

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSSB 121(STA)
 Fiscal Note Number 3
 (S) Publish Date 4/13/12

Identifier (file name) SB121CS(FIN)-DOA-OC-2-27-12 Dept. Affected Department of Administration
 Title Teachers and Pub Employee Retirement Plans Appropriation Centralized Administrative Services
 Allocation Office of the Commissioner
 Sponsor Senators Egan
 Requester Senate Finance OMB Component Number 45

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				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services	122.0						
Travel	12.5		10.0	10.0	10.0	10.0	10.0
Services	623.9		9.3	9.3	9.3	9.3	9.3
Commodities	11.3						
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	769.7	0.0	19.3	19.3	19.3	19.3	19.3

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	769.7	0.0	19.3	19.3	19.3	19.3	19.3
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		769.7	0.0	19.3	19.3	19.3	19.3	19.3

POSITIONS							
Full-time							
Part-time							
Temporary	2.0	0	0	0	0	0	0

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)

Administrative fiscal note update for CS

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

Phone 465-4471
 Date/Time 2/27/12 5:00 PM
 Date 2/27/2012

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**STATE OF ALASKA
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BILL NO. CSSB 121(STA)

Analysis

The Division of Retirement and Benefits will require two non-permanent employees to complete the preparation work to account for and produce the necessary documents and forms for the inception of the new tiers. Education to employers will be required to properly electronically report service and salaries of new employees and existing employees of the defined contribution plans who elect to convert to the new tier. Education to employees will be required for defined contribution employees to make an informed decision during the election period and for new members of the new tiers.

The division will be required to reprogram its existing system, the Combined Retirement System, which tracks all service and salaries reported by employers to the system, to accommodate the new provisions of the new tiers.

The estimated administrative costs by fiscal year are as follows:						
Dollars are in thousands						
	FY13	FY14	FY15	FY16	FY17	FY18
PERSONAL SERVICES						
1-Non Permanent Account III	106.0	0.0	0.0	0.0	0.0	0.0
1-Non Permanent Publications Technician III	16.0	0.0	0.0	0.0	0.0	0.0
	122.0	0.0	0.0	0.0	0.0	0.0
TRAVEL						
Employer Reporting Training/Plan Education	7.5	5.0	5.0	5.0	5.0	5.0
Reg. Counselor Travel/Employee Ed.	5.0	5.0	5.0	5.0	5.0	5.0
	12.5	10.0	10.0	10.0	10.0	10.0
SERVICES						
Communication/Postage						
-Choice Kit for new employee election	30.0	0.0	0.0	0.0	0.0	0.0
-Conversion notification to DC employees	8.1	0.0	0.0	0.0	0.0	0.0
-Update to PERS DB handbooks/brochures	322.3	0.0	0.0	0.0	0.0	0.0
Computer System Redesign	207.9	9.3	9.3	9.3	9.3	9.3
Computer System User Testing	36.6	0.0	0.0	0.0	0.0	0.0
Non Perm Training	13.4	0.0	0.0	0.0	0.0	0.0
Increased audit fees	5.6	0.0	0.0	0.0	0.0	0.0
	623.9	9.3	9.3	9.3	9.3	9.3
COMMODITIES						
Computer, phone, cubicle, supplies	11.3	0.0	0.0	0.0	0.0	0.0
TOTAL	769.7	19.3	19.3	19.3	19.3	19.3

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VIA EMAIL

Mr. Jim Puckett
Director
Division of Retirement and Benefits
Department of Administration
State of Alaska

333 Willoughby Avenue
6th Floor State Office Building
Juneau, AK 99811-0208

**RE: Fiscal Note for Committee Substitute Senate Bill No. 121, Draft Version “R”
New Tier for PERS and TRS Healthcare**

Dear Jim:

As requested, we are providing the following information for a Fiscal Note on Committee Substitute SB 121, Draft Version “R” which allows current Defined Contribution Retirement (DCR) members and future members to have a choice between the DCR Plan and the Defined Benefit (DB) Plan. Current DCR members or any future members that elect to go into the DB Plan will enter Tier V for PERS and Tier IV for TRS. These tiers will have the same pension benefits as the latest DB tier but all members will be contributing at 8% of pay and they will have different healthcare benefits.

