

SB

25

(7)

# COMMITTEE REPORT

## HOUSE

FURTHER: FINANCE

March 22, 1979

Date: 3-30-79

Mr. Speaker:

The Committee on STATE AFFAIRS has had CSSB 25 am

"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 <sup>House</sup> CS for CSSB 25 am  same title  
 new title
- and recommends \_\_\_\_\_
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

**MEMBERS SIGNING  
DO PASS**

[Signature]

[Signature]

[Signature]

Terry Gardner

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**MEMBERS HAVING  
OTHER RECOMMENDATIONS:**

Larry Martin No rec.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

[Signature]

CHAIRMAN

Lieutenant Governor Terry Miller  
Pouch A.  
Capitol Building  
Juneau, Alaska 99811

March 19, 1979

RE: Social Security Opt-Out Senate Bill 25.

Dear Honorable Sir:

This letter is written to verify my statements to you on the 16th, subjecting the above referenced.

Local 71 supports the passage of S.B. 25. We do not necessarily support the calling for establishment of an employee option on the Social Security Funds, but we do support the right to have the State employees vote on the issue of opting out of the social security system.

It is more practical for our members to be advised of all alternatives on opting out, the best way to accomplish this is to have an election, as called for in the legislation, on the issues of opting-out.

There have been some rumors circulating, saying Local 71 is attempting to "Kill" the legislation, however, as you are aware, and evident by this letter that is not true.

Terry, if you have any questions on this issue or letter, please feel free to contact the undersigned.

Sincerely,

Ken Spray  
Vice President  
Business Representative  
Local 71  
AFL-CIO

cc: Jim Duncan  
Mike Miller  
Bill Ray

Thomas Powers, Commissioner, Alaska Pipeline  
Commission

Jerome Trammer, Board of Electrical Examiners

Hugh Macaulay, Board of Electrical Examiners

Dennis Milhouse, Board of Hairdressers & Beauty  
Culture

Roxana Kemp, Board of Public Accountancy

Gail Glad, Real Estate Commission

Kenneth Calhoon, Real Estate Commission

Gary Wilken, Real Estate Commission

Clifford Lobaugh, Board of Veterinary Examiners

Respectfully submitted,



Rep. Fred Brown  
Chairman  
House Commerce Committee

HCS The following letter of intent was received on HOUSE  
CSSB COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SENATE  
25 BILL NO. 25 (relating to withdrawal from the federal  
Social Security System, effective date):

HOUSE STATE AFFAIRS COMMITTEE

LETTER OF INTENT

For HCS for CS for Senate Bill 25

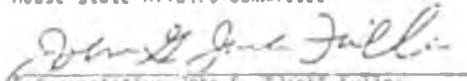
By amending this Bill to provide that employees of the division of  
maritime transportation engaged in operating the State ferry system who are  
currently excluded from the Public Employees' Retirement System (PERS)  
by AS 39.35.680(21)(c)(v) may obtain PERS coverage if such coverage is  
agreed to in a collective bargaining agreement, it is not the intent of  
the House State Affairs Committee that either or both parties to the  
collective bargaining be obligated to include a provision for PERS

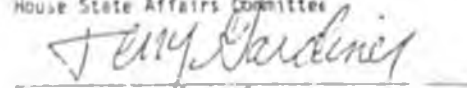
HCS  
CSSB  
25

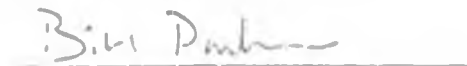
coverage in agreements negotiated hereafter. It is only the intent of this Committee that the limited issue of PERS coverage for these employees be a permissive subject for bargaining. The parties are not compelled to reach agreement on this subject, just as they are not compelled to agree on wages, vacations, work rules, etc.

Further, this Committee emphasizes that the provisions of the PERS itself are not subject to modification by collective bargaining. The Legislature reserves the sole right to amend the benefits and obligations provided by the PERS, except as expressly provided in this Bill.

