires from the plan and is later re-hired they will suspend collection of their retirement benefits and begin paying into the retirement plan again.

Sec. 30. Establishes elected officials as eligible for benefits under this plan.

Sec. 31. Lists the different types of eligible members that the plan will cover. Lists the different types of ineligible members the plan will not cover.

Sec. 32. Defines plan as the defined contribution retirement plan as established in this legislation.

Sec. 33. Sec. 39.35.700. Applies the following to employees hired on or after July 1, 2005.

Sec.39.35.710. Establishes a defined contribution plan in compliance with federal qualification requirements.

Sec. 39.35.720. States that the purpose of the legislation is to encourage qualified personnel to enter and remain in the state.

Sec. 39.35.730. Establishes the member contribution rate for public employer retirement system employees at 10% to be deducted from their salary at the end of each pay roll period and credited to their account.

Allows the employee to choose within the first 30 days of employment between having their member and employer contribution calculated from their basic salary or their total salary. Defines basic salary, extra payments, salary base and total salary.

Sec. 39.35.740. Establishes an employer contribution rate at 10% of the members salary, basic or total depending on the members election as described in Sec. 39.35.730. Distributes the employer contribution in the following manner: 5.5% to the members

account, 3.5% to the member's medical plan, and 1% to the member's Health Reimbursement Account.

Sec. 39.35.750. Gives 15 days from the close of pay roll for member and employee contributions to be transferred to the members retirement fund. Establishes repercussions for non-transmittal.

Sec. 39.35.760. Establishes that a member is immediately vested in both the employer and employee contributions.

Sec. 39.38.770. Tasks the Alaska State Pension Investment Board with providing a range of investment options for members and exercising control over those options. If the account has been divided under a qualified domestic relations order, each individual exercises control over his or her account.

Sec. 39.35.780. Establishes requirements for the distribution of a member's account. A former member, or their beneficiary if deceased, may chose between the following distribution options: a lump sum, a direct roll over of the lump sum into another qualified plan, periodic distributions, or no distribution until the member elects to do so. If a former member's account balance is less than \$5,000 that amount is automatically distrusted unless the former member submits a written statement within 120 days of termination requesting that the balance remain in the plan.

Sec. 39.35.790. Acknowledges the refund of members upon termination when a qualified domestic relations order applies.

Sec. 39.35.800. Establishes rights of participants if married or under a qualified domestic relations order upon termination of member.

Sec. 39.35.810. Allows a member to roll over funds from a previous qualified plan upon hire or into another qualified plan upon termination. However, rollover contributions cannot count as service towards medical eligibility. Defines qualified plans eligible for rollover.

Sec. 38.35.820. Establishes distribution requirements for the interest of a member's account in the event that member dies, that member's dependents die, or no one claims the distributions. Defines designated beneficiary and required beginning date.

Sec. 39.35.830. Requires that each member designate a beneficiary and allows them to change that choice at any time except to the extent that a qualified domestic relations order applies. If a member fails to designate a beneficiary, at the time of the member's death the spouse if married to the member at some point during the member's employment automatically becomes the designated beneficiary. If there is no surviving spouse, the amount is distributed between the surviving children, if there are no surviving children to the surviving parents of those children. If none of the above, the account is distributed to the estate. Establishes a time limit on beneficiaries claiming benefits.

Sec. 39.35.840. Establishes procedures for correcting an error in the calculation of benefits. Gives the Alaska Teacher's Retirement Board responsibility for taking action on such claims.

Sec. 39.35.850. Allows the board to waive an adjustment that would be deemed unfair for a variety of specified reasons and provides a time period and process for appeals.

Sec. 39.35.860. Establishes requirement for eligibility of medical benefits. A member must retire directly from the system at any age with 30 years of service or at normal retirement age with 10 years of service. Defines the normal retirement age as 60 plus the increase in life expectancy from the current mortality table to the figure of a new board adopted mortality table.

Sec. 39.35.870. Establishes medical benefits to retirees as access to a major medical insurance plan and to a health reimbursement account. Establishes eligibility of members and any dependents for medical benefits. Outlines the eligibility of medical benefits for an early, normal, and Medicare eligible retiree.

Sec. 39.35.880. Establishes the Alaska State Pension Investment Board as fiduciary of the fund and determines their responsibilities and statutory limitations.

Sec. 39.35.884. Allows service credit to be obtained for military service.

Sec. 39.35.888. Exempts member contributions from taxation or any kind of anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge. However a member's right to receive benefits may be assigned under a qualified domestic relations order or a trust or similar legal device.

An inactive member may directly transfer their account into a qualified retirement plan.

Sec. 39.35.890. If a former member has not filed for benefits or refund by the time they reach 75 or within 50 years of the most recent active membership, benefits or refunds will be forfeited and the member's records destroyed.

Sec. 39.35.892. Establishes knowingly falsifying records of this plan as a misdemeanor and defines knowingly.

Sec. 39.35.895. Defines the following terms: active member, actuarial adjustment, administrator, beneficiary, board, calendar year, compensations, employee contribution account, former member, fund, and inactive member.

Lists the different types of eligible members that the plan will cover. Lists the different types of ineligible members the plan will not cover. Lists the different types of employees the plan may cover.

Defines military service, peace officer, plan, public organization, and qualified domestic relations order.

Recognizes the rights to an alternate payee to a member's benefits. Establishes those distribution requirements and the conditions of payment to the alternate payee. Defines the terms: retired member, retirement, surviving spouse, and terminated.

Sec. 34. Repeals AS 39.35.680(39)

Sec. 35. Allows a Teachers Retirement System non-vested defined benefit tier member to transfer into a defined contribution plan. The present value of the members account balance will be transferred to the defined contribution plan and the appropriate amount to cover payments towards medical benefits will be applied. Upon transfer credit under the defined contribution plan is nullified, however the member's accrued years of service will count towards qualifying for medical eligibility in the defined contribution plan.

Establishes a 90 Day window after the effective date of this legislation for the member to transfer.

Gives the board the authority to establish regulations to regulate the transfer of employees.

Requires the employee's election be stated in writing and ensures that the employee is fully aware of the implications of their transfer.

If a member makes no election within the time period provided, they will remain in the defined benefit tier.

Defines the terms administrator, board, defined benefits retirement plan, defined contribution retirement plan, International Revenue Code, member, member contribution account, and qualified domestic relations order.

Sec. 36. Allows a Public Employees Retirement System non-vested defined benefit tier member transfer into a defined contribution plan. The present value of the members account balance will be transferred to the defined contribution plan and the appropriate amount to cover payments towards medical benefits will be applied. Upon transfer credit under the defined contribution plan is nullified, however the member's accrued years of service will count towards qualifying for medical eligibility in the defined contribution plan.

Establishes a 90-day window after the effective date of this legislation the member has to transfer.

Gives the board the authority to establish regulations to regulate the transfer of employees.

Requires the employee's election be stated in writing and ensures that the employee is fully aware of the implications of their transfer.

If a member makes no election within the time period provided, they will remain in the Defined benefit tier.

Defines the terms administrator, board, defined benefits retirement plan, defined contribution retirement plan, International Revenue Code, member, member contribution account, and qualified domestic relations order.

Sec. 37. Establishes the legislative intent of this legislation: to provide the members with investment options similar to the State Supplemental Annuity Plan.

Sec. 38. Gives instruction to revisor.


Sec. 39. Effective date of July 1, 2005

**Medical Plan Portion of
CSHB 238 24-LS0761/I**

WORK DRAFT

Note: Same changes apply to both PERS and TRS sections. The TRS equivalent of the following pages can be found on page 16, line 9 thru page 18, line 25 of HB 238.

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31

 **Sec. 39.35.860. Retirement.** (a) In order to obtain medical benefits under AS 39.35.870 and access to the health reimbursement account plan under AS 39.30.300, an active member must retire directly from the plan. A member is eligible to retire from the plan if the member has been an active member for at least 12 months before application for retirement and

- 1 (1) the member has at least 30 years of membership service; or
2 (2) the member reaches the normal retirement age and has at least 10
3 years of membership service.

4 (b) The normal retirement age is 60 months less than the age set for Medicare
5 eligibility.

6 (c) A member must apply to the administrator for appointment to retirement.
7 Application shall be made on forms and in the manner prescribed by the administrator.

8 (d) A member who continues in the employ of the employer after reaching
9 normal retirement age shall continue to participate in the plan and to have
10 contributions allocated to the member's account.

11 **Sec. 39.35.870. Medical benefits.** (a) The medical benefits available to
12 eligible persons are access to the retiree major medical insurance plan and to the
13 health reimbursement account. Access to the retiree major medical insurance plan
14 means that an eligible person may not be denied insurance coverage except for failure
15 to pay the required premium.

16 (b) The following persons are eligible for the retiree major medical insurance
17 plan provided under this section and the health reimbursement account:

18 (1) a member with at least 30 years of service and who retires directly
19 from the plan;

20 (2) the surviving spouse of a member who elected coverage under (1)
21 of this subsection;

22 (3) a member who reaches the normal retirement age as provided in
23 AS 39.35.860, has at least 10 years of service, and retires directly from the plan;

24 (4) the surviving spouse of a member who elected coverage under (3)
25 of this subsection.

26 (c) Retiree major medical insurance plan coverage elected by an eligible
27 member under this section covers the eligible member, the spouse of the eligible
28 member, and the dependent children of the qualified member.

29 (d) Retiree major medical insurance plan coverage elected by a surviving
30 spouse of a eligible member under this section covers the surviving spouse and the
31 dependent children of the surviving spouse.

1 (e) Major medical insurance coverage takes effect on the first day of the
2 month following the date of the election and stops when the person who elects
3 coverage under (b) of this section dies or fails to make a required premium payment.

4 (f) The coverage for persons who are eligible for Medicare is the same as that
5 available for persons who are not yet eligible for Medicare. The benefits payable to
6 those Medicare eligible persons supplement any benefits provided under the Medicare
7 program.

8 (g) The medical and optional insurance premiums owed by the person who
9 elects coverage under (b) of this section shall be deducted from the health
10 reimbursement account. If the amount of the health reimbursement account becomes
11 insufficient to pay the premiums, the person who elects coverage under (a) of this
12 section shall pay the premiums directly.

13 (h) The board may increase the premium amount for retiree major medical
14 insurance not more frequently than once a year. An increase in the premium amount
15 may not exceed five percentage points annually.

16 (i) The portion of the cost of premiums payable by the employee for retiree
17 major medical insurance coverage for an eligible member or surviving spouse who is

18 (1) younger than the normal retirement age set in AS 39.35.860 is the
19 amount equal to the full monthly group premium for retiree major medical insurance
20 coverage;

21 (2) the normal retirement age set in AS 39.35.860 or older is the
22 following percentage of the premium amount established for retirees normal
23 retirement age or older: 70 percent if the member had 10 years of service; for each
24 additional year of service after the member's tenth year of service, the cost of
25 premiums decreases by three percentage points; however, the minimum employee
26 portion of the premium is 10 percent if the member had 30 or more years of service.

27 (j) The eligibility for and cost of premiums for retiree major medical insurance
28 coverage for an alternate payee under a qualified domestic relations order shall be
29 determined based on the years of service of the member to which the alternate payee is
30 entitled under the order.

31 (k) The monthly group premiums for retiree major medical insurance coverage

1 are established by the administrator in accordance with AS 39.30.095. Nothing in
2 AS 39.35.700 - 39.35.895 guarantees a person who elects coverage under (a) of this
3 section a monthly group premium rate for retiree major medical insurance coverage
4 other than the premium in effect for the month in which the premium is due for
5 coverage for that month.

6 (I) In this section,

7 (1) "health reimbursement account" means the plan established in
8 AS 39.30.300;

9 (2) "retires directly from the plan" means that the member is an active
10 member at the time that the member applies to the administrator for appointment to
11 retirement and that the member continues as an active member up through the day
12 before the day the member is appointed to retirement.

Insert into Work Draft of CSHB 238, page 15, line 2.

Sec. 14.25.470. Retirement. (a) In order to obtain medical benefits under AS 14.25.480 and access to the health reimbursement ~~account~~ arrangement under AS 39.30.300, a member must retire directly from the plan. A member is eligible to retire from the plan if the member has been an active member for at least 12 months before application for retirement and

- (1) the member has at least 30 years of service; or
- (2) the member reaches the normal retirement age and has at least 10 years of service.

(b) The normal retirement age is 60 months less than the age set for Medicare eligibility at the time the member retires from the plan.

(c) A member must apply to the administrator for appointment to retirement. Application shall be made on forms and in the manner prescribed by the administrator.

(d) A member who continues in the employ of the employer after reaching normal retirement age shall continue to participate in the plan and have contributions allocated to the member's account.

Sec. 14.25.480. Medical benefits. (a) The medical benefits available to eligible persons are access to the retiree major medical ~~insurance~~ plan and to the health reimbursement account arrangement. Access to the retiree major medical ~~insurance~~ plan means that an eligible person may not be denied ~~medical insurance~~ coverage except for failure to pay the required premium.

(b) The following persons are eligible for the retiree major medical ~~insurance~~ plan provided under this section and the health reimbursement-~~account~~ arrangement:

- (1) a member with at least 30 years of service and who retires directly from the plan;
- (2) the surviving spouse of a member who elected coverage under (1) of this subsection;

(3) a member who reaches the normal retirement age as provided in AS 14.25.470, has at least 10 years of service, and retires directly from the plan;

(4) the surviving spouse of a member who elected coverage under (3) of this subsection.

(c) Retiree major medical ~~insurance~~ plan coverage elected by an eligible member under this section covers the eligible member, the spouse of the eligible member, and the dependent children of the eligible member.

(d) Retiree major medical ~~insurance~~ plan coverage elected by ~~a~~ the surviving spouse of an eligible member under this section covers the surviving spouse and the dependent children of the eligible member who are dependent on the surviving spouse.

(e) A member's spouse and dependents are only covered if they were spouses or dependents while the member was an active employee.

~~(f)~~ Major medical ~~insurance~~ coverage takes effect on the first day of the month following the date of the election and stops when the person who elects coverage under (b) of this section dies or fails to make a required premium payment.

~~(g)~~ The coverage for persons who are eligible for Medicare is the same as that available for persons who are not yet eligible for Medicare. The benefits payable to those Medicare eligible persons supplement any benefits provided under the Medicare program.

~~(h)~~ The medical and optional insurance premiums owed by the person who elects coverage under (b) of this section shall be deducted from the health reimbursement ~~account arrangement~~. If the amount of the health reimbursement ~~account arrangement~~ becomes insufficient to pay the premiums, the person who elects coverage under (a) of this section shall pay the premiums directly.

~~(i)~~ The administrator shall separate retiree health coverage premiums for participants who are Medicare eligible and for participants who are not yet Medicare eligible. ~~An increase in the premium amount may not exceed five percentage points annually.~~ A participant's share of the applicable premium shall be determined according to ~~(j)~~ (j) and (k) of this section.

(j) Participants who have not reached the normal retirement age as defined in 14.25.470 (b) are required to pay the full amount of the applicable premium cost as established in section (i).

~~The portion of the cost of premiums payable by the participant is 70 percent if the member had 10 years of service; for each additional year of service after the member's 10th year of service, the cost of premiums decreases by three percentage points; however, the minimum employee portion of the premium is 10 percent if the member has 30 or more years of service.~~

(k) For participants who have reached normal retirement age as defined in 14.25.470 (b), the portion of the cost of premiums payable by the participant is determined as the difference between the applicable premium amount as established in section (i) and a subsidy amount which is determined by the product of the annual subsidy base and the subsidy percentage defined in this section. The subsidy base will be established upon passage of this legislation and set equal to the current premium amounts as established in (i) of this section. The subsidy base will increase annually at the lesser of 5% or the annual percentage increase in the applicable premium amount as established in section (i). The subsidy percentage will be 3% per year of service, but shall not exceed 90%. ~~Only when the rate of health care inflation is over 5 percent will the subsidy base increase by no more than 5 percent annually.~~

(l) The eligibility for retiree major medical insurance coverage for an alternate payee under a qualified domestic relations order shall be determined based on the eligibility of the member to elect coverage. The alternate payee shall pay the full month premium for retiree major medical insurance coverage.

(m) The administrator shall establish monthly group premiums for retiree major medical insurance coverage under AS 39.30.095. Nothing in AS 14.25.310-14.25.495 guarantees a person who elects coverage under (a) of this section a monthly group premium rate for retiree major medical insurance coverage other than the premium in effect for the month in which the premium is due for coverage for that month.

(n) In this section,

- (1) "health reimbursement account" means the plan established in AS 39.30.300;
- (2) "retires directly from the plan" means that the member is an active member at the time that the member applies to the administrator for appointment to retirement and that the member continues as an active member up through the day before the day the member is appointed to retirement and was an active member for at least 12 months before application for retirement.

Sec. 14.25.495. Definitions. In AS 14.25.310 – 14.25.495, unless the context requires otherwise,

- (1) "administrator" has the meaning given in AS 14.25.220;
- (2) "beneficiary" has the meaning given in AS 14.25.220;
- (3) "board" has the meaning given in AS 14.25.220;
- (4) "compensation" has the meaning given in AS 14.25.220;
- (5) "employer" has the meaning given in AS 14.25.220;
- (6) "former participating member" means a terminated member;
- (7) "fund" or "retirement fund" means the assets of the defined contribution plan established in AS 14.25.310 – 14.25.495;
- (8) "Internal Revenue Code" has the meaning given in AS 14.25.220;
- (9) "member" has the meaning given "teacher" in AS 14.25.220;
- (10) "member account" means the total maintained by the plan of the member's mandatory contributions, employer contributions on behalf of the employee, indebtedness principal and interest payments, interest credited to each of those accounts, and adjustments to the account in accordance with AS 14.25.450;
- (11) "plan" means the defined contribution plan
- ~~(11)~~(12) "qualified domestic relations order" has the meaning given in AS 14.25.220;
- ~~(12)~~(13) "school year" has the meaning given in AS 14.25.220;
- ~~(13)~~(14) "teacher" has the meaning given in AS 14.25.220,

~~(14)~~(15) "terminated" means a person no longer employed by a n employer participating in the plan;

~~(15)~~(16) "year of service" has the meaning given in AS 14.25.220;

*Sec. 12. AS 14.40.671(e) is amended to read:

(e) An employee whose rights to transfer assets out of a state retirement system are subject to a qualified domestic relations is entitled to transfer assets from the state retirement system to the program only if the requirements for receiving a refund under AS 14.25.150(b), 14.25.460, [OR] AS 39.35.200(c), or 39.35.790, as appropriate, are met.

*Sec. 13. AS 39.30.090(a) is amended to read:

(a) The Department of Administration may obtain a policy or policies of group insurance covering state employees, persons entitled to coverage under AS 14.25.168, 14.25.480, AS 22.25.090, AS 30.35.535, 39.35.870, or former AS 39.37.145, employees of other participating governmental units, or persons entitled to coverage under AS 23.15.136, subject to the following conditions:

(1) A group insurance policy must

~~(A)~~ [SHALL] provide on or more of the following benefits; life insurance, accidental death and dismemberment insurance, weekly indemnity insurance, hospital expense insurance, surgical expense insurance, dental expense insurance, audiovisual insurance, or other medical care insurance; and

~~(B) require the insurance plan to provide a preferred drug list or formulary and must provide that beneficiaries use the appropriate medication on the preferred drug list or pay the difference in cost between the medication listed on the preferred drug list and the cost of a nonformulary medication; however, if a medication is not on the preferred drug list as a generic or nongeneric drug, the insurance plan shall cover the cost of the medication. For purposes of this subparagraph, a nonformulary medication is one that is not listed on~~

In the bill

the formulary, such as a nongeneric form of the medication when a generic form of the medication is in the formulary.

LEGISLATIVE INTENT REGARDING RETIREE'S HEALTH CARE. It is the intent of the legislature for the Division of Retirement and Benefits to implement by regulation all cost saving measures appropriate to current and future retirees in the health care system. This includes but is not limited to: the use of manufacturer's rebates, co-pay levels, multi-tiered co-payment structure, mandating the use of generic drugs, discussion of what type of drug classes is in a formulary, dispensing fees, mandating or providing incentives for mail order pharmaceuticals, using a reduction in the average wholesale price, providing case management services for certain users of pharmaceuticals, capping the number of prescriptions filled per month, restricting the number of refills that users can have at one time.

- (2) Each eligible employee of the state, the spouse and the unmarried children chiefly dependent on the eligible employee for support, and each eligible employee of another participating governmental unit shall be covered by the group policy, unless exempt under regulations adopted by the commissioner of administration.
- (3) A governmental unit may participate under a group policy if
 - a. its governing body adopts a resolution authorizing participation, and payment of required premiums;
 - b. a certified copy of the resolution is filed with the Department of Administration; and
 - c. the commissioner of administration approves the participation in writing.
- (4) In procuring a policy of group health or group life insurance as provided under this section or excess loss insurance as provided in AS 39.30.091, the Department of Administration shall comply with the dual choice requirements of AS 21.86.310, and shall obtain the insurance policy from an insurer authorized to transact business in the state under AS 21.09, a hospital or medical service corporation authorized to transact business in this state under

AS 21.87, or a health maintenance organization authorized to operate in this state under AS 21.86. An excess loss insurance policy may be obtained from a life or health insurer authorized to transact business in this state under AS 21.09 or from a hospital or medical service corporation authorized to transact business in this state under AS 21.87.

- (5) The Department of Administration shall make available bid specifications for desired insurance benefits or for administration of benefit claims and payments to (A) all insurance carriers authorized to transact business in this state under AS 21.09 and all hospital or medical service corporation authorized to transact business under AS 21.87 who are qualified to provide the desired benefits; and (B) to insurance carriers authorized to transact business in this state under AS 21.09, hospital or medical service corporations authorized to transact business under AS 21.87, and third-party administrators licensed to transact business in this state and qualified to provide administrative services. The specifications shall be made available at least once every five years. The lowest responsible bid submitted by an insurance carrier, hospital or medical service corporation, or third-party administrator with adequate servicing facilities shall govern selection of a carrier, hospital or medical service corporation, or third-party administrator under this section or the selection of an insurance carrier or hospital or medical service corporation to provide excess loss insurance as provided in AS 39.30.091.
- (6) If the aggregate of dividends payable under the group insurance policy exceeds the governmental unit's share of the premium, the excess shall be applied by the governmental unit for the sole benefit of the employees.
- (7) A person receiving benefits under AS 14.25.110, AS 2.25, AS 39.35, or former AS 39.37 may continue the life insurance coverage that was in effect under this section at the time of termination of employment with the state or participating governmental unit.
- (8) A person electing to have insurance under (7) of this subsection shall pay the cost of this insurance.

- (9) For each permanent part-time employee electing coverage under this section, the state shall contribute one-half the state contribution rate for permanent full-time state employees, and the permanent part-time employees shall contribute the other one-half.
- (10) A person receiving benefits under AS 14.25, AS 22.25, AS 39.35, or former AS 39.37 may obtain auditory, visual, and dental insurance for that person and eligible dependents under this section. The level of coverage for persons over ~~65~~ Medicare eligible age shall be the same as that available before reaching ~~age 65~~ Medicare eligible age except that the benefits payable shall be supplemental to any benefits provided under the federal old age, survivors, and disability insurance program. A person electing to have insurance under this paragraph shall pay the cost of the insurance. The commissioner of administration shall adopt regulations implementing this paragraph.
- (11) A person receiving benefits under AS 14.25, AS 22.25, AS 39.35, or former AS 39.37 may obtain long-term care insurance for that person and eligible dependents under this section. A person who elects insurance under this paragraph shall pay the cost of the insurance premium. The commissioner of administration shall adopt regulations to implement this paragraph.
- (12) Each licensee holding a current operating agreement for a vending facility under AS 23.15.010 – 23.15.210 shall be covered by the group policy that applies to governmental units other than the state.



State of Alaska
PERS & TRS
Proposed Medical Program
House State Affairs

April 2, 2005



Proposed Medical Program

Key Features

Key features of post-retirement medical program

- ⇒ Members must retire directly from the System to be eligible
- ⇒ System sponsored health plan with varying levels of subsidy or cost to members
- ⇒ Early retirees get “access only” prior to normal retirement eligibility
- ⇒ Defined dollar benefit from normal retirement to Medicare eligibility (currently age 65)
- ⇒ Defined health benefit after Medicare eligibility, similar to the current program with the following key exceptions:
 - Method of coordination with Medicare
 - Retired members will share in the cost through premium contributions



Proposed Medical Program

System Sponsored Health Care Plan

- ⇒ System sponsored health plan available to all eligible retirees, but with varying levels of subsidy
- ⇒ Basic plan design elements

	Current Plan	Alternative Plan
Medical		
▪ Coordination with Medicare	Total Allowable	Maintenance of Benefits
▪ Deductible	\$150/person, \$450/family	\$250/person, \$750/family
▪ Out of Pocket	\$800	\$2,500
▪ Outpatient Surgery Coinsurance	100%	80%
Prescription Drug		
▪ Retail	90 day supply	30 day supply
- Generic	\$4	\$5
- Brand Formulary	\$8	\$15
- Brand Non-Formulary	\$8	\$30
▪ Mail Order	90 day supply	90 day supply
- Generic	\$0	\$5
- Brand Formulary	\$0	\$15
- Brand Non-Formulary	\$0	\$30
Dental, Vision, Audio	No Change	



Proposed Medical Program

Eligibility

- ⇒ Normal retirement eligibility for medical benefits will be defined as the earlier of
 - (1) age 60 with 10 years of service
 - (2) 25 years of service (30 years for PERS “others” retirees).
- ⇒ Disabled participants will be eligible
- ⇒ Terminated vested participants are not eligible. A member must retire directly from active service in order to receive coverage



Proposed Medical Program

Early Retirement

- ⇒ Early retirees who have not reached normal retirement eligibility
 - Receive “access only” plan
 - Will not be eligible for subsidized retiree health plan costs
 - Pay 100% of the pre-Medicare eligible (currently pre-age 65) per member per year (PMPY) claim costs
- ⇒ Dependent spouses of early retirees will pay 100% of the appropriate pre-Medicare or Medicare eligible PMPY claim cost



Proposed Medical Program

Normal Retirement to Medicare Eligibility

- ⇒ Members who retire directly from the Systems will be eligible for a “defined dollar” benefit upon reaching eligibility for normal retirement
- ⇒ Fixed dollar subsidy toward system sponsored health coverage
- ⇒ Access to system sponsored retiree medical plan as outlined above
- ⇒ Subsidy amount is based on length of service
- ⇒ Subsidy amount indexed each year by healthcare inflation up to a maximum of 5 percent (with a “catch-up” provision based on years when healthcare inflation is less than 5%)



Proposed Medical Program

Normal Retirement to Medicare Eligibility

- ⇒ Upon becoming eligible for Medicare, such members will become eligible for the “defined health” benefit
- ⇒ Pre-Medicare dependent spouse is eligible for the same subsidy as retiree
- ⇒ Medicare eligible dependent spouse is eligible for the Medicare eligible benefit level, with contribution percentage based on retiree length of service



Proposed Medical Program

Normal Retirement to Medicare Eligibility

⇒ Apply percentages to the applicable subsidy base to arrive at the appropriate subsidy amount.

⇒ Defined Dollar Subsidy Base Annual PMPY for fiscal year 2004:

Pre Medicare \$5,962*

⇒ Subsidy Percentage

<u>Service (yrs)</u>	<u>Subsidy %</u>
10-14	30%
15-19	45%
20-24	60%
25-29	75%
30+	90%

⇒ Member contributions are determined by subtracting the annual subsidy amount from the annual claims cost for a given year.

