

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSSB 100(FIN)
 Fiscal Note Number 2
 (S) Publish Date 4/4/12

Identifier (file name) SB100-DOA-DRB-3-27-12 Dept. Affected Department of Administration
 Title PERS Termination Costs Appropriation Centralized Administrative Services
 Allocation Division of Retirement and Benefits
 Sponsor Senators Paskvan and Menard
 Requester Senate Finance OMB Component Number 64

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services	86.6			1,143.0	1,180.0	1,221.0	1,266.0	
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	86.6	0.0	0.0	1,143.0	1,180.0	1,221.0	1,266.0	

FUND SOURCE (Thousands of Dollars)

1002	Federal Receipts							
1003	GF Match							
1004	GF	86.6		1,143.0	1,180.0	1,221.0	1,266.0	
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		86.6	0.0	0.0	1,143.0	1,180.0	1,221.0	1,266.0

POSITIONS

Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES

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Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Update for committee

Prepared by Jim Puckett, Director
 Division Division of Retirement and Benefits
 Approved by John Cramer, Deputy Commissioner
Department of Administration

Phone 465-4471
 Date/Time 3/23/12 3:45 PM
 Date 3/23/2012

FISCAL NOTE #2

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSSB 100(FIN)

Analysis

This bill acts to repeal AS 39.35.625 and AS 39.35.958(f) and annuls regulation 2 AAC 35.235 which require employers who eliminate participation in the Public Employee' Retirement System (PERS) for some or all of their employees to pay the costs associated with changes in vesting and retirement behavior due to the termination process (termination costs). Both changes lead to liability for benefits occurring earlier than calculated by the Division Actuary during valuation of the plan. The termination costs represent an unfunded liability to the system.

In addition to termination costs, AS 39.35.625 requires employers to pay continuing contributions towards the unfunded liability at the past service rate established each year times the salaries of the eliminated positions. Contributions are required from the employer until the past service liability is extinguished. The past service rate for FY 12 is 22.48% and for FY 13 is 24.16%.

The termination costs and the ongoing requirement for contributions toward the unfunded liability are in addition to the requirements for employer contributions in AS 39.35.255.

For employers who have terminated all participation with the PERS, this bill would require payment of 22% of the total base salaries of all covered employees as of the fiscal year ending June 30, 2008 until the plan does not have a past service liability, regardless of the actual past service rate calculated by the actuary.

Employers who eliminate participation for some but not all of their employee will pay no termination costs and make no contribution toward the unfunded liability unless their total base salaries fall below the total salaries the employer reported to the PERS as of June 30, 2008. The liability created by the termination will not be paid by the employer who took the action but will be placed upon all the employers in the plan. Since employer contributions are capped at 22% with the State of Alaska General Fund paying the remainder of the contributions due to fully fund the PERS for the year, the costs are ultimately shifted to the State of Alaska.

The estimated costs, in thousands, to the State as determined by the Division actuary, Buck Consultants, are as follows:

PERS DB Plan	FY 15	FY16	FY17	FY18	FY19
Increase in Normal Cost	\$(457.0)	\$(472.0)	\$(488.0)	\$(506.0)	\$(525.0)
Increase in Past Service					
Cost Amortization Payment	\$1,600.0	\$1,652.0	\$1,709.0	\$1,772.0	\$1,839.0
Total Increase in Annual Employer Contribution Amt.	\$1,143.0	\$1,180.0	\$1,221.0	\$1,266.0	\$1,314.0

Results shown above are based on the 2010 actuarial valuation for PERS. Assuming the bill becomes effective July 1, 2012, increase costs will be first reflected in the FY 15 rates. Future terminated employees have been assumed to follow a similar pattern as past terminated employees for which termination costs have been completed. If future experience of terminating groups from PERS increases, the costs shown above will also increase.

Due to the retroactive provisions contains in Sections 9 and 10 of the bill, five PERS employers will be reimbursed for termination costs already paid to the plan. Total cost of reimbursement is \$86,582.00 and will incur in FY 13.