

C S S S H B

2 5 2

SENATE COMMITTEE REPORT

FURTHER

4/22/88
Mr. President:

DATE TURNED INTO OFFICE 4/27/88

FINANCE Committee considered CSSSHB 252 (SA)

supplemental benefits system; efd

and recommended

replace with _____ CS _____) same title
 or adopt _____ CS _____) new title

- attached amendment(s) and
- do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to _____
- letter of intent adopted _____

Committee attached or adopted fiscal note(s)
 new updated or previous
387.1-DOA zero fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Jim Duncan
W. Henry
Dolores P. Hickey
Paul T. Haroff

Paul Haroff do pass
Chairman signature and recommendation

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Administration
 Title: An act relating to the BRU: Retirement and Benefits
Supplemental Benefits System
 Sponsor: Governor Components: Retirement and Benefits
 Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	162.8	0	0	0	0
TRAVEL	0	1.1	0	0	0	0
CONTRACTUAL	0	219.1	54.0	58.3	63.0	68.0
SUPPLIES	0	4.1	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	387.1	54.0	58.3	63.0	68.0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	337.1	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	50.0	54.0	58.3	63.0	68.0
TOTAL	0	387.1	54.0	58.3	63.0	68.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	5	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

[Handwritten Signature]

Prepared By: Robert F. Saltnak Phone: 465-4470
 Division: Retirement and Benefits Date: April 27, 1988
 Approved by Commissioner: John M. Andrews Date: 4-27-88
 Agency: Department of Administration

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Committee Substitute for Sponsor Substitute for House Bill 252(SA)
Fiscal Note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration
April 26, 1988

IV Analysis:

Passage of this bill would require the restructuring of the Supplemental Benefits System (SBS) in order to conform with requirements in the Tax Reform Act of 1986 (TRA). This restructuring must be implemented prior to January 1, 1989 in order for the SBS to maintain qualified tax exempt status. This restructuring would consist of dividing the SBS into two separate qualified plans, one plan representing money accumulation or annuities and the second, a cafeteria plan representing insurance or benefit selections. Under this sponsor substitute as drafted, the entire amount of the current SBS contributions, 12.26% (6.13% employer, and 6.13% employee), will be deposited in the annuity account.

In addition, employees will be able to elect tax-free wage reductions to pay for benefits available under the cafeteria plan.

The money paid into the SBS from the amounts withheld from the individual employees and the employer match is all placed in the employee's account. Each February, the members are charged a fixed fee of \$35 to cover the on-going administration cost during that benefit year. There is no other administration cost pool and major program changes must be funded with state general fund money. This change was federally mandated precluding an opportunity to anticipate the additional cost and to fund accordingly.

This fiscal note and analysis deals with the one-time costs involved in implementing this legislation and on-going costs for administering the dependent care benefit.

The total estimated cost is categorized as follows:

a. \$162,783 (\$162.8) for wages of five non-permanent professional programmers to effect the necessary changes in the EDP system in the Division of Retirement and Benefits. The Two lead programmers will be required for six months and the remainder for ten months each. Most of the most essential programming and testing can be completed by January 1. Converting current records, accepting new contributions, dividing contributions between annuities and benefits, will be

completed during the first half of the fiscal year. Between January and April, the three remaining programmers will design the various reports, the on-line screens, correct errors that may occur, and re-run accounts that may have been affected. The permanent SBS staff will have to manually complete tasks while the second phase is completed. Long term manual efforts would create a monstrous backlog.

b. Travel. \$1,100 for one person to conduct employee and employer informational meetings in Juneau, Anchorage and Fairbanks.

c. Contractual.

1) \$66,000 for changes in the EDP system of the Division of Finance. The SBS EDP system interfaces with the state payroll EDP system. Major changes to the SBS system necessitates changes to the state payroll system for interface continuity.

2) \$10,100 for postage costs and printing costs for an informational mailing to employees and for enrollment form design changes and printing costs.

3) \$35,000 for consulting services connected with establishing and qualifying the new plans in accordance with federal law and Internal Revenue Code and to assist in IRS qualification of the plans.

4) \$58,000 for data processing chargeback and equipment for the non-permanent programmers. \$42,000 for data processing charge backs during the writing of the new program; \$7,500 (\$1500 for each of 5 terminals) one time hook-up charge; \$1000 to install computer cable; and \$7500 for five computer terminals.

5) \$50,000 for an agency to administer the dependent care benefits. The \$50,000 will be divided into quarterly payments and funded through the SBS administrative fees collected. The agency would pay child care centers from funds collected from members accepting this option.

d. Supplies. \$4,100 supplies for the non-permanent programmers.

Position Title Analyst/Programmer V		No. of Positions 2	Range/Step 21A	Barg. Unit G
Time Status 6 mo. TE/FT	Staff Months 12.0	Location AWA		Election District Juneau (4)
Type of Expenditure		Justification		
		CSSSHB 252 (SA) requires changing the supplemental Benefits System (SBS) to a fixed percentage annuity contribution and a flexible set of optional benefits, including new options such as dependent care, which may be purchased by employees desiring them with pre-tax contributions. It will require five nonpermanent positions, in addition to the existing permanent staff.		
Amount		One of the Analyst/Programmer (A/P) V nonpermanent positions will act as team leader for the State employee Supplemental Benefits System (SSBS) redesign providing guidance for the two nonpermanent A/P IV positions assigned to the SSBS part of the SB 252 SBS redesign project, while the other A/P V will act in a similar capacity relative to the SBS for political subdivisions (PSBS), providing guidance for the nonpermanent A/P IV assigned to that part of the project. Specific duties will include analysis, design, coding, and testing changes to existing programs and files and to new programs and files in the SSBS and PSBS, and conversion from the existing systems to the new systems.		
1	2	3		
Salary	45,744			
Benefits	5,320			
Premium Pay	0			
Other				
Total Personal Services		51,064		
Travel		0		
Contractual		23,200		
Commodities		2,600		
Equipment		0		
Other				
Total Cost		76,864		
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004	76,864		
GF Program Receipts	1005			
Other				

6/6B1/0426-01/1

**Request For
New Position**

Agency Administration
 BRU Retirement and Benefits
 Component Retirement and Benefits