⇒ *Equivalent to FY2004 pre-Medicare projected claim cost.

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Proposed Medical Program

After Medicare Eligibility

- ⇒ Defined health benefit similar to current program
- ⇒ Retirees who were previously eligible for 100% subsidy of retiree health plan costs will now participate in the premium cost.
- ⇒ Contributions are per covered individual
- ⇒ Pre-Medicare dependent spouses are eligible to receive a defined dollar subsidy with percentage based on retiree length of service
- ⇒ Medicare eligible dependent spouses are eligible to receive the same defined health benefits as the retiree and pay the same contributions



Proposed Medical Program

After Medicare Eligibility

⇒ Contribution Base PMPY for fiscal year 2004:

Medicare Eligible \$2,667

⇒ Contribution Percentage

<u>Service (yrs)</u>	<u>Contribution %</u>
10-14	30%
15-19	25%
20-24	20%
25-29	15%
30+	10%

⇒ Apply percentages to the contribution base to arrive at the applicable contribution amount



Exhibit A

Types of Medicare Integration

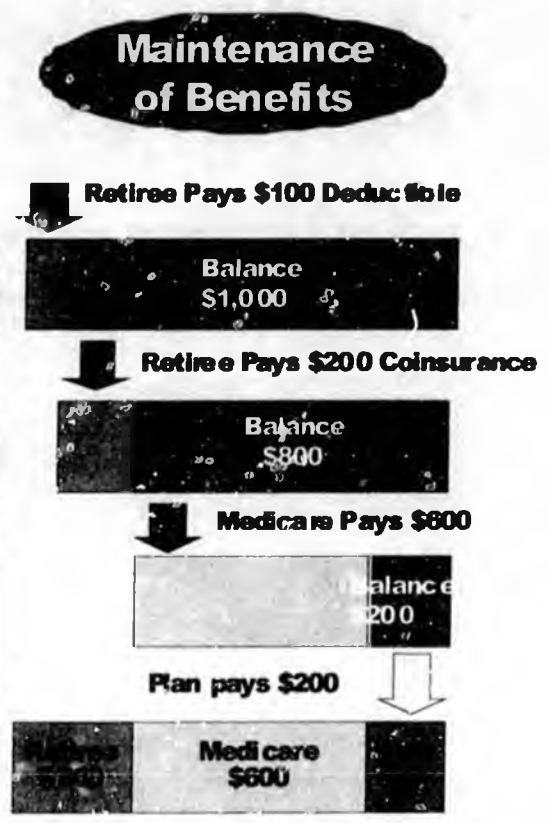
Total Expense \$1,100



Traditional – Calculates what the plan would have paid as sole provider and adds what Medicare pays. If the total is more than 100% of the bill, the plan pays only enough to total 100%. The retiree often pays no deductible or coinsurance.



Exclusion – Determines the total expenses covered under the plan, reduces them by Medicare benefits and then applies the deductibles, coinsurance and other plan limits.



Maintenance of Benefits – Calculates the plan's payment as if there were no Medicare coverage, applies the deductibles, coinsurance and other plan limits and pays the remaining amount minus what Medicare pays. Also call Carve-Out.

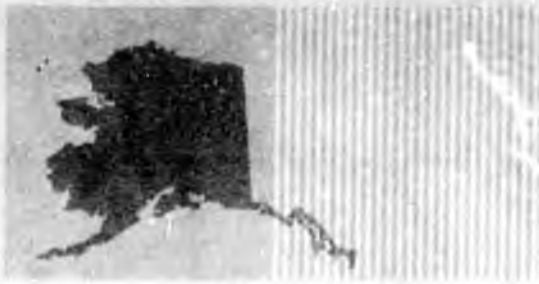


Proposed Alternatives

Alternative 2 – Normal Cost Rates

⇒ “Normal cost” rates for Alternative 2 are expected to be as follows:

	<u>Normal Cost Rates</u>	
	<u>TRS</u>	<u>PERS</u>
Medical normal cost rate	3.75%	3.5%
Defined contribution rate	13.5%	11.5%
HRA contribution rate	<u>1.5%</u>	<u>1.0%</u>
Gross normal cost rate	18.75%	16.0%
Member contribution rate	<u>(10.0)%</u>	<u>(8.0)%</u>
Employer normal cost rate	8.75%	8.0%



Health Reimbursement Accounts (HRAs)



Health Reimbursement Accounts Overview

- ⇒ Arrangement that:
 - Is solely employer paid
 - Reimburses employees for medical expenses
 - Provides reimbursements up to a maximum dollar amount for a defined coverage period
- ⇒ Unused funds are carried forward to the next coverage period
- ⇒ Usually, but not required to be, associated with high-deductible health plans or consumer directed health plans
- ⇒ Includes aspects of FSAs
- ⇒ Also known as
 - Health Reimbursement Arrangements
 - Defined contribution health care plans



Health Reimbursement Accounts Overview

Funding

- ⇒ Employer only
- ⇒ Employer sets own limits

Eligibility

- ⇒ Current and former employees (including retired employees), spouses and dependents
- ⇒ COBRA participants
- ⇒ Dependent medical expenses on death of employee



Health Reimbursement Accounts Overview

Benefits

- ⇒ Reimbursements for medical expenses as defined in IRC section 213(d)
- ⇒ No IRS limit on reimbursements
- ⇒ Employee responsible for substantiating expenses
- ⇒ Cannot use for over-the-counter drugs
- ⇒ Cannot have any right to receive cash benefit



Health Reimbursement Accounts Overview

Plan design

- ⇒ Plan sponsor dictates plan design
 - Contribution amount
 - Covered expenses
 - Termination provisions

Tax Treatment

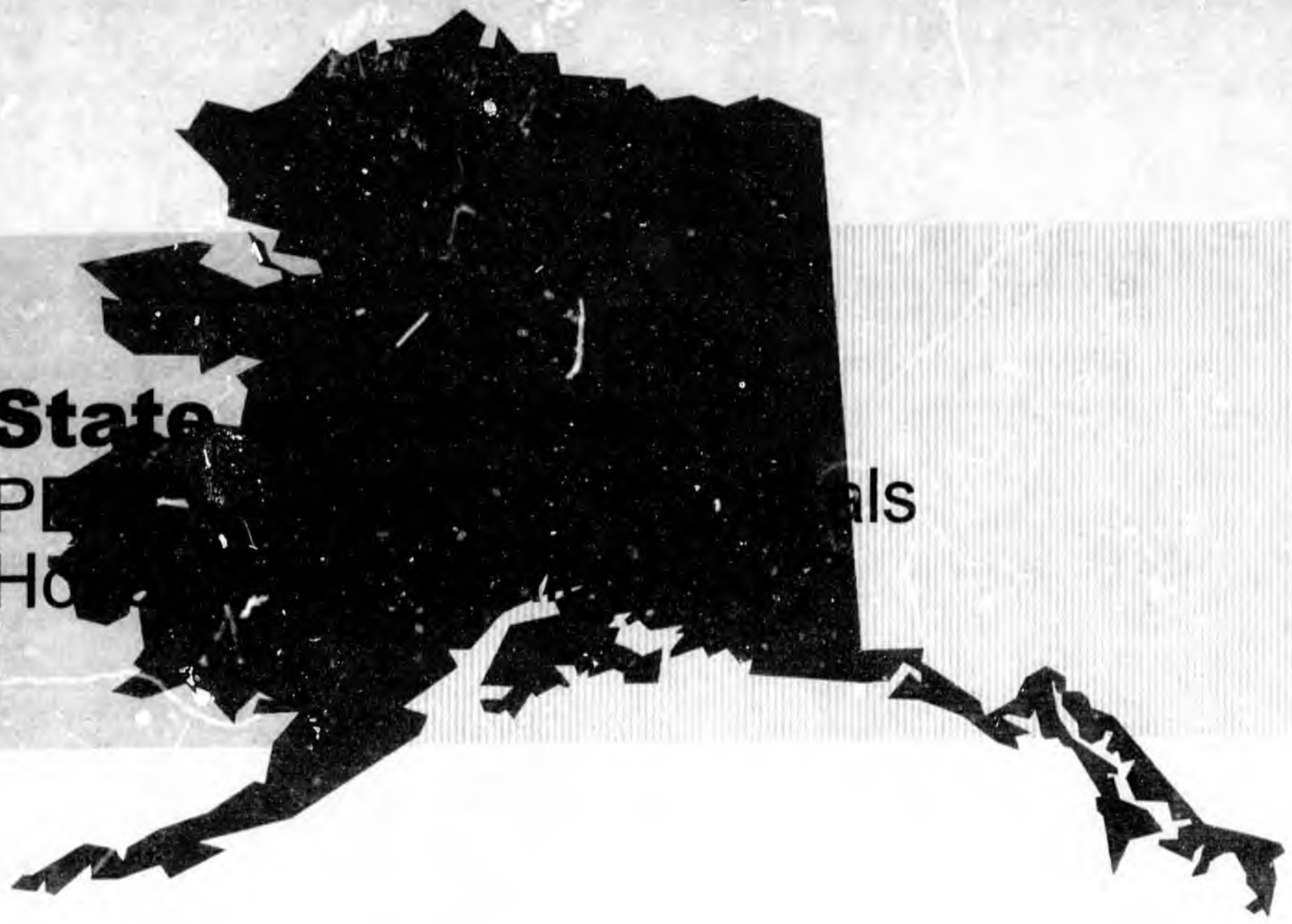
- ⇒ Requirements for exclusion from employee/retiree income:
 - Employer funding only – no employee contributions
 - Only reimbursed for qualified medical expenses
- ⇒ Subject to non-discrimination rules under IRS code section 105(h)

State

PE

HO

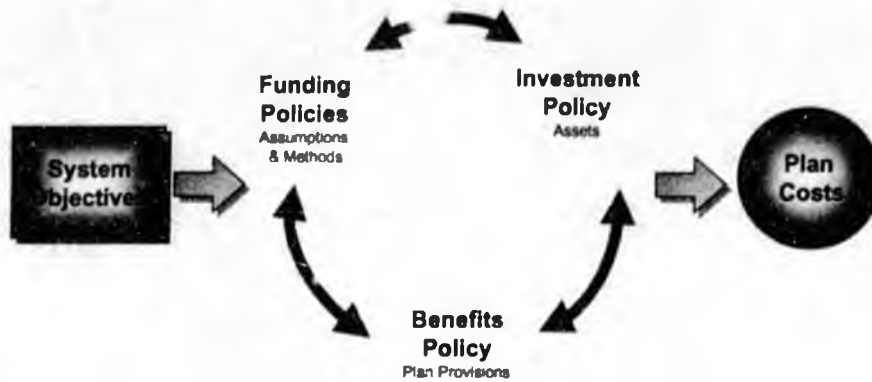
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Overview

Retirement Program Financial Management



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Financial Summary

Employer Contribution Rates - PERS

	<u>FY05</u>	<u>FY06</u>
Normal Cost Rate:	13.31%	13.24%
Average Past Service Rate:	11.60%	12.39%
Average Contribution Rate:	24.91%	25.63%
Board Adopted Rate:	11.77%	16.77%

▪ The normal cost rate provides for benefits expected to be earned by active members during the fiscal year

▪ The past service rate is the part of the contribution that is intended to pay off the unfunded liability (over 25 years)

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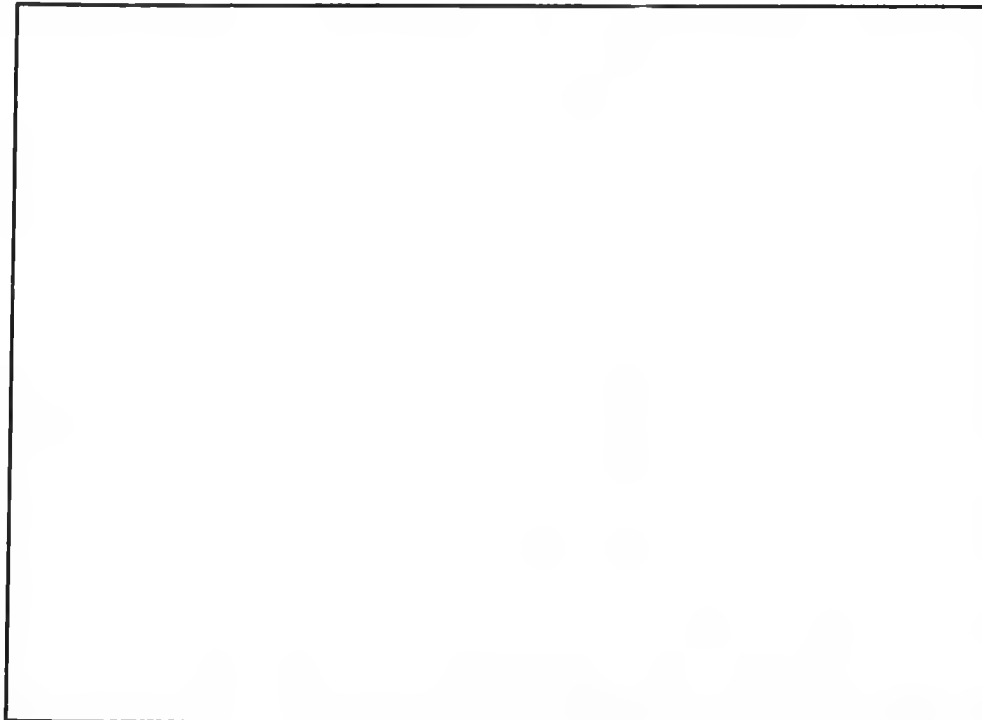


Financial Summary

Employer Contribution Rates - TRS

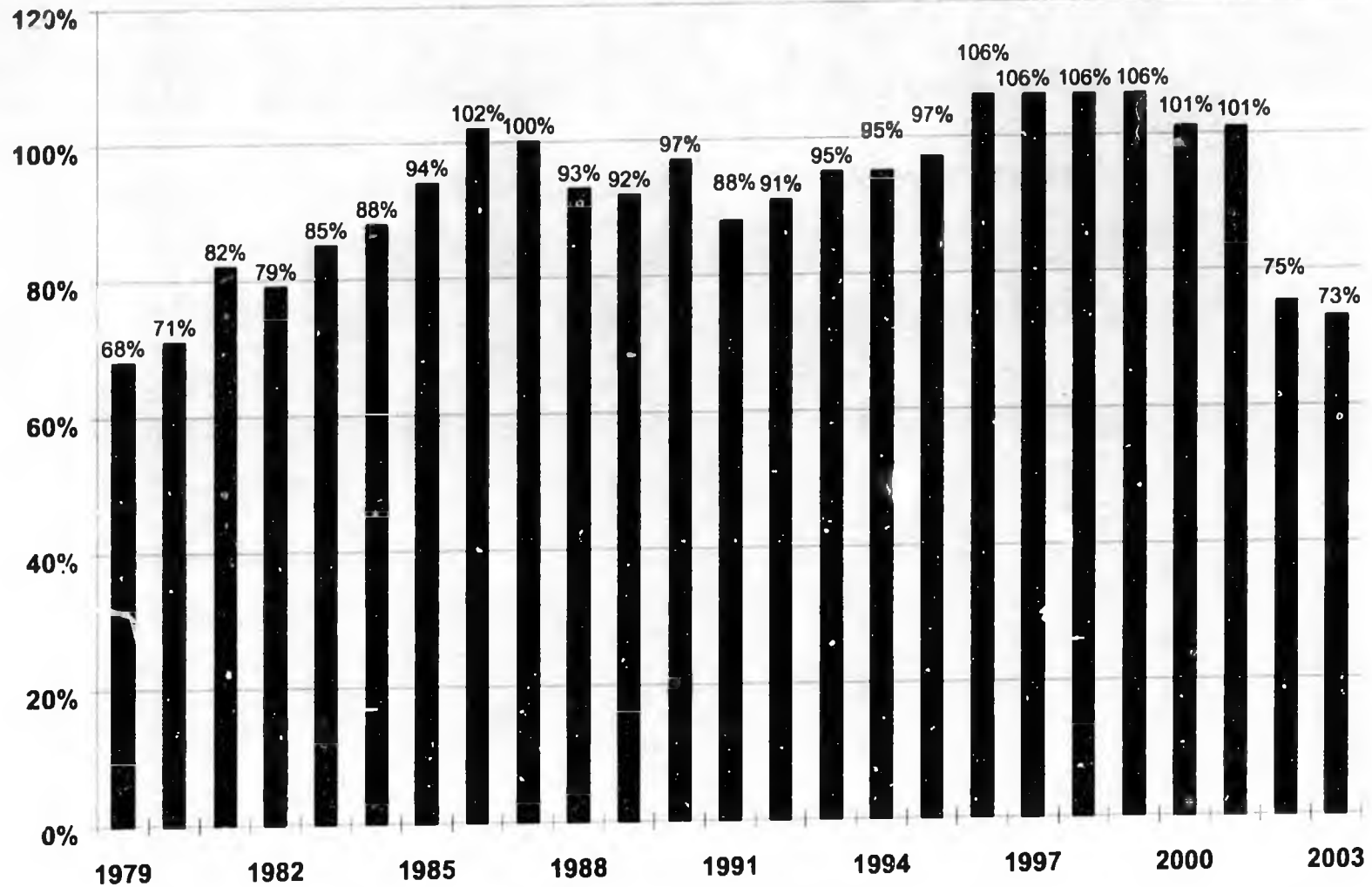
	<u>FY05</u>	<u>FY06</u>
Normal Cost Rate:	14.76%	14.28%
Past Service Rate:	20.81%	24.57%
Total Contribution Rate:	35.57%	38.85%
Board Adopted Rate:	16.00%	21.00%

- The normal cost rate provides for benefits expected to be earned by active members during the fiscal year
- The past service rate is the part of the contribution that is intended to pay off the unfunded liability (over 25 years)



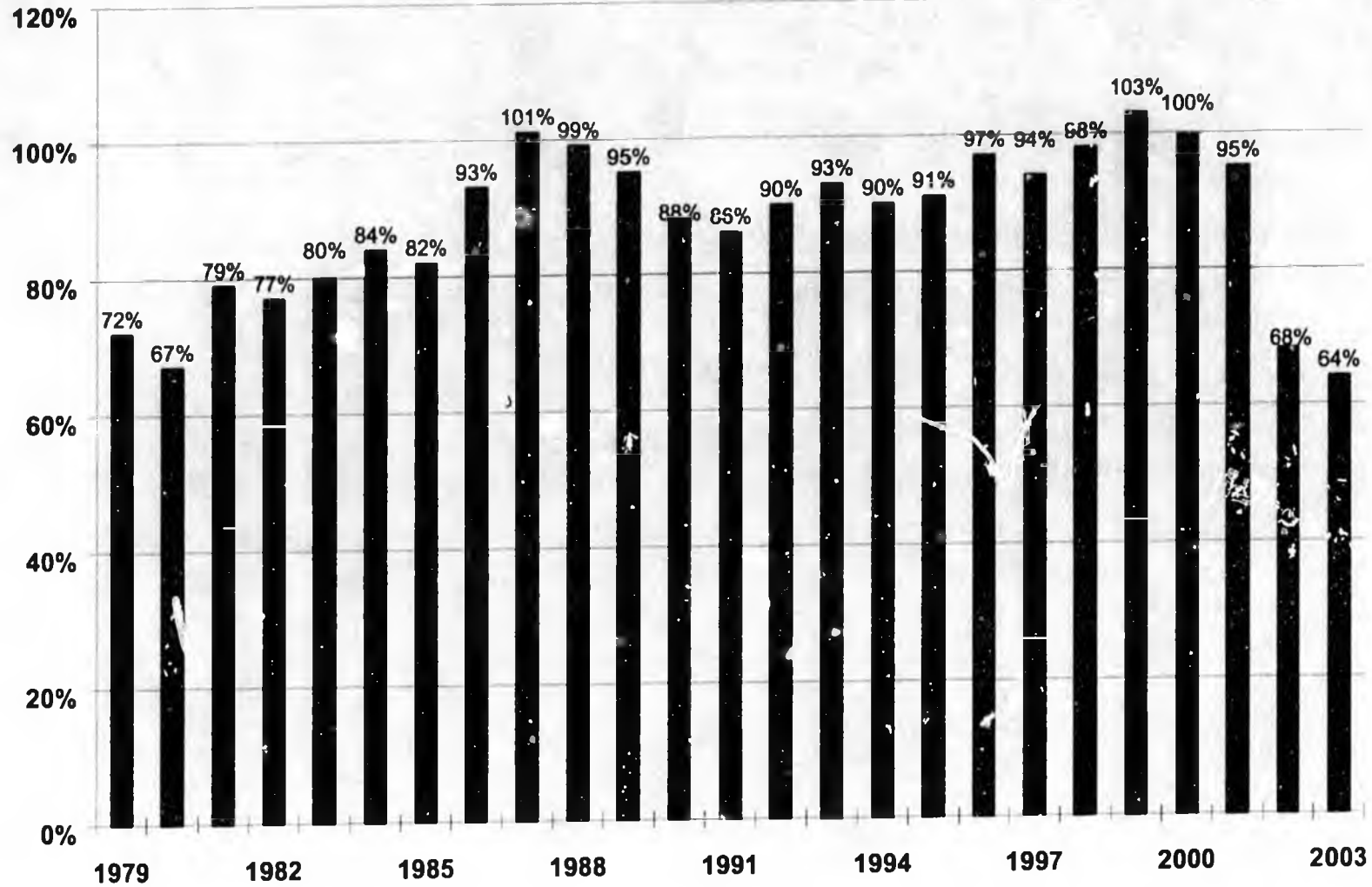
Report Highlights (continued)

PERS Funding Ratio History



Report Highlights (continued)

TRS Funding Ratio History





Overview

Financial Context

- ⇒ Rising contribution levels
- ⇒ Volatile investment returns
 - Investment uncertainty
- ⇒ Rising medical costs

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Overview

Key Information

Key information gathered and analyzed

- ⇒ Employer survey
- ⇒ Member focus groups
- ⇒ Benchmarking
- ⇒ Benefit levels
- ⇒ Demographic projections
- ⇒ Implications of Medicare changes
- ⇒ Trends, issues and alternatives
- ⇒ Cost analysis and projections

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Employer Survey – PERS

Important Conclusions

- ⇒ Employers want the retirement program to continue to provide medical coverage
- ⇒ Many employers open to the possibility of providing differing levels of medical coverage based on service or having members share in the cost of coverage
- ⇒ Other potential cost savings areas that some employers seem open to:
 - Lowering the post-retirement cost-of-living adjustment
 - Not providing medical coverage to vested terminated members
- ⇒ Some responses seem to favor continuing a defined benefit approach
 - Reward long service
- ⇒ However, responses leaned towards shifting investment risk to members

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Employer Survey – TRS

Important Conclusions

- ⇒ Employers want the retirement program to continue to provide medical coverage
- ⇒ Many employers, particularly the largest employers, open to the possibility of providing differing levels of medical coverage based on service or having members share in the cost of coverage
- ⇒ Other potential cost savings areas that some employers seem open to:
 - Lowering the post-retirement cost-of-living adjustment
 - Not providing medical coverage to vested terminated members
- ⇒ Some responses seem to favor continuing a defined benefit approach
 - Reward long service
- ⇒ However, responses leaned towards shifting investment risk to members

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Overview

System Objectives and Constraints

Based on information gathered and stakeholder feedback, the Tier Committee drafted the following objectives:

- ⇒ The System should provide medical benefits to retirees
 - Members should bear a greater share of the cost
 - Members should have to retire from the System to be eligible
- ⇒ Benefits should favor longer-service members
- ⇒ Employer contributions should be more predictable and stable
- ⇒ Investment risk should be shared by employers and members
- ⇒ Healthcare inflation risk should be shared by employers and members

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Overview

System Objectives and Constraints

Based on information gathered and stakeholder feedback, the Tier Committee drafted the following constraints:

- ⇒ Non-medical benefits must be sufficient to satisfy minimum requirements for employers who do not participate in Social Security
- ⇒ Benefit changes must take the form of new "tiers"
- ⇒ Annual cost of benefits should be less than the current Systems' normal cost rates

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Trends and Alternatives

Defined Benefit Observations

- ⇒ Plans have experienced higher cost levels and greater cost volatility
- ⇒ Funded status has declined in last 3 years
- ⇒ Advantages (to employer) of defined benefit plans
 - Retention incentives, lower turnover cost
 - Workforce management
 - Cost allocated to longer-service employees

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Trends and Alternatives

Defined Benefit Observations (continued)

- ⇒ Advantages (to employee) of defined benefit plans
 - Pooling of longevity risk
 - In most cases, employer bears investment risk
 - Predictable, stable retirement income
- ⇒ Challenges (for employer) of defined benefit plans
 - Investment risk
 - Cost volatility

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Trends and Alternatives

Defined Contribution Observations

- ⇒ Advantages (to employer) of defined contribution plans
 - Predictable cost
 - Stable cost
 - Employee assumes investment risk
 - No long-term administrative commitment
 - Contribution equity among employees
- ⇒ Advantages (to employee) of defined contribution plans
 - Portability
 - Ability to direct investments
 - Contribution equity among employees

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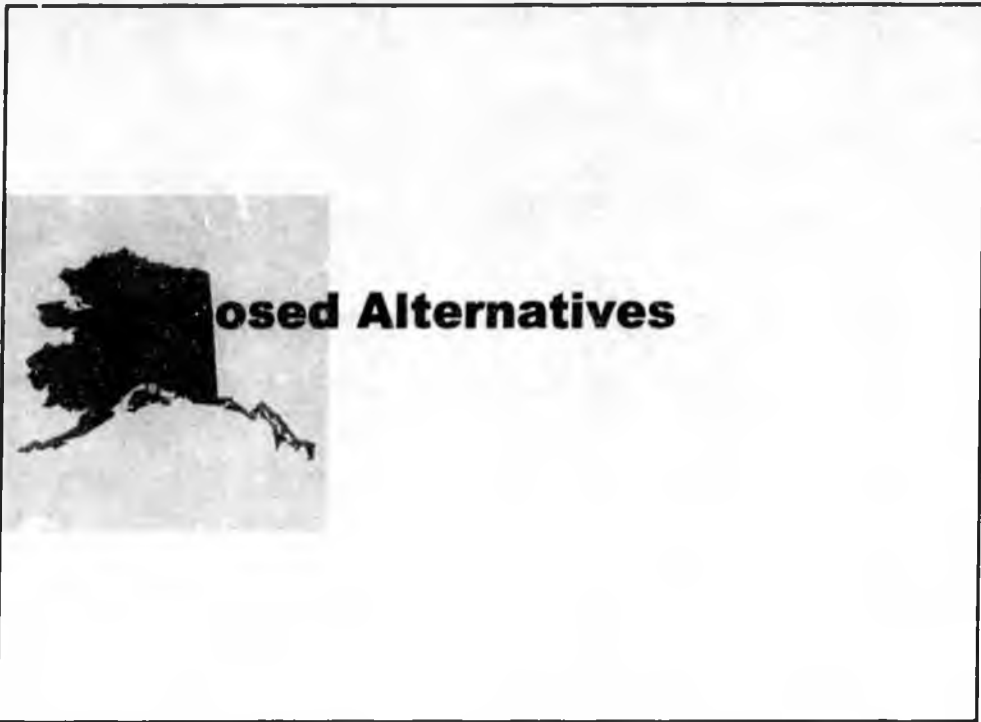
Trends and Alternatives


