Bill Number: SB 100

Version: 27-LS0272\D

Sponsor(s): Senator Paskvan

Title: "An Act relating to employer contributions to the Public Employees' Retirement System of Alaska; relating to requirements that employers who terminate some or all participation in the Public Employees' Retirement System of Alaska pay termination costs; and making the changes retroactive."

This legislation is effective July 1, 2008 for Sections 1-3 and 6; June 7, 2007 for Sections 4, 5 and 7; January 13, 2010 for Section 8.

Analysis of Repeals

The bill acts to repeal AS 39.35.625 effective July 1, 2008, AS 39.35.958(f) effective June 7, 2007 and annuls regulation 2 AAC 35.235 as of its adoption date, January 13, 2010.

- Repealing AS 39.35.625 removes the requirement for the employer to pay ongoing contributions toward the past service liability of the PERS; eliminates a termination cost study and the ability to establish a payment plan to pay termination costs. Repealed retroactive to July 1, 2008.

  The termination study calculates the unanticipated and unfunded costs resulting from both vesting behavioral changes that occur because of the termination. Employees in the defined benefit plan who are not vested with 5 years of paid up PERS service become vested and eligible for pension, and depending on tier, medical benefits after termination of coverage. This action creates unfunded liability.

  Currently, the plan experience demonstrates members who are close to retirement age will work at least two years past normal retirement. This experience is part of the assumptions used to value the plan each year. Termination of coverage changes this behavior resulting in members drawing retirement at the soonest eligible point. This unanticipated change creates unfunded liability.

  Employers are required by AS 39.35.625 to continue payment towards the unfunded liability based on the salary of the terminated position(s) multiplied by the past service rate for the system. The past service rate for FY 11 is 18.63%. The rate increases to 22.48% in FY 12. These payments toward the unfunded liability would stop with repeal.

  Repeal of AS 39.35.625 results in a cost shift of liability from the employer to the State of Alaska.

- Repeal of AS 39.35.958(f) removes the requirement for the employer to pay for a termination study to determine the costs associated with the termination. Repealed retroactive to June 7, 2007.

- 2 AAC 35.235 is a regulation that clarifies the termination costs as defined in AS 39.35.625 and AS 39.35.625. Repealed as of adoption date of January 13, 2010

  Retroactive repeal dates presents administrative problems for the division as payments have been made by employers to Buck Consultants. The division may need an appropriation to refund the costs back to employers depending on a determination of the Dept. of Law regarding the appropriate use of the trust funds for this purpose.

Analysis of Sections

Section 1. Amends AS 39.35.255 which governs contributions required by employers by adding a new subsection (i) stating the employer remains obligated to make contributions of 22% based on the total base salaries of the greater of the active employees in the plan, or the total base salaries of all covered employees as of fiscal year ending June 30, 2008 in the event of a termination. The contribution floor for active employees established in AS 39.35.255(a) will not be triggered until the overall employer salaries fall below the June 30, 2008 thresh hold. As salaries increase in the future, it will become less likely that the removal of single or a moderate number of positions will result in an employer falling beneath the contribution floor.

Section 2. Amends AS 39.35.615(i) to remove the requirement for an employer seeking future coverage of terminated employees to be current in payments for costs resulting from the termination study before coverage is granted. Costs arising from the termination study have been removed with the repeal of AS 39.35.625.