  
Representative Mike Miller, Chairman  
House State Affairs Committee


  
Representative John G. "Jack" Fullin  
Vice Chairman  
House State Affairs Committee

  
Representative Jerry Gardiner, Member  
House State Affairs Committee

  
Representative Bill Parler, Member  
House State Affairs Committee

  
Representative Richard J. Eliason, Member  
House State Affairs Committee

  
Representative Jerry Martin, Member  
House State Affairs Committee

  
Representative Ray H. Setcalfe, Member

A M E N D M E N T #2

Offered in the HOUSE

By Miller

TO: HOUSE CS FOR CS FOR SENATE BILL NO. 25

Page 1, line 6:

After "relating to" insert: "retirement and benefits for public employees including"

Page 1, after line 8, insert:

"\* Section 1. AS 39.35.160(a) is amended to read:

(a) While participating in the system each peace officer and each fireman shall contribute five per cent and every other employee shall contribute 4.53 [FOUR AND ONE-QUARTER] per cent of his compensation to the public employees' retirement system."

Page 1, line 9:

Delete: "Section 1." and insert in its place: "Sec. 2."

Page 1, line 13:

Delete: "Sec. 2." and insert in its place: "Sec. 3."

Page 1, between lines 23 and 24:

Insert:

"\* Sec. 4. AS 39.35.680(25) is amended to read:

(25) "normal retirement" means retirement for a member who is at least 55 years old and has a minimum of five years credited service, or who is any age and has 25 [30] years or more of credited service, or a peace officer or fireman who is any age and has 20 years or more of credited service;"

Page 1, line 24:

Delete: "Sec. 3." and insert in its place: "Sec. 5."

Page 3, line 23:

Delete: "Sec. 4." and insert in its place: "Sec. 6."

Page 3, line 24:

Delete: "sec. 5." and insert in its place: "sec. 7."

Page 3, line 27:

Delete: "Sec. 5." and insert in its place: "Sec. 7."

Page 4, lines 10 - 13:

Delete all material and insert:

"\* Sec. 8. Sections 2, 3, and 5 of this Act take effect on January 1, 1980, if approved by a majority of the votes cast by affected state employees under sec. 7 of this Act.

\* Sec. 9. Sections 1 and 4 of this Act take effect on January 1, 1980, if approved by a majority of the votes cast in a special election conducted

before January 1, 1980, by the Department of Administration among the active members of the public employees' retirement system.

\* Sec. 10. Sections 6, 7, 8, 9, and 10 of this Act take effect immediately in accordance with AS 01.10.070(c)."

A M E N D M E N T #1

Offered in the HOUSE

By Miller

TO: HOUSE CS FOR CS FOR SENATE BILL NO. 25

Page 1, lines 10 - 12:

Delete:

"pay the appropriate social security contribution or the contribu-  
tions required under AS 39.30.150 in place of the social security  
contribution"

and insert in its place:

"be considered to have agreed to have his wages reduced by an  
amount equal to one-half of the total contribution which the state  
is required to make on his behalf under AS 39.30.150 [PAY THE  
REQUIRED SOCIAL SECURITY CONTRIBUTION]

Page 1, line 28:

After "required" insert: "on behalf of an employee"

Page 1, line 29:

Delete: "and an employee of the state"

Page 2, line 1:

Delete "each"

Page 2, line 1:

Delete: "6.13" and insert in its place: "12.26"

Page 2, lines 5 - 6:

Delete: "contributions made by the employee under this section and the"

Page 2, line 14:

Delete: "by them and"

Page 2, line 22:

Delete: "by or"

Page 3, line 7:

After "employee" insert: "on whose behalf the state is"

Page 3, line 11:

Delete: "both"

Page 3, line 12:

Delete: "and by the employee"

## SOCIAL SECURITY WITHDRAWAL

### ELECTION

The bill calls for an election among state employees to determine whether or not state employees desire to withdraw from the social security system effective January 1, 1980. In the event that employees elect to withdraw from the social security system, monies previously contributed to social security would be contributed to a supplemental benefit plan.

