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No. 1
 Bill Version: SB 337
 (S) Publish Date: 1-31-92

FISCAL NOTE

**STATE OF ALASKA
 1992 LEGISLATIVE SESSION**

Revision Date: _____ Department Affected: Alaska Court System
 Title: An Act relating to retirement BRU: Trial Courts
Incentive programs... Components: _____
 Sponsor: Duncan
 Requestor: State Affairs COMPONENT SERIAL NO. 000 | 000 | 000 | 768

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS & CLAIMS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUNDS	0.0	0.0	0.0	0.0	0.0	0.0
FEDERAL FUNDS						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary)
 No fiscal impact.
 Changes in SSB 337 (STA) have no fiscal impact. This fiscal note is appropriate.
1-30-92 date Marie [initials] Comte Aide (initial)

Prepared by: C. S. Christensen III, Staff Counsel Phone: 264-8228
 Division: Alaska Court System Date: 01/21/92

Approved by: Arthur H. Snowden, II, Administrative Director Date: 01/21/92
 Agency: Alaska Court System

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

C.V. 4

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Bill Version: CSSR 337 (STA)

(S) Publish Date: 1-31-92

Revision Date: _____
Title: An Act relating to retirement incentive programs for the Public Employees' and Teachers' Retirement System
Sponsor: Duncan
Requestor: Senate State Affairs Committee

Department Affected: Administration
BRU: Retirement and Benefits

Component: Retirement and Benefits

COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	658.0	598.3	277.5	277.5	277.5	277.5
TRAVEL	3.0	3.0	1.0	1.0	1.0	1.0
CONTRACTUAL	20.0	33	0	0	0	0
SUPPLIES	3.0	25	1.0	1.0	1.0	1.0
EQUIPMENT	112.3	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	796.3	607.1	279.5	279.5	279.5	279.5

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	796.3	607.1	279.5	279.5	279.5	279.5
TOTAL	796.3	607.1	279.5	279.5	279.5	279.5

POSITIONS

FULL-TIME:	6	6	6	6	6	6
PART-TIME:	0	0	0	0	0	0
TEMPORARY:	10	9	0	0	0	0

Estimate of current year impact: We anticipate the need for a Legislative Revised Program to increase our FY 92 authorization, thus allowing the division to hire the FY 93 staff prior to July 1, 1992. The FY 92 hiring would be needed so that we can properly train the RIP staff prior to the opening of the window periods. These costs would be paid for by participating employers.

ANALYSIS: (attach a separate page if necessary.) The actuarial costs to participating employers due to this program are to be paid up front and no additional costs to the systems are anticipated.

Prepared By: Gary Bader *Gary M. Bader*
Division: Retirement and Benefits

Phone: 465-4460
Date: January 29, 1992

Approved by Commissioner: Nancy Bear Usara *NB*
Agency: Department of Administration

Date: 1/30/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).
Rev 10/90

CSSB 337 (SA)
Analysis of Fiscal Implications to the Retirement Fund
Prepared by Division of Retirement & Benefits
Department of Administration
January 29, 1992

Analysis: This bill would place a temporary retirement incentive provision in statute for the Public Employees' (PERS) and Teachers' (TRS) Retirement Systems. Active PERS and TRS members could retire on an accelerated basis with an increased benefit under the following conditions: at age 47, if vested; with 17 years of service as a qualified peace officer, fire fighter or teacher; or with 27 years of credited service in the PERS. Before qualifying for an accelerated benefit, however, the member must pay a lump sum indebtedness payment or take an actuarial reduction from their life time benefit for the indebtedness amount.

We estimate that five permanent full-time positions will be needed in Juneau and one in Anchorage to administer the increased demand for information and services resulting from adding potentially over 4000 new retirees to the PERS and TRS, resulting from prior RIPs and projected for this one. In addition, we estimate that ten long term non-permanent employees will also be needed for varying lengths of time over the next two fiscal years. Personnel will handle increased counseling, address and beneficiary changes, account maintenance, and other services.

We estimate that we will need to increase our normal number of counseling trips by 5 trips over the next two fiscal years to assure that members understand the options and requirements of the program.

CSSB 337 (SA)
 Analysis of Fiscal Implications to the Retirement Fund
 Prepared by Division of Retirement & Benefits
 Department of Administration
 January 29, 1992

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

	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>
PERSONAL SERVICES			
FY 93			
2 Retirement Specialist I/II	104.5		
8 Retirement Technician I/II	338.2		
1 Accountant I	46.1		
3 Accounting Clerk III (12 months)	104.0		
2 Clerk II (12 months)	<u>65.2</u>		
Total FY 93 Personal Services Cost.....	\$658.0		
FY 94			
2 Retirement Specialist I/II	104.5		
5 Retirement Technician I/II	211.4		
3 Retirement Technician I/II (9 mon.)	95.1		
1 Accountant I	46.1		
2 Accounting Clerk III (12 months)	76.0		
2 Clerk II (12 months)	<u>65.2</u>		
Total FY 94 Personal Services Cost.....		\$598.3	
FY 95			
2 Retirement Specialist I/II	104.5		
3 Retirement Technician I/II	126.9		
1 Accountant I	<u>46.1</u>		
Personal Services Cost (FY 95 and beyond)			\$277.5

TRAVEL

Traveling to various locations throughout the state to counsel prospective retirees and give seminars	3.0	3.0	
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CONTRACTUAL

FY 93

Computer services for additional PC's	16.5		
Additional telephone costs (4 add phones)	.2		
Telephone service for 4 phones	.8		
Long distance call expense based upon previous RIP	<u>2.5</u>		
FY 93 contractual costs.....		20.0	

CSSB 337 (SA)
 Analysis of Fiscal Implications to the Retirement Fund
 Prepared by Division of Retirement & Benefits
 Department of Administration
 January 29, 1992

	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>
CONTRACTUAL			
FY 94			
Telephone service for 4 phones	.8		
Long distance call expense based upon previous RIP	<u>2.5</u>		
FY 94 contractual costs.....		3.3	
SUPPLIES			
Office supplies, calculators cost.	3.0	2.5	
EQUIPMENT			
5 Work stations	23.0		
5 Chairs	1.5		
5 PCs and other office equipment	30.0		
Other office equipment (Dictaphone, calculators, etc.)	5.0		
1 File cabinets	.3		
5 Phones (600/instrument)	3.0		
5 Personal Computers	27.5		
5 Microfiche viewers	4.0		
1 Computer Output Printer	18.0		
Total Equipment cost.	<u>112.3</u>	<u>-0-</u>	<u>-0-</u>
TOTAL Operations Cost	<u>\$796.3</u>	<u>\$607.1</u>	<u>\$279.5</u>

The retirement technicians, retirement specialists, accountant, and accounting clerks need constant access to the PERS and TRS computer files. We do not have any excess terminals, microfiche viewers or calculators. Our equipment request will satisfy our equipment needs for the duration of this program. We propose the purchase of personal computers to be used as terminals because they will be compatible with the division's Local Area Network.

We are also proposing the purchase of an additional computer output printer. The previous RIP's put great demand on our existing two printers and we were always in a state of backlog. Our current day-to-day printer needs maximize the capacity of our existing printers. After comparing the cost of leasing a printer for two years, coupled with our existing needs, purchasing a new printer would be more cost effective.

All administrative costs of the program will be paid in advance by participating employers as required by the bill.

The Other Funds are comprised of PERS at \$438.0 and the TRS at \$358.3 for FY 93.

Position Title RETIREMENT & BENEFITS SPECIALIST I/II		No. of Positions 2	Range/Step 16/A	Barg. Unit GGU
Time Status PFT	Staff Months: 2 x 12 = 24	Location: 1-Juneau/AWA 1-Anchorage/EBA	Election District 4,7	
TYPE OF EXPENDITURE		AMOUNT		
Salary		73.9		
Benefits		30.7		
Premium Pay				
Other				
TOTAL PERSONAL SERVICES:			104.5	
Travel			3.0	
Contractual			3.4	
Supplies			0.6	
Equipment			18.8	
Other				
TOTAL COST:			130.3	
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts	1002			
G.F. Match	1003			
General Fund	1004			
I-A Receipts	1007			
CIP Receipts	1061			
Other	1029 PERS		71.7	
	1034 TRS		58.6	
Justification: CSSB 337 (SA)				
<p>The Retirement & Benefit Specialists will train, direct, and supervise the daily activities of the eight additional retirement technicians. They will also be responsible for maintaining a listing of all employees who elect to participate in the RIP and a listing of all employees who are eligible to retire under the RIP. They will also be required to prepare data necessary to calculate actual cost billing information to participating employers.</p> <p>The Retirement & Benefit Specialists will be available to counsel persons who are interested and eligible to retire under the RIP.</p>				

**Request For
New Position**

AGENCY ADMINISTRATION
 BRU RETIREMENT & BENEFITS
 COMPONENT RETIREMENT & BENEFITS

FY 93

Page 1 of 5
 Revised Date:

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Position Title RETIREMENT & BENEFITS TECHNICIAN I/II		No. of Positions 8	Range/Step 12/B	Barg. Unit GGU
Time Status 3-PFT, 5-Temporary	Staff Months: 8 x 12 = 96	Location: JUNEAU/AWA		Election District 4
TYPE OF EXPENDITURE		AMOUNT		
Salary	234.0			
Benefits	104.2			
Premium Pay				
Other				
TOTAL PERSONAL SERVICES:		338.2		
Travel				
Contractual		11.0		
Supplies		1.0		
Equipment		68.9		
Other				
	TOTAL COST:	419.1		
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts	1002			
G.F. Match	1003			
General Fund	1004			
I-A Receipts	1007			
CIP Receipts	1061			
Other	1029 PERS	230.5		
	1034 TRS	188.6		
Justification: CSSB 337 (SA)				
The Retirement and Benefit Technicians staff will be needed to assist our current permanent staff to; research member files, prepare benefit projections for prospective retirees, process retirement applications and establish benefits, add service that members are eligible to purchase and respond to many inquires that the division will receive during the concentrated window period of the program.				

**Request For
New Position**

AGENCY ADMINISTRATION
 BRU RETIREMENT & BENEFITS
 COMPONENT RETIREMENT & BENEFITS

FY 93

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 Revised Date:

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Position Title ACCOUNTANT I		No. of Positions 1	Range/Step 14/A	Barg. Unit GCU
Time Status PFT	Staff Months: 12	Location: JUNEAU/AWA		Election District 4
TYPE OF EXPENDITURE		AMOUNT		
Justification CSSB 337 (SA)				
Salary	32.2	An Accountant I will monitor and review RIP contracts between employers and the Division to insure receipt of RIP related funds. Book receivables as year and adjustments. Establish coding system in AKSAS to track receiveables, payments, interest calculations, and balances due for each district participating in the RIP.		
Benefits	14.0			
Premium Pay				
Other				
TOTAL PERSONAL SERVICES:	46.1			
Travel		Process Reimbursable Services Agreements (RSA) transactions for state agencies participating in the RIP. Transfer RSA payments to proper fund equity account in each fund. Reconcile RIP tracking system using PC to AKSAS on monthly basis. Provide Accountant III with final adjusted financial data to be used in quarterly financial statements of the pension funds. Provide financial reports and analyses to management.		
Contractual	1.5			
Supplies	0.6			
Equipment	12.5			
Other				
TOTAL COST:	60.7	Calculate interest for each district based on balances due and terms set out in contracts, and bill each district for balances due and interest charged. Work with independent audit team on all RIP related questions. Analyze complex financial data to respond to auditors questions.		
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts	1002			
G.F. Match	1003			
General Fund	1004			
I-A Receipts	1007			
CIP Receipts	1061			
Other				
	1029 PERS	33.4		
	1034 TRS	27.3		

**Request For
New Position**

AGENCY ADMINISTRATION
 BRU RETIREMENT & BENEFITS
 COMPONENT RETIREMENT & BENEFITS

FY 93

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 Revised Date:

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Position Title ACCOUNTING CLERK III		No. of Positions 3	Range/Step 10/A	Barg. Unit GGU
Time Status Temporary	Staff Months: 3 x 12 = 36	Location: JUNEAU/AWA		Election District 4
TYPE OF EXPENDITURE		AMOUNT		
Salary		70.5		
Benefits		33.5		
Premium Pay				
Other				
TOTAL PERSONAL SERVICES:		104.0		
Travel				
Contractual		3.4		
Supplies		0.6		
Equipment		11.5		
Other				
TOTAL COST:		119.5		
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts		1002		
G.F. Match		1003		
General Fund		1004		
I-A Receipts		1007		
CIP Receipts		1061		
Other		1029 PERS		
		1034 TRS		
		65.7		
		53.8		
Justification CSSB 337 (SA)				
Accounting Clerk III positions will handle the additional accounting duties related to a Retirement Incentive Program (RIP) as follows: member file research, file maintenance, including entering indebtedness, history, and retirement segments into the appropriate system; verification of system output, any adjusting vouchers that are necessary in AKSAS, assisting with the deposits and coding of member indebtedness payments and employer RIP payments, assisting with the member account information that is needed in completing tax excludable statements for the Retirement Section, and any follow through that becomes necessary.				

