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Research Brief

TO: Representative Scott Kawasaki
FROM: Katie Spielberger, Legislative Analyst
DATE: February 27, 2015
RE: Retirement Incentive Programs
LRS Report 15.214

You asked for information about public and private sector retirement incentive programs (RIPs) in Alaska and other states, with the goal of understanding the efficacy and pitfalls of such programs. You were particularly interested in whether any RIPs that have been implemented in Alaska have resulted in long-term savings or other non-financial benefits. You were also interested in the effects on pensions and health benefits if a large proportion of senior employees retire at once.

Retirement incentive programs (RIPs), also called early retirement incentives, have been implemented in a wide variety of public and private sector entities since the early 1980s.[1] Although programs vary in structure, RIPs are typically implemented as "humane" methods of reducing payroll costs by providing incentives for certain employees to retire early—for example, by allowing these employees an earlier retirement date or greater benefits than they would otherwise be eligible to receive. The Alaska Legislature has implemented such programs for public employees three times—in 1986, 1989, and 1996—and also considered a RIP program in 2004.

Based on our review, state legislatures frequently consider retirement incentive programs in the face of fiscal difficulties. The state of Maryland, for example, recently offered more than 30,000 eligible employees an early retirement incentive package, seeking to eliminate 500 jobs.[2] Ideally, early retirement programs provide ways to reduce payroll costs while avoiding layoffs, and also increase promotion opportunities for employees who rise to fill roles vacated by new retirees. Nevertheless, if not implemented carefully, it appears these programs can create more problems than they solve, as expected benefits must be balanced with potential costs, including providing retiree pension and health care, and loss of expertise and experience. We reviewed a selection of studies, reports, and articles on retirement incentive programs in both the public and private sectors.[3] We provide below a history of Alaska programs, as well as a summary of important lessons from programs implemented elsewhere.

Past State of Alaska Retirement Incentive Programs

Retirement incentive programs for public employees were implemented in Alaska in 1986, when oil prices and state revenues began to drop, and again in 1989 and 1996. Around two thousand people retired under each program: 2,327 under the 1986 program; 1,836 under the 1989 program, and about 1,700 under the 1996 program.[4] A program was also proposed, but not enacted, in 2004. Legislative Audit examined the 1989 and 1996 programs. We include copies of the two audits of the 1989 program, conducted in 1990 and 1991, as Attachment A. The audit of the 1996 program, conducted in 2003, can be accessed at *http://legaudit.akleg.gov/docs/audits/special/combined/30001rpt-2003.pdf*.

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[1] For example, a national survey of college and university retirement plans, policies, and practices conducted by the TIAA-CREF Institute and the Center for Higher Education at Ohio University in 2011-2012 found that 61 percent of institutions reported offering an early retirement buyout to full-time faculty at some point since the beginning of 2007. (TIAA-CREF Institute, *Retirement Plans, Policies and Practices in Higher Education*, March 2013, *https://www.tiaa-cref.org/public/pdf/RetirementPlansPoliciesandPracticesinHigherEducation.pdf* .)

[2] Erin Cox and Michael Dresser, "State workers offered $15,000 buyout," *The Baltimore Sun,* February 19, 2015, *http://www.baltimoresun.com/news/maryland/bs-md-voluntary-separation-20150219-30-story.html*.

[3] We note, however, that this is only a sample of available literature on the topic.

[4] "Early out program popular," *The Juneau Empire,* November 29, 1998, *http://juneauempire.com/stories/112998/retire.html*.

1986 RIP

The 1986 RIP (ch. 26 SLA 1986) was adopted by the legislature as a method to reduce state spending at a time of decreased state revenues due to low oil prices. The stated purpose was to reduce the hardship of layoffs and reduce personal service costs. School districts and municipalities could also participate. For example, the Mat-Su Borough School District adopted the program as a way to mitigate possible teacher lay-offs in the face of reduced state funding to school districts.[5]

Senator Jim Duncan, speaking in support of a second RIP, said that the 1986 program saved the state about $25 million over three years and had also saved school districts, municipalities, and the University of Alaska millions of dollars.[6] Estimating that close to 95 percent of the RIP retirees remain in Alaska, he also cited the indirect benefit of keeping in the Alaska economy compensation dollars which might otherwise have been lost if employees had been laid off.

1989 Rip

Believing the 1986 program to have been a success, the Legislature enacted SB 73 (ch. 89 SLA 1989) to create a second RIP program. Representatives of collective bargaining units, the Division of Retirement and Benefits, the Alaska Association of School Boards, and others all testified in support of the bill.

In contrast to the 1986 program, the 1989 program required that savings be demonstrated for each individual participating in the program. That is, for an employee to participate in the program, the savings in salary and benefits projected over a three-year period between the RIP retiree and the replacement had to exceed the State's employer costs. Savings through the elimination of a position could be included, but savings from reclassification or temporary vacancies could not be included, among other things. Amending legislation (chapter 18, SLA 1990) allowed employers to calculate savings over a five-year period rather than three.

The first audit of the 1989 program (02-4394-91), completed in 1990, pertained primarily to the administration of the program, with the aim of understanding delays in issuing the first checks to new retirees under the program. The report highlights the need to train additional temporary staff to process a great increase in retiring employees, which is generally reflected in personnel costs associated with administering these programs.

The second audit of the 1989 program (02-4404-91), completed in 1991, focused on savings realized and costs incurred by the 65 participating employers—the State of Alaska, the University of Alaska, 35 school districts, 21 political subdivisions, and seven others. Legislative Audit estimated the net statewide savings to be about $22.9 million and concluded that the program achieved its established intent. Nevertheless, the audit discusses some concerns raised in the implementation of this RIP, including the loss of experience ("brain drain").

The audit estimated that the State of Alaska saved about $6 million under the program, the University of Alaska saved about $4.3 million, and the Anchorage School District saved about $2.7 million. Most employers realized at least some savings, with seven exceptions, all of which had limited numbers of participants in the program. The report concluded that "savings were generated mostly by the incremental difference in the salary and benefit costs between the typically higher paid RIP participant and their lower paid replacement rather than realized from an extensive elimination of positions left vacant." The University accrued the highest average savings per participant, as tenured full professors retiring under the RIP typically had salary and benefit costs of more than $90,000, and were often replaced with instructors or assistant professors whose salaries and benefits cost half that.

Significantly, in the end, the audit notes that the overall budget impact was uncertain, since in many cases, savings realized from the RIP program were then spent elsewhere. "Skepticism of the program is not so much attributable to an absence of any real savings, but rather exists because the current budget review process does not adequately track and reflect economies generated. Only if there are major lay-offs and budget cutbacks, do savings generated by RIP become readily apparent in state agencies' budget requests." The auditors surmised that more stable fiscal conditions and the effects of

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[5] "Mat-Su School Board Approves Plan to Allow Early Retirement by Teachers," *Anchorage Daily News,* July 3, 1986.

[6] House Committee on Health, Education and Social Services Minutes, April 13, 1989, accessed through *Infobases* at *http://www.akleg.gov/basis/folio.asp.*

previous RIP may have reduced the need for eliminating positions under the 1989 RIP, noting that the 1986 RIP "was implemented at a time when both the fiscal situation and prospects at all levels of government were more problematic."

The audit, while acknowledging non-financial drawbacks such as "brain drain" and loss of experience, also noted some non-financial benefits to the RIP program, including managerial flexibility, and avoiding layoffs.

> RIP was designed in part to mitigate the social hardship of layoffs. The legislature felt it was good public policy to have people in the community receiving retirement payments rather than having a like number receiving unemployment checks. Given these additional program aims, RIP cannot be judged strictly on a cost-benefit basis.

1996 RIP

In 1996, the Legislature authorized a third RIP for state and local government employees (ch. 4 SLA 1996), as well as a RIP for school district employees (ch. 65 SLA 1996). The largest number of retirees came from the University of Alaska system, followed by employees at the Departments of Corrections, Health and Social Services, and Transportation and Public Facilities, the *Juneau Empire* reported in 1998.[7]

The audit of the 1996 program, completed in 2003, determined that two entities using the program—the University of Alaska (UA) and the Information Technology Group in the Department of Administration—overstated their program savings due to the erroneous inclusion of vacancy savings and exclusion of rehires. The UA savings—reported to be $17.8 million—were significantly overstated, as the UA rehired approximately 140 RIP participants after they retired. The audit also noted a few deviations from the rules of the program, such as the following:

> A term employee working on a capital project was allowed to retire under this program. This position would have terminated at the end of the project. Applying this methodology, this employee did not qualify for retirement. There was a $30,000 net cost to the State, not a savings.
>
> A position was "deleted" in one department and used to justify a RIP retirement. However, the position was merely transferred to another department.
>
> A position was downgraded and a low step within the salary range was selected in order to show a RIP savings. However, the replacement came in at a much higher step. UA recognized the error, but determined that it was too late to correct it.[8]

We also found other, less formal reports of the effects of the RIP in news articles from the time. For example, a *Juneau Empire* article expressed widespread concerns about the effects of a RIP on a small school district, citing school officials admitting that "statewide use of retirement incentives had shrunk the pool of teachers looking for work" and districts had a hard time filling positions of retirees.[9] The University of Alaska Board of Regents, in deciding to continue the program for a third year in 1998, believed they had no comparable tool to balance their budget, despite criticism that the program had hurt the university in the short term with the loss of senior faculty who brought in sizeable grants.[10]

2004 Proposal

In 2004, then-Representative Lesil McGuire introduced House Bill 329, which would have created a fourth retirement incentive program. The sponsor statement for the bill cited the success of previous RIPs, including estimates that the 1996 RIP

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[7] Jeanine Pohl Smith, "Hundreds decide on early-outs," *Juneau Empire*, January 24, 1998.

[8] A Special Report on the Office of the Governor, Office of Management and Budget, 1996 Retirement Incentive Program Final Summary Schedules, for the Department of Administration, Information Technology Group, and the University of Alaska, January 15, 2001, Division of Legislative Audit, *http://legaudit.akleg.gov/docs/audits/special/combined/30001rpt-2003.pdf*.

[9] Ed Schoenfeld, "How many is too many to retire at once? – Behind the News," *Juneau Empire*, November 29, 1998.

[10] Elizabeth Manning, "Regents OK Early Retiring," *Anchorage Daily News*, June 20, 1998.

would realize a total net savings of $41 million through FY 2003.[11] The bill passed two House committees—State Affairs and Labor and Commerce—but died in House Finance. Several unions, including the Alaska State Employees Association, and the Association of Alaska School Boards, voiced their support of the proposed program. The Director of the Division of Retirement and Benefits testified that the division had adopted a neutral policy position with regard to the bill, citing concerns about the costs to the system, particularly the underfunding of the PERS and TRS systems.[12]

Fiscal Note 4 prepared for HB 329 was prepared in accordance with AS § 24.08.036, which requires an analysis of the long term and short term costs to the state, as well as the impact of the bill on the actuarial soundness of the funds, if a bill affecting state retirement systems is adopted. The fiscal note summary read as follows:

> The system Actuary, Mercer Human Resources Consulting, determined the cost to the system of the RIP eligibles by 1) calculating a liability increase created by the retirement as result of RIP eligibility (more years of payments and benefits, 2) discounting that for the total present value of those benefits, 3) minus the member indebtedness to be paid to the Systems. The 1996 RIP indicated 12,284 PERS members with a cost of $341.8 million; and 4,730 TRS with a cost of $175.9 million. This RIP involves 8,008 PERS members through 7/07 at a cost of $786.3 million; and 3,470 TRS members through 7/07, at a cost of $431.6 million. The dramatic cost increase per member for this RIP is due to the use of newer life expectancy which adds more payments, health care costs that have more than doubled ($350 per member 1996 to $806 per member in 2004), etc.[13]

The fiscal note was prepared assuming all eligible members would retire under the RIP, thus estimating the maximum employer cost. In addition, Fiscal Note 5 estimated operating expenditures for the program to be about $ 1.9 million for the first three years (FY 2005-2007). We include Fiscal Notes 4 and 5 as Attachment B.

Lessons from Other Programs

Generally, those who have analyzed previous programs—whether in the public sector or private industry—typically urge caution and careful planning before offering early retirement incentives to employees. For example, the Government Finance Officers Association (GFOA) noted in 2004 that historically, early retirement incentives (ERIs) "rarely have succeeded, since costs are often greater than initially anticipated by the government offering the incentive, and savings are lower than projected." The GFOA recommends explicit goal-setting, cost-benefit analysis linked to the stated goals, and budgetary analysis. Specific recommendations from the GFOA include the following:

> A cost/benefit analysis should take into account direct and indirect impacts, such as the impact on the government for providing retiree health care and additional contractor costs.
>
> A cost/benefit analysis should compare long-term benefits and costs against the default scenario of a hiring freeze. Most financially-driven ERIs project financial benefits based on payroll savings related to staff departures. However, any such savings should be discounted, because a hiring freeze also creates payroll savings (owing to the normal rate of staff departures). Thus, the ERI benefit is limited to the marginal increase in staff departures attributable to the ERI. Governments that attribute all staff departures to an ERI would over-state the ERI benefit, thus distorting the cost/benefit analysis.
>
> Financially-driven ERIs may also obtain savings by replacing highly compensated staff with lower-paid staff. Analysis of such ERIs must take into account the fact that newly hired staff tend to experience faster salary increases than other employees.