Page 1 of 1
 Revised Date

FY 89

Position Title Analyst/Programmer IV		No. of Positions 3	Range/Step 19A	Barg. Unit G																																													
Time Status 10 mo. TE/FT	Staff Months 30.0	Location AWA		Election District Juneau (4)																																													
<table border="1"> <thead> <tr> <th>Type of Expenditure</th> <th>1</th> <th>2</th> <th>3</th> </tr> </thead> <tbody> <tr> <td>Salary</td> <td></td> <td>100,080</td> <td rowspan="4"></td> </tr> <tr> <td>Benefits</td> <td></td> <td>11,639</td> </tr> <tr> <td>Premium Pay</td> <td></td> <td>0</td> </tr> <tr> <td>Other</td> <td></td> <td></td> </tr> <tr> <td>Total Personal Services</td> <td></td> <td></td> <td>111,719</td> </tr> <tr> <td>Travel</td> <td></td> <td></td> <td>0</td> </tr> <tr> <td>Contractual</td> <td></td> <td></td> <td>34,800</td> </tr> <tr> <td>Commodities</td> <td></td> <td></td> <td>1,500</td> </tr> <tr> <td>Equipment</td> <td></td> <td></td> <td>0</td> </tr> <tr> <td>Other</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Cost</td> <td></td> <td></td> <td>148,019</td> </tr> </tbody> </table>		Type of Expenditure	1	2	3	Salary		100,080		Benefits		11,639	Premium Pay		0	Other			Total Personal Services			111,719	Travel			0	Contractual			34,800	Commodities			1,500	Equipment			0	Other				Total Cost			148,019	Justification CSSSHB 252 (3A) requires changing the Supplemental Benefits System (SBS) to a fixed percentage annuity contribution and a flexible set of optional benefits, including new options such as dependent care, which may be purchased by employees desiring them with pre-tax contributions. It will require five nonpermanent positions, in addition to the existing permanent staff. One of the Analyst/Programmer (A/P) IV nonpermanent positions will share responsibility for designing and implementing changes and additions to the SBS for political subdivisions (PSBS) and the other two A/P IV positions will share similar responsibilities for the SBS for State employees (SSBS). In each case, they will work under the guidance of a nonpermanent A/P V (one for SSBS and one for PSBS) who will act as a team leader during this project. Specific duties will include designing, coding and testing changes to existing files and programs and to new files and programs, and conversion from the existing systems to the new systems.		
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6/6B1/0426-01/3

**Request For
New Position**

Agency Administration
 BRU Retirement and Benefits
 Component Retirement and Benefits

Page 1 of 1
 Revised Date

FY 89

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE STATE AFFAIRS COMMITTEE
2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 252 (State Affairs)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - SECOND SESSION
5 A BILL
6 For an Act entitled: "An Act relating to the supplemental benefits system;
7 and providing for an effective date."
8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:
9 * Section 1. AS 39.30.150(a) is amended to read:
10 (a) In place of contributions to the federal social security
11 system that would have been required on behalf of an employee had the
12 participating employer belonged to the social security system, the
13 participating employer shall contribute an amount equal to 6.13
14 [12.26] percent of the wages of the employee up to the taxable wage
15 base then in effect in the social security system. This contribution
16 must be paid into an individual employee annuity account in the De-
17 partment of Administration under the terms of the State of Alaska
18 Supplemental Annuity Plan. The department shall pay 6.13 percent of
19 the wages of the employee up to the taxable wage base then in effect
20 in the social security system into the individual employee annuity
21 account established under this subsection. This wage reduction must
22 be treated as an employer contribution under 26 U.S.C. 414(h)(2). All
23 costs of establishing and administering the programs [BENEFIT PROGRAM]
24 established under AS 39.30.150 - 39.30.180 must [BY AS 39.30.160
25 SHALL] be paid from the contributions made to the individual employee
26 annuity accounts [BY THE PARTICIPATING EMPLOYERS] under this section.
27 [THE BALANCE OF THE CONTRIBUTIONS MADE BY THE PARTICIPATING EMPLOYERS
28 SHALL BE PAID INTO SPECIAL INDIVIDUAL EMPLOYEE BENEFIT ACCOUNTS IN THE
29 DEPARTMENT OF ADMINISTRATION TO BE USED TO PROVIDE SUPPLEMENTAL

1 EMPLOYEE BENEFITS PROVIDED IN AS 39.30.160.]

2 * Sec. 2. AS 39.30.150(c) is repealed and reenacted to read:

3 (c) An employee may voluntarily elect additional wage reductions
4 to be paid into special individual employee benefit accounts in the
5 Department of Administration. Money in these accounts must be used to
6 purchase benefits selected by the employee under the supplemental
7 benefits plan established by the administrator.

8 * Sec. 3. AS 39.30.153 is amended to read:

9 Sec. 39.30.153. REPAYMENT OF CONTRIBUTIONS. Upon termination of
10 employment the amount held on behalf of a terminating employee in the
11 employee's individual employee annuity [SUPPLEMENTAL BENEFITS] account
12 must [ESTABLISHED UNDER AS 39.30.160 SHALL] be paid to the employee
13 under the terms of the State of Alaska Supplemental Annuity Plan. [A
14 TERMINATING EMPLOYEE MAY DEFER RECEIPT OF PAYMENT UNDER THIS SECTION
15 AT THE EMPLOYEE'S OPTION.]

16 * Sec. 4. AS 39.30.160(a) is amended to read:

17 Sec. 39.30.160. BENEFITS [IN PLACE OF SOCIAL SECURITY]. (a)
18 The Department of Administration shall, in accordance with policies
19 prescribed by regulations of the Public Employees Retirement Board,
20 provide to employees for whom special individual employee benefit
21 accounts are established under AS 39.30.150 the following benefit
22 options:

- 23 (1) supplemental health benefits,
24 (2) supplemental death benefits,
25 (3) supplemental disability benefits, and
26 (4) supplemental dependent care benefits [SURVIVOR BENE-
27 FITS, AND
28 (5) SUPPLEMENTAL ANNUITIES].

