

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 11
 Bill Version: HCS CSSB 141(FIN)
 (H) Publish Date: 5/2/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title An Act relation to TRS and PERS creating a RDU Centralized Administrative Services
defined contribution and health reimbursement plans..... Component Retirement and Benefits
 Sponsor Senate Finance Committee
 Requester Senate Finance Committee Component No. 64

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	667.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)	(12.5)	(41.5)	(41.5)	(41.5)	(41.5)	(41.5)
TOTAL OPERATING	1,016.5	535.5	482.1	528.6	528.6	528.6

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,029.0	577.0	392.7	285.1	142.5	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS	(2.0)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
1034 TRS	(10.5)	(37.4)	(37.4)	(37.4)	(37.4)	(37.4)
Other (Specify Type--Do not abbreviate)			130.9	285.0	427.6	570.1
TOTAL	1,016.5	535.5	482.1	528.6	528.6	528.6

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time	0	0	0	0	0	0
Temporary	3	2	1	1	1	1

ANALYSIS: (Attach a separate page if necessary)

This bill will create a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS and TRS hired after the effective date of July 1, 2005. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new plans, create new plan publications and forms, train staff, employer contacts and new members, create new employee benefit education methods on the web, benefit seminars and one on one appointments, and to contract for financial planning services for members of the new plan. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate. It further assumes that cost reductions for the PERS and TRS Boards will be partially offset by payments to the Office of Administrative Hearings to conduct disability hearings, previously conducted by the boards.

Prepared by: Melanie Millhorn, Director Phone 465-4408
 Division Retirement and Benefits Date/Time 4/22/05 3:29 PM
 Approved by: Mike Tibbles, Deputy Commissioner Date 4/22/2005
 Agency Department of Administration

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BILL NO. HCS CSSB 141(FIN)

ANALYSIS CONTINUATION

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

	FY 2006	FY 2007	FY 2008	FY 09-11
PERSONAL SERVICES:				
1 - Non Perm Analyst-Pgmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rptng / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
TRAVEL:				
Employer Reporting Software Upgrade Install & Help	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
CONTRACTUAL:				
Communications & Postage	82.0	17.0	17.0	17.0
Computer System Redesign (Est. 2,500 hours in FY06)	320.0	30.0	30.0	30.0
Audit, Acctng, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>667.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
SUPPLIES: Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
EQUIPMENT: Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs	30.0	0.0	0.0	0.0
MISCELLANEOUS (BOARD RECONFIGURATION, HEARINGS)				
Board Member Election 2006/2008	0.0	0.0	0.0	0.0
Board Training	-15.0	-15.0	-15.0	-15.0
Board Attorney	-40.5	-40.5	-40.5	-40.5
Travel Members/Staff	-24.0	-24.0	-24.0	-24.0
Honorarium/Board Members	-29.0	-29.0	-29.0	-29.0
National Seminars (NASRA - NCTR)	-20.0	-20.0	-20.0	-20.0
Disability Hearings--Office of Administrative Hearings	116.0	87.0	87.0	87.0
	<u>-12.5</u>	<u>-41.5</u>	<u>-41.5</u>	<u>-41.5</u>
TOTAL	1,016.5	535.5	482.1	528.6

The above funding source is initially listed as General Fund because the exiting tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. It is assumed that by FY2008, as more employees are hired into the new tiers, that program costs will be funded through an assessment on DC accounts, similar to the SBS program currently in place. General funds will be reduced 25% per year from FY2008-2011.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05. The startup costs are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related; however, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. A legal opinion was sought to determine how the funding and accounting needs to occur for the new DC plan.

MERCER

Human Resource Consulting

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Memo

To: **Melanie Millhorn**
Date: May 2, 2005
From: Sam Martin
Subject: **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.**

As compared to the current PERS and TRS plans, House CS for CS for Senate Bill Number 141 (STA) Version X, will serve to significantly reduce the volatility of future costs associated with new hires, and the employer contribution rates for these new hires will be more predictable. The bill will have no negative impact on the actuarial soundness of the systems.