### SUPPLEMENTAL BENEFITS PROGRAM

The supplemental benefit plan provides that each employee may elect to allocate monies previously contributed to social security on his behalf to the following:

1. supplemental health benefits
2. supplemental death benefits
3. supplemental disability benefits
4. supplemental survivor benefits
5. supplemental annuities

All of the supplemental benefit programs would be designed to compliment benefits provided in the retirement systems. (PERS and Judiciary) Each employee could therefore create a benefit package which would be addressed to his own individual needs.

### MARINE EMPLOYEES ALLOWED TO PARTICIPATE IN PERS

The legislation also provides that employees of the division of marine transportation may be allowed to use their social security monies for inclusion in PERS rather than the supplemental benefit program. Such inclusion would be subject to the State formally agreeing to the inclusion through the collective bargaining process. Currently such employees are not participating in PERS.

### NO COST TO THE STATE

**Election Costs:** APEA has entered into a contract with the State to pay for the Election

**Administrative Costs:**

In the event that the result of the election is in favor of withdrawal from social security, Sec. 39.30.160(c) provides that the administrative costs of operating the supplemental benefit program be deducted from the social security monies prior to being credited to individual benefit accounts. Thus it will not cost the State any

additional monies to operate the program. In order to initially implement the program (from the election to January 1, 1980) it is necessary to have an appropriation from program receipts, however this appropriation would be returned to the general fund when social security monies start flowing into the supplemental benefit program in January 1980.

#### SAVES STATE MONEY

State will pay less than social security contributions:

Although the primary intent of the legislation is not to save the State money, the supplemental benefit program would result in a savings to the State. Currently, the employer and the employee both contribute equal amounts to the social security system. The contributions to the social security system are increased by increasing the percentage index and the taxable wage base. Now the employer and employee each contribute 6.13 percent of \$22,000 the taxable wage base. In the near future both the percentage and the taxable wage base will increase. However under the proposed legislation, the percentage rate is frozen at 6.13 and only the taxable wage base will increase (in order to protect the benefits program from inflation). Thus in the future the amount contributed to the supplemental benefit program would be less than the state would be contributing to social security.

#### AMENDMENT MAKES ALL MONIES CONTRIBUTED TO THE SUPPLEMENTAL BENEFIT PROGRAM NON TAXABLE

Under the social security program the employee contributed 6.13 percent of the taxable wage base (currently \$22,000) to social security and the employer contributed a like amount. Thus the total contribution is 12.26. The amendment provides that the employee's salary be reduced by the amount of his social security contribution and the State contribute that amount for him. Thus making the entire 12.26 percent an employer contribution, which makes the monies non-taxable. As his gross salary is reduced by the amount of the contribution, the employee is also in a lower tax bracket and should take home more money.

SIMPLE EXAMPLE OF PROPOSED AMENDMENT TO HCS FOR SCS FOR SB NO. 25

CURRENT BILL

\$100.00 Gross Salary  
- 20.00 Taxes  
80.00  
- 6.13 Employee's contribution to the supplemental benefit  
73.87 program (previously the social security contribution.  
The employer also contributes 6.13, thus the total  
contribution to the supplemental benefit program is  
12.26.  
\$ 73.87 TOTAL NET INCOME

PROPOSED AMENDMENT

\$100.00 Current Gross Salary  
- 6.13 Reduce the gross salary by the amount required to be  
93.87 contributed to the supplemental benefit program (previously  
social security) and have the employer contribute an amount  
equal to the reduction in gross salary (6.13) on the  
employee's behalf in addition to the amount the employer  
is already required to contribute. Total employer contribution  
would be 12.26.  
93.87 NEW GROSS SALARY  
- 18.00 Taxes (Employee is in a lower tax bracket because of reduced  
\$ 75.87 gross salary).  
\$75.87 TOTAL NET INCOME (Employee takes home more)