[11] Sponsor Statement for HB 329, *http://www.akrepublicans.org/mcguire/23/spst/mcgu_hb329.php*.

[12] Labor and Commerce Committee Minutes, March 3, 2004. More information about HB 329 can be accessed at *http://www.legis.state.ak.us/basis/get_bill.asp?session=23&bill=HB329*.

[13] Fiscal Note #4 for HB 329, accessed through *http://www.legis.state.ak.us/basis/get_fiscal_notes.asp?session=23&bill=HB329*.

If early retirement incentives are offered, they should be offered very infrequently and without a predictable schedule to avoid the expectation that another ERI will be offered. Such an expectation would distort normal employee retirement patterns.

A budgetary analysis should take into account direct and indirect impacts, such as the impact on the government for providing retiree health care and additional contractor costs. Any budgetary analysis should project multiple scenarios for employee participation levels.

Because a collective bargaining agreement may affect potential ERI costs and benefits, it should be reviewed prior to developing budgetary estimates.

Governments should consider the impact upon service delivery after employees retire, with identification of critical personnel whose services must be maintained.

The duration of the window should take into account the ability of retirement staff to manage retirement application workloads, among other factors.[14]

Private Sector: Verizon

The heyday of private sector early retirement programs was in the 1980s and 1990s, with fewer companies using them into the early 2000s, according to a 2004 article in *Workforce* Magazine.[15] The article offered a cautionary tale of Verizon Communications, which attempted to reduce its workforce in 2003 by offering early retirement incentives. The company expected 12,000 workers would take advantage of the program, but more than 21,000 did—there did not appear to be any limit to the number of employees that could participate in the program—forcing the company to hire and promote more people than anticipated to fill in the gaps. Experts interviewed for the article recommended targeting buyouts to specific units or job classifications. Other recommendations included studying the age demographics of the targeting segment, recognizing that workers five or ten years from their target retirement dates would likely require more incentives to retire than workers just a couple of years away.

California

In 2007, the California Performance Review issued recommendations regarding controlling retirement incentive costs, noting that "the cost-effectiveness of these programs must be examined within the context of an aging workforce."[16] At the time, despite an aging workforce, retirement rates were not increasing, potentially due to the anticipation of upcoming retirement incentives, thus supporting the GFOA recommendation that retirement incentives should be offered only infrequently so employees do not come to expect them. The Performance Review recommended that the administration announce there would be no early retirement package, thus encouraging employees to retire without offering retirement incentives. California does appear, however, to have an ongoing retirement incentive program for teachers, enacted in 1994. Annual cost analyses are submitted to the legislature.[17]

New York State

The Empire Center for New York State Policy examined 10 early retirement programs approved by the New York state legislature between 1983 and 2002, focusing on whether these programs saved the state money, what impact programs had on the pension system, how incentives have been structured, and whether retirement incentives should ideally be available to

[14] Government Finance Officers Association, "Evaluating the Use of Early Retirement Incentives," October 2004, *http://www.gfoa.org/evaluating-use-early-retirement-incentives*.

[15] Patrick Kiger, "Early Retirement Offers That Work Too Well," *Workforce Magazine*, January 5, 2004, *http://www.workforce.com/articles/early-retirement-offers-that-work-too-well*.

[16] California Performance Review, *http://cpr.ca.gov/cpr_report/Issues_and_Recommendations/Chapter_7_Statewide_Operations/Personnel_Management/SO50.html*.

[17] STRS Early Retirement Incentive Program Annual Cost Analyses from FY 2002 to FY 2013 can be viewed at *http://www.sco.ca.gov/aud_pubs_auditrpt_strs.html*.

all employees or targeted employees.[18] New York's programs generally either offered extra service credits or reduced the minimum retirement age. The report analyzes the dilemma in determining who should be offered early retirement incentives. Targeted incentives are often viewed as unfair by unions, but allowing "open-door" policies can result in management challenges if people retire "from the wrong places." For example,

> [Forty-one] SUNY at Albany maintenance workers retired in 1983, taking with them knowledge of the vagaries of the campus power plant. When the air conditioning system conked out during a heat wave, it took their less experienced replacements three days to repair it, imperiling lab animals, scientific experiments and computer programs and equipment.

Learning from such disasters, New York's 2002 law excluded employees in critical public health and safety jobs. The report also notes that if positions cannot be left vacant, savings can be limited because the savings from hiring a new, less experienced worker at a lower salary may not offset the increased cost of the retiree's added pension costs and continuing health insurance.

New York offered another early retirement program in 2010, in which about 4,000 state employees participated. The Citizens Budget Commission, a non-partisan, independent fiscal research organization, estimated that the program saved New York State $249 million and local governments $402 million over the two years it was in effect, calculated as the net of gross savings from two-year payroll reductions minus pension benefit costs. The savings were diminished, however, to the extent that early retirees were replaced by new hires. The report noted that the savings "come at the cost of losing 9,311 experienced workers, potentially lowering the level of services. While substantial, the … net savings are less than would have been saved if the Governor had been able to achieve the same headcount reduction through layoffs."[19]

Alabama

In 2012, Alabama Gov. Robert Bently proposed an early retirement incentive that would have been available to about 4,500 of the state's 33,000 employees, estimating between $18 and $26 million in savings for every 500 participants. However, only 300 people expressed interest in the program, and the governor dropped the proposal, reasoning that savings could instead by achieved through attrition. The state comptroller told *Governing Magazine* that the state cut about 10.5 percent of its payroll through a hiring freeze coupled with leaving positions vacant if employees retired or left.[20]

Legal Concerns

Finally, it is important to note that implementers of early retirement incentive programs should be careful to avoid claims of age discrimination. In 2011, the U.S. Eight Circuit Court of Appeals held that an early retirement incentive program at the Minnesota Department of Corrections that offered specific benefits to employees aged 50 to 55 was in violation of the Age Discrimination in Employment Act (ADEA, 29 U.S.C. § 621 *et seq.*).[21] According to a review of judicial interpretations of RIP programs by the Georgetown University Law Center, generally, for RIP programs to be in accordance with ADEA, they should not set an upper age limit for participation; should not base differences in benefits on differences in age; and should make participation voluntary.[22]

We hope this is helpful. If you have questions or need additional information, please let us know.

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[18] Empire Center for New York State Policy, "Early retirement for state workers: Money-saver, or costly sweetener?" May 2010, accessed at *http://www.empirecenter.org/wp-content/uploads/2010/05/ppw61.pdf*.

[19] Citizens Budget Commission, "How Much Did New York's 2010 Early Retirement Incentive Save?" October 26, 2011, *http://www.cbcny.org/cbc-blogs/blogs/how-much-did-new-york%E2%80%99s-2010-early-retirement-incentive-save*.

[20] Heather Kerrigan, "Early Retirement Incentives Making a Comeback," February 13, 2013, *http://www.governing.com/columns/col-early-retirement-incentives-making-comeback.html*.

[21] "Eighth Circuit Finds State Agency's 'Early Retirement Incentive Program' Arbitrarily Discriminated on Basis of Age," *Bloomberg Law*, August 29, 2011, *http://www.bna.com/early-retirement-incentive-program-arbitrarily-discriminated/.*

[22] "Early Retirement Incentive Plans and the Age Discrimination in Employment Act," *Workplace Flexibility 2010*, Georgetown University Law Center, accessed at *http://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=1053&context=legal*.

Attachment A

Audit Report 02-4394-91: Department of Administration, Division of Retirement and Benefits, Retirement Incentive Program, October 16, 1990

Audit Report 02-4404-91: Department of Administration 1989 Retirement Incentive Program Estimated Savings Realized and Costs Incurred By Participating Employers, November 22, 1991

Audit Report

DEPARTMENT OF ADMINISTRATION
DIVISION OF RETIREMENT AND BENEFITS
RETIREMENT INCENTIVE PROGRAM

October 16, 1990

Audit Control Number:
02-4394-91

Division of Legislative Audit
P.O. Box W, Juneau, Alaska 99811-3300

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

The Legislative Budget and Audit Committee is a permanent interim committee of the Alaska Legislature. The bipartisan committee is made up of five senators and five representatives, with one alternate from each legislative chamber. The chairmanship of the committee alternates between the two chambers every legislature.

The committee is responsible for providing the legislature with audits of state government agencies. The programs and activities of state government now cost more than $4 billion a year. As legislators and administrators try increasingly to allocate state revenues effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by the Division of Legislative Audit helps provide that information.

As a guide to all their work, the Division of Legislative Audit complies with generally accepted auditing standards established by the American Institute of Certified Public Accountants and with government auditing standards established by the U.S. General Accounting Office.

Audits are performed at the direction of the Legislative Budget and Audit Committee. Individual legislators or committees can submit requests for audits of specific programs or agencies to the committee for consideration. Copies of all completed audits are available from the Division of Legislative Audit's offices in either Anchorage or Juneau.

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STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

October 16, 1990

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A SPECIAL REPORT ON THE
DEPARTMENT OF ADMINISTRATION
DIVISION OF RETIREMENT AND BENEFITS
RETIREMENT INCENTIVE PROGRAM

October 16, 1990

Audit Control Number

02-4394-91-S

As stated in the Report Objectives, Scope, and Methodology section, the audit focused on three objectives:

1. To review procedures in administering the Retirement Incentive Program (RIP).

2. To identify causes for delays in issuing RIP retirees their first retirement check.

3. To identify solutions for these delays.

The audit was conducted in accordance with generally accepted governmental performance auditing standards. Audit scope and methodology are discussed in the Report Objectives, Scope, and Methodology section of this report.

Randy S. Welker, CPA
Legislative Auditor

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REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, this report was prepared to evaluate the Division of Retirement and Benefits' (DRB) procedures in administering the Retirement Incentive Program (RIP). More specifically, the audit was performed to determine causes for delays in retired employees receiving their first retirement check and to propose solutions.

Objectives

Our report primarily focused on three general objectives:

1. To review procedures followed in administering RIP.
2. To identify causes for delays in issuing RIP retirees their first retirement check.
3. To identify solutions for these delays.

Scope and Methodology

Our scope focused on procedures followed by DRB in processing applications for the 1989 RIP. The following procedures were identified as an integral part of the retirement process:

(a) reviewing retiree's application for completeness;

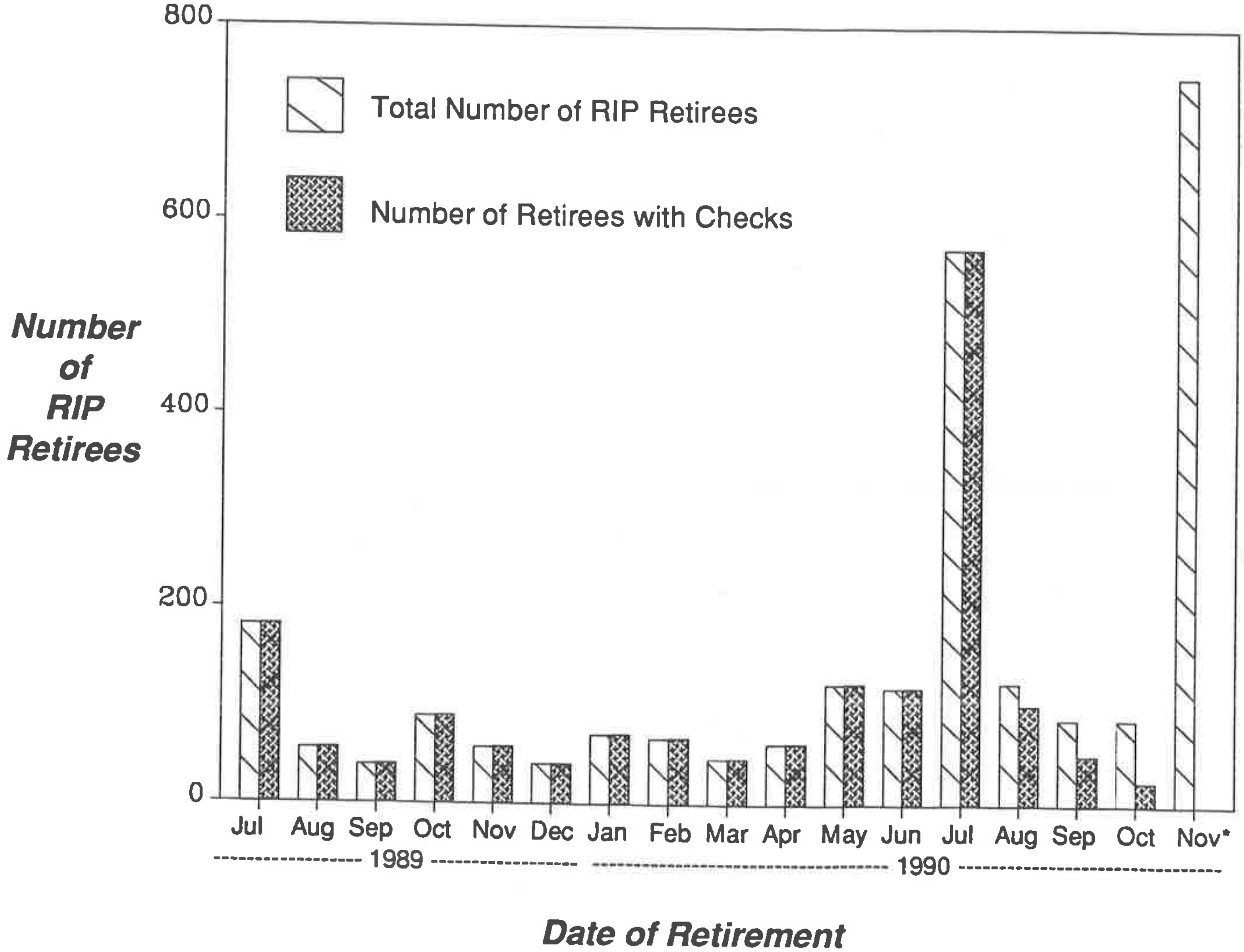
(b) obtaining verifications of retiree's age, highest salary for three years, and years of service;

(c) computing retiree's monthly benefit amount, and;

(d) entering retirement data on the State's payroll system.