The major cost components as amended by House Finance include the following:

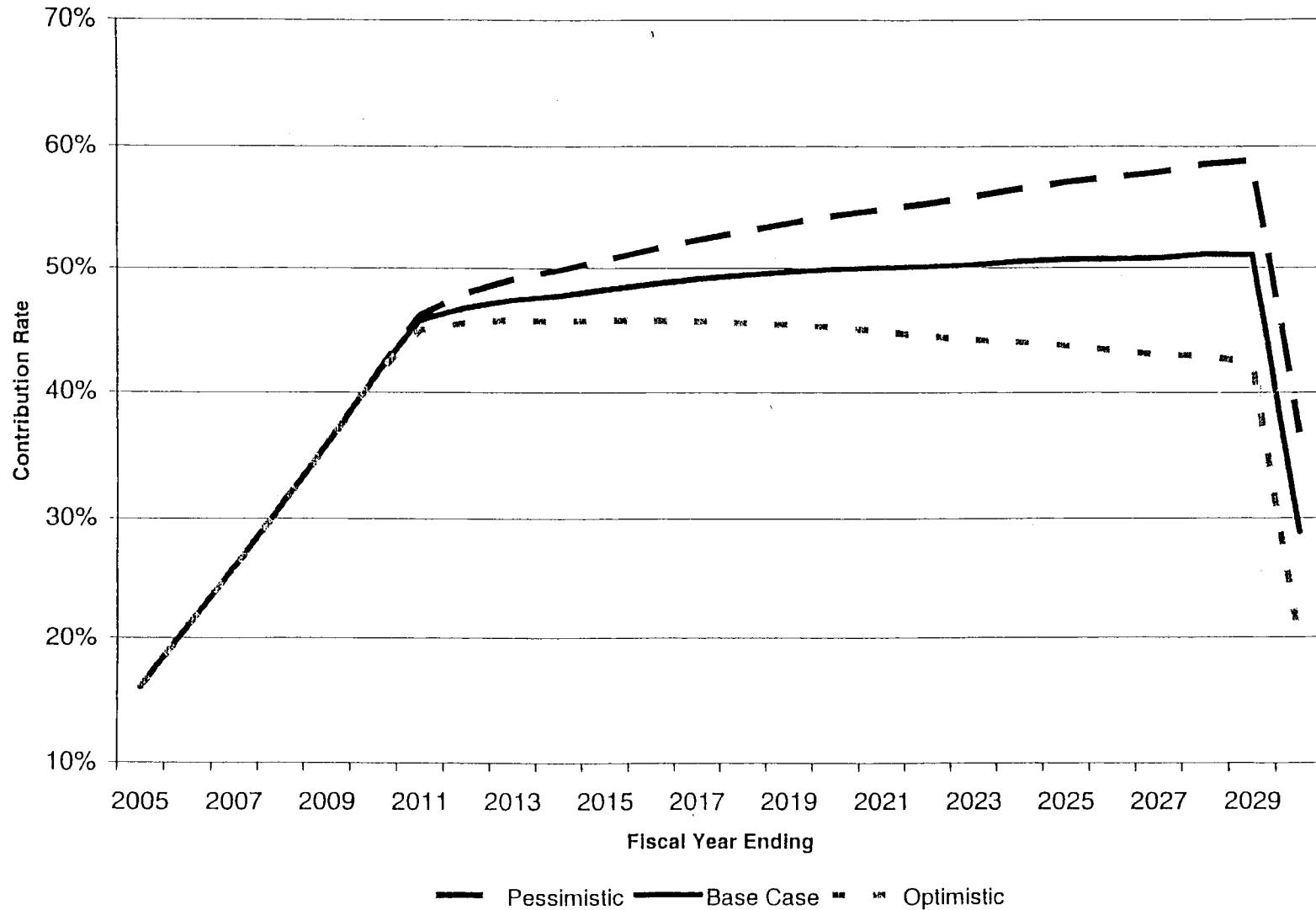
- 8% Employee contribution amount for PERS police and firefighter and "all others" and TRS
- 5% DC
- 2.5% Health Reimbursement Arrangement
- 2.5% Medical Claims*
- Death and disability benefits for all PERS members in accordance with current statute provisions

* Note: House Finance adopted a modified Tier medical plan that includes pre-65 and post-65 medical coverage. Based on the changes made from the original medical Tier design a preliminary estimate would be between 2.5% and 3.75%. It is anticipated under the House Finance medical component that there may be an offsetting savings to the initial projection of 3.75%. A follow-up analysis will be forthcoming to confirm the amount.