Defined Contribution Observations (continued)

- ⇒ Challenges for defined contribution plans
 - More difficult to manage workforce
 - Employee directed money often earns less
 - Amount needed at retirement is often underestimated
 - Employees need to contribute in excess of 10 percent, but most do not
 - Retirees generally not equipped to transform lump sum into monthly payments that last for a lifetime (difficult to manage longevity risk)

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 **Proposed Alternatives**
Overview

- ⇒ Two alternatives are being presented to the PERS and TRS Boards, with the Tier Committee recommending Alternative 1
- ⇒ Components of Alternative 1
 - defined benefit
 - defined contribution
 - medical
 - health reimbursement account (HRA)
- ⇒ Components of Alternative 2
 - defined contribution
 - medical
 - health reimbursement account (HRA)
- ⇒ Member contributions under both alternatives are higher than the current tiers
- ⇒ Contribution rates for the defined contribution component are higher for Alternative 2
- ⇒ Post-retirement medical program is the same for both alternatives

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Proposed Alternatives

Defined Benefit Alternative

Key features of Alternative 1 defined benefit program

- ⇒ 1 percent of career average pay
- ⇒ Pay is indexed from year received to year preceding retirement (or termination) based on the Anchorage CPI
 - for example, 1997 pay for a member retiring on December 31, 2009 would be increased at Anchorage CPI for 12 years
- ⇒ Base pay only
- ⇒ Normal retirement at the earlier of
 - (1) age 60 with 5 years of service (8 years for TRS), or
 - (2) 25 years of service (30 years for PERS "others")
- ⇒ Post-retirement pension adjustments similar to current tiers
- ⇒ No 10 percent Alaska cost-of-living adjustment (COLA)

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Proposed Alternatives

Defined Contribution Alternatives

Key features of defined contribution components

- ⇒ Individual accounts are maintained for each member
- ⇒ Contributions are a percentage of base pay
- ⇒ Various investment options (member-directed)
- ⇒ 100% vested
- ⇒ Terminating or retiring member takes account (eligible for rollover)

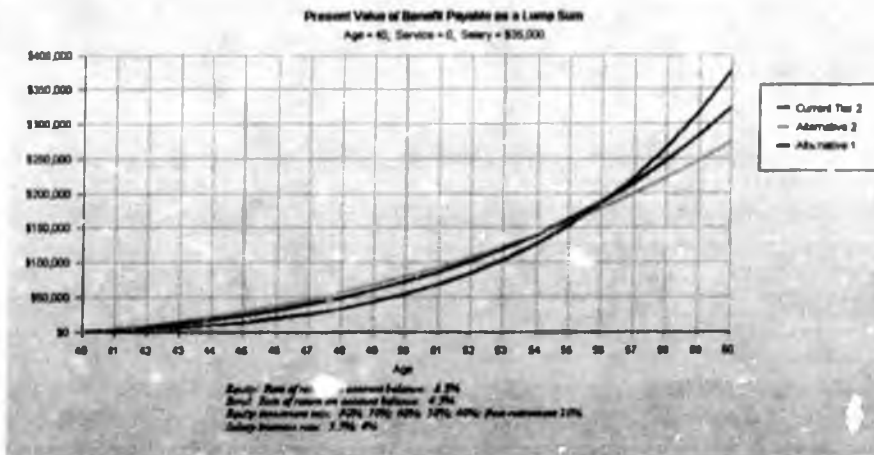
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Proposed Alternatives

Accrual of Non-Medical Benefits - TRS



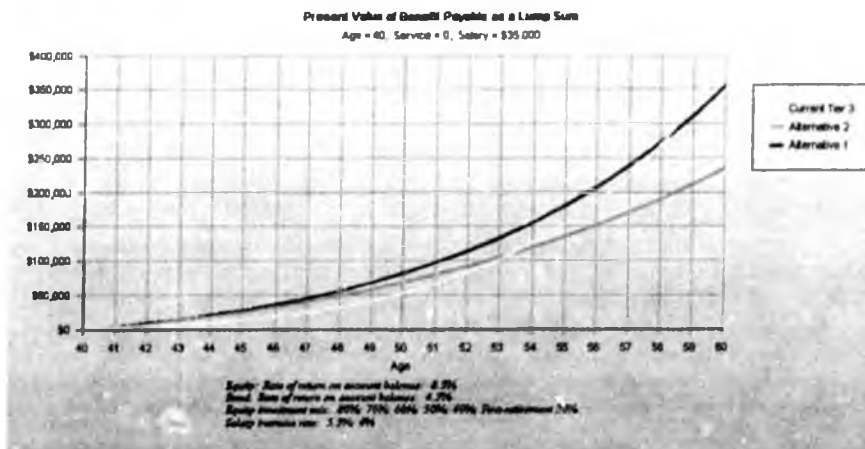
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Slide 19



Proposed Alternatives

Accrual of Non-Medical Benefits - PERS



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Slide 20



Proposed Medical Program

Key Features

Key features of post-retirement medical program

- ⇒ Members must retire directly from the System to be eligible
- ⇒ System sponsored health plan with varying levels of subsidy or cost to members
- ⇒ Early retirees get "access only" prior to normal retirement eligibility
- ⇒ Defined dollar benefit from normal retirement to Medicare eligibility (currently age 65)
- ⇒ Defined health benefit after Medicare eligibility, similar to the current program with the following key exceptions:
 - Method of coordination with Medicare
 - Retired members will share in the cost through premium contributions

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Proposed Medical Program

System Sponsored Health Care Plan

- ⇒ System sponsored health plan available to all eligible retirees, but with varying levels of subsidy
- ⇒ Basic plan design elements

	Current Plan	Alternative Plan
Medical		
• Coordination with Medicare	Total Allowable	Maintenance of Benefits
• Deductible	\$150/person, \$450/family	\$250/person, \$750/family
• Out of Pocket	\$300	\$2,500
• Outpatient Surgery Coinsurance	100%	80%
Prescription Drug		
• Retail	90 day supply	30 day supply
- Generic	\$4	\$5
- Brand Formulary	\$8	\$15
- Brand Non-Formulary	\$8	\$30
• Mail Order	90 day supply	90 day supply
- Generic	\$0	\$5
- Brand Formulary	\$0	\$15
- Brand Non-Formulary	\$0	\$30
Dental, Vision, Audio	No Change	

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Proposed Medical Program

Eligibility

- ⇒ Normal retirement eligibility for medical benefits will be defined as the earlier of
 - (1) age 60 with 10 years of service
 - (2) 25 years of service (30 years for PERS "others" retirees).
- ⇒ Disabled participants will be eligible
- ⇒ Terminated vested participants are not eligible. A member must retire directly from active service in order to receive coverage

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Proposed Medical Program

Early Retirement

- ⇒ Early retirees who have not reached normal retirement eligibility
 - Receive "access only" plan
 - Will not be eligible for subsidized retiree health plan costs
 - Pay 100% of the pre-Medicare eligible (currently pre-age 65) per member per year (PMPY) claim costs
- ⇒ Dependent spouses of early retirees will pay 100% of the appropriate pre-Medicare or Medicare eligible PMPY claim cost

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Proposed Medical Program

Normal Retirement to Medicare Eligibility

- ⇒ Members who retire directly from the Systems will be eligible for a "defined dollar" benefit upon reaching eligibility for normal retirement
- ⇒ Fixed dollar subsidy toward system sponsored health coverage
- ⇒ Access to system sponsored retiree medical plan as outlined above
- ⇒ Subsidy amount is based on length of service
- ⇒ Subsidy amount indexed each year by healthcare inflation up to a maximum of 5 percent (with a "catch-up" provision based on years when healthcare inflation is less than 5%)

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Proposed Medical Program

Normal Retirement to Medicare Eligibility

- ⇒ Upon becoming eligible for Medicare, such members will become eligible for the "defined health" benefit
- ⇒ Pre-Medicare dependent spouse is eligible for the same subsidy as retiree
- ⇒ Medicare eligible dependent spouse is eligible for the Medicare eligible benefit level, with contribution percentage based on retiree length of service

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Slide 26



Proposed Medical Program

Normal Retirement to Medicare Eligibility

⇒ Apply percentages to the applicable subsidy base to arrive at the appropriate subsidy amount.

⇒ Defined Dollar Subsidy Base Annual PMPY for fiscal year 2004:

Pre Medicare \$5,962*

⇒ Subsidy Percentage

Service (yrs)	Subsidy %
10-14	30%
15-19	45%
20-24	60%
25-29	75%
30+	90%

⇒ Member contributions are determined by subtracting the annual subsidy amount from the annual claims cost for a given year.

⇒ *Equivalent to FY2004 pre-Medicare projected claim cost.
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Slide 27



Proposed Medical Program

After Medicare Eligibility

- ⇒ Defined health benefit similar to current program
- ⇒ Retirees who were previously eligible for 100% subsidy of retiree health plan costs will now participate in the premium cost.
- ⇒ Contributions are per covered individual
- ⇒ Pre-Medicare dependent spouses are eligible to receive a defined dollar subsidy with percentage based on retiree length of service
- ⇒ Medicare eligible dependent spouses are eligible to receive the same defined health benefits as the retiree and pay the same contributions

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Slide 28



Proposed Medical Program After Medicare Eligibility

⇒ Contribution Base PMPY for fiscal year 2004:

Medicare Eligible \$2,667

⇒ Contribution Percentage

<u>Service (yrs)</u>	<u>Contribution %</u>
10-14	30%
15-19	25%
20-24	20%
25-29	15%
30+	10%

⇒ Apply percentages to the contribution base to arrive at the applicable contribution amount

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Slide 29



Health Reimbursement Accounts (HRAs)

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Slide 30



Health Reimbursement Accounts Overview

- ⇒ Arrangement that:
 - Is solely employer paid
 - Reimburses employees for medical expenses
 - Provides reimbursements up to a maximum dollar amount for a defined coverage period
- ⇒ Unused funds are carried forward to the next coverage period
- ⇒ Usually, but not required to be, associated with high-deductible health plans or consumer directed health plans
- ⇒ Includes aspects of FSAs
- ⇒ Also known as
 - Health Reimbursement Arrangements
 - Defined contribution health care plans

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Slide 31



Health Reimbursement Accounts Overview

Funding

- ⇒ Employer only
- ⇒ Employer sets own limits
- ⇒ Notional or funded accounts
 - general assets
 - VEBA
 - other trusts

Eligibility

- ⇒ Current and former employees (including retired employees), spouses and dependents
- ⇒ COBRA participants
- ⇒ Dependent medical expenses on death of employee

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Slide 32



Health Reimbursement Accounts Overview

Benefits

- ⇒ Reimbursements for medical expenses as defined in IRC section 213(d)
- ⇒ No IRS limit on reimbursements
- ⇒ Employee responsible for substantiating expenses
- ⇒ Cannot use for over-the-counter drugs
- ⇒ Can be used for after tax insurance premium payments (LTC is gray area)
- ⇒ Cannot have any right to receive cash benefit
- ⇒ Can be used with FSA, but special rules apply

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Slide 33



Health Reimbursement Accounts Overview

Plan design

- ⇒ Plan sponsor dictates plan design
 - Contribution amount
 - Covered expenses
 - Termination provisions

Tax Treatment

- ⇒ Requirements for exclusion from employee/retiree income:
 - Employer funding only – no employee contributions
 - Only reimbursed for qualified medical expenses
- ⇒ Subject to non-discrimination rules under IRS code section 105(h)

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Slide 34



Health Reimbursement Accounts

Comparison of tax advantaged health care accounts

Account requirements	Funds must be held in trust or custodial account	No requirements; often unfunded	No requirements; often unfunded
Qualifying expenses	Miscellaneous IRC 213(d) expenses, limited health premium reimbursements*	Miscellaneous IRC 213(d) expenses, unlimited premium reimbursements, subject to plan design	Miscellaneous IRC 213(d) expenses, no health premium reimbursements
Non-qualified withdrawals	Yes, but taxable, plus 10% penalty. No penalty after age 65, disability, or death (no penalty or tax after death if HSA goes to spouse)	Not allowed	Not allowed
Rollover of unused funds	Unused funds roll over indefinitely	Allowed, although employer can establish limits	Not allowed
Nonforfeitable	Yes and fully portable, can take to new employer	No, but COBRA rights apply	No, but limited COBRA rights apply

*COBRA, long-term care insurance and premiums for account holders, at least 65 or receiving unemployment compensation.

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Slide 35



Health Reimbursement Accounts

Comparison of tax advantaged health care accounts

Eligibility	Individuals (employees) with high deductible plan (HDHP)	Employees whose employers make available	Employees whose employers make available
Health insurance requirement	Qualified high deductible health plan required	None, although employer typically requires high deductible coverage	None
Contributions - Source	Employer, employee, or both	Employer only	Employer, employee or both
Taxability of employee contributions	Tax-free	Employee contribution not allowed	Tax-free
Taxability of employer contributions	Tax-free to employee, tax deductible to employer	Tax-free to employee, tax deductible to employer	Tax-free to employee, tax deductible to employer
Annual contribution limits (employee+employer)	Lesser of 100% of deductible or fixed amount (established by law)	None legally required, employer sets its contribution amounts	None legally required, employer sets employee contribution limits

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Slide 36



Health Reimbursement Accounts Projection scenarios

- ⇒ Illustrate the HRA fund value at retirement, the total costs expected to be borne by the retiree during the pre-Medicare period of retirement and the retiree's expected net cost after HRA reimbursements
- ⇒ Four scenarios
 - Early hire, 1.0% funding - hire at 25, retire at 55
 - Early hire, 1.5% funding - hire at 25, retire at 55
 - Late hire, 1.0% funding - hire at 40, retire at 60
 - Late hire, 1.5% funding - hire at 40, retire at 60
- ⇒ Key assumptions
 - Hire date of 7/1/2004
 - Normal retirement at 25 years or age 60
 - Funded as percent of average salary for group
 - Average salary for group of \$35,000
 - Wage inflation 4.0%

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Slide 37



Health Reimbursement Accounts Projection scenarios

- ⇒ Key assumptions (continued)
 - HRA accumulation rate 8.25%
 - Early retirement access-only plan as described in the proposed medical program
 - Normal retirement to Medicare eligibility defined dollar subsidy as described in the proposed medical program
 - Benefit costs increase at proposed valuation trend
 - Retirees transition to defined health benefit plan at Medicare eligibility
- ⇒ Other assumptions
 - Participant retires from system and is receiving system-sponsored benefits
 - Demographic composition of future pre-Medicare retiree group remains constant
 - No spend down of HRA during active benefit period

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Slide 38



Health Reimbursement Accounts Projection scenarios

	Gross Retiree Cost	HRA at Retirement	Net Retiree Cost
Early Hire, 1.0%	\$153,721	\$64,622	\$72,348
Early Hire, 1.5%	\$153,721	\$96,933	\$12,714
Late Hire, 1.0%	\$ 68,993	\$23,052	\$44,543
Late Hire, 1.5%	\$ 68,993	\$34,579	\$30,590

- ⇒ Gross retiree cost is the total medical premium cost expected to be paid by the retiree less any System-sponsored subsidy. Does not include retiree cost sharing via plan design elements such as deductibles and coinsurance.
- ⇒ HRA at retirement is the beginning fund balance at the year of retirement.
- ⇒ Net retiree cost is the gross retiree cost less expected reimbursements from the HRA. HRA balance continues to earn interest after medical expenses are reimbursed each year.

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Slide 39



Proposed Alternatives Alternative 1 – Normal Cost Rates

- ⇒ "Normal cost" rates for Alternative 1 are expected to be as follows:

	Normal Cost Rates			
	TRS		PERS	
Medical normal cost rate	3.75%	(9.07%)	3.5%	(8.68%)
Defined benefit normal cost rate	5.0%	(13.90%)	4.5%	(11.37%)
Defined contribution rate	8.5%	(N/A)	7.0%	(N/A)
HRA contribution rate	1.5%	(N/A)	1.0%	(N/A)
Gross normal cost rate	18.75%	(22.97%)	16.0%	(20.05%)
Member contribution rate	(10.0%)	(8.69%)	(8.0%)	(6.81%)
Employer normal cost rate	8.75%	(14.28%)	8.0%	(13.24%)

- [Normal cost rates for the current program (all tiers) are shown in parentheses for comparative purposes.

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Slide 40



Proposed Alternatives

Alternative 2 – Normal Cost Rates

⇒ "Normal cost" rates for Alternative 2 are expected to be as follows:

	Normal Cost Rates	
	TRS	PERS
Medical normal cost rate	3.75%	3.5%
Defined contribution rate	13.5%	11.5%
HRA contribution rate	1.5%	1.0%
Gross normal cost rate	18.75%	16.0%
Member contribution rate	(10.0)%	(8.0)%
Employer normal cost rate	8.75%	8.0%

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Slide 41

State of Alaska

Division of Retirement & Benefits

Normal Cost Rate and Actuarial Computed Rate from FY 1983 through FY 2006

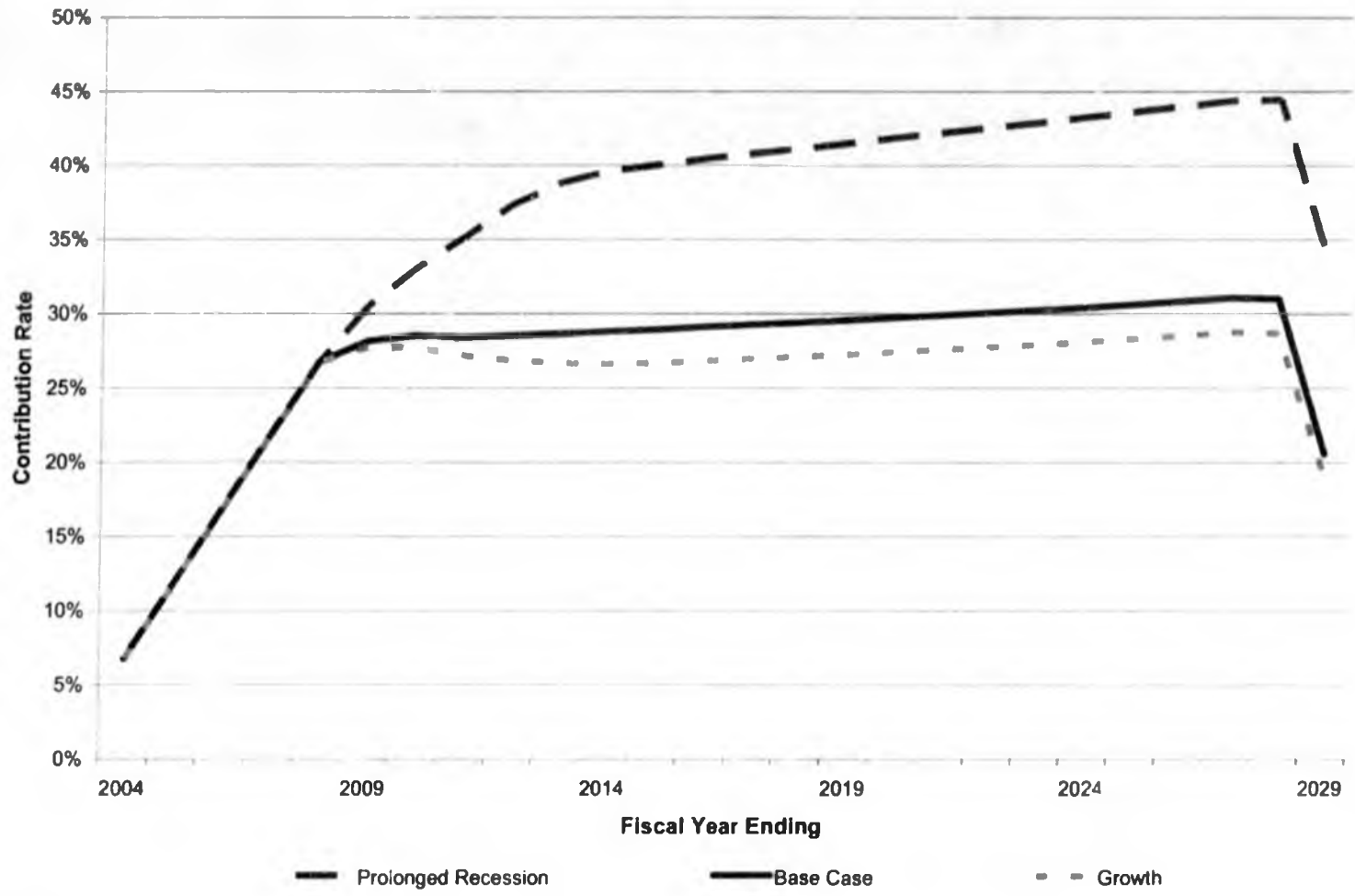
<u>Valuation report date June 30</u>	<u>Fiscal year of rate</u>	<u>Normal Cost rate PERS</u>	<u>Actuarial Computed Rate PERS</u>	<u>Normal Cost rate TRS</u>	<u>Actuarial Computed Rate TRS</u>
1980	1983	11.46%	13.78%	11.95%	16.84%
1981	1984	12.03%	13.68%	13.51%	17.42%
1982	1985	11.36%	13.62%	13.64%	17.96%
1983	1986	11.82%	13.59%	13.13%	17.36%
1984	1987	12.31%	13.84%	13.91%	13.28%
1985	1988	11.13%	9.55%	11.62%	13.28%
1986	1989	10.20%	9.38%	9.36%	11.16%
1987	1990	9.23%	9.30%	9.14%	8.19%
1988	1991	10.37%	12.00%	11.86%	12.27%
1989	1992	12.00%	14.20%	13.26%	15.16%
1990	1993	12.83%	13.58%	14.07%	19.65%
1991	1994	10.18%	13.72%	9.05%	15.59%
1992	1995	10.90%	13.70%	8.57%	13.36%
1993	1996	11.29%	12.82%	9.06%	12.48%
1994	1997	10.36%	12.14%	9.70%	14.96%
1995	1998	10.61%	11.90%	10.10%	14.94%
1996	1999	9.85%	7.74%	8.97%	10.52%
1997	2000	9.89%	7.36%	9.21%	13.00%
1998	2001	8.67%	7.03%	8.99%	10.55%
1999	2002	8.07%	6.56%	8.88%	7.09%
2000	2003	10.07%	6.12%	9.40%	8.29%
2001	2004	9.53%	6.77%	10.36%	14.44%
2002	2005	13.31%	24.91%	14.76%	35.57%
2003	2006	13.24%	25.63%	14.28%	38.85%

Normal Cost Rate: present value of benefits, which are expected to be credited with respect to service during the year beginning on the valuation date.

Actuarial Computed Rate: after comparing plan assets and liabilities, an actuarial rate is computed that would fund the retirement systems over 25 years. There are two components: the normal cost rate and the past service necessary to pay any unfunded liability. Both rates account for differences between actual experience versus anticipated results, changes in actuarial assumptions and / or methods, changes in statutory provisions, and the difference between the rate actually adopted by the Boards for a particular year versus the computed rate.

1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate



1.5(c) Actuarial Projections – Effect of Economic Scenarios

Key Assumptions

- All assumptions and methods are the same as Section 1.5(a) except:

Results are shown only under the 1% population growth scenario

The actuarially calculated contribution rate is adopted in each year beginning in FY06, but rate cannot increase by more than 5% per year.