Our audit included contacting personnel in the Department of Administration about procedures followed to administer RIP. We also selected and analyzed retirees' files for employees that intended to retire under RIP in July and August 1990. Our analysis focused on the processing time required to obtain verifications of salary and years of service, calculate monthly benefits, enter data on the State's payroll system, and generate a retirement check. In addition, we analyzed staffing levels of employees hired to process RIP applications.

Monthly Comparison of Retirement Incentive Program (RIP) Retirees with Benefit Checks as of October 16, 1990



* Estimated

Source of Information: Department of Administration, Division of Retirement and Benefits; Statistics as of October 16, 1990.

ORGANIZATION AND FUNCTION

The Department of Administration, Division of Retirement and Benefits (DRB) is responsible for administering the retirement and benefit programs provided by the State. Some of the retirement systems administered by DRB include:

1. Public Employees' Retirement System (PERS)
2. Teachers' Retirement System (TRS)
3. Judicial Retirement System
4. National Guard Retirement System.

In June 1989, Chapter 89, SLA 1989 (amended by Chapter 18, SLA 1990) reestablished an early retirement program for employees of both the public employees' and teachers' retirement systems. This program, known as the Retirement Incentive Program (RIP), was established to reduce personal services costs to the State or other employers participating in the program.

To participate in RIP an employee had to meet several criteria. For example, the employee had to be employed in an organization unit (as defined by the employer) where it could be demonstrated that the individual's retirement would result in an overall cost savings. Most state employees who are members of PERS had to apply by March 31, 1990 and retire no later than November 1, 1990. Members of TRS and employees of the University of Alaska had to apply by December 31, 1989 and retire no later than August 1, 1990. For employees of political subdivisions that elect to participate in RIP, the deadline for applying is March 31, 1991 and the deadline for retiring is November 1, 1991. According to Alaska Statutes, monthly benefit payments are due to the retiring employee by the last day of the month of retirement.

As shown in the graph on the opposite page, RIP retirees began retiring on July 1, 1989. A significant number of employees retired on July 1, 1990. Again, a significant number are expected to retire on November 1, 1990. DRB estimates that 2,575 employees will have retired under RIP by November 1, 1990. Only those members of PERS employed by political subdivisions or public organizations and whose employers elected to participate in RIP and those employees of the Division of Elections will remain eligible to retire under this RIP after November.

Additional funds were provided to administer RIP. DRB and the Division of Finance were authorized to hire temporary and part-time employees to process the increased number of retirement applications. A total of $142,200, $396,100, and

$343,100 was approved in FY 89, FY 90, and FY 91, respectively. This funding provided DRB with nine temporary positions in FY 89 and thirteen temporary positions in FY 90 and FY 91. The Division of Finance also received funding for two part-time positions in FY 90 and FY 91 to perform verifications of salary and years of service.

AUDITOR'S CONCLUSION

Our review of the Division of Retirement & Benefits' (DRB) procedures for processing Retirement Incentive Program (RIP) applications showed that retirees received their first retirement check after experiencing, on the average, a delay of 28 days, and up to 63 days, past the statutorily required payment date. As discussed later, DRB has implemented new payment procedures to curtail delays in the future. DRB predicts these procedures will ensure that the majority of employees retiring by October 1, 1990 will be issued their first check by October 31, 1990. Additionally, most of the estimated 740 employees retiring November 1, 1990 will be issued their first check by November 30, 1990.

We feel that these new procedures will ensure applications are processed faster and, hence, shorten the delay that current retirees have experienced.

We identified four key problem areas we feel contributed to the delay and proposed solutions for each problem. We feel these solutions should be considered for processing applications for employees retiring after November 1, 1990.

Problems Identified and Solutions Proposed

1. Conversion to a new payroll system (called AKPAY) coincided with increased number of retirees.

DRB uses the State's automated payroll system to generate retirement checks. In many respects, when a state employee retires, they "remain on the payroll" but with a retirement system designation. As a result, circumstances affecting the efficiency of payroll processing likewise have an impact on retirement processing.

According to DRB, an average of 70 RIP applications were processed monthly until May 1990. However, beginning in May the average increased to 100. Then in June, the State converted to a new payroll system, AKPAY, and in July, 572 employees retired. The combination of events -- an increasing workload and conversion to AKPAY -- created a backlog in applications requiring processing. As a result, the majority of July retirees did not receive their first check until September.

In addition to learning the new payroll system, DRB also became responsible for inputting more retirement data than was previously required. According to DRB, this input of data initially took approximately ninety minutes. It now takes thirty to sixty minutes, depending on the proficiency of the technician. Previously, DRB calculated the amount of a retiree's monthly benefit and submitted it to the Division of Finance who had a private contractor input data into the State's payroll system.

According to DRB, besides learning a new payroll system and having the retirement volume increase, other problems caused delays. For example, DRB did not receive timely authorization for new employees to input information on AKPAY. According to DRB, it took approximately two weeks to obtain clearance for new employees. During this waiting period, input of payroll information decreased.

In addition, DRB encountered instances where some state retirees had not been terminated on AKPAY. The state agency must change the employee's payroll status to non-active prior to AKPAY accepting the retirement data. This increases processing time because DRB has to both call the agency to update AKPAY and to verify that the status changed.

Also, as discussed later, three of twelve positions authorized to help process applications were vacant and two positions were only recently filled in July 1990.

Lastly, during the early months of AKPAY, the system was shut down approximately two days each payroll period for processing active employees' payroll information and for other reasons. According to DRB, the system had at least four days of down time each month. This problem has now been corrected.

Proposed Solution

During peak processing periods, DRB technicians' responsibilities should be adjusted to conform to the workload and to the individuals' abilities. Technicians that are the most proficient at AKPAY should be assigned primary responsibility for entering payroll information.

A procedure should also be implemented whereby DRB contacts applicable agencies within one week of the employee's retirement date to remind them to terminate the retiring employee on AKPAY.

2. Temporary staff were given extensive training.

Employees processing RIP applications are given extensive training. Each temporary employee is trained in the following six procedures:

(a) examine retirement forms for completeness,

(b) research payroll records for retirement information,

(c) evaluate information received,

(d) calculate years of credited service,

(e) input information into DRB's Benefit Calculation Subsystem, and

(f) enter retirement data on AKPAY.

Employees are assigned to permanent DRB employees who are responsible for their training. Basically, employees are taught all procedures required to process RIP retirements. According to DRB, this training takes approximately two months. In addition, except for entering data into AKPAY, written instructions are not available for referral by temporary employees.

Proposed Solution

Staff assignments and training should be task oriented. In other words, an assembly line approach to processing RIP applications should be taken. The procedures for processing retirements can be broken down into discrete functions--both simple and complex. Individual job assignments and training could then be limited to a specific area. An employee could then be trained in his/her job area rather than the entire process. Accordingly, less training time would be required of permanent staff. Also, written instructions should be provided.

As the number of retirees vary each month, so can the temporary staff assignments. During slow processing periods, DRB can either reduce the number of temporary employees or train them in more complex tasks.

3. Temporary staff had a high turnover rate.

DRB was authorized 13 temporary positions to help process the increased number of retirements expected from RIP. The turnover rate of employees hired to fill these positions has been high. During our review of staffing levels, we found that 27 employees filled these 13 positions and the positions were vacant an average of 54 days between June 1989 and October 1990.

According to DRB, it takes approximately two months to train these employees. In many cases, we found that employees quit within two months after being trained. Consequently, valuable time spent training employees is lost.

Proposed Solution

As previously discussed, staff assignments and training should be task oriented. By limiting training to specific tasks rather than the entire retirement process, DRB will not have to devote as much time to train employees in positions where turnover is high. Consequently, DRB should gain increased productivity from permanent employees.

4. <u>System used for monitoring the status of retirement files is inadequate</u>.

After all required information has been received from both the employee and employer, a calculation can be made of the monthly retirement benefit. During our review of applicants' files, we found an average delay of 63 days before DRB calculated the retirement benefit amount even though all necessary information had already been received. We believe this was caused by a lack of standardized procedures for processing and tracking files.

DRB does have a procedure to review retirement files a month before the applicant's scheduled retirement date to determine if all required information had been received. However, this procedure has not been consistently followed.

During the file review process, if all information has not been received, it is requested by phone or mail. However, no standardized procedures exist for the technician to document either when the information has been requested or when a reply can be expected. Also, after receipt of the information, processing of files appears to be random. No procedures exist to prioritize processing of those files with complete information.

<u>Proposed Solution</u>

DRB should establish procedures to ensure retirement files are monitored and prioritized. These procedures should address methods that allow for information to be gathered in a timely manner. Documentation should be included in the file to show when information has been requested and when the response can be expected. Upon receipt of all required information, files should be prioritized to ensure benefit amounts are calculated in a timely manner.

<u>NEW PROCEDURES</u>

As discussed earlier, a backlog in processing retirees' files began in July. In addition, another 740 employees were expected to retire on November 1, 1990. As a result, in mid-October DRB implemented new procedures for processing applications. Generally, these new procedures will ensure that the majority of employees retiring by October 1, 1990 will be issued their first check by October 31, 1990.

Additionally, most of the estimated 740 employees retiring November 1, 1990 will receive their first check by November 30, 1990, for 75% of their estimated monthly benefit.

Under the new procedures, technicians use retirement contribution information in DRB's Benefit Retirement Subsystem to compute salary data. After technicians determine that the application is properly signed and the employee is vested, a monthly benefit amount is calculated. A retirement check will then be issued for 75% of the estimated monthly benefit. If there are any obvious problems or discrepancies with the information in the subsystem, payment will be delayed until the discrepancies can be researched and resolved.

After all estimated payments are made, DRB will compute the correct monthly retirement amount. Retirees are expected to be receiving accurate benefits by March 31, 1991.

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WALTER J. HICKEL, GOVERNOR

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

P.O. BOX C
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December 6, 1990

Mr. Randy S. Welker, CPA
Legislative Auditor
Budget and Audit Committee
P.O. Box W
Juneau, AK 99811-3300

Dear Mr. Welker:

All of us who have worked with the Retirement Incentive Program (RIP) appreciate the time and effort your office has taken to review the RIP process and recommend enhancements.

The solutions recommended are workable, although I would like to offer the considerations which led to our approach.

1. Problem: Conversion to a new payroll system (called AKPAY) coincided with increased number of retirees.

Proposed solution: a. Specialization

While we agree that some efficiency might now be gained through specialization, it did not seem an option at the time. From its inception on May 15, in the first of the 3 heaviest months for the Teachers' Retirement System (TRS) RIP, AKPAY has continued to change as problems are identified and worked out. No one at the time of the TRS RIP was proficient in AKPAY, and with it changing constantly, "specialization" was not an option. To have changed our process in the middle of the peak effort would likely have caused even greater delays than those we experienced.

Proposed solution: b. Notification to employers to terminate on AKPAY.

Better communications with all employers is important, and is a continuing division goal. For the purposes of the TRS RIP retirements of May, June, and July, however, the recommendation of an AKPAY termination is not germane. With

02-B9LH

the exception of 18 people from the Department of Education, no TRS retirees were on AKPAY.

