

Fiscal Note

State of Alaska
2015 Legislative Session

Bill Version:	CSSB 79(EDC)
Fiscal Note Number:	1
(S) Publish Date:	4/14/2015

Identifier: SB079CS(EDU)-DOA-DRB-04-10-15
 Title: REEMPLOYMENT OF RETIRED TEACHERS & ADMIN
 Sponsor: DUNLEAVY
 Requester: Senate Community & Regional Affairs

Department: Department of Administration
 Appropriation: Centralized Administrative Services
 Allocation: Retirement and Benefits
 OMB Component Number: 64

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2016	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2016 Request	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
OPERATING EXPENDITURES	FY 2016	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Personal Services	***		***	***	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	***	0.0	***	***	***	***	***

Fund Source (Operating Only)

None							
Total	***	0.0	***	***	***	***	***

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

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Estimated SUPPLEMENTAL (FY2015) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2016) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
 If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By: John Boucher, Deputy Commissioner
 Division: Division of Retirement and Benefits
 Approved By: Sheldon Fisher, Commissioner
 Agency: Department of Administration

Phone: (907)465-5671
 Date: 04/10/2015 01:00 PM
 Date: 04/10/15

STATE OF ALASKA
2015 LEGISLATIVE SESSION

Analysis

This bill allows the reemployment of members who retire from the Teachers' Retirement System (TRS) Defined Benefit Plan. A member who is retired under the DB Plan and is at least 62 years old may reemploy under this bill after being retired at least 3 months. Members who retire and are under age 62 must be retired at least one year.

If a retired member is reemployed by a school district under this bill, the school district must contribute to the TRS DB Plan the statutory employer contribution rate of 12.56% for each members payroll base salary each pay period. The reemployed retiree does not become an active member of the TRS DB Plan, shall continue to receive their retirement benefits as if they were not reemployed by the school district, deductions from the member's salary for the TRS DB Plan may not be made, and the reemployed retiree will not receive credited service in the TRS DB Plan.

Should this bill pass, there is a large group of active participants that are eligible for the unreduced benefit. Under the current plan, these members are assumed to not retire immediately, but are assumed to retire immediately after reaching 20 years under this bill. After the first year, the only participants affected are those who become eligible for the unreduced retirement during the year.

	FY16	FY17	FY18	FY19	FY20	FY21
Members eligible to be rehired annually	1,689	420	424	399	415	370

Additionally, the TRS DB Plan could have approximately 10,800 retirees with one or more years of retirement as of July 1, 2015. Of those, there are approximately 6,000 with Alaska addresses.

Buck Consultants, the TRS actuarial consultant, has calculated the financial effects if this bill should pass. They have calculated estimated costs based on different levels of utilization, and they are reflected below (in \$thousands):

	FY16	FY17	FY18	FY19	FY20	FY21
100% utilization	\$321	\$678	\$876	\$585	\$1,225	\$2,351
50% utilization	\$161	\$339	\$438	\$293	\$613	\$1,175
25% utilization	\$80	\$170	\$219	\$146	\$306	\$588
10% utilization	\$32	\$68	\$88	\$59	\$123	\$235

See attached letter from Buck Consultants/Xerox, April 8, 2015.

All else being equal, at 100% utilization, the increase in the actuarial accrued liability (AAL) is estimated at \$164million. An additional \$38million is the financial impact on the AAL for the retiree health plan, for a total change in the AAL of \$202million. The amounts decrease proportionally if utilization is less than 100%. For example, if 10% of eligible members retire and rehire, the increase in the AAL would be \$20.2million.

The fiscal impact is shown as indeterminate as it is uncertain at which level the utilization will occur. However, the ranges above provide an estimate based on 4 different levels.



**David H. Slishinsky,
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April 8, 2015

VIA EMAIL

Ms. Kathy Lea
Chief Pension Officer
Department of Administration
State of Alaska
333 Willoughby Avenue
6th Floor State Office Building
Juneau, AK 99811-0208

**RE: Fiscal Note for TRS Amending Reemployment under SB 79, Revised
as of April 4, 2015**

Dear Kathy:

As requested, we are providing the following information for the fiscal note on SB 79 as amended under version E, which allows rehired pensioners to continue receiving benefit payments from the State of Alaska Teachers' Retirement System Pension Plan (TRS) while reemployed with the State of Alaska. This bill has no "sunset" provision.