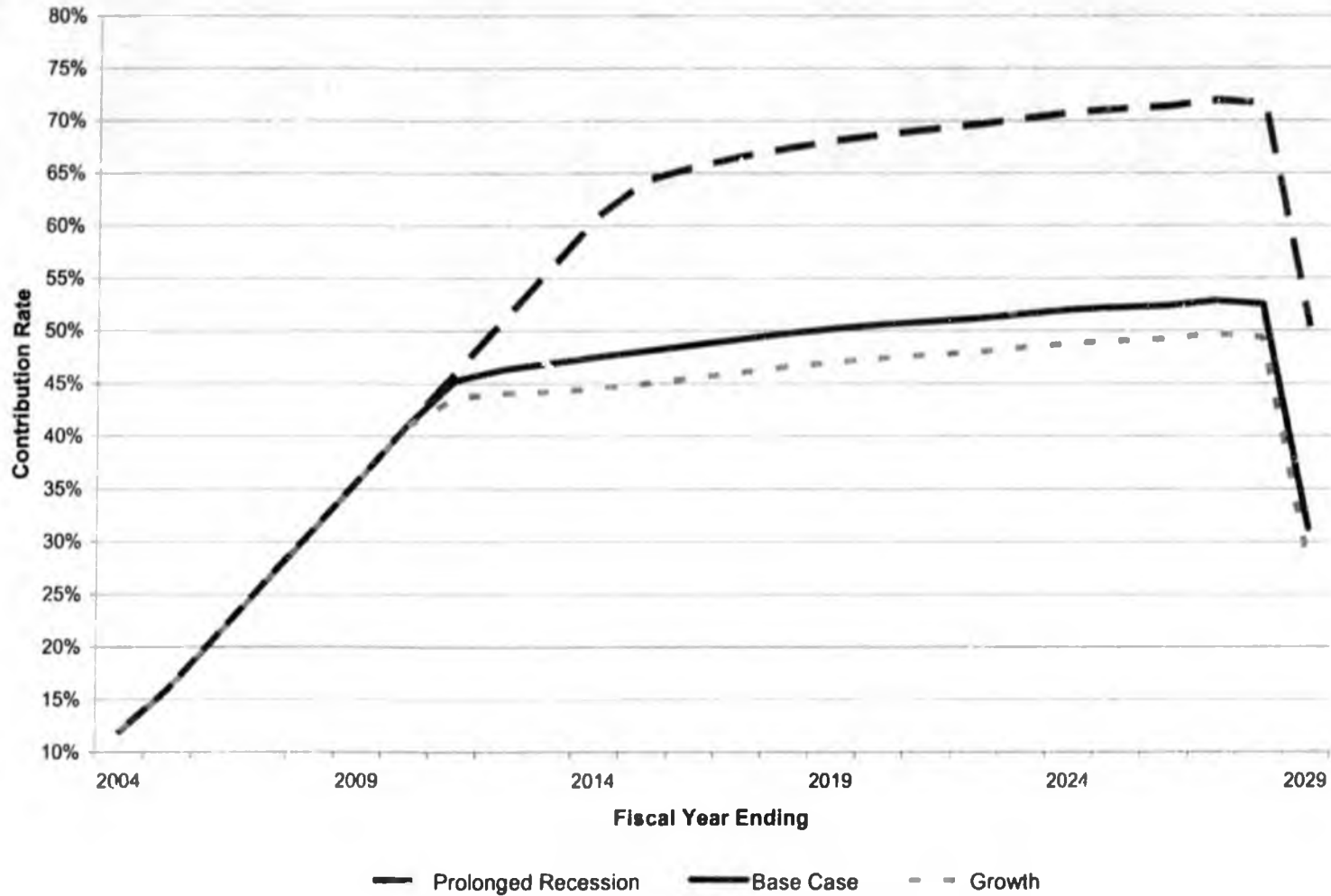
Investment returns are assumed as follows:

Total Portfolio Investment Return Under Each Scenario

Year Ending June 30	Base Case	Growth	Prolonged Recession
2004	15.08%	15.08%	15.08%
2005	8.25%	10.00%	-3.50%
2006	8.25%	10.00%	-3.50%
2007	8.25%	9.50%	2.10%
2008	8.25%	9.00%	7.75%
2009	8.25%	8.25%	7.75%
2010	8.25%	8.25%	7.75%
2011	8.25%	8.25%	7.75%
2012	8.25%	8.25%	7.75%
2013	8.25%	8.25%	7.75%
2014	8.25%	8.25%	7.75%
2015	8.25%	8.25%	7.75%
2016	8.25%	8.25%	7.75%
2017	8.25%	8.25%	7.75%
2018	8.25%	8.25%	7.75%
2019	8.25%	8.25%	7.75%
2020	8.25%	8.25%	7.75%
2021	8.25%	8.25%	7.75%
2022	8.25%	8.25%	7.75%
2023	8.25%	8.25%	7.75%
2024	8.25%	8.25%	7.75%
2025	8.25%	8.25%	7.75%
2026	8.25%	8.25%	7.75%
2027	8.25%	8.25%	7.75%
2028	8.25%	8.25%	7.75%
2029	8.25%	8.25%	7.75%

1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

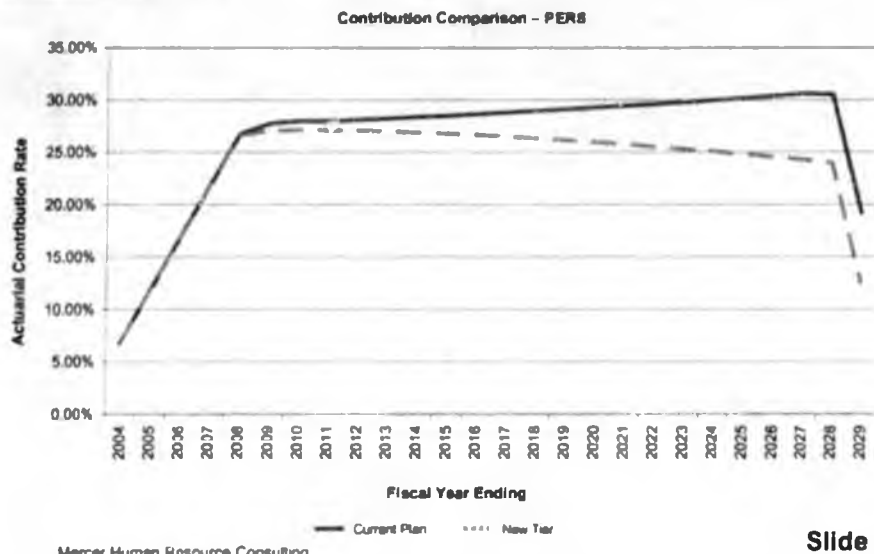
Contribution Rate





Proposed Alternatives

Cost Projections - PERS

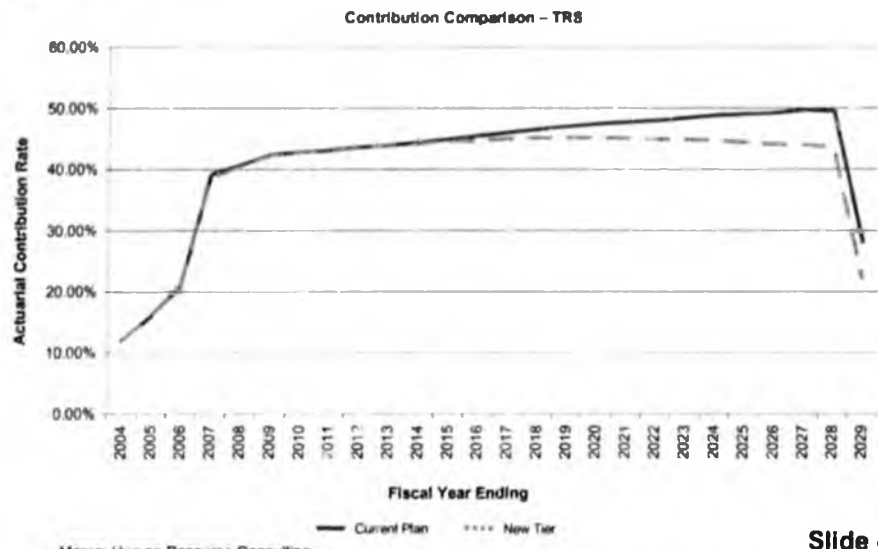


Slide 43



Proposed Alternatives

Cost Projections - TRS



Slide 44

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM
TEACHERS' RETIREMENT SYSTEM
SENATE FINANCE BRIEFING ON PROPOSALS FOR NEW TIERS**

Attached are two spreadsheets comparing the specific benefit differences in the existing and proposed Tiers for PERS and TRS. Outlined below is a summary of the major benefit changes and a cost comparison.

PERS / TRS

	Current PERS Tier III / TRS Tier II DB Plan	Alternative 1 DB/DC Plan	Alternative 2 DC Plan
PERS Employee Contribution Rate	6.75% or 7.5 Police/Fire	8% all members 8.5% Police/Fire 11.0% School District	8% all members 8.5% Police/Fire 11.0% School District
TRS Employee Contribution Rate	8.65%	10%	10%
Retirement Age	60 normal - 55 early 30 years "all others" 20 Police/Fire 20 Teachers	Same Same 25 Police/Fire members 25 Teachers	Any age
PERS Benefit Formula/Contribution Rate	2% up to 2.5% DB	1% DB; 8% DC (8% includes HRA)	12.5% DC (12.5% includes HRA)
TRS Benefit Formula/Contribution Rate	2% up to 2.5% DB	1% DB; 10% DC (10% includes HRA)	15% DC (15% includes HRA)
Medical	<ul style="list-style-type: none"> Do not have to retire directly from system to be service or age eligible for medical coverage. Must have 10 years of service. Minimal cost share. 	<ul style="list-style-type: none"> Must retire directly from system to be eligible. Must have 10 years of service. Member pays more through "cost share" design elements. 	Same as Alternative 1
Normal Cost Rate – PERS (does not include unfunded liability portion)	13.24% - Current Normal Cost Rate	8% reduces normal cost rate by 40%	8% reduces normal cost rate by 40%
Normal Cost Rate – TRS (does not include unfunded liability portion)	14.28% - Current Normal Cost Rate	8.75% - this reduces normal cost rate by 39%	8.75% - this reduces normal cost rate by 39%
Future exposure and volatility to loss in investment earnings and increasing medical costs.	Employer bears all the risk.	Employer continues to have risk in two areas: (1) 1% DB component and (2) medical inflation component.	Minimal Exposure to employer in one area only: (1) medical inflation w/capped %.

**Alaska Division of Retirement and Benefits
Public Employees' Retirement System (PERS) Plan Comparison Chart
Rev. January 15, 2005**

Tier I 1/1/81 - 6/30/98	Tier II Entered on or after 7/1/98	Tier III Entered on or after 7/1/98	Tier IV Proposed - Alternative 1 DC/DC Plan Entered on or after 7/1/2006	Tier V - Alternative 2 DC/DC Plan Entered on or after 7/1/2006
Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 6% all members beginning 7/1/2006 6.5% beginning 7/1/2006 - police and fire 11.0% beginning 7/1/2006 School District	Employee Pre-tax Contribution: 6% all members beginning 7/1/2006 6.5% beginning 7/1/2006 - police and fire 11.0% beginning 7/1/2006 School District
Members vest with 5 years of service.	Members vest with 5 years of service.	Members vest with 5 years of service.	Members vest with 5 years of service.	100% Vested upon enrollment
<ul style="list-style-type: none"> Normal retirement age is 55 Early retirement age is 50 Police/fire members can retire at any age after 20 years of police/fire service All other members can retire at any age after 30 years of membership service. 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 20 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 20 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 25 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan.
<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years and all years of service prior to July 1, 1986 2.25% for the next 10 years; 2.5% per year thereafter (average of the high three consecutive years' salary). Police/Fire - 2% benefits formula for first 10 years and 2.5% for all years after 10. 	<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years 2.25% for the next 10 years, and 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary. Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10. 	<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years 2.25% for the next 10 years, and 2.5% per year thereafter (benefit calculation is average of the high five consecutive years' salary). Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10 (benefit calculation is three consecutive years regardless of tier (effective 2002)). 	<ul style="list-style-type: none"> 1% defined benefit formula 6.0% defined contribution rate A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA). Benefit calculation is computed on indexed career average 	<ul style="list-style-type: none"> 12.5% defined contribution rate A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA).
<ul style="list-style-type: none"> Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system. 	<ul style="list-style-type: none"> Medical coverage is provided to disableds, regardless of age and benefit recipients over age 60 or <ul style="list-style-type: none"> police/fire members with 25 years of police/fire service all other members with 30 years of membership service and their eligible dependents. The retirement system pays the retiree medical plan premium. Retirees and survivors under age 60 must pay the full premium cost if they want coverage. 	<ul style="list-style-type: none"> Medical same as Tier II. Except, employees must accrue a minimum of 10 years of credited service*, to have system-paid coverage at age 60. Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage. 	<ul style="list-style-type: none"> Medical Employees must retire directly from the system to be eligible and Accrue a minimum of 10 years of credited service* Early retirees get "access only" prior to normal retirement age - must pay premium HRA contribution Defined dollar benefit from normal retirement to age 65 Defined health benefit after age 65 (cost share based on length of service) 	<ul style="list-style-type: none"> Medical Employees must retire directly from the system to be eligible and Accrue a minimum of 10 years of credited service* Early retirees get "access only" prior to normal retirement age - must pay premium HRA contribution Defined dollar benefit from normal retirement to age 65 Defined health benefit after age 65 (cost share based on length of service)
<ul style="list-style-type: none"> The automatic PRPA legislated in 1986 applied to all members regardless of hire date. 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. 	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement. 	<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance of 10% of base benefit is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. 	<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater. 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> None

Alaska Division of Retirement and Benefits
Teachers' Retirement System (TRS) Plan Comparison Chart
 Rev. January 15, 2005

Tier I 7/1/55 - 6/30/90	Tier II Entered on or after 7/1/90	Tier III Proposed Alternative 1 - DB/DC Plan Entered on or after 7/1/2004	Tier III Proposed Alternative 2 - DC Plan Entered on or after 7/1/2004
Employee Pre-tax Contribution: 8.65% beginning 1/1/91	Employee Pre-tax Contribution: 8.65% beginning 1/1/91	Employee Pre-tax Contribution: 10% beginning 7/1/2005	Employee Pre-tax Contribution: 10% beginning 7/1/2005
Members vest with 8 years of service.	Members vest with 8 years of service.	Members vest with 8 years of service.	100% Vested at time of enrollment
<ul style="list-style-type: none"> • Normal retirement age is 55 • Early retirement at age 50 • Teachers can retire at any age after 20 years of membership service. 	<ul style="list-style-type: none"> • Normal retirement age is 60 • Early retirement at age 55 • Teachers can retire at any age after 20 years 	<ul style="list-style-type: none"> • Normal retirement age is 60 • Early retirement at age 55 • Teachers can retire at any age after 25 years 	<ul style="list-style-type: none"> • Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan.
<ul style="list-style-type: none"> • 2% defined benefits formula for the first 20 years and all years of service prior to July 1, 1990 • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. 	<ul style="list-style-type: none"> • 2% defined benefit formula for the first 20 years • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. 	<ul style="list-style-type: none"> • 1% defined benefit formula all years of service • 10% defined contribution rate • A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA). • Benefit calculation is computed on indexed career average 	<ul style="list-style-type: none"> • 15.0% defined contribution rate • A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA).
<ul style="list-style-type: none"> • Medical coverage is provided to all benefit recipients and their eligible dependents. 	<ul style="list-style-type: none"> • Medical premiums are paid for all disabled members regardless of age and • Retirees and survivors over age 60 and for retirees with at least 25 years of service including eligible dependents. • Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage. 	<p>Medical</p> <ul style="list-style-type: none"> • Employees must retire directly from the system to be eligible and • Accrue a minimum of 10 years of credited service* • Early retirees get "access only" prior to normal retirement age - must pay premium • HRA contribution • Defined dollar benefit from normal retirement to age 65 • Defined health benefit after age 65 (cost share based on length of service) 	<p>Medical</p> <ul style="list-style-type: none"> • Employees must retire directly from the system to be eligible and • Accrue a minimum of 10 years of credited service* • Early retirees get "access only" prior to normal retirement age - must pay premium • HRA contribution • Defined dollar benefit from normal retirement to age 65 • Defined health benefit after age 65 (cost share based on length of service)
<ul style="list-style-type: none"> • Automatic PRPA legislated in 1990 applied to all members regardless of hire date. 	<ul style="list-style-type: none"> • Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years. 	<ul style="list-style-type: none"> • Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years. 	None
<ul style="list-style-type: none"> • Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit. 	<ul style="list-style-type: none"> • Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit. 	None	None



Employer Survey – PERS

Key

The following pages illustrate the responses to the employer survey sent to all PERS employers. In total, 89 employers responded. PERS represents employers of various sizes. As a way to show the five largest employers' responses (of those who responded), we have included the letters A – E on the charts to represent how they answered. The employers have been assigned the following letters:

Employer	# Active Employees	Code Letter
State of Alaska	15,259	A
Anchorage SD	2,496	B
Anchorage, Municipality of	2,351	C
Fairbanks North Star Borough SD	790	D
North Slope Borough	788	E

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Slide 45



Employer Survey – PERS

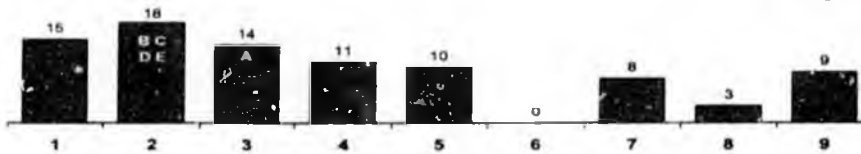
1. Long-Service Employees

Importance



Plan should favor long-service employees

Plan should not distinguish on account of length of service



Key Comments

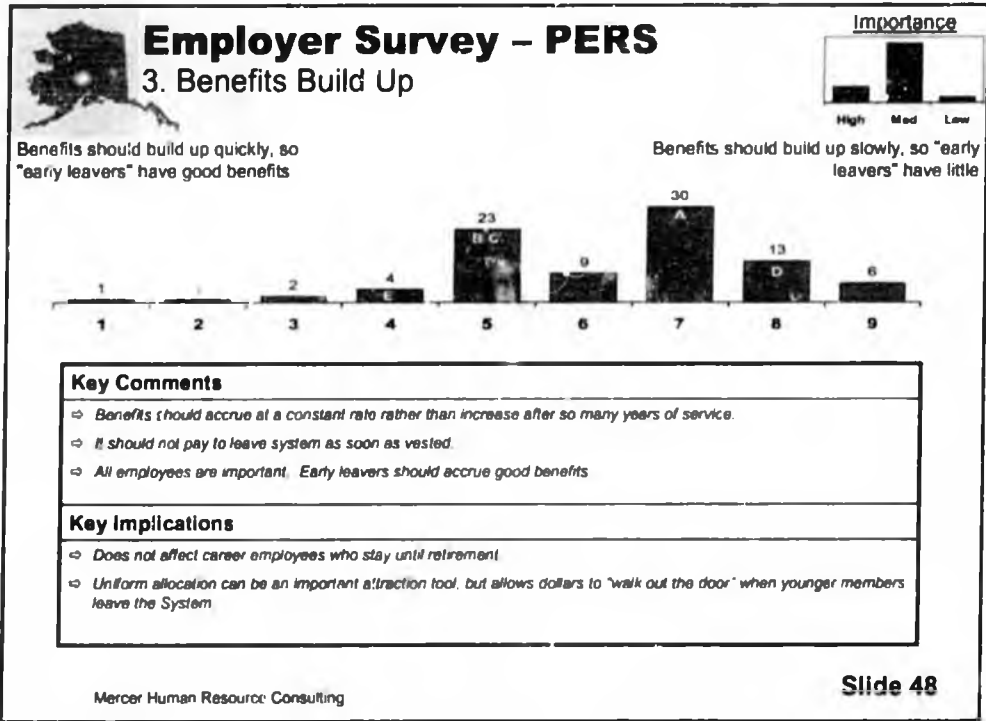
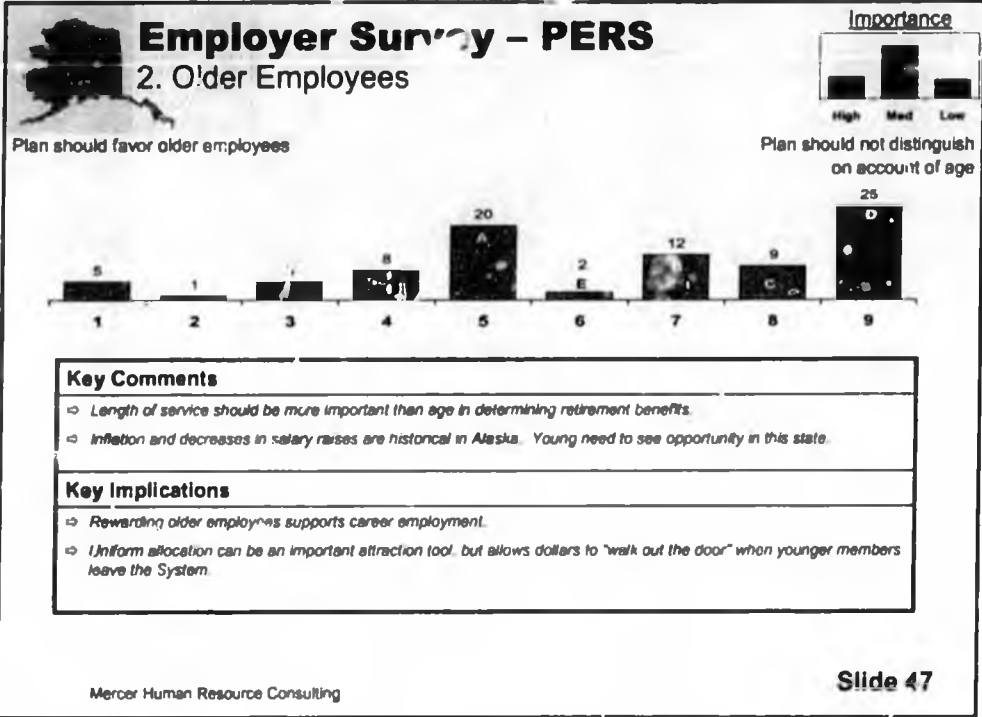
- ⇒ Retirement plans should favor long-service employees.
- ⇒ With over 150 employers in PERS, portability between employers is a real factor. If that can be achieved without penalizing long time PERS covered employees, there is not problem
- ⇒ One of our problems is that baby-boomer "glut" of long service employees. While they should be compensated for their time, there seems to be a shortage of professional people entering state/municipal public service.

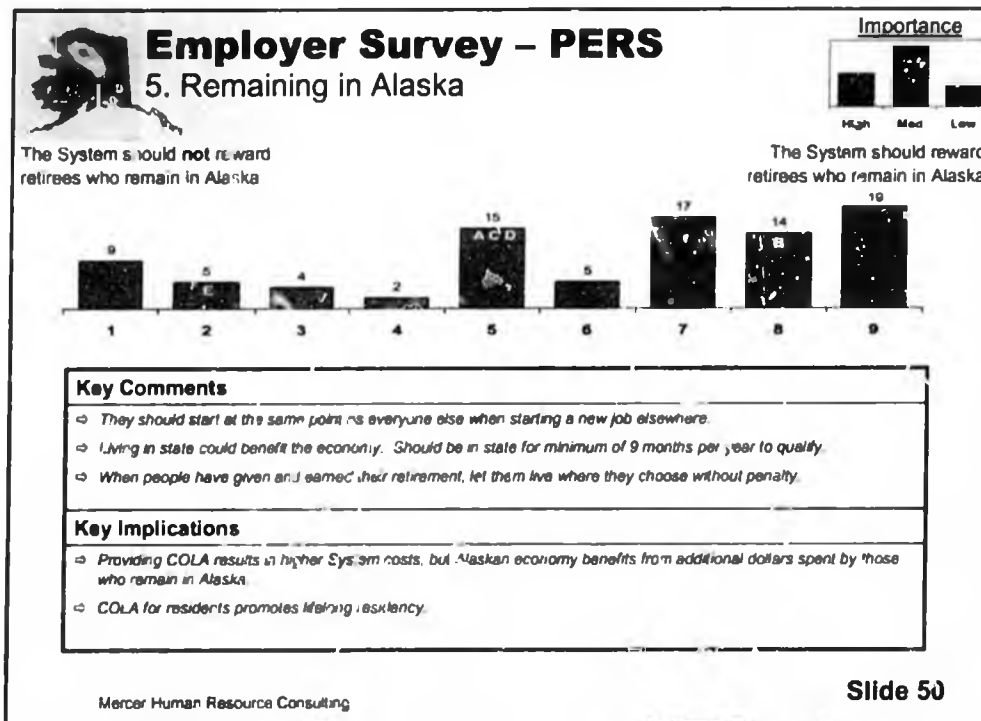
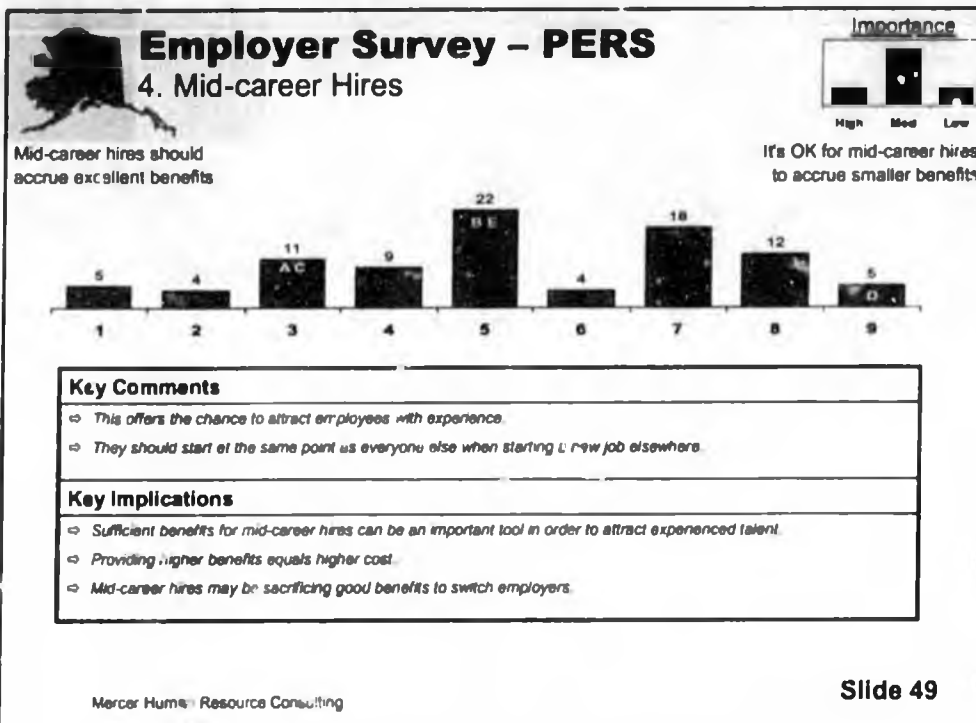
Key Implications

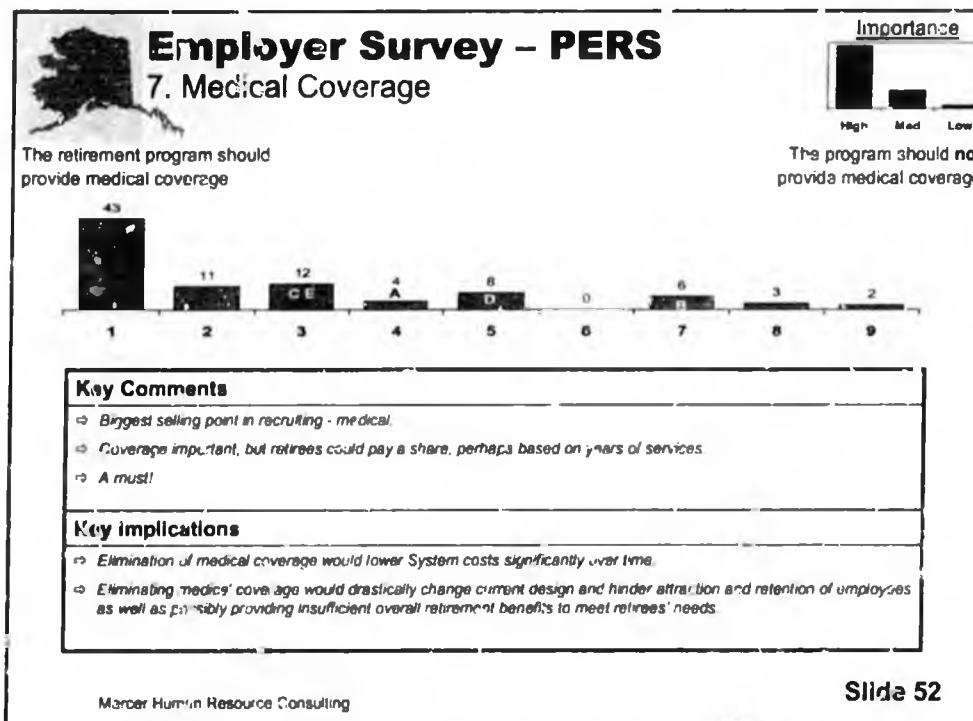
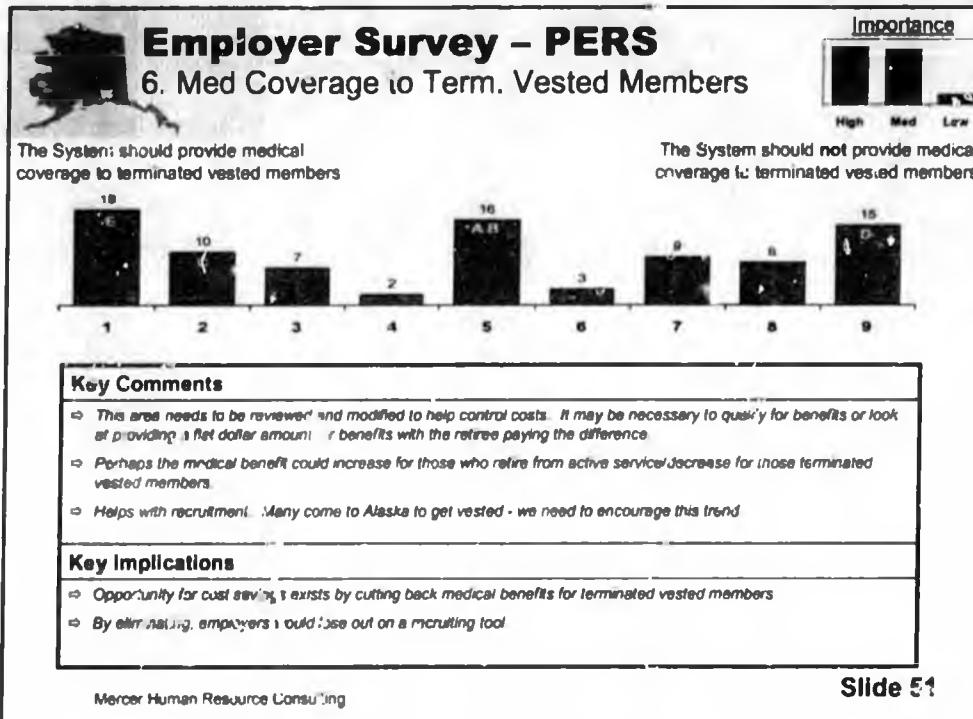
- ⇒ Rewarding long-service employees supports career employment.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when short-service employees leave the System.

