

COMMITTEE REPORT
HOUSE

(11)

FURTHER:

4/12/84

Date: 4-25-84

The Committee on FINANCE has had HB 649

"An Act relating to the minimum monthly retirement benefit under the Teachers' Retirement System; and providing for an effective date."

under consideration and recommends:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note 4-10-84
 Zero Fiscal Note Attached
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

[Signature]

Walt Funnell

[Signature]

[Signature]

[Signature]

[Signature]

Robert P. Adams - No Rec

[Signature]

[Signature]

CHAIRMAN

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

(Page 1 of 2)

REQUEST

Bill/Resolution No.: HB 649
Title: Minimum benefit under TRS

FISCAL DETAIL

Agency Affected: Dept. of Educ., U of A
Program Category Affected: TRS

Sponsor: Bettisworth
Requestor: _____
Date of Request: _____

BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

Operating	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
100 Personal Svcs		13.0				
100 Rtmnt & Bnfts		146.5	158.3	170.9	184.6	199.4
200 Travel						
300 Contractual						
400 Supplies						
500 Equipment						
600 Land & Struct						
700 Grants, Claims						
700 TRS Match		872.5	942.3	1,017.7	1,099.1	1,187.0
TOTAL OPERATING		1,032.0	1,100.6	1,188.6	1,283.7	1,386.4

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

General Fund	-0-	1,032.0	1,100.6	1,188.6	1,283.7	1,386.4
Federal Funds						
Other						
Total						

POSITIONS:

Full-Time						
Part-Time						
Temporary		1				

SOURCE OF FUNDS TO OFFSET IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: J.K. Humphreys, Director Phone: 465-4460
Division: Retirement & Benefits Date: 4-9-84

Approved by Commissioner: Lisa Rudd Date: 4/10/84
Agency: Department of Administration

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

House Bill 649
Fiscal Note Analysis
Prepared by the Division of Retirement & Benefits
Department of Administration

April 9, 1984

IV Analysis: We have assumed that this bill would affect 439 TRS members by increasing their benefit by \$10 per month for each year of service. We have calculated that passage of this bill will increase the state's contribution rate by .23% and the TRS State Match by .23%. The present value of these costs is \$19,730,000.00 and would result in a decrease in the funding ratio of 2.46%.

The estimated FY 85 State TRS salaries are \$63,713,500.00 and the total estimated TRS State Match salaries are \$379,349,200.00.

We have also estimated that efforts of researching and correcting the current minimum benefit recipients and those newly qualifying recipients would involve approximately 500 hours at a one year cost of \$13,000.00.

Introduced: 2/13/84
Referred: Health, Education and
Social Services and Finance

1 IN THE HOUSE

BY BETTISWORTH

2

HOUSE BILL NO. 649

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the minimum monthly retirement
7 benefit under the Teachers' Retirement System; and
8 providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 14.25.110(g) is amended to read:

11 (g) A member who is eligible for a service retirement salary
12 under this chapter or under the Retirement Act of 1945 is entitled to
13 a benefit of at least \$35 [\$25] per month for each year of credited
14 service, excluding adjustments made under AS 14.25.142 or 14.25.143.
15 If the member elected option two under AS 14.25.063(b)(2) for payment
16 of any indebtedness when the member initially applied for a retirement
17 benefit, or if the member elected to receive an early retirement
18 benefit under (b) of this section, the resulting benefit reduction
19 continues in effect.

20 * Sec. 2. This Act takes effect July 1, 1984.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

April 24, 1984

MEMORANDUM

TO: Representative Bob Bettisworth

FROM: David Teal *Teal*
Legislative Analyst

RE: Teachers Retirement System
Reserch Request 84-091 (Supplemental Information)

On your behalf, Ralph Bennett requested an analysis of information presented by the Division of Retirement and Benefits to determine if that information is accurate and representative. Specifically, he requested that we review (1) an example of retirement benefits presented at an earlier committee hearing on HB 649 and (2) the fiscal note on the bill. Ralph also requested a clarification of technical information on the justification for an increase in the minimum retirement payment.

