Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 30
Fiscal Note Number:
() Publish Date:

Identifier: SB030-DOA-DRB-03-26-14
Title: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS
Sponsor: EGAN
Requester: Senate State Affairs

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Retirement and Benefits
OMB Component Number: 64

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				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services	***		***	***	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	*******	**0.0**	*******	*******	*******	*******	*******

Fund Source (Operating Only)

None							
Total	*******	**0.0**	*******	*******	*******	*******	*******

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							

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If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/14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:

Initial version

Prepared By: Mike Barnhill, Deputy Commissioner
Phone: (907)465-2200
Division: Department of Administration
Date: 10/15/2013 08:30 AM
Approved By: Curtis Thayer, Deputy Commissioner
Date: 03/26/14
Agency: Department of Administration

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 30

Analysis

This bill would provide a new defined benefit tier for employees' first hired on or after July 1, 2013. New employees for the Teachers' and Public Employees' Retirement Systems would be defaulted into new defined benefit tiers, TRS Tier IV and PERS Tier V but would be able to elect participation in the defined contribution plans if they file an election to participate within 90 days of hire.

The Buck Consultants analysis (Attachment A) of the cost of the new defined benefit tier proposed in this bill shows an initial savings for the first few years; but an unfunded liability begins to accrue in FY 27 with increased employer costs. Increases in the unfunded liability are currently born by the State of Alaska under AS 14.25.085 and AS 39.35.280. This analysis was performed under the actuarial assumptions currently adopted by the Alaska Retirement Management Board (ARMB) and with data as described in the actuarial valuation reports for both systems as of June 30, 2011.

The actuary assumed that 60% of current defined contribution members will elect to convert to the defined benefit plan and that 80% of future members will choose the defined benefit plan either by choice or default. The attached calculations also anticipate the assets of the funds will achieve an annual investment rate of return of 8%. Investment returns in the future may periodically create actuarial losses, resulting in unfunded liabilities which will in turn increase employer rates at some point in the future.

Health plan premium payment for the new tiers would differ from existing defined benefit tiers in the following ways:
- Retired members under Medicare eligible age pay full premium for coverage for themselves and their dependents;
- Retired members eligible for Medicare pay a percentage of the full monthly cost
  - 30% with 10 or more but less than 15 years;
  - 25% with 15 or more but less than 20 years;
  - 20% with 20 or more but less than 25 years;*
  - 15% with 25 or more but less than 30 years;
  - 10% with 30 or more years of service;
- Disabled members pay no medical premium.

Beginning July 1, 2019 and every 5 years thereafter the administrator must adjust the medical premium percentage to maintain the employer normal cost rate in the defined benefit plan at the percentage paid for defined contribution participants. The adjustment remains in effect for 5 years and the administrator must preserve the 5% differences between premium payment percentage levels. Members are vested in the percentage of premium payment in effect at the time they retire.

The defined benefit portion of this bill is projected to cost employers less due to lower employer normal cost rates than the employer contribution rate to the defined contribution plan. The employer's costs of the healthcare benefit are projected to increase faster than payroll for future new employees due to heath care cost trend rates that are higher than payroll growth rates.

While SB 30 includes adjustments to the retiree premium sharing schedule that are expected to cover the costs associated with the increasing employer normal cost, future increases are likely to reduce enrollment in the healthcare benefit resulting in higher users of healthcare benefits remaining in the plan. This will exacerbate the need for future adjustments to premium schedules for new retirees acting to reduce enrollment.

buckconsultants A Xerox Company

February 8, 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 Committee Substitute Senate Bill No. 30
New Tier for PERS and TRS Healthcare and DB/DC Choice

Dear Jim:

As requested, we are providing the following information for a Fiscal Note on SB 30 which allows current Defined Contribution Retirement (DCR) members and future members to have a choice between the DCR Plan and the Defined Benefit (DB) Plan. Current DCR members or any future members that elect to go into the DB Plan will enter Tier V for PERS and Tier IV for TRS. These tiers will have the same pension benefits as the latest DB tier but all members will be contributing at 8% of pay and they will have different healthcare benefits.

Under the new tiers, members will share the cost of healthcare benefits initially based on the same retiree premium sharing schedule as Tier IV for PERS and Tier III for TRS. Retiree pays full premium until Medicare eligible age (age 65) or retired with 25 years of service for TRS and PERS Peace Officer/Firefighters (30 years for PERS Others) instead of at age 60. On or after July 1, 2019 and every five years thereafter, the retiree premium sharing schedule percentages shall be adjusted, maintaining the five percent differences that exist in the current retiree premium sharing schedule, to cover the changes in the employer normal cost rates for members retiring on or after the date of the change in the schedule.