STATE OF ALASKA  
Inter-Department Route Slip

TO:  
MAIL STATION NUMBER \_\_\_\_\_

DEPARTMENT \_\_\_\_\_

ATTENTION Representative Miller

- |  |  |
|--|--|
| <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 0203

DEPARTMENT Retirement / Benefits

BY \_\_\_\_\_ DATE 4/23/79

# STATE OF ALASKA

JAY S. HAMMOND, Governor

## DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT & BENEFITS

POUCH CR  
JUNEAU, ALASKA 99811

April 23, 1979

The Honorable Bill Ray  
Senator  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

Dear Senator Ray:

Per our discussion of today, enclosed are proposed amendments to House CS for CS for Senate Bill 25. These amendments are intended to tax shelter all money going into the supplemental programs until paid out to the employees.

Sincerely,



Paul B. Arnoldt  
Director

PBA/jb  
Enclosure

cc: Sue Greene  
Deputy Commissioner

Representative Duncan  
Representative Miller ✓  
Representative Cotten

Amendments to House CS for CS for SB 25

Page 1 (lines 10 through 12)

(b) In addition each employee shall pay the appropriate social security contribution or shall be deemed to have agreed to have his wages reduced by an amount equal to one-half of the state's contributions on behalf of such employee as required under AS 39.30.150.

Page 1 & 2 (lines 27 through 29 and 1 through 15)

Sec. 39.30.150. CONTRIBUTIONS. (a) In place of contributions to the federal Social Security System which would have been required had the state remained in the system, the state shall contribute 12.26 per cent of the wages of the employee up to the taxable wage base then in effect in the social security system. All costs of establishing and administering the benefit program established by AS 39.30.160 shall be paid from the contributions made by the state under this section. Such contributions made by the state shall be paid into special individual employee benefit accounts in the Department of Administration to be used to provide supplemental employee benefits provided in AS 39.30.160.

(b) Employees of the division of marine transportation included in the public employees' retirement system through the process of collective bargaining under AS 39.35.680(21) (D) may, under the terms of a collective bargaining agreement, utilize contributions made under (a) of this section on their behalf to offset the costs of inclusion in the public employees' retirement system, however,

Page 3 (lines 11 through 14).

Sec. 39.30.160 (c) The entire amounts paid by the state, after the deduction for administrative costs under AS 39.30.150, shall be used for supplemental benefits under this section.

THE LEGISLATURE OF THE STATE OF ALASKA  
TENTH LEGISLATURE

*Jim Thorne*

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 946  
Title Withdrawal From The Federal Social Security System  
Requested by \_\_\_\_\_ Date \_\_\_\_\_

II. FISCAL DETAIL

Agency Affected Administration - Division of Retirement and Benefits  
Program Category Affected Retirement and Benefits (PERS)  
Budget Request Unit(s) Affected Public Employees' Retirement System

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES		37.3	79.1	83.8	88.6	94.2
200 TRAVEL		1.0	1.0	1.0	1.0	1.0
300 CONTRACTUAL		6.7				
400 COMMODITIES		0.6	0.6	0.6	0.6	0.6
500 EQUIPMENT		1.5				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	4,279.6	4,736.5	5,206.7	5,723.9	6,292.6

FUNDING (Thousands of Dollars) See Attachment 1

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		1.5	3	3	3	3
PART TIME						
TEMPORARY						

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

See Attachment 1

*Paul B. Arnoldt*

IV. DATE 5-31-78 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) Rules Committee  
Office of the Governor (Keith Specking)

ATTACHMENT 1

HB 946

I. First Year Cost to the State:

1. Marine Transportation Employees	=	\$1,330,000
2. Police/Fire Employees	=	387,000
3. Other (PERS) Employees	=	<u>2,515,500</u>
<b>Total</b>	<b>=</b>	<b>\$4,232,500</b>

II. Funding:

1. The cost of this bill is determined as a percent of covered payroll. It is estimated that future payrolls will grow by 10% annually (salary and membership). Therefore, second year cost to the State will be \$4,655,750, and so forth for each year.