A Comparison of Retirement Benefits

Ralph Bennett cited an example (provided by the Division of Retirement and Benefits) in which a person who retired in 1965 at an average annual salary of \$21,000 would receive greater benefits than a recent retiree with an average salary of \$32,000 per year. When Ralph and I spoke yesterday, I pointed out that the example was accurate but was not typical for the following reasons.

- The salary is relatively high. A \$21,000 salary in 1965 is equivalent to a current salary of about \$57,000. The average current salary of teachers in Alaska is less than \$40,000 per year.
- The \$21,000 final salary is the highest salary which would be affected by HB 649.
- The retirement date is earlier than that of the typical retiree. Post Retirement Payment Adjustments (PRPAs) more adequately compensate for inflation for those who retired prior to the inflation of the 1970s.

I discussed these points with Bob Stalnacker, the Deputy Director of the Division of Retirement and Benefits. He admitted that the example was not representative of the "typical retiree" but pointed out that the purpose of the example was to show the inequity of using the minimum benefit amount as a means of compensating retirees for loss of purchasing power since the time of retirement. That point might have been made more clearly if the time element had been omitted. For example; a retiree with a final average salary of \$15,000 or less is now eligible for basic benefits of \$25 per month for each year of service and a retiree with a salary of \$21,000 is eligible for \$35 per month. Under HB 649, the retiree with the lower salary would get the same \$35 benefit (before PRPAs) as the retiree with the higher salary. That is, the retiree with the higher salary (and presumably greater contributions to the system) does not benefit from HB 649 despite suffering equal erosion of the purchasing power of the benefits.

The table below shows the effect of HB 649 on the basic retirement benefits of retirees at several salary levels. The benefit amounts do not include PRPAs or cost-of-living adjustments and are presented as annual benefits per year of service. The table shows that only those retirees with a final average salary of less than \$21,000 are affected by HB 649. The Division of Retirement and Benefits estimates that 439 retirees will be affected by the bill.

Basic Annual Benefits per Year of Service
under the Alaska Teachers Retirement System

<u>Final Average Annual Salary</u>	<u>Current Benefits</u>	<u>Benefits under HB 649</u>	<u>Percent Increase</u>
\$12,000	\$300	\$420	40%
15,000	300	420	40
18,000	360	420	17
21,000	420	420	0
24,000	480	480	0
40,000	800	800	0

Prepared by the House Research Agency, 4/84.

The Fiscal Note for HB 649

The fiscal note appears to be a reasonable projection of the cost of implementing HB 649. Contributions to the Teachers' Retirement System (TRS) are from three sources: (1) members contribute seven percent of their salaries; (2) employers pay one-half of the remaining costs; and (3) the State matches contributions by employers. The fiscal note includes a one-time cost of \$13,000 to implement the provisions of HB 649. Additional personal service costs reflect the employer's share of the cost of funding the increase in benefits.¹ The State matches all employer contributions--including those made by the State in its position as an employer--with contributions from the General Fund. Those contributions are shown on line 700 (TRS Match) of the fiscal note.

A Clarification of Adjustment for Inflation

In the memorandum delivered to you on April 10, the Anchorage Consumer Price Index (CPI) was used to determine the current purchasing power of the minimum benefit payments under the Teachers Retirement System. The discussion below should clarify the information presented in that memorandum.

The CPI inflator is determined by dividing the current CPI by the CPI in a past period. It is used to determine the purchasing power of past dollar values. For example, the CPI in January of 1984 was 271.5 and the CPI in January of 1975 was 142.9. The CPI inflator is therefore 1.90 (271.5 divided by 142.9), which means that a current payment of \$38 (1.90 times \$20) would be required to achieve the same purchasing power that was attributable to the \$20 minimum benefit amount in 1975. The purchasing power of minimum benefit levels in other years are shown in the table below.

