

Fiscal Note

State of Alaska
2021 Legislative Session

Bill Version: HB 75
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB75-DOA-DRB-3-8-21
Title: EMPLOYER CONTRIBUTIONS TO PERS
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: HLAC

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

Expenditures/Revenues

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

	FY2022	Included in	Out-Year Cost Estimates					
	Appropriation Requested	Governor's FY2022 Request	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
OPERATING EXPENDITURES	FY 2022	FY 2022						
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous				200.0	500.0	700.0	1,000.0	1,300.0
Total Operating	0.0	0.0	200.0	500.0	700.0	1,000.0	1,300.0	

Fund Source (Operating Only)

1002 Fed Rcpts (Fed)			24.4	65.7	92.0	131.5	170.9
1178 temp code (UGF)			122.6	273.9	383.4	547.7	712.0
1251 Non-UGF (Other)			43.3	130.9	183.2	261.7	340.2
1252 DGF Temp (DGF)			9.6	29.5	41.4	59.1	76.8
Total	0.0	0.0	199.9	500.0	700.0	1,000.0	1,299.9

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2021) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2022) cost: 0.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version/comments:

Initial version.

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Division: <u>Retirement and Benefits</u>	Date: <u>03/08/2021 12:00 PM</u>
Approved By: <u>Leslie Isaacs, Administrative Services Director</u>	Date: <u>03/08/21</u>
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2021 LEGISLATIVE SESSION

BILL NO. HB 75

Analysis

Note: This fiscal note is submitted in accordance with AS 245.08.036 which requires any bill affecting the state retirement systems have an actuarial fiscal note. This fiscal note is listed in the Department of Administration, Division of Retirement and Benefits for informational purposes to avoid multiple fiscal notes in the same component. If this legislation is enacted, these costs will be reflected in the additional payroll contribution across all agencies in the appropriation bill.

This legislation removes the 22 percent cap on the payroll contribution to the Public Employees' Retirement System (PERS) for the State of Alaska as a PERS employer. All other PERS employers' rates will remain capped at 22 percent of payroll. The contribution cap, which is lower than the annual actuarially determined contribution rate for the retirement system's normal and past service costs, was implemented to reduce the cost burden on PERS employers. The difference between the 22 percent and the full actuarially determined contribution rate is subsidized by an unrestricted general fund (UGF) annual payment to the retirement system known as the additional state contribution or "on-behalf" payment per AS 39.35.280 - Additional State Contributions.

The Alaska Retirement Management Board approved an actuarially determined contribution rate for Fiscal Year 2022 for PERS employers of 30.11 percent. Under AS 39.35.280, the state is obligated to make up the difference between the statutory employer contribution rate of 22 percent and the actuarial rate of 30.11 percent, calculated to be \$193.5 million. This legislation would direct the state to apply the 30.11 percent actuarial rate to agency payroll rather than contributing that amount through the additional state contribution payment. The net impact to the state's overall contribution to the retirement system would be unchanged.

This legislation only impacts the State of Alaska as a PERS employer, and excludes the University of Alaska, municipalities and school districts, and some state corporations.

The budgetary impact of this legislation will be reflected as a shift from the direct appropriation to the PERS, which is typically funded with UGF, to agency payroll, where the cost can be spread across multiple fund sources. This legislation continues to provide for the full actuarial contribution to the retirement system while changing the financing structure in the state budget.

However, the change in the payment stream from a lump-sum payment typically made in July of each fiscal year to a stream that results in 26 payments made bi-weekly through the state payroll system will impact the projected annual investment returns to PERS. This change is projected to reduce, on average, one-half year's worth of investment income each fiscal year, or roughly a reduction of \$3.7 million in investment income for Fiscal Year 2022. This accumulation of the lost investment income each fiscal year will lead to an increase in the additional state contributions. With the proposed effective date of SB 55 being July 1, 2021, the first year of investment losses would occur in Fiscal Year 2022 and have no impact on that year's additional state contribution, but will impact future years starting with Fiscal Year 2023. Each year, actuarial gains and losses are accounted for in the computation of the PERS employer contribution rate, which the reduced investment income would impact.

Page one of this fiscal note reflects the estimated increase in the state's actuarially determined contribution to PERS resulting from the change in the timing of payments to the trust fund. This will not impact other PERS employers as their contribution rates remain capped at 22 percent of payroll. The increased contribution is calculated at \$200.0 in Fiscal Year 2023 and grows to \$1,300.0 by Fiscal Year 2027. Because this legislation allows the state to finance the full cost of retirement through payroll contributions, the fund sources on page one of this fiscal note are proportionally equivalent to the fund sources on Fiscal Note 2 - Various, All Branches.