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343

HOUSE COMMITTEE ON STATE AFFAIRS

RECAP OF
CSSB 343 (SA)

Retirement Incentive Program

Received February 2, 1990
by Sen. Duncan, Faiks, Szymanski, Halford,
Sturgulewski

Heard February 14, 1990

Passed Out of Committee February 14, 1990
3 Do Pass
1 No Recommendation

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HOUSE COMMITTEE REPORT

(7)

Date Referred: February 2, 1990

FURTHER REFERRALS:

FINANCE

Date of Committee Action: _____

The STATE AFFAIRS Committee considered:

CSSB 343(SA)

CS FOR SENATE BILL NO. 343 (SA)

RETIREMENT INCENTIVE PROGRAM

"An Act relating to the retirement incentive program; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with _____ the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact _____
- zero fiscal note _____
- zero with analysis _____

- fiscal note(s) DOA/1-17-90 to 1-18-90
- zero fiscal note(s) _____
- zero fn/analysis _____

SIGNING DO PASS:

Eileen P. Macklin As it moved out of committee
D. C. Brasher

SIGNING:

(Check approp. column)

| | Do Not Pass | No Rec | Amend |
|----------------------|-------------|--------|-------|
| <i>Alvin Stanley</i> | | ✓ | |
| | | | |
| | | | |
| | | | |
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| | | | |
| | | | |

D. C. Brasher

 Chairman's Signature

Item 2

FISCAL NOTE

REQUEST:

Revision Date: January 13, 1990
Title: An Act relating to the Retirement Incentive Program
Sponsor: Duncan
Requestor: _____

Agency Affected: Administration
BRU: Retirement and Benefits
Components: Retirement and Benefits

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 91 | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 |
|-------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES | 57.0 | 0 | 0 | 0 | 0 | 0 |
| TRAVEL | 2.1 | 0 | 0 | 0 | 0 | 0 |
| CONTRACTUAL | 0 | 0 | 0 | 0 | 0 | 0 |
| SUPPLIES | 0 | 0 | 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 | 59.1 | 0 | 0 | 0 | 0 | 0 |
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
| REVENUE | 0 | 0 | 0 | 0 | 0 | 0 |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|------|---|---|---|---|---|
| GENERAL FUND | 0 | 0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS | 0 | 0 | 0 | 0 | 0 | 0 |
| OTHER | 59.1 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 59.1 | 0 | 0 | 0 | 0 | 0 |

POSITIONS:

| | | | | | | |
|-----------|------|---|---|---|---|---|
| FULL-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| PART-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| TEMPORARY | 13.0 | 0 | 0 | 0 | 0 | 0 |

ANALYSIS: (Attach a separate page if necessary)

See attached.

Prepared by: Robert F. Stalnaker
Division: Deputy Director
Approved by Commissioner: Frank S. Baxter
Agency: Department of Administration

Phone: 465-4470
Date: 01/16/90
Date: 1/16/90

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

⁵¹⁷
 CSSB
 Committee Substitute for ~~Senate Bill~~ 343
 Fiscal Note Analysis
 Prepared by Division of Retirement & Benefits
 Department of Administration
 January 16, 1990

Analysis: This bill would expand Chapter 89, SLA 1989 (the Retirement Incentive Program) for the Public Employees' (PERS) and Teachers' Retirement Systems (TRS) by allowing the employer 5 years in which to show a cost savings for eligible employees, by allowing eligible employees to assume part of the employer's costs so that a savings to the employer can be shown, and by extending the retirement window for designated employees in the Division of Elections.

The total estimated administrative cost to the division by fiscal year is as follows:

| Personnel services costs: | <u>FY 90</u> | <u>FY 91</u> |
|--------------------------------------|--------------|----------------|
| FY 91 | | |
| 1 Retirement Specialist I (2 mo.) \$ | 4.9 | |
| 8 Retirement Tech. I/II (2 mo.) | 37.0 | |
| 2 Accounting Clerk III (2 mo.) | 8.2 | |
| 2 Clerk II (2 mo.) | <u>6.9</u> | |
| Total FY 91 | | \$ 57.0 |
| | | |
| Travel: | | |
| FY 90 | | |
| 2 trips each to ANCH & FBKS | \$ 4.1 | |
| FY 91 | | |
| 1 trip to ANCH & FBKS | — | <u>2.1</u> |
| | | |
| Total Bill Cost | | |
| FY90 | <u>\$4.1</u> | |
| FY91 | | <u>\$ 59.1</u> |

All administrative costs for this program will be paid in advance by the participating employers as required by Chapter 89, SLA 1989.

CSSB slip
Committee Substitute for ~~Senate~~ Bill 343
Analysis of Financial Implications on the Retirement Systems
Prepared by Division of Retirement & Benefits
Department of Administration
January 16, 1990

Analysis: The retirement incentive program legislation requires state agencies and participating employers and employees to reimburse the PERS and TRS for the costs of participation in the program; it also requires a showing of a cost savings to participate in the program. There should be no long-term or short-term costs to the retirement systems' funds.