29 * Sec. 5. AS 39.30.160(b) is amended to read:

1 (b) An employee [ON WHOSE BEHALF A PARTICIPATING EMPLOYER IS
2 MAKING CONTRIBUTIONS UNDER AS 39.30.150] may select the types and
3 amounts of supplemental benefits to be purchased with the money depos-
4 ited in [FROM] the employee's special individual employee benefit
5 accounts [ACCOUNT ESTABLISHED] under AS 39.30.150. The selection must
6 [SHALL] be from the benefit options listed in (a) of this section.

7 * Sec. 6. AS 39.30 is amended by adding a new section to read:

8 Sec. 39.30.162. SAFEGUARD OF MONEY. (a) Except as provided in
9 the State of Alaska Supplemental Annuity Plan, amounts held on behalf
10 of, or payable to, an employee or other person who is or who might
11 become eligible for benefits under the plan are not subject to an-
12 ticipation, alienation, sale, transfer, assignment, pledge, encum-
13 brance, or charge of any kind, either voluntary or involuntary, before
14 being received by the person entitled to the amount under the terms of
15 the plan. An attempt to anticipate, alienate, sell, transfer, assign,
16 pledge, encumber, charge, or otherwise dispose of a right to amounts
17 held under the plan is void.

18 (b) Except as provided in AS 09.38.065, amounts held on behalf
19 of, or payable to, an employee or other person who is or who might
20 become eligible for benefits under the plan are exempt from garnish-
21 ment, execution, or levy.

22 * Sec. 7. The plan administrator of the State of Alaska Supplemental
23 Annuity Plan shall amend the plan in accordance with this Act upon obtain-
24 ing a determination in accordance with federal law and regulations that the
25 amendment will not adversely affect the deferral of taxes.

26 * Sec. 8. The provisions of this Act apply to contributions due the
27 month after a determination is obtained that amendment of the plan in
28 accordance with this Act will not adversely affect the deferral of taxes.

29 * Sec. 9. AS 39.30.160(c) is repealed.

1 * Sec. 10. Sections 1 - 5, 8, and 9, of this Act take effect January 1,
2 1989.

3 * Sec. 11. Sections 6 and 7 of this Act take effect immediately under
4 AS 01.10.070(c).

FISCAL NOTE

REQUEST:

465

Revision Date: _____
Title: An act relating to the
Supplemental Benefits System
SPONSOR: Governor
Requestor: _____

Agency Affected: Administration
BRU: Retirement and Benefits

Components: Retirement and Benefits

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	235.7	0	0	0	0
TRAVEL	0	1.1	0	0	0	0
CONTRACTUAL	0	219.1	54.0	58.3	63.0	68.0
SUPPLIES	0	4.1	0	0	0	0
EQUIPMENT	0	15.8	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	475.8	54.0	58.3	63.0	68.0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	425.8	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	50.0	54.0	58.3	63.0	68.0
TOTAL	0	475.8	54.0	58.3	63.0	68.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	5	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Analysis attached

Prepared By: Robert F. Stalnaker
Division: Retirement and Benefits

Phone: 465-4470
Date: April 20, 1988

Approved by Commissioner: John M. Andrews
Agency: Department of Administration

Date: 4/20/88

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Committee Substitute for Sponsor Substitute for House Bill 252(SA)
Fiscal Note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration
April 20, 1988

IV Analysis: Passage of this bill would require the restructuring of the Supplemental Benefits System (SBS) in order to conform with requirements in the Tax Reform Act of 1986 (TRA). This restructuring must be implemented prior to January 1, 1989 in order for the SBS to maintain qualified tax exempt status. This restructuring would consist of dividing the SBS into two separate qualified plans, one plan representing money accumulation or annuities and the second, a cafeteria plan representing insurance or benefit selections. Under this sponsor substitute as drafted, the entire amount of the current SBS contributions, 12.26% (6.13% employer, and 6.13% employee), will be deposited in the annuity account.

In addition, employees will be able to elect tax-free wage reductions to pay for benefits available under the cafeteria plan.

This fiscal note and analysis deals with the one-time costs involved in implementing this legislation and on-going costs for administering the dependent care benefit.

The total estimated cost is categorized as follows:

- a. Personal Services. \$235,700 for wages of non-permanent professional programmers to effect the necessary changes in the EDP system in the Division of Retirement and Benefits. See attached breakdown of DP estimates.
- b. Travel. \$1,100 for one person to conduct employee and employer informational meetings in Juneau, Anchorage and Fairbanks.
- c. Contractual.
 - 1) \$66,000 for changes in the EDP system of the Division of Finance.

- 2) \$10,100 for postage costs and printing costs for an informational mailing to employees and for enrollment form design changes and printing costs.
 - 3) \$35,000 for consulting services connected with establishing and qualifying the new plans in accordance with federal law and Internal Revenue Code and to assist in IRS qualification of the plans.
 - 4) \$58,000 for data processing chargeback and equipment for the non-permanent programmers.
 - 5) \$50,000 for an agency to administer the dependent care benefits.
- d. Supplies. \$4.1 supplies for the non-permanent programmers.
 - e. Equipment. \$15.8 for workstations for the non-permanent programmers.

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Administration
 Title: An act relating to the BRU: Retirement and Benefits
Supplemental Benefits System
 Sponsor: Governor Components: Retirement and Benefits
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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	232.5	0	0	0	0
TRAVEL	0	1.1	0	0	0	0
CONTRACTUAL	0	219.1	54.0	58.3	63.0	68.0
SUPPLIES	0	4.1	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	456.8	54.0	58.3	63.0	68.0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	406.8	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	50.0	54.0	58.3	63.0	68.0
TOTAL	0	456.8	54.0	58.3	63.0	68.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	5	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

[Empty box for analysis]

Prepared By: Robert F. Stalnaker *[Signature]* Phone: 465-4470
 Division: Retirement and Benefits Date: April 26, 1988

Approved by Commissioner: John M. Andrews *[Signature]* Date: 4/26/88
 Agency: Department of Administration

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Committee Substitute for Sponsor Substitute for House Bill 252(SA)
Fiscal Note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration
April 26, 1988

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This fiscal note and analysis deals with the one-time costs involved in implementing this legislation and on-going costs for administering the dependent care benefit.

