

March 28, 2013

VIA EMAIL

Mr. Jim Puckett
 Director
 Division of Retirement and Benefits
 Department of Administration
 State of Alaska
 333 Willoughby Avenue
 6th Floor State Office Building
 Juneau, AK 99811-0208

RE: Fiscal Note for PERS Amending Termination Cost under HB 152

Dear Jim:

As requested, we are providing the following information for the fiscal note on HB 152, which bases costs for termination of employees or groups of employees from participation in PERS on the payroll for active employees of an employer in the State of Alaska Public Employees' Retirement System Defined Benefit Plan (PERS DB). Under HB 152, the State would charge 80% of the cost of termination to the employer if they have an annual payroll of more than \$5,000,000, 50% of the cost if the employer has an annual payroll between \$1,000,000 and \$5,000,000, and there would be no termination cost for employers with payroll less than \$1,000,000. Under current law, employers pay all termination costs. Total FY12 salaries provided by Kathy Lea at the Department of Retirement and Benefits were used to determine the current annual payroll for each employer.

We have assumed that the State will absorb any termination cost that is not charged to the employers. We have also assumed that the employers who withdraw from the PERS DB Plan will only pay the 22% capped rate on a portion of the salaries of the eliminated positions. This portion is equal to 80% if they have an annual payroll of more than \$5,000,000, 50% if the employer has an annual payroll between \$1,000,000 and \$5,000,000, and no cost for employers with payroll less than \$1,000,000. This bill affects the PERS DB plan. Our results are based on the draft 2012 actuarial valuation results.

The table below shows the estimated cost of the bill for Fiscal Years 2014 through 2019 if 20% of employees of non-State entities were to terminate participation in PERS. Dollars are in thousands.

PERS DB Plan	FY14	FY15	FY16	FY17	FY18	FY19
Increase in Past Service Cost Payment due to Retroactivity	\$511	\$0	\$0	\$0	\$0	\$0
Increase in Past Service Cost Payment due to Lower Salaries from employees leaving PERS	\$5,526	\$5,726	\$5,933	\$6,148	\$6,371	\$6,601
Increase in Contribution Payment due to earlier benefit commencement for terminated employees	\$735	\$755	\$777	\$802	\$831	\$861
Total Increase in Annual State Contribution Amount	\$6,772	\$6,481	\$6,710	\$6,950	\$7,202	\$7,462

Summary for Analysis Continuation Section of Fiscal Note

The assumptions, plan provisions and methods used for the DB plan costs are described in the draft actuarial valuation report as of June 30, 2012. The assets are based on the June 30, 2012 information provided by Christina Maiquis. We have assumed that all non-State employers will withdraw from the PERS DB Plan. The cost associated with the retroactivity of this bill was calculated by the Department of Retirement and Benefits and was provided to us by Kathy Lea. We have assumed that the bill will become effective July 1, 2013. The population consists of non-State governmental entities which represents 37% of the current active population.

The annual costs to the State for absorbing termination costs previously paid by the non-State entities assume that 20% of all eligible employees are removed from participation in PERS. Actual costs are dependent on the extent to which employers terminate employees from participation in PERS.

The table below summarizes the estimated change in the draft unfunded accrued liability as of June 30, 2012 due to the costs absorbed by the State. Dollars are in thousands. The unfunded liability increases for the liability for future pension and medical payments.

PERS DB Plan	Current DB Plan	DB Plan After Change	Change
Accrued Liability	\$ 19,292,361	\$ 19,318,153	\$ 25,792
Actuarial Value of Assets	11,832,030	11,832,030	0
Total Unfunded Accrued Liability	\$ 7,460,331	\$ 7,486,123	\$ 25,792

Please let us know if you need any further information.

Sincerely,



David H. Sliskinsky, F.C.A., A.S.A., E.A.
Principal and Consulting Actuary

- c: Mr. Mike Barnhill, State of Alaska
- Ms. Kathy Lea, State of Alaska
- Mr. Lee James, Buck Consultants
- Ms. Kyla Kaltenbach, Buck Consultants