

# FISCAL NOTE

**STATE OF ALASKA**  
**2012 LEGISLATIVE SESSION**

Bill Version CSSB 100(FIN)  
 Fiscal Note Number 3  
 (S) Publish Date 4/9/12

Identifier (file name) SB100CS(RLS)-DOA-RB-4-7-12 Dept. Affected Administration  
 Title PERS Termination Costs Appropriation Centralized Administrative Services  
 Allocation Retirement & Benefits  
 Sponsor Senators Paskvan & Menard  
 Requester Senate Rules 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
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
<b>TOTAL OPERATING</b>	****	****	****	****	****	****	****	****

**FUND SOURCE** (Thousands of Dollars)

1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
<b>TOTAL</b>		****	****	****	****	****	****	****

**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)**

New committee substitute. Cost currently indeterminate.

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 4/7/12 12:45 AM  
 Date 4/7/2012

### FISCAL NOTE #3

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 bill changes the requirement to have a termination study conducted when the employer terminated groups, classifications or departments to requiring the study only if the terminated employees represent 20% of the employers paid employees within any one-year period. The termination costs represent an unfunded liability to the system.

In addition to termination costs, current 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.

This bill would eliminate the ongoing requirement for contributions at the past service rate and only require contributions of 22% of the amount the employer's total PERS salaries fall below the employers 2008 salaries as established in AS 39.35.255.

The total 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 PERS actuary has not had sufficient time to produce an analysis of the changes in this version of the bill. However, Buck Consultants has calculated the increase in the unfunded liability to be \$56,519,000 based on the Administration's proposal of an amendment requiring termination costs to be calculated only when the removed employees represented 20% of the employer salary base. The amended version of SB 100 sets the requirement for termination costs to be calculated when 20% of paid employees are removed. Further analysis is required on this change as it may change the calculation submitted.

A new fiscal note will be filed immediately upon receipt of a new analysis by Buck Consultants.

**Alaska PERS**  
**Development of Termination Liability at June 30, 2010**  
(\$ in Thousands)

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	100% Termination Total Member Liability	20% Termination	Level % of Pay Amortization
<b>1. Pension Cost of Termination</b>			
a. Accrued Pension Liability Prior to Termination			
			Salary
Tier 1	\$ 538,147	\$ 107,629	\$ 113,310
Tier 2	568,867	113,773	182,056
Tier 3	405,859	81,172	327,441
Tier 4 - DCR			191,288
<b>Total</b>	<b>\$ 1,512,873</b>	<b>\$ 302,574</b>	<b>\$ 814,095</b>
b. Pension Termination Liability			
Tier 1	\$ 546,797	\$ 109,359	
Tier 2	423,031	84,606	
Tier 3	250,706	50,141	
<b>Total</b>	<b>\$ 1,220,534</b>	<b>\$ 244,106</b>	
c. Pension Cost of Termination			
<b>Tier 1</b>	<b>\$ 8,650</b>	<b>\$ 1,730</b>	<b>\$ 109</b>
<b>Tier 2</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tier 3</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$ 8,650</b>	<b>\$ 1,730</b>	<b>\$ 109</b>
<b>2. Healthcare Cost of Termination</b>			
a. Accrued Healthcare Liability Prior to Termination			
Tier 1	\$ 495,408	\$ 99,082	
Tier 2	317,681	63,536	
Tier 3	415,229	83,046	
<b>Total</b>	<b>\$ 1,228,318</b>	<b>\$ 245,664</b>	
b. Healthcare Termination Liability			
Tier 1	\$ 650,826	\$ 130,165	
Tier 2	436,209	87,242	
Tier 3	222,812	44,562	
<b>Total</b>	<b>\$ 1,309,847</b>	<b>\$ 261,969</b>	
c. Healthcare Cost of Termination			
<b>Tier 1</b>	<b>\$ 155,418</b>	<b>\$ 31,083</b>	<b>\$ 1,955</b>
<b>Tier 2</b>	<b>118,528</b>	<b>23,706</b>	<b>1,491</b>
<b>Tier 3</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$ 273,946</b>	<b>\$ 54,789</b>	<b>\$ 3,446</b>
<b>3. Total Cost of 20% Partial Termination</b>			
a. <b>Amount</b>		<b>\$ 56,519</b>	<b>\$ 3,555</b>
b. <b>Contribution as a % of Total Pay</b>			<b>0.44%</b>