The total estimated cost is categorized as follows:

- a. \$232,500 for wages of five non-permanent professional programmers for 12 months to effect the necessary changes in the EDP system in the Division of Retirement and Benefits. The five positions are needed after the January 1, 1989 effective date because only the most essential programming and testing can be completed by January 1. Converting current records, accepting new contributions, dividing contributions between annuities and benefits, will be completed

during the first half of the fiscal year. During the second half of the year, the programmers will design the various reports, the on-line screens, correct errors that may occur, and re-run accounts that may have been affected. The permanent SBS staff will have to manually complete tasks while the second phase is completed. Long term manual efforts would create a monstrous backlog.

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5) \$50,000 for an agency to administer the dependent care benefits. The \$50,000 will be divided into quarterly payments and funded through the SBS administrative fees collected. The agency would pay child care centers from funds collected from members accepting this option.

d. Supplies. \$4.1 supplies for the non-permanent programmers.

Position Title Analyst/Programmer V		No. of Positions 2	Range/Step 21A	Barg. Unit G
Time Status FT Non-Permanent	Staff Months 24.0	Location AWA		Election District Juneau (4)
		Justification		
Type of Expenditure		Amount		
1	2	3		
Salary	91,488			
Benefits	10,640			
Premium Pay	0			
Other				
Total Personal Services		102,128		
Travel		0		
Contractual		23,200		
Commodities		2,600		
Equipment		0		
Other				
Total Cost		127,928		
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004	127,928		
GF Program Receipts	1005			
Other				
		<p>CSSSHB 252 (SA) requires changing the supplemental Benefits System (SBS) to a fixed percentage annuity contribution and a flexible set of optional benefits, including new options such as dependent care, which may be purchased by employees desiring them with pre-tax contributions. It will require five nonpermanent positions, in addition to the existing permanent staff.</p> <p>One of the Analyst/Programmer (A/P) V nonpermanent positions will act as team leader for the State employee Supplemental Benefits System (SSBS) redesign providing guidance for the two nonpermanent A/P IV positions assigned to the SSBS part of the SB 252 SBS redesign project, while the other A/P V will act in a similar capacity relative to the SBS for political subdivisions (PSBS), providing guidance for the nonpermanent A/P IV assigned to that part of the project. Specific duties will include analysis, design, coding, and testing changes to existing programs and files and to new programs and files in the SSBS and PSBS, and conversion from the existing systems to the new systems.</p>		

6/6B1/0426-01/1

**Request For
New Position**

Agency Administration
 BRU Retirement and Benefits
 Component Retirement and Benefits

Page 1 of 1
 Revised Date

FY 89

Position Title Analyst/Programmer IV		No. of Positions 3	Range/Step 19A	Barg. Unit G
Time Status FT Non-Permanen	Staff Months 35.0	Location AWA		Election District Juneau (4)
Justification				
<p>CSSSHB 252 (SA) requires changing the Supplemental Benefits System (SBS) to a fixed percentage annuity contribution and a flexible set of optional benefits, including new options such as dependent care, which may be purchased by employees desiring them with pre-tax contributions. It will require five nonpermanent positions, in addition to the existing permanent staff.</p> <p>One of the Analyst/Programmer (A/P) IV nonpermanent positions will share responsibility for designing and implementing changes and additions to the SBS for political subdivisions (PSBS) and the other two A/P IV positions will share similar responsibilities for the SBS for State employees (SSBS). In each case, they will work under the guidance of a nonpermanent A/P V (one for SSBS and one for PSBS) who will act as a team leader during this project. Specific duties will include designing, coding and testing changes to existing files and programs and to new files and programs, and conversion from the existing systems to the new systems.</p>				
Type of Expenditure		Amount		
1	2	3		
Salary	116,760			
Benefits	13,579			
Premium Pay	0			
Other				
Total Personal Services		130,339		
Travel		0		
Contractual		34,800		
Commodities		1,500		
Equipment		0		
Other				
Total Cost		166,639		
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004	166,639		
GF Program Receipts	1005			
Other				

6/6B1/0426-01/3

**Request For
New Position**

Agency Administration
 BRU Retirement and Benefits
 Component Retirement and Benefits

Page 1 of 1
 Revised Date

FY 89

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 10, 1988

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a sponsor substitute for HB 252, relating to the supplemental benefits system (SBS). HB 252 was introduced last year to address changes in federal law in 1985 which required the state to pay for Medicare coverage under the social security system for new employees. The bill requires that both employer contributions and mandatory employee wage reductions for SBS be reduced by the amount that the employer and employee are required to pay for Medicare coverage. The attached sponsor substitute also addresses this issue, and further provides for a corresponding reduction in contributions to be made if the state is required to participate in any part of the social security system. (Section 3.)

The primary reason for introduction of this sponsor substitute is to address changes in federal law enacted in the Tax Reform Act of 1986 (TRA). Because of those changes, SBS must be restructured if the plan is to maintain its status as a qualified, tax exempt plan after January 1, 1989. Under the TRA, there can be no employee discretion concerning the amount contributed to a qualified annuity plan. The employee contribution must be fixed by law. Current provisions of SBS do permit a certain amount of employee discretion, since an employee's decision to purchase or not to purchase various insurance benefits affects the amount that will be deposited in the employee's annuity account. Therefore, SBS will be out of compliance with the federal requirement as of January 1, 1989.

The sponsor substitute would restructure SBS into two free-standing plans: one, a qualified annuity plan to which contributions, fixed by law, would be made; and the other, a "cafeteria" plan under which employee contributions that are variable, voluntary, and tax-free could be used to pay for benefits selected by the employee.

Governor's Letter

Currently, SBS is funded by contributions by the employer in an amount equal to 12.26 percent of each of its employee's wages, up to the social security taxable wage base. Half of the contribution comes from a mandatory before-tax reduction in employee wages. Therefore, in effect, the employer and employee each contribute 6.13 percent of wages. Under the sponsor substitute, the entire amount of both the employer and employee portions of the contribution will be deposited in the annuity account. Employees will be able to elect additional tax-free wage reductions to pay for insurance benefits available under the cafeteria plan. Of course, an employee's election of further wage reductions to purchase cafeteria plan benefits will result in lower take-home pay. This result could be avoided if some lesser fixed portion of the employee's current 6.13 percent wage reduction is required to be deposited in the annuity account. The remaining portion would then be available for the employee to allocate to cafeteria plan benefits (tax-free) or to increase take-home pay (taxable earnings).

