

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 247
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB247-DOA-DRB-02-28-14-actuarial
Title: PEACE OFFICER/FIREFIGHTER RETIREMENT
Sponsor: ** HOLMES, MILLETT
Requester: House Labor and Commerce

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Office of the Commissioner
OMB Component Number: 45

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES								
Personal Services	3,877.0		4,539.0	5,219.0	5,915.0	6,624.0	7,363.0	
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	3,877.0	0.0	4,539.0	5,219.0	5,915.0	6,624.0	7,363.0	

Fund Source (Operating Only)

1004 Gen Fund	3,877.0		4,539.0	5,219.0	5,915.0	6,624.0	7,363.0
Total	3,877.0	0.0	4,539.0	5,219.0	5,915.0	6,624.0	7,363.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/14

Why this fiscal note differs from previous version:

Not applicable, initial version

Prepared By: <u>Mike Barnhill, Deputy Commissioner</u>	Phone: <u>(907)465-5703</u>
Division: <u>Department of Administration</u>	Date: <u>02/28/2014 04:04 PM</u>
Approved By: <u>Curtis Thayer, Commissioner</u>	Date: <u>02/28/14</u>
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 247

Analysis

Actuarial Cost Analysis

The actuary for the PERS and TRS retirement systems, Buck Consultants, has prepared an actuarial analysis of HB 247 under AS 24.08.036. See Attachment A.

This bill would re-open the PERS defined benefit plan to members defined as "protective occupation employees" to include peace officers or firefighters using the current PERS definitions and expands PERS peace officer / firefighter pension plan provisions to administrative, professional or clerical employees of a municipal police or fire department, University fire department, or the Department of Public Safety regardless of hire date. Current PERS Defined Contribution Retirement (DCR) plan employees can elect to convert to a new defined benefit tier in the PERS Defined Benefit (DB) plan. This bill also requires simultaneous participation in the DCR plan for each member to contribute a percentage of overtime pay to an individual investment account.

Based on the analysis located in Attachment A, the actuary has assumed that the plan defined in HB 247 will be similar to the PERS DB Tier 3 members, unless otherwise amended by HB 247. The actuary has determined that in FY 2015, the increase in annual employer paid benefit costs will be \$3,877,000 rising up to an estimate of \$7,363,000 by FY 2020.

However, the variable benefit described in Sections 7 - 9 of the bill was not actuarially valued in the analysis as the variable benefit was not clearly defined in the bill. The assumed variable benefit would be calculated based on a percentage of the employee's annual compensation rate in the year the employee is appointed to retirement, the employee's age, and the employee's credit service on the date the employee is appointed to retirement. These three variable items are used in a calculation and also prepared by an actuary as set out in section 9 of the bill, and is not valued in this fiscal note.

In addition, the actuary noted that while "the account balances of the DCR member's transfer to the Protective Occupation Retirement Council (PORC) plan will be sufficient to fund the accrued liability, the amount to be transferred is subject to another actuary's calculations as selected by the PORC. If another actuary calculates a lower amount to be transferred into the PORC plan to purchase service credit, an unfunded liability would result requiring an amortization payment to the unfunded liability."

Additionally, the 2013 annual medical premium used for the actuary's calculations was not increased to account for future increases in medical premiums. The June 30, 2012 PERS actuarial valuation report continues to show a 9% average compound annual increase since FY 1978. While unclear where medical premiums can go in the future, one can assume that this component is an unknown amount moving forward and impacts future costs to the plan.

February 18, 2014

VIA EMAIL

Ms. Kathy Lea
Deputy 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 Adding the Protective Occupation Retirement Plan under HB 247
(Revised)**

Dear Kathy:

As requested, we are providing the following information for the fiscal note on HB 247, which sets up a new retirement plan for Protective Occupation employees who are currently participating in the State of Alaska Public Employees' Retirement System Defined Contribution Retirement Plan (PERS DCR). Under HB 247, a new retirement plan will be added for Protective Occupation employees, which include peace officers or firefighters using the current PERS definitions and expand PERS peace officer/firefighter pension plan provisions to administrative, professional or clerical employees of a municipal police or fire department, University fire department or the Department of Public Safety. The members we have considered to be a Protective Occupation employee was based on the information provided by you on January 24, 2014. We have revised our study provided on February 11, 2014 based on the intent that the employer cost of these benefits be included in determining the employer contribution rate cap of 22% of total employer payroll for PERS under AS 39-35-255.