2.			<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>
	General Fund	82.0 %	\$3,470.6	\$3,817.9	\$4,199.5	\$4,619.5	\$5,081.3
	Federal	4.5 %	190.5	209.5	230.5	253.5	278.9
	Veteran's	.2 %	8.5	9.3	10.2	11.3	12.4
	Fish & Game Fund	.6 %	25.4	27.9	30.7	33.8	37.2
	Highway Fund	1.3 %	55.0	60.5	66.6	73.2	80.6
	Airport Fund	2.9 %	122.7	135.0	148.5	163.4	179.7
	Capital Fund	8.5 %	359.8	395.7	435.3	478.8	526.7
	PERS		<u>47.1</u>	<u>80.7</u>	<u>85.4</u>	<u>90.4</u>	<u>95.8</u>
	<b>Total</b>		<b>\$4,279.6</b>	<b>\$4,736.5</b>	<b>\$5,206.7</b>	<b>\$5,723.9</b>	<b>\$6,292.6</b>

III. Administrative Costs:

1. Establish and administer new Deferred Compensation Program: One Retirement and Benefit Specialist (Range 16) and one Retirement and Benefit Technician (Range 12).
2. Administer new survivor benefits, disability benefits and basic benefits for employees not previously covered: One Retirement and Benefit Specialist (Range 16).
3. Equipment (\$1,500), travel (\$1,000), and commodities (\$600) for new employees.

IV. Special Election:

1. One-time Data Processing costs to generate employee lists and mailing addresses (\$5,000).
2. Postage (\$1,500) and printing of ballots (\$200).

V. Additional Information:

Two letters from Robert F. Richardson to Paul B. Arnoldt dated May 25, 1978. (See Attachment 2 and Attachment 3)

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director  
Division of Retirement & Benefits  
State of Alaska  
Department of Administration  
Pouch CR  
Juneau, Alaska 99811

Re: House Bill 946 Costs

Dear Paul:

We have calculated that passage of House Bill 946 will cost 1.36% of earnings for State employees covered under PERS. This cost can be broken down in the following manner:

(1) An extra 1% on the benefit formula	8.45%
(2) 25-and-out provision for present and new State employees	.30%
(3) 25-and-out provision for employees who transfer to State employment from other political subdivisions	.10%
(4) Improved disability benefits	<u>.10%</u>
(5) Total Cost	8.95%
(6) Less average contribution from special fund	<u>7.59%</u>
(7) Additional cost to the State	1.36%

As you can see, this cost is higher than the cost calculated by Milliman & Robertson, Inc. There are several explanations for these differences. Of prime importance is the fact that different actuarial assumptions have been used in the two calculations. M&R based its calculations on the former actuarial assumptions whereas our calculations have been based upon new assumptions adopted by the PERS Board this Spring. Perhaps of greatest significance, especially as relates to this bill, is the fact that the new actuarial assumptions assume that salaries will increase at 6% per year until age 39 while the former actuarial assumption assumes that salaries will increase at 5% per year. As you can imagine, a benefit based upon final average pay

Mr. Paul Arnoldt

Page Two

May 25, 1978

will be more costly if salaries go up at a faster rate. The present cost to the State for PERS is 12.06% of earnings. Passage of House Bill 946 will add 8.95% to this cost, arriving at a total cost of 21.01%. Adding 7.7% to the present 12.06% would arrive at a total cost of 19.76%. Thus, our total cost calculation is about 6% higher than M&R's estimated cost. Such a 6% difference in cost is easily explainable by the differences in actuarial assumptions.

Other differences bear mentioning. The present actuarial assumptions are more "liberal" than the former assumptions when it comes to determining cost for the 25-and-out provision. This is because we presently do not assume all employees will retire as soon as they meet the minimum eligibility for full retirement benefits. As pointed out in the Experience Analysis report presented this Spring, a large number of employees who are presently working are also eligible for unreduced full retirement benefits. I believe it is reasonable to assume that this phenomenon will continue in the future. In other words, even though an employee may be eligible to receive unreduced benefits after 25 years of service, he may elect to continue employment until age 55 or until he attains 30 years of service before actually retiring. In that event, the employee would not benefit at all from the 25 year and out provision of House Bill 946.