<u>Year</u>	<u>Minimum Monthly Benefit</u>	<u>CPI Price Inflator</u>	<u>1984 Purchasing Power</u>
1974	\$15	2.16	\$32.42
1975	20	1.90	38.00
1980	25	1.26	31.44
1984	25	1.00	25.00

¹Some employees of the University of Alaska and the Department of Education are eligible for benefits under TRS. The costs shown on line 100 (Rtmnt and Bnfts) are the additional contributions the State will make to the retirement fund on the behalf of these employees.

Representative Bettisworth
April 24, 1984
Page 4

The table shows that a minimum benefit level of \$35 would make the current purchasing power of the minimum benefit level approximately equal to the purchasing power of the minimum benefit payable in the mid 1970s.

* * *

I hope this information has been useful. If we can be of further assistance, please call.



NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

ANCHORAGE REGIONAL OFFICE

1411 W. 33RD
ANCHORAGE, ALASKA 99503
(907) 274-0536

JUNEAU OFFICE

147 S. FRANKLIN #207
JUNEAU, ALASKA 99801
(907) 586-3090

FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET
FAIRBANKS, ALASKA 99701
(907) 456-4435

April 24, 1984

TO: Representative Al Adams, Chair
Members, House Finance Committee

RE: HOUSE BILL NO. 649

"An Act relating to the minimum monthly retirement benefit under the Teachers' Retirement System; and providing for an effective date."

NEA-Alaska supports this legislation and strongly urges favorable action by the Committee.

Admittedly there is a cost component to be considered as a part of the debate on this legislation. We are hopeful, however, that the Committee will look more favorably upon the fact that this legislation addresses a real economic need for a finite number of retirees whose fixed income has not kept pace with the adverse effect of inflation.

This legislation provides meaningful financial assistance to approximately 439 retirees, less than one-third of the total number of retired teachers. This particular group of retirees retired well before the inflationary spiral impacted their active teaching salaries. Therefore, their retirement income does not and probably will not ever meet the current costs of living.

Thank you for your consideration of this very important issue.

Respectfully submitted,

Robert Manners
Executive Secretary

RM3:41

Alaska State Legislature



POUCH V
JUNEAU, ALASKA 99811

REPRESENTATIVE
ROBERT H. "BOB" BETTISWORTH

211 CUSHMAN STREET
FARBANKS, ALASKA 99701

April 10, 1984

M E M O R A N D U M

To: Representative Mae Tischer, Chair, House HESS Committee
From: Rep. Bob Bettisworth *RB*
Subject: HB649, "An Act relating to the minimum monthly retirement benefit under the Teachers' Retirement System; and providing for an effective date."

It has become evident that TRS retirement benefits have not kept up with inflation. This has resulted, for the most part, from the failure of post retirement pension adjustments to keep pace with actual inflation. In an attempt to partially redress this problem HB649 proposes to raise the current statutorial minimum TRS benefit for retirees under the system from \$25/month/year to \$35/month/year. The cost of this increase for those receiving minimum benefits would have to be borne by the state through increased annual appropriations to the TRS match.

The TRS system had no minimum or floor level for retirees until 1973 when a \$200 minimum benefit per month was provided. In 1974 this was changed to \$15/month/year of service and in 1975 the per month per year minimum was raised again to \$20. The \$20 floor remained in effect until it was raised to \$25 in 1980 and it remains at that level today. DOA, Division of Retirement and Benefits has estimated that the number of retirees affected by the increased benefit would be 439.

In calculating what an appropriate increase would be the Anchorage CPI was used keeping in mind the changes over time since the first per month per year based floor was installed in 1974. A figure based on the amount of CPI change since the 1975 adjustment to \$20/month/year was also calculated. Based on these two scenarios, a median figure of \$35 was selected bearing in mind that the numbers were based on calculations of inflation only through January 1, 1984.