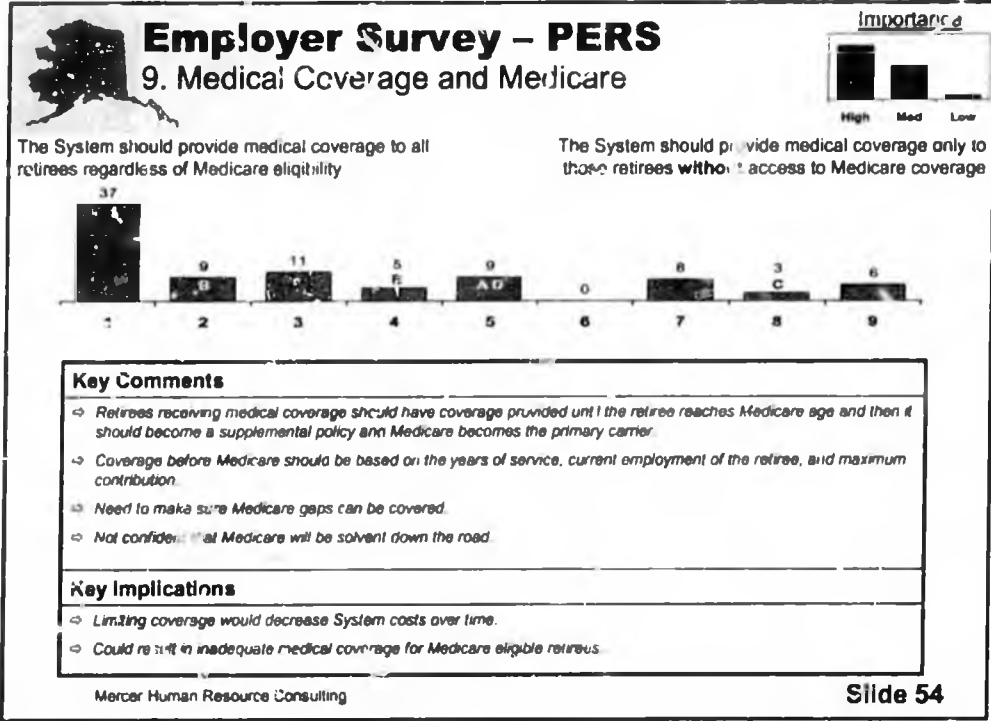
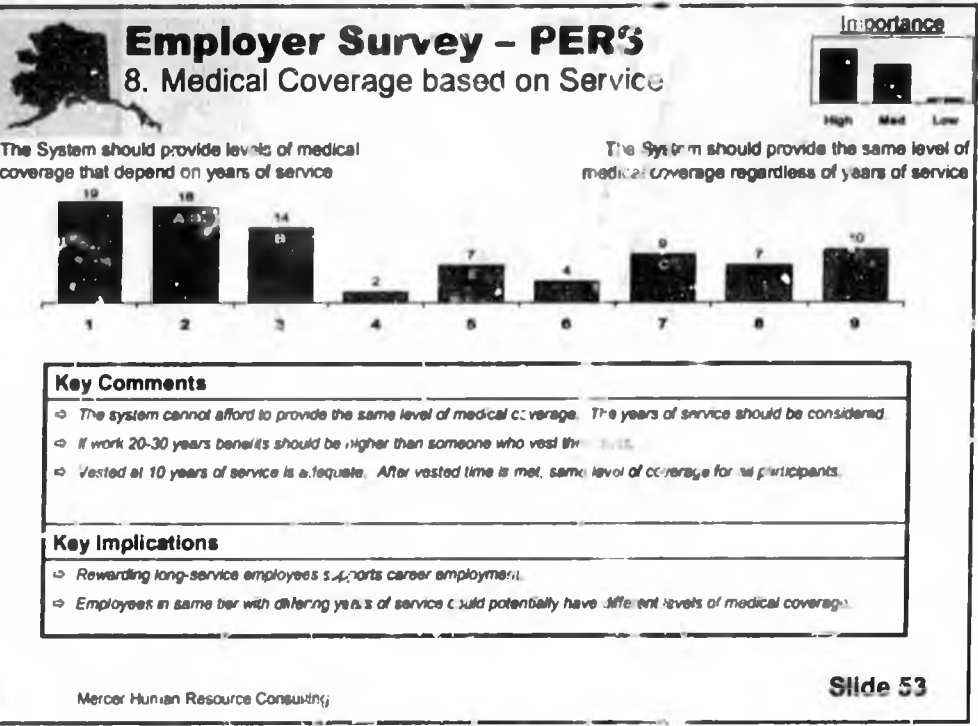
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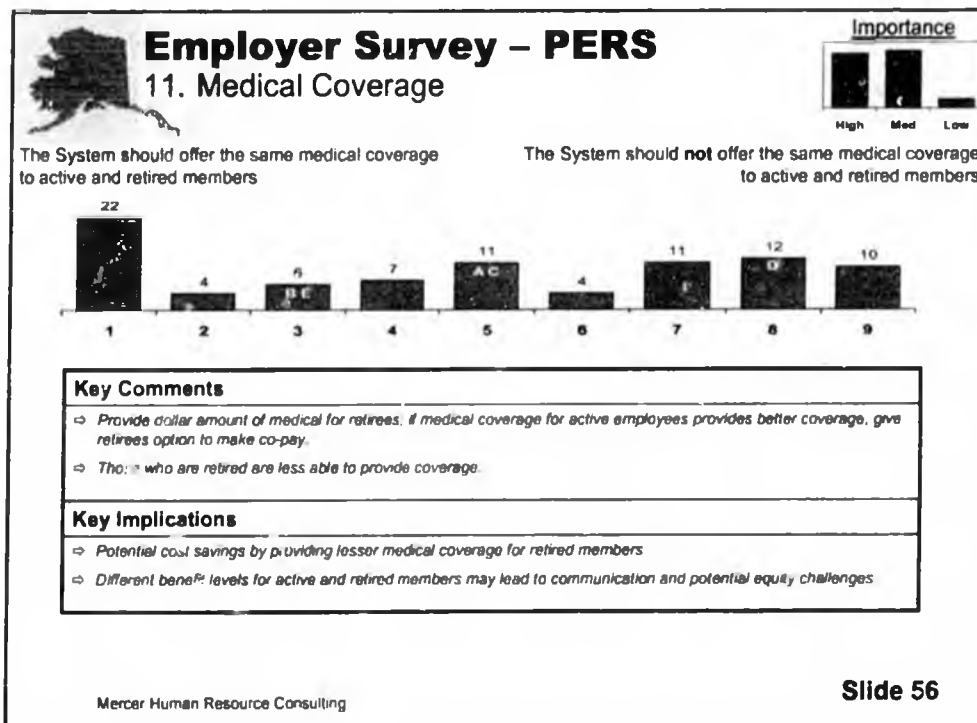
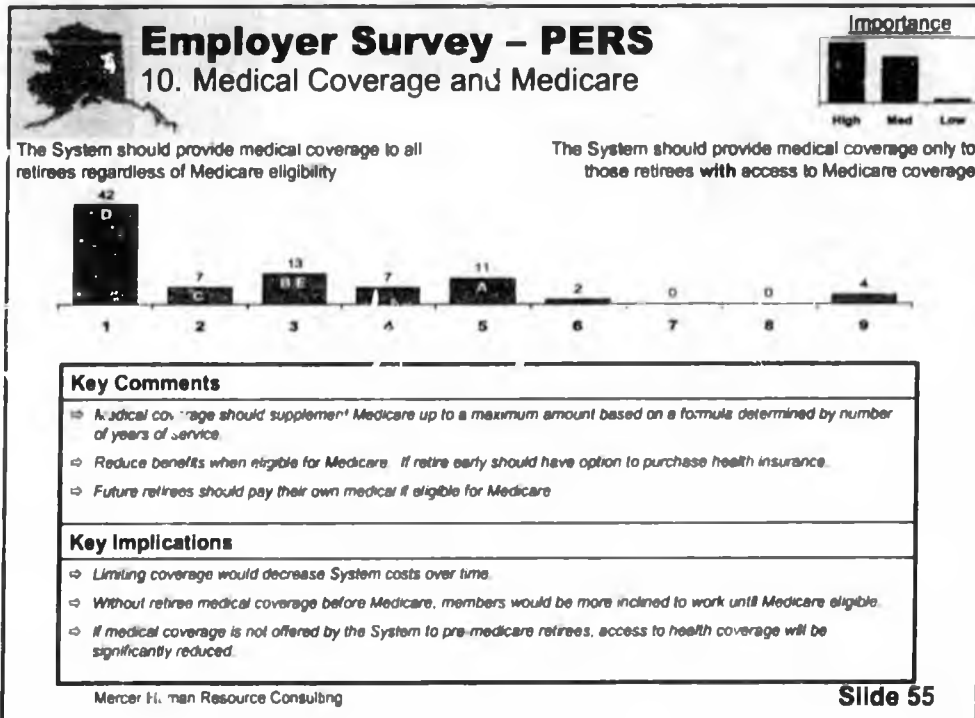
Slide 46













Employer Survey – PERS

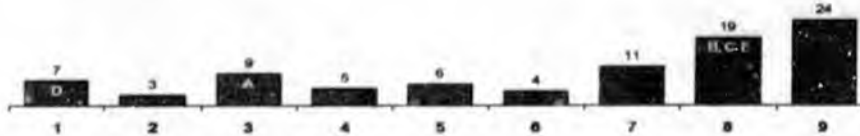
12. Retiring Age

Importance



We want to be able to encourage retirement at a particular age range

We don't care when people retire



Key Comments

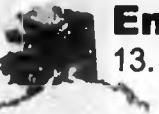
- ⇒ Employee's productivity and contribution are not subject to age so mandatory retirement at a certain age may not be beneficial.
- ⇒ I believe we will need to discourage early retirement as the available workforce decreases.
- ⇒ 20 and out needs to be changed. If anyone should be 20 and out it should be law enforcement.

Key Implications

- ⇒ By encouraging retirement at a particular age, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long.

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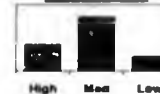
Slide 57



Employer Survey – PERS

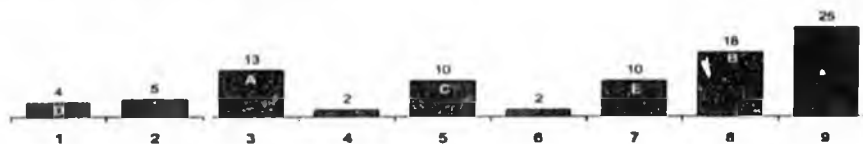
13. Retiring after Years of Service

Importance



We want to be able to encourage retirement after a particular number of years of service

We don't care when people retire



Key Comments

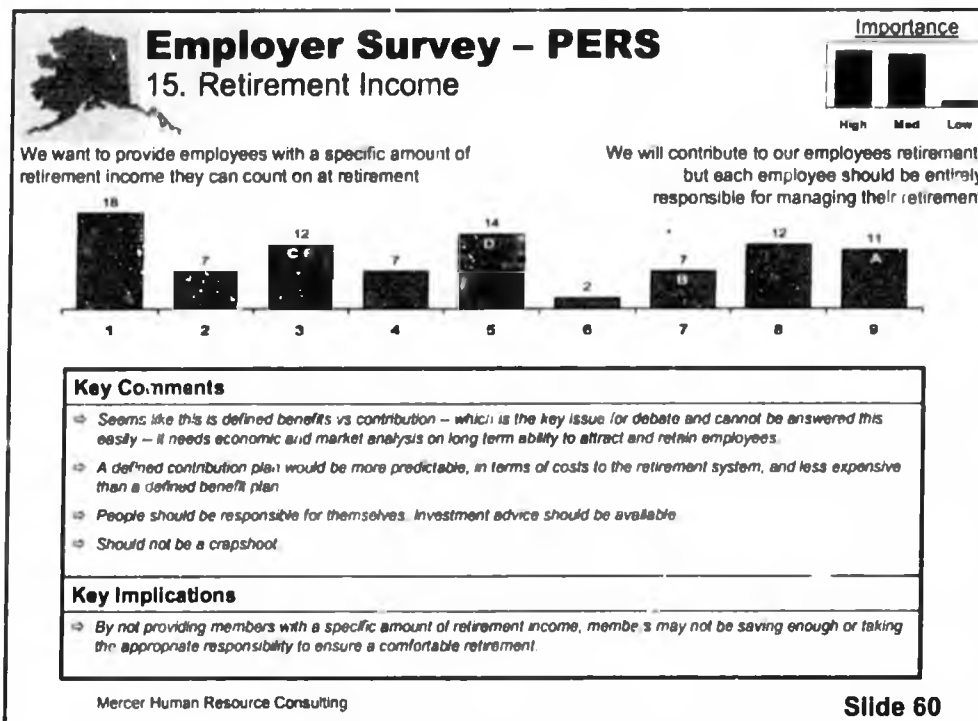
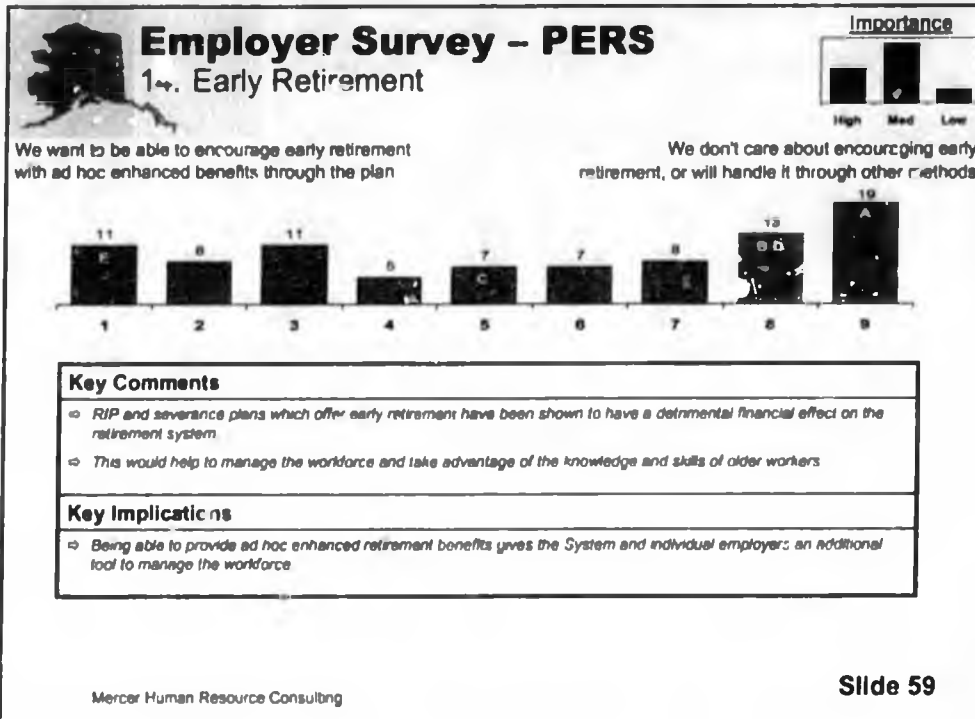
- ⇒ Increasing the number of years of service required, when age is not a factor, would reduce the cost to the retirement system.
- ⇒ While high salary people are a budget concern, their experience and expertise is a tremendous plus for a small organization.
- ⇒ As long as the employee meets job qualifications and is productive. This is the real issue.

Key Implications

- ⇒ By encouraging retirement at a particular number of years of service, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long.

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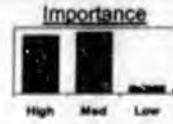
Slide 58





Employer Survey – PERS

16. Investment Risk Responsibility



Employees should assume the investment risk

Employer should assume investment risk



Key Comments

- ⇒ Employees should assume responsibility. However employers may want to limit investment options to minimize risk.
- ⇒ Employer should not assume investment risk.
- ⇒ There should be a balance between the employees and employer.

Key Implications

- ⇒ Bearing the investment risk exposes the System to cost increases and volatility, but can also often achieve higher returns than an individual due to a longer time horizon and professional management.
- ⇒ Members can often invest too conservatively or too aggressively for their given situation and needs.

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Slide 61



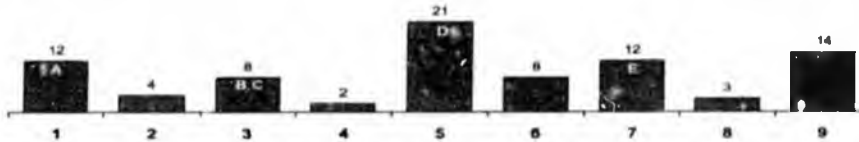
Employer Survey – PERS

18. Inflation Risk Responsibility



Employees should assume post-retirement inflation risk

Employers should adjust benefits for post-retirement inflation



Key Comments

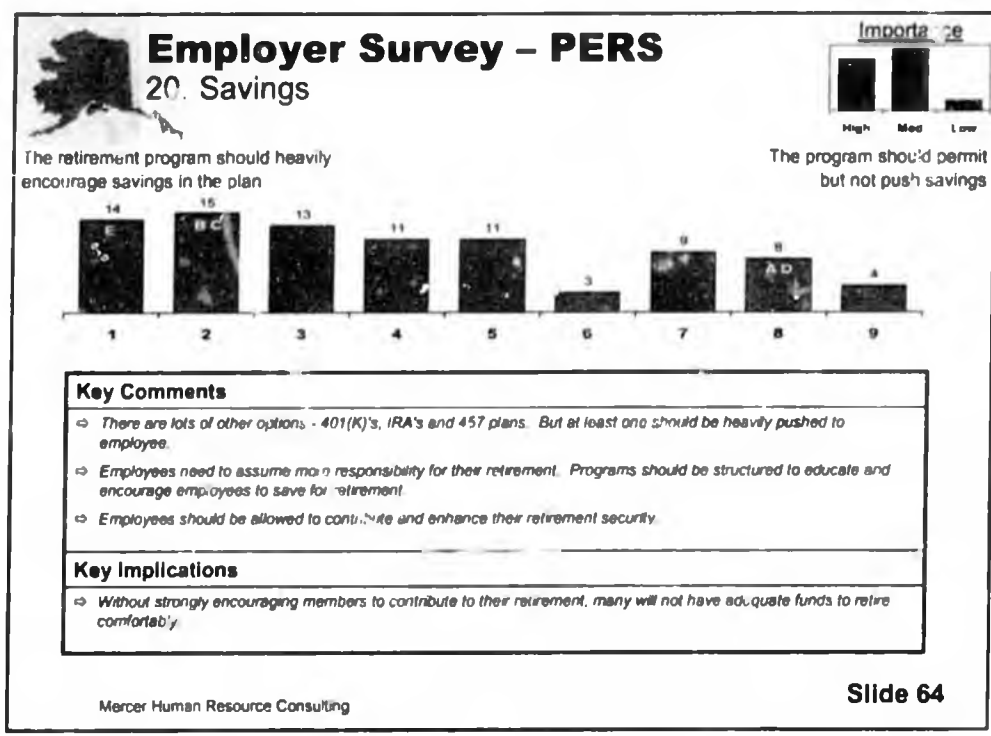
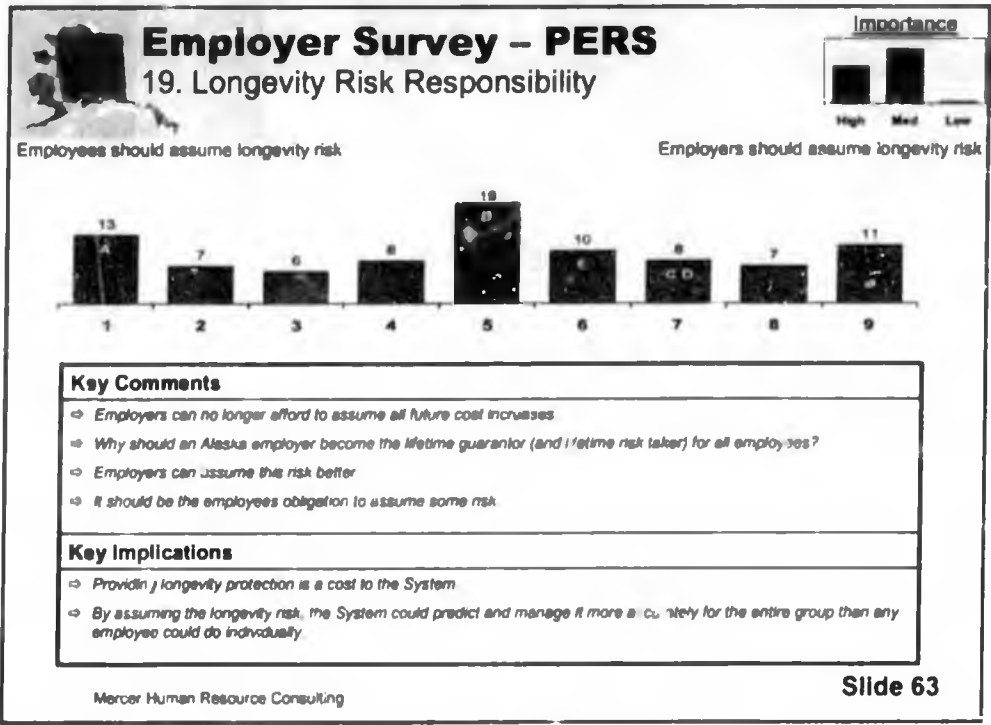
- ⇒ It needs economic and market analysis on long term ability to attract and retain employees
- ⇒ Employees should assume more risk for post-retirement inflation.
- ⇒ Employer rates should reflect a more conservative estimated annual inflation rate and annual inflation adjustments should have an annual inflation cap.

Key Implications

- ⇒ Providing post-retirement inflationary protection would ensure that the value of member's benefits at retirement continue to remain as valuable throughout their lifetime.
- ⇒ Providing post-retirement inflationary protection is a cost to the System.

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Slide 62





Employer Survey - PERS

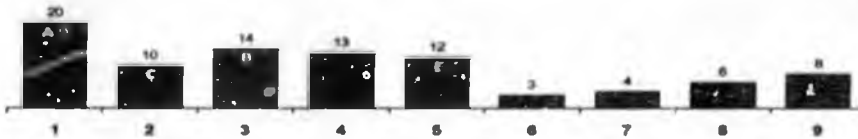
21. Cost of Medical Coverage

Importance



Employees should share in the cost of medical coverage

Employer should assume the cost of providing medical coverage



Key Comments

- ⇒ Employers can no longer afford to pay the entire amount for medical insurance. Employees should share in the cost
- ⇒ Teacher/administrator salary does not reflect "high wages," hence this benefit should be provided
- ⇒ The more you share in the cost, the more you make wise decisions

Key Implications

- ⇒ Members sharing in the cost of medical coverage would provide cost savings to the System over time
- ⇒ Would be a significant shift from current design and increase financial burden on retirees

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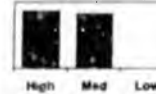
Slide 65



Employer Survey - PERS

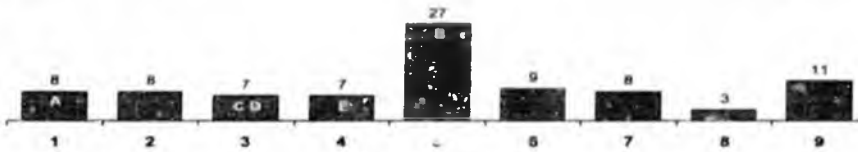
22. Cost of Medical Coverage

Importance



Employees should assume responsibility for medical cost increases

Employer should assume responsibility for medical cost increases



Key Comments

- ⇒ Employees should participate in medical cost increases.
- ⇒ I think the employee should hold this responsibility along with some help from employer.
- ⇒ Cost sharing is the key. Then employees will have an incentive to be wiser consumers and the system can manage cost increases more efficiently.

Key Implications

- ⇒ Members assuming the responsibility for medical cost increases would provide cost savings to the System over time
- ⇒ Would be a shift from current design and increase financial burden on retirees

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Slide 66



Employer Survey – PERS

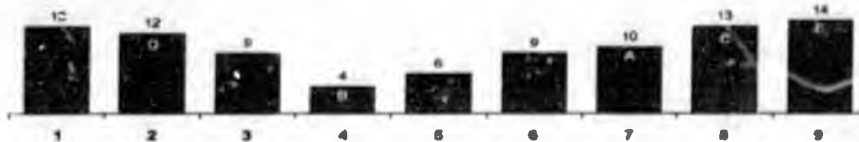
23. Access to Contributions

Importance



Employees should have access to as much of their own retirement contributions as legally possible

Employees should have no access to plan assets until retirement



Key Comments

- ⇒ Small portion should be available for "emergency only" situation.
- ⇒ If the employee paid it out it should be their choice to have it whenever and how much they want.
- ⇒ Employees generally have other deferred comp plans available to them to meet emergency needs. PERS is not a savings plan, but a long term retirement vehicle.

Key Implications

- ⇒ Members may spend retirement income during working lifetime and as a result may be unable to retire.
- ⇒ The capability to use retirement plans for pre-retirement needs such as a home purchase can be a valuable benefit.

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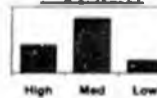
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Employer Survey – PERS

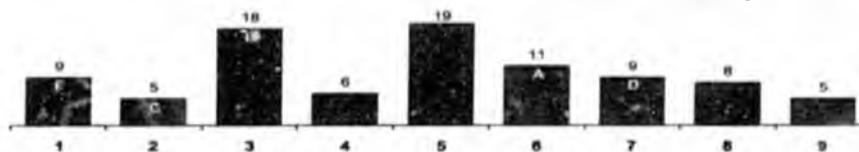
24. Understandability

Importance



Understandability is the primary concern

We'll sacrifice understandability if necessary to achieve our workforce and benefit objectives



Key Comments

- ⇒ Employees need to understand this plan.
- ⇒ Employers need to provide good communication and seminars to explain plans, but the plan must be structured so it is simple enough for the majority of people to understand.
- ⇒ Raise the bar. Ask people to be more responsible.
- ⇒ Employees need to be involved in their retirement.
- ⇒ College should teach it!

Key Implications

- ⇒ Generally a more complex formula can meet a wider variety of specific objectives.
- ⇒ Members may perceive more value in a retirement plan that is more understandable.

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Slide 68



Employer Survey – PERS

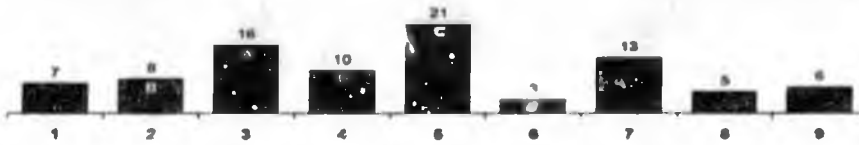
25. Tangible and Relevant Plan

Importance



All employees should find the plan tangible and relevant

It's OK if the plan is tangible and relevant mainly to older employees



Key Comments

- ⇒ Human nature is such that retirement benefits are valued more as you approach retirement. If you want young employees to become wildly enthusiastic you have to give away the farm.
- ⇒ All employees should be responsible for their own decisions.
- ⇒ All employees need to see the benefits of the plan.

Key Implications

- ⇒ Members may perceive more value in a retirement plan that is tangible and relevant.