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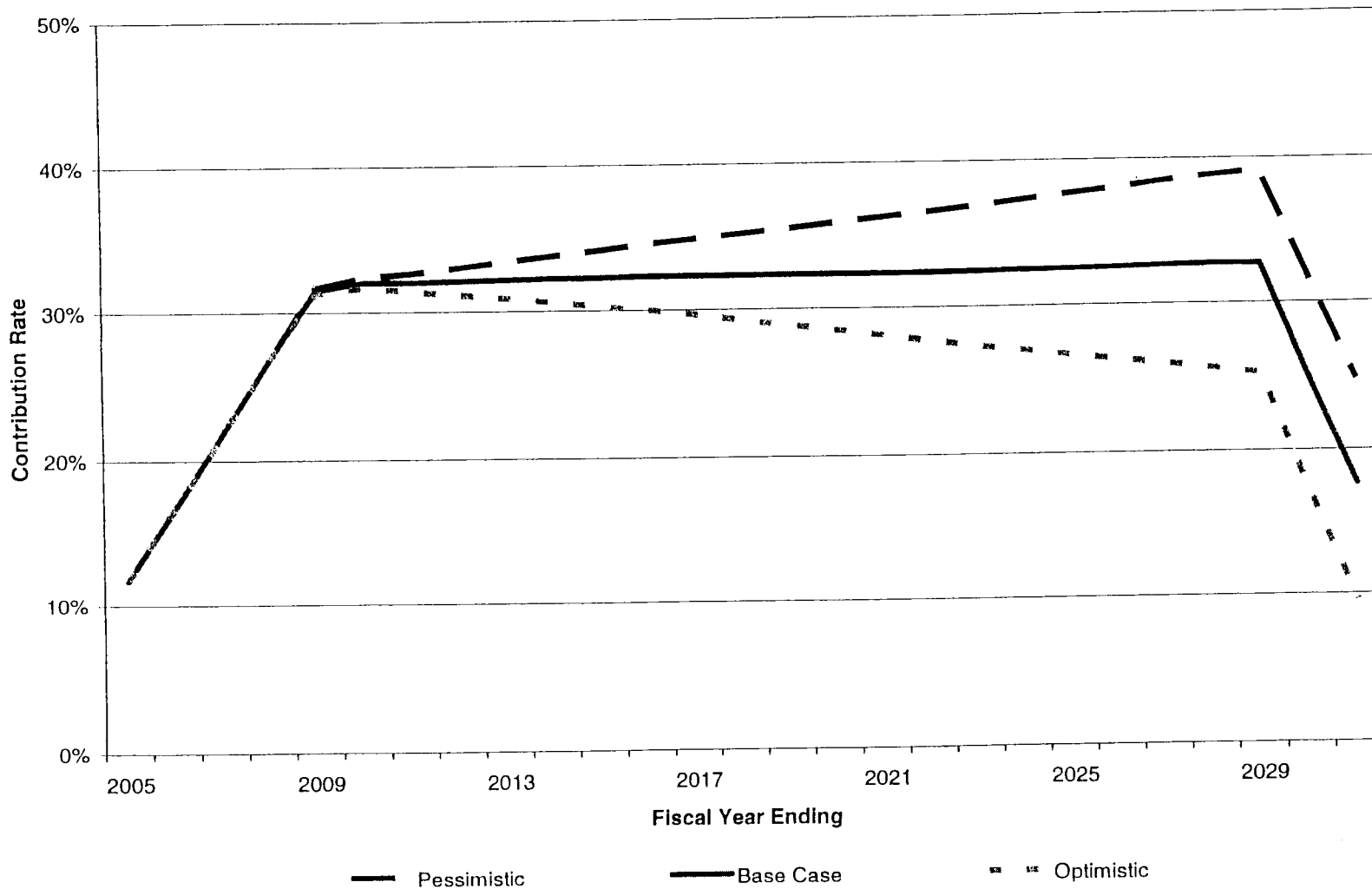
1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