FISCAL NOTE

REQUEST:

Revision Date: 1/13/90
Title: An act relating to the retirement incentive program
Sponsor: Duncan
Requestor: _____

Agency Affected: Administration
BRU: Finance
Components: Finance

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY91 | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 |
|------------------------|-------------|------------|------------|------------|------------|------------|
| PERSONAL SERVICES | 31.2 | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | 6.0 | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 37.2 | -0- | -0- | -0- | -0- | -0- |

| | | | | | | |
|---------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|---------|--|--|--|--|--|--|

| | | | | | | |
|---------|--|--|--|--|--|--|
| REVENUE | | | | | | |
|---------|--|--|--|--|--|--|

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|-------------|------------|------------|------------|------------|------------|
| GENERAL FUND | 37.2 | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | 37.2 | -0- | -0- | -0- | -0- | -0- |

POSITIONS:

| | | | | | | |
|-----------|-----|-----|-----|-----|-----|-----|
| FULL-TIME | -0- | -0- | -0- | -0- | -0- | -0- |
| PART-TIME | -2- | -0- | -0- | -0- | -0- | -0- |
| TEMPORARY | -0- | -0- | -0- | -0- | -0- | -0- |

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Keith Busch Keith Busch Phone: 465-2200
Division: Finance Date: 1/17/90

Approved by Commissioner: Frederic Bonet Date: 1/17/90
Agency: _____

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

CONTINUATION OF FISCAL NOTE ANALYSIS

For Bill/Resolution No CS SB 343

The Division of Finance is responsible for the verification of employment history and processing termination pay. It is estimated that 500 employees will participate in the program. The estimated increased costs to process these employees are:

| | |
|---|---------------|
| Data processing support | \$ 6.0 |
| Two part-time Accounting Techs for five months | <u>31.2</u> |
| Total Costs | <u>\$37.2</u> |

Item 3

Alaska State Legislature



SENATOR JIM DUNCAN

P. O. Box V JUNEAU, ALASKA 99811-3100
(907) 465-4766

COMMITTEES:
FINANCE
VICE CHAIR -
HEALTH EDUCATION
& SOCIAL SERVICES
BUDGET & AUDIT
BANKING &
ECONOMIC
DEVELOPMENT

MEMORANDUM

DATE: February 2, 1990
TO: Representative Red Boucher, Chair
House State Affairs Committee
FROM: Senator Jim Duncan
SUBJECT: CS Senate Bill 343 (State Affairs), Retirement Incentive
Program Amendments

I request your prompt scheduling of CS Senate Bill 343(SA), which makes minor amendments to the existing Retirement Incentive Program. The reason it is imperative SB 343 be scheduled for a hearing as soon as possible is because the application period for State employees closes on March 31, 1990.

During the interim, I was contacted by a great many State employees with many years of service who did not qualify for the Retirement Incentive under the current statute and OMB guidelines. I believe the program is intended primarily for long term employees and therefore asked the Executive Branch how we could enable such employees to participate. Their suggestion was to allow the savings to be calculated over a five year term as was done in the 86-87 Retirement Incentive Program. Offsetting the cost to the State of the employee's participation in the program against the savings in personal services costs over a longer term will allow more employees to participate and increase the savings to the State.

I have requested statistical information from the Office of Management and Budget about the age and years of service of employees found eligible under the three year scenario versus those found ineligible. I expect to receive it very soon.

To summarize the proposed amendments to the program, it would;

1. increase the period within which savings must be shown from three to five years;
2. allow employees to pay part of the employer's share of the Retirement Incentive cost in order to show a savings; or

Representative Red Boucher
February 2, 1990
Page 2

3. in lieu of payment, allow employees to elect a reduced benefit to reduce the employer's cost.

The Senate State Affairs Committee added language which will allow Division of Election employees until February 1, 1991 to actually retire. This will allow the Division to retain RIP-eligible employees on board through the 1990 general election and its certification.

As I said before, I would appreciate your scheduling this bill for a hearing as soon as possible due to the March 31, 1990 deadline for State employee application. Currently, OMB is not allowing employees to apply if a savings is not found under the three year calculation. OMB has requested all agencies to recalculate savings over a five year period for non-qualifying employees so applications can be processed expeditiously when SB 343 is enacted.

I believe these amendments to the program will make the program more equitable and result in a larger savings to the State. If you have any questions, please contact me at 465-4766.

Attachments

INFORMATION FOR HOUSE STATE AFFAIRS COMMITTEE
Provided by Senator Jim Duncan

SB 343, RETIREMENT INCENTIVE PROGRAM AMENDMENTS -

The Retirement Incentive Program was implemented in June of 1989 and the program continues through November 1 of this year. Employers choosing to participate in the Retirement Incentive are required to show a personal services savings. Chapter 89/89 also explicitly states in section 2(b) that "The organizational units of a plan must be selected so that implementation of the plan results in maximum savings to the employer in personal services costs within three years after the commencement of the plan."

The three year calculation has rendered many long term state employees not eligible because OMB is strictly interpreting each individual position as an organizational unit. Thus, if a savings is not shown on an individual's position, that person is not considered eligible for the program. School districts and the University have not taken the same approach to organizational units and thus have not experienced similar problems.

The preliminary information which I have received on the program to date indicates that:

| | Total Eligible by or Service | Designated to Participate | % of Total |
|------------------|---------------------------------|------------------------------|------------|
| State | 2,987 | 1,837 | 61.5 |
| University | 767 | 767 | 100.0 |
| School Districts | 2,271 | 1,970 | 87.5 |
| Polysubs | <u>2,627</u> | N/A | N/A |
| Totals | 8,652 | | |

Current OMB statistics show 1,475 employees designated, not including Marine Highways, Courts, or Legislative employees. For those 1,475 employees, if they all retire, the State will save \$14.3 million over the next three years.

A comparison of the current program with the 86-87 program indicates that in the prior program 83 percent of eligible State employees were designated to participate versus the current program's rate of 61.5 percent. I think this clearly shows that many more employees are not qualifying for the program under the three year savings criteria. Because incentives for long term employees are more costly to the employer than those for short term employees it is very likely that when we receive the detailed information which I have requested it will show that long-term employees make up the bulk of those not designated for participation. I have, in fact, been contacted by many employees eligible in the previous program who have not been designated to participate in this one.

Not all school districts have chosen to participate in the program and this is reflected in their 87.5 percent designation rate.

