



Senator Joe Paskvan

Alaska State Senate • District E • Fairbanks • Ft Wainwright

Sponsor Statement Senate Bill 100 PERS Termination Costs

Senate Bill 100 addresses the future financial stability of all PERS employers - the State, municipalities, school districts and the University of Alaska - and their ability to efficiently and effectively manage the delivery of programs and services.

Due to a variety of historical circumstances and decisions, the PERS defined benefit system evolved from being fully funded to being underfunded by billions of dollars. A solution embraced by all parties to address the unfunded liability was incorporated into Senate Bill 125 and was passed by the legislature in 2008. SB 125 set into law that the PERS system is a consolidated system and that the combined defined benefit (DB) and defined contribution (DC) salary base would be required to pay down the unfunded obligation, which in turn would provide for sustainable, predictable and affordable employer rates.

Paying off the unfunded obligation is predicated upon a stable, reasonably growing, system-wide salary base. A concern at the time SB 125 was adopted was that employers might en-masse elect to convert PERS salaried positions to contracted positions to reduce or avoid their PERS cost, thus shrinking the PERS salary base needed to pay off the unfunded obligation. To address this concern, it was agreed that employers would pay the *greater of* 22 percent on their combined DB and DC salary base, or, 22 percent on their total payroll for the period ending 6/30/2008. This effectively set the minimum contribution, or floor, that an employer would pay once PERS converted to a consolidated system.

Additional language relating to termination studies was added at the time to prevent employers from intentionally reducing their fair share contribution toward paying off the unfunded obligation. The application of the termination studies law is the cause for concern and the introduction of SB 100.

Current law requires an employer who terminates participation of a department, group, or other classification of employees to pay the following bills:

1. the cost associated with obtaining a termination study from the PERS actuary;
2. the actuarial cost to the employer for future benefits due employees whose coverage is terminated; and
3. the past service cost, annually, on each position terminated until the unfunded obligation is paid off decades from now.

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Enforcement of the termination studies law is making it difficult for employers to manage their delivery of services, discriminates against small municipalities even though their impact is immaterial, and is costly and nearly impossible to implement in an equitable manner. These mandated termination studies fail to recognize that we do *not* have a single-agent, multiple employer system in which different employers pay different net rates. SB 125 provided for one integrated system of accounting; the unfunded obligation is to be shared among all employers, with each paying a single, uniform contribution rate of 22 percent.

All agree that the unfunded obligation must be paid off. All agree that the entire PERS salary base - both DB and DC - is needed to pay off the unfunded obligation, and that it must be sustained and have reasonable growth. The fear that employers would act in a manner jeopardizing the payment of the unfunded obligation has not materialized; in fact, the system-wide salary base has grown steadily. The law providing for termination studies is not needed and is repealed through SB 100.

SB 100 maintains the 6/30/2008 floor as the base salary amount upon which PERS payments must be calculated as this is the most efficient, cost effective and equitable method of ensuring the unfunded obligation is paid off.