Post Retirement
Pension Adjustments

<u>PERS</u>		<u>INFLATION*</u>	<u>TRS</u>	
			7-1-67	1.5%
1-1-68		2.6%**	7-1-68	1.5%
1-1-69	1.5%	4.4%**	7-1-69	1.5%
1-1-70	1.5%	3.9%**	7-1-70	1.5%
1-1-71	1.5%	3.8%	7-1-71	1.5%
1-1-72		3.1%	7-1-72	1.5%
1-1-73	2.5%	2.6%	7-1-73	1.5%
1-1-74	3.0%	3.9%	7-1-74	3.0%
1-1-75		11.3%	7-1-75	
1-1-76		14.8%	7-1-76	
1-1-77		7.2%	7-1-77	10% ***
1-1-78	4.0%	7.6%	7-1-78	4.0%
1-1-79	4.0%	6.3%	7-1-79	4.0%
1-1-80	4.0%	10.0%	7-1-80	4.0%
7-1-81	4.0%	10.1%	7-1-81	4.0%
7-1-82	4.0%	7.7%	7-1-82	4.0%
7-1-83		7.1%	7-1-83	

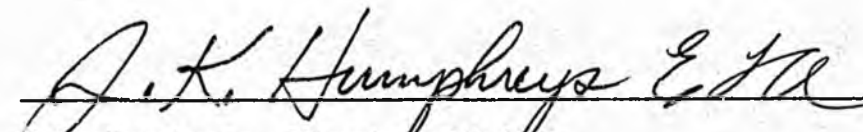
*converted from Anchorage CPI (only for 1971 on).
 **these percentages were furnished by Dept. of Labor
 *** legislatively determined

Position Paper

HB 649

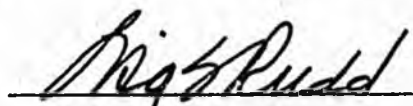
The Department of Administration opposes this bill. The new minimum benefit would be paid to any retiree who retired with less than a \$21,000 annual salary for their high three years. The adjustment under this bill would be made and then any post retirement pension adjustments which had been granted would be added. For example, the minimum benefit under this bill granted to a member who retired in 1965 would, when combined with post retirement pension adjustments, yield a total benefit equivalent to that of a person retiring today with a final salary of \$31,966.44. This seems excessive for a minimum benefit. Those retirees who have been retired longer would benefit more because of the addition of post retirement pension adjustments.

The Department feels that the current minimum benefit provision when coupled with post retirement pension adjustments is adequate.



J.K. Humphreys, Director, Division of Retirement & Benefits

4/9/84
Date



Commissioner Lisa Rudd, Department of Administration

4/10/84
Date

Minimum Eligibility For Normal Retirement

Most public retirement systems require a combination of age and service credit to qualify for normal (unreduced) retirement benefits. Basic requirements in the Alaska systems are:

PERS Age 55 and vested or any age with
30 years of service.

PERS-P/F Age 55 and vested or any age with
20 years of P/F service.

TRS Age 55 and vested or any age with
20 years of membership service.

EPORS Age 60 and vested.

JRS Age 60 and vested.

Retirement Benefit Formula

Most retirement systems use a straightforward formula which uses a benefit multiplier, years of service, and salary. The exact meaning of salary is important and varies from system to system.

