

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 206
 (H) Publish Date: 3/16/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title An Act relating to public employees' and teachers' RDU Centralized Administrative Services
retirement defined contribution retirement plans. Component Retirement and Benefits
 Sponsor Rules Committee
 Requester Governor Component No. 64

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	*	*	*	*	*	*

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 abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

* Transforming the Public Employees' Retirement System's defined benefit plan to a cost share plan, in and of itself, results in the State of Alaska saving in excess of \$36 million as the State's current rate is higher (44.01%) than the average rate (cost share rate) for the Plan (39.76%). Other participating employers whose rate would decrease under this plan would save an estimated \$17 million. However, this change results in other participating employers collectively paying more than \$52 million. If the legislature were to fund the cost increases for political subdivisions and school districts like it has in the past, the change to a cost share program, in and of itself, would cost the State millions in general funds. Because this appears inequitable, the administration proposes a solution to the unfunded liability. This cost share legislation is a component of that solution.

Prepared by: Melanie Millhorn, Director Phone 465-4817
 Division Retirement and Benefits Date/Time 3/15/07 12:00 PM
 Approved by: Annette Kreitzer, Commissioner Date 3/15/2007
 Agency Department of Administration

ANALYSIS CONTINUATION

This cost share legislation will assign 65% of the 6/30/2006 unfunded liability of the Public Employees' Retirement System's defined benefit plan to the State of Alaska. The amount of the additional unfunded liability assumed by the State is estimated to be \$1.050 billion.

Based on the 65% assignment of the unfunded liability to the State, the Public Employees' Retirement System's defined benefit plan's cost share rate would decrease from 39.76% to 31.86%. The State's rate would increase from 39.76% to 47.92%.

Although not a part of the legislation, the administration is analyzing, in addition to the assumption of additional unfunded liabilities, the impact pension obligation bonds could have on the unfunded liability if such bonds were issued to cover 30% (\$1.7 billion) of the unfunded liability.

The administration's initial analysis of this proposed solution indicates that the State of Alaska would achieve general fund savings of approximately \$10.6 million in FY08. This savings takes into account the increased funding for the State of \$35.9 million as well as the decreased rate relief funding of \$33 million for those political subdivisions and school districts whose cost share rate in FY08 is higher than that being paid in FY07. The savings are achieved through the application of the vacancy factor for the State of Alaska's payroll base as well as through increased funding from sources other than the general fund.

This proposed solution is estimated to save the Public Employees' Retirement System's defined benefit plan's participating employer's approximately \$1.4 billion dollars over the next 25 years (amortization period for the 6/30/2006 unfunded liability). These savings represent savings for all funding sources.