**Request For
New Position**

AGENCY ADMINISTRATION
 BRU RETIREMENT & BENEFITS
 COMPONENT RETIREMENT & BENEFITS

FY 93

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 Revised Date:

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Position Title CLERK II		No. of Positions 2	Range/Step 7/B	Barg. Unit GGU
Time Status Temporary	Staff Months: 2 x 12 = 24	Location: JUNEAU/AWA		Election District 4
TYPE OF EXPENDITURE		AMOUNT		
Salary	44.2	Justification CSSB 337 (SA) Clerk II positions are required in the divisions microfiche center for the day-to-day file/recordkeeping duties for the new retirees under the RIP. Duties include: sanitizing and purging files, creating new microfiche files for these retirees from paper documents, creating duplicate microfiche files when requested for the use of division personnel, and filing and refiling all documents. Many calculations affecting members' retirement accounts depend on the files being accurate and up-to-date.		
Benefits	21.0			
Premium Pay				
Other				
TOTAL PERSONAL SERVICES:	65.2			
Travel				
Contractual	0.7			
Supplies	0.2			
Equipment	0.6			
Other				
	TOTAL COST:	66.7		
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts	1002			
G.F. Match	1003			
General Fund	1004			
I-A Receipts	1007			
CIP Receipts	1061			
Other	1029 PERS	36.7		
	1034 TRS	30.0		

**Request For
New Position**

AGENCY ADMINISTRATION
 BRU RETIREMENT & BENEFITS
 COMPONENT RETIREMENT & BENEFITS

FY 93

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 Revised Date:

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FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

5
Bill Version: SSB 337(STA) -
(S) Publish Date: 1-31-92

Revision Date: _____
Title: "An Act relating to retirement incentive programs . . . effective date."
Sponsor: Duncan, Kerttula, Sturqulewski
Requestor: Senate State Affairs

Department Affected: Administration
BRU: Finance
Component: Finance

COMPONENT SERIAL NO.

59			
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	67.6	5.0	0	0	0	0
TRAVEL	0	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	67.6	5.0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	67.6	5.0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE:	0	0	0	0	0	0
TOTAL	67.6	5.0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	4	1	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: See attached.

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Don Wanie, Director *DW 1/29*
Division: Finance

Phone: 465-2240
Date: January 29, 1992

Approved by Commissioner: Nancy Bear Usera *NBCU*
Agency: Administration

Date: 1/30/92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc., & Impacted Agency(ies).

Impact of a Retirement Incentive Program

The Division of Finance is responsible for verification of employment history and processing of termination pay for all state employees. This includes verifying the length of employment, accounting for all leave without pay during the entire employment with the state and determining salaries for the three highest years. In addition, final and terminal leave pay must be processed in accordance with contractual agreements.

With implementation of a Retirement Incentive Program (RIP) the workload for these functions would be significantly increased and additional support will be required by the Division of Finance to meet processing deadlines. Approximately five hundred employees took advantage of the previous RIP. It is anticipated that a comparable number of employees would participate if a RIP was implemented in the next year. Based on past experience, this would require four additional positions, including one Accountant I and three Accounting Technicians I, for a period of six months. Estimated cost for these positions would be:

Accountant I (1)	Range 14A	19.7
Acct Tech I (3)	Range 12A	<u>52.9</u>
Total Cost		72.6

FISCAL NOTE

10. 2

Bill Version: SB 337

(S) Publish Date: 1-31-92

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act relating to retirement incentive programs for the Public Employees' and Teachers' Retirement System
Sponsor: Duncan
Requestor: Senate State Affairs

Department Affected: Administration
BRU: Retirement and Benefits
Component: Retirement and Benefits
COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	575.7	630.0	277.5	277.5	277.5	277.5
TRAVEL	3.0	3.0	1.0	1.0	1.0	1.0
CONTRACTUAL	20.0	3.3	0	0	0	0
SUPPLIES	3.0	2.5	1.0	1.0	1.0	1.0
EQUIPMENT	112.3	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	714.0	638.8	279.5	279.5	279.5	279.5

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	714.0	638.8	279.5	279.5	279.5	279.5
TOTAL	714.0	638.8	279.5	279.5	279.5	279.5

POSITIONS

FULL-TIME:	6	6	6	6	6	6
PART-TIME:	0	0	0	0	0	0
TEMPORARY:	9	9	0	0	0	0

Estimate of current year impact: Zero

ANALYSIS: (attach a separate page if necessary.) The actuarial costs to participating employers due to this program are to be paid up front and no additional costs are anticipated.

Prepared By: Gary Bader
Division: Retirement and Benefits

Phone: 465-4460
Date: January 16, 1992

Approved by Commissioner: Nancy Bear Userra
Agency: Department of Administration

Date: 1/21/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

Senate Bill 337
Analysis of Fiscal Implications to the Retirement Fund
Prepared by Division of Retirement & Benefits
Department of Administration
January 16, 1992

Analysis: This bill would place a temporary retirement incentive provision in statute for the Public Employees' (PERS) and Teachers' (TRS) Retirement Systems. Active PERS and TRS members could retire on an accelerated basis with an increased benefit under the following conditions: at age 47, if vested; with 17 years of service as a qualified peace officer, fire fighter or teacher; or with 27 years of credited service in the PERS. Before qualifying for an accelerated benefit, however, the member must pay a lump sum indebtedness payment or take an actuarial reduction from their life time benefit for the indebtedness amount.

We estimate that five permanent full-time positions will be needed in Juneau and one in Anchorage to administer the increased demand for information and services resulting from adding potentially over 4000 new retirees to the PERS and TRS, resulting from prior RIPs and projected for this one. In addition, we estimate that nine long term non-permanent employees will also be needed for varying lengths of time over the next two fiscal years. Personnel will handle increased counseling, address and beneficiary changes, account maintenance, and other services.

We estimate that we will need to increase our normal number of counseling trips by 5 trips over the next two fiscal years to assure that members understand the options and requirements of the program.

SB 337
 Analysis of Fiscal Implications to the Retirement Fund
 Prepared by Division of Retirement & Benefits
 Department of Administration
 January 16, 1992

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

	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>
PERSONAL SERVICES			
FY 93			
2 Retirement Specialist I/II	104.5		
8 Retirement Technician I/II	338.2		
1 Accountant I	46.1		
2 Accounting Clerk III (6 months)	38.0		
2 Clerk II (9 months)	<u>48.9</u>		
Total FY 93 Personal Services Cost	\$575.7		
FY 94			
2 Retirement Specialist I/II	104.5		
8 Retirement Technician I/II	338.2		
1 Accountant I	46.1		
2 Accounting Clerk III (12 months)	76.0		
2 Clerk II (12 months)	<u>65.2</u>		
Total FY 94 Personal Services Cost		\$630.0	
FY 95			
2 Retirement Specialist I/II	104.5		
3 Retirement Technician I/II	126.9		
1 Accountant I	<u>46.1</u>		
Personal Services Cost (FY 95 and beyond)			\$277.5

TRAVEL

Traveling to various locations throughout the state to counsel prospective retirees and give seminars	3.0	3.0	
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CONTRACTUAL

FY 93			
Computer services for additional PC's	16.5		
Additional telephone costs (4 add phones)	.2		
Telephone service for 4 phones	.8		
Long distance call expense based upon previous RIP	<u>2.5</u>		
FY 93 contractual costs.....		20.0	

SB 337
 Analysis of Fiscal Implications to the Retirement Fund
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 Department of Administration
 January 16, 1992

	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>
CONTRACTUAL			
FY 94			
Telephone service for 4 phones	.8		
Long distance call expense based upon previous RIP	2.5		
FY 94 contractual costs.....		3.3	
SUPPLIES			
Office supplies, calculators cost.	3.0	2.5	
EQUIPMENT			
5 Work stations	23.0		
5 Chairs	1.5		
5 PCs and other office equipment	30.0		
Other office equipment (Dictaphone, calculators, etc.)	5.0		
1 File cabinets	.3		
5 Phones (600/instrument)	3.0		
5 Personal Computers	27.5		
5 Microfiche viewers	4.0		
1 Computer Output Printer	18.0		
Total Equipment cost.....	<u>112.3</u>	<u>-0-</u>	<u>-0-</u>
TOTAL Operations Cost	<u>\$714.0</u>	<u>\$638.8</u>	<u>\$279.5</u>

The retirement technicians, retirement specialists, accountant, and accounting clerks need constant access to the PERS and TRS computer files. We do not have any excess terminals, microfiche viewers or calculators. Our equipment request will satisfy our equipment needs for the duration of this program. We propose the purchase of personal computers to be used as terminals because they will be compatible with the division's Local Area Network.

We are also proposing the purchase of an additional computer output printer. The previous RIP's put great demand on our existing two printers and we were always in a state of backlog. Our current day-to-day printer needs maximize the capacity of our existing printers. After comparing the cost of leasing a printer for two years, coupled with our existing needs, purchasing a new printer would be more cost effective.

All administrative costs of the program will be paid in advance by participating employers as required by the bill.

The Other Funds are comprised of PERS at \$392.7 and the TRS at \$321.3 for FY 93.

FISCAL NOTE

No. 3
 Version: SB 337
 (S) Publish Date: 1-31-92

STATE OF ALASKA
 1992 LEGISLATIVE SESSION

Revision Date: _____ Department Affected: Administration
 Title: "An Act relating to retirement incentive programs...effective date." BRU: Finance
 Component: Finance
 Sponsor: Senators Duncan, Kerttula, Sturgulewski
 Requestor: Senate State Affairs COMPONENT SERIAL NO.

59			
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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	10.0	62.6	0	0	0	0
TRAVEL	0	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	10.0	62.6	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	10.0	62.6	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE:	0	0	0	0	0	0
TOTAL	10.0	62.6	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	1	4	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: See attached

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Don Wanie *DW* Phone: 465-2240
 Division: Finance Date: 01/21/92
 Approved by Commissioner: Nancy Bear Usery *NB*
 Agency: Administration Date: _____

Impact of a Retirement Incentive Program

The Division of Finance is responsible for verification of employment history and processing of termination pay for all state employees. This includes verifying the length of employment, accounting for all leave without pay during the entire employment with the state and determining salaries for the three highest years. In addition, final and terminal leave pay must be processed in accordance with contractual agreements.