2. Problem: Temporary staff were given extensive training.

Proposed solution: a. Specialize to small tasks.

An assembly line approach was in use during the first 11 or 12 months of the program when nine of the 13 positions were supervised by one Retirement Specialist III.

This procedure was changed about May 1 when this supervisor terminated his employment. At that time, the section was left with only two fully trained Specialist IIIs and a third who had only recently been promoted. Three RIP project technicians each were assigned to the permanent Specialist IIIs. At this stage in the program, the number of tasks conducive to specialization had decreased.

Processing retirement benefits falls into two categories: (1) setting up a member's account in the state payroll system; and (2) calculating the benefit amount. Separating these two functions was considered and rejected.

We do not believe that the various retirement tasks can effectively be separated and still maintain accuracy, since all of the technical functions are interrelated. Using staff trained in small parts of the total process increases the risk of serious error, reduces the chance of detecting errors, and complicates the process of correcting those errors before a retirement check is written.

Proposed solution: b. Provide written instructions.

It is agreed that written procedures always should be available and used. A complete set of written procedures was not available, as they should have been.

(3) Problem: Temporary staff had a high turnover rate.

Proposed solution: Specialization.

Controlling turnover of temporary staff working on a long-term project is a management challenge worthy of the best manager in the country. The suggestion that less training would have helped to mitigate the effect of turnover is valid. Still, we strongly feel that maintaining an ongoing audit function supercedes dropping the level of training as was suggested.

(4) Problem: Systems used for monitoring the status of retirement files is inadequate.

Proposed solution: Establish a document tracking system.

We agree that better tracking of documents could have provided more timely benefits for some members, and plans are continuing to improve efforts for future retirements.

ADDITIONAL CONSIDERATION REQUESTED

The actual appointment of members to retirement under the RIP as discussed in the audit comprised less than half of the total effort. As shown on the chart provided to the auditor (copy enclosed), 2,129 members applied for retirement (Rip and non-rip) from July 1989 through October 1990 (November 1990 numbers are still being compiled). In addition 12,617 members received counseling; 56,382 phone calls were made or received; 20,846 letters were sent; 18,888 retirement projections were calculated; and 532 members retired outside of the RIP. All of this was completed by 17 permanent staff and 9 RIP project technicians (two RIP positions assisted with the extra demand in filing and two others with extra accounting).

Overall, while we agree in principle with the facts presented, we believe that neither the complexities of the new payment processing system (AKPAY) nor the other demands inherent in such a program were sufficiently considered.

Once again, the opportunity to respond is appreciated. Improved management practices are the goal of any good manager, and positive, useful suggestions are always welcomed.

Sincerely,

Millett Keller

Millett Keller
Commissioner

MK/SS/RFS/ksl
Enclosure

DIVISION OF RETIREMENT AND BENEFITS
RETIREMENT/BENEFITS SECTION
ACCOMPLISHMENTS
PREPARED FOR LEGISLATIVE AUDIT 10/16/90

	APPLY	DROP	RET	OUT-STAND	WALK INS	PHONE CALLS	LETTERS	PRO-JECTION
JULY '89	N/A	N/A	182	-0-	753	3402	972	803
AUGUST '89	N/A	N/A	57	-0-	622	2888	1123	985
SEPTEMBER '89	N/A	N/A	40	-0-	688	3176	923	761
OCTOBER '89	N/A	N/A	90	-0-	733	3239	993	812
NOVEMBER '89	N/A	N/A	58	-0-	701	2983	1077	787
DECEMBER '89	N/A	N/A	41	-0-	673	3312	988	823
JANUARY '90	N/A	N/A	72	-0-	512	3362	1498	1122
FEBRUARY '90	N/A	N/A	68	-0-	462	3404	1646	1197
MARCH '90	N/A	N/A	47	-0-	615	3619	1676	1312
APRIL '90	N/A	N/A	63	-0-	722	3832	1722	1589
MAY '90	N/A	N/A	124	-0-	1160	4333	1691	1477
JUNE '90	N/A	N/A	120	-0-	1259	3891	1567	1502
JULY '90	N/A	N/A	572	1	927	4012	1532	1382
AUGUST '90	N/A	N/A	125	23	876	3681	1176	1256
SEPTEMBER '90	N/A	N/A	88	37	948	3696	1048	1583
OCTOBER '90	N/A	N/A	88	64	966	3552	1314	1497
TOTALS	2129	294	1835	125	12617	56382	20846	18888

NOTE: Monthly counts of applications and withdrawls not kept.

Audit Report

DEPARTMENT OF ADMINISTRATION
1989 RETIREMENT INCENTIVE PROGRAM
ESTIMATED SAVINGS REALIZED AND
COSTS INCURRED BY PARTICIPATING
EMPLOYERS

November 22, 1991

Audit Control Number:

02-4404-91

Division of Legislative Audit

P.O. Box W, Juneau, Alaska 99811-3300

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

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The committee is responsible for providing the legislature with audits of state government agencies. The programs and activities of state government now cost more than $4 billion a year. As legislators and administrators try increasingly to allocate state revenues effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by the Division of Legislative Audit helps provide that information.

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November 27, 1991

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A Report on the 1989
Retirement Incentive Program
Estimated Savings Realized and Costs Incurred
By Participating Employers

November 22, 1991

Audit Control Number

02-4404-91

The audit reports on the estimated savings realized, and in some instances the costs incurred, by the public employers who participated in the 1989 Retirement Incentive Program (RIP). Estimated savings and costs are included for the State of Alaska, the University of Alaska, 35 school districts, 21 political subdivisions, and 7 other participating employers.

The audit was conducted in accordance with generally accepted government auditing standards. The schedule on page 8 summarizes the savings and costs for the 65 employers participating in the program. As shown on that schedule, we estimate the net statewide savings to be $22.9 million. In our view, as discussed in the Report Conclusions and Auditor Comments section of the report, the program achieved both aspects of its established intent. A further statement of our audit approach is included in the Objectives, Scope, and Methodology section of this report.

Randy S. Welker

Randy S. Welker, CPA
Legislative Auditor

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, we conducted a review of the 1989 Retirement Incentive Program (RIP).

Objectives

Chapter 89, SLA 1989, as amended by Chapter 18, SLA 1990 implemented a retirement incentive program for all public employers whose employees are covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS). The primary objective of our review was to develop reasonable estimates of the savings realized or the costs incurred by the 65 employers which elected to participate in the program. A second objective of the review was to determine if RIP achieved the intent of the program as established by the legislature.

Scope

All employers who participated in either or both the 1989 PERS and TRS retirement incentive programs were contacted on-site or by mail. Our review included all RIP participants who had actually retired as of September 15, 1991 from either the State of Alaska, University of Alaska, or one of the other participating school districts, political subdivisions, or other public employer organizations. The Division of Retirement and Benefits (DRB) estimated that approximately an additional 100 individuals retired under the program between our fieldwork cut-off date of September 15, and October 31, 1991, the last possible date that RIP participants could actually retire. With the exception of three participants that we included in the course of our on-site reviews in local communities, the savings/costs associated with these individuals are not included in this report.

Methodology

Savings and costs contained in this report were developed from our review and analysis of the following information and documentation:

1. Records of RIP participants maintained by the Department of Administration, DRB.

2. Files pertaining to State of Alaska participants maintained by the Office of Management and Budget (OMB), and the personnel or administrative services sections for various state executive branch departments and agencies.

3. Instructions issued by OMB to executive branch departments and agencies regarding the assumptions, procedure, and method to be used to determine participant eligibility and calculate individual savings.

4. OMB's report of RIP savings for state agencies summarized by agency position control number.

5. Summaries prepared by participating public employers (26 school districts, 20 political subdivisions, and 7 other participating organizations) responding to our survey.

6. Summarized and detailed information prepared by the Alaska Court System and the University of Alaska regarding their RIP participants.

Based on our analysis of the information and documentation we adjusted estimates of the savings and costs for participating RIP employers. The adjustments were made, to the extent that it was practicable to calculate and quantify the costs involved, to more accurately estimate the savings realized or costs incurred by each participating employer.

ORGANIZATION AND FUNCTION

The Department of Administration, Division of Retirement and Benefits (DRB) is responsible for administering the retirement and benefit programs for public employees. The two largest retirement systems administered by DRB are the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

In June 1989, Chapter 89, SLA 1989 (amended by Chapter 18, SLA 1990) reestablished an earlier retirement incentive program for employees participating in either PERS or TRS. The program, known as the Retirement Incentive Program (RIP), was established to reduce personal services costs to the State and other public employers who elected to participate in the program.

To be eligible for RIP, employees had to meet both the basic criteria established in the enabling statute in addition to any special criteria that their employer wanted to attach. The basic criteria required that the employee be vested in their retirement system. Further, after including the retirement incentive of three extra years of credited service they would have to have been eligible to meet the age or service eligibility requirements for normal retirement or early retirement.

Individuals covered by PERS must be at least 55 years old and have 5 years of service for normal retirement compared to TRS requirements of 55 and 8 years respectively. For early retirement, both PERS and TRS requires that individuals be 50 with either 5 (PERS) or 8 (TRS) years of service. For state employees additional eligibility criteria were developed by the Office of Management and Budget. These additional criteria are discussed further in the Background Information section of this report.

As of September 15, 1991, almost 1800 individuals had participated in the 1989 RIP. Additional funds were provided to administer RIP. DRB and the Division of Finance were authorized to hire temporary and part-time employees to process the increased number of retirement applications. Operational funding was provided through the assessment of administrative fees charged all participating employers. This funding allowed DRB to hire nine temporary positions in FY 89 and thirteen temporary positions in FY 90 and FY 91 to administer the program. The Division of Finance also received funding for two part-time positions in FY 90 and FY 91 to perform verifications of salary and years of service.

Factors typically involved in the calculation of RIP savings are illustrated by the following example:

An individual otherwise eligible for participating in RIP has an annual salary of $40,000. The individual has fixed benefit costs of $2,000 and other benefit costs that represent 10% of his salary. It is assumed that the employee would receive salary increases of 5% a year over the next two years, if he continued working. The employer contribution costs required to provide the three additional years of service under RIP is $20,000. The projected costs of the RIP participant would be calculated as follows:

	Salary	Fixed Benefits	Other Benefits	Total Projected Costs
Year 1	$40,000	$2,000	$4,000	$ 46,000
Year 2 (Year 1 salary + 5%)	42,000	2,000	4,200	48,200
Year 3 (Year 2 salary + 5%)	44,100	2,000	4,410	50,510
Projected Salary and Benefit Costs of RIP Participant				$144,710

If the replacement for the RIP participant is paid $32,000 with the same assumptions, then the projected salary and benefit costs would be calculated as below:

	Salary	Fixed Benefits	Other Benefits	Total Projected Costs
Year 1	$32,000	$2,000	$3,200	$ 37,200
Year 2 (Year 1 salary + 5%)	33,600	2,000	3,360	38,960
Year 3 (Year 2 salary + 5%)	35,280	2,000	3,528	40,808
Projected Salary and Benefit Costs of the replacement employee				$116,968

The difference of $27,742 in the projected costs ($144,710 - $116,968) represents gross savings attributable to RIP. This total is reduced further by the $20,000 employer's contribution costs and the $140 administrative fee charged by the Division of Retirement Benefits.

In this situation, the net RIP savings are estimated as $7,602. This savings is generated from the incremental difference between the projected salary and benefits of the RIP participant and the replacement ($27,742), reduced by cost to the employer of providing the retirement incentive of the incentive ($20,000 the employer must pay), and the administrative fee paid to the Division of Retirement and Benefits ($140). If the RIP participant's position had been eliminated, the estimated savings to the employer would have jumped to $124,568 ($144,710 - $20,000 - $140).

Example of how RIP Savings are estimated

BACKGROUND INFORMATION

The aim of the Retirement Incentive Program (RIP) was to allow participating public employers, most notably the State of Alaska, to reduce personal service costs while reducing the number of employees who would have to be laid off involuntarily. The program was made available to public employees covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS).

OMB issued strict rules on savings which limited participation and maximized savings

After the passage of Chapter 89, SLA 1989 the Office of the Governor, Office of Management and Budget (OMB) issued detailed guidelines for state agencies to follow in implementing RIP. Under these OMB guidelines, employees wishing to participate in RIP had to meet two basic requirements in order to qualify:

1. Personal Eligibility - Basic requirements of age, length of service, and vested status in PERS or TRS had to be met.

2. Savings had to be demonstrated for each individual - Unlike the previous 1986 RIP program, OMB designated each individual as an "organizational unit." This meant that the savings in salary and benefits projected over a three year period between the RIP retiree and their replacement had to exceed the State's employer costs (see inset on opposite page) in order for the employee to participate.