- 1) Reemployment of TRS member: Applicable to members who retired within the next five years with an unreduced benefit under AS 14.25.110(a), has been retired at least three months if at least age 62 and 12 months if under age 62, and has been reemployed by a school district.
 - Under current law:
 1. Benefits payments may not be made during the period of reemployment,
 2. Contributions to TRS will be deducted from the member's salary, and
 3. Upon subsequent retirement, benefit payments will reflect additional service earned as well as most recent average base salary.
 - Under SB 79:
 1. The member does not become an active member of TRS,
 2. The member shall continue to receive benefit payments as though not reemployed by the school district,
 3. No deductions will be made from the member's salary,
 4. Benefit payments shall not reflect additional credited service due to reemployment and will remain unchanged upon subsequent retirement,
 5. Employers who re-employ a retired member shall contribute 12.56% of the re-employed retiree's salary.



Summary for Analysis

As of July 1, 2014, the increase in the Actuarial Accrued Liability (AAL) due to SB 79 is estimated to be \$164 million, assuming 100% utilization (percentage of retirees who are rehired). Additionally, if participants are assumed to retire under the healthcare plan, the AAL would increase another \$38 million, for a total cost of \$202 million. While this represents the maximum cost under SB 79 should every member eligible to retire rehires, this scenario is highly unlikely. The cost will decrease proportionately with a reduction in utilization. For example, if 10% of eligible members retires and rehires, the increase in the AAL would be \$20.2 million. We cannot say for certain what the TRS utilization rate is likely to be, which is why we are showing results for a range of possible utilization rates. As an example, Buck performs actuarial consulting services for another state that had a return to work provision without a retired period requirement until it was changed in 2010. From 2005 to 2009, this state experienced 34% of retiring members were returning to work. Under the retirement period requirement provisions of SB 79, we would expect Alaska’s utilization to be less than 34%, but cannot say with certainty.

Note that there is a large group of active participants who are currently eligible for unreduced retirement. These participants are not assumed to retire immediately under the current plan, but are assumed to retire under SB 79. After the first year, the only participants affected by SB 79 are those who become eligible for unreduced retirement during the year. This means that much of the cost of the bill is incurred in the first year and the effect on the active population can be seen in the following exhibit.

Active Count	FY16	FY17	FY18	FY19	FY20	FY21
Beginning of Fiscal Year	5,334	3,645	3,225	2,801	2,402	1,987
End of Fiscal Year after SB 79	3,645	3,225	2,801	2,402	1,987	1,617
Members Eligible to be Rehired Annually	1,689	420	424	399	415	370

The table below shows the estimated cost of the bill for Fiscal Years 2016 through 2021 for various levels of utilization. Due to utilization being so highly influential on costs, we have provided costs under different utilization scenarios. Under the 100% utilization scenario, we have assumed that all members, upon reaching eligibility for unreduced retirement under AS 14.25.110(a), will retire from TRS, then are rehired. For the 100% scenario, we have split out costs as either “Explicit”, meaning additional cost due to assumed earlier payments, and “Salary”, meaning costs shifted to the State due to the employer’s 12.56% cap applied to a lower total salary.

SB 79 Cost	FY16	FY17	FY18	FY19	FY20	FY21
100% Utilization	\$321	\$678	\$876	\$585	\$1,225	\$2,351
Explicit pension cost	260	549	710	474	993	1,905
Explicit HC cost	61	129	166	111	232	446
50% Utilization	\$161	\$339	\$438	\$293	\$613	\$1,175
25% Utilization	\$80	\$170	\$219	\$146	\$306	\$588
10% Utilization	\$32	\$68	\$88	\$59	\$123	\$235

(Dollars in thousands)

The amounts above include costs due to the net effects on the reduction to employer normal cost as members retire and liability increase as members retire earlier than expected with the opportunity to be rehired.



Additional Notes

- The assumptions, plan provisions and methods used are described in the draft actuarial valuation report as of June 30, 2014, except retirement rates upon eligibility for unreduced retirement benefits were increased for the SB 79 results.
- We have assumed that the bill will become effective before June 2015.

Future actuarial valuation measurements and projections may differ from the current measurements presented in this letter to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

Please let us know if you need any further information.

Sincerely,

A handwritten signature in black ink that reads "David H. Sliskinsky".

David H. Sliskinsky, FCA, ASA, MAAA
Principal and Consulting Actuary

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cc: Mr. John Boucher, State of Alaska
Mr. Kevin Worley, State of Alaska
Mr. Todd D. Kanaster, FCA, ASA, Buck Consultants