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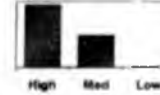
Slide 69



Employer Survey – PERS

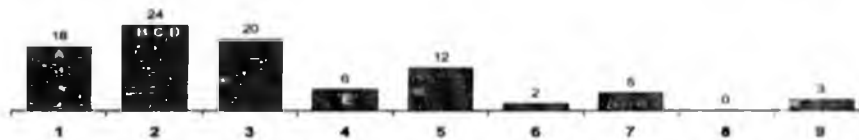
26. Predictability and Stability

Importance



We want maximum predictability and stability of contributions

We're willing to accept volatility as part of our asset strategy



Key Comments

- ⇒ For budgeting purposes, employers need a high degree of predictability.
- ⇒ Governments have to budget. They need to know what to expect.
- ⇒ Wide budget swings are hard to deal with.
- ⇒ As an employer, we're willing to accept volatility as part of our asset strategy, as long as fluctuation isn't too drastic. Such as our increase over the next two years.

Key Implications

- ⇒ Volatility is the result of a higher-risk asset strategy with higher potential rewards.

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Slide 70



Employer Survey – PERS

27. Change in Cost

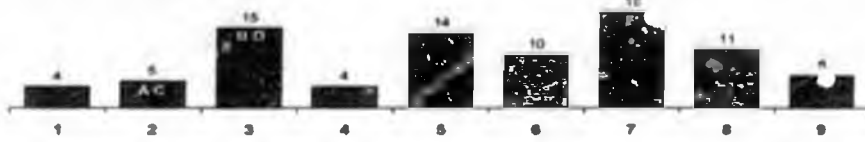
Importance



High Med Low

Aggregate retirement contributions should be less than they are now

Marginal cost increases are appropriate to meet other design goals



Key Comments

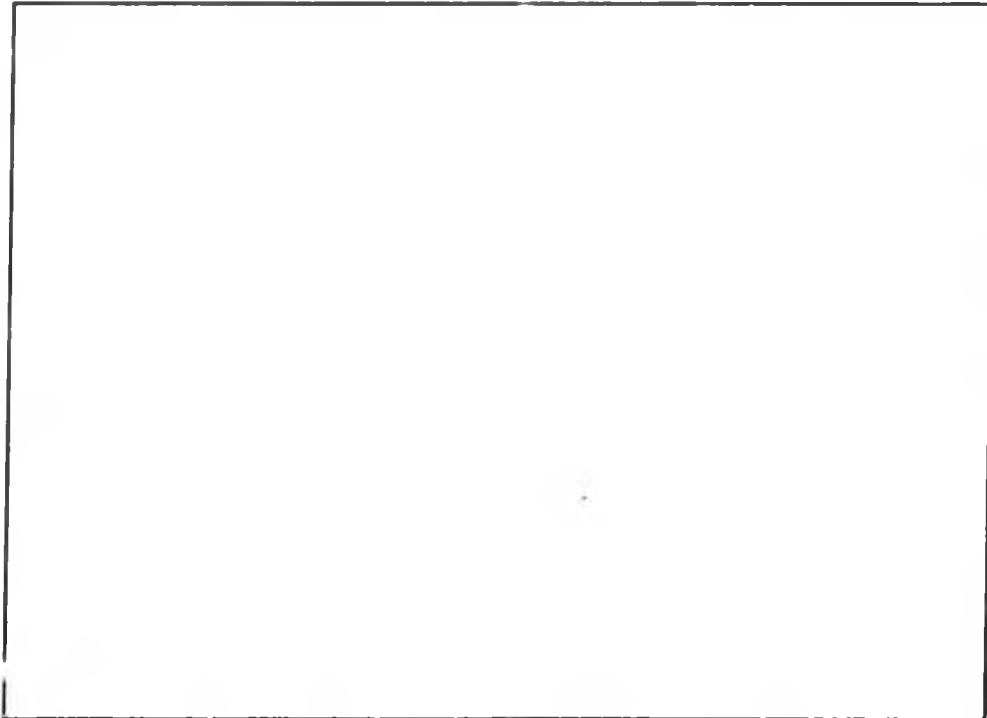
- ⇒ Employees contribution rates may need to increase!!
- ⇒ We understand that costs are increasing. Want to keep plans competitive while keeping plan costs reasonable
- ⇒ It would be a fairy tale to want aggregate retirement contributions to be less than they are now.

Key Implications

- ⇒ Lowering contributions will result in generally lower level of benefits for retirees
- ⇒ System benefits may or may not be competitive against peer group if benefits are decreased.

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Slide 71





Employer Survey - TRS

Key

The following pages illustrate the responses to the employer survey sent to all TRS employers. In total, 38 employers responded. TRS represents employers of various sizes. As a way to show the five largest employers' responses (of those who responded), we have included the letters A - E on the charts to represent how they answered. The employers have been assigned the following letters:

Employer	# Active Employees	Code Letter
Anchorage SD	3,464	A
Fairbanks North Star Borough SD	988	B
Matanuska-Susitna Borough SF	936	C
Kenai Peninsula Borough SD	723	D
Juneau Bureau SD	372	E

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Slide 73



Employer Survey - TRS

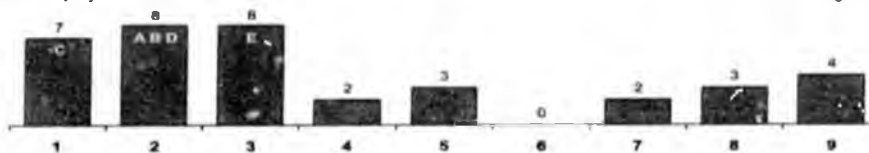
1. Long-Service Employees

Importance



Plan should favor long-service employees:

Plan should not distinguish on account of length of service



Key Comments

- ⇒ Incentives to reduce teacher turnover always help
- ⇒ Anything that keeps employees, saves time in recruitment, hiring, and training.
- ⇒ Retaining quality employees is far more important. Employees for hire consider immediate compensation, not retirement. Veteran employees deserve rewards.

Key Implications

- ⇒ Rewarding long-service employees supports career employment.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when short-service employees leave the System.

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Slide 74



Employer Survey – TRS

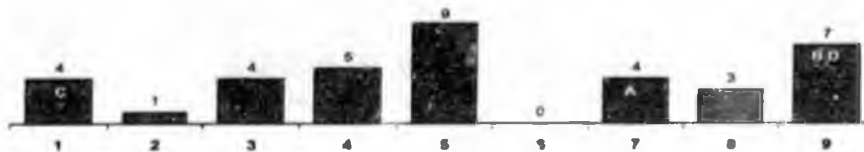
2. Older Employees

Importance



Plan should favor older employees

Plan should not distinguish on account of age



Key Comments

- ⇒ Length of service should be more important than age in determining retirement benefits.
- ⇒ Inflation and decreases in secondary raises are historical in Alaska. Young need to see opportunity in this state.
- ⇒ Equal balance regardless of age.

Key Implications

- ⇒ Rewarding older employees supports career employment.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System.

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Slide 75



Employer Survey – TRS

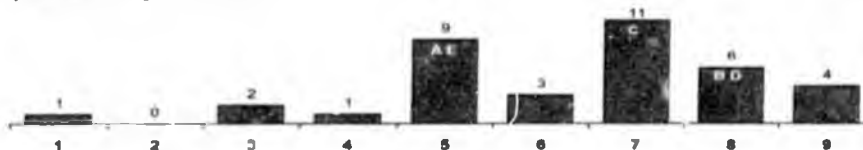
3. Benefits Build Up

Importance



Benefits should build up quickly, so "early leavers" have good benefits

Benefits should build up slowly, so "early leavers" have little



Key Comments

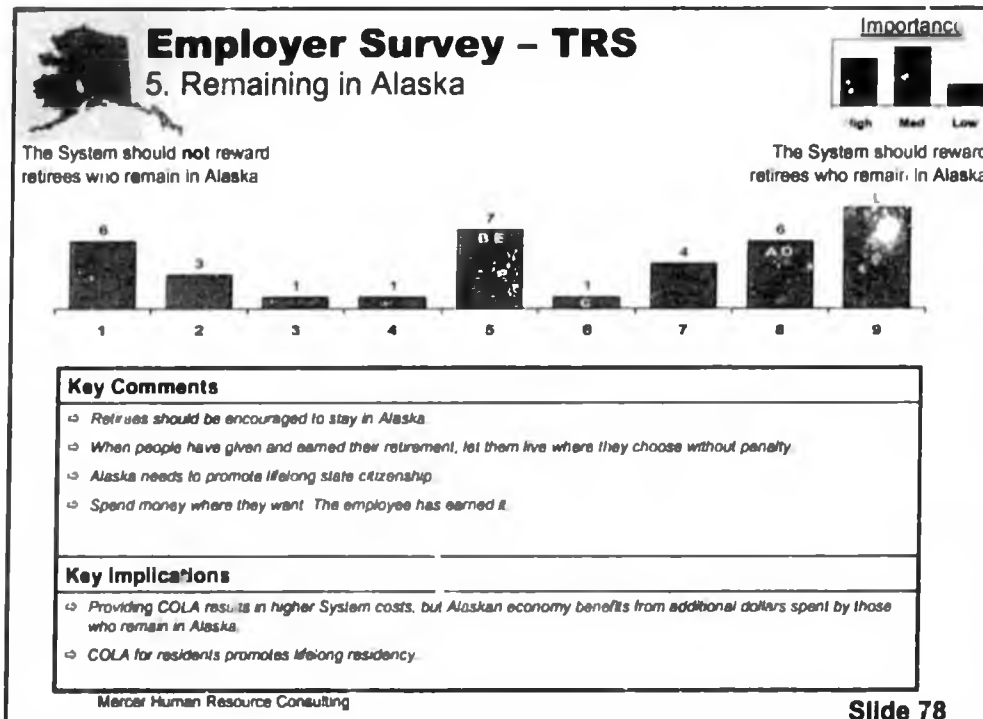
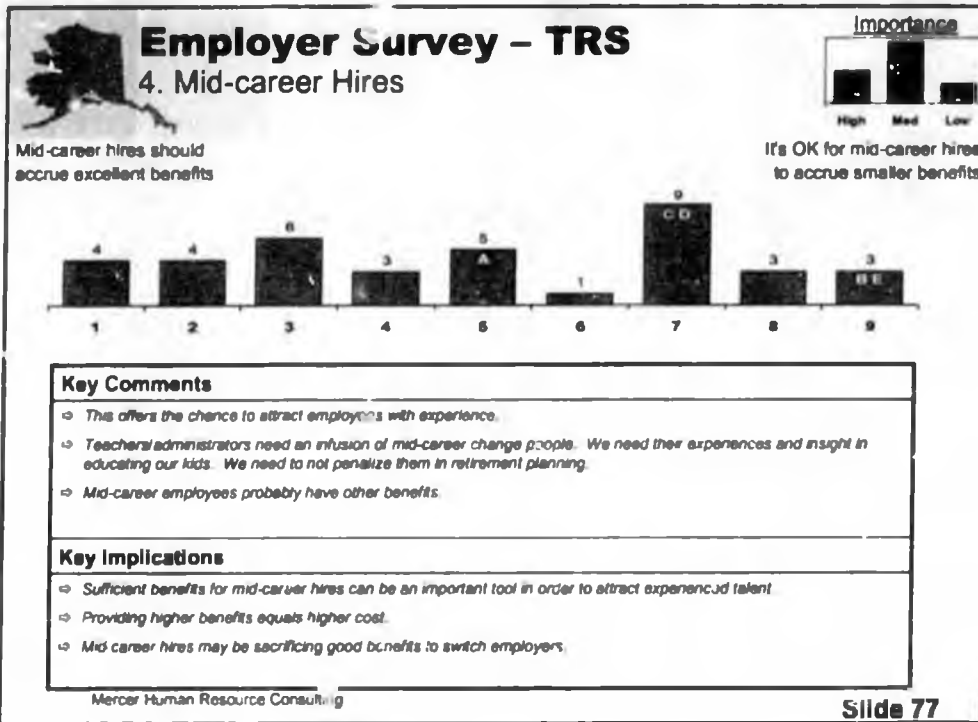
- ⇒ In order to save costs in a defined benefit plan, benefits should accrue at a constant rate rather than increase after so many years of service.
- ⇒ The System should promote an optimum age or service time that encourages turnover of the workforce without loss of good experience while providing a decent retirement.

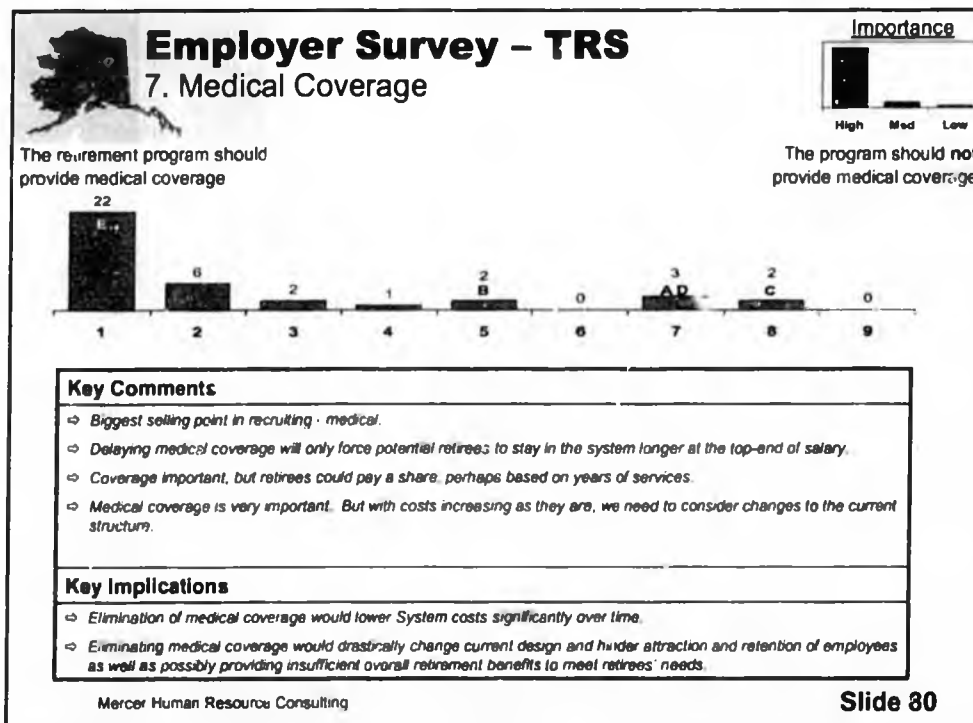
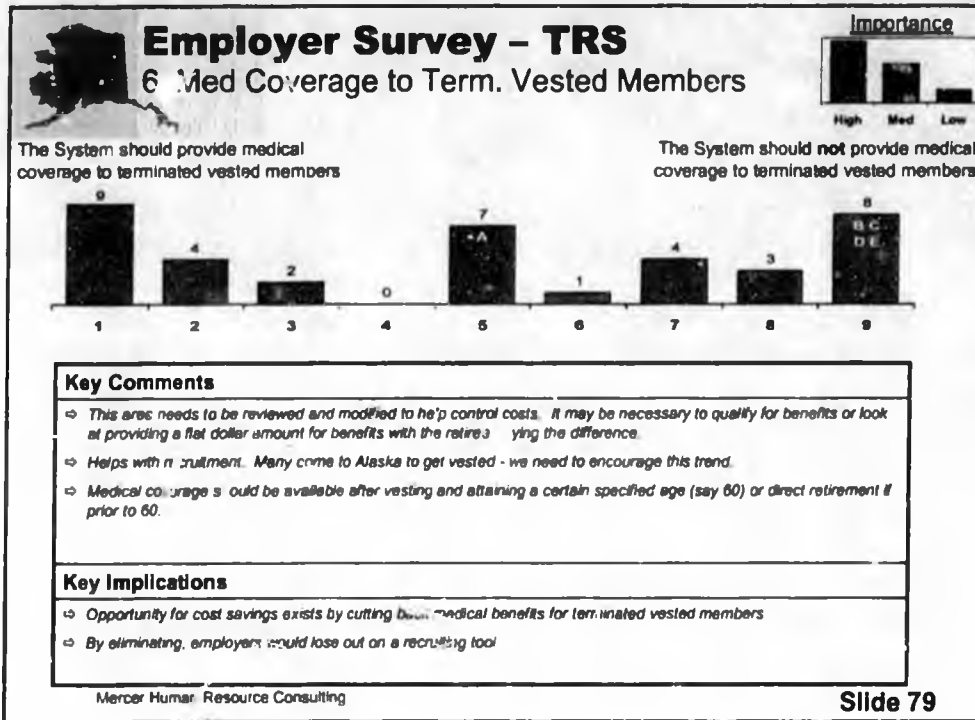
Key Implications

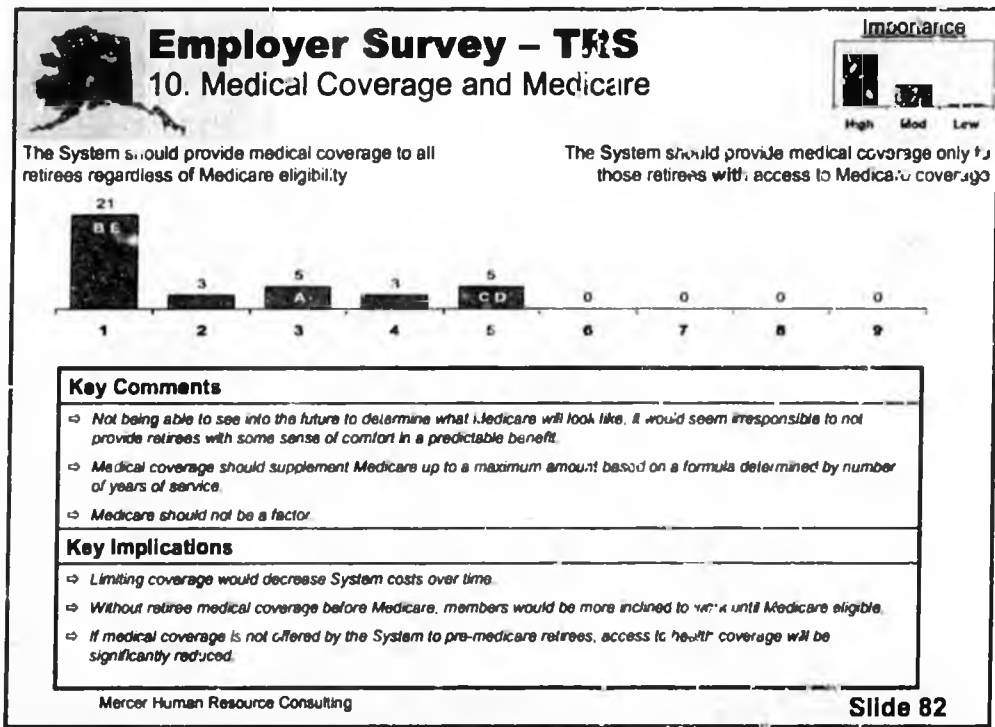
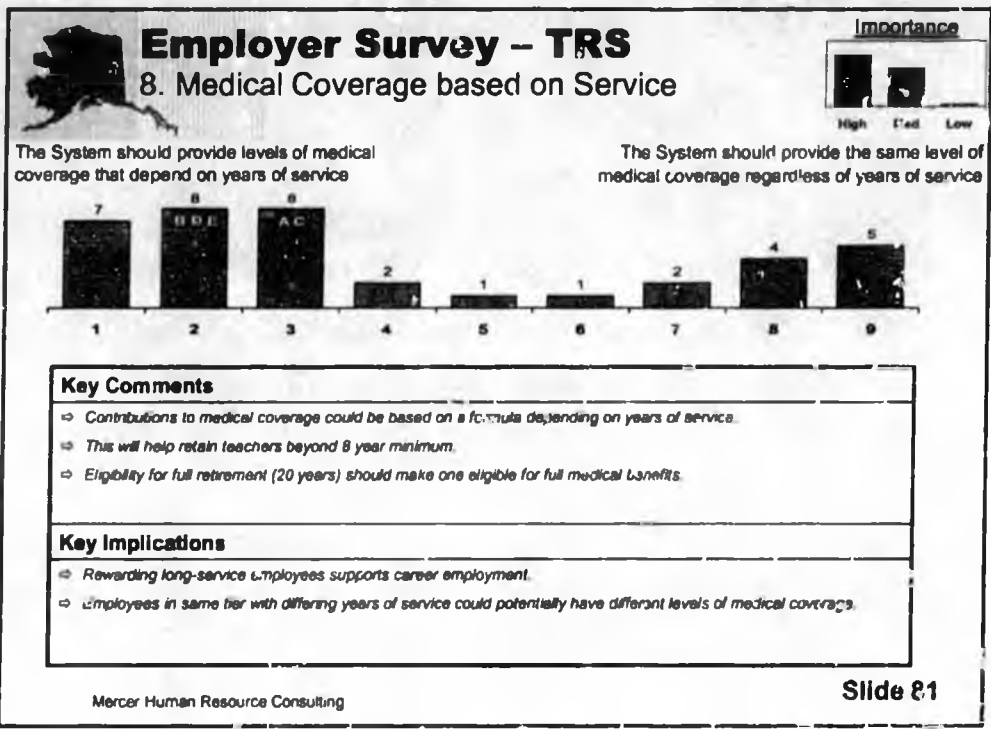
- ⇒ Does not affect career employees who stay until retirement.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System.

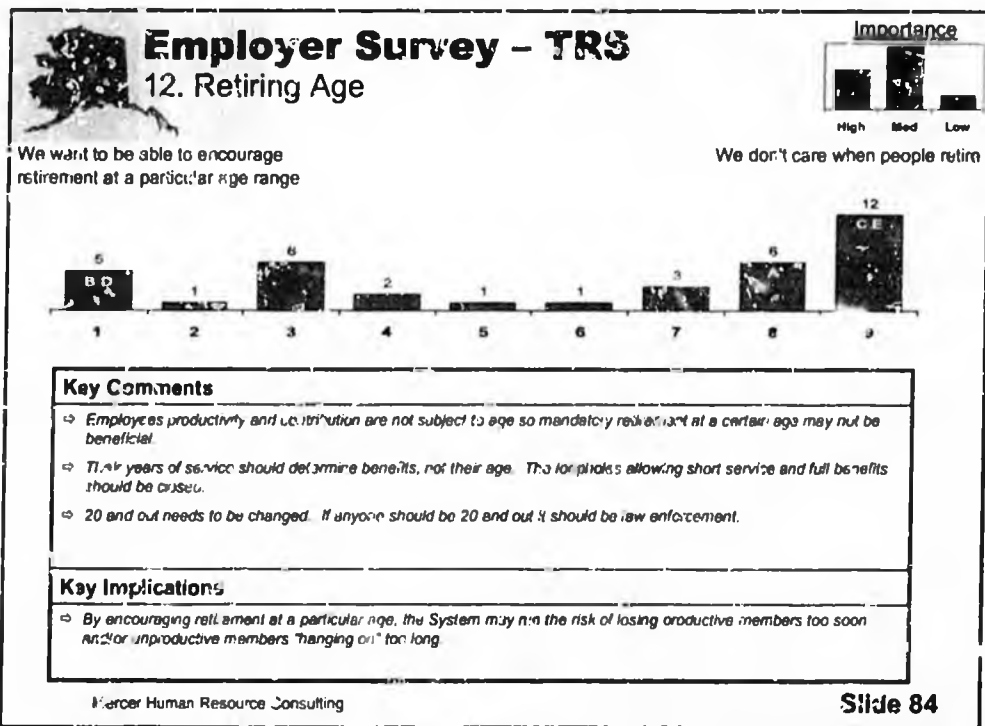
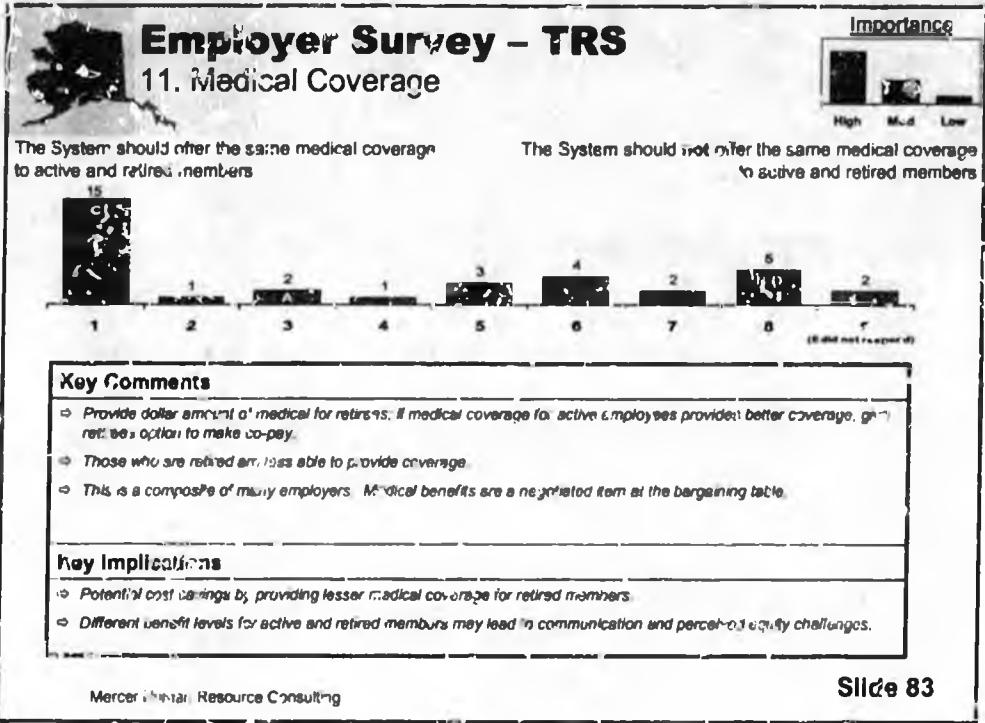
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Slide 76











Employer Survey - TRS

13. Retiring after Years of Service

Importance



We want to be able to encourage retirement after a particular number of years of service

We don't care when people retire



Key Comments

- Increasing the number of years of service required, when age is not a factor, would reduce the cost to the retirement system.
- While high salary people are a budget concern, their experience and expertise is a tremendous plus for a small organization.
- 20 years, at least 50 years in age.

Key Implications

- By encouraging retirement at a particular number of years of service, the System may run the risk of losing productive members too soon and/or unproductive members "hanging on" too long.

