

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: SB 183  
 (S) Publish Date: 2/19/08

Identifier (file name): SB183-DOA-DRB-2-15-08 Dept. Affected: Administration  
 Title: "An Act repealing the defined contribution retirement plans..." RDU: Centralized Administrative Services  
 Component: Division of Retirement and Benefits  
 Sponsor: ELTON, McGuire, Ellis, Wielechowski  
 Requester: \_\_\_\_\_ Component Number: 64

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

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous		346.6	0.0	298.8	254.0	281.0	284.0	267.0
<b>TOTAL OPERATING</b>		<b>346.6</b>	<b>0.0</b>	<b>298.8</b>	<b>254.0</b>	<b>281.0</b>	<b>284.0</b>	<b>267.0</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		346.6	0.0	298.8	254.0	281.0	284.0	267.0
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
<b>TOTAL</b>		<b>346.6</b>	<b>0.0</b>	<b>298.8</b>	<b>254.0</b>	<b>281.0</b>	<b>284.0</b>	<b>267.0</b>

Estimate of any current year (FY2008) cost: 1,267.4

**POSITIONS**

Full-time								
Part-time								
Temporary								

**ANALYSIS:** (Attach a separate page if necessary)  
 Currently, those who join a PERS or TRS employer are enrolled in the defined contribution retirement (DCR) plan (PERS Tier IV and TRS Tier III). This bill would allow those current members and new members to choose between enrolling in the defined benefit (DB) plan or the DCR plan. There are currently 6,157 DCR members who are currently (active) employees. Since the inception of the DCR plan, and based on the number of members who converted from the DB plan to the DCR plan during the choice period created when the DCR plan was created (SB 141), the Division estimates that up to 75% of the members would enroll in the DB plan.  
  
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Prepared by: Pat Shier, Director Phone 465-4817  
 Division: Division of Retirement and Benefits Date/Time 2/15/08 12:00 AM  
 Approved by: Rachael Petro, Deputy Commissioner Date 2/15/2008  
Department of Administration

**ANALYSIS CONTINUATION**

This bill information is based on the likely scenario of a PERS cost share program proposed in SB 125. Under a cost share plan the State assumes a greater share of the risk and cost for PERS. TRS is already a cost share plan.

Buck Consultants used data from the most recent draft retirement system valuation for the period ending June 30, 2007. The assumptions, plan provisions, and methods used are also from the same draft actuarial valuation report. The above numbers represent the net increased cost to the State of Alaska if 75% PERS / TRS eligible members choose the defined benefit (DB) plan.

Included in the costs are the effects of adverse selection, expected when new employees closer to retirement age choose the DB plan in greater proportion than younger employees. The DB plan cost for these older employees is higher because there is a shorter time to accumulate the assets needed to pay for the benefit.

The sums also contemplate the effect of recent favorable healthcare experience for both PERS and TRS, and the relatively higher employer contribution of 7% of payroll for the TRS DCR plan. A year or two of more typical health cost experience (less favorable) would affect DB costs much more significantly than DCR costs. Unfavorable health cost experience was a significant contributing factor in the move to the DCR plan through SB 141.

The sums consider that investment, mortality and health care cost risks are borne by the employer in a DB plan. This risk causes volatility over the short-term in determining the annual cost that will sufficiently meet the long-term benefit obligation, due in large part to the significant risk associated with DB health care plan design. The employer contribution rates in the DCR plan are not subject to this short-term volatility due to the design of the DCR health plan and because the members bear more of the risk in the DCR plan. As a result, employer DCR contribution rates are stable and not subject to volatility.

There are additional costs associated with conversion of the Division's Combined Retirement System (CRS) database which accounts for employer and employee contributions. Moving to a system which accommodates member choice is not particularly difficult but converting any existing DCR members will require extensive manual processing. The Division has estimated a significant amount of contractor time for adding choice elements to the CRS system because core staff is otherwise engaged, and the Division has recently lost some expertise in the legacy system. The preliminary estimate is nearly \$1.3 million and will be required in FY08 so that changes can be made to accommodate a July 1, 2008 effective date.

Section 26 of the bill prescribes a method of converting DCR time and contributions to DB time in service. This process will require an actuarial valuation for each individual's conversion, and cannot be determined accurately at this time.