To briefly explain the reason why many long term employees have not been designated by OMB, the retirement benefit in PERS is calculated as 2% times the first ten years of service times average monthly compensation, the second ten years is multiplied times 2.25% and the third times 2.5%. A copy of the applicable pages from the PERS booklet are in your packet entitled "Retirement Benefits". Thus a person with thirty years of service earns a retirement benefit which is almost 70% of their ending salary. A person with only ten years' service would receive only 20% of their ending salary. Since the cost of participation in the incentive is based on an actuarial calculation of the cost to the retirement system of the three year incentive plus the current value of any increased lifetime benefit, it costs more for long term employees to participate. If an individual is relatively young and has many years of service, the problem is compounded. Exhibits A and B in your folder show the difference the five year calculation makes on an actual employee's savings calculation. Exhibit C is an example of the three year calculation of an Anchorage employee who was found ineligible.

SB 343 is very limited in scope, it basically makes changes which affect only state government and it does not change the window periods of the program. It will not change the benefit calculation nor add an additional incentive over what is offered in CH 89/89.

To summarize the proposed amendments to the program, they will;

1. increase the period within which savings must be shown from three to five years;
2. allow employees to pay part of the employer's share of the Retirement Incentive cost in order to show a savings; or
3. in lieu of payment, allow employees to elect a reduced benefit to reduce the employer's cost.

The Senate State Affairs Committee added language which will allow Division of Elections employees until February 1, 1991 to actually retire. This will enable the Division to retain RIP-eligible employees on board through the 1990 general election and its certification.

The window periods for all other employees remain:

| <u>Employee Type</u> | <u>Application Period</u> | <u>Employee Must Retire on or Before</u> |
|----------------------|---------------------------------|--|
| Teachers | June 30, 1989 - Dec. 31, 1989 | August 1, 1990 |
| University | " " | " " |
| State | Sept. 30, 1989 - March 31, 1990 | November 1, 1990 |
| Municipal | " " | " " |

The closure of the application period for State employees on March 31 makes it of paramount importance that SB 343 progress through the legislative process as swiftly as possible so that many deserving long-term employees can participate. In this way I believe the State can realize the maximum savings possible through the use of the Retirement Incentive Program.

Item 4



RETIREMENT BENEFITS

MINIMUM REQUIREMENTS FOR RETIREMENT

When will I be eligible to retire and start receiving monthly benefits?

That depends on your age and PERS service. If you meet the minimum PERS service requirements described below and you were first hired under the PERS:

- before July 1, 1986, you can retire at age 55 for normal retirement or age 50 for early.
- after June 30, 1986, you can retire at age 60 for normal retirement or age 55 for early.

Under **early retirement** (see page 26), your monthly benefit is actuarially reduced based on age. The closer you are to normal retirement age, the smaller the reduction.

Under **normal retirement** (see page 25), your monthly benefit is **not** reduced.

To retire, **you must also** meet the minimum PERS service requirements. You must have at least:

- five **paid-up** years of PERS service; or
- 60 days of **paid-up** PERS service if you were an employee of the legislature during each of five legislative sessions and you were first hired under the PERS before May 30, 1987 (see *Conditional Service Benefit* on page 22); or

- 80 days of **paid-up** PERS service if you were an employee of the legislature during each of five legislative sessions and you were first hired under the PERS after May 29, 1987 (see *Conditional Service Benefit* on page 22); or
- two **paid-up** years of PERS service if you are vested in the Teachers' Retirement System (TRS). See *Conditional Service Benefit* on page 22.

In addition, you may retire at **any** age and receive a normal (unreduced) benefit if you have at least:

- 30 **paid-up** years of PERS service; or
- 20 **paid-up** years of PERS service as a peace officer or fireman (see page 67).

Military and temporary credit may **not** be used to satisfy the 20 or 30 years needed to retire at any age.

Members who have received a refund of their PERS contributions should review the following sections in this handbook:

Reinstatement of Service - page 62
Payment of Indebtedness - page 63

BENEFIT CALCULATION

How will my monthly retirement benefit be calculated?

Your "normal" benefit will be calculated by multiplying the percentage multiplier (page 19) times your average monthly compensation times your PERS service. The normal benefit will be adjusted if you select one of the other retirement options (early, joint and survivor, or level income). See *Retirement Options* on page 25.

Your average monthly compensation is determined by adding together the compensation earned during your three highest consecutive payroll years and dividing the total by the number of months worked during that same time period. You must have at least 115 days of credited service in the last payroll year worked to include that year as one of your three highest.

For instance, if your three highest consecutive salaries and months worked are as follows, your average monthly compensation would be \$2,500.

| Payroll Year Worked | Salary | Months |
|---------------------|---------------|----------|
| 1986 | \$30,000 | 12 |
| 1987 | 27,500 | 11 |
| 1988 | <u>15,000</u> | <u>6</u> |
| | \$72,500 | 29 |

\$72,500 ÷ 29 months equals \$2,500

If you received a cost of living differential during your three highest years and you were first hired under the PERS before January 1, 1987, the differential will automatically be included as part of your salary(s). However, it will only be included if you were first hired after December 31, 1986, and you received a comparable differential during at least 50% of your credited service. See *Refund of Contributions on Cost of Living Differential* on page 62.

Percentage Multipliers

The percentage multipliers for members, other than peace officers and firemen, are:

- 2% per year for all service earned up to 10 years; plus
- 2-1/4% per year for all service over 10 years, but less than 20 years (applies only to service earned after June 30, 1986); plus
- 2-1/2% per year for all service over 20 years (applies only to service earned after June 30, 1986).

All service earned before July 1, 1986, will be calculated using the 2% multiplier.

This example shows how to calculate a normal retirement benefit. We have assumed that the average monthly compensation is \$2,500, and that the member had 10 years of service on June 30, 1986, and earned 20 additional years after June 30, 1986.