OMB chose to define each employee as an organizational unit in order to maximize the cost savings, as required by the legislation. OMB felt that netting the savings generated by one employee's participation against the costs of another who did not generate a savings did not fully meet the legislative intent regarding savings. Other program implementation guidelines issued by OMB addressed what savings could be included in determining eligibility for state employees. For example:

1. Savings through the elimination of a position could be included - It was permissible to include savings realized for a RIP participant from the elimination of their position.

2. Savings from reclassification of positions could not be considered - OMB precluded agencies from including savings projected from reclassifying RIP participant positions to a lower pay scale. OMB felt that since savings determined program eligibility that such a rule was necessary. The rule avoided situations such as having to decide between two potential RIP participants in the same job class where only one position could be justified for reclassification.

3. Vacancy savings could not be considered - Savings generated from leaving a RIP participant's position open temporarily could not be considered in determining program eligibility. OMB felt that vacancy savings were temporary, generated by delay in refilling a position.

4. "Domino-effect" savings could not be considered - OMB did not allow any savings to be included that were realized through the replacement of a lower paid employee down the chain of an organization. As an example, assume the RIP participant retired from a range 20 position, and was replaced by an individual from a range 18 position, who in turn was replaced by a previous range 16 worker. The only savings that could be considered would be the difference in salary and benefits of the outgoing retiree and their replacement. Savings generated from the salary and benefit differences for both the old range 18 and the new one, plus the old range 16 and new entry level staff member, were not allowed to be included.

5. Savings from differences in leave accrual rates could not be counted - Neither sick leave nor leave accrual differences were allowed to be recognized as a source of savings for RIP participants, except to the extent these factors were reflected in benefit differential calculations.

Since demonstrated savings were necessary for program eligibility, and the OMB rules were rather narrow about what savings could be counted, many employees who met all other criteria were not eligible to participate. In many cases, a long term employee, working in a position that was going to continue after their retirement, could not generate enough projected savings over a three-year period for the State to recapture its associated RIP employer contribution costs for the individual.

1990 legislation amended RIP program and provided for more participation

Chapter 18, SLA 1990 amended RIP in such a way as to increase the number of people who were eligible to participate. Under the legislation, employers could calculate savings over a five year period rather than three. It also allowed an employee to pay part of the State's employer costs if no savings were generated from their participation in RIP.

The legislation and the accompanying revised guidelines issued by OMB permitted an additional 192 state employees to participate in the program. Of these employees 78 still could not demonstrate a projected savings, even over a five-year period. However, as allowed by the amended legislation these individuals paid a total $750,000 of the State's employer costs in order to participate.

Each employer could set their own eligibility requirements for RIP participation

Under Chapter 89 SLA 1989 the governing body of each political subdivision employer could choose if they wanted to participate in RIP. Outside of the general years of service and age criteria for the two retirement systems involved, each participating employer was permitted to develop their own rules and criteria for participation. Likewise, the University of Alaska was also permitted to establish its own rules and guidelines regarding RIP participation for its employees. Other participating employers who were not school districts or political subdivisions such as the National Education Association of Alaska and the Southeast Regional Resource Center were also allowed to develop additional internal criteria.

Most employers had more lenient organizational unit and other criteria than the State

With one notable exception (see inset at right), none of the employers that we interviewed during the review imposed as strict of requirements on program participation as did the State of Alaska. Once participation in the program was approved by the organization's governing body, most felt that it was only fair to allow every employee who met the basic eligibility criteria to participate.

As reflected on schedule 3 on page 10, three of the 19 school districts which had both PERS and TRS RIP participants, projected a net cost (over a three year period) for PERS retirees. Each of these districts could have defined their "organizational unit" more strictly (i.e. on an individual basis or allow only TRS members to participate) to increase projected savings.

However, each of these three employers defined the school district as a whole as the organizational unit, thus allowing everyone meeting the basic criteria to participate.

CITY OF KETCHIKAN HAD STRICTEST RIP RULES, BUT MAY STILL NOT REALIZE FULL SAVINGS

The City of Ketchikan had the strictest RIP participation criteria of any participating employer we interviewed. The city council voted to allow employees to participate only if they agreed to pay the city's share of costs involved in providing the retirement incentive.

Largely as a result of this requirement, only one individual elected to participate in the program. Under these terms, RIP should have not cost the city anything except for a relatively small administrative fee.

However, the savings for the city as shown on the table on the following page, does not reflect these savings. The $5,400 of estimated savings reflects the fact that the City of Ketchikan did pay the employer costs for the RIP participant, but as of the date of this report has not received repayment from the retiree. We conservatively reduced our estimate of savings because the legal enforceability of the city's claim for repayment is currently disputed by the RIP participant.

Schedule 1 - Estimated Savings or (Costs) by Employer (Notes to Schedule on page 25 of report)

Employer	Number of Retirees	Estimated Savings or (Costs) (Note 1)
State of Alaska (Note 2)	739	$ 6,033,100
University of Alaska *(Note 3)*	145	4,317,800
Anchorage School District *(Note 4)*	306	2,684,900
Kenai Peninsula Borough Schools *(Note 5)*	72	1,988,800
Fairbanks North Star Borough Schools *(Note 6)*	85	1,554,100
City of Fairbanks *(Note 7)*	22	776,700
North Slope Borough School District *(Note 8)*	42	517,500
Matanuska-Susitna Borough Schools *(Note 9)*	42	487,800
North Slope Borough *(Note 10)*	12	469,600
Ketchikan Gateway Borough Schools	23	443,000
Lower Kuskokwim Schools *(Note 11)*	25	324,000
Matanuska-Susitna Borough *(Note 12)*	9	310,900
Sitka School District	17	229,700
Kenai Peninsula Borough *(Note 13)*	6	224,900
Juneau Borough Schools	28	217,700
Dillingham City Schools	3	213,600
City and Borough of Juneau	19	199,600
Hoonah City Schools	2	151,200
Haines Borough School District	2	150,700
Bering Strait Schools *(Note 11)*	17	149,800
Wrangell City Schools	9	124,500
City of Hoonah *(Note 14)*	2	118,000
Southwest Region Schools *(Note 11)*	9	112,500
Delta/Greely Schools *(Note 11)*	7	107,500
City of Homer	5	102,100
Valdez City Schools	3	84,100
City of Kodiak *(Note 15)*	6	77,500
Kuspuk Schools *(Note 11)*	7	64,700
Chatham Schools	6	64,600
Southeast Island Schools	4	63,000
Sitka Community Hospital	3	60,100
City of Wrangell	9	58,900
Kodiak Island Borough	4	55,300

Employer	Number of Retirees	Estimated Savings or (Costs)
Yukon/Koyukuk Schools	2	$ 53,000
Fairbanks North Star Borough *(Note 16)*	2	49,700
City of Palmer	3	46,600
Cordova City Schools	2	45,400
Kodiak Island Borough Schools	4	43,700
Alaska State Housing Authority	4	42,700
Lower Yukon School District	5	38,600
Unalaska City School District *(Note 11)*	3	37,500
Iditarod Area Schools *(Note 11)*	5	34,000
Cordova Community Hospital	3	31,400
Alaska Gateway Schools	2	27,900
City of Kenai	3	27,700
National Education Association	1	21,600
City of Haines	1	17,300
Bartlett Memorial Hospital	2	16,300
Nenana City Schools *(Note 11)*	1	15,400
Skagway City School *(Note 11)*	1	15,400
Bristol Bay Borough Schools *(Note 17)*	1	14,600
Nome City Schools	5	12,900
Southeast Regional Resource Center	2	12,300
Ketchikan Gateway Borough	1	11,300
City of Ketchikan *(Note 18)*	1	5,400
City of Kotzebue	1	3,000
City of Valdez	2	2,600
City of Seward	2	800
Craig City Schools	1	(12,800)
Bristol Bay Borough	1	(14,400)
Yakutat City School District	1	(16,900)
Kake City Schools	1	(29,700)
Yupiit School District	2	(30,600)
City and Borough of Sitka	7	(31,300)
Seward General Hospital	2	(44,800)
Total	1,764	$22,984,800

REPORT CONCLUSIONS

As summarized by the schedule on the opposite page, the estimated savings for the 1989 Retirement Incentive Program (RIP) totalled \$22.9 million. The savings were generated mostly by the incremental difference in the salary and benefit costs between the typically higher paid RIP participant and their lower paid replacement rather than realized from an extensive elimination of positions left vacant.

The top five employers, with a total estimated savings of more than \$16.5 million accounted for 72% of the statewide total. The State of Alaska and the Anchorage School District had about the same average savings per participant. Both were among the highest three employers in savings essentially because of the large number of employees each had participating. Only one of ASD's 306 RIP participant positions was subsequently eliminated, whereas the State only benefitted from three eliminated positions in its RIP savings calculations.

University savings came from elimination of positions and high salary differentials

The University of Alaska's average savings of almost \$30,000 for each RIP participant was the highest of any employer. The University benefitted from both the elimination of some positions, and from having the highest incremental difference in salary and benefits of any employer. Tenured full professors retiring under RIP typically had salary and benefit costs of more than \$90,000. By comparison, their replacements, if any, were most often instructors or assistant professors who had salary and benefit costs in the range of \$40,000 to \$50,000. As shown on Schedule 3 on the next page, the University averaged savings of more than \$35,000 for each RIP participant covered by the Teachers' Retirement System.

For some employers savings were small or non-existent

Eleven of the sixty-five employers who elected to participate in the program had estimated savings of less than \$6,000. Seven of those eleven projected that they lost money from their participation in RIP. In these instances, replacement employees were paid at or near what the terminating employee received, generating little or no savings. Meanwhile, the employer still had the cost of their retirement contribution payments for the RIP participant's three credited years.

Five of these seven employers were school districts with a total of six participants. These districts are generally smaller in size and have trouble recruiting teachers. They have no or few positions to eliminate and must maintain even entry position salaries at a level necessary to attract teachers to their remote locales. Essentially, in these districts the RIP program is treated as part of a teacher's or administrator's total compensation. This was acknowledged by Craig City Schools which reported that their RIP participation was made part of a "departure" agreement between the local board and the outgoing superintendent.

Schedule 2 - Savings/Costs by Department

Department	Number of Retirees	Estimated Savings/Cost
Transportation and Public Facilities	197	1,616,200
Health and Social Services	77	561,600
Fish and Game	56	502,000
Education	41	467,500
Public Safety	54	422,800
Labor	51	393,700
Corrections	62	334,000
Commerce and Economic Development	21	332,500
Legislature	6	282,000
Administration	51	214,900
Natural Resources	31	206,000
Alaska Court System	19	190,300
Office of the Governor	15	159,800
Revenue	15	103,300
Environmental Conservation	16	87,700
Law	13	79,200
Military and Veterans Affairs	9	47,700
Community and Regional Affairs	5	31,900
Total	739	$6,033,100

	TRS			PERS			TOTAL		
	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant
State of Alaska	18	$ 276,900	$15,383	721	$5,756,200	$7,984	739	$ 6,033,100	$ 8,164
University of Alaska	72	2,577,100	35,793	73	1,740,700	23,845	145	4,317,800	29,778
Anchorage School District	204	2,894,500	14,189	102	(209,600)	(2,055)	306	2,684,900	8,774
Kenai Peninsula Borough Schools	58	1,810,500	31,216	14	178,300	12,736	72	1,988,800	27,622
Fairbanks North Star Borough Schools	58	734,400	12,662	27	819,700	30,359	85	1,554,100	18,284
North Slope Borough School District	24	308,600	12,858	18	208,900	11,606	42	517,500	12,321
Matanuska-Susitna Borough Schools	26	287,700	11,065	16	200,100	12,506	42	487,800	11,614
Ketchikan Gateway Borough Schools	19	427,000	22,474	4	16,000	4,000	23	443,000	19,261
Lower Kuskokwim Schools	18	276,500	15,361	7	47,600	6,800	25	324,100	12,964
Juneau Borough Schools	27	196,700	7,285	1	21,000	21,000	28	217,700	7,775
Bering Strait Schools	4	61,400	15,350	13	88,400	6,800	17	149,800	8,812
Wrangell City Schools	5	35,600	7,120	4	88,900	22,225	9	124,500	13,833
Southwest Region Schools	6	92,200	15,367	3	20,400	6,800	9	112,600	12,511
Kuspuk Schools	2	30,700	15,350	5	34,000	6,800	7	64,700	9,243
Chatham Schools	5	64,700	12,940	1	(100)	(100)	6	64,600	10,767
Southeast Island Schools	3	49,600	16,533	1	13,300	13,300	4	62,900	15,725
Kodiak Island Borough Schools	2	39,900	19,950	2	3,800	1,900	4	43,700	10,925
Lower Yukon School District	3	66,400	22,133	2	(27,700)	(13,850)	5	38,700	7,740
Unalaska City School District	2	30,700	15,350	1	6,800	6,800	3	37,500	12,50
Total	556	$10,261,100	$18,455	1,015	$9,006,700	$8,874	1,571	$19,267,800	$12,265

Schedule 3 - Savings for Employers with Both TRS and PERS Retirees

The costs incurred by the City and Borough of Sitka (CBS) were attributed to a situation where the costs of replacement employees were higher than anticipated. It was reported to us that the Borough Assembly made the decision to participate in RIP based on projections of salary and benefits for replacement employees that subsequently proved to be inaccurate. When replacement employees were actually paid near or even above the outgoing RIP participant's salary then all projected savings were eliminated, turning the savings program into a cost for CBS.