This bill affects the State of Alaska Public Employees' Retirement System Defined Benefit Plan (PERS DB) and the Teachers' Retirement System Defined Benefit Plan (TRS DB). We are assuming the proposed benefit changes would become effective as of July 1, 2014 and will first impact contribution rates during FY17 considering the two-year delay in budgeting contribution payments. Our results are based on the 2011 actuarial valuation data.

The table below shows the employer cost/(savings) of the bill for Fiscal Years 2017 through 2021. Dollars are in thousands.

PERS DB Plan	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Increase in Normal Cost Amount	$ (7,781)	$ (7,119)	$ (5,925)	$ (4,749)	$ (1,925)
General Fund Transfer to Pay Unfunded Past Service Cost	$ 0	$ 0	$ 0	$ 0	$ 0
Total Increase in Annual Employer Contribution Amount	$ (7,781)	$ (7,119)	$ (5,925)	$ (4,749)	$ (1,925)

TRS DB Plan	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Increase in Normal Cost Amount	$ (2,486)	$ (2,870)	$ (3,019)	$ (3,253)	$ (3,606)
General Fund Transfer to Pay Unfunded Past Service Cost	$ 0	$ 0	$ 0	$ 0	$ 0
Total Increase in Annual Employer Contribution Amount	$ (2,486)	$ (2,870)	$ (3,019)	$ (3,253)	$ (3,606)
Total PERS and TRS	$ (10,267)	$ (9,989)	$ (8,944)	$ (8,002)	$ (5,531)

Comments on Actuarial Analysis

Our actuarial analysis indicates that the employer costs of the healthcare benefit are projected to increase faster than payroll for the future new employees expected to choose the DB plan benefits due to healthcare cost trend rates that are higher than the payroll growth rate. The DB pension benefit is projected to cost employers less due to a lower employer normal cost rate than the employer contribution rate to the DCR plan. The initial savings in employer costs for pension more than compensate for the cost of the healthcare benefit, resulting in a net savings over the five-period shown above. Without any changes, we would expect the rising healthcare benefit cost to exceed the pension savings resulting in a net employer cost some point in the future.

SB 08 includes a provision that allows for adjustments in the retiree premium sharing schedule to cover the costs associated with increasing employer normal cost rates. This increasing cost is then paid by members retiring after the date of the change in the schedule. This provision should prevent increases in employer costs due to anticipated rising healthcare benefit normal costs. However, a future increase in the retiree premium sharing schedule is likely to reduce enrollment in the healthcare benefit, resulting in only higher users of healthcare continuing to participate in the healthcare benefit. This will then exacerbate the need for future adjustments to the retiree premium sharing schedule. This provision has not been valued as part of this fiscal note since the first change in the retiree premium sharing schedule would not affect costs until FY22.

In addition, these calculations assume the assets of the funds achieve an annual investment rate of return of 8%. Volatility of returns due to the investment risk may periodically create actuarial losses, which may result in unfunded liabilities that will increase the employer costs not covered by the adjustments to the retiree premium sharing schedule.

Summary for Analysis Continuation Section of Fiscal Note

The data, assumptions, plan provisions and methods used for the costs are described in the actuarial valuation reports for PERS and TRS as of June 30, 2011. The assets are based on the June 30, 2011 information provided by Christina Maiquis. We have based this study on the June 30, 2013 valuation data because the June 30, 2012 actuarial valuation results are only preliminary and are subject to approval by the ARM Board. We have assumed that the bill will become effective July 1, 2014. We have also assumed that 60% of current DCR members will elect to convert to the DB Plan and that 80% of future members will choose the DB Plans either by choice or by default. We have attached a detailed summary of the allocation of DB costs and DCR savings as a result of the expected elections.

Please let us know if you need any further information.

Sincerely,

David H. Slishinsky

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

/mlp

attachment

c: Mr. Mike Barnhill, State of Alaska
Ms. Kathy Lea, State of Alaska
Mr. Chris Hulla, Buck Consultants
Ms. Melissa Bissett, Buck Consultants
Ms. Kyla Kaltenbach, Buck Consultants
Ms. Tammy Ringel, Buck Consultants