We have assumed that the new Protective Occupation Retirement Council (PORC) plan will be similar to the PERS Defined Benefit Retirement Plan for Tier 3 members unless otherwise amended by HB 247. A summary of the basic plan provisions and our interpretations considered in our actuarial study follows:

- The standard retirement benefit for the PORC plan is 2 percent of the average of the highest five consecutive years of compensation times credited service.
- The variable benefit for the PORC plan was not valued in this analysis since it is not clearly defined in HB 247.

- A protective employee who is employed as a peace officer/firefighter will pay pre-tax contributions of 9% of employee compensation (8% of employee compensation for a protective employee who is not employed as a peace officer/firefighter) excluding overtime.
- Overtime compensation is not tracked for PERS DCR members so we have assumed that none of the reported compensation is due to overtime.
- Participating employers will contribute 14% of peace officer/firefighter compensation, excluding overtime, and 12% for non-peace officer/firefighter employees will be contributed to the PERS Defined Benefit Plan for PORC plan members.
- PORC members will become eligible for normal retirement at age 55 with at least 20 years of service if they are a peace officer or firefighter, or at age 60 with 30 years of service if they are a protective employee not employed as a peace officer or firefighter.
- We have assumed that each DCR member's account balance will be sufficient to purchase their current credited service when they transfer to the PORC plan.
- Protective Occupation retirees who are peace officers or firefighters or their surviving spouse receive an annual stipend towards purchasing major medical insurance coverage. The stipend is equal to 4% of the 2013 annual medical premium per year of service if the employee has 10 or more years of service.
- Protective Occupation retirees who are not peace officers or firefighters or their surviving spouses receive an annual stipend equal to 3.3% of the 2013 annual medical premium per year of service if the employee has 10 or more years of service.
- The 2013 annual medical premium used for our calculations was \$9,876 and was not increased to account for future increases in medical premiums.
- All PORC members must have 10 or more years of service in order to be eligible to receive a stipend for medical coverage.
- We assumed the stipend is paid only to the member regardless of eligible dependents. If there are eligible dependents, the full stipend is paid to a survivor upon the member's death.
- A disabled Protective Occupation employee receiving disability benefits or who is appointed to normal retirement will receive medical benefits without premium payment. Please note that this benefit includes the effect of the RDS subsidy.

Although our calculations indicate that the account balances of DCR member's transferring to the PORC plan will be sufficient to fund the accrued liability, the amount to be transferred is subject to another actuary's calculations as selected by the PORC. If another actuary calculates a lower amount to be transferred into the PORC plan to purchase prior service, an unfunded liability would result requiring an amortization payment to the unfunded liability.

The cost of the accruing benefit for future service earned under the PORC plan is equal to the normal cost rate of 11.32% of protective occupation employee pay. The average employee contribution rate of 8.99% of protective occupation employee pay covers most of the cost of the accruing benefit, leaving 2.33% of protective occupation employee pay to be paid by employers.

The 14% employer contribution rates (12% for non-peace officer/firefighter) are more than sufficient to pay this cost. However, since the employer contributions to fund the PORC plan are part of the 22% of total pay cap on total employer contributions to PERS, the difference between the employer contribution rate to the PORC plan of 13.98% of protective occupation employee pay and the current employer rate of 9.98% of protective occupation employee pay to the DCR plan, or 4.00% of protective occupation employee pay represents an increased cost that is shifted to the state.

The table below shows the estimated cost to the state of HB 247 for Fiscal Years 2015 through 2020. Dollars are shown in thousands.

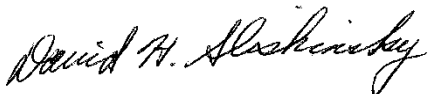
PERS	FY15	FY16	FY17	FY18	FY19	FY20
Total Increase in Annual State Contribution Amount due to HB 247	\$3,877	\$4,539	\$5,219	\$5,915	\$6,624	\$7,363

Summary for Analysis Continuation Section of Fiscal Note

The assumptions, plan provisions and methods used for the DCR plan costs are described in the draft actuarial valuation report as of June 30, 2013. The assumptions, plan provisions and methods used for the Protective Occupation Retirement plan costs are described in those for Tier 3 members of the DB plan in the DB plan draft actuarial valuation report as of June 30, 2013, unless otherwise amended by HB 247. The assets are based on the June 30, 2013 information provided by Christina Maiquis. We have assumed that all active DCR members who are considered Protective Occupation Employees will transfer to the new Protective Occupation plan.

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
- Mr. Jim Puckett, State of Alaska
- Mr. Kevin Worley, State of Alaska
- Mr. Lee James, Buck Consultants
- Ms. Kyla Kaltenbach, Buck Consultants
- Ms. Melissa Bissett, Buck Consultants