Only a small percentage of employees will actually "benefit" from this provision. At present only 11 employees, or less than .15% of State employees, are eligible to retire under the 25-year-and-out provision. However, it is reasonable to assume that a good percentage of those 11 employees will work until at least age 55 or until they have 30 years of service and, therefore, not ever utilize the 25-year-and-out provision. In fact, our records indicate that there are 22 employees who meet the present eligibility provisions for full retirement and yet who have not retired.

Finally, the advantage of the 25-year-and-out provision for those employees electing it is not as significant as you might expect. By retiring one year earlier, an employee would "pass up" an assumed 5% increase in salary and a 3% increase due to an extra year of credited service. Consequently, for each year earlier an employee retires, his benefit will be 8% less. Obviously, in highly inflationary times where salaries are going up faster than 5%, he will be reducing his total benefit by more than 8% per year. Almost exactly counterbalancing this "loss" in benefits is the value of receiving benefits for one more year.

The cost we have calculated for the 25-year-and-out provision is significantly less than the cost calculated by M&R. This difference can be attributed to the more "liberal" actuarial assumptions presently

Mr. Paul Arnoldt

Page Three

May 25, 1978

Adopted by the Board. I have reviewed this with M&R and they have indicated that their costs are based upon the assumption that employees will retire as soon as possible.

As you can see, line 3 above indicates a cost of .10% associated with the cost of providing unreduced benefits for employees who transfer to State employment after having accumulated several years of employment with a political subdivision. As we discussed, our interpretation of House Bill 946 allows an employee to work 24 years with a political subdivision and one year with the State and thus receive all 25 years of his benefits unreduced. In this example, the employee would get 24 years at 2% and one year at 3%. My cost calculation is based upon the assumption that 50% of the employees in other political subdivisions who are so inclined to take advantage of the 25-year-and-out provision will find employment with the State and be able to utilize that provision. It is my understanding that M&R did not take into consideration the effect of transfers from other political subdivisions on retirement under the 25-year-and-out provision.

As line 4 above indicates, I have determined that there is a cost of .10% to provide disability benefits which are the greater of 40% of pay or the accrued benefit under the Plan. Based upon a 2% formula, it would take 20 years to arrive at 40%. Under such a 2% formula, there would be very little cost for providing this provision. However, under the 3% formula, it would take slightly more than 13 years to accumulate 40%. It is much more likely under a 3% formula for the employee to have an accrued benefit which is greater than 40%. Our calculations indicate that the cost will be .10% of PERS earnings for State employees. It is my understanding that the M&R calculation of no cost for this benefit is based upon the 2% formula.

In summary, we have calculated that passage of House Bill 946 will increase the State's cost to PERS to a total of 21.01% of earnings, or an increase of 8.95% over the present contribution rate. While this total cost is approximately 6% higher than the total cost for the System implied in the March 15, 1978 report by Milliman & Robertson, Inc., it is our opinion that these differences are explainable as outlined above.

House Bill 946 also calls for the inclusion of Marine Transportation Employees. I have calculated that the cost of their future service benefits under PERS will be 14.71% of their earnings. Please note that this cost calculation includes the cost of medical benefits under PERS. The cost calculations also assume that Marine Transportation Employees will be allowed to retire after 25 years of service although only service after 1-1-80 will be counted for benefit purposes. In other words, a Marine Transportation Employee with 20

Mr. Paul Arnoldt  
Page Four  
May 25, 1978

years of service on 1-1-80 will be allowed to retire on 1-1-85 with five years of credited service. If this is not the intent of HB946, then my costs will have been slightly overstated. It is my understanding that Milliman & Robertson, Inc. determined the cost for Marine Transportation Employees to be 13.4% of their earnings. This would indicate that my cost calculations are 1.31% higher than theirs. You will note that this is about the same as the 1.36% higher cost I have calculated for the present PERS employees. Please note that these cost calculations do not include any military service for Marine Transportation Employees prior to 1-1-80 although such military service is provided for under the bill.