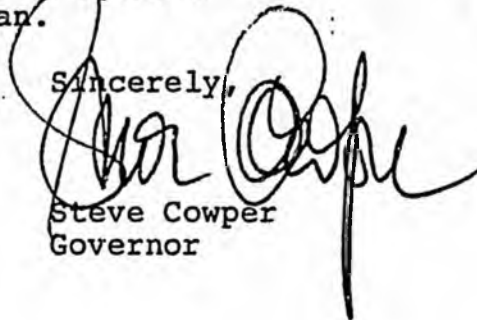
Because of the varying financial situations among state employees and varying needs for insurance benefits, my Administration has not, at this point, attempted to select a partial amount of the employee contribution to be made available to purchase those benefits. As I mentioned earlier, the bill simply requires the full 6.13 percent employee contribution to be deposited in the employee's annuity account. The division of retirement and benefits will prepare written materials to be sent to all SBS members explaining the need for and provisions of this bill. In addition, informational meetings are being planned by the division to be held throughout the state. At these meetings, SBS members will be afforded the opportunity to express their preferences as to whether the bill should make part or all of the employee contribution available for members to allocate to purchase of insurance benefits and increase in take-home pay instead of requiring the entire employee contribution to be deposited in the annuity account.

Two additional amendments to the SBS statutes are included in the sponsor substitute. First, the option of selecting dependent care benefits is added to the cafeteria plan. Section 5 of the bill. Second, provisions that protect SBS contributions from certain alienations and attachments are specifically added to the statute. Section 7 of the bill. Although the SBS Annuity Plan already provides for this protection (as do all private pension plans and the state's teachers' and public employees' retirement systems), the terms of the plan are only readily available in pamphlets

printed by DOA's division of retirement and benefits. Inclusion of the safeguard provisions in the statute will better alert SBS members and their creditors to the protection.

I urge prompt passage of this sponsor substitute to assure the integrity of our SBS plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written over the typed name and title.

Steve Cowper
Governor

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX C
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200

The Honorable Al Adams
Chairman, House Finance Committee
Alaska House of Representatives
P.O. Box V
Juneau, Alaska 99811

April 8, 1988

Dear Representative Adams:

The purpose of this letter is to apprise your committee of a provision in SSHB 252 that was deleted by the House State Affairs Committee.

Section 3 of SSHB 252 would have reduced both employer and employee contributions to the Supplemental Benefits System by any mandatory payments to the federal social security system. CSSS HB 252 (SA) does not include this section.

I respectfully request the House Finance Committee to consider reinstating this provision for two reasons:

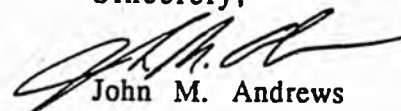
1. For employees hired after March 31, 1986, the state and employees are already required to pay premiums to the federal government for the medicare portion of social security. This currently costs the State ~~\$650,000 per year~~, and costs employees an equal amount. Reinstating the provision will represent immediate savings to both the State and employees. Furthermore, these savings will increase as turnover in the workforce produces more and more employees subject to this participation. *1.5 million in 1st full yr of operation*
2. We expect Congress to consider, but not necessarily to pass this year, a provision to require medicare premiums for all employees regardless of hire date. In addition, some time down the road, they will probably once again consider compelling full participation of state employees in the social security system. Reverting back to the provisions of SSHB 252 will protect the state and employees from double payment i.e making contributions to SBS and at the same time being required to participate, partially or fully, in social security.

Rep Al Adams

April 8, 1988

Attached is Section 3 of SSHB 252 which was deleted in the House State Affairs committee. I hope this information will be of assistance to you.

Sincerely,



John M. Andrews
Commissioner

Attachment

Sponsor Substitute House Bill 252

Sec. 3 AS 39.30.150 is amended by adding a new subsection to read:

(d) If a participating employer is required by federal law to participate in any part of the federal social security system, (1) the employer contribution required by (a) of this section must be reduced by either the amount required to be paid by the employer to the social security system on behalf of the employee, or 6.13 percent whichever is less, and (2) the employee wage reduction required by (a) of this section must be reduced by the amount required to be paid by the employee to the social security system or 6.13 percent whichever is less.



Alaska Public
Employees Association **APEA**

State Headquarters: 340 N. Franklin, Juneau, AK 99801 (907) 586-2334

MEMORANDUM

TO: Representative Fran Ulmer, Chairperson
House State Affairs Committee

FROM: Cherie Shelley

SUBJECT: HB 252

DATE: February 23, 1988

APEA has reviewed the Department of Administrations proposed letter and draft ballot (attached) regarding the Supplemental Benefits System. The proposed letter is clear and concise but both does not address Section 3 of the legislation which would reduce employer and employee contributions to the SBS annuity account. In order to make an informed choice that issue should be resolved prior, to an election. An employee hired after April 1986 may vote for a lower employee contribution to the annuity account believing the employer contribution would be 6.13% when in fact it would be 4.68% as the legislation is currently drafted.

As I indicated previously, APEA is concerned about automatic provision of the legislation which would reduce employer and employee contributions to the annuity program for mandatory social security contributions. APEA believes each social security change should be scrutinized carefully for its impact on the SBS and change should then be made as the legislature deems as appropriate.

In the present case, APEA opposes reducing employees' benefits by 1.45%. The state's contributions to the SBS and the 1.45% to social security for those employees hired after April 1986 it is approximately the same as the current level of social security contributions. The increased cost which the state is currently paying is more than offset by the millions of dollars in employer savings resulting from participation in the SBS rather than social security.

In reference to the draft ballot, APEA would like to see the ballot provide for only two choices. This legislation is quite

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227 4th Street
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complex and expanding the options available creates unnecessary confusion about which option to select. APEA's preference on the ballot is two options including an annuity of 6.13% and an annuity of 4.25%. The SBS was designed primarily as a retirement system to replace social security, not provide additional take home dollars today.

I would be happy to answer any questions you may have.

Attachment

cc: House State Affairs Committee

CS/kr



Alaska Public
Employees Association **APEA**

State Headquarters: 340 N. Franklin, Juneau, AK 99801 (907) 586-2334

MEMORANDUM

TO: Representative Al Adams, Chairman
House Finance Committee

FROM: Cherie Shelley

SUBJECT: CSHB 252
Supplemental Benefits System

DATE: April 8, 1988

CSHB 252 is vital legislation for the Supplemental Benefits System. As a result of the federal Tax Reform Act of 1986, the Supplemental Benefits System must be amended prior to January 1, 1989 or the SBS contributions will be subject to federal taxation. Such taxation would adversely affect all SBS participants, which include executive, legislative and judicial branch employees.

