

# ALASKA STATE LEGISLATURE

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## REPRESENTATIVE STEVE THOMPSON DISTRICT 3

### Sponsor Statement

**HB 152 – “An Act requiring certain employers who terminate participation in the defined benefit retirement plan or defined contribution retirement plan of the Public Employees’ Retirement System to make contributions related to past service liability and pay termination costs; repealing a requirement that employers who terminate participation in the defined contribution retirement plan or the defined benefit retirement plan of the Public Employees’ Retirement System pay for a termination cost study; and providing for an effective date.”**

(28-LS0272\C)

House Bill 152 addresses the future financial stability of municipal PERS employers. To address The PERS unfunded liability legislation was passed in 2008, establishing that PERS is a consolidated system, combining the defined benefit (DB) and defined contribution (DC) salary bases to pay down the unfunded obligation.

Paying off the unfunded obligation is predicated upon a stable, reasonably growing, system-wide salary base. A concern at the time the 2008 legislation was passed was that employers might en-masse elect to convert PERS salaried employees to contracted positions to reduce or avoid PERS costs, thus shrinking the PERS salary base needed to pay off the unfunded obligation. To address this concern, a contribution “floor” was set whereby employers would pay the greater of 22 percent on (1) their current combined DB and DC salary base, or (2) their total payroll for the period ending June 30, 2008.

Language providing for termination studies was also added requiring an employer who terminates participation of a department, group, or other classification of employee to pay the following:

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

The termination studies law is making it difficult for employers to manage the delivery of services, discriminates against small municipalities even though their impact on the system is minimal, and is costly and nearly impossible to implement in an equitable manner. It also fails to recognize that organizational and personnel structures differ between municipalities.

System-wide salaries have increased by \$325 million or 18.6%, over the salary base “floor” established in 2008. As a result, contributions toward the unfunded liability have not been compromised; rather, they have increased at a rate greater than the actuarial-assumed growth rate of 4%.

HB 152 provides municipalities with the operational flexibility to effectively manage the delivery of programs and services while maintaining the minimum 22% contribution requirement. HB 152 replaces the requirement for termination studies with formula driven termination costs, as follows:

- 20% flexibility for employers whose total payroll is greater than \$5,000,000 (93% of employers in FY12).
- 50% flexibility for employers whose total payroll is greater than \$1,000,000 (5.9% of employers in FY12).
- Not applicable for employers whose total payroll is less than \$1,000,000 (1.1% of employers in FY12).

Using readily available data, the amount by which an employer’s terminated salaries are calculated to exceed the 20%/50% threshold would be applied to the current past service contribution rate (24.19 % today), and would then be paid annually until the unfunded liability is paid off.

Please join Representative Thompson in supporting this important legislation.