

# FISCAL NOTE

**STATE OF ALASKA**  
**2006 LEGISLATIVE SESSION**

Fiscal Note Number: 3  
 Bill Version: SCS CSHB 475(CRA)  
 (S) Publish Date: 5/5/06

Revision Date/Time (Note if correction): 5/4/06 9:11 a.m. Dept. Affected: Administration  
 Title An Act relating to public employees' and teachers' retirement defined contribution retirement plans. RDU Centralized Administrative Services  
 Component Retirement and Benefits  
 Sponsor Representative Seaton  
 Requester Senate Community & Regional Affairs Component No. 64

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES (</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbrevia						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessar

HB 475 is a bill that provides clarifying revisions to SB 141 passed by the 24th Alaska Legislature and enacted as ch. 9, FSSLA 2005. Some of the provisions include the following: identifies a funding source for teachers' disability and death benefits; identifies a funding source for disabled police/fire members who elect a monthly retirement benefit under 39.35.890(h)(2); clarifies periods of disability and death benefits to constitute membership service; clarifies that a member or survivor is not entitled to elect distributions from the member's individual account while receiving disability or death benefits; makes conforming changes to meet IRC requirements.

This bill has no fiscal impact on the Division of Retirement and Benefits. Please see page two for the analysis required by AS 24.08.036.

Prepared by: Melanie Millhorn, Director  
 Division: Retirement and Benefits  
 Approved by: Kevin Brooks, Deputy Commissioner  
 Agency: Department of Administration

Phone 465-4408  
 Date/Time 5/4/06 9:11 a.m.  
 Date 5/4/2006

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**STATE OF ALASKA  
2006 LEGISLATIVE SESSION**

**BILL NO. SCS CSHB 475(CRA)**

**ANALYSIS CONTINUATION**

**Sec. 24.08.036. Fiscal notes on bills affecting state retirement systems.** *Before a bill which would have an effect on the retirement systems of the state is reported to the rules committee, there shall be attached to the bill an analysis of the long-term and short-term costs to the state if the bill is adopted, as well as the impact of the bill on the actuarial soundness of the fund. The analysis is in addition to the fiscal note requirements of AS 24.08.035.*

The legislature passed Senate Bill 141, enacted as Ch. 9 FSSLA 2005, establishing defined contribution retirement plans for new members of the PERS and TRS first enrolled on or after July 1, 2006. It was important to the legislature that members of the defined contribution retirement plans receive death and disability benefits commensurate with the death and disability benefits available to members of the defined benefit plans. As a result of this plan structure combining certain guaranteed fixed benefits with defined contribution benefits, these plans are hybrid plans under the Internal Revenue Code sec. 414(k).

There were some oversights in the drafting of the original legislation so that it lacked explicit statutory authority for funding of some of the fixed benefits contained in the plans. HB 475 contains the conforming amendments necessary to pay all the benefits required in accordance with the intent of the new defined contribution retirement plans as enacted by the legislature. Specifically, HB 475 adds the following:

- Annual COLA for recipients of disability benefits.
- Annual COLA for recipients of a survivor's pension.
- Medical premium cost-sharing for disabilitants and survivors at normal retirement.
- Funding for disabled police/fire members who choose a monthly retirement pension.
- Annual COLA for disabled police/fire members who choose a monthly retirement pension.

The State's actuary, Buck Consultants, developed cost estimates for these benefits (see letter attached to this fiscal note). The total combined increase to the employers of the PERS and TRS in FY 2007 is approximately \$147,200. The table below breaks out the dollar cost estimates for each retirement system based on the projected payroll for the PERS and TRS Defined Contribution Retirement Plans in FY 2007:

<b>Benefit</b>	<b>PERS "Others" Rate</b>	<b>PERS Others Costs (Payroll \$133.4 m)</b>	<b>PERS P/F Rate</b>	<b>PERS P/F Costs (Payroll \$17.0 m)</b>	<b>Total PERS Costs</b>	<b>TRS Rate</b>	<b>TRS Costs (Payroll \$69.8 m)</b>
COLA	0.048%	\$ 64,032	0.214%	\$ 36,380	\$ 100,412	0.038%	\$ 26,524
Disabled P/F Pension at Normal Retirement	N/A	N/A	0.119%	\$ 20,230	\$ 20,230	N/A	N/A
Medical cost-sharing at Normal Retirement	0.019%	*	0.176%	*	*	0.025%	*

\* The rates established under AS 14.25.350(c) and AS 39.35.750(c) for FY 2007 retiree major medical insurance contributions are sufficient to absorb these costs. The actuary's cost estimate of the new tier medical plans was 1.5% of payroll; however, the legislature established an FY 2007 rate of 1.75%. All future rates for retiree medical benefits, as well as all costs related to occupational disability, occupational death, and disabled P/F retirement, will be based upon actuarial calculation and adopted by the Alaska Retirement Management Board [per AS 14.25.350(b) and AS 39.35.750(b)]. The long-term costs will vary by plan experience. However, Buck made these cost estimates based on PERS Tier 3 and TRS Tier 2 members, expecting the experience of the new tiers to be reflective of that population. As PERS Tier 4 and TRS Tier 3 plan membership grows annually, these rates (as actuarially calculated) would be applied to the annual payroll base.

Separate trust accounts will be established in which all contributions and earnings will be deposited to pay the guaranteed fixed benefits associated with the occupational disability and occupational death provisions (including disabled P/F retirement) of the defined contribution retirement plans. Absent the increased rates as noted above (contained in Sec. 73 and Sec. 77 of HB 475), the employers will not contribute in FY 2007 to these trust accounts an amount sufficient to pay for the death and disability benefits for their members. As a result, the initial health of the trust funds for death and disability benefits may be considered not actuarial sound in order to properly pay future benefits to members from these trust funds.