

HB

373

COMMITTEE REPORT

HOUSE

FURTHER:

March 10, 1979

Date: 3-10-79

Mr. Speaker:

The Committee on STATE AFFAIRS has had HB 373

"An Act relating to withdrawal from the federal Social Security System; eff. date."

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for HB 373 same title
 new title
- and recommends CS HB 373
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

**MEMBERS SIGNING
DO PASS**

W. Will
D. H. [unclear]
[unclear]
[unclear]
[unclear]
[unclear]
[unclear]
[unclear]
[unclear]

**MEMBERS HAVING
OTHER RECOMMENDATIONS:**

W. Will
CHAIRMAN



Alaska State Legislature House of Representatives

POUCH V
JUNEAU, ALASKA 99811
OFFICIAL BUSINESS

MEMORANDUM

To: All Members of the
House of Representatives

From: Representative Terry Gardiner *T.G.*

Date: March 19, 1979

Re: HB 373, social security opt-out

Attached is a research memo from Ken Humphreys of our legislative research staff. I asked Ken to compare social security payments made by the average Alaskan versus the average citizen of the United States. The study reveals that the Alaskan citizen pays considerably more than the average American in social security payments to the federal government. Obviously, this would apply to both the employer and the employee. Since the taxable wage base is rising, Alaskans will continue to pay an increasingly higher dollar and percentage amount than the average American worker.

Also contained in the memo is information revealing that since the monthly benefits are not directly proportional to the average monthly wage base on which the benefits are paid during the workers lifetime, Alaskans again suffer a disadvantage. In effect, Alaskans would get a much smaller percentage of their earnings returned in future benefits.

This information is forwarded because I thought it might be useful in your consideration of HB 373, which would allow the state employees to opt-out of the federal social security program and to use the funding that is presently deducted for beneficial programs that they wish to set up.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH - STATE CAPITAL
JUNEAU, ALASKA 99811
607 455 3800

Release requested

MEMORANDUM

March 13, 1979

SUBJECT: Social Security Contributions - HB 373 (W.O. #6839)

TO: The Honorable Tarry Gardiner

FROM: Ken Humphreys
Senior Policy Analyst *J.K.H.*

You have requested information on social security contributions for Alaska versus the United States as a whole.

We have estimated that the average full-year state employee earned \$22,265 in 1978. Since employee contributions to social security in 1978 were set at 6.05 percent of wages and the taxable wage base was \$17,700, the average full-year state employee would contribute the maximum of \$1,070.85. For the U.S. as a whole, the average covered salary in 1977 was \$9,779.44. If we adjust this figure upward by 10 percent to get an estimate of the 1978 average covered wage and multiply by 6.05 percent, we arrive at an average social security contribution of \$648.39.

These are rough figures, but it is clear that, as you suspected, the average state employee in Alaska pays considerably more in dollar terms in social security contributions than an average wage earner in the U. S. as a whole. This is true despite the fact that, as a percentage of total payroll, full-year state employees in Alaska in 1978 paid a little over 4 percent while wage earners in the U. S. as a whole paid on the order of 5.5 percent of their total earnings.

The discrepancy between contributions made by the average full-year state employee in Alaska and the average worker in the Lower 48 can be expected to increase in future years. An average covered worker in the U. S. in 1979 is projected to earn \$11,655 and would contribute 6.13 percent or \$714.45. Assuming that the average full-year state employee earns \$22,000 (the 1979 taxable wage base) or more in 1979, his contribution would be \$1,403.77.

The fact that the social security benefit structure is highly skewed in favor of low income workers may be of greater significance than the difference in contributions. The following table shows benefits that would be paid to a hypothetical 65 year-old male worker retiring in

JKH 3/13/79

January of 1979 with three levels of covered earnings for 1956-1978. Benefits as a percentage of covered earnings are much higher under the lower wage assumptions.

<u>Average Monthly Wage</u>	<u>Monthly Benefit</u>	<u>Benefit as a Percentage of Average Monthly Wage</u>
\$632.61 (Maximum \$174,600 total covered earnings)	\$503.40	80%
\$474.46 (\$130,950 total covered earnings)	\$412.80	87%
\$316.30 (\$87,300 total covered earnings)	\$314.90	100%

I hope this information is useful in your consideration of HB 373. Please let us know if you have further questions.

