

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: CSHB 329(STA)
 (H) Publish Date: 2/23/04
 Dept. Affected: All
 RDU: ALL
 Component: ALL
 Component No. _____

Revision Date/Time (Note if correction): 02/13/04: 14:00
 Title: An Act relating to retirement incentive programs for PERS, TRS, JRS; related separation incentives
 Sponsor: Rep. McGuire
 Requester: _____

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

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.

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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.

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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 Lca
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