PERS (2%) X (years of service) X (salary)

PERS-P/F	(2%) X (years of service) X (salary) for years 1-10 plus (2½%) X (years of service) X (salary) for all years greater than 10
TRS	(2%) X (years of service) X (salary)
EPORS	(5%) X (years of EPORS service) X (salary) plus (2%) X (years of other service) X (salary)
JRS	(5%) X (years of service) X (salary)

Employee Contribution Rate

Employee contribution rates for the Alaska systems are as follows:

PERS	4.25%
PERS-P/F	5%
TRS	7%
EPORS	7%
JRS	7% <u>only</u> for judges appointed on or after 7/1/78

EMPLOYEES RETIREMENT SYSTEM / TEACHERS' RETIREMENT SYSTEM / JUDICIAL RETIREMENT SYSTEM / ELECTED PUBLIC OFFICIALS RETIREMENT SYSTEM / NATIONAL GUARD RETIREMENT SYSTEM
 A COMPARISON - MAY, 1983

	PO/F	<u>PERS</u> All Other	<u>TRS</u>	<u>JRS</u>	<u>EPORS</u>	<u>NGRS</u>
MULTIPLIER	2% on years 1-10 2 1/2% on years over 10	2%	2%	5%	5% membership 2% other creditable service	\$100.00 x no. of months NGRS service
VESTING	5 years	5 years	8 years	5 years	5 years	5 NG out of 20 MIL
RETIREMENT	55 w/5 years service OR 20 years PO/F service	55 w/ 5 years service OR 30 years service	55 w/8 years membership service; OR 5 years membership service and 3 years AK BIA; OR 15 years credited service if hired prior to 7/1/75, last 5 years membership service; OR at any age: 20 years membership service; OR 20 years combined mem- bership and AK BIA, last 5 years membership service; OR 25 years credited service, last 5 years membership service.	60 w/ 5 years service	60 w/ 5 years service	N/A
	55 w/2 years service if if vested in the PERS	55 w/2 years service if vested in the TRS	55 w/2 years membership service if vested in the PERS	N/A	N/A	N/A
EMPLOYEE CONTRIBUTION RATE	5%	4.25%	7%	7% for Judges hired after 7/01/78; 0% for Judges hired before 7/01/78	7%	N/A
	22.36% consolidated rate; FY 83	12.71% consolidated rate; FY 83	8.45%; FY 83	104.78%; FY 83 and FY 84	Unfunded System, Annual Appropriation	Funded System, \$1,202,000 FY 83 and FY 84
BUY IN OR OTHER SERVICE CREDITABLE	Military (max. of 5 years) Territorial Service (must have 3 years service w/State after 1961) Temporary Service	Military (max. of 5 years) Territorial Service (must have 3 years service w/State after 1961) Temporary Service	Military (max. of 5 years) Outside (max. of 10 years; military & outside not to exceed 10 years) AK BIA (no max.)	Magistrate Pre 7/01/67 N/A N/A	PERS Covered Employment	N/A
COLA	10% (or \$50.) if domiciled in AK	10% (or \$50.) if domiciled in AK	10% if domiciled in AK	NO	NO	NO
ANNUAL ADJUSTMENTS	Ad Hoc	Ad Hoc	Ad Hoc	Benefits Increase with Last Position's Salary Increase	Benefits Increase With Last Positions Salary Increase	NO
	Yes	Yes	Yes	Yes	Yes	NO

Appendix I

Introduced: 2/13/84
Referred: Health, Education and
Social Services and Finance

1 IN THE HOUSE

BY BETTISWORTH

2

HOUSE BILL NO. 649

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the minimum monthly retirement benefit under the Teachers' Retirement System; and providing for an effective date."

7

8

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BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10

* Section 1. AS 14.25.110(g) is amended to read:

11

(g) A member who is eligible for a service retirement salary

12

under this chapter or under the Retirement Act of 1945 is entitled to

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a benefit of at least \$35 [\$25] per month for each year of credited

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service, excluding adjustments made under AS 14.25.142 or 14.25.143.

15

If the member elected option two under AS 14.25.063(b)(2) for payment

16

of any indebtedness when the member initially applied for a retirement

17

benefit, or if the member elected to receive an early retirement

18

benefit under (b) of this section, the resulting benefit reduction

19

continues in effect.

20

* Sec. 2. This Act takes effect July 1, 1984.