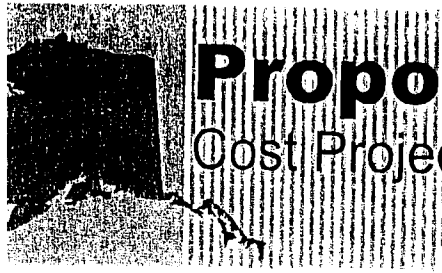
Contribution Rate



1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate

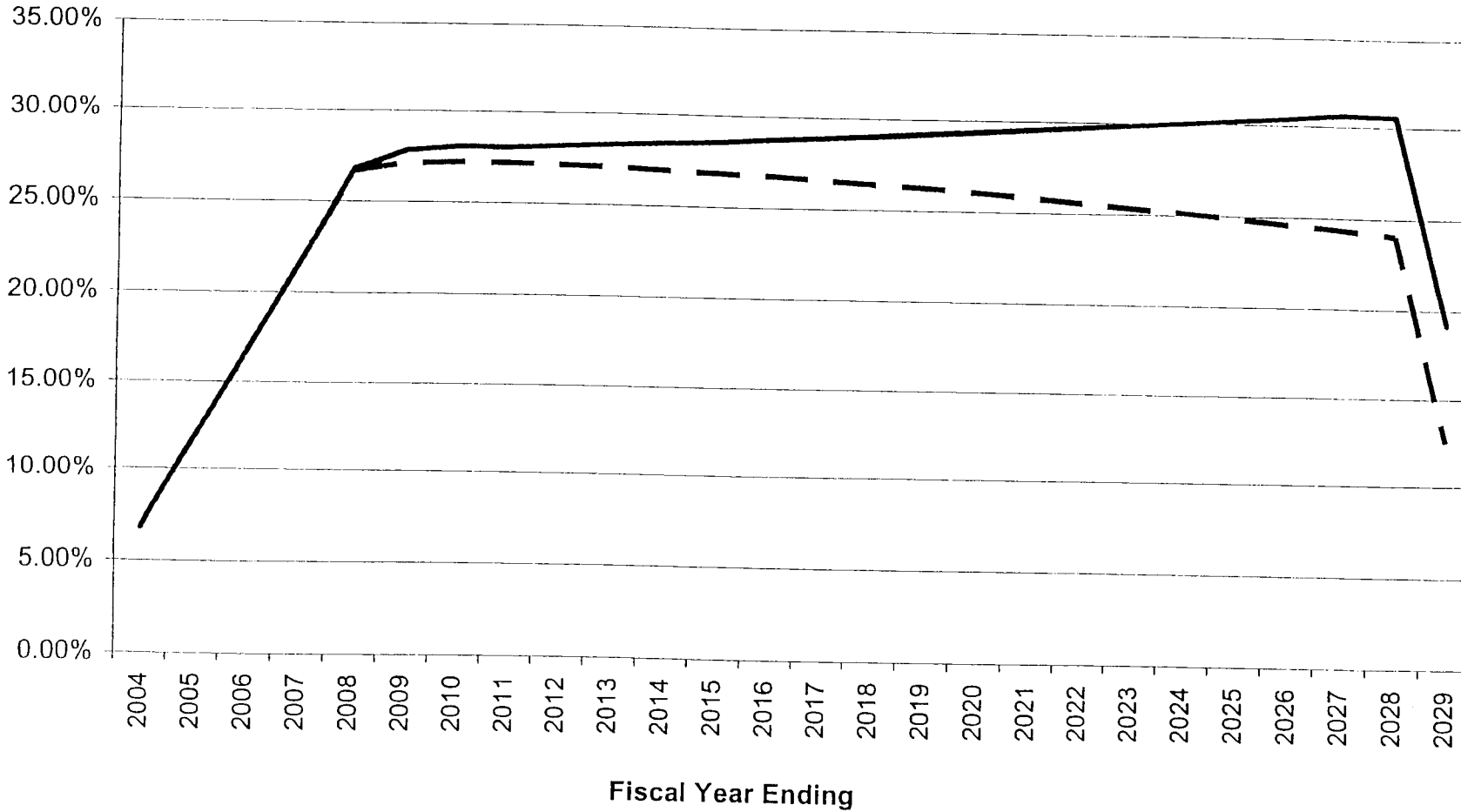




Proposed Alternatives

Cost Projections - PERS

Contribution Comparison – PERS