KH:jm

STATE OF ALASKA
Inter-Department Route Slip

TO:
MAIL STATION NUMBER 3100
DEPARTMENT Ab Statistics
ATTENTION Home State Office

- | | |
|--|--|
| <input type="checkbox"/> Approval | <input type="checkbox"/> Note & Return |
| <input type="checkbox"/> Signature | <input type="checkbox"/> Initial & Return |
| <input type="checkbox"/> Comment | <input type="checkbox"/> Return As Requested |
| <input type="checkbox"/> Contact Me | <input type="checkbox"/> Return For Approval |
| <input type="checkbox"/> Prepare Reply | <input type="checkbox"/> Necessary Action |
| <input type="checkbox"/> For Your File | <input type="checkbox"/> Your Information |

Remarks:

FROM:
MAIL STATION NUMBER 0208
DEPARTMENT Adm / adm Serv
BY K. D. Smith DATE 4-5 *at floor 123 A Cap*
03-002 (REV. 10/77)

THE LEGISLATURE OF THE STATE OF ALASKA
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS for House Bill 373
 Title Withdrawal From the Federal Social Security System
 Requested by House Rules Date _____

II. FISCAL DETAIL

Agency Affected Administration - Division of Retirement and Benefits
 Program Category Affected Retirement and Benefits (OTHER BENEFITS)
 BRU, Program, or Subprogram(s) Affected 02-96-8-01-02-00
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
100 PERSONAL SERVICES		80.9	85.8	90.9	96.4	102.2
200 TRAVEL						
300 CONTRACTUAL		186.6	30.8	30.8	30.8	30.8
400 COMMODITIES		3.0	3.0	3.0	3.0	3.0
500 EQUIPMENT		1.5	0.1	0.1	0.1	0.1
600 LAND & STRUCTURES						
700 TRS STATE MATCH						
100 BENEFITS		-0-	(1290.9)	(1560.6)	(1713.7)	(1874.5)
TOTAL		272.0	(1171.2)	(1435.8)	(1583.4)	(1738.4)

FUNDING (Thousands of Dollars)

GENERAL FUND			(1057.3)	(1278.0)	(1403.5)	(1535.3)
FEDERAL FUNDS			(59.4)	(71.8)	(78.8)	(86.2)
VETERAN'S FUND			(2.6)	(3.1)	(3.4)	(3.7)
FISH & GAME FUND			(7.7)	(9.4)	(10.3)	(11.2)
HIGHWAY FUND			(16.8)	(20.3)	(22.3)	(24.4)
AIRPORT FUND			(37.4)	(45.3)	(49.7)	(54.4)
CAPITAL FUND			(109.7)	(132.7)	(145.7)	(159.3)
PROGRAM RECEIPTS		272.0	119.7	124.8	130.3	136.1

POSITIONS

FULL TIME		3	3	3	3	3
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

- Bracketed numbers represent savings to State as a result of freezing contribution rate at 6.13% of covered wage base. (Similar savings will accrue to State employees).
- If employees vote to opt out of Social Security:
 - All administrative costs will be funded from State contributions before the balance of the contributions made by the State are deposited into special individual employee benefit accounts. The first six (6) months operating costs will be paid from the State's general fund. The general fund will then be reimbursed via program receipts starting 1/1/80.

If employees vote not to opt out of Social Security:

- Administrative costs incurred between the passage of this bill and the special election will have to be funded via a supplemental appropriation. Estimate \$30 to \$40 thousand will be incurred.
- Administrative costs per attachments.

IV. DATE 4/2/79 PREPARED BY Paul B. Arnoldt, Director
 AGENCY Division of Retirement & Benefits
 PHONE 465-4460

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named) House State Affairs Committee
 Office of the Governor (Keith Specking)

PERSONAL SERVICES:

One (1) Benefits Specialist (Range 18) Salary and Merit Increases @ 6% yearly			
FY 80 Monthly Salary	\$2,186 X 12 =	\$ 26,232	
Benefits @ 30.23%	=	<u>7,924</u>	\$ 34,161
One (1) Accountant III (Range 16) Salary and Merit Increases @ 6% yearly			
FY 80 Monthly Salary	\$1,886 X 12 =	\$ 22,632	
Benefits @ 30.23%	=	<u>6,841</u>	\$ 29,473
One (1) Clerk Typist III (Range 8) Salary and Merit Increases @ 6% yearly			
FY 80 Monthly Salary	\$1,103 X 12 =	\$ 13,296	
Benefits @ 30.23%	=	<u>4,019</u>	\$ 17,315
			<u>\$ 80,949</u>
TOTAL - PERSONAL SERVICES			<u>\$ 80,949</u>