1989 RIP legislative intent had two aspects

RIP's implementing legislation stated that the program was

> *intended to* ***realize sufficient economies to offset the cost of administration*** *and benefits to state agencies and other employers resulting from the award of retirement credits and to result in* ***a net reduction in personal services costs*** *to the state or other employers during a period of declining revenues.*

This intent has two specific parts. The program was to pay for itself (*realize sufficient economies to offset the cost ...*) and was to provide for savings in personal services costs to the state (*a net reduction in ...*).

Overall, 1989 RIP did pay for itself

As discussed previously, most of the savings realized under the 1989 RIP were of an incremental nature. The assumptions, methodologies, and approach that we used to estimate savings could not practically consider all the variables that could have an affect on the actual savings realized. And as mentioned, seven of the employers appear not to have realized savings to offset the costs of their participation.

Despite these considerations, we are confident that the program achieved the first aspect of its established intent. In our view, on balance, the program ***realized sufficient economies to offset the cost of administration and benefits*** provided as an early retirement incentive. The incremental savings accumulated by the state agencies and other participating employers from RIP did, when considered for the organizations as a whole, exceed the cost to the employer for providing the additional three years of service.

RIP did generate a net reduction in personal service costs but budget impact is uncertain

We are also confident that state agencies realized a *net reduction in personal services costs*, or savings, through RIP. For the RIP participant positions (also known as PCNs for position control number in budgetary terms), where replacements were hired in at lower pay, there was a net reduction. State agencies spent, and will prospectively spend less for those specific PCNs in the first, second, and third years than they would have, had the RIP retiree remained as the incumbent.

Doubts are often expressed about the savings generated by RIP because they rarely, if at all, are reflected in state agency budget requests. Further, the incremental nature of most of the 1989 RIP savings contribute further to this lack of visibility in agency budgets. When savings are generated through the elimination of positions left vacant by RIP participants, then the budgetary impact is more clearly reflected in the fewer number of positions in the agencies' budget requests.

However, when savings are primarily due to the incremental difference between RIP participants' personal service costs and those of their replacements, identifying savings for legislative consideration is more difficult and subtle. Such savings get lost in a blend of budgetary incremental adjustments such as those generated by new union contracts, new positions for new programs, new positions for old programs, adjustments for vacancy and turnover, etc.

Accordingly, we believe the savings shown for the various state agencies in Schedule 2 on page 10 were realistic, and for the most part, have been or will be realized. However, we cannot reasonably estimate how much of these savings were reflected in agency budget requests or remained in year-end balances that lapsed back to the general fund, although we believe that, to some degree, both of these happen.

Savings and program recommendations discussed further in Auditor Comments

In the following Auditor Comments section we offer examples of how state agencies may be using RIP-generated savings, and discuss how the university is using savings for what they term "budget reallocation" and "budget reduction" purposes. We also suggest that the legislature provide for improved monitoring of RIP-generated savings, when considering any future RIPs.

AUDITOR COMMENTS

As concluded in the previous section, we are confident that RIP generated a *net reduction in personal services costs* (as intended by its authorizing legislation). However, existence of these savings is met with some skepticism, because they do not appear to be reflected in state agency operating budgets. Often, agencies take advantage of the flexibility afforded from the reduction of personal services costs to reallocate and use the savings without legislative budgetary oversight. To the skeptics, and from a conservative budgetary viewpoint, to the extent this occurs, such reallocations do not represent savings, nor do they result in a *net reduction in personal services costs.*

Four examples illustrate how RIP "savings" may have been used besides budget reduction

For example, consider the *net reduction in personal service costs* that may or may not be involved in the following situations:

1. RIP savings are used to hire temporary staff. With the RIP savings that an agency generates in its personal services budget, management decides to hire temporary workers to carry out a special project. The work was important, necessary to the agency's functioning, but until the flexibility provided by the RIP, the agency never had the available funding to accomplish the task.

   Although RIP generated the savings used to hire the staff and pay the overtime, agency management has decided how those savings were used. In this instance, RIP generated a savings, but from a budgetary aspect, none would be reflected in a *net reduction in personal services costs.*

2. RIP savings are transferred to contractual budget category. With the savings generated by RIP an agency transfers authorizations from the personal services to the contractual services budget category. With this increased funding, the agency contracts for some or all of the services that had previously been performed by the RIP retiree.

   Again, in this example RIP has provided savings. Through the use of a budgetary mechanism, even a *net reduction in personal services costs* has been achieved. However, as in the first example, it is agency management that is deciding how to reallocate RIP savings, and from a budget reduction viewpoint, no savings are realized despite the personal services cost reduction.

3. RIP savings allotted to other programs. One difficulty that both we and officials at the University of Alaska had with estimating RIP savings was the treatment of "budget reallocation" savings. University officials reported that RIP provided administrators

increased flexibility and was used in part, to reconfigure the instructional staff at various campuses in response to student demand (see inset at right).

For example, if an accounting professor retired under RIP, that position itself may be left vacant but the savings generated may be used for a myriad of other activities.

Again, RIP has generated savings, and to some extent, a *net reduction in personal services costs* was probably generated, but all was done outside the influence of legislative budget review. From the budgetary aspect, no savings were realized, because none were reflected in the university's budget request.

> **UNIVERSITY REALLOCATION INDICATES HOW RIP SAVINGS ARE USED**
>
> One university campus wrote us describing what they did with more than $170,000 in savings (projected over a three-year period) generated by one retiring professor.
>
> *The position vacated by the [RIP participant] was an associate professor of Business Administration at the Sitka campus. The position was not filled in order to save money that could be reallocated for use in meeting the changing needs of the campus' constituency. Reallocation of funds saved by not filling this position made it possible to increase business program offerings in the consortium arrangement with Sheldon Jackson College, partially fund a faculty position in Computer Information Systems, add courses outside of the faculty member's expertise and eliminate courses no longer pertinent. The work of the position was accomplished through the hire of temporary faculty for teaching, and non-teaching duties were reassigned to another employee.*
>
> All assumptions and projections of savings made by the university were reasonable and supportable, but in light of the narrative above, it is debatable about whether the projections could be considered "savings." Since we wanted to be conservative in developing our estimates of savings, we classified this particular situation as a "budget reallocation." In erring on the side of conservatism, we defined budget reallocations as not being savings.
>
> Because we knew more about the circumstances surrounding University retirees, we actually were more conservative in refining their cost estimates than we could be with state government retirees. We have limited insight into how State of Alaska savings may have been similarly reallocated.

4. RIP participant's position is cut. When RIP generates savings through elimination of a position, without a budgetary monitoring system, even these more discrete savings can be temporary. For example, an agency eliminates a position from the budget left vacant by a RIP retiree. The agency has decided to either to absorb the RIP participant's workload with existing staff, discontinue the services provided by the retiree, or perhaps, as mentioned above, "contract-out" the tasks. Now, from a budgetary perspective, RIP savings are more readily realized, since agency budget requests are reduced to reflect the eliminated position.

However, two years later, perhaps under a different administration, management requests and obtains funding for a "new" position. The new position is needed to perform all or most of the tasks that were previously done by the RIP retiree. If funded, the legislature is reallocating, probably unknowingly, a portion of RIP's *net reduction in personal services costs*.

Legislature was concerned about RIP accountability

The legislature was concerned about the accountability of RIP savings. The program's implementing legislation required the Office of Management and Budget (OMB) to submit annual reports on RIP and its impact each January 15 from 1991 through 1994. The report was required to provide the

> *information necessary for the legislature to evaluate the effectiveness of the program in achieving its objectives. The report should include information on the designated organizational units under the retirement incentive plans including the cost of the retirement incentive program per participant, the cost to the state, the cost to the employee, the annual budgeted amount by agency for the retirement incentive, and the projected or actual savings over the three-year period.*

The 1991 report, did contain the information specified in the legislation, and we used the report as a basis for developing the costs and savings included in this report. However, the costs and data specified and submitted does not provide necessary information regarding how the projected savings were utilized or how they affected the subsequent FY 92 budget.

Either OMB or Legislative Finance should monitor future RIPs

In addition to the report information required by the 1989 RIP legislation, the legislature should consider directing either OMB or the Division of Legislative Finance to specifically monitor RIP-generated savings. The legislature should direct one of these agencies to account for savings generated by vacant positions and the incremental differences in salary and benefits for various state agency budget request units.

By breaking down and analyzing the budgetary impact of RIP retirees, these budget review agencies could develop an adjustment factor to be used in budget construction and review. Such a factor, similar to the adjustments currently made for personnel vacancy and turnover, could be used to reduce agency personal services budget requests. Such a factor would reflect the amortization of projected RIP savings over the same time period as that provided by additional credited service.

Further, any new positions that may be included in each agency's annual budget request should be scrutinized in the context of the duties and services formerly provided by RIP participants. In addition, OMB or the Division of Legislative Finance should review the use of temporary employees and agency overtime to determine if any significant increases could be attributable to RIP.

Improved monitoring would provide enhanced legislative oversight of savings

By implementing such an upfront, monitoring and control procedure, the legislature could provide greater assurance that RIP-generated savings are being used to reduce personal service costs. Further, such a procedure more clearly identifies the amount and impact of program savings. Legislative oversight of how the savings generated from RIP are used would be improved, and such ongoing monitoring would allow the legislature a decision-making role in how savings are to be reallocated.

UNIVERSITY ALSO USE RIP SAVINGS TO RESPOND TO BUDGET REDUCTIONS

University officials also reported that they used the large savings generated by RIP participants to meet across-the-board budget reductions.

In FY 90, because of cutbacks in general fund appropriations, the university directed all departments to cut their budget by 2.5%.

For the School of Fisheries and Ocean Science (SFOS), this represented a cut of more than $100,000. An SFOS support engineer retired under RIP and was not replaced. Three year savings generated by the retirement were estimated to be more than $190,000.

SFOS used a third of the three-year savings generated by their RIP participant (approximately $64,000) to partially offset the impact of the across-the-board reduction. Such use of RIP-generated savings clearly meets both the mandate for RIP to generate a net reduction in personal services costs and satisfies the conservative budgetary perspective that all savings must necessarily involve a budget reduction.

1990 measure reduced emphasis on savings

In 1990 the legislature amended the 1989 RIP to allow employees to "make up the difference" if the State could not project a savings for their position. This amendment had the effect of eliminating any possibility for the State to realize a *net reduction in personal services costs* for those employees.

Otherwise eligible employees, for whom no savings could be projected over a five-year period, could now participate in RIP by paying off the State's projected costs. Accordingly, under the legislation the State just "broke even" on 78 additional participants, realizing no *net reduction in personal services costs* for those individuals.

From legislative committee minutes of the testimony and discussion of the amending legislation, the primary concern appeared to be one of equity. From testimony and discussion it seems the intent of the legislature was to allow all state employees that met the basic eligibility criteria an opportunity to participate in the program, regardless of the savings that might be generated from their particular situation.

RIP reduces personal services costs, central issue is who decides how savings are used

In summary, concerns about savings generated by RIP are often misdirected. RIP, if structured appropriately, does generate personal service cost savings. Skepticism of the program is not so much attributable to an absence of any real savings, but rather exists because the current budget review process does not adequately track and reflect economies generated. Only if there are major lay-offs and budget cutbacks, do savings generated by RIP become readily apparent in state agencies' budget requests.

This lack of a developed budget control process, limits the legislature in performing its oversight role. Decision making is transferred to agency administrators. They get to decide how to reallocate or use RIP savings, with no specific legislative inquiry or direction.

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EMPLOYER COMMENTS AND DISCUSSION

The opening section of the 1989 legislation that implemented RIP stated that

> *since it may be necessary for state agencies and other employers who participate in the state retirement systems to reduce their personal services costs because of declining state revenue, reimplementation of the* [1986] *retirement incentive program encouraging employees to retire voluntarily, will reduce the hardship of layoffs.*

However, as it turned out, concerns about layoffs and declining revenues proved, for most employers, not to be a critical factor.