Under the new tiers, members will share the cost of healthcare benefits initially based on the same retiree premium sharing schedule as Tier IV for PERS and Tier III for TRS. Retiree pays full premium until Medicare eligible age (age 65) or retired with 25 years of service for TRS and PERS Peace Officer/Firefighters (30 years for PERS Others) instead of at age 60. On or after July 1, 2018 and every five years thereafter, the retiree premium sharing schedule percentages shall be adjusted, maintaining the five percent differences that exist in the current retiree premium sharing schedule, to cover the changes in the employer normal cost rates for members retiring on or after the date of the change in the schedule.

This bill affects the State of Alaska Public Employees’ Retirement System Defined Benefit Plan (PERS DB) and the Teachers’ Retirement System Defined Benefit Plan (TRS DB). We are assuming the proposed benefit changes would become effective as of July 1, 2013 and will first impact contribution rates during FY16 considering the two-year delay in budgeting contribution payments. Our results are based on the 2010 actuarial valuation data.

The table below shows the employer cost/(savings) of the bill for Fiscal Years 2016 through 2020. Dollars are in thousands.

PERS DB Plan	FY16	FY17	FY18	FY19	FY20
Increase in Normal Cost Amount	\$ (7,162)	\$ (7,229)	\$ (6,793)	\$ (6,506)	\$ (4,432)
General Fund Transfer to Pay Unfunded Past Service Cost	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Increase in Annual Employer Contribution Amount	\$ (7,162)	\$ (7,229)	\$ (6,793)	\$ (6,506)	\$ (4,432)

TRS DB Plan	FY16	FY17	FY18	FY19	FY20
Increase in Normal Cost Amount	\$ (1,451)	\$ (1,616)	\$ (1,555)	\$ (1,601)	\$ (1,670)
General Fund Transfer to Pay Unfunded Past Service Cost	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Increase in Annual Employer Contribution Amount	\$ (1,451)	\$ (1,616)	\$ (1,555)	\$ (1,601)	\$ (1,670)
Total PERS and TRS	\$ (8,613)	\$ (8,845)	\$ (8,348)	\$ (8,107)	\$ (6,102)

Comments on Actuarial Analysis

Our actuarial analysis indicates that the employer costs of the healthcare benefit are projected to increase faster than payroll for the future new employees expected to choose the DB plan benefits due to healthcare cost trend rates that are higher than the payroll growth rate. The DB pension benefit is projected to cost employers less due to a lower employer normal cost rate than the employer contribution rate to the DCR plan. The initial savings in employer costs for pension more than compensate for the cost of the healthcare benefit, resulting in a net savings over the five-period shown above. Without any changes, we would expect the rising healthcare benefit cost to exceed the pension savings resulting in a net employer cost some point in the future.

The latest Draft "R" of CS SB 121 includes a provision that allows for adjustments in the retiree premium sharing schedule to cover the costs associated with increasing employer normal cost rates. This increasing cost is then paid by members retiring after the date of the change in the schedule. This provision should prevent increases in employer costs due to anticipated rising healthcare benefit normal costs. However, a future increase in the retiree premium sharing schedule is likely to reduce enrollment in the healthcare benefit, resulting in only higher users of healthcare continuing to participate in the healthcare benefit. This will then exacerbate the need for future adjustments to the retiree premium sharing schedule. This provision has not been valued as part of this fiscal note since the first change in the retiree premium sharing schedule would not affect costs until FY21.

In addition, these calculations assume the assets of the funds achieve an annual investment rate of return of 8%. Volatility of returns due to the investment risk may periodically create actuarial losses, which may result in unfunded liabilities that will increase the employer costs not covered by the adjustments to the retiree premium sharing schedule.

Summary for Analysis Continuation Section of Fiscal Note

The data, assumptions, plan provisions and methods used for the costs are described in the actuarial valuation reports for PERS and TRS as of June 30, 2010. The assets are based on the June 30, 2010 information provided by Christina Maiquis. We have assumed that the bill will become effective July 1, 2013. We have also assumed that 60% of current DCR members will elect to convert to the DB Plan and that 80% of future members will choose the DB Plans either by choice or by default. We have attached a detailed summary of the allocation of DB costs and DCR savings as a result of the expected elections.

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Please let us know if you need any further information.

Sincerely,



David H. Sliskinsky, F.C.A., A.S.A., E.A.
Principal and Consulting Actuary

/mlp

attachment

c: Mr. Mike Barnhill, State of Alaska
Ms. Kathy Lea, State of Alaska
Mr. Chris Hulla, Buck Consultants
Ms. Melissa Bissett, Buck Consultants
Ms. Kyla Kaltenbach, Buck Consultants
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