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Slide 85



Employer Survey - TRS

14. Early Retirement

Importance



We want to be able to encourage early retirement with ad hoc enhanced benefits through the plan

We don't care about encouraging early retirement, or will handle it through other methods



Key Comments

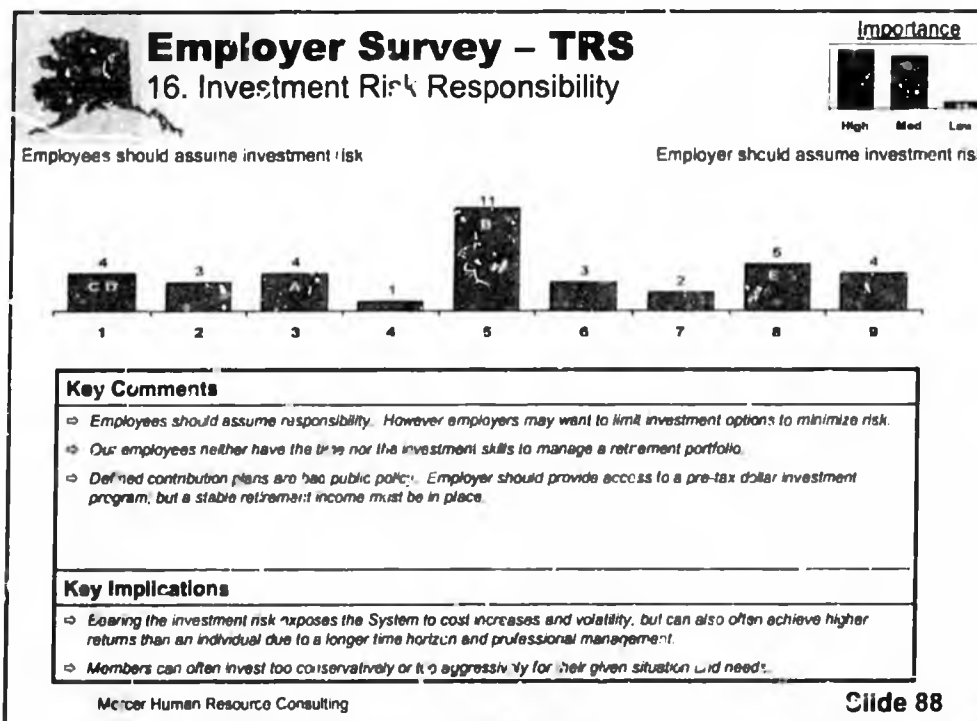
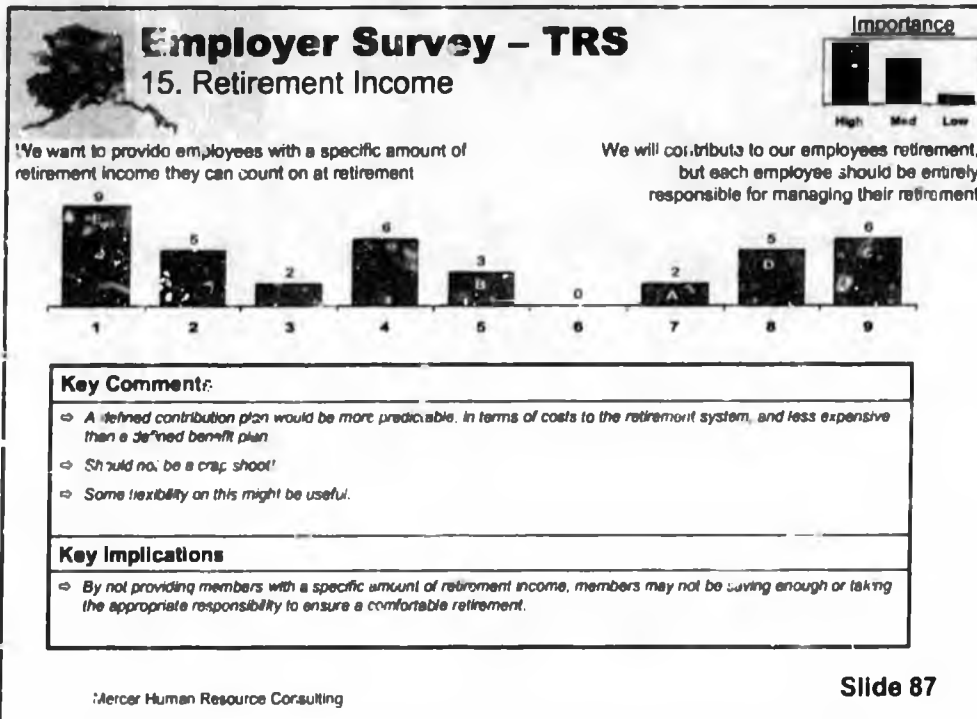
- RIP and severance plans which offer early retirement have been shown to have a detrimental financial effect on the retirement system.
- Given NEA union's impact on teaching force per se, only, this is needed to bring in new blood to the organization.
- In times of financial stress this will allow us to be more creative.

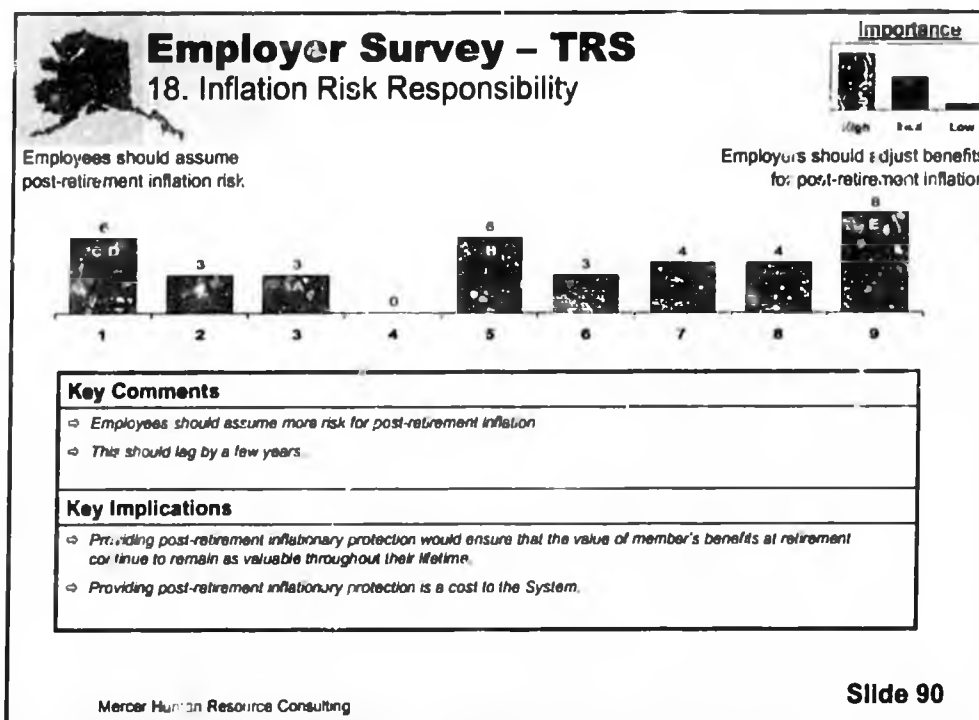
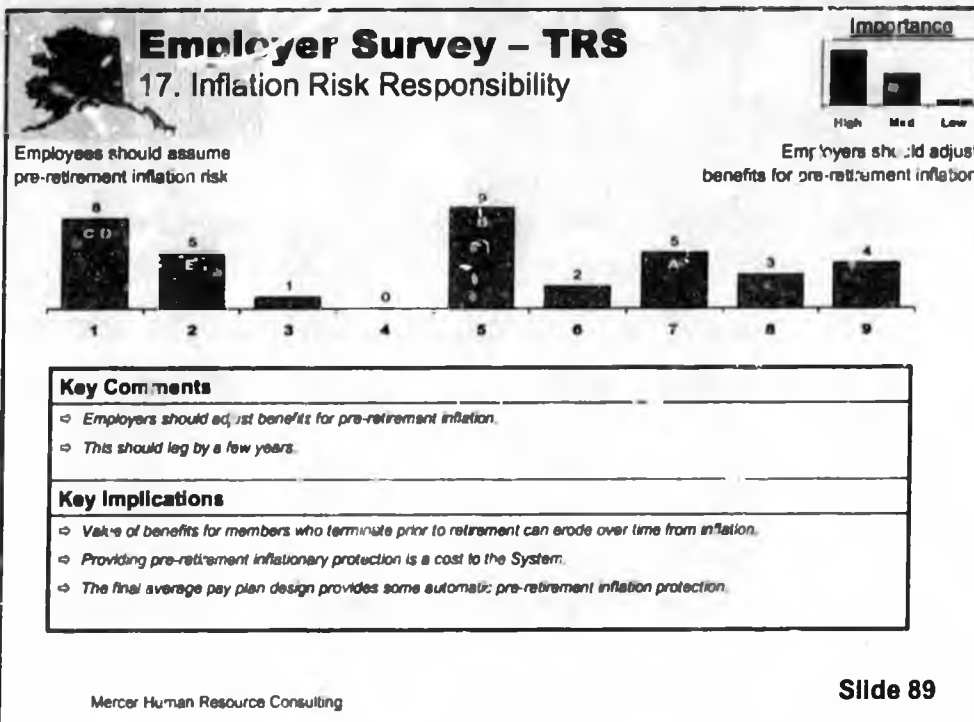
Key Implications

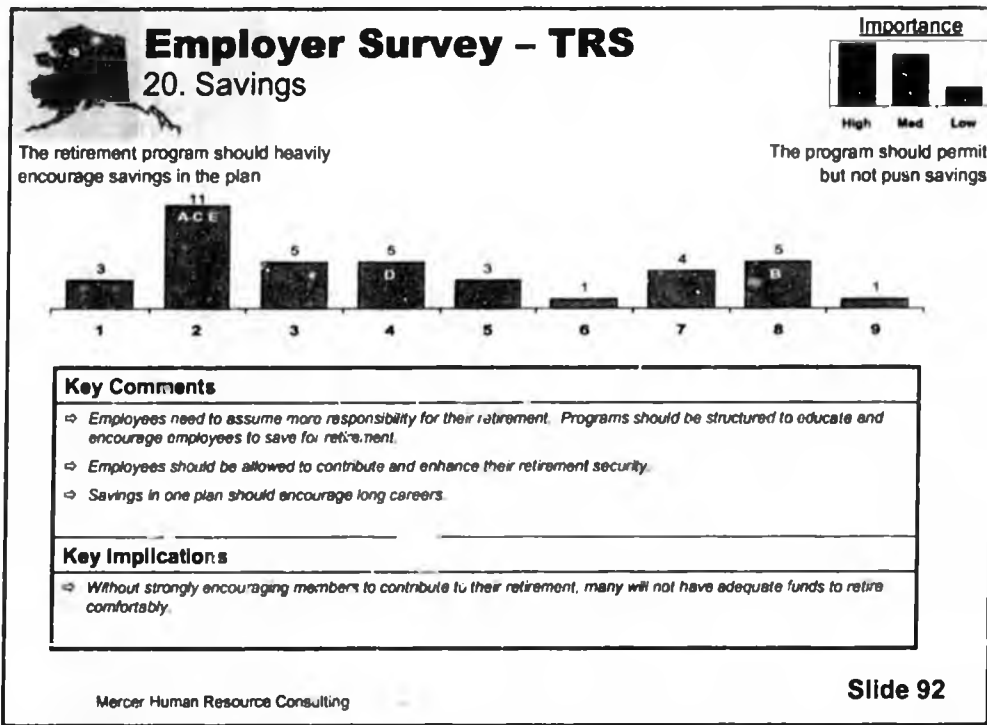
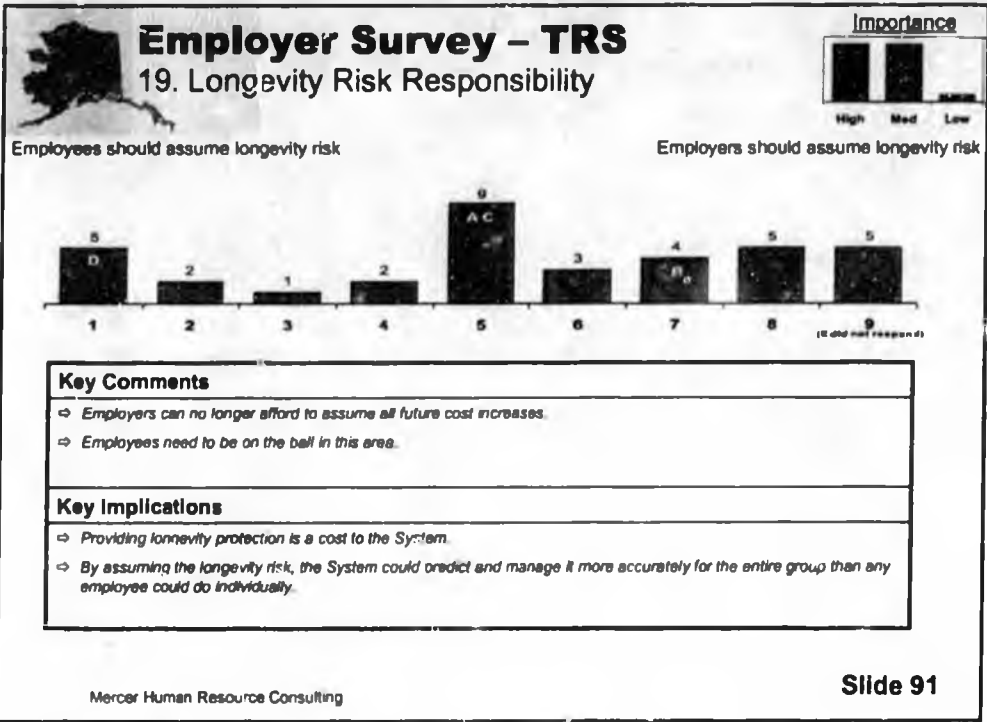
- Being able to provide ad hoc enhanced retirement benefits gives the System and individual employers an additional tool to manage the workforce.

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Slide 86









Employer Survey - TRS

21. Cost of Medical Coverage

Importance



Employees should share in the cost of medical coverage

Employer should assume the cost of providing medical coverage



Key Comments

- ⇒ Employers can no longer afford to pay the entire amount for medical insurance. Employees should share in the cost.
- ⇒ Teacher/administrator salary does not reflect "high wages," hence this benefit should be provided.
- ⇒ Employees share in the cost of medical coverage and retirement benefits through their active career contributions. They also contribute via co-pays, deductibles and Medicare Part B premiums.

Key Implications

- ⇒ Members sharing in the cost of medical coverage would provide cost savings to the System over time.
- ⇒ Would be a significant shift from current design and increase financial burden on retirees.

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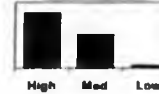
Slide 93



Employer Survey - TRS

22. Cost of Medical Coverage

Importance



Employees should assume responsibility for medical cost increases

Employer should assume responsibility for medical cost increases



Key Comments

- ⇒ The retirement system should be responsible for the management of the medical coverage while the retiree should be responsible for cost increases.
- ⇒ Both should assume cost responsibilities. It's not either or.

Key Implications

- ⇒ Members assuming the responsibility for medical cost increases would provide cost savings to the System over time.
- ⇒ Would be a shift from current design and increase financial burden on retirees.

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Slide 94



Employer Survey – TRS

23. Access to Contributions



Employees should have access to as much of their own retirement contributions as legally possible

Employees should have no access to plan assets until retirement



Key Comments

- ⇒ Small portion should be available for "emergency only" situation.
- ⇒ Access should certainly be very limited.
- ⇒ Only with benefit of understanding the consequences.

Key Implications

- ⇒ Members may spend retirement income during working lifetime and as a result may be unable to retire.
- ⇒ The capability to use retirement plans for pre-retirement needs such as a home purchase can be a valuable benefit.

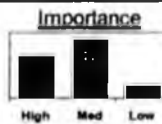
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Slide 95



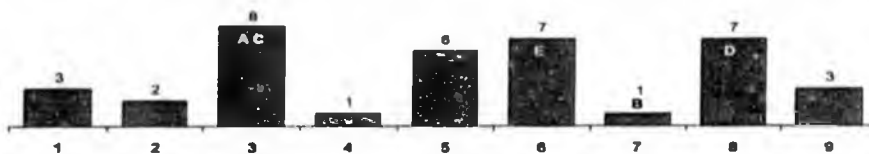
Employer Survey – TRS

24. Understandability



Understandability is the primary concern

We'll sacrifice understandability if necessary to achieve our workforce and benefit objectives



Key Comments

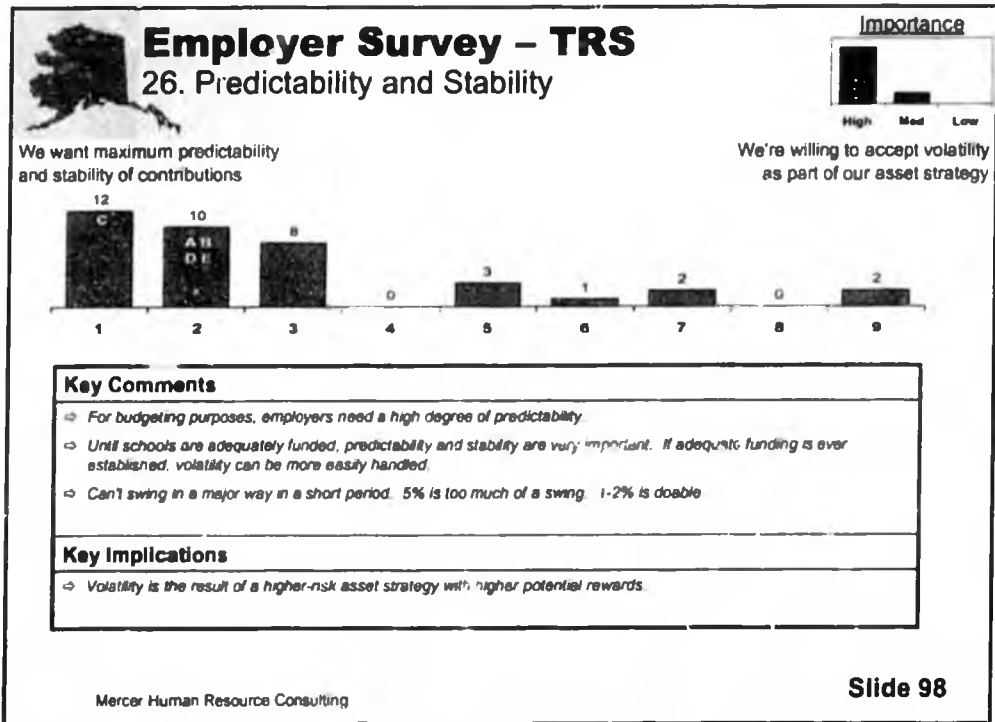
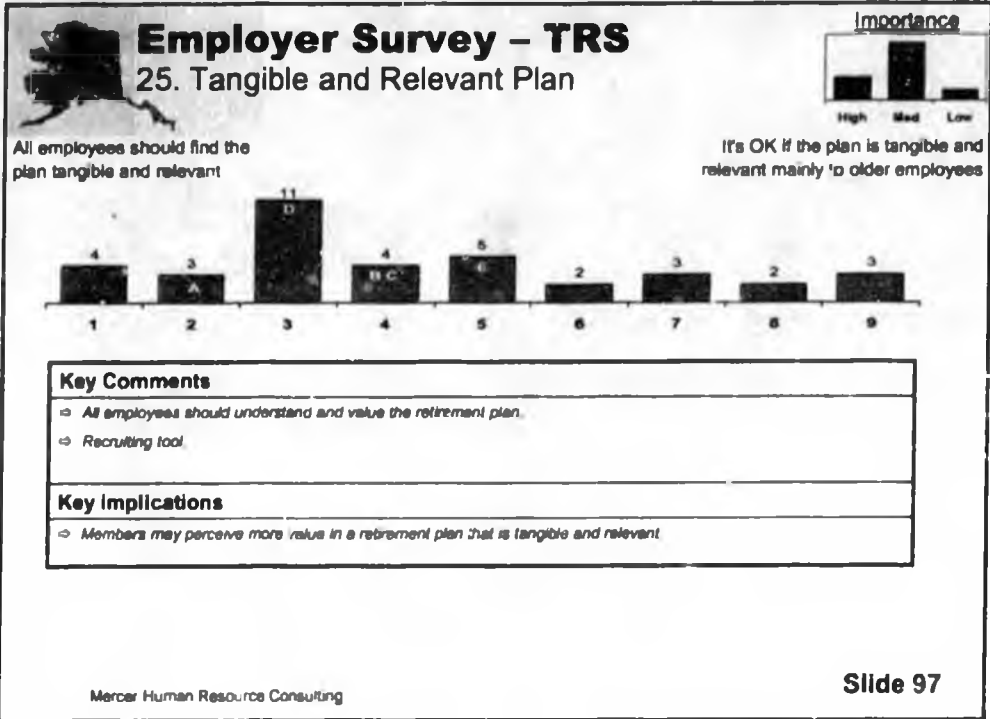
- ⇒ Employers need to provide good communication and seminars to explain plans, but the plan must be structured so it is simple enough for the majority of people to understand.
- ⇒ Let individuals who want complexity and flexibility do so on their own apart from this.
- ⇒ It is their responsibility to understand it
- ⇒ College should teach it!

Key Implications

- ⇒ Generally a more complex formula can meet a wider variety of specific objectives.
- ⇒ Members may perceive more value in a retirement plan that is more understandable.

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Slide 96





Employer Survey – TRS

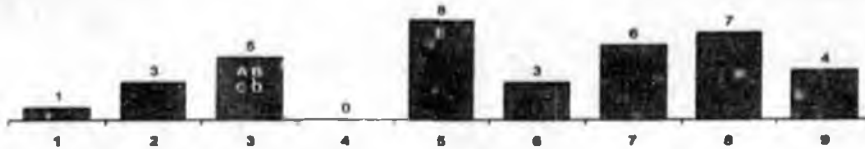
27. Change in Cost

Importance



Aggregate retirement contributions should be less than they are now

Marginal cost increases are appropriate to meet other design goals



Key Comments

- ⇒ Employees contribution rates may need to increase!!
- ⇒ We understand that costs are increasing. Want to keep plans competitive while keeping plan costs reasonable.
- ⇒ We have to contain costs or everyone loses.
- ⇒ Costs need to be sufficient to do the job.

Key Implications

- ⇒ Lowering contributions will result in generally lower level of benefits for retirees.
- ⇒ System benefits may or may not be competitive against peer group if benefits are decreased.

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Slide 99



Employer Survey – TRS

29. Most Important Questions



The four most important questions with preferred spectrum comment

- Question # 7: "The retirement program should provide medical coverage"
- Question #26: "We want maximum predictability and stability of contributions"
- Question #1: "Plan should favor long-service employees"
- Question #6: (The responses did not indicate a significant difference between the two)
 - "The System should provide medical coverage to terminated vested members"
 - "The System should not provide medical coverage to terminated vested members"

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Slide 100

DRAFT

OUTLINE OF MAJOR POINTS FOR TESTIMONY

BEFORE ALASKA LEGISLATURE, MARCH 29-31, 2005

Richard J. Solie, TRS Board Member

-- My name is Richard Solie, Sr. I am retired from the University of Alaska where I was a Professor of Economics, Head of the Department of Economics, and Acting Dean of the School of Management. I also ran my own economic consulting firm for a number of years.

I am a member of the TRS Board, having been appointed by Governor Murkowski in the summer of 2003 and re-appointed to a new term in January of 2004. As a member of the TRS Board I served as one of four members on the Tier Committee which was charged with developing a proposal or proposals for a new retirement plan for both TRS and PERS.

After review of several of the major bills being considered by the House and Senate, I have a number of observations that I would like to make. I will deal with these under several different categories, and I will approach them in order of my perception of their importance. That way, if I run out of time, I'll at least have been able to discuss what to me are the most important issues.

I. MEMBER CONTRIBUTIONS:

A. Equal sharing of "Normal Cost":

1. I, personally, agree philosophically with this approach, and, as a matter of fact, the Tier Committee's recommendation for both Alternatives 1 and 2 included employee contributions which were at least as high as the employer contributions! (TRS: Employer - 8.75%, Employee -- 10.0%; PERS - Both pay 8.0%).
2. I even agree philosophically with equal sharing of "Normal Cost" for employees covered under existing tiers, however I am concerned that the 5%/year possible increase is a very stiff increase for an individual employee. That probably wouldn't come into play, however, if the equal sharing was limited to "Normal Cost";

3. I might note that the employee survey conducted by the Division of Retirement at the request of the Tier Committee indicated a willingness on the part of some of the employees to make higher contributions if the DB plan could be retained in a future tier; and there was wide-spread feeling among employers that employees should pay a larger share of benefit costs than they presently do;
4. I am concerned about the response of the judiciary if this is applied to existing tiers, and this is one of the reasons that the Tier Committee didn't consider this alternative;
5. I also question whether the contributions should be the same for all existing tiers:
 - "Normal Cost" for TRS Tier II in FY06 is 20.36% versus a 22.97% combined rate for Tiers I & II (p. 8, slide 15, November 19, 2004 Presentation to PFRS and TRS Boards).
 - "Normal Cost" for PERS Tier III is 17.55% versus 20.05% for Tiers I, II and III combined (slide 14)

B. Equal sharing of contributions for "Past Unfunded Liabilities":

1. For members of a new tier, there would, of course, be no unfunded liabilities so presumably it isn't the intent of the legislature to charge them for the unfunded liabilities of existing tiers;
2. For current TRS/PERS members I am strongly opposed to such a policy for several reasons:
 - a. The majority of the past funded-liabilities are associated with retirees rather than with current actives;
 - b. Bob Reynolds with Mercer estimated the allocation of unfunded liabilities to be approximately:
 - TRS – 27.8% active participants, 68.5% for retirees and beneficiaries, 3.2% for terminated vested individuals and 0.5% for "others" (thus **72.2% for non-actives**);
 - PERS – 33.2% actives, 11.7% terminated vested, 54.7% retirees and dependents, and 0.4% "other" (**66.8% for non-actives**).

c. Furthermore, you would get a similar disparity even among the actives since a newly hired employee would have essentially no unfunded liability related to his future benefits whereas a long-term employee who was nearing retirement would have a great deal.

d. The result would be that existing members would be required to pay additional contributions that would be grossly out of line with the future benefits they could be expected to receive.

II. INTRODUCTION OF A 100% DC PLAN TO REPLACE THE EXISTING DB PLAN.

- A. First of all, let me say that I am not opposed to the general concept of DC plans or of privatized retirement plans. I strongly believe in individual responsibility and in the advantages of personal ownership of private equities;
- B. I am sure that all of you are aware that, although the Tier Committee did forward to the full boards an Alternative 2 which was 100% DC, the committee was unanimous in opposing its adoption;
- C. I personally pressed for a hybrid plan that included both a 1% DB and a DC component. Although some of the committee members undoubtedly had misgivings about it, there was a clear recognition of the serious problem facing the State of Alaska with respect to the retirement plans, and consequently the Tier Committee voted unanimously to support the hybrid plan;
- D. There are several reasons for the committee's and my personal opposition to a 100% DC plan:
1. A key factor is that in Alaska **most of the teachers in this state are not covered by Social Security**. Thus, they lack the floor of retirement benefits that is available to private sector employees and to public sector employees in most other states. The 1% DB plan that the Tier Committee proposed would provide such a floor.
 2. The employer surveys that were conducted showed strong support for a sharing of the risks of the retirement plan, not a complete shifting of the risk to the employees;

3. The vast majority of other public employment plans are 100% DB plans; a much smaller number are hybrid plans with both DB and DC components; and some include an optional DC plan. Only a handful are 100% mandatory DC, and this could be a significant factor in competing for employees;
4. I am sure you have been exposed to the studies showing significantly lower rates of return on individually managed versus pooled accounts and also the problem with some employees utilizing their retirement funds for purposes other than retirement. As a consequence, I won't discuss those issues
5. Individual investors face risk that is significantly greater than that for a pooled investment plan for several reasons:
 - a. The volatility of the markets is such that there is a significant possibility that an individual's planned retirement will coincide with a down market. And, while there might be some possibility for a postponement of the planned retirement, I would call attention to the fact that the U.S. stock markets generally reached their previous highs in March of 2000 and five years later the S&P 500, for example, is still approximately 25% below the March of 2000 peak.
 - b. The pooled funds, of course, are subject to similar volatility, but in any given year only a small fraction of the members are planning to retire, and as a consequence the pooled funds have a much longer time horizon in which to recover from those downturns.
 - c. When it comes to actual retirement, the longevity factor is very significant for the individual retiree, but it is largely limited by the pooling that results with a large fund. (By this I mean that for an individual, the number of additional years that he/she will live after retirement is very uncertain. Thus, there is a significant risk of outliving one's retirement funds. For a large group, in contrast, the average risk is minimal because of the large numbers of individuals involved. This, of course, is what creates the opportunity for life insurance.)