With implementation of a Retirement Incentive Program (RIP) the workload for these functions would be significantly increased and additional support will be required by the Division of Finance to meet processing deadlines. Approximately five hundred employees took advantage of the previous RIP. It is anticipated that a comparable number of employees would participate if a RIP was implemented in the next year. Based on past experience, this would require four additional positions, including one Accountant I and three Accounting Technicians I, for a period of six months. Estimated cost for these positions would be:

Accountant I (1)	Range 14A	19.7
Acct Tech I (3)	Range 12A	<u>52.9</u>
Total Cost		72.6



Alaska State Legislature

SENATOR JIM DUNCAN

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

COMMITTEES:
VICE CHAIR -
FINANCE
VICE CHAIR -
STATE AFFAIRS
RULES
BUDGET & AUDIT
ETHICS REFORM

MEMORANDUM

Date: February 4, 1992

TO: Senator Arliss Sturgulewski, Chair
Senate Health, Education and Social Services Committee

FROM: Senator Jim Duncan

SUBJECT: CSSB 337(STA), relating to retirement incentive programs for the public employees' retirement system and the teachers' retirement system.

I would appreciate your scheduling of SB 337, reestablishing the Retirement Incentive Program for a hearing in the HESS committee as soon as possible, or if possible, waiving the bill to the next committee of referral, Senate Finance. The basic configuration of the Retirement Incentive Program as proposed in SB 337 is substantially similar to previous offerings of the program.

The State Affairs Committee amended SB 337 because of concerns expressed by the Department of Administration about the program. Based on the amendments, the Administration is now supporting reenactment of the program. The amendments included;

1. the elimination of military service credit for PERS employees as years of credit towards service based retirement; i.e., 20 or 30 and out options;
2. changing the window period for state employees from December 31, 1992 through June 30, 1993 for application to July 31, 1992 through October 31, 1992, and changing the required retirement date for state employees from February 1, 1994 to July 1, 1993; and
3. restoring the prohibition against Retirement Incentive Program retirees being either re-employed or contracting with the state for personal services for one year.

Thus, the window periods in the State Affairs Committee Substitute for SB 337 are as follows;

Employee Type	Application Period	Employee Must Retire on or Before
Teachers	June 30,1992-Dec. 31, 1992	August 1, 1993
University	" "	" "
State	July 31,1992-Oct. 31, 1992	July 1, 1993
Municipal	Dec.31, 1992-June 30, 1993	February 1, 1994

The other provisions of the program remain unchanged. It will again offer a three year retirement credit to qualified individuals to be applied in the following order;

1. to meet the age or service required for eligibility for normal retirement;
2. to meet the age required for early retirement;
3. to reduce the actuarial adjustment required for early retirement; and
4. as years of credited service for calculating retirement benefits.

To qualify, an employee must be within 3 years of early or normal retirement. The increased benefit will vary depending on each individual's length of service and their age. The personal services savings required by the program will again be calculated over a five year period.

The employee will be required to pay what they would have paid into the retirement system if they had continued to work for an additional three years. The employer's cost will be the difference between the employee's contribution and the full actuarial cost of the three year incentive. The full cost is calculated by the state's actuaries for each individual who is eligible for the program. This means that all cost incurred because the individual retires three years earlier is fully paid into the respective retirement system. Recent annual reports on both PERS and TRS report that the systems have been adequately compensated for RIP incurred costs.

The Legislative Audit released in November 1991 reported that total savings of almost \$23 million were achieved by public employers through the use of the 1989-90 Retirement Incentive Program. The State of Alaska saved over \$6 million, with the largest savings accruing to the Department of Transportation and Public Facilities. The University saved \$4.3 million and school districts throughout the state saved almost \$9 million. The total number of participants was 1,764. This compares to 2,327 participants in the 1986-87 Retirement Incentive Program.

Savings for the original program amounted to over \$73 million. Much of the difference between the calculated savings between the 86-87 offering and the 89-90 program is accounted for by the auditor's conservative standards for determining savings and the high level of participation in the original program. For instance, the Legislative Audit stated that while the University had reported \$9.2 million in savings, but had reallocated \$4.9 million of the savings to expand programs. The audit figures therefore did not include the \$4.9 million.

For your information, I made some additional changes in the program between the 89-90 version and SB 337. They include:

1. University of Alaska employees who have chosen the optional university retirement program are allowed to participate if they otherwise qualify under PERS or TRS. (Page 5, lines 5-10)
2. The Administrative Director of the Alaska Court System is allowed to participate if a savings is realized. (Page 5, line 28 - Page 7, line 7)

Your support for CS SB 337 (STA) is appreciated.

Attachments

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

240 Main Street, Suite 500
Juneau, Alaska 99801-2101

MEMORANDUM

February 4, 1992

SUBJECT: Sectional Summary of CSSB 337(State Affairs)
(Retirement Incentive Programs)

TO: Senator Jim Duncan

FROM: Teresa B. Cramer *TBC*
Legislative Counsel

You have requested a sectional analysis of the above described bill.

As a preliminary matter, note that a sectional analysis or summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Because this bill sets up a time-limited program which is repealed July 1, 1994, it is not placed into the codified statutes. If the bill is enacted, it will be published in the Session Laws and also in the Temporary and Special Acts volume of the Alaska Statutes.

Section 1 states the legislative purpose in adopting a retirement incentive program for public employers and employees.

Section 2 establishes the general requirements for a retirement incentive program. Subsection (a) permits employers to designate organizational units of employees eligible to participate. Subsection (b) sets out criteria for the organization units. Subsection (c) limits which employees are eligible to participate to those who will be qualified to retire after receipt of the retirement incentive. Subsection (d) sets out requirements for the plan filed by the employer and requires the employer to agree to reimburse the retirement system for the extra costs incurred by the system from participation by the employer's employees.

Subsection (e) sets out the formula for computing how much each member of the Teachers' Retirement System (TRS) who participates in the plan owes in order to receive the three-year credit. It is based on the annual contribution rate of 8.65% for members of TRS set out in AS 14.25.050. Subsection (f) sets out the formula for

computing how much each member of the Public Employees' Retirement System (PERS) who participates in the plan owes in order to receive the three-year credit. It is based on the annual contribution rates of 7.5% for peace officers who are members of PERS and 6.75% for other members of PERS set out in AS 39.35.160.

Subsection (g) provides that the retirement incentive is a credit of three years, to be used either to meet retirement eligibility requirements or, if those are met, to increase the amount of credited service a participant is entitled to when computing benefits. Subsection (h) limits the kinds of credited service that employees retiring under the retirement incentive plan may use when determining whether they are eligible to retire. Note that the subsection does not limit the kinds of credited service that may be considered when computing the employee's benefits.

Subsection (i) permits employees to assume part of the employer's liability in order to become eligible to participate in a retirement incentive plan.

Section 3 authorizes the state to adopt a retirement incentive plan for its employees, to begin July 31, 1992, and ending October 31, 1992. Subsections (b) and (c) limit which employees may participate. Subsection (d) requires that participants be appointed to retirement on or before July 1, 1993.

Section 4 authorizes political subdivisions and public organizations which participate in PERS to adopt a retirement incentive plan for their employees, to begin December 31, 1992, and ending June 30, 1993. Subsection (b) requires that participants be appointed to retirement on or before February 1, 1994.

Section 5 authorizes the University of Alaska to adopt a retirement incentive plan for its employees, to begin June 30, 1992, and ending December 31, 1992. Subsection (b) requires that participants be appointed to retirement on or before August 1, 1993. Subsection (c) addresses participants in the Optional University Retirement Program.

Section 6 authorizes employers in TRS other than the state or the University of Alaska, which are covered in sections 3 and 5 above, to adopt a retirement incentive plan for their employees, to begin June 30, 1992, and ending December 31, 1992. Subsection (b) requires that participants be appointed to retirement on or before August 1, 1993.

Section 7 permits state employee participants to receive credit for certain employment with political subdivisions or public organizations who did not participate in PERS or TRS at the time of the employment for purposes of determining whether the participant satisfies the years of service requirements for retirement under TRS or PERS. The employment may not be counted when the amount of the participant's benefits are calculated.

Senator Jim Duncan

January 17, 1992

Page 3

Section 8 permits the administrative director of the Alaska Court System who is a member of the Judicial Retirement System (JRS) to participate in a retirement incentive program. The section sets out provisions comparable to those that apply to members of the other retirement systems.

Section 9 permits the Department of Administration to take certain actions if employers who are participating in the retirement incentive program become delinquent in the payments they owe the system for the increased benefits paid to their retirees under the program.

Section 10 establishes an indebtedness owed by participants in the retirement incentive program who, after retirement, are reemployed in a position that is covered by PERS, TRS, or JRS. Subsection (b) prohibits participants from working for an employer who is part of one of the state retirement systems for one year after the participant retired. There is an exception for the University of Alaska.

Section 11 directs state agencies to file with the Office of Management and Budget reports showing the expected effect of the program on the agency's personal services cost and operation. Subsection (b) directs OMB to document the net reduction in personal services costs for each agency in the governor's annual budget request. Subsection (c) directs OMB to report to the legislature on the retirement incentive program.

Section 12 states that employees do not have a vested or contractual right to benefits under a retirement incentive program until an agreement is executed with the administrator of the retirement system. The legislature reserves the right to make changes to the program.

Section 13 makes the definitions in TRS and PERS, as appropriate, applicable to the bill.

Section 14 repeals sections 1 - 8 of the Act, which establish and authorize the retirement incentive programs, on July 1, 1994.

Section 15 is an immediate effective date clause.

If I may be of further assistance, please advise.

TC:gc

92-097.glc

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

P.O. BOX C
JUNEAU, ALASKA 99811 0200
PHONE: (907) 465-2200
FAX: (907) 465-2135

January 29, 1992

The Honorable Jim Duncan
Alaska State Legislator
State Capitol
Juneau, AK 99811

Dear Senator Duncan:

This is to follow up on the discussions regarding SB 337 at the Senate State Affairs Committee meeting on January 22.

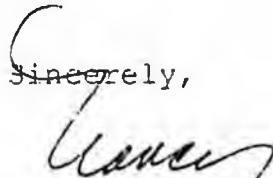
As requested, we have reviewed the "window" for State participation in the program. We find that under the February 1, 1994, window proposed in SB 337, 4,366 State employees would be eligible to participate; and based upon the experience of the last incentive program, approximately 29%, or 1,266, employees could be expected to avail themselves of the incentive. The July 1, 1993, window proposed by the department would reduce the number of eligible employees by 447 and, in turn, the actual number who would participate by only 130. In view of the greater flexibility the shorter window would provide for dealing with projected revenue shortfalls, I believe its benefits outweigh the exclusion of the small number of employees who would be affected.

I am enclosing a copy of the specific amendments the department is proposing to Senate Bill 337. They include language for the windows for State employees for making application and actually retiring, as well as the other amendments we offered on January 22. We have, however, redrafted the contracting prohibition amendment to model it after that set out in the legislation enacted for the last incentive program.

I would appreciate your favorable consideration of these amendments which would enable the Department of Administration to support SB 337.

Thank you.

Sincerely,


Nancy Bear Usura
Commissioner

NBU/nl
Enclosures



ALASKA ASSOCIATION OF ELEMENTARY SCHOOL PRINCIPALS
ALASKA ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS
ALASKA ASSOCIATION OF SCHOOL ADMINISTRATORS

• ALASKA COUNCIL OF SCHOOL ADMINISTRATORS •
326 Fourth St., Suite 408, Juneau, AK 99801-1101 (907) 586-9702 FAX (907) 586-5879

Position Statement

Senate Bill No. 337

The Alaska Council of School Administrators is in support of Senate Bill No. 337, "Relating to retirement incentive programs for the public employees'.