Example:

| | | | |
|--------|-----------------------|-----------|-------------------|
| 2% | x the first 10 years | x \$2,500 | = \$ 500.00; plus |
| 2-1/4% | x the second 10 years | x \$2,500 | = \$ 562.50; plus |
| 2-1/2% | x the third 10 years | x \$2,500 | = \$ 625.00 |
| | Total | | \$1,687.50 |

As you can see, the normal benefit is: \$500.00 for the first 10 years of service; \$562.50 for service between 10 and 20 years; and \$625.00 for service between 20 and 30 years.

The member in the example would receive a monthly base benefit of \$1,687.50 for the rest of his or her life. Any adjustments to the benefit would be calculated on that base benefit. Please review the following sections for details about adjustments:

- Post Retirement Pension Adjustment (PRPA)* - page 53
- Cost of Living Allowance (COLA)* - page 51
- Joint and Survivor Options* - page 27
- Early Retirement* - page 26
- Payment of Indebtedness* - page 63

The percentage multipliers for peace officers and firemen are:

- 2% per year for their first 10 years of service; plus
- 2-1/2% per year for service over 10 years.

For a terminated, deferred vested member, the percentage multiplier that was in effect when the member terminated from PERS employment will be used to calculate the benefit. Consequently, even though the current multipliers may be larger, the multiplier in effect at the time of termination will be used.

BENEFIT PAYMENTS

When will I be appointed to retirement?

You will be appointed on the first of the month following the date that:

- you meet the minimum service and age requirements for retirement. But, if your birthday falls on the first day of the month, you are eligible to retire that month rather than the following month;
- you terminate PERS employment; and
- your written application for benefits is received by the Division of Retirement and Benefits. It should be sent to the division at least 30 days before you terminate.

Please review the following sections for details about benefit payments under other provisions:

Item 5

Richard C. Randall
P.O. Box 230444
Anchorage, Alaska 99523
January 26, 1990

Senator Jim Duncan
P.O. Box V, Room 119
Juneau, AK 99811

Dear Senator Duncan:

This letter is to express my support for passage of SENATE BILL NO. 343 (Relating to the retirement incentive program, or RIP) and request that you give this bill serious consideration when it comes up for debate and eventually a floor vote.

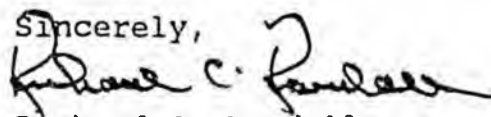
If passed in its present form this proposed amendment to the retirement incentive program would be a significant improvement over the existing law for the following reasons:

1. In the face of declining revenue it would help cut the cost of government through a combination of reduced employee salaries, benefit costs and, where appropriate, could even result in the elimination of some nonessential positions.

2. It would also provide additional savings to the State by allowing the retiring employee to assume a portion of the employer's liability created through that person's early retirement. (Many employees who would be eligible for the existing RIP except that there is no provision for those employees to personally help pay for their indebtedness).

The schedule for possible consideration and passage of Senate Bill No. 343 is also important because the deadline for application for the existing RIP is March 31, 1990. Unless this bill is passed into law prior to this date there will be some employees who may neglect to apply because they have previously been informed that they don't qualify under the existing law. You may wish to consider the possibility of further amending the bill by extending the deadline for application to coincide with the end of the current legislative session.

Thank you for any support you may be able to provide toward the timely passage of this bill and for consideration of this letter. Please contact me if you have questions or if I can provide any additional information.

Sincerely,


Richard C. Randall
346-2312 (Home)

RECEIVED FEB 02 1990

Item 6.

RETIREMENT INCENTIVE PROGRAM

DETAILED COST SAVINGS BY POSITION

PCN _____
JOB CLASS TITLE _____
JOB CLASS CODE _____

DEPARTMENT _____
BUDGET BRU _____
BUDGET COMPONENT _____
INTENDED DATE OF RETIREMENT _____

AUTHORIZED IN FY 90 BUDGET Y N
E O
S

DOES THE PERSON CURRENTLY FILLING THIS PCN INTEND TO RETIRE UNDER THE RETIREMENT INCENTIVE PROGRAM Y N
E O
S

HAS THIS PERSON BEEN CONTINUOUSLY EMPLOYED BY THE STATE SINCE NOVEMBER 1, 1988 Y N
E O
S

CALCULATION OF SAVINGS

| | Estimated FY 91 | Estimated FY 92 | Estimated FY 93 | Total |
|--|--------------------|--------------------|----------------------|-----------|
| 1. Current Range and Step | 20L | 20L | 20L | |
| 2. Salary and Benefit Cost | \$ 71.6 | \$ 71.6 | \$ 71.6 | \$ 214.8 |
| 3. Replacement Range and Step | 20A | 20L | 20C | |
| 4. Salary and Benefit Cost | \$ 56.3 | \$ 58.2 | \$ 60.2 | \$ 174.7 |
| 5. Funds Available (line 2 minus line 4) | \$ 15.3 | \$ 13.4 | \$ 11.4 | \$ 40.1 |
| 6.a. Retirement and Benefits estimate of cost to the Employer (not including the participant's share of the cost) for this individual to take part in the retirement incentive program | | | 51.8 | |
| b. Administrative cost (.007 X Retirement and Benefits cost from 6a) | | | \$ 0.4 | |
| | | | Total Cost (6a + 6b) | \$ 52.2 |
| 7. ^{COST} Savings for this PCN (line 5 minus line 6) | | | | \$ <12.1> |