Stable fiscal conditions and prior RIP may have reduced need for staff cut savings

As summarized in the Report Conclusions section, most savings generated by the 1989 RIP were due to the incremental difference in the personnel costs of retiring workers and their replacements. A comparatively small part of the savings on a statewide basis were due to the reduction in public employment. We surmise that savings generated by the elimination of positions were minimal because of two factors:

1. The fiscal situation was better. The fiscal situation faced by the State of Alaska, most local governments, and school districts proved not to be as adverse as had been anticipated when the merits of the 1989 RIP were being debated. As a result, there was not as much pressure or need to eliminate positions in order to meet demanding budget cutbacks.

2. The impact of the earlier RIP. If local governments and school districts had an excessive number of positions, their management likely took full advantage of the earlier 1986 RIP to reduce the number of employees. That RIP was implemented at a time when both the fiscal situation and prospects at all levels of government were more problematic. With the advent of the 1989 RIP, local governments and school districts were in a situation where all or most retirees necessarily had to be replaced.

Three employers criticize RIP as causing "brain drain" and being a costly alternative

Three of the participating employers surveyed in the course of our review expressed two common complaints regarding RIP. One is the concern over the loss of experience, sometimes referred to as "brain drain." Another employer-expressed concern was that RIP is sometimes used "as an easy way out," and that other, less costly alternatives to reducing personnel costs were not being considered.

One respondent wrote that his local assembly was

> *not thrilled with RIP. This notable lack of enthusiasm was due to the potential loss of long term employees -- the real loss to the organization of those years of experience*

Another local personnel officer observed that snow removal in his community had been adversely affected by the loss of experienced snowplow operators. Increased property damage to mailboxes, taking more time to clear streets and improper maintenance of equipment were all "hidden" costs of losing experienced employees to RIP.

Another local government participant responded that

> *Any net savings identified in this study is an imaginary figure. There exist other alternatives to personnel cost reduction not being* [considered]. *My belief is that the most favorable outcome of a RIP is that it may be used as a tool to encourage selected employees to terminate employment when the government is unable or unwilling to achieve this result through intelligent and sound personnel management. It's an easy way out.*

Auditor discussion - The loss of experience and "brain drain" are concerns that have been expressed during legislative deliberations and consideration of RIP. In some situations, as discussed next in this section, the participating employer often welcomes the increased flexibility and new ideas brought in by new employees. But for some areas of service, such as operating heavy equipment, the loss of experience can be more telling.

The second criticism, we think neglects one of the other stated aspects and purposes of RIP. RIP was designed in part to mitigate the social hardship of layoffs. The legislature felt it was good public policy to have people in the community receiving retirement payments rather than having a like number receiving unemployment checks. Given these additional program aims, RIP cannot be judged strictly on a cost-benefit basis.

In our view, the legislature recognized that under RIP, it would cost money to reduce staff compared to achieving the same goal through lay-offs at little or no additional cost, but with greater negative social impact. The 1989 RIP, as it turned out, was implemented at a time when across-the-board layoffs and cutbacks proved not to be a widespread necessity. In these circumstances, the costliness of the program become more evident, and its social benefits were obscured.

RIP provides increased administrative flexibility

Early retirement incentive programs have other benefits beyond costs savings. These programs can be used to achieve important non-financial goals such as increased managerial flexibility in restructuring operating procedures, in making promotions, and an increased ability to maintain a balance in the age and composition of the workforce (something that might not occur with seniority-based lay-offs).

The 1989 RIP did produce other benefits beyond the estimated cost savings. One school district in responding to our survey commented that

> *RIP allows us more flexibility. We give our teachers tenure, RIP allowed us flexibility in our staffing. Also now a district can establish new directions for programs that was nearly impossible to pursue with long-entrenched faculty.*

Both the Anchorage School District (ASD) and the university reported that RIP provided administrators with increased staffing flexibility. Both the university and ASD grant tenure to their professors and teachers, respectively. One benefit of RIP was that it allowed the two organizations to replace tenured faculty with entry level instructors and teachers without tenure. As a result, it was easier to reassign and transfer instructors without having to consider the limitations and restrictions that are involved with the prerogatives of tenured staff.

Fairbanks school board feels that repeated RIPs disrupts recruitment

In a September 1990 resolution (see inset on next page), the Fairbanks North Star Borough School Board expressed its concern over the need for, and the impact of, repeated RIPs. In adopting a resolution opposed to the creation of another RIP program the board felt that while the program assisted schools in responding to fiscal emergencies, that its repeated use when there was no crisis is disruptive to normal teacher turnover and harmful to recruitment.

As reflected by the resolution the board felt that teachers develop expectations that another RIP will eventually be offered. This expectation encourages employees who might normally retire to postpone doing so until the next RIP. The number of retirees then accumulate and when a RIP is offered, all leave the district collectively, causing havoc in teacher recruiting and a major loss of experienced personnel all at once.

Auditor discussion - The 1989 RIP program was designed to maximize "local control." The decision whether to participate is made at the local level, as is establishing the criteria for which employees may retire. To some extent, this local option flexibility has led to what some may consider are abuses of RIP. Rather than using the program to lessen the impact of layoffs and realize savings, some employers used RIP as a means to provide additional

FNSBSD BOARD OPPOSES IMPLEMENTATION OF RIP WHEN NO FISCAL EMERGENCY EXISTS, CONCERNED ABOUT EFFECT OF TEACHER EXPECTATIONS

I September 1990 the Fairbanks school board adopted the following resolution opposing any new retirement incentive program.

WHEREAS, the State of Alaska passed an Early Retirement Incentive Plan in 1986 to help school districts and other public agencies realize significant personnel cost reductions in response to a statewide fiscal emergency; and

WHEREAS, the State of Alaska passed another Early Retirement Incentive Plan in 1989, although there was not a fiscal emergency; and,

WHEREAS, this is creating the expectation that there will be another Retirement Incentive Plan program offered again in several years; and,

WHEREAS, this expectation works counter to the program's intent of encouraging people to retire, because of instead of the normal attrition rate, employees who might normally retire will postpone doing so until such time as another Retirement Incentive Program is offered; and,

WHEREAS, our district also has serious concerns about a teacher work shortage and fears it will become more and more difficult to replace our valuable and experienced work force; and,

WHEREAS, our district does not wish to lose our experienced employees, but has decided it would not be fair to deny them access to a Retirement Incentive Plan once it is passed into law;

NOW, THEREFORE, BE IT RESOLVED that the Fairbanks North Star Borough Board of Education requests the Legislature and the Governor not enact any future legislation authorizing early retirement.

compensation and consideration. Under our reading of the 1989 legislation, such use of the program is permissible. RIP is a "take-it-or-leave-it" program in which employers can structure their participation in the program in any manner they wish within the broad confines of the program eligibility requirements.

"Speed-up" scenario is a drawback to RIP's goal to save employers money

The "speed-up" scenario has been generally recognized as a drawback to RIP. Providing incentives may speed up the retirement of individuals who would have retired in the near future with or without an added incentive. Under RIP, the employer must pay the added cost of providing the incentive even though the employee would have eventually retired anyway at no extra cost.

Two participants cite impact of the "speed-up" scenario in criticizing estimated savings

Some employers contacted during the course of the review pointed out that the savings estimated using our assumptions and approach tended to inflate totals. In their comments they cited the "speed-up" scenario as contributing to an overstatement of savings. One employer commented that under the formula we suggested be used to calculate savings or costs that

> *Savings for our school district are based on a "bogus" assumption. What is not considered is when would have these individuals have normally retired if there had been no RIP. It is possible that the individuals would have retired anyway,*[without the school district having to pay any additional RIP employer contribution costs.]

Another district commented that *normal retirement would generate far greater savings for each district. The cost for RIP has to be budgeted for, while the "savings" are used for other purposes.*

Auditor discussion - Under the methodology used in this report, participants who would have normally retired would generate a certain amount of savings over the costs involved to provide the three additional years of service. Had they retired without RIP then there would have been no additional employer costs involved, and the district would have realized even more savings, either by eliminating the position or replacing the retiree with a lower paid replacement.

It is likely that some of the almost 1,800 RIP participants would probably have taken normal retirement, involving no additional contribution from their employer. We acknowledge that this normal retirement factor does overstate our savings estimate, but there was no practicable way for us to calculate its effect and adjust our estimates accordingly.

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NOTES TO SCHEDULE 1

Note 1 - General Assumptions, Methodology, and Approach to Develop Estimates

Unless otherwise discussed in a specific note, the estimated savings or costs presented in Schedule 1 on page 8 were calculated using the following assumptions, methodology, and approach:

1. Savings and costs totals represent projections over a three year period.

2. For most participants, the calculations of estimated savings or costs reflect the projected costs of salaries and benefits for both the RIP retiree and their replacement. However, some employers used salaries only as a basis for their projections and estimates. In any event, for any one participant's calculation the same basis was used for both the retiree and the replacement employee.

3. In addition to the administrative costs involved with each RIP participant, the estimated savings/costs also reflect any administrative fees paid by the employer for individuals who were eligible for the program but did not participate.

Note 2 - State of Alaska

Savings presented for the State of Alaska represent a combination of projected savings. The total includes both:

1. Three year projected savings for individuals who qualified and participated in the initial RIP program.

2. Net savings projected over a five year period for individuals who participated under the amended RIP program. According to OMB records, 78 of the State of Alaska's 739 participants did not generate any savings, and accordingly do not contribute to the total savings of $6,033,100. The table below summarizes savings estimates and the number of participants for both the 3-year and 5-year periods

	Participants	Savings
3 YEAR PERIOD	547	$ 5,131,400
5 YEAR PERIOD	192	901,700
TOTALS	739	$ 6,033,100

Note 3 - University of Alaska

We reduced the savings for the University of Alaska by more than $ 4,900,000 from estimates developed by the University. The adjustments were made in an effort to make the totals more comparable with those developed by the State of Alaska for their RIP participants. The university originally calculated RIP savings of $9,240,700.

A large portion of these savings total was attributable to extended vacancies in the RIP participant positions that were eventually filled. Further, the university noted that some of the "savings" were actually reallocated to other staff and programs rather than being used to offset budget reductions (see inset on page 14 for discussion of the university's budget reallocation process). We based our adjustments on salary, vacancy, and budgetary information provided to us by the university.

Note 4 - Anchorage School District (ASD)

In calculating savings estimates for TRS participants, ASD used the average, district-wide teacher and administrator salaries as a basis for the replacement employees' salary and benefit costs. Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that it would tend to understate the estimated savings.

ASD's estimated savings as listed in the schedule are based on three year projections. The district also projected savings for a five year period. ASD's five-year projected RIP savings breakdown as follows:

Retirement System	Estimated Savings
TRS Participants	$ 6,578,000
PERS Participants	528,000
Total 5-year savings projections	$ 7,106,000

Both the 3-year savings listed in the schedule on page 8 and the 5-year savings summarized above, have been reduced to reflect almost $673,000 that the district paid out as retirement incentives. Depending on when participants retired, they were eligible for payments of 2.5% to 5% of their salary and from $50 to $100 for each year of service as an incentive to participate in RIP.

Note 5 - Kenai Peninsula Borough Schools (KPBS)

Although KPBS had thirteen fewer participants than the Fairbanks North Star Borough Schools, the district had $400,000 more in estimated savings. This difference was largely a result of KPBS not replacing some of their RIP participants, whereas Fairbanks filled all the teaching vacancies left by the participating employees.

Note 6 - Fairbanks North Star Borough School District (FNSBSD)

In estimating savings, FNSBSD used the average salary and benefit costs for all newly hired teachers for the first school year following the RIP period. For PERS participants, FNSBSD used the actual salary of the replacement employee as a basis for projecting the savings generated by the RIP participant.

Note 7 - City of Fairbanks

More than $580,000 of the projected savings were generated from the city not replacing four individuals who participated in RIP. Thirteen of the twenty-two participants were from either the city's police or fire departments. At the time these 13 individuals retired, the city consolidated its police and fire protection functions into a single department of public safety. Many of these 13 retirees were high ranking officers, whose command and management functions were combined and restructured as part of the consolidation process.

This consolidation of command responsibilities made it difficult to determine which retiree was replaced by which promoted officer. Thus, it was not practicable to match these promoted individuals with the outgoing RIP retirees. However, the city is certain that available funding was used to recruit and hire entry level officers into the new public safety agency. Accordingly, they based their estimates of projected savings on the difference in salaries and benefits between the retiring officers and these entry level recruits.

Note 8 - North Slope Borough School District (NSBSD)

In calculating savings estimates for TRS participants, NSBSD used the average, district-wide teacher salary as a basis for the calculating the replacement employees' salary and benefit costs. Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that would tend to understate the estimated savings.

Note 9 - Matanuska-Susitna Borough Schools (MSBS)

In calculating savings estimates for TRS participants, MSBS used the average, district-wide teacher salary as a basis for calculating the replacement employees' salary and benefit costs.

Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that it would tend to understate the estimated savings.

Note 10 - North Slope Borough (NSB)

For all but one of NSB's 12 RIP participants, estimated savings are based on three-year projections. The other individual's savings are estimated over a five-year period.