Because of the continued concerns for budget reductions, the state's long term revenue outlook, and the success of previous incentive programs, we feel the implementation of a retirement incentive program would again provide the necessary stimulus for those eligible to retire under this program to do so. And in the long term, it would produce a significant savings to the state and local school districts.



Alaska Public
Employees Association **APEA**

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

FEDERATION OF PUBLIC EMPLOYEES/AFT/AFL-CIO

January 27, 1992

Senator Jim Duncan
P.O. Box 020690
Juneau, AK 99802

Re: Retirement Incentive Program, SB 337

Dear Senator Duncan:

This is to reiterate our support for your bill implementing a Retirement Incentive Program for employees of the State, political subdivisions and school districts. We believe that the program is a sensible and humane method of cutting jobs and saving money. Past programs have proven effective and, given the economic and political climate, we have no reason to believe this won't be either. It is a win-win situation for the public employer and the State.

Thank you for introducing and supporting this legislation. APEA/AFT fully supports it.

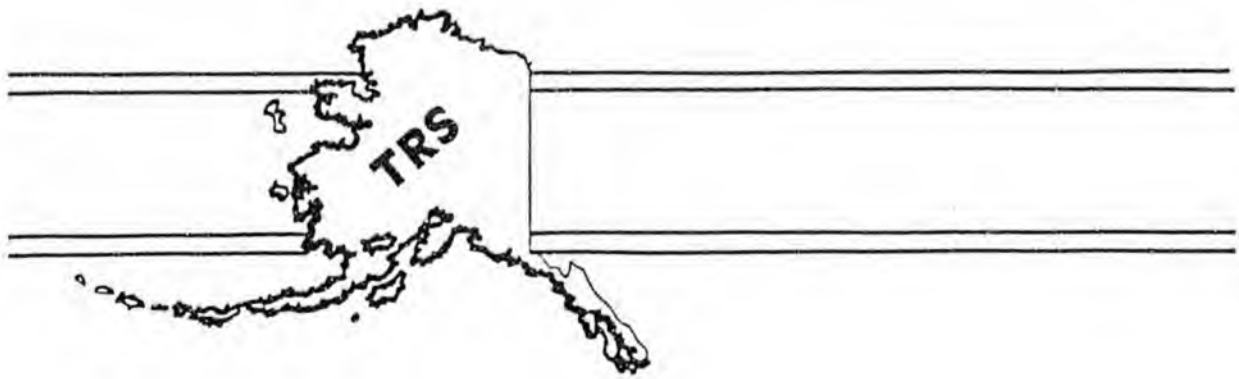
Very truly yours,


Bruce I. Ludwig
Business Manager

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Fairbanks, AK 99701
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State of Alaska
Teachers' Retirement System

Actuarial Valuation Report
as of June 30, 1990

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Highlights

This report has been prepared by William M. Mercer, Incorporated to:

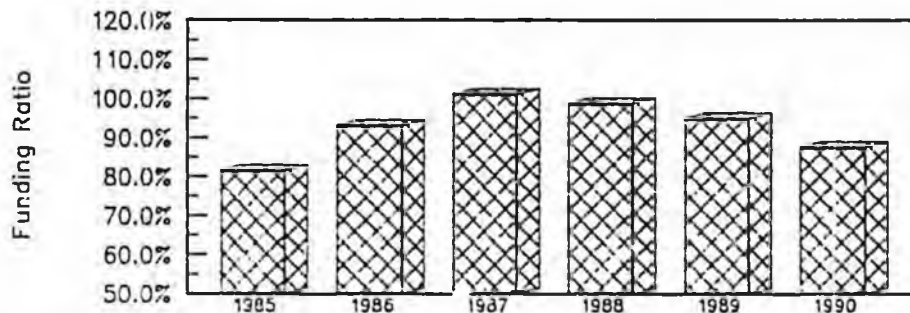
- (1) present the results of a valuation of the Alaska Teachers' Retirement System as of June 30, 1990;
- (2) review experience under the plan for the year ended June 30, 1990;
- (3) determine the appropriate contribution rate for the State and each school district in the System;
- (4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 1989-90 plan year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principle results are as follows:

	<u>1989</u>	<u>1990</u>
Funding Status as of June 30:		
(a) Valuation Assets*	\$ 1,480,389	\$ 1,662,242
(b) Accrued Liability*	1,557,643	1,895,030
(c) Funding Ratio, (a) / (b)	95.0%	87.7%



* In thousands.

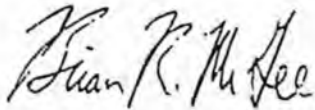
Employer Contribution Rates
for Fiscal Year:

	<u>1992</u>	<u>1993</u>
(a) Normal Cost Rate	13.26%	14.07%
(b) Past Service Rate	1.90%	5.58%
(c) Total Contribution Rate	15.16%	19.65%
(d) Three-year Average Rate	11.87%	15.69%

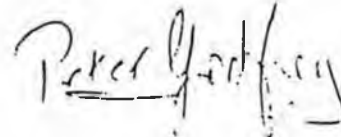
+ due to H1B 53

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by the audited report from Coopers & Lybrand, to determine a sound value for the plan liabilities. We believe that this value, and the method suggested for funding it, are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,



Brian R. McGee, FSA
Principal



Peter L. Godfrey, FIA, ASA
Consulting Actuary

BRM/PLG/jls

April 11, 1991

Analysis of the Valuation

As shown in the Highlights section of this report, the funding ratio as of June 30, 1990 has decreased from 95.0% to 87.7%, a 7.3% decrease. The total employer contribution rate has increased from 15.16% of payroll to 19.65%, an increase of 4.49%. The three-year average rate has also increased from 11.87% to 15.69%, a 3.82% increase. The reasons for the change in the funded status and contribution rate are explained below.

1. Chapter 97, 1990 SLA

Chapter 97, 1990 SLA passed the Alaska State Legislature last year and was signed into law by Governor Cowper. The bill changed many of the TRS benefit provisions, some of which increase and some decrease the contribution requirements to the System and the funded status of TRS. Some of the major changes include:

- a. Automatic PRPA's will be granted to all current and future retirees.
- b. The benefit formula multiplier was increased for future service over 20 years.
- c. Employee contribution rates were increased by 1.65%, and are now being made on a tax-deferred basis.
- d. Members with 12 years of combined part-time and full-time service are vested.
- e. Normal retirement age for new employees was raised to age 60.
- f. COLA benefits for new employees will be delayed to age 65, unless disabled.
- g. Post-retirement medical benefits for new employees will be reduced.

You will note that items a through d above are effective in FY91 for all employees while items e, f and g, all cost saving items, are applicable only to employees first hired after June 30, 1990. The ultimate cost to the System should be close to the current level. The pattern of costs, however, will be higher in early years when few people are covered by the cost saving features. Contribution rates will then reduce over time as new employees enter the System.

Chapter 97, 1990 SLA caused an increase in the total employer contribution rate of 6.76% and an increase in accrued liability of about \$266,783,000.

2. Retiree Medical Insurance

During the year ended June 30, 1990, the System experienced an actuarial gain of \$57,386,000 due to the reduction in retiree medical premiums.

Because, in recent years, the adverse retiree medical premium experience was a major reason for the rapidly increasing employer contribution rate and the deteriorating funding ratio, it is certainly welcome news to be able to comment on a stabilization in retiree medical premiums.

The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS.

<u>Fiscal Year</u>	<u>Monthly Premium Per Retiree For Health Coverage</u>	<u>Annual Percentage Increase</u>	<u>Average Annual Increase Since 1978</u>
1977	\$ 34.75	--	--
1978	57.64	66%	--
1979	69.10	20%	20%
1980	64.70	- 6%	6%
1981	96.34	49%	19%
1982	96.34	0%	14%
1983	115.61	20%	15%
1984	156.07	35%	18%
1985	191.85	24%	19%
1986	168.25	-12%	14%
1987	165.00	- 2%	12%
1988	140.25	-15%	9%
1989	211.22	51%	13%
1990	252.83	20%	13%
1991	243.98	- 4%	12%
1992	243.98	--	11%

As you can see from the above table, the monthly retiree medical premium reduced to \$243.98 during the year from \$252.83, a decrease of 3.50%. The premium for the 1992 fiscal year remained unchanged.

As noted in last year's valuation report, the State has seen a dramatic shift to post-65 rates which have increased considerably faster than pre-65 rates. However, both rates reduced by 3.50% in FY91 and have remained unchanged for FY92, resulting in the first actuarial gain from medical benefits for the System since the June 30, 1987 valuation of the System.

The effect on the past service contribution rate of this reduction in retiree medical premiums was a reduction of 1.38% of payroll. The effect on the normal cost rate was a reduction of 0.90%, resulting in a reduction in the total employer contribution rate due to medical benefits of 2.28% of payroll.

2. Investment Performance

The System once again experienced actuarial gains arising from the investment performance of the Trust assets. Although the return as measured by market values was lower this year than last year, the effect of the five-year smoothing was to increase the return as measured by valuation assets from last year. The approximate rate of return based on market values was 10.03% and the rate based on valuation assets was 11.92%. The resulting actuarial gain was \$43,235,000 which had the effect of reducing the total employer contribution rate by 1.04%.

3. Salary Increases

Salary increases during the year were less than anticipated in the valuation assumptions. Salary experience resulted in an actuarial gain of \$20,599,000 which generated a reduction in the total employer contribution rate of .49% of payroll.

4. Employee Data

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased .7%, from 8,527 at June 30, 1989 to 8,586 at June 30, 1990. The average age of active participants increased from 41.82 to 42.21 and average credited service increased from 10.61 to 10.62 years.

The number of retirees and beneficiaries increased 2.8%, from 3,098 to 3,184, and their average age increased from 61.85 to 62.45. There was a 60.6% increase in the number of vested terminated participants from 508 to 816. Their average age increased from 45.11 to 46.75.

The overall effect of these participant data changes was an actuarial loss of \$16,505,000, resulting in an increase in the past service contribution rate of 0.40% of payroll. These demographic changes also had the effect of increasing the normal cost rate by .70%, resulting in an increase in the average total employer contribution rate of 1.10% of payroll.

Retirement Incentive Program

The second Retirement Incentive Program has been available to participants since July 1, 1989. The number of new retirees increased from 187 at June 30, 1989 to 199 at June 30, 1990. Although the full effect of the R.I.P. may not be seen until next year's valuation, the R.I.P. was responsible in part for the increase in the number of new retirees.

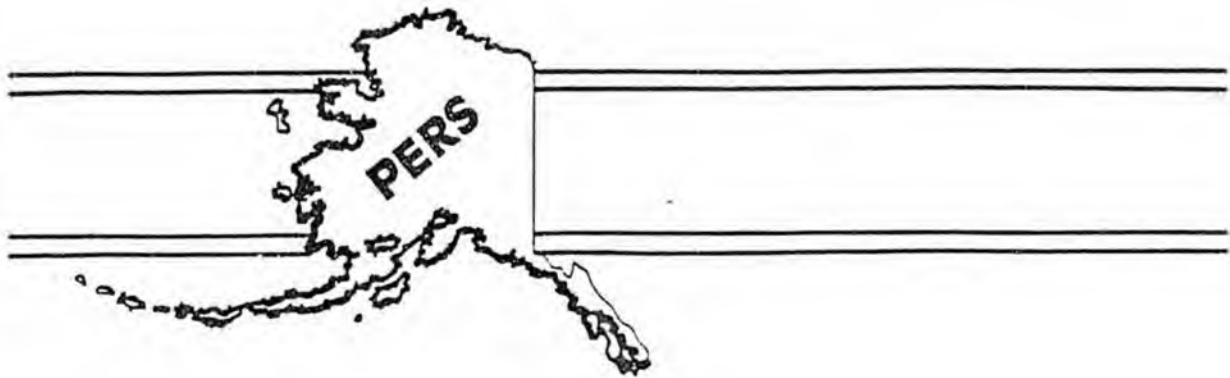
As with the first R.I.P., the cost is being borne by employers based on the actuarial value of the extra benefits, calculated individually for each employee electing to retire under the program. This cost is being paid over a three-year period. If the assumptions underlying the calculated cost of the R.I.P. are met, the total cost to the System will be equal to the employers' payments.