CONTRACTUAL SERVICES:

Fee to retain a consulting firm to:

- (1) Design/specify the supplemental benefits
- (2) Prepare Bid Specifications
- (3) Evaluate Bid Results
- (4) Interface between carriers and State

FY 80	\$ 80,000
Subsequent FY's	15,000

Data Processing Support (See Memo page 4):

FY 80	\$106,560
Subsequent FY's	15,800

COMMODITIES:

Supplies for employees:

Forms (enrollment, statements, etc.)
Paper (Computer Reports, etc.)

FY 80 \$ 3,000
Subsequent FY's \$ 3,000

EQUIPMENT:

(3) Desks
(3) Chairs
(1) Typewriter
(1) Calculator
Miscellaneous Equipment

FY 80 \$ 1,500
Subsequent FY's \$ 100

CS for House Bill 373

TO: Paul Arnoldt, Director
Division of Retirement & Benefits
Department of Administration

DATE: March 20, 1979

THRU: Gary W. Motley, Manager *GWM*
Division of Data Processing

FILE NO:

FROM: Sally Hooton, EDP Programmer III
Division of Data Processing
Department of Administration

TELEPHONE NO:

SUBJECT: Data Processing Cost Estimates

SMT

The following are rough cost estimates based on our meeting this morning. Costs for forms and paper are not estimated.

- A. Modifications to the existing payroll system will be minimal for reporting of all contributions to the special benefits account to a new system. Estimates are based on in house maintenance cost of \$30 per hour.

Analyst & Programming	200 hrs @ \$30/hr	\$ 6,000
Computer testing	6 hrs @ \$110/hr	<u>650</u>
Total cost of payroll impact		\$ 6,660

- B. A new system will be required to administer and control the allocation of contributions. Listed below are estimated costs of this new system based on current contractual costs of \$55 per hour which includes contractual expenses.

Initial analysis and design including forms design	200 hrs @ \$55	\$11,000
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Analysis and programming costs by program task

1. Semi-monthly computer run

File load	30 hrs @ \$55	1,650
On/line & batch input	150 hrs @ \$55	8,250
Editing & reporting	120 hrs @ \$55	6,600
Update & reporting	120 hrs @ \$55	6,600
File backup	30 hrs @ \$55	<u>1,650</u>
		\$24,750

Paul Arnoldt

March 20, 1979

2.	Monthly computer run		
	Comparison with Payroll	90 hrs @ \$55	4,950
	Update contributions & report	90 hrs @ \$55	4,950
	Split contributions by type	90 hrs @ \$55	4,950
	Report to 5 carriers 5 x 60 = 300 hrs @ \$55		16,500
	Social security number changes	40 hrs @ \$55	2,200
	Print turnaround document	50 hrs @ \$55	<u>2,750</u>
			\$36,300
3.	Semi annual computer run		
	File purge	60 hrs @ \$55	3,300
	Reconciliation of accounts	100 hrs @ \$55	5,500
	Employee statement	60 hrs @ \$55	<u>3,300</u>
			\$12,100
4.	Special request computer runs		
	Label print	50 hrs @ \$55	2,750
	Two special lists	100 hrs @ \$55	<u>5,500</u>
	Total Development Cost		\$ 8,250
C.	Initial Additional Costs		
	Data entry		2,000
	Computer time for program and systems testing	50 hrs @ \$110	<u>5,500</u>
			\$ 7,500
D.	Initial Cost Totals		
	Modifications to existing payroll System (A)		6,660
	Developmental costs (B)		92,400
	Additional data entry & computer cost (C)		<u>7,500</u>
			\$106,560

E. Projected annual costs

Program maintenance	200 hrs @ \$30	\$ 6,000
Computer test time	10 hrs @ \$110	1,100
Computer time for production:		
Semi monthly	30 hrs @ \$110	3,300
Monthly	30 hrs @ \$110	3,300
Semi annual	5 hrs @ \$110	550
Specials	5 hrs @ \$110	550
Annual data entry cost		<u>1,000</u>
		\$15,800

cc: George Crowder