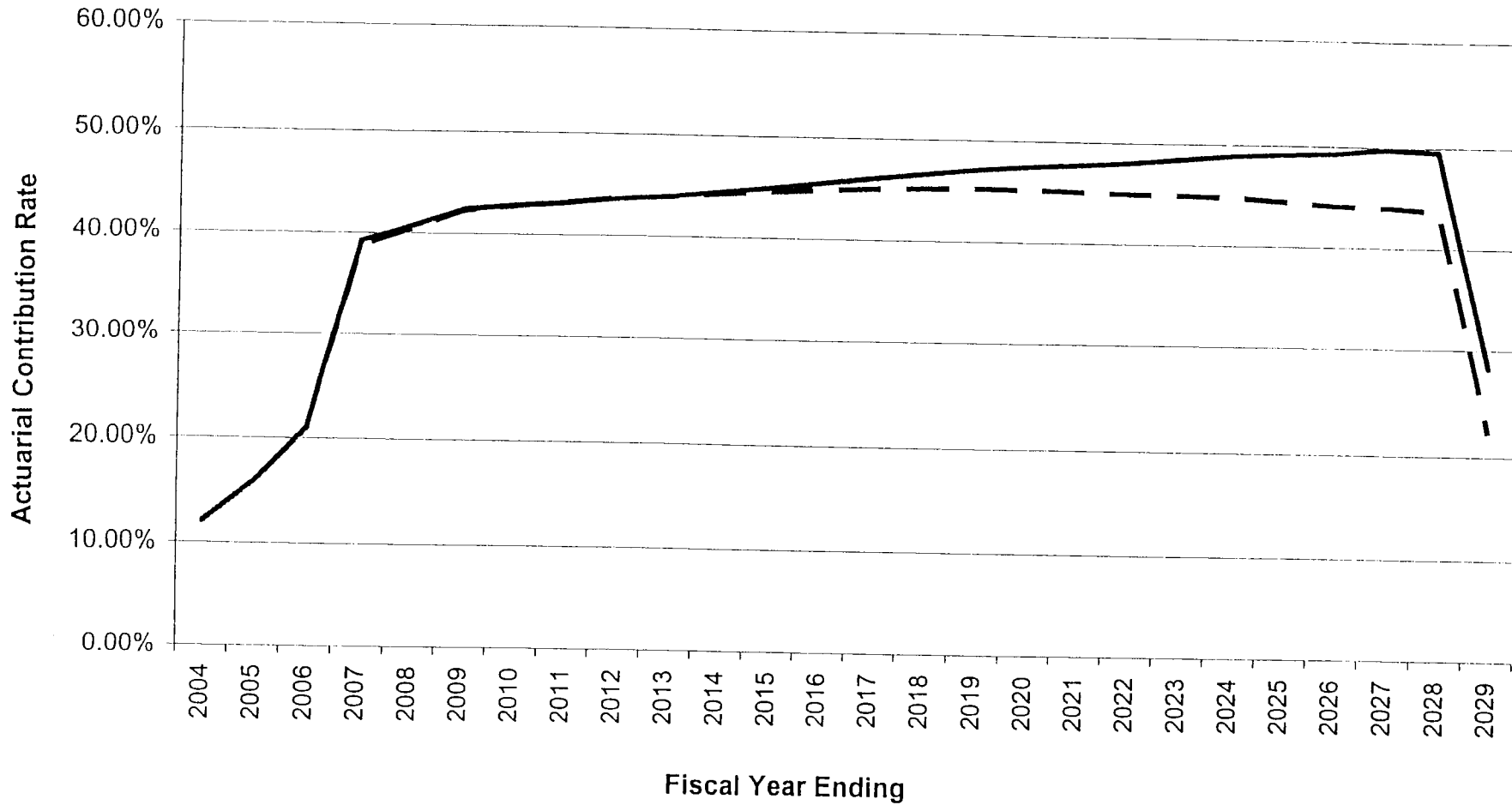
— Current Plan - - - - - New Tier



Proposed Alternatives

Cost Projections - TRS

Contribution Comparison – TRS



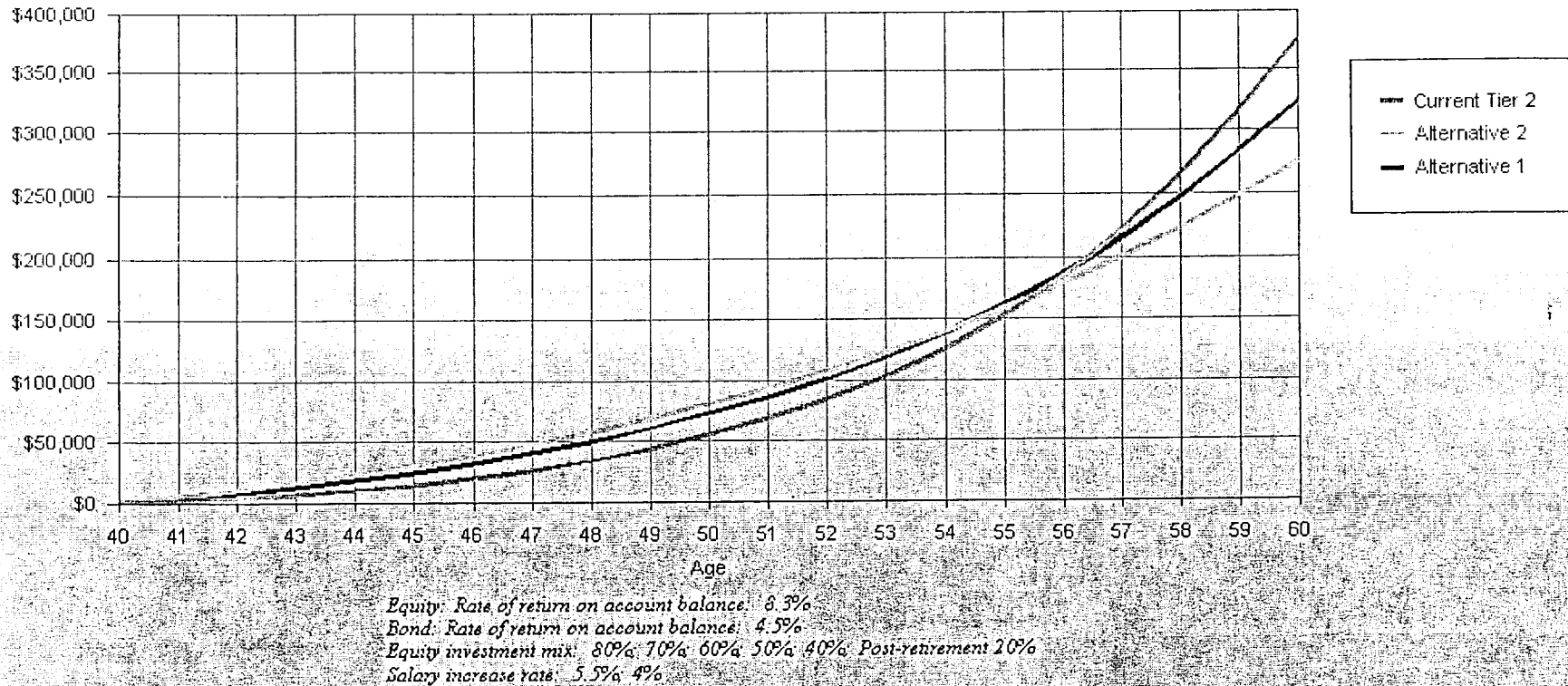
— Current Plan - - - - New Tier

Proposed Alternatives