A

D R A F T

RETIREMENT INCENTIVE PROGRAM

DETAILED COST SAVINGS BY POSITION

DEPARTMENT: TRANSPORTATION AND PUBLIC FACILITIES

Anchorage employee

THESE CALCULATIONS ASSUME THAT YOU
HAVE BEEN CONTINUOUSLY EMPLOYED BY
THE STATE SINCE NOVEMBER 1, 1988

CALCULATION OF SAVINGS

| | ESTIMATED FY 91 | ESTIMATED FY 92 | ESTIMATED FY 93 | TOTAL |
|--|--------------------|--------------------|----------------------|--------------|
| 1. CURRENT RANGE AND STEP | 20 L | 20 L | 20 L | |
| 2. SALARY AND BENEFIT COST | \$75,412.18 | \$75,412.18 | \$75,412.18 | \$226,236.54 |
| 3. REPLACEMENT RANGE AND STEP | 20 A | 20 B | 20 C | |
| 4. SALARY AND BENEFIT COST | \$59,035.88 | \$61,047.32 | \$62,801.66 | \$182,884.87 |
| 5. FUNDS AVAILABLE (LINE 2 MINUS LINE 4) | \$16,376.30 | \$14,364.86 | \$12,610.52 | \$43,351.68 |
| 6.A RETIREMENT AND BENEFITS ESTIMATE OF COST TO THE EMPLOYER (NOT INCLUDING THE PARTICIPANT'S SHARE OF THE COST) FOR THIS INDIVIDUAL TO TAKE PART IN THE RETIREMENT INCENTIVE PROGRAM. | | | \$43,055.00 | |
| B ADMINISTRATIVE COST (.007 X RETIREMENT AND BENEFITS COST FROM 6A) | | | \$301.38 | |
| | | | TOTAL COST (6A + 6B) | \$43,356.38 |
| 7. SAVINGS FOR THIS PCN (LINE 5 MINUS LINE 6) | | | | \$-4.71 |

C

86-87

RETIREMENT INCENTIVE PROGRAM
STATUS REPORT
February 27, 1989

| Employer | Eligible By Age/Svc | Designated By Empl. | Retired |
|-------------------------|------------------------|------------------------|---------|
| Governor's Office | 30 | 5 | 5 |
| Administration | 229 | 174 | 101 |
| Law | 41 | 18 | 11 |
| Revenue | 55 | 29 | 23 |
| Education - PERS | 72 | 71 | 28 |
| Education - TRS | 38 | 36 | 19 |
| Health & Social Svc. | 335 | 304 | 150 |
| Labor | 147 | 138 | 54 |
| Commerce | 88 | 55 | 28 |
| Military Affairs | 29 | 6 | 4 |
| Natural Resources | 160 | 139 | 65 |
| Fish & Game | 160 | 143 | 78 |
| Public Safety | 193 | 182 | 101 |
| Environmental Consv. | 36 | 34 | 12 |
| Corrections | 154 | 139 | 38 |
| Comm. & Regional Aff. | 21 | 18 | 7 |
| Transportation | 854 | 809 | 355 |
| Ombudsman | 1 | 0 | 0 |
| Legislative Affairs | 53 | 20 | 13 |
| Legislative Finance | 2 | 0 | 0 |
| Legislative Audit | 5 | 3 | 3 |
| Court System | 98 | 0 | 0 |
| Total State PERS | 2762 | 2287 | 1076 |
| Total State TRS | 38 | 36 | 19 |
| University of Ak - PERS | 325 | 319 | 107 |
| University of Ak - TRS | 372 | 349 | 95 |
| Geophysical Inst - PERS | 27 | 27 | 7 |
| Geophysical Inst - TRS | 38 | 35 | 8 |
| Total University - PERS | 352 | 346 | 114 |
| Total University - TRS | 410 | 384 | 103 |
| Total Poly - Subs PERS | 2661 | 1272 | 412 |
| Total Schl Dists TRS | 1773 | 1668 | 603 |
| Grand Total PERS | 5775 | 3905 | 1602 |
| Grand Total TRS | 2221 | 2088 | 725 |
| Overall Total | 7996 | 5993 | 2327 |

Original sponsors: Duncan and Kerttula

1 IN THE SENATE BY THE CONFERENCE COMMITTEE

2 CONFERENCE CS FOR SENATE BILL NO. 73

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to retirement incentive programs for
7 the public employees' retirement system and the
8 teachers' retirement system; and providing for an
9 effective date."

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

11 * Section 1. PURPOSE. Since it may be necessary for state agencies and
12 other employers who participate in the state retirement systems to reduce
13 their personal services costs because of declining state revenue, reimple-
14 mentation of the retirement incentive program established by ch. 26, SLA
15 1986, as amended by ch. 76, SLA 1988, encouraging employees to retire
16 voluntarily, will reduce the hardship of layoffs. This program is intended
17 to realize sufficient economies to offset the cost of administration and
18 benefits to state agencies and other employers resulting from the award of
19 retirement credits and to result in a net reduction in personal services
20 costs to the state or other employers during a period of declining revenue.

21 * Sec. 2. RETIREMENT INCENTIVE PROGRAM. (a) An employer may adopt a
22 retirement incentive plan under secs. 3 - 6 of this Act, as appropriate, to
23 designate organizational units of employees eligible to participate in the
24 retirement incentive program.

25 (b) The organizational units of a plan must be selected so that
26 implementation of the plan results in maximum savings to the employer in
27 personal services costs within three years after the commencement of the
28 plan. A plan that results in savings in personal services costs in any
29 amount that is in excess of all costs to the employer qualifies under this

1 section. The designation may include only representatives from job class-
2 ifications whose inclusion contributes to the overall cost savings.

3 (c) A member is eligible to participate in the retirement incentive
4 program only if the member is vested, is employed in a position in a des-
5 ignated organizational unit, and will be qualified to retire under AS 14.-
6 25.110 or AS 39.35.370 after receipt of the retirement incentive. To
7 participate, a member shall apply on a form provided by the administrator.