Summary

The following table summarizes the sources of change in the total employer contribution rate:

(1) Last year's total employer contribution rate (before smoothing) . . .	15.16%
(2) Increase in total employer contribution rate due to Chapter 97, 1990 SLA	6.76%
(3) Decrease in past service rate due to retiree medical insurance	(1.38%)
(4) Decrease in normal cost rate due to retiree medical insurance	(0.90%)
(5) Decrease due to investment performance	(1.04%)
(6) Decrease due to salary increases	(0.49%)
(7) Increase in past service rate due to demographic experience	0.40%
(8) Increase in normal cost rate due to demographic experience	0.70%
(9) Impact of all other factors	0.44%
(10) Total employer contribution rate this year (before smoothing)	19.65%

In summary, the System enjoyed a good year with substantial actuarial gains arising from favorable investment performance and the reduction in medical premiums. The effect of Chapter 97, 1990 SLA, however, caused a substantial increase in current contribution rates and a decrease in the funded status to 87.7%.



**State of Alaska
Public Employees' Retirement System**

**Actuarial Valuation Report
as of June 30, 1990**

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Highlights

This report has been prepared by William M. Mercer, Incorporated to:

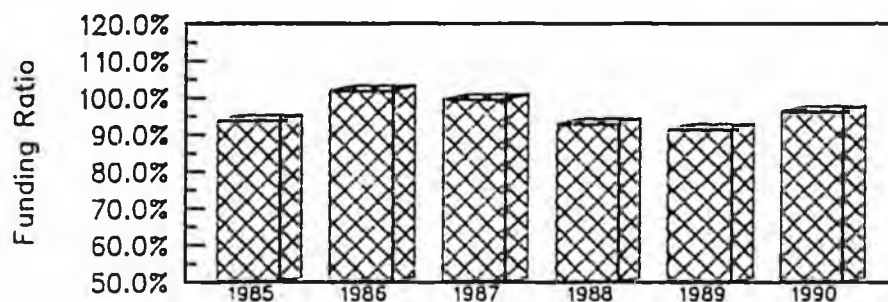
- (1) present the results of a valuation of the Alaska Public Employees' Retirement System as of June 30, 1990;
- (2) review experience under the plan for the year ended June 30, 1990;
- (3) determine the appropriate contribution rates for the State and for each political subdivision in the system;
- (4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 1989-90 plan year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principle results are as follows:

	<u>1989</u>	<u>1990</u>
Funding Status as of June 30:		
(a) Valuation Assets*	\$ 2,348,423	\$ 2,677,486
(b) Accrued Liability*	2,563,268	2,753,518
(c) Funding Ratio, (a) / (b)	91.6%	97.2%



* In thousands.

Employer Contribution Rates
for Fiscal Year:

	<u>1992</u>	<u>1993</u>
(a) Consolidated Rate	12.00%	12.83%
(b) Average Past Service Rate	2.20%	.75%
(c) Average Total Contribution Rate	14.20%	13.58%

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by Coopers & Lybrand, to determine a sound value for the plan liabilities. We believe that this value and the method suggested for funding it are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,

Brian R. McGee, FSA
Principal

Peter L. Godfrey, FIA, ASA
Consulting Actuary

BRM/PLG/JWJ/jls

April 11, 1991

Analysis of the Valuation

As shown in the Highlights section of this report, the funding ratio as of June 30, 1990 has increased from 91.6% to 97.2%, a 5.6% increase. The average employer contribution rate has decreased from 14.20% of payroll to 13.58%, a reduction of 0.62%. The reasons for the change in the funded status and contribution rate are explained below.

1. Retiree Medical Insurance

During the year ended June 30, 1990, the System experienced an actuarial gain of \$96,813,000 due to the reduction in retiree medical premiums.

Because, in recent years, the adverse retiree medical premium experience was a major reason for the rapidly increasing employer contribution rate and the deteriorating funding ratio, it is certainly welcome news to be able to comment on a stabilization in retiree medical premiums.

The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS.

<u>Fiscal Year</u>	<u>Monthly Premium Per Retiree For Health Coverage</u>	<u>Annual Percentage Increase</u>	<u>Average Annual Increase Since 1978</u>
1977	\$ 34.75	--	--
1978	57.64	66%	--
1979	69.10	20%	20%
1980	64.70	- 6%	6%
1981	96.34	49%	19%
1982	96.34	0%	14%
1983	115.61	20%	15%
1984	156.07	35%	18%
1985	191.85	24%	19%
1986	168.25	-12%	14%
1987	165.00	- 2%	12%
1988	140.25	-15%	9%
1989	211.22	51%	13%
1990	252.83	20%	13%
1991	243.98	- 4%	12%
1992	243.98	--	11%

As you can see from the above table, the monthly retiree medical premium reduced to \$243.98 during the year from \$252.83, a decrease of 3.50%. The premium for the 1992 fiscal year remained unchanged.

As noted in last year's valuation report, the State has seen a dramatic shift to post-65 rates which have increased considerably faster than pre-65 rates. However, both rates reduced by 3.50% in FY91 and have remained unchanged for FY92, resulting in the first actuarial gain from medical benefits for the System since the June 30, 1987 valuation of the System.

The effect on the past service contribution rate of this reduction in retiree medical premiums was a reduction of 0.95% of payroll. The effect on the consolidated rate was a reduction of 0.47%, resulting in a reduction in the average total employer contribution rate due to medical benefits of 1.42% of payroll.

2. Investment Performance

The System once again experienced actuarial gains arising from the investment performance of the Trust assets. Although the return as measured by market values was lower this year than last year, the effect of the five-year smoothing was to increase the return as measured by valuation assets from last year. The approximate rate of return based on market values was 9.94% and the rate based on valuation assets was 11.87%. The resulting actuarial gain was \$68,112,000 which had the effect of reducing the average employer contribution rate by 0.67%.

3. Salary Increases

Salary increases during the year were less than anticipated in the valuation assumptions. Salary experience resulted in an actuarial gain of \$6,991,000 which generated a reduction in the average employer contribution rate of 0.07% of payroll.

4. Employee Data

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased 3.7%, from 28,044 at June 30, 1989 to 29,086 at June 30, 1990. The average age of active participants increased from 40.17 to 40.37 and average credited service increased from 6.66 to 6.82 years.

The number of retirees and beneficiaries increased 5.7%, from 6,967 to 7,365, and their average age increased from 63.28 to 63.62. There was an 18.6% increase in the number of vested terminated participants from 2,314 to 2,745. Their average age reduced slightly from 42.97 to 42.96.

The overall effect of these participant data changes was an actuarial loss of \$7,216,000, resulting in an increase in the past service contribution rate of 0.07% of payroll. These demographic changes also had the effect of increasing the consolidated rate by 0.61%, resulting in an increase in the average total employer contribution rate of 0.68% of payroll.

Retirement Incentive Program

The second Retirement Incentive Program has been available to University of Alaska participants since July 1, 1989 and to other participants since October 1, 1989. The number of new retirees increased from 370 at June 30, 1989 to 495 at June 30, 1990. Although the full effect of the R.I.P. may not be seen until next year's valuation, the R.I.P. was responsible in part for the increase in the number of new retirees.

As with the first R.I.P., the cost is being borne by employers based on the actuarial value of the extra benefits, calculated individually for each employee electing to retire under the program. This cost is being paid over a three-year period. If the assumptions underlying the calculated cost of the R.I.P. are met, the total cost to the System will be equal to the employers' payments.

Summary

The following table summarizes the sources of change in the average employer contribution rate:

(1) Last year's average employer contribution rate	14.20%
(2) Decrease in past service rate due to retiree medical insurance	(0.95%)
(3) Decrease in consolidated rate due to retiree medical insurance	(0.47%)
(4) Decrease due to investment performance	(0.67%)
(5) Decrease due to salary increases	(0.07%)
(6) Increase in past service rate due to demographic experience	0.07%
(7) Increase in consolidated rate due to demographic experience	0.61%
(8) Impact of all other factors	0.86%
(9) Average employer contribution rate this year	13.58%

In summary, the System enjoyed a good year with substantial actuarial gains arising from favorable investment performance and the reduction in medical premiums. These two factors were largely responsible for the increase in the System's funded status to 97.2% of accrued liabilities.

A REPORT ON THE
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM

May 16, 1986 - October 1, 1987

Audit Control Number

02-1327-89-S

Commissioner, Department of
Administration

Deputy Commissioners, Department
of Administration

John M. Andrews

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James J. Fox

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
PO. BOX W
JUNEAU, ALASKA 99811-3300

February 8, 1989

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska
Statutes, the attached report is submitted for your review.

A REPORT ON THE
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM

May 16, 1986 - October 1, 1987

Audit Control Number

02-1327-89-S

As stated in the Report Objectives, Scope, and Methodology
Section, the Audit primarily involved determining the
estimated cost savings to the State of Alaska as a result of
state employees enrolled in the Public Employees' Retirement
System and participating in the Retirement Incentive Program
as enacted by Chapter 26, SLA 1986. This audit was con-
ducted in accordance with generally accepted governmental
performance auditing standards.



Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

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REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with the provisions of Title 24 of the Alaska Statutes, a review was conducted to determine the estimated cost savings resulting from State of Alaska employees participating in the Retirement Incentive Program (RIP). The objectives, scope, and methodology of our review were as follows:

Objectives

Chapter 26, SLA 1986 created a retirement incentive program for members of the Public Employees' Retirement System and Teachers' Retirement System. The stated purpose of this legislation, effective May 16, 1986 was:

Since it is necessary for state agencies and may be necessary for other employers who participate in the state retirement systems to reduce their personal services costs because of declining state revenue, a program encouraging employees to retire voluntarily may reduce the hardship of layoffs. This program is intended to realize sufficient economies to offset the cost of administration and benefits to the state agencies and other employers resulting from the award of retirement credits and to result in a net reduction in personal services costs to the state or other employer during a period of declining revenue.

The objective of our review was to determine the amount of cost savings as a result of state employees participating in RIP. The scope of our review and methodology used to meet this objective follows.

Scope and Methodology

All executive branch employees (excluding the University of Alaska) enrolled in the Public Employees' Retirement System, participating in RIP between May 16, 1986 to October 1, 1987, and having position control numbers (PCNs) were reviewed.

In order to calculate the estimated cost savings in personal service costs as a result of employees participating in RIP, we obtained a listing of retirees from the Department of Administration, Division of Retirement and Benefits. The listing, dated November 9, 1987 provided us with the retiring employee's name, social security number, and employer's RIP cost by department.

A computer match of social security numbers with the State's payroll history file was done in order to identify the PCN from which the employee retired. The match also provided us with the monthly salary or hourly rate the employee was paid. To derive at an annual salary, monthly employees' salaries were multiplied by 12 months, if budgeted for 12 months, and hourly employees' salaries were multiplied by 1,950 hours, if budgeted for 12 months. The match of social security number to PCN showed that some employees did not have a PCN such as retirees from the Permanent Fund Corporation and marine employees. These were excluded from our analysis.