The supplementary survivor benefits provided for under HB946 are anticipated to cost .86% of PERS earnings. We believe this .86% figure to be a very good estimate of the cost for these benefits. Of course, the exact cost would not be known until bids are received from interested insurance carriers.

Actual contributions required by Social Security will vary from year to year. However, an average annual contribution of 10.2% is a good estimate of average contributions. Based upon this average contribution, I believe that the attached table correctly summarizes the financial impact of House Bill 946.

I look forward to going over these cost calculations and other aspects of House Bill 946 when I am in Juneau on May 30.

Sincerely,



Robert F. Richardson, MAAA  
Vice President

RFR:ja

cc: Mr. R. Winkenwerder

## Financial Impact of HB946

	<u>Average*</u> <u>S.S.</u> <u>Contrib.</u>	<u>Transferred</u> <u>From</u> <u>Special</u> <u>Account</u>	<u>Survivor**</u> <u>Benefits</u>	<u>Deferred</u> <u>Comp.</u> <u>Contrib.</u>	<u>Additional</u> <u>Cost</u> <u>For</u> <u>PERS</u>	<u>Net</u> <u>Additional</u> <u>Cost to</u> <u>State</u>
Other Employees	10.2%	7.7%	.86%	1.64%	9.0%	1.3%
Police/Fire	10.2%	6.8%	.86%	2.54%	8.6%	1.8%
Marine Transportation	10.2%	7.7%	.86%	1.64%	14.7%	7.0%

\* Will vary from year to year as S.S. rates and Wage Base change.

\*\* Will vary from year to year based on experience.

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director  
Division of Retirement & Benefits  
State of Alaska  
Department of Administration  
Pouch CR  
Juneau, Alaska 99811

Re: Comments on House Bill 946

Dear Paul:

Passage of House Bill 946 and subsequent opting out from Social Security will have monumental impact on the retirement system for State of Alaska employees. There are several aspects of this bill which should be understood completely by all affected parties.

(1) Cost

As indicated in a prior letter, the benefits provided by House Bill 946 will increase the State contribution to PERS to 21.01%, an increase of 8.95% over the present contribution rate. Contributions transferred from the "special account" to the State (presumably to pay for these increased benefits) will amount to an average of 7.59%. This 7.59% figure takes into consideration the relative weighting between police and fire employees who would contribute 6.8% of their earnings and other employees who would contribute 7.7%. Consequently, the total additional cost to the State will amount to 1.36% of earnings for State employees covered under PERS. Marine Transportation employees will cost 14.71% to include in PERS, or 7.01% more than the amount transferred from the special account for those employees.

(2) Equity

Benefits and contributions presently paid in PERS are equitable. By that, I mean that an employee contributes a given percentage on all his earnings and his benefit is related to a percentage of all earnings. Passage of HB946 would significantly alter this relationship. Both employees and the State would be contributing only on earnings up to the Social Security Wage Base whereas benefits would be based upon all earnings. Consequently, higher-paid employees would be getting a larger benefit relative to their contributions than lower-paid

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employees. Such a change would be a significant departure from the present philosophy underlying PERS.

(3) Deferred Compensation Contributions

We assume that the amounts allocated to each employee's deferred compensation account will be based upon an average rate differing only by "Police/Fire" and "Other Employees". Although the actual Social Security contributions will vary from year to year, it is anticipated that Social Security contributions made by both the State and the employees will average 10.2%. If we assume that the additional survivor benefits will cost .86% as indicated in the bill, this implies that all Police and Fire Employees will have 2.54% of their total earnings contributed to their deferred compensation accounts while all Other Employees and Marine Transportation Employees will have 1.64% contributed to their deferred compensation accounts.