The legislation amends the Supplemental Benefits System to provide for both the employer's and the employee's contributions to be deposited in the employee's SBS annuity account. This is consistent with the recent Department of Administration survey in which 84 percent of the employees responding voted for the maximum contribution to the annuity account. Supplemental insurance previously available under SBS may be purchase from the employee's regular paycheck. However the legislation allows the insurance premium to be deducted prior to federal taxes being withheld.

APEA has been advised that the Department of Administration will be submitting an amendment to CSHB 252 which would automatically reduce both the employer and the employee contributions to the SBS annuity account by any mandated contributions to the federal social security system. This language, if adopted, would immediately reduce SBS benefits. The state is currently contributing 1.45 percent to the medicare program for employees hired after April 1986. Such employees are also making a like contribution. APEA opposes reducing the SBS benefits for these employees.

It should be noted that the SBS contribution rate is fixed at 6.13 percent; the current social security rate is 7.51 percent. The

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Juneau Field Office
227 4th Street
Juneau, AK 99801
Telephone: (907) 586-6305

state's 6.13 percent contribution to SBS and 1.45 percent contribution to medicare totals 7.58 percent or just 0.07 percent higher than the current social security rate. This increased cost is more than offset by the millions of dollars the state has saved and will continue to save in the future as a result of participating in SBS rather than the social security system. APEA opposes any amendment which would result in an automatic benefit reduction in the SBS annuity account.

The Alaska Public Employees Association requests your support for the House State Affairs Committee Substitute for HB 252.

Thank you.

cc: House Finance Committee



Alaska Public
Employees Association **APEA**

Juneau Field Office: 227 4th Street, Juneau, AK 99801 (907) 586-6305

SUPPLEMENTAL BENEFITS SYSTEM

The difference between Sponsor Substitute for House Bill 252 and Committee Substitute for Sponsor Substitute for house Bill 252, State Affairs are as follows:

SSHB 252

Section 3 of SSHB 252 would automatically reduce both the employer and the employee contributions to SBS by any mandated contributions to the federal social security system. Currently both the state and the employees hired after April 1986 are contributing 1.45% to the social security medicare program in addition to the 6.13% contribution to SBS.

While Section 3 would save the state \$655,000 in FY 89, it should be noted that participation in SBS rather than social security saves the state millions of dollars. According to the Department of Administration, Division of Retirement and Benefits, during calendar year 1987, the state saved \$3,937,100 by participating in SBS rather than social security; this cost savings includes the cost of medicare participation. In calendar year 1988, the savings as a result of SBS participation will increase to \$5,348,800.

CSSHB 252

The House State Affairs Committee removed the language of Section 3 and maintained the status quo. APEA supports the House State Affairs Committee's action on the committee substitute.



Official Business

Alaska State Legislature

House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

March 2, 1988

TO: House State Affairs Committee

FROM: Representative Fran Ulmer, Chair
House State Affairs

RE: SSHB 252

I received the attached letter from Commissioner John Andrews outlining when the survey was sent and his expectations as to when the ballots will be returned. He also explains why a reference was not made to the 1.45% Medicare reduction for new employees.

It was my intention that the House State Affairs Committee have a chance to comment on the letter and survey prior to its being sent. Apparently this was not the Commissioner's understanding since he did mail their draft version. Regardless, we do have SSHB 252 before us, and will have ample opportunity to consider the survey results, hear testimony and make changes as necessary.

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX C
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200

February 26, 1988

Honorable Fran Ulmer
Representative
P.O. Box V
Juneau, Alaska 99811

Re: SBS Letter to Employees

Dear Representative Ulmer:

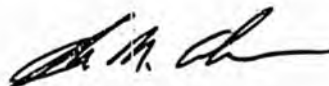
The attached letter and ballot are being sent to all State employees. Approximately 6,000 will reach the post office on Saturday, February 27, 1988, with the remainder mailed by Monday afternoon, February 29, 1988.

The ballots will be individually numbered and the return deadline is March 15, 1988. We plan to provide a report of the results to the House State Affairs Committee by March 18.

The ballot offers three options (6.13%, 4.25%, 2.37%) to give a broad range of realistic alternatives.

The 1.45% for Medicare is not mentioned in the employee survey in order to keep the question as simple as possible and to limit the question to the issue of how State employees wish to spend their own money. I view the 1.45% Medicare question as a matter of state fiscal policy which should be resolved directly between the Legislature and the executive branch.

Sincerely,



John M. Andrews
Commissioner

Attachment

JMA/lc

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT & BENEFITS

PLEASE REPLY TO:

P.O. BOX CR

JUNEAU, ALASKA 99811-0203

PHONE: (907)465-4460

2600 DENALI ST. SUITE 401

ANCHORAGE, ALASKA 99503-2740

PHONE: (907) 277-7504

Public Employees Retirement System
Judicial Retirement System
Elected Public Officers Retirement System
National Guard Retirement System
Territorial Retirement System
Retirees Voluntary Dental-Vision Audio Plan
Supplemental Benefits System
Group Health Life Insurance Benefits
Deferred Compensation Plan
Public Employers Social Security Contributions

STEVE COWPER, GOVERNOR

February 25, 1988

Dear SBS Participant:

Major changes will be required in the Supplemental Benefits System (SBS) beginning January 1, 1989. These changes are required as a result of the federal Tax Reform Act of 1986. Legislation has been introduced by the governor and must be enacted this session to provide for the changes. Information is being requested from you to help determine the direction the change will take.

The SBS was created in 1980 to replace Social Security by providing future retirement benefits and current insurance benefits supplemental to the state health plan. Currently, the SBS consists of two major parts; insurance benefits and retirement money accumulation (annuity). Under today's SBS, 6.13% of your salary is deducted from your wages before taxes are calculated. This percentage is matched by the State for a total contribution to the SBS of 12.26% of your gross wages. This contribution is made to the SBS on each employee's behalf and is used to first pay the SBS administrative fees and insurance premiums for each employee, with the remainder being deposited into the employee's annuity account.