8 (d) A participating employer shall prepare and file the retirement
9 incentive plan with the administrator. For state employees other than
10 university employees, the administrator may approve a designated orga-
11 nizational unit only if the office of management and budget certifies that
12 the unit's participation in the plan meets the requirements of (l) of this
13 section. The administrator shall approve the plan if it meets the require-
14 ments of this section. The plan must

15 (1) identify organizational units and employees eligible to
16 participate in the program;

17 (2) include a reimbursement agreement that

18 (A) requires the employer, for each employee who is retired
19 under the plan, to reimburse the system within three years after the
20 end of the fiscal year in which the employee is appointed to retire-
21 ment in an amount equal to

22 (i) the actuarial equivalent of the difference between
23 the benefits the participant receives after the addition of the
24 retirement incentive under this section and the amount the par-
25 ticipant would have received without the incentive, less the
26 amount the participant has paid on the indebtedness determined
27 under (e) or (f) of this section; and

28 (ii) an appropriate share of the administrative costs
29 of the program; and

1 (b) provides that contributions from the employer under
2 this section take priority over other obligations of the employer to
3 the maximum extent permitted by law.

4 (e) A member of the teachers' retirement system who participates in
5 the retirement incentive program is indebted to the system. The amount of
6 indebtedness is equal to 21 percent of the member's actual compensation for
7 the school year, or the calculated school year compensation for a member
8 who works less than the entire school year, for the school year in which
9 the member terminates employment to participate in the program. An out-
10 standing indebtedness at the time a participant is appointed to retirement
11 will require an actuarial adjustment to the benefits payable.

12 (f) A member of the public employees' retirement system who partici-
13 pates in the retirement incentive program is indebted to the system. The
14 amount of indebtedness is equal to 22-1/2 percent for a peace officer or
15 fireman, and 20-1/4 percent for other members, of the member's actual
16 annual compensation, or the calculated annual compensation for a member who
17 works fewer than 12 months, for the year in which the member terminates
18 employment to participate in the program. An outstanding indebtedness at
19 the time a participant is appointed to retirement will require an actuarial
20 adjustment to the benefits payable.

21 (g) A participant in the retirement incentive program receives a
22 credit of three years. The three years must be applied in the following
23 order until exhausted:

24 (1) to meet the age or service required for eligibility for
25 normal retirement under AS 14.25.110 or AS 39.35.370, as appropriate;

26 (2) to meet the age required for early retirement under AS 14.-
27 25.110 or AS 39.35.370, as appropriate;

28 (3) to reduce the actuarial adjustment required for early re-
29 tirement under AS 14 25.110 or AS 39.35.370, as appropriate;

1 (4) as years of credited service for calculating retirement
2 benefits.

3 (h) Except as provided in sec. 7 of this Act, in the determination of
4 whether a member will qualify to retire under this section, credited ser-
5 vice may include only,

6 (1) for members of the teachers' retirement system, service
7 credit for employment rendered to an employer, territorial service under
8 AS 14.25.105, outside service and military service under AS 14.25.060, and
9 Alaska BIA service under AS 14.25.107;

10 (2) for members of the public employees' retirement system,
11 service credit for employment rendered to an employer.

12 * Sec. 3. AUTHORIZATION FOR STATE EMPLOYEE RETIREMENT INCENTIVE. (a)
13 A state agency is authorized to adopt a retirement incentive plan for its
14 employees. A plan adopted under this section shall permit a designat
15 employee to apply to the retirement incentive program under sec. 2 of this
16 Act only from September 30, 1989, through March 31, 1990.

17 (b) The plan may not permit an employee who is the commissioner, a
18 deputy commissioner, or assistant commissioner of a state department to
19 participate.

20 (c) A plan adopted under this section may only permit participation
21 by an employee who is otherwise qualified and who

22 (1) has been continuously employed by the state since
23 November 1, 1988;

24 (2) is a permanent seasonal employee continuously employed by
25 the state in the permanent seasonal position during all of the time since
26 November 1, 1988, in which the position normally was filled;

27 (3) has a job sharing agreement with a state agency in which two
28 or more employees share a single position identified by a single position
29 control number and in which the employee choosing to participate was

1 continuously employed by the agency during all of the time since
2 November 1, 1988, in which the employee normally worked under the job
3 sharing agreement; or

4 (4) meets a combination of the requirements of this subsection.

5 (d) Under a plan adopted under this section, the administrator may
6 not accept the application of an employee unless the employee will be
7 appointed to retirement on or before November 1, 1990.

8 (e) In this section "state agency" does not include the University of
9 Alaska or an entity covered by sec. 4 of this Act.

10 * Sec. 4. AUTHORIZATION FOR RETIREMENT INCENTIVE FOR OTHER EMPLOYEES IN
11 THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM. (a) The governing body of a
12 political subdivision of the state or a public organization that has elect-
13 ed to participate in the public employees' retirement system under AS 39.-
14 35.550 - 39.35.650 is authorized to adopt a retirement incentive plan for
15 its employees under sec. 2 of this Act. A plan adopted under this section
16 shall permit designated employees to apply to the retirement incentive
17 program under sec. 2 of this Act from September 30, 1989, through March 31,
18 1990.

19 (b) Under a plan adopted under this section, the administrator may
20 not accept the application of an employee unless the employee will be
21 appointed to retirement on or before November 1, 1990.

22 * Sec. 5. AUTHORIZATION FOR RETIREMENT INCENTIVE FOR THE EMPLOYEES OF
23 THE UNIVERSITY OF ALASKA. (a) The Board of Regents of the University of
24 Alaska is authorized to adopt a retirement incentive plan for its employ-
25 ees. A plan adopted under this section shall permit designated employees
26 to apply to the retirement incentive program under sec. 2 of this Act from
27 June 30, 1989, through December 31, 1989.

28 (b) Under a plan adopted under this section, the administrator may
29 not accept the application of an employee unless the employee will be

1 appointed to retirement on or before August 1, 1990.