Employees who earn less than the Social Security Wage Base as well as employees who earn more than the Social Security Wage Base will have the same percentage of total earnings contributed to their deferred compensation accounts. However, Social Security contributions are only made on earnings up to the Wage Base. Consequently, all employees who are earning less than the Social Security Wage Base would be "subsidizing" employees who earn above the Wage Base. I believe that such a situation is not desirable for the State of Alaska. The regressive tax aspects of Social Security are tolerated only because benefits, as a percentage of earnings, are also heavily weighted to the lower incomes.

As we discussed, there is an alternative way to administer this bill whereby all employees earning under the Wage Base would have a fixed percentage contributed to their deferred compensation accounts while employees earning above the Wage Base would have a declining percentage contributed to their deferred compensation account. Ignoring the administrative problems associated with this approach, this method will ultimately break down for employees in the upper salary bracket. In other words, total Social Security contributions for people in the upper salary ranges will be less than 7.7% of all earnings. Although it would be possible to have no amounts contributed to the deferred compensation accounts for these employees, the State would still have to pay for the additional benefits granted under PERS. For example, total Social Security contributions for a higher-paid individual might amount to only 6% of his total salary. After subtracting the .86% for the survivor

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benefits, this would leave only 5.14% to be transferred to the State in order to pay for the additional PERS benefits under HB946. Obviously, the State would have to pick up the additional cost between the 7.7% and the 5.14% in this example. As you can see, this approach would increase administrative problems associated with the deferred compensation contributions as well as lead to increases in the cost of this bill.

(4) Comparisons Between Police/Fire and Other Employees

In recent years changes to PERS have attempted to minimize the differences between Police/Fire and Other Employees. To simplify, Police and Fire Employees contribute an additional .75% but enjoy 20 and out normal retirement. HB946 will allow Police and Fire Employees to have an additional .9% of their earnings contributed to their deferred compensation accounts. If that is in fact what happens, Police and Firemen will not contribute .75% more toward their benefits but in fact will contribute .15% less for the benefits. I believe that having Police and Firemen contribute less for a better benefit (20 and out) will present problems.

(5) 25 and Out Provisions

Only a very small percentage of employees who ultimately retire under this System will be able to take advantage of the 25 years and out provision provided by HB946. Of those employees ultimately receiving retirement benefits from the System, we have estimated that approximately 3% will in fact be retiring under the 25 year and out provision as opposed to 97% who will be retiring based upon the provisions presently found in PERS. Taking into consideration those who terminate before they become vested, we would estimate that the 25-and-out provision would benefit only 1% of all employees. Although all employees will be "paying" for the 25-year-and-out provision, only a small percentage will actually enjoy this benefit. An additional problem arises when an employee transfers from a political subdivision to employment with the State. As we have interpreted the Bill an employee who has 25 or more years of credited service with a political subdivision need only work 1 day with the State in order to be entitled to retire under the 25-year-and-out provision. Although such a situation will not increase the State's cost significantly (only .10% of earnings), it will perhaps lead to an inequitable situation. Some employees from the political subdivisions will be able to find State employment and receive the benefit of 25-year-and-out whereas other employees of political subdivisions may not be able to find such employment and, therefore, not be entitled to the 25-year-and-out provision.

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(6) Credit For Past Service

It appears that an employee who has any years of credited service with the State prior to January 1, 1980, may receive the additional 1% credit for that service so long as he makes some contributions under AS39.30.170. This again leads to the situation where an employee from another political subdivision (who has prior State service) may achieve a "windfall" by working for the State one day after January 1, 1980. In addition, there is a large unknown liability for present retirees. It appears that any present retiree might be able to work one day for the State after January 1, 1980 and thereby pick up the additional 1% windfall for all prior service with the State. Our cost calculations on this bill contemplate credit for past service only to present State employees and not to retirees or employees of other political subdivisions who have worked for the State.

I am sure we will discuss these comments and other aspects of House Bill 946 when I am in Juneau on May 30.

Sincerely,



Robert F. Richardson, MAAA  
Vice President

RFR:Jn