The new listing of PCNs generated above was matched with the State's payroll history file for the period August 1988 through December 1988. If a match occurred, we determined the annual salary of the current occupant based on the monthly/hourly rate. In addition, we matched the PCN with the FY 89 PACS (Position Accounting Control System) file that is maintained by the Office of the Governor, Office of Management and Budget. This match provided us with the number of months a position was budgeted.

In order to show a more accurate comparison of annual salary savings, we adjusted the annual salary for the retired employee and the current employee if the number of months budgeted was less than twelve. The salary of employees retiring from PCNs that remain vacant or was unbudgeted in the FY 89 PACS file is considered as a savings because there are no current costs associated with the vacated PCN. Furthermore, our review did not indicate that employees retired from positions currently vacant had been replaced with a new position which is currently filled.

Next, we compared the retired employees' salaries to the current occupants' salaries by position to determine if the participation in RIP resulted in a "savings" or "loss." "Savings" is defined as the current occupant's salary being less than the retired employee's salary. "Loss" is defined as the current occupant's salary being greater than the retired employee's salary.

In the final analysis, total savings/loss by department was multiplied by three years because the State had three years to pay for the employer's share of the RIP cost, although the benefit could affect more than three years. The employer's net cost of RIP by department which excludes the cost for positions not included in the comparison was compared with the department's three-year savings/loss in order to arrive at a net savings/loss.

Limitations

In addition to the methodology used to determine the cost savings of the RIP program, the following are some limitations we identified.

1. Our computation of savings only shows the savings in the position that retired. It doesn't take into account the savings from other positions affected within the State if the position was filled by another state employee.
2. Some positions were reclassified after the employee was retired. Consequently, the cost savings/loss comparison may be skewed for these positions.
3. Our comparison excludes employees in which the PCN had more than one employee participate in RIP. In those instances, only the first employee to participate in RIP and the current occupant were presented on the schedule.
4. The calculation of savings/loss was only determined for annual salaries; employee benefits are not included. In addition, the effect of employee merit increases during the year was excluded.
5. The net cost of RIP represents the employer's cost excluding administrative charges for those positions we analyzed.
6. Some executive branch employees took mandatory and voluntary pay cuts prior to retiring while the current occupant's salary in that position reflects the reinstated salary. We did not adjust our schedule for these differences.

ORGANIZATION AND FUNCTION

Chapter 26, SLA 1986 became effective on May 16, 1986 and created a retirement incentive program for members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The program provided for vested members of each retirement system, who were eligible to retire within three years, a credit of three years. The aim of the program was to reduce personal service costs and to minimize the number of involuntary layoffs.

The Office of the Governor, Office of Management and Budget (OMB), Division of Budget Review issued detailed guidelines on June 11, 1986 to state agencies to follow in implementing the Retirement Incentive Program (RIP). Employees wishing to participate in the program had to meet three requirement levels in order to qualify for RIP.

1. Personal Eligibility - Basic requirements of age, length of service, and status with regard to PERS or TRS had to be met.
2. Designated Organizational Units - The individual had to be employed in a position falling within an agency assigned job classification, and authorized in and paid from a designated organizational unit. Savings then had to be shown to occur within job classifications within designated organizational units before any individual could retire under the program. Agencies were given complete freedom to select job classifications and organization units of the greatest or least detail.
3. Certification of Savings - Agencies were required to forward evidence of cost savings to OMB based on the job classifications and organizational units participating in RIP. Once OMB certified the savings, funds could be encumbered to pay for the cost of RIP.

In calculating the savings, OMB required agencies to include all those individuals meeting personal eligibility requirements and who wished to participate in the program. Within a job classification and designated organizational unit either all those individuals must have been able to participate or none could. In other words, an organizational unit could not be designated unless all those who met basic requirements and wanted to participate were included in the calculation of savings.

Savings could be achieved in one of four ways. A position held by a person retiring under the program could be filled by someone at a lower step or range within its existing job class; the position could be reclassified downward; or the position could be held vacant. In addition, agencies could consider a savings for a position held vacant even though it was not last filled by someone retiring under the program.

Because payment of the participant costs to the Division of Retirement and Benefits must have been made within three years of the end of the fiscal year in which he or she retired, agencies could calculate savings stemming from lower range, lower step, and vacancy over four full years rather than three, beginning with the fiscal year in which the retirement took place. According to OMB, the generous rounding was due to the fact that the State would benefit financially long after the three year payment period ended.

AUDITOR'S CONCLUSIONS

Comparing the salaries of employees participating in the Retirement Incentive Program (RIP) with the salaries of replacement employees and positions remaining vacant shows the State benefited in a reduction of personal service costs. Taking into consideration the employer's cost to credit the retired employees with three years of service produces an estimated net savings of \$14,449,000 over three years. (See Schedule of RIP Cost Savings/(Loss) on page 9 of this report.)

Except for the Department of Corrections and the Department of Community and Regional Affairs, all executive branch agencies we reviewed showed a net savings to the State. For the most part this exception was due to OMB allowing agencies to calculate their savings over a four-year time period whereas our calculations were based over a three-year period. (See Report Objectives, Scope, and Methodology section of this report.) In addition, provisions were made by OMB that agencies could demonstrate savings by keeping open a vacated position even though the employee did not retire through the RIP program. We did not identify these positions or follow that methodology for calculating savings.

Net cost savings by state agency were mainly generated by the replacement of employees whose salary was based on longevity with employees paid at lower rates, the reclassification of positions to lower pay ranges, and leaving positions vacant. Positions employees retired from and currently occupied by an employee resulted in lower annual salaries for all agencies, except for the Office of the Governor. Current salaries in the Governor's Office were greater by \$1,000 in those positions where employees retired. We believe this variance is due to the retiring employee's salary reflecting a 10 percent pay cut while the current occupant's salary is after the pay cuts were restored.

Review of some individual significant variances in pay between the retired employee's salary and the current employee's salary indicated the variances were mainly caused by position reclassifications. We did not determine the justification for these position reclassifications.

STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM (RIP)
SCHEDULE OF RIP COST SAVINGS/(LOSS)
May 16, 1986 to October 1, 1987

Description	Number of Positions	Salary of RIP Recipire	Current Occupant's Salary of Position Vacated	Difference Savings (Loss)	Savings (Loss) Over Three-Year Period	Net Cost of RIP	Three-Year Net RIP Savings (Loss)
<u>Office of the Governor</u>							
Positions Matched with FY 89 Payroll File	3	\$ 121,368	\$ 122,412	\$ (1,044)	\$	\$	\$
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	2	83,568	-0-	83,568			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>2</u>	<u>83,568</u>	<u>-0-</u>	<u>83,568</u>			
<u>Total Office of the Governor</u>	<u>5</u>	<u>204,936</u>	<u>122,412</u>	<u>82,524</u>	<u>247,572</u>	<u>106,746</u>	<u>140,826</u>
<u>Department of Administration</u>							
Positions Matched with FY 89 Payroll File	78	2,757,338	2,426,751	330,587			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	17	757,569	-0-	757,569			
Budgeted in PACS File but Currently Unfilled	3	63,028	-0-	63,028			
Budgeted in PACS File with Zero Months Budgeted	1	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>21</u>	<u>820,597</u>	<u>-0-</u>	<u>820,597</u>			
<u>Total Department of Administration</u>	<u>99</u>	<u>3,577,935</u>	<u>2,426,751</u>	<u>1,151,184</u>	<u>3,453,552</u>	<u>2,194,937</u>	<u>1,258,615</u>
<u>Department of Law</u>							
Positions Matched with FY 89 Payroll File	9	359,364	347,508	11,856			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	2	109,224	-0-	109,224			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>2</u>	<u>109,224</u>	<u>-0-</u>	<u>109,224</u>			
<u>Total Department of Law</u>	<u>11</u>	<u>468,588</u>	<u>347,508</u>	<u>121,080</u>	<u>363,240</u>	<u>277,016</u>	<u>86,224</u>
<u>Department of Revenue</u>							
Positions Matched with FY 89 Payroll File	14	504,180	438,504	65,676			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	2	84,168	-0-	84,168			
Budgeted in PACS File but Currently Unfilled	5	147,648	-0-	147,648			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>7</u>	<u>231,816</u>	<u>-0-</u>	<u>231,816</u>			
<u>Total Department of Revenue</u>	<u>21</u>	<u>735,996</u>	<u>438,504</u>	<u>297,492</u>	<u>892,476</u>	<u>431,635</u>	<u>460,841</u>
<u>Department of Education</u>							
Positions Matched with FY 89 Payroll File	16	716,604	592,860	123,744			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	12	382,971	-0-	382,971			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>12</u>	<u>382,971</u>	<u>-0-</u>	<u>382,971</u>			
<u>Total Department of Education</u>	<u>28</u>	<u>1,099,575</u>	<u>592,860</u>	<u>506,715</u>	<u>1,520,145</u>	<u>558,184</u>	<u>961,961</u>
<u>Department of Health and Social Services</u>							
Positions Matched with FY 89 Payroll File	133	5,153,660	4,493,323	660,337			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	9	377,954	-0-	377,954			
Budgeted in PACS File but Currently Unfilled	8	314,086	-0-	314,086			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>17</u>	<u>692,040</u>	<u>-0-</u>	<u>692,040</u>			
<u>Total Department of Health and Social Services</u>	<u>150</u>	<u>5,845,700</u>	<u>4,493,323</u>	<u>1,352,377</u>	<u>4,057,131</u>	<u>1,198,783</u>	<u>958,136</u>

STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM (RIP)
SCHEDULE OF RIP COST SAVINGS/(LOSS)
May 16, 1986 to October 1, 1987

Description	Number of Positions	Salary of RIP Retiree	Current Occupant's Salary of Position Vacated	Difference - Savings (Loss)	Savings (Loss) Over Three-Year Period	Net Cost of RIP	Three-Year Net RIP Savings (Loss)
Department of Labor							
Positions Matched with FY 89 Payroll File	42	\$ 1,771,523	\$1,597,985	\$ 173,538	\$	\$	\$
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	2	66,678	-0-	66,678			
Budgeted in PACS File but Currently Unfilled	9	326,116	-0-	326,116			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	11	392,794	-0-	392,794			
Total Department of Labor	53	2,164,317	1,597,985	566,332	1,698,996	1,116,175	582,821
Department of Commerce and Economic Development							
Positions Matched with FY 89 Payroll File	19	851,652	724,308	127,344			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	9	410,784	-0-	410,784			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	9	410,784	-0-	410,784			
Total Department of Commerce and Economic Development	28	1,262,436	724,308	538,128	1,614,384	646,136	968,248
Department of Military and Veterans' Affairs							
Positions Matched with FY 89 Payroll File	3	176,016	162,372	13,644			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	1	77,268	-0-	77,268			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	1	77,268	-0-	77,268			
Total Department of Military and Veterans' Affairs	4	253,284	162,372	90,912	272,736	230,541	42,195
Department of Natural Resources							
Positions Matched with FY 89 Payroll File	37	1,338,597	1,241,732	96,865			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	20	908,676	-0-	908,676			
Budgeted in PACS File but Currently Unfilled	7	222,802	-0-	222,802			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	27	1,131,478	-0-	1,131,478			
Total Department of Natural Resources	64	2,470,075	1,241,732	1,228,343	3,685,029	1,400,676	2,284,553
Department of Fish and Game							
Positions Matched with FY 89 Payroll File	47	2,107,741	1,780,873	326,868			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	14	710,953	-0-	710,953			
Budgeted in PACS File but Currently Unfilled	12	505,591	-0-	505,591			
Budgeted in PACS File with Zero Months Budgeted	4	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	30	1,216,544	-0-	1,216,544			
Total Department of Fish and Game	77	3,324,285	1,780,873	1,543,412	4,630,236	2,686,220	1,944,016
Department of Public Safety							
Positions Matched with FY 89 Payroll File	64	3,022,535	2,745,096	277,439			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	34	1,802,508	-0-	1,802,508			
Budgeted in PACS File but Currently Unfilled	3	126,427	-0-	126,427			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	37	1,928,935	-0-	1,928,935			
Total Department of Public Safety	101	4,951,470	2,745,096	2,206,374	6,619,122	4,309,418	2,409,704

STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
DEFERRED INCENTIVE PROGRAM (RIP)
SCHEDULE OF RIP COST SAVINGS/(LOSS)
May 16, 1986 to October 1, 1987

Description	Number of Positions	Salary of RIP Retiree	Current Occupant's Salary of Position Vacated	Difference - Savings (Loss)	Savings (Loss) Over Three-Year Period	Net Cost of RIP	Three-Year Net RIP Savings (Loss)
<u>Department of Environmental Conservation</u>							
Positions Matched with FY 89 Payroll File	10	\$ 435,636	\$ 381,884	\$ 53,752	\$	\$	\$
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	1	38,712	-0-	38,712			
Budgeted in PACS File but Currently Unfilled	1	43,248	-0-	43,248			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>2</u>	<u>81,960</u>	<u>-0-</u>	<u>81,960</u>			
<u>Total Department of Environmental Conservation</u>	<u>12</u>	<u>517,596</u>	<u>381,884</u>	<u>135,712</u>	<u>407,136</u>	<u>241,087</u>	<u>166,049</u>
<u>Department of Corrections</u>							
Positions Matched with FY 89 Payroll File	36	1,482,921	1,292,028	190,893			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	1	45,744	-0-	45,744			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>1</u>	<u>45,744</u>	<u>-0-</u>	<u>45,744</u>			
<u>Total Department of Corrections</u>	<u>37</u>	<u>1,528,665</u>	<u>1,292,028</u>	<u>236,637</u>	<u>709,911</u>	<u>988,194</u>	<u>(278,283)</u>
<u>Department of Community and Regional Affairs</u>							
Positions Matched with FY 89 Payroll File	6	287,112	269,256	17,856			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	1	37,356	-0-	37,356			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>1</u>	<u>37,356</u>	<u>-0-</u>	<u>37,356</u>			
<u>Total Department of Community and Regional Affairs</u>	<u>7</u>	<u>324,468</u>	<u>269,256</u>	<u>55,212</u>	<u>165,636</u>	<u>174,106</u>	<u>(8,470)</u>
<u>Department of Transportation and Public Facilities</u>							
Positions Matched with FY 89 Payroll File	214	9,061,536	8,230,545	830,991			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	31	1,484,571	-0-	1,484,571			
Budgeted in PACS File but Currently Unfilled	35	1,516,269	-0-	1,516,269			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>66</u>	<u>3,000,840</u>	<u>-0-</u>	<u>3,000,840</u>			
<u>Total Department of Transportation and Public Facilities</u>	<u>280</u>	<u>12,062,376</u>	<u>8,230,545</u>	<u>3,831,831</u>	<u>11,495,493</u>	<u>8,924,809</u>	<u>2,570,684</u>
<u>Total RIP Program</u>	<u>977</u>	<u>540,791,702</u>	<u>526,847,437</u>	<u>133,944,265</u>	<u>541,832,795</u>	<u>527,384,275</u>	<u>516,448,520</u>

See the Report Objectives, Scope, and Methodology section of this report for the methodology used to prepare this schedule and the limitations of this schedule.

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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

DIVISION OF RETIREMENT AND BENEFITS
 RETIREMENT INCENTIVE PROGRAM (RIP)
 SUMMARY RESULTS OF POLITICAL SUBDIVISION SURVEY
 March 14, 1989

EMPLOYER	NUMBER RETIRED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs) (\$1000's)	RIP COST (\$1000's)	SAVINGS o (COST) FOR 5 YRS (\$1000's)
S.E. Resource center	3	0	800.0	0.0	83.0	717.
Unalaska City School District	1	1	322.5	165.8	34.1	122.
Copper River School District	11	10	2,854.7	1,904.9	279.3	670..
Galena City School District	1	1	264.6	198.0	60.0	6.0
Petersburg Public Schools	2	2	437.5	338.6	55.1	43.8
Yukon Koyukuk School District	5	4	2,006.5	1,414.4	177.0	414.6
Alaska Gateway School District	4	4	1,055.5	745.0	180.8	129.7
Bristol Bay School District	1	1	273.8	186.7	50.3	36.8
Kodiak Island School District	17	16	4,487.7	3,380.0	579.9	527.8
Delta/Greely School District	2	2	700.9	644.0	96.4	(- 39.6)
Yukon Flats School District	5	4	Not Provided	Not Provided	128.5	Not Provided
L. Kuskokwim School District	31	26	7,535.6	4,637.6	677.2	2,220.8
North Slope School District	28	23	7,643.0	5,600.5	727.0	1,315.5
Dillingham City Schools	6	2	1,231.7	180.0	277.8	773.9
Craig City School District	1	1	277.2	210.1	21.8	45.0

RETIREMENT INCENTIVE PROGRAM (RIP)
SUMMARY RESULTS OF POLITICAL SUBDIVISION SURVEY
PAGE 2

EMPLOYER	NUMBER RETIREED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs (\$1000's)	RIP COST (\$1000's)	SAVINGS or (COST) FOR 5 YRS (\$1000's)
Wrangell Public School	2	2	455.5	330.6	43.7	81.2
Valdez City Schools	10	3	2,519.1	604.4	284.4	1,630.3
Adak Region School District	3	3	817.1	611.6	111.4	94.1
Fairbanks School District	71	71	17,998.0	13,592.1	1,826.8	2,579.1
Haines School District	5	1	1,529.6	384.8	131.3	1,013.5
Cordova Public Schools	1	1	185.3	112.4	19.3	53.6
Juneau School District	42	40	3,750.0	1,449.0	1,010.6	1,290.4
Lake and Penin. School District	2	2	675.0	600.0	53.6	21.4
Kenai Pen. School District	67	67	16,285.6	11,767.7	1,586.3	2,931.6
Southwest Regional School	4	4	666.5	527.7	91.0	47.8
Anchorage School District	373	368	81,249.1	59,225.1	8,580.7	13,473.2
Nenana City School District	7	7	1,611.1	1,209.2	173.7	228.2
Northwest Arct Bor Sch Dist	31	30	5,562.6	4,046.3	763.2	753.0
TOTAL SAVINGS					31,132.6	

Schools

RETIREMENT INCENTIVE PROGRAM (RIP)
 SUMMARY RESULTS OF POLITICAL SUBDIVISION SURVEY
 PAGE 3

EMPLOYER	NUMBER RETIRED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs) (\$1000's)	RIP COST (\$1000's)	SAVINGS or (COST) FOR 5 YRS (\$1000's)
City of Skagway	1	1	18.8	Not Provided	Not Provided	0.0
City of Wrangell	1	0	220.0	0.0	33.5	186.5
City of Palmer	4	3	1,024.1	715.3	101.0	207.8
City of Soldotna	2	1	482.8	212.7	47.8	222.3
City of Ketchikan	11	8	4,093.0	2,358.5	519.5	1,214.9
Kenai Peninsula Borough	14	7	3,234.0	2,270.4	324.2	639.4
City/Borough Juneau	13	9	3,574.1	2,134.8	298.9	1,140.4
City of Valdez	7	4	2,676.3	1,241.1	289.6	1,145.5
TOTAL SAVINGS						4,756.8
University PERS	113	76	26,052.1	15,308.0	2,455.3	8,288.8
University TRS	103	70	39,972.6	22,792.7	3,153.3	14,016.6
TOTAL SAVINGS						22,305.0

Audit Report

DEPARTMENT OF ADMINISTRATION
1989 RETIREMENT INCENTIVE PROGRAM
ESTIMATED SAVINGS REALIZED AND
COSTS INCURRED BY PARTICIPATING
EMPLOYERS

November 22, 1991



Audit Control Number:

02-4404-91

Division of Legislative Audit
P.O. Box W, Juneau, Alaska 99811-3300

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

The Legislative Budget and Audit Committee is a permanent interim committee of the Alaska Legislature. The bipartisan committee is made up of five senators and five representatives, with one alternate from each legislative chamber. The chairmanship of the committee alternates between the two chambers every legislature.

The committee is responsible for providing the legislature with audits of state government agencies. The programs and activities of state government now cost more than \$4 billion a year. As legislators and administrators try increasingly to allocate state revenues effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by the Division of Legislative Audit helps provide that information.

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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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November 27, 1991

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A Report on the 1989
Retirement Incentive Program
Estimated Savings Realized and Costs Incurred
By Participating Employers

November 22, 1991

Audit Control Number

02-4404-91

The audit reports on the estimated savings realized, and in some instances the costs incurred, by the public employers who participated in the 1989 Retirement Incentive Program (RIP). Estimated savings and costs are included for the State of Alaska, the University of Alaska, 35 school districts, 21 political subdivisions, and 7 other participating employers.

The audit was conducted in accordance with generally accepted government auditing standards. The schedule on page 8 summarizes the savings and costs for the 65 employers participating in the program. As shown on that schedule, we estimate the net statewide savings to be \$22.9 million. In our view, as discussed in the Report Conclusions and Auditor Comments section of the report, the program achieved both aspects of its established intent. A further statement of our audit approach is included in the Objectives, Scope, and Methodology section of this report.

Handwritten signature of Randy S. Welker in cursive.

Randy S. Welker, CPA
Legislative Auditor

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, we conducted a review of the 1989 Retirement Incentive Program (RIP).

Objectives

Chapter 89, SLA 1989, as amended by Chapter 18, SLA 1990 implemented a retirement incentive program for all public employers whose employees are covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS). The primary objective of our review was to develop reasonable estimates of the savings realized or the costs incurred by the 65 employers which elected to participate in the program. A second objective of the review was to determine if RIP achieved the intent of the program as established by the legislature.

Scope

All employers who participated in either or both the 1989 PERS and TRS retirement incentive programs were contacted on-site or by mail. Our review included all RIP participants who had actually retired as of September 15, 1991 from either the State of Alaska, University of Alaska, or one of the other participating school districts, political subdivisions, or other public employer organizations. The Division of Retirement and Benefits (DRB) estimated that approximately an additional 100 individuals retired under the program between our fieldwork cut-off date of September 15, and October 31, 1991, the last possible date that RIP participants could actually retire. With the exception of three participants that we included in the course of our on-site reviews in local communities, the savings/costs associated with these individuals are not included in this report.

Methodology

Savings and costs contained in this report were developed from our review and analysis of the following information and documentation:

1. Records of RIP participants maintained by the Department of Administration, DRB.
2. Files pertaining to State of Alaska participants maintained by the Office of Management and Budget (OMB), and the personnel or administrative services sections for various state executive branch departments and agencies.

3. Instructions issued by OMB to executive branch departments and agencies regarding the assumptions, procedure, and method to be used to determine participant eligibility and calculate individual savings.
4. OMB's report of RIP savings for state agencies summarized by agency position control number.
5. Summaries prepared by participating public employers (26 school districts, 20 political subdivisions, and 7 other participating organizations) responding to our survey.
6. Summarized and detailed information prepared by the Alaska Court System and the University of Alaska regarding their RIP participants.