2 * Sec. 6. AUTHORIZATION FOR RETIREMENT INCENTIVE FOR OTHER EMPLOYEES IN
3 THE TEACHERS' RETIREMENT SYSTEM. (a) An employer under the teachers'
4 retirement system who is not otherwise covered by secs. 3 or 5 of this Act
5 is authorized to adopt a retirement incentive plan for its employees under
6 sec. 2 of this Act. A plan adopted under this section shall permit des-
7 ignated employees to apply to the retirement incentive program under sec. 2
8 of this Act only from June 30, 1989, through December 31, 1989.

9 (b) Under a plan adopted under this section, the administrator may
10 not accept the application of an employee unless the employee will be
11 appointed to retirement on or before August 1, 1990.

12 * Sec. 7. POLITICAL SUBDIVISION OR PUBLIC ORGANIZATION EMPLOYMENT.
13 Notwithstanding other provisions of law, a vested member who is a state
14 employee and is participating in the retirement incentive program may
15 receive credit for employment with a political subdivision or public orga-
16 nization before the political subdivision or organization became an em-
17 ployer under the system for purposes of determining eligibility for retire-
18 ment under AS 14.25.110 or AS 39.35.370, as appropriate. The member may
19 not receive credit for those years under this subsection for purposes of
20 determining benefits. In order for a state employee to receive credit
21 under this subsection, the employee's participation in the program must
22 contribute to the overall cost savings of the agency.

23 * Sec. 8. RECOVERY OF EMPLOYER DELINQUENCIES. To recover a delinquency
24 owed by an employer other than the state under an agreement entered under
25 sec. 2(d)(2) of this Act, the Department of Administration may

26 (1) bring an action against the employer; or

27 (2) direct that the amount of the delinquency or a lesser amount
28 be withheld from any money payable to the employer by a state department or
29 agency and that the amount withheld be credited to the delinquency.

1 * Sec. 9. REEMPLOYMENT INDEBTEDNESS AND REEMPLOYMENT PROHIBITION. (a)
2 If a participant in the retirement incentive program is reemployed as a
3 member of the public employees' retirement system under AS 39.35 or the
4 teachers' retirement system under AS 14.25 after appointment to retirement
5 under the program, the participant loses the incentive credit received
6 under sec. 2(g) of this Act and is indebted to the system. The amount of
7 the indebtedness is equal to 110 percent of the amount the participant
8 received as a result of participation in the program to which the partici-
9 pant was not otherwise entitled, including the cost of health insurance.
10 The participant is entitled to a credit to be applied against the reemploy-
11 ment indebtedness in the amount the participant has paid under sec. 2(e) or
12 (f) of this Act. Interest accrues on the indebtedness at the rate estab-
13 lished by regulation from the date of reemployment until the member is ap-
14 pointed to retirement and accepts an actuarial adjustment to the member's
15 future benefits or until the amount is paid in full.

16 (b) For one year after the date on which an employee who participated
17 in the program retired, the participant may not be employed by or enter
18 into a contract for personal services with a state department or agency
19 other than a personal services contract with the University of Alaska.
20 This subsection does not prohibit the university from entering into a
21 personal services contract with an employee who has participated in the
22 program during the year immediately following the employee's retirement.

23 * Sec. 10. OFFICE OF MANAGEMENT AND BUDGET. When designating an orga-
24 nizational unit for participation in the retirement incentive program, the
25 executive head of a state agency shall describe in detail the expected
26 effect of the program on the agency's personal services cost and operation.
27 This report shall be filed with the office of management and budget. For
28 each employee who will receive credit for employment under sec. 7 of this
29 Act, the agency head shall establish to the satisfaction of the office that

1 the proposed participation contributes to the overall agency cost savings.
2 The agency shall report as required by the office of management and budget
3 on the cost of each member's participation and the effect on the agency's
4 personal services cost and operation. The office of management and budget
5 shall submit to the legislature annual reports on the retirement incentive
6 program beginning on January 15, 1991, and continuing through January 15,
7 1993, and shall submit a final report on January 15, 1994. Each report
8 shall provide the information necessary for the legislature to evaluate the
9 effectiveness of the program in achieving its objectives. The report
10 should include information on the designated organizational units under the
11 retirement incentive plans including the cost of the retirement incentive
12 program per participant, the cost to the state, the cost to the employee,
13 the annual budgeted amount by agency for the retirement incentive, and the
14 projected or actual net savings over the three-year period.

15 * Sec. 11. PROGRAM CHANGES. An employee does not have a vested or
16 contractual right to any benefit under this Act until an agreement is
17 executed with the administrator that permits the benefits to be offered to
18 an organizational unit of which the employee is a member. The legislature
19 reserves the right to change any aspect of the incentive program as it
20 relates to members of organizational units for which participation agree-
21 ments are executed by the administrator after the effective date of the
22 changes.

23 * Sec. 12. TIMELY APPLICATION. A member who is eligible under secs.
24 2 - 7 of this Act and who has submitted a timely application for participa-
25 tion in the retirement incentive program may be considered for participa-
26 tion in the program notwithstanding sec. 14 of this Act.

27 * Sec. 13. DEFINITIONS. The definitions set out in AS 14.25.220 apply
28 to this Act for members of the teachers' retirement system. The defini-
29 tions set out in AS 39.35.680 apply to this Act for members of the public

1 employees' retirement system.

2 * Sec. 14. Sections 1 - 7 of this Act are repealed July 1, 1991.

3 * Sec. 15. This Act takes effect immediately under AS 01.10.070(c).

Statement

To: The House State Affairs Committee

From: Bernard Gary Johnson, State Employee

Subject: Proposed Amendment to the Retirement Incentive Program,
Chapter 89, SLA 89, Section 7.

Mr. Chairman and members of the committee:

Thank you for the opportunity to comment on Chapter 89, SLA 89, Section 7.

My comments will primarily be on the matter of the interpretation of Section 7 and the need for an amendment to clarify the meaning of the section.