Since each employee chooses his or her own insurance election and insurance premiums vary with each employee's age and salary, the result is that different percentages of salary are contributed to the annuity accounts for each employee.

This structure will not be allowed under the Tax Reform Act. A pre-set, uniform, and non-discretionary percentage of salary must be contributed to the annuity account for each employee.

In an effort to maintain as much consistency with the current SBS plan and ideals, the proposed legislation establishes two separate plans; a free-standing insurance plan and a free standing annuity plan. Each plan will be qualified under separate provisions of the Internal Revenue Tax Code. The entire employer contribution (6.13%) will go into the annuity plan.

The question that remains, and on which we would ask your advice, is: What should each employee's percentage contribution be to the annuity plan?

The answer could be all, or some portion, of the current 6.13% employee contribution. Whatever portion of this amount is not paid into the annuity account would increase the employee's "pre-taxable income" (income before federal taxes are calculated). It would then be available to help pay premiums under the separate insurance plan, or to increase take-home pay.

February 25, 1988

The separate insurance plan will allow each employee to select from any or all of the insurance options (including dependent care coverage) and to pay for those selections with dollars from "pre-taxable income". Of course, the total cost of the options selected will ultimately affect your net taxable income.

We have selected three sample alternatives to illustrate the effects on the annuity account and on gross salary of various employee contribution percentages paid to the annuity account. These examples assume a monthly salary of \$2100.00 and monthly insurance premiums of \$50.00. The examples do not include administrative costs.

SAMPLE ALTERNATIVES

Employer 6.13% Annuity Contribution	Employee Annuity Contribution Percent	Employee Contribution Amount	Total Monthly Contribution to Annuity	Amount of Increase to "Pre-Taxable Income" Before Insurance Premiums	Net Effect on Taxable Income After Insurance Premiums of \$50/mo.
\$128.73	6.13	\$128.73	\$257.46	\$ 0	-\$50.00
128.73	4.25	89.25	217.98	39.48	- 10.52
128.73	2.37	49.77	178.50	78.96	+ 28.96

Enclosed is a survey form on which you may indicate your preference on the level of contributions all employees would make to their annuity accounts. Remember this is in addition to the "employer" contribution of 6.13%. If you choose a high amount, such as 6.13%, you are indicating your preference for pre-tax savings for retirement or other purposes for use after your termination. If you choose a low amount, such as 2.37%, you are indicating your preference for current-year income which you may use for the purchase of insurance premiums or to increase your regular taxable payroll.

The survey is for information purposes only. The results of the information will be used by both the legislature and the administration in determining the direction of the final legislation. The final employee's annuity contribution rate will ultimately be set by the legislature. However, your input will help provide needed information for the legislature's consideration.

These are important decisions. There will be future correspondence on this subject as events develop. If you have any questions, please contact the Supplemental Benefits System at 465-4460.

Sincerely,

Robert F. Stalnaker
Robert F. Stalnaker
Acting Director

RFS/MBC/LMT/cam/9
Enclosure

DIVISION OF RETIREMENT AND BENEFITS

SUPPLEMENTAL BENEFITS SYSTEM SURVEY

Please indicate your preference for the "employee's" annuity contribution rate that should be established by the State by checking one of the following alternatives and returning this survey form by March 15, 1988 to: *Division of Retirement & Benefits, P.O. Box CR, Juneau, Alaska 99811* or *2600 Denali, Suite 401, Anchorage, Alaska 99503*. You may also return your ballot to your personnel office for delivery to Mail Stop 0203.

1. Maximum Annuity Contribution (6.13%):
Under this alternative, the entire current contribution of 6.13% will go to your annuity account. If you wish to purchase insurance benefits, your taxable income will decline by the amount of your insurance costs.
2. Middle Annuity Contribution (4.25%):
Under this alternative, 4.25% of your earnings will go to your annuity account. The balance, 1.88% of your earnings, will be available for purchasing insurance benefits or take-home pay. You will experience an increase (decrease) in your taxable income depending on whether your insurance purchases are smaller (greater) than 1.88% of your earnings.
3. Low Annuity Contribution (2.37%):
Under this alternative, 2.37% of your earnings will go to your annuity account. The balance, 3.76% of your earnings, will be available for purchasing insurance benefits or take-home pay. You will experience an increase (decrease) in your taxable income depending on whether your insurance purchases are smaller (greater) than 3.76% of your earnings.

EXAMPLE:

Assumptions: Annual Salary = \$35,000; Annual Insurance Purchases = \$800.

Under the *existing* SBS program, your total annual SBS contribution is allocated as follows:

Total Contribution (\$35,000 X .0613)	=	\$2,146
Insurance Purchases	=	<u>\$800</u>
Employee's Annuity Contribution	=	<u>\$1,346</u>

Under the 3 *revised* alternatives described above, the annual allocation would be as follows:

	Employee Annuity Contribution		Available for Insurance or Wages		Insurance Purchases	Pre-tax Change in Annual Wages
	Percent	Amount	Percent	Amount		
1. High Annuity	6.13%	\$2,146	0.0%	\$0	\$800	-\$800
2. Middle Annuity	4.25%	\$1,488	1.88%	\$658	\$800	-\$142
3. Low Annuity	2.37%	\$830	3.76%	\$1,316	\$800	\$516

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT & BENEFITS

PLEASE REPLY TO:

P.O. BOX CR [] 701 East Tudor Road, Suite 240
JUNEAU, ALASKA 99811-0203 Anchorage, AK 99503
PHONE: (907) 465-4460 Phone: (907) 563-5885

Ms. Martha Stewart, Committee Assistant
House Finance Committee
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Ms. Stewart:

Re: HCS SSHB 252 (State Affairs)

The purpose of this letter is to provide you with an update on the employee survey we conducted regarding HCS SSHB 252 (State Affairs). This survey was undertaken to determine employee opinion as to what portion of the employee's contribution, a total of 6.13% of gross wages, should be allocated directly to the employee's annuity account. I have enclosed a copy of the cover letter and survey form sent to all active employees.