Accrual of Non-Medical Benefits - TRS

Present Value of Benefit Payable as a Lump Sum

Age = 40, Service = 0, Salary = \$35,000

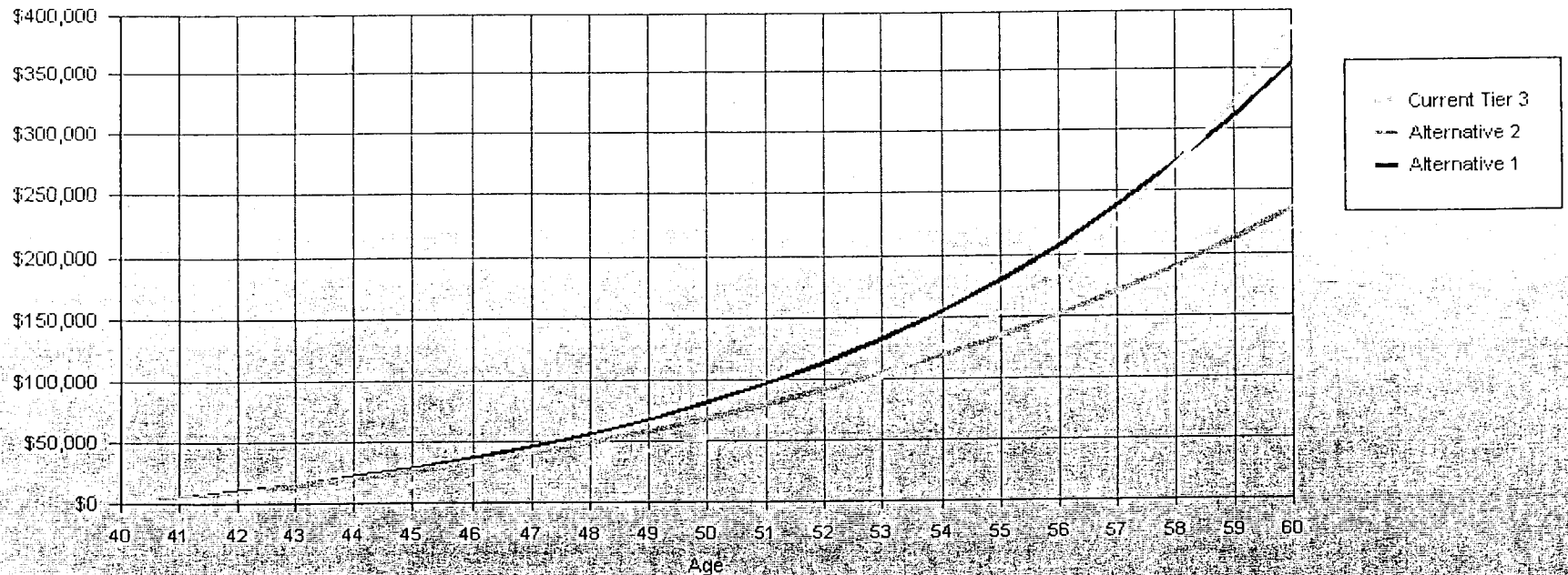


Proposed Alternatives

Accrual of Non-Medical Benefits - PERS

Present Value of Benefit Payable as a Lump Sum

Age = 40, Service = 0, Salary = \$35,000



Equity: Rate of return on account balance: 8.3%
Bond: Rate of return on account balance: 4.5%
Equity investment mix: 80% 70% 60% 50% 40% Post-retirement 20%
Salary increase rate: 5.5% 4%