Note 11 - Calculated Estimates for Nine School Districts not responding to our survey

We developed the estimate of savings for nine school districts which did not respond to our survey. For these districts we calculated savings for their RIP participants using the average participant savings for all districts who did respond to our survey. Savings from districts calculated using this approach totalled to $860,800 (3% of the total estimated savings statewide) for 75 RIP participants (4%). Districts for which savings were calculated using this approach were:

District	No. of TRS Retirees	Estimated Savings of TRS Retirees @ $15,359/ea	No. of PERS Retirees	Estimated Savings of PERS Retirees @ $6,798/ea	Total Calculated Savings for Schools (Rounded)
Lower Kuskokwim Schools	18	$ 276,462	7	$ 47,586	$ 324,000
Bering Strait Schools	4	61,436	13	88,374	149,800
Southwest Region Schools	6	92,154	3	20,394	112,500
Delta/Greely Schools	7	107,513	0	-0-	107,500
Kuspuk Schools	2	30,718	5	33,990	64,700
Unalaska City School District	2	30,718	1	6,798	37,500
Iditarod Area Schools	0	-0-	5	33,990	34,000
Nenana City Schools	1	15,359	0	-0-	15,400
Skagway City School	1	15,359	0	-0-	15,400

Note 12 - Matanuska-Susitna Borough

For all but two of the borough's nine RIP participants, estimated savings are based on three-year projections. The other two individuals' savings are estimated over a five-year period.

Note 13 - Kenai Peninsula Borough

Almost $200,000 of the borough's $224,900 in estimated savings is attributable the elimination of one management position.

Note 14 - City of Hoonah

More than $90,000 of the city's $118,000 in estimated savings is attributable to the elimination of one position.

Note 15 - City of Kodiak

Estimated savings are based on a combination of three-year and five-year projections. Two of the RIP participants' savings are based on five-year projections.

Note 16 - Fairbanks North Star Borough

One of the individuals' estimated savings are based on a three-year projection while the other is based on a five-year projection.

Note 17 - Bristol Bay School District (BBSD)

The estimated projected savings for BBSD of $14,600 reflect an additional cost of $10,144 retirement bonus paid to the RIP participant. The bonus represented 21% of the participant's annual salary.

Note 18 - City of Ketchikan

As related on page 7 of the report, if the City of Ketchikan can collect from its one RIP participant, it will realize a projected estimated savings of $20,200. However, as of the date of this report, the city has not collected the employer costs that it conditionally paid on behalf of the city's participant.

Attachment B

Fiscal Notes 4 and 5, House Bill 329, 2004 Alaska State Legislature

FISCAL NOTE

STATE OF ALASKA	Fiscal Note Number: 4
2004 LEGISLATIVE SESSION	Bill Version: CSHB 329(STA)
	(H) Publish Date: 2/23/04
Revision Date/Time (Note if correction): 02/13/04: 14:00	Dept. Affected: All
Title: An Act relating to retirement incentive programs for PERS, TRS, JRS; related separation incentives	RDU: ALL
	Component: ALL
Sponsor: Rep. McGuire	
Requester:	Component No.

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	See attach letter analysis by retirement system Actuary.					
Travel	Total employer cost for PERS, for all RIP eligible = $ 786.3 million					
Contractual	Total employer cost for TRS, for all RIP eligible = $ 431.6 million					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		**ALL FUNDING SOURCES**				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

AS 24.08.036 FISCAL NOTES ON BILLS AFFECTING STATE RETIREMENT SYSTEMS, requires an analysis of the long term and short term costs to the state if a bill is adopted, as well as the impact of the bill on the actuarial soundness of the funds.

The attached summary by the system Actuary, Mercer Human Resources Consulting, determined the cost to the system of the RIP eligibles by 1) calculating a liability increase created by the retirement as result of RIP eligibility (more years of payments and benefits, 2) discounting that for the total present value of those benefits, 3) minus the member indebtedness to be paid to the Systems.

The 1996 RIP indicated 12,284 PERS members with a cost of $341.8 million; and 4,730 TRS with a cost of $175.9 million. This RIP involves 8,008 PERS members through 7/07 at a cost of $786.3 million; and 3,470 TRS members through 7/07, at a cost of $431.6 million.

The dramatic cost increase per member for this RIP is due to the use of newer life expectancy which adds more payments, health care costs that have more than doubled ($350 per member 1996 to $806 per member in 2004), etc.

Prepared by:	Melanie Millhorn	Phone	465-4408
Division	Retirement and Benefits	Date/Time	02/13/04; 14:00
Approved by:	Mike Miller, Commissioner	Date	
Agency	Administration		

(Revised 9/2003 OMB)

MERCER
Human Resource Consulting

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February 13, 2004

Ms. Melanie Millhorn
Director
State of Alaska
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Subject:
House Bill 329 - Retirement Incentive Program (RIP)

Dear Melanie:

We have calculated the total employer cost for both the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) under the proposed RIP, as described in CS to House Bill 329.

The following data and assumptions were used in estimating the RIP costs:

1. June 30, 2003 actuarial valuation data as supplied by the Division of Retirement & Benefits with additional eligible members added by Mike Adams.
2. The interest rate is 8.25%.
3. The actual monthly premium for medical benefits is $806 as provided by the State of Alaska, Division of Retirement & Benefits
4. All other assumptions and methods are consistent with the June 30, 2002 actuarial valuation reports for the respective Systems.

Under the proposed RIP employers can open the RIP for one or more periods to eligible members from June 30, 2004 to June 30, 2007. For purposes of this analysis, we've assumed an employer will open RIP windows sufficiently often to allow all members who become eligible during the three-year period to take advantage of the proposed RIP. We've assumed all eligible members will retire under the RIP. If fewer windows are opened or if fewer eligible members accept, then the total employer cost will be less.

MERCER
Human Resource Consulting

The total employer cost under proposed HB 329 is equal to the increase in the total present value of benefits, minus member indebtedness to be paid to the Systems. The total employer cost would be approximately $786,300,000 for PERS and $431,600,000 for TRS.

In determining the costs we've calculated the increase in present value of benefits for those who will be RIP eligible as of June 30, 2004. In order to account for those to become eligible over the next three years we increased the present value of benefits proportionately by the number of newly eligible members each June 30th, discounted with interest. As of June 30, 2004, 6,643 PERS members and 3,066 TRS members will be eligible for the RIP. The following table illustrates the number of additional members to become eligible thereafter:

Become Eligible	PERS	TRS
7/04 – 7/05	553	162
7/05 – 7/06	443	162
7/06 – 7/07	369	80

System payroll as of June 30, 2003 for all members to become eligible at any time before June 30, 2007 is $413,400,000 for PERS and $222,200,000 for TRS.

Our understanding is that each employee is directly charged the cost due to enhanced benefits and earlier eligibility available through the RIP. Thus the RIP is designed to be cost neutral under the actuarial assumptions and methods presently in use. While these assumptions are our best estimates, future changes (such as improvements in longevity or higher than anticipated medical cost increases) may affect the ultimate cost neutrality of the program.

MERCER
Human Resource Consulting

Please feel free to call either of us with any questions or comments.

Sincerely,

Robert Reynolds, ASA, EA

Christopher M. Byrnes, EA

RMR/CMB/msk

Copy:
Kathy Lea
Anselm Staack

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FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 5
Bill Version: CSHB 329(STA)
(H) Publish Date: 2/23/04

Revision Date/Time (Note if correction): 2/13/04
Dept. Affected: Administration
Title: An Act relating to Retirement Incentive Programs for PERS, TRS, JRS; related separation incentives
RDU: ALL
Component: ALL
Sponsor: Rep. McQuire
Requester:
Component No. 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	321.5	321.5	321.5	74.9	74.9	74.9
Travel	30.0	30.0	30.0	0.0	0.0	0.0
Contractual	295.0	210.0	210.0	0.0	0.0	0.0
Supplies	16.0	8.0	8.0	2.0	2.0	2.0
Equipment	80.0	0.0	0.0	0.0	0.0	0.0
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**742.5**	**569.5**	**569.5**	**76.9**	**76.9**	**76.9**

CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		**ALL FUNDING SOURCES**				
1005 GF/Program Receipts						
Retirement System - PERS - 67%	497.5	381.6	381.6	51.5	51.5	51.5
Retirement System - TRS - 33%	245.0	187.9	187.9	25.4	25.4	25.4
TOTAL	**742.5**	**569.5**	**569.5**	**76.9**	**76.9**	**76.9**

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time	0	0	0	0	0	0
Temporary	6	6	6	0	0	0

ANALYSIS: *(Attach a separate page if necessary)*

The above fiscal information relates to costs to administer the program only; see page 2.

AS 24.08.036 FISCAL NOTES ON BILLS AFFECTING STATE RETIREMENT SYSTEMS, requires an additional analysis of the long term and short term costs to the state if a bill is adopted, as well as the impact of the bill on the actuarial soundness of the funds. The analysis presented here does NOT include the employer and system wide costs related to RIP eligibles that results in a continuing liability to the system once the employee is retired, and the related increase in accrued liability for pension and post-retirement health costs over the life of RIP retirees.

Prepared by: Melanie Millhorn, Director
Phone 465-4408
Division: Retirement and Benefits
Date/Time 2/13/04 4:27 p.m.
Approved by: Mike Miller, Commissioner
Date
Agency: Administration

STATE OF ALASKA **BILL NO.** CSHB 329(STA)

2004 LEGISLATIVE SESSION - Fiscal Note No. 5

ANALYSIS CONTINUATION

The estimated administrative costs to the division by fiscal year are as follows:

				FY 2005	FY 2006	FY 2007	FY 08-10
PERSONAL SERVICES:							
	1 - R&B Specialist I - Range 16	Counsel	NP	52.0	52.0	52.0	0.0
	4 - R&B Tech I/II - Range 12	Process	NP	159.6	159.6	159.6	0.0
	1 - R&B Tech I/II - Range 12	Process	Perm	39.9	39.9	39.9	39.9
	1 - Admin. Clerk - Range 10	Intake	NP	35.0	35.0	35.0	0.0
	1 - Admin. Clerk - Range 10	Records	Perm	35.0	35.0	35.0	35.0
				321.5	321.5	321.5	74.9
TRAVEL:	Counsel Prospective Retirees and Seminars			30.0	30.0	30.0	0.0
CONTRACTUAL:							
	Communications & Postage			90.0	45.0	45.0	0.0
	Computer system modifications			50.0	10.0	10.0	0.0
	Actuarial Services			75.0	75.0	75.0	0.0
	Accounting & Legal Services			75.0	75.0	75.0	0.0
	Training \ Risk Management			5.0	5.0	5.0	0.0
				295.0	210.0	210.0	0.0
SUPPLIES:	Office supplies, calculators, desk-top software			16.0	8.0	8.0	2.0
EQUIPMENT:	Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs			80.0	0.0	0.0	0.0
	For non-perms and temp. - set-up and take down.						
	TOTAL			742.5	569.5	569.5	76.9

This bill creates a retirement incentive program for the Public Employers' (PERS), Teachers' (TRS) and Judicial (JRS) Retirement Systems. In addition, it allows for separation bonuses for state employees. Authorization for state employees could begin as early as June 30, 2003 or as late as June 30, 2006 (for purposes of this analysis updated to 2004-2007 for the 2nd Session). RIP eligibility periods for state employees would be designated by the Commissioner of Administration. RIP window periods would last from 30-60 days. RIP eligibility periods for the University of Alaska would be designated by the Board of Regents. The Board of Regents could adopt a RIP any time between June 30, 2003 or as late as June 30 2006. Participating PERS political subdivision employers could adopt a RIP between October 31, 2003 and end no later than June 30, 2004. The chief justice of the state supreme court may adopt a retirement incentive plan for an administrative director of the Alaska Court System if the director is a member of JRS.

Active PERS, TRS and JRS members who meet the cost savings criterion could retire on an accelerated basis with an increased benefit under the following conditions: at age 47 or age 53 (depending on tier), if vested; with 17 years of service as a qualified peace officer, firefighter or teacher; or with 27 years of credited service in the PERS. Qualifying members are indebted to the retirement system and must make a lump sum payment or take an actuarial reduction from their lifetime benefit for the indebtedness amount. The total cost of the incentive is required to be paid within 3 years and will not impact the actuarial soundness of the systems.

Reemployment into the PERS, TRS or JRS or the optional university retirement program after appointment to a RIP retirement will require members to repay 110 percent of the amount they received as a result of RIP participation plus they will forfeit the RIP credit when they retire again.

We estimate that 2 permanent employees will be needed to manage the operations of the program and increased service demands into the future. 6 long-term non-permanent employees will also be needed over the next three fiscal years. Personnel will handle increased counseling in house as well as in field locations, address and beneficiary changes, account maintenance, and other services. Subsequent increases in the number of retirees will necessitate increased permanent employees to handle the increased demand for information and services.