Enclosed also is a copy of the March 18 letter to Representative Fran Ulmer which contains the initial results of the survey. We have since received another 764 surveys, an additional 5% of the total sent out, since the first count. Following are the results of the second count:

Alternative	Count	Percentage
Maximum Annuity (6.13%)	665	87%
Middle Annuity (4.25%)	74	10%
Low Annuity (2.37%)	25	3%

When the first and the second counts are combined, there is a total of 33% responding and the results are as follows:

Alternative	Count	Percentage
Maximum Annuity (6.13%)	3910	84%
Middle Annuity (4.25%)	612	14%
Low Annuity (2.37%)	117	2%

I hope this information assists you in preparing for the Finance Committee hearing on this bill. If I can be of further assistance, please contact me.

Sincerely,



Michael B. Coughlin
Deputy Director

Public Employees Retirement System
Teachers Retirement System
Judicial Retirement System
Elected Public Officers Retirement System
National Guard Retirement System
Territorial Retirement System
Retirees' Voluntary Dental-Vision-Audio Plan
Supplemental Benefits System
Group Health/Life Insurance Benefits
Deferred Compensation Plan
Public Employers Social Security Contributions

STEVE COWPER, GOVERNOR

April 4, 1988

MBC/cam/II
Enclosures

STEVE COWPER, GOVERNO

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

P.O. BOX C
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200

March 18, 1988

Honorable Fran Ulmer
Chairman
House State Affairs Committee
P.O. Box V
Juneau, Alaska 99811

Dear Representative Ulmer:

The purpose of this letter is to provide you with a status report on the outcome of the survey we conducted regarding the Supplemental Benefits System pertaining to SSHB 252.

We mailed 13,923 surveys to SBS participants. We received 3875 surveys - 28% - as of the March 15 deadline. The results as of this date are as follows:

Alternative	Count	Percentage
Maximum Annuity (6.13%)	3245	84%
Middle Annuity (4.25%)	538	14%
Low Annuity (2.37%)	92	2%

Even if you combine the total ballots submitted for the Low and Middle Annuity Options, less than 16% of the respondents favored an annuity level below the 6.13% level. Since the results of the survey show an overwhelming preference for the high annuity contribution, we would recommend the 6.13% level be used for both the Employer and Employee contribution rates for the annuity.

The state and the employees (as evidenced by the comments they provided on the ballot and in separate correspondence) clearly disagree on the proposed language included in SSHB 252 which would require that SBS employer and employee contributions be lowered by any mandatory payments to the Social Security System including Medicare payments.

While I understand the Committee's desire for a less controversial solution, there are two pieces of information

March 18, 1988

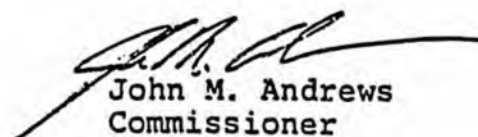
I feel it is only prudent to share with you regarding this matter:

1. Current Social Security Requirements The state and the employee are already required to pay Medicare premiums for all employees hired after April 1, 1986. This requirement costs the State \$625,000 and costs the employee \$625,000. This cost will continue to escalate as the turnover in the workforce produces more and more employees subject to this participation.
2. Proposed Changes to the Social Security Requirements We expect Congress to consider, but not necessarily pass this year a provision to require Medicare premiums for all employees regardless of their hire date. In addition, they will probably once again consider a provision to compel full participation in the Social Security System. While we do not expect these provisions to pass affecting FY 89, it is likely that the provisions may pass within the next 2-5 years.

The attached copy of SSHB 252 is highlighted to indicate those sections which should be removed from the bill if the Committee wishes to introduce Committee Substitute to remove the pertinent language which would require the lowering of the employee/employer annuity contributions by any mandatory social security payments.

I hope this information will be of assistance.

Sincerely,


John M. Andrews
Commissioner

Attachments

JMA/MH/lc

Appendix A

The Division of Retirement and Benefits has also conducted 25 employee meetings in Juneau, Anchorage, and Fairbanks, including special meetings for Juneau personnel staff, Local 71, Inlandboatmens Union, and legislative staff to discuss the bill in detail. Approximately 1250 employees or about 10% of the current work force have attended these meetings. In addition to the informational letter and survey form, written comments on SSHB 252 and its provisions were solicited from those attending the employee meetings.

Mandatory Participation in the Federal Social Security Program showed general opposition. There is also opposition to using the SBS contributions to offset the mandatory social security amounts. Some of the comments are as follows:

- * "I think it is a must to clarify this issue (mandatory social security participation in Medicare) as all state employees may be in the same boat if Congress passes the current legislation which will no longer exempt employees hired prior to 4/1/86 from contributing to this program."
- * "I prefer the SBS. All my monies are in annuities. Please do all you can to keep things this way."
- * "I want things the way they are. Fight to keep it that way."
- * "If the state was still part of the Federal Social Security System the state's costs would be 7.51%."
- * "In other words, leave SBS alone, don't let (SBS) pay for other taxes."
- * "I would also like to object to the language in the bill that states that all present and future social security monies due the Federal Government will come out of the SBS monies. I believe the SBS monies should be sacred."
- * "Pay the 2.9% Medicare for employees hired after April, 1986 (avoid two-tier benefits to employees)."

SBS is a supplemental retirement system and it should be funded to the greatest extent possible: Some of the comments are as follows:

- * "I feel very strongly that the main thrust of the SBS program be toward retirement. Not only would I like the entire 6.13% placed into my annuity account but I would like to have both the employer and employee percentages raised to 7.51%."
- * "Increase mandatory contributions by state and employee to match the social security rate."
- * "Although more "cash" each month would be nice, it is a ridiculous thought. The whole idea of SBS was to take the place of social security and give us better benefits when we are no longer working."
- * "I would like to urge the decision-makers to remember that, inasmuch as SBS is our substitute for social security, its primary purpose is to provide retirement benefits. I will buy my insurance with after-tax dollars and protect my retirement account. I only hope that the people responsible for finally deciding this will permit me to do that."

Support and concern for the nonannuity benefits--Some of the comments are as follows:

- * "Find the overall average percent of insurance and deduct from 6.13% balance to annuity."
- * "Please note I have chosen the lowest deduction, not because I would not prefer to be putting more into retirement, but because I can't afford to. Since we have had no cost of living adjustment, the money has to come from somewhere to meet expenses."
- * "I would like to keep my insurance benefits."