I have worked for 20 years as a state employee. Two and one-half of those years, however, were with a state public organization before that organization became a member of the Public Employees Retirement System in 1982.

The main issue is whether the "credit" under Section 7 is the same "credit" for eligibility under the age or service criteria that is specifically spelled out under Section 2(g). Following is the text of Section 2(g):

| | |
|----|---|
| 21 | (g) A participant in the retirement incentive program receives a |
| 22 | credit of three years. The three years must be applied in the following |
| 23 | order until exhausted: |
| 24 | (1) to meet the age or service required for eligibility for |
| 25 | normal retirement under AS 14.25.110 or AS 39.35.370, as appropriate; |
| 26 | (2) to meet the age required for early retirement under AS 14.- |
| 27 | 25.110 or AS 39.35.370, as appropriate; |
| 28 | (3) to reduce the actuarial adjustment required for early re- |
| 29 | irement under AS 14.25.110 or AS 39.35.370, as appropriate; |
| 30 | (4) as years of credited service for calculating retirement |
| 31 | benefits. |

As can be seen, Section 2(g) very clearly defines the credit as applying to meet the age or service required for eligibility for retirement.

Section 7, which is also directly under the Retirement Incentive Program statute, also refers to "credit". This credit is for employment with a public organization before the public organization became an employer under the system. Following is the text of Section 7.

12 * Sec. 7. POLITICAL SUBDIVISION OR PUBLIC ORGANIZATION EMPLOYMENT.
13 Notwithstanding other provisions of law, a vested member who is a state
14 employee and is participating in the retirement incentive program may
15 receive credit for employment with a political subdivision or public orga-
16 nization before the political subdivision or organization became an em-
17 ployer under the system for purposes of determining eligibility for retire-
18 ment under AS 14.25.110 or AS 39.35.370, as appropriate. The member may
19 not receive credit for those years under this subsection for purposes of
20 determining benefits. In order for a state employee to receive credit
21 under this subsection, the employee's participation in the program must
22 contribute to the overall cost savings of the agency.

Section 7 refers to "credit" as it does in Section 2(g), but it is not specifically spelled out in Section 7. Clearly, however, the reference to "credit" under Section 7 under the chapter specifically entitled Retirement Incentive Program should be the same "credit" that is specifically spelled out in the legislation under Section 2(g).

Age and service credit are not ordinarily combined, but the Retirement Incentive Program provides for the exception to other statutes. Section 7 itself begins by saying "Notwithstanding other provisions of law ...". Senator Jim Duncan also agrees with my interpretation in the context of the RIP legislation. The Division of Retirement and Benefits is saying that the credit under Section 7 applies only to credit for service and not to credit for eligibility by age. They are referring to other retirement statutes, however, that are not under the current Retirement Incentive Program.

If you agree with my interpretation and that of Senator Duncan's, an amendment to Section 7 should be nothing more than a housekeeping change. There will be no fiscal impact because any credit received under this section must contribute to the cost savings of the agency.

Following is a proposed draft amendment to Chapter 89, SLA 89, Section 7.

Section 7, ch 89, SLA 1989, is amended to read:

* Sec 7. POLITICAL SUBDIVISION OR PUBLIC ORGANIZATION EMPLOYMENT.

(a) Notwithstanding other provisions of law, a vested member who is a state employee and is participating in the retirement incentive program may receive credit for employment with a political subdivision or public organization before the political subdivision or organization became an employer under the system for the purpose of determining eligibility for retirement [UNDER AS 14.25.110 OR AS 39.35.370, AS APPROPRIATE].

The credit must be applied in the following order until exhausted:

(1) to meet the age or service required for eligibility for normal retirement under AS 14.25.110 or AS 39.35.370, as appropriate;

(2) to meet the age required for early retirement under AS 14.25.110 or AS 39.35.370, as appropriate;

(3) to reduce the actuarial adjustment required for early retirement under AS 14.25.110 or AS 39.35.370, as appropriate.

(b) The member may not receive credit for those years under this subsection as years of credited service for calculating retirement benefits. [FOR PURPOSES OF DETERMINING BENEFITS.]

(c) In order for a state employee to receive credit under this subsection, the employee's participation in the program must contribute to the overall cost savings of the agency.

The only change to Section 7 is the addition of wording directly from Section 2(g) which makes the credit very clear. It is possible, however, that the amendment could be made even shorter by simply covering it in the definitions section of the retirement statutes.

Thank you very much for your consideration of this issue. I appreciate this opportunity. I would be happy to answer any questions that I can.

b. Example / Checklist Contact Sheet

LEGISLATIVE SPONSOR: House State Affairs

TC DATE/DAY: Wed, Feb 14 1992

Pub. Hear Work Ses. Inv. Hear

TIME: 8:30 - 10AM

LEGISLATIVE REFERENCE: SB 343

JUNEAU ROOM: Cap 102

SUBJECT: RIP

BRIDGE: _____

OF PORTS: _____

CONTACT: Ann PH: 4963

DATE TAKEN/BY: Joanne 2/12

TELECONFERENCE SITES:

LIO'S

LTC'S

VTS'S

Anchorage

*- Gary Johnson
333-5225*

Homer

See List on
Reverse Side

Barrow *

Wrangell

Bethel

Delta Junction *

Dillingham *

Fairbanks *add per Boyer*

ALL LIO'S

Glennallen *

Juneau

OTHER SITES WELCOME WITH PRIOR NOTIFICATION

Ketchikan

Kodiak

Kotzebue

Mat-Su

Nome

Petersburg *

OFFNETS: _____

Sitka

Soldotna

Valdez *

CHAIRING SITE: Juneau

CHAIRPERSON: Butcher

[] CONFORMS TO LEGISLATIVE COUNCIL POLICY 4/85

SIGNATURE OF SPONSOR/CONTACT PERSON

DATE

SPECIAL INSTRUCTIONS