- d. The suggestion could be made that when the individual retires, he/she could buy a whole-life annuity which would shift the risk to an insurance company. The problem with this is that annuities are very much a function of interest rates at the time they are written, and consequently a period of low interest rates would result in a much smaller annuity for an individual retiree. Again, the pooled retirement fund is able to take a much longer view of interest rates.
6. Largely as a result of issues such as these, the State of Nebraska, recently switched from the DC plan that it had maintained for 25 years to a Defined Benefit plan.
7. In most states where employees have been given the option to choose between a DC and a DB plan, the overwhelming majority have chosen the DB option. In Florida, for example, only 3% of the employees chose the DC alternative, and in Ohio only 7,367 of almost 300,000 employees chose the DC plan. (Source: *Public Pension Action News*, Spring 2003.)
- This, I believe, is a strong indicator of the negative impact that a 100% DC plan would have on our competitiveness in attracting and retaining teachers and other public employees in the future.
8. I am aware that there is a movement in some states to replace their DB plans with either hybrid plans or, in some cases, with 100% DC plans. Given the problems already facing the State in attracting and retaining employees, I am not sure that it is wise for Alaska to get into the lead on this movement.

III. RE-CONSTITUTION OF AND/OR ELIMINATION OF THE EXISTING BOARDS:

A. In my opinion, the proposed increase in professionalism would be positive, although I have been impressed with the expertise and experience already existent on the Boards.

B. I am concerned about the lack of assured representation of TRS/PERS members in some of the bills – after all, the monies in the funds are held in trust for the members; the members have made major contributions into the funds; and the funds represent the major (and in some cases the total) basis for their future retirement.

- Further, even if there is assured member representation, there is a question as to whether public or member's representatives should hold the majority (I would personally favor the members' representatives being in the majority.)

C. Role of PERS/TRS Boards in appeals:

- Hearing Officer would probably be more efficient if efficiency is measured only by the hearing itself. But, because the boards act as a jury of peers in essence, I believe the board approach reduces the risk of further litigation and gives the beneficiaries a greater sense that their case has been truly heard.

-- I was a member of the National Panel of Arbitrators of AAA for a number of years, and I feel that that system (which in a majority of the cases relies on a single arbitrator) works well.

- There is a major distinction between that system and the one envisioned here, however. The arbitrator is jointly selected by the parties and thus there is basis for trust and confidence on both sides of the issue being appealed.
- In this instance, I am afraid that the fact that the Hearing Officers would be administratively appointed would engender potential distrust on the part of the appellants;

D. Some of the functions envisioned for a "Super Board", while probably well within their capabilities, would add significant and potentially time-consuming duties to the already heavy responsibility of overseeing investment of the funds.

E. I am sure some of my colleagues have discussed the loss that a "Super Board" might engender in some of the inputs currently realized from the existing TRS/PERS boards (e.g., recommendations for health plan cost savings from the Health Sub-committee) so I won't go into that.

IV. PROPOSED CHANGES IN THE HEALTH PLAN:

- A. As you are all aware, the health plans have been a **major contributor** to the unfunded liability for the Alaska TRS and PERS. Further, unlike the impact of the downturn in the securities markets—which will probably even out over time—there is really no end in sight for the health plan problems. As a consequence, the Tier Committee (and a majority of the TRS/PERS Boards) considered it to be absolutely essential that the administration and/or the legislature make significant changes in the current plan. Such changes should be designed to reduce both plan costs and future risk.
- B. The Tier Committee's proposal included several major changes for employees under a new tier:
1. Participation in the health plan would require retirement directly from employment.
 2. The plan would be redesigned to include true deductibles and co-pays for Medicare eligible retirees. This is not true under the existing plan, and **the situation that exists at present provides essentially no incentive for such retirees to monitor and ration their health care usage and costs.**
 3. The plan would provide for significant health plan premium payments by the retirees tied to the length of the employee's service and to whether they were taking early or normal retirement:
 - a. Access only to coverage with full premiums paid by the retiree would apply during early retirement;
 - b. A DC type of employer subsidy for premium payments would be provided during normal retirement and up to Medicare eligibility;
 - c. Employees would pay a percentage of actual plan costs upon reaching Medicare eligibility with the percentage varying in accordance with the employee's years of service.

4. As a means of assisting retirees with the payment of the larger deductibles and co-pays as well as the retiree premium payments, an Employer paid for Health Savings Account would be provided. At the same time that this would assist retirees in paying the larger share of health plan costs it, **along with the higher deductibles and co-pays, would provide the retiree with a strong incentive to assist in controlling health care expenses.**

C. I am aware that Senate Bill 141 appears to provide similar changes to those outlined above for retirees who have reached Medicare eligibility. I am also aware of the HSA provisions in most, if not all of the various legislative bills. I am concerned, however, about several provisions:

1. For retirees from age 60-Medicare eligibility there is no subsidy (other than what might provided by the HSA). I am somewhat disappointed in this since I believe that the Tier Committee's age 60-Medicare eligibility subsidy would have involved essentially no risk to the employer (The subsidies are fixed in initial amount and in terms of future increases, and they would be readily calculable.) and the cost would have been relatively low.
2. The HSA contributions are capped at \$500 per year. There is concern that this would produce an inadequate fund to assist in the retiree's uncovered health care expenses.

V. **ELIMINATION OF THE 10% COLA:**

-- As you are aware, the Tier Committee recommended elimination of the 10% COLA **for the new tier.**

- Our reason for eliminating COLA for the new tier was our recognition of the current court action challenging the application of the existing COLA and seeking to apply it to retirees living outside the State in areas which have living costs equal to or greater than those in Alaska;
- We did feel, however, that the COLA (unless the legal challenge is successful) does serve a public purpose by encouraging retirees to remain in Alaska.

VI. **ADDITIONAL POTENTIAL CHANGES APPARENTLY NOT CONTEMPLATED IN CURRENT LEGISLATION:**

A. Although the Tier Committee did not formally recommend it, there was considerable discussion about proposing the elimination of SBS. This could mean many millions of dollars in savings to the State and other employers which could be used to help fund the existing retirement programs as well as the benefits of a new tier.

1. In considering this, the Tier Committee was aware that, although the State and University of Alaska are covered by SBS, a number of the political subdivisions are not. Thus, eliminating SBS would also be a means of rationalizing the statewide retirement benefits structure.
2. The specific reason that this was not proposed by the Tier Committee was a caution by the Board's legal counsel that the courts might view SBS as a contractual obligation paid in return for the agreement to opt out of Social Security.
3. The legislature, however, is in a position to get a thorough review of the legal issues involved in such a change, and if the determination is that it would pass judicial scrutiny, I (and I believe I speak for the majority if not all of the Tier Committee and also for several of the other Board members) would recommend that this be given consideration for a future tier.

B. As you are aware, the Tier Committee recommended the adoption of a "career average" base salary (adjusted for changes in the Alaska CPI) under the new tier in contrast to the "High Three Years' Salary" that is the basis for pension calculations at present.

1. This, of course, is irrelevant if the legislature adopts a 100% DC plan, but if a hybrid plan is approved, it could be very important.
2. A career average salary would eliminate many of the so-called "abuses" of the system under which various actions are taken to build up the final three years of salary.
3. A career average base would allow such things as inclusion of overtime pay, bonuses, etc. without distorting the benefits and creating unfunded liability as currently occurs when such elements are added in the final three years. Allowing them to be included, however, would give employers maximum flexibility in using these as tools for managing their workforce.

3/24/05

House State Affairs Committee

PERS/TRS legislation

Thank you for addressing the PERS/TRS \$5 billion problem.

My name is Larry Semmens, I am a CPA and Finance Director for the City of Kenai. I have attended most of the PERS meetings the last 18 months or so, including 3/22/05.

From an employers standpoint, the recent jump in the unfunded actuarial liability and the resulting rate increases are difficult to absorb, so I believe changes do need to be made.

Predictability of cost and local control are best provided with a defined contribution plan, so I support a new tier which is a DC plan. Recruitment issues are real, but can be dealt with locally with either salary, work conditions, or even supplemental retirement plans like the State's SBS plan.

Although the PERS/TRS boards have some culpability in the current situation, I honestly believe it is limited. Consider that the actuary is the expert and the Boards practically have to believe what they are told. Until 2002, the actuary told the boards that the funds were fully funded and the rate needed to support the system was 6.77%. The next year the board had to be as shocked as everyone else when the actuary told them the fund is now about 75% funded and the rate needed is 25%. Did the board have anything to do with that change?

I do not believe that changing the make-up of the board to more of a disinterested board will necessarily help. The key attribute of a PERS/TRS member in my opinion is understanding what a pension plan is, how it works and where the risks are. The change in board structure that I would like to see is employer representation.

If I can be of service please contact me.

lsemmens@ci.kenai.ak.us

DRAFT Sectional Analysis for CSHB 238

Sec. 1. Establishes applicability of the subsequent sections to teachers hired before July 1, 2005.

Sec. 2. Establishes an effective date for an increase in the contribution percentage for existing employees as outlined in the following sections.

Sec. 3. Establishes the manner in which the member contribution rate is calculated: the greater of 8.65% or ½ the normal cost rate. However, the member contribution rate may not increase by more than ½ a percent annually.

Sec. 4. Establishes the employer contribution amount as a percentage approved by the board applied to the sum of all employee's base salaries plus adjustments.

Sec. 5. Requires that the member and employer contribution rates when added not be less than the actuarially computed amount necessary to fully fund future liabilities of members (normal cost rate).

Sec. 6. States that an ad hoc post pension retirement adjustment (an increase in the pension benefits due to an increase in the cost of living) may not be issued until the retirement system is 100% funded. (1988).

Sec. 7. States that an ad hoc post pension retirement adjustment (an increase in the pension benefits due to an increase in the cost of living) may not be issued until the retirement system is 100% funded. (1990).

Sec. 8. Defines "fund" as the assets of the defined benefit retirement plan for the purposes of this section.

Sec. 9. Defines "system" as the Teachers' Retirement System of Alaska.

Sec. 10. Specifies the statutes relating to defined benefit plan members.

Sec. 11.

Sec. 14.25.310. Specifies that the previous sections only apply to teachers first hired on or before July 1, 2005, and defines "first hired" as the first day of employment.

Sec. 14.25.320. Establishes a Defined Contribution Plan in compliance with federal regulations.

Sec. 14.25.330. States that the purpose of the legislation is to encourage qualified teachers to enter and remain in the State.

Sec. 14.25.340. Establishes the member contribution rate for TRS employees as 11% to be deducted from their salary at the end of each pay roll period and to be credited to their account. The contribution will be calculated from the members base salary, excluding cost of living differentials, bonuses, per diems, expense allowances, etc.

Sec. 14.25.350. Establishes an employer contribution rate of 11% of the member's base salary. Distributes the employer contribution in the following manner: 5.75% to the member's contribution account, 3.75% to the member's medical plan, and 1.5% to the member's Health Reimbursement Account.

Sec. 14.25.360. Gives 15 days from the close of pay roll for member and employee contributions to be transferred to the member's retirement fund. Establishes consequences for non-transmittal.

Sec. 14.25.370. Establishes immediate vesting of a member in both the employer and employee contributions.

Sec. 14.25.380. Tasks the Alaska State Pension Investment Board with providing a range of investment options for members and exercising control over those options.

Establishes that if the account has been divided under a qualified domestic relations order, each individual exercises control over his or her account.

Sec. 14.25.390. Establishes requirements for the distribution of a member's account. A former member, or their beneficiary if the member is deceased, may chose between the following distribution options: a lump sum, a direct rollover of the lump sum into another qualified plan, periodic distributions, or no distribution until the member elects to do so. If a former member's account balance is less than \$5,000 that amount is automatically distributed unless the former member submits a written statement within 120 days of termination requesting that the balance remain in the plan.

Sec. 14.25.400. Acknowledges the refund of members upon termination when a qualified domestic relations order applies.

Sec. 14.25.410. Establishes rights of participants if married or under a qualified domestic relations order upon termination of member.

Sec. 14.25.420. Allows a member to roll over funds from a previous qualified plan upon hire or into another qualified plan upon termination. Establishes that rollover contributions cannot count as service towards medical eligibility. Defines qualified plans eligible for rollover.

Sec. 14.25.430. Establishes distribution requirements for the interest of a member's account in the event that member dies, that member's dependents die, or no one claims the distributions. Defines designated beneficiary and required beginning date.

Sec. 14.25.440. Requires that each member designate a beneficiary and allows them to change that choice at any time except to the extent that a qualified domestic relations order applies. If a member fails to designate a beneficiary, at the time of the member's death the spouse if married to the member at some point during the member's employment automatically becomes the designated beneficiary. If there is no surviving spouse, the amount is distributed between the surviving children, if there are no surviving children to the surviving parents of those children. If none of the above, the account is distributed to the estate. Establishes a time limit on beneficiaries claiming benefits of 120 days after the member's death.

Sec. 14.25.450. Establishes procedures for correcting an error in the calculation of benefits. Gives the Alaska Teacher's Retirement Board responsibility for taking action on such claims.

Sec. 14.25.460. Allows the board to waive an adjustment that would be deemed unfair for a variety of reasons and provides a time period and process for appeals.

Sec. 14.25.470. Establishes requirements for eligibility of medical benefits. A member must retire directly from the system at any age with 30 years of service or at normal retirement age with 10 years of service. Defines the normal retirement age as months less than the age set for Medicare eligibility.

Sec. 14.25.480. Establishes medical benefits to retirees as access to a major medical insurance plan and to the health reimbursement account. Establishes eligibility of members and any dependents for medical benefits. Outlines the eligibility of medical benefits for an early, normal, and Medicare eligible retiree.

Sec. 14.25.495. References the statutes that define the terms administrator, beneficiary, board, compensation, employer, fund, former participating member, fund, retirement fund, Internal Revenue Code, member, member contribution account, qualified domestic relation order, school year, teacher, and year of service. Defines terminated as a person no longer employed by an employer participating in the plan.

Sec. 12. Subjects an employee who wishes to transfer assets out of the system to a qualified domestic relations order and establishes relevant requirements.

Sec. 13. Allows the Department of Administration to obtain group insurance under the condition that it provides certain types of insurance, such as hospital expense, life, surgical, etc.

Requires members whenever possible to obtain drugs from a preferred drug list (formulary) established by the insurance provider. If the member opts for a non-formulary drug when the formulary version is available, they will pay the difference between the two.

Establishes eligibility of member's dependents for said group insurance policy.

Establishes the procedure for employers to participate in said group insurance policy.

Establishes the procedure for the Department of Administration to procure an insurance policy for members. Requires that the Department allow all eligible insurance carriers to bid and determine selection of carrier based on lowest bid amount to be reviewed at least once every 5 years.

Establishes that the level of benefits for persons over Medicare eligible age shall be the same as for persons under Medicare eligible age, however the cost of post-Medicare eligible member's benefits will be supplemented by any benefits provided under the federal old age, survivors, and disability insurance programs.

Allows a member to elect and pay for long-term care insurance for member and dependents.

Sec. 14. Establishes a Health Reimbursement Account Plan for State of Alaska Teachers and Public Employees and outlines eligibility.

Sec. 39.30.310. Establishes that a Health Reimbursement Account is created to reimburse members for qualified medical expenses. Establishes an effective date of July 1, 2005.

Sec. 39.30.320. Establishes the attorney general of the State of Alaska as legal council for the administrator of the plan.

Sec. 39.30.330. Establishes the commissioner of administration, or the commissioner's designee, as the administrator of the plan.

Sec. 39.30.340. Establishes the powers and duties of the administrator of the Health Reimbursement Account fund.

Sec. 39.30.350. Specifies that only employer contributions are permitted to the Health Reimbursement Account.

Sec. 39.30.360. Establishes the Alaska State Pension Investment Board as the fiduciary of the fund.

Sec. 39.30.370. Establishes that when a person terminates employment before becoming eligible for medical benefits they forfeit any access to their Health Reimbursement Account. However, if a person is re-employed at a later date their account balance will be restored with interest attributed to it.

Sec. 39.30.380. Establishes that a member is eligible for the plan when they become eligible for medical benefits.

39.30.390. Establishes that if the participant elects major medical insurance the administrator will pay the premium on behalf of that member from their Health Reimbursement Account. When the participant's member account is exhausted, the participant is responsible for those payments.

If a participant dies before exhausting their account their surviving dependents are eligible to use the remaining balance. If any amount remains in the account after the death of the member and all remaining dependents, the balance reverts to the trust.

Sec. 39.30.400. Exempts contributions to the plan from taxes, however a member's right to receive benefits may be assigned under a qualified domestic relations order, a trust or a similar qualifying legal device.

Sec. 39.30.410. Gives the state the right to amend the plan at any time. Bars the administrator from changing the plan in a manner to reduce the accrued benefits of any member. Allows the state to terminate the plan in whole or in part without any liability. If this occurs, all investments remain in the account until all accounts have been distributed.

Requires any contribution made to the plan by an employer because of a mistake of fact to be returned to the employer.

Sec. 39.30.420. Requires that the fund not be used for any other purpose than the benefit of the participants. The assets of the plan may not be used to pay other plans of an employer.

Sec. 39.30.495. Refers to the definition of the following terms in statute: administrator, board, dependent child, employer, and qualified domestic relations order. Defines the terms fund, individual account, member, and participant.

Sec. 15.

Sec. 39.30.500. Establishes a past service cost offset account for employers and employees in a defined contribution plan.

Sec. 39.30.510. The purpose of the account is to help employers pay their past service cost and will consist of legislative appropriations and investment returns

Sec. 39.30.520. Establishes the attorney general of the State as legal council for the account.

Sec. 39.30.530. Establishes the commissioner of administration or the designee of the commissioner as administrator of the account.

Sec. 39.30.540. Establishes the powers and duties of the administrator.

Sec.39.30.550. Establishes the Alaska Pension Investment Board as fiduciary of the fund.

Sec. 39.30.560. Requires the administrator to pay into the teacher's retirement fund on the employer's behalf the employer's past service cost for each member in a defined contribution plan.

Sec. 39.30.570. Establishes that the administrator shall pay into the fund on behalf of the employers the past service cost for each member in a defined contribution plan.

Sec. 39.30.595. Defines the terms accrued liability, administrator, blended employer past service cost rate, member, past service cost, and past service cost rate.

Sec.39.35.005. Establishes applicability of the following provisions only to members first hired before July 1, 2005.

Sec.39.35.010. Substitutes the term "plan" for "system" in existing defined benefit statutes. Substitutes a specific statute reference for the term "this chapter" in existing statute referring to a defined benefit plan.

Sec. 39.35.158. Substitutes the term "plan" for "system" in existing defined benefit statutes.

Sec.19. Establishes the contribution rate for peace officers and fire fighters.

Sec. 20. Determines the employee contribution rate for a peace officer or fire fighter at the lesser of 7.5%, 6.75% or one-half the normal cost rate.

Sec. 21. Authorizes the board to set employer and member contributions.

Sec. 22. Determines that the member contribution rate plus the employer contribution rate may not be less than the normal cost rate.

Sec. 23. Exempts the University of Alaska as eligible for credible service under the teachers retirement plan.

Sec. 24. Establishes employee groups eligible for credited service.

Sec. 25. Establishes an administrative director of Alaska Court system as eligible for the plan.

Sec.26. Establishes credited service requirements for teachers

Section 27. Defines parameters under which a member may claim credited service.

Section 28. Defines method of calculation for public service benefits.

Sec. 29. Establishes that a member who claims credited service in a DC plan by transfer loses all rights to benefits under a defined contribution plan. Disqualifies public service benefits as counting towards years of service requirements.

Sec. 30. Allows a former member to reinstate service when they have received a refund of contributions.

Sec. 31. Establishes that when a member retires from the plan and is later re-hired they will suspend collection of their retirement benefits and begin paying into the retirement plan again.

Sec. 32. Establishes elected officials as eligible for benefits under this plan.

Sec. 33. Lists the different types of eligible members that the plan will cover. Lists the different types of ineligible members the plan will not cover.

Sec. 34. Defines plan as the defined contribution retirement plan as established in this legislation.

Sec. 35. Sec. 39.35.00. Applies the following to employees hired on or after July 1, 2005.

Sec.39.35.710. Establishes a defined contribution plan in compliance with federal qualification requirements.

Sec. 39.35.720. States that the purpose of the legislation is to encourage qualified personnel to enter and remain in the state.

Sec. 39.35.730. Establishes the member contribution rate for Public Employee Retirement System employees at 10% to be deducted from their salary at the end of each pay roll period and credited to their account.

The contribution will be calculated from the members base salary, excluding cost of living differentials, bonuses, per diems, expense allowances, etc.

Sec. 39.35.740. Establishes an employer contribution rate at 10% of the member's base salary. Distributes the employer contribution in the following manner: 5.5% to the members account, 3.5% to the member's medical plan, and 1% to the member's Health Reimbursement Account.

Sec. 39.35.750. Gives 15 days from the close of pay roll for member and employee contributions to be transferred to the members retirement fund. Establishes repercussions for non-transmittal.

Sec. 39.35.760. Establishes that a member is immediately vested in both the employer and employee contributions.

Sec. 39.38.770. Tasks the Alaska State Pension Investment Board with providing a range of investment options for members and exercising control over those options. If the account has been divided under a qualified domestic relations order, each individual exercises control over his or her account.

Sec. 39.35.780. Establishes requirements for the distribution of a member's account. A former member, or their beneficiary if deceased, may chose between the following distribution options: a lump sum, a direct roll over of the lump sum into another qualified plan, periodic distributions, or no distribution until the member elects to do so. If a former member's account balance is less than \$5,000 that amount is automatically distrusted unless the former member submits a written statement within 120 days of termination requesting that the balance remain in the plan.

Sec. 39.35.790. Acknowledges the refund of members upon termination when a qualified domestic relations order applies.

Sec. 39.35.800. Establishes rights of participants if married or under a qualified domestic relations order upon termination of member.

Sec. 39.35.810. Allows a member to roll over funds from a previous qualified plan upon hire or into another qualified plan upon termination. However, rollover contributions cannot count as service towards medical eligibility. Defines qualified plans eligible for rollover.

Sec. 38.35.820. Establishes distribution requirements for the interest of a member's account in the event that member dies, that member's dependents die, or no one claims the distributions. Defines designated beneficiary and required beginning date.

Sec. 39.35.830. Requires that each member designate a beneficiary and allows them to change that choice at any time except to the extent that a qualified domestic relations order applies. If a member fails to designate a beneficiary, at the time of the member's death the spouse if married to the member at some point during the member's employment automatically becomes the designated beneficiary. If there is no surviving spouse, the amount is distributed between the surviving children, if there are no surviving children to the surviving parents of those children. If none of the above, the account is distributed to the estate. Establishes a time limit on beneficiaries claiming benefits of 120 days after the member's death.

Sec. 39.35.840. Establishes procedures for correcting an error in the calculation of benefits. Gives the Alaska Teacher's Retirement Board responsibility for taking action on such claims.

Sec. 39.35.850. Allows the board to waive an adjustment that would be deemed unfair for a variety of specified reasons and provides a time period and process for appeals.

Sec. 39.35.860. Establishes requirements for eligibility of medical benefits. A member must retire directly from the system at any age with 30 years of service or at normal retirement age with 10 years of service. Defines the normal retirement age as 60 months before Medicare eligible age.

Sec. 39.35.870. Establishes medical benefits to retirees as access to a major medical insurance plan and to a Health Reimbursement Account. Establishes eligibility of members and any dependents for medical benefits. Outlines the eligibility of medical benefits for an early, normal, and Medicare eligible retiree.

Sec. 39.35.880. Establishes the Alaska State Pension Investment Board as fiduciary of the fund and determines their responsibilities and statutory limitations.

Sec. 39.35.884. Allows service credit to be obtained for military service.

Sec. 39.35.888. Exempts member contributions from taxation or any kind of anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge. However a member's right to receive benefits may be assigned under a qualified domestic relations order or a trust or similar legal device.

An inactive member may directly transfer their account into a qualified retirement plan.

Sec. 39.35.890. If a former member has not filed for benefits or refund by the time they reach 75 or within 50 years of the most recent active membership, benefits or refunds will be forfeited and the member's records destroyed.

Sec. 39.35.892. Establishes knowingly falsifying records of this plan as a misdemeanor and defines knowingly.

Sec. 39.35.895. Defines the following terms: active member, actuarial adjustment, administrator, beneficiary, board, calendar year, compensations, employee contribution account, former member, fund, and inactive member.

Lists the different types of eligible members that the plan will cover. Lists the different types of ineligible members the plan will not cover. Lists the different types of employees the plan may cover.

Defines military service, peace officer, plan, public organization, and qualified domestic relations order.

Recognizes the rights to an alternate payee to a member's benefits. Establishes those distribution requirements and the conditions of payment to the alternate payee.
Defines the terms: retired member, retirement, surviving spouse, and terminated.

Sec. 36. Repeals AS 39.35.680(39)

Sec. 37. Allows a Teachers Retirement System non-vested defined benefit tier member to transfer into a defined contribution plan. The present value of the members account balance will be transferred to the defined contribution plan and the appropriate amount to cover payments towards medical benefits will be applied. Upon transfer, credit under the defined contribution plan is nullified, however the member's accrued years of service will count towards qualifying for medical eligibility in the defined contribution plan.

Establishes a 90-day window after the effective date of this legislation for the member to transfer.

Gives the board the authority to establish regulations to regulate the transfer of employees.

Requires the employee's election be stated in writing and ensures that the employee is fully aware of the implications of their transfer.

If a member makes no election within the time period provided, they will remain in the defined benefit tier.

Defines the terms administrator, board, defined benefits retirement plan, defined contribution retirement plan, International Revenue Code, member, member contribution account, and qualified domestic relations order.

Sec. 38. Allows a Public Employees Retirement System non-vested defined benefit tier member transfer into a defined contribution plan. The present value of the member's account balance will be transferred to the defined contribution plan and the appropriate amount to cover payments towards medical benefits will be applied. Upon transfer credit under the defined contribution plan is nullified, however the member's accrued years of service will count towards qualifying for medical eligibility in the defined contribution plan.

Establishes a 90-day window after the effective date of this legislation the member has to transfer.

Gives the board the authority to establish regulations to regulate the transfer of employees.

Requires the employee's election be stated in writing and ensures that the employee is fully aware of the implications of their transfer.

If a member makes no election within the time period provided, they will remain in the defined benefit tier.

Defines the terms administrator, board, defined benefits retirement plan, defined contribution retirement plan, International Revenue Code, member, member contribution account, and qualified domestic relations order.

Sec. 39. Establishes the legislative intent of this legislation: to provide the members with investment options similar to the State Supplemental Annuity Plan.

Sec. 40. Gives instruction to revisor.

Sec. 41. Effective date of July 1, 2005