Based on our analysis of the information and documentation we adjusted estimates of the savings and costs for participating RIP employers. The adjustments were made, to the extent that it was practicable to calculate and quantify the costs involved, to more accurately estimate the savings realized or costs incurred by each participating employer.

ORGANIZATION AND FUNCTION

The Department of Administration, Division of Retirement and Benefits (DRB) is responsible for administering the retirement and benefit programs for public employees. The two largest retirement systems administered by DRB are the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

In June 1989, Chapter 89, SLA 1989 (amended by Chapter 18, SLA 1990) reestablished an earlier retirement incentive program for employees participating in either PERS or TRS. The program, known as the Retirement Incentive Program (RIP), was established to reduce personal services costs to the State and other public employers who elected to participate in the program.

To be eligible for RIP, employees had to meet both the basic criteria established in the enabling statute in addition to any special criteria that their employer wanted to attach. The basic criteria required that the employee be vested in their retirement system. Further, after including the retirement incentive of three extra years of credited service they would have to have been eligible to meet the age or service eligibility requirements for normal retirement or early retirement.

Individuals covered by PERS must be at least 55 years old and have 5 years of service for normal retirement compared to TRS requirements of 55 and 8 years respectively. For early retirement, both PERS and TRS requires that individuals be 50 with either 5 (PERS) or 8 (TRS) years of service. For state employees additional eligibility criteria were developed by the Office of Management and Budget. These additional criteria are discussed further in the Background Information section of this report.

As of September 15, 1991, almost 1800 individuals had participated in the 1989 RIP. Additional funds were provided to administer RIP. DRB and the Division of Finance were authorized to hire temporary and part-time employees to process the increased number of retirement applications. Operational funding was provided through the assessment of administrative fees charged all participating employers. This funding allowed DRB to hire nine temporary positions in FY 89 and thirteen temporary positions in FY 90 and FY 91 to administer the program. The Division of Finance also received funding for two part-time positions in FY 90 and FY 91 to perform verifications of salary and years of service.

Factors typically involved in the calculation of RIP savings are illustrated by the following example:

An individual otherwise eligible for participating in RIP has an annual salary of \$40,000. The individual has fixed benefit costs of \$2,000 and other benefit costs that represent 10% of his salary. It is assumed that the employee would receive salary increases of 5% a year over the next two years, if he continued working. The employer contribution costs required to provide the three additional years of service under RIP is \$20,000. The projected costs of the RIP participant would be calculated as follows:

	Salary	Fixed Benefits	Other Benefits	Total Projected Costs
Year 1	\$40,000	\$2,000	\$4,000	\$ 46,000
Year 2 (Year 1 salary + 5%)	42,000	2,000	4,200	48,200
Year 3 (Year 2 salary + 5%)	44,100	2,000	4,410	50,510
Projected Salary and Benefit Costs of RIP Participant				\$144,710

If the replacement for the RIP participant is paid \$32,000 with the same assumptions, then the projected salary and benefit costs would be calculated as below:

	Salary	Fixed Benefit	Other Benefits	Total Projected Costs
Year 1	\$32,000	\$2,000	\$3,200	\$ 37,200
Year 2 (Year 1 salary + 5%)	33,600	2,000	3,360	38,960
Year 3 (Year 2 salary + 5%)	35,280	2,000	3,528	40,808
Projected Salary and Benefit Costs of the replacement employee				\$116,968

The difference of \$27,742 in the projected costs (\$144,710 - \$116,968) represents gross savings attributable to RIP. This total is reduced further by the \$20,000 employer's contribution costs and the \$140 administrative fee charged by the Division of Retirement Benefits.

In this situation, the net RIP savings are estimated as \$7,602. This savings is generated from the incremental difference between the projected salary and benefits of the RIP participant and the replacement (\$27,742), reduced by cost to the employer of providing the retirement incentive of the incentive (\$20,000 the employer must pay), and the administrative fee paid to the Division of Retirement and Benefits (\$140). If the RIP participant's position had been eliminated, the estimated savings to the employer would have jumped to \$124,568 (\$144,710 - \$20,000 - \$140).

Example of how RIP Savings are estimated

BACKGROUND INFORMATION

The aim of the Retirement Incentive Program (RIP) was to allow participating public employers, most notably the State of Alaska, to reduce personal service costs while reducing the number of employees who would have to be laid off involuntarily. The program was made available to public employees covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS).

OMB issued strict rules on savings which limited participation and maximized savings

After the passage of Chapter 89, SLA 1989 the Office of the Governor, Office of Management and Budget (OMB) issued detailed guidelines for state agencies to follow in implementing RIP. Under these OMB guidelines, employees wishing to participate in RIP had to meet two basic requirements in order to qualify:

1. Personal Eligibility - Basic requirements of age, length of service, and vested status in PERS or TRS had to be met.
2. Savings had to be demonstrated for each individual - Unlike the previous 1986 RIP program, OMB designated each individual as an "organizational unit." This meant that the savings in salary and benefits projected over a three year period between the RIP retiree and their replacement had to exceed the State's employer costs (see inset on opposite page) in order for the employee to participate.

OMB chose to define each employee as an organizational unit in order to maximize the cost savings, as required by the legislation. OMB felt that netting the savings generated by one employee's participation against the costs of another who did not generate a savings did not fully meet the legislative intent regarding savings. Other program implementation guidelines issued by OMB addressed what savings could be included in determining eligibility for state employees. For example:

1. Savings through the elimination of a position could be included - It was permissible to include savings realized for a RIP participant from the elimination of their position.
2. Savings from reclassification of positions could not be considered - OMB precluded agencies from including savings projected from reclassifying RIP participant positions to a lower pay scale. OMB felt that since savings determined program eligibility that such a rule was necessary. The rule avoided situations such as having to decide between two potential RIP participants in the same job class where only one position could be justified for reclassification.

3. Vacancy savings could not be considered - Savings generated from leaving a RIP participant's position open temporarily could not be considered in determining program eligibility. OMB felt that vacancy savings were temporary, generated by delay in refilling a position.
4. "Domino-effect" savings could not be considered - OMB did not allow any savings to be included that were realized through the replacement of a lower paid employee down the chain of an organization. As an example, assume the RIP participant retired from a range 20 position, and was replaced by an individual from a range 18 position, who in turn was replaced by a previous range 16 worker. The only savings that could be considered would be the difference in salary and benefits of the outgoing retiree and their replacement. Savings generated from the salary and benefit differences for both the old range 18 and the new one, plus the old range 16 and new entry level staff member, were not allowed to be included.
5. Savings from differences in leave accrual rates could not be counted - Neither sick leave nor leave accrual differences were allowed to be recognized as a source of savings for RIP participants, except to the extent these factors were reflected in benefit differential calculations.

Since demonstrated savings were necessary for program eligibility, and the OMB rules were rather narrow about what savings could be counted, many employees who met all other criteria were not eligible to participate. In many cases, a long term employee, working in a position that was going to continue after their retirement, could not generate enough projected savings over a three-year period for the State to recapture its associated RIP employer contribution costs for the individual.

1990 legislation amended RIP program and provided for more participation

Chapter 18, SLA 1990 amended RIP in such a way as to increase the number of people who were eligible to participate. Under the legislation, employers could calculate savings over a five year period rather than three. It also allowed an employee to pay part of the State's employer costs if no savings were generated from their participation in RIP.

The legislation and the accompanying revised guidelines issued by OMB permitted an additional 192 state employees to participate in the program. Of these employees 78 still could not demonstrate a projected savings, even over a five-year period. However, as allowed by the amended legislation these individuals paid a total \$750,000 of the State's employer costs in order to participate.

Each employer could set their own eligibility requirements for RIP participation

Under Chapter 89 SLA 1989 the governing body of each political subdivision employer could choose if they wanted to participate in RIP. Outside of the general years of service and age criteria for the two retirement systems involved, each participating employer was permitted to develop their own rules and criteria for participation. Likewise, the University of Alaska was also permitted to establish its own rules and guidelines regarding RIP participation for its employees. Other participating employers who were not school districts or political subdivisions such as the National Education Association of Alaska and the Southeast Regional Resource Center were also allowed to develop additional internal criteria.

Most employers had more lenient organizational unit and other criteria than the State

With one notable exception (see inset at right), none of the employers that we interviewed during the review imposed as strict of requirements on program participation as did the State of Alaska. Once participation in the program was approved by the organization's governing body, most felt that it was only fair to allow every employee who met the basic eligibility criteria to participate.

As reflected on schedule 3 on page 10, three of the 19 school districts which had both PERS and TRS RIP participants, projected a net cost (over a three year period) for PERS retirees. Each of these districts could have defined their "organizational unit" more strictly (i.e. on an individual basis or allow only TRS members to participate) to increase projected savings.

However, each of these three employers defined the school district as a whole as the organizational unit, thus allowing everyone meeting the basic criteria to participate.

**CITY OF KETCHIKAN HAD
STRICTEST RIP RULES, BUT MAY
STILL NOT REALIZE FULL SAVINGS**

The City of Ketchikan had the strictest RIP participation criteria of any participating employer we interviewed. The city council voted to allow employees to participate only if they agreed to pay the city's share of costs involved in providing the retirement incentive.

Largely as a result of this requirement, only one individual elected to participate in the program. Under these terms, RIP should have not cost the city anything except for a relatively small administrative fee.

However, the savings for the city as shown on the table on the following page, does not reflect these savings. The \$5,400 of estimated savings reflects the fact that the City of Ketchikan did pay the employer costs for the RIP participant, but as of the date of this report has not received repayment from the retiree. We conservatively reduced our estimate of savings because the legal enforceability of the city's claim for repayment is currently disputed by the RIP participant.

Schedule 1 - Estimated Savings or (Costs) by Employer (Notes to Schedule on page 25 of report)

<u>Employer</u>	<u>Number of Retirees</u>	<u>Estimated Savings or (Costs) (Note 1)</u>	<u>Employer</u>	<u>Number of Retirees</u>	<u>Estimated Savings or (Costs)</u>
State of Alaska (Note 2)	739	\$ 6,033,100	Yukon/Koyukuk Schools	2	\$ 53,000
University of Alaska (Note 3)	145	4,317,800	Fairbanks North Star Borough (Note 16)	2	49,700
Anchorage School District (Note 4)	306	2,684,900	City of Palmer	3	46,600
Kenai Peninsula Borough Schools (Note 5)	72	1,988,800	Cordova City Schools	2	45,400
Fairbanks North Star Borough Schools (Note 6)	65	1,534,100	Kodiak Island Borough Schools	4	43,700
City of Fairbanks (Note 7)	22	776,700	Alaska State Housing Authority	4	42,700
North Slope Borough School District (Note 8)	42	517,500	Lower Yukon School District	5	38,600
Matanuska-Susitna Borough Schools (Note 9)	42	487,800	Unalaska City School District (Note 11)	3	37,500
North Slope Borough (Note 10)	12	469,600	Iditarod Area Schools (Note 11)	5	34,000
Ketchikan Gateway Borough Schools	23	443,000	Cordova Community Hospital	3	31,400
Lower Kuskokwim Schools (Note 11)	25	324,000	Alaska Gateway Schools	2	27,900
Matanuska-Susitna Borough (Note 12)	9	310,900	City of Kenai	3	27,700
Sitka School District	17	229,700	National Education Association	1	21,600
Kenai Peninsula Borough (Note 13)	6	224,900	City of Haines	1	27,300
Juneau Borough Schools	28	217,700	Bartlett Memorial Hospital	2	16,300
Dillingham City Schools	3	213,600	Nenana City Schools (Note 11)	1	15,400
City and Borough of Juneau	19	199,600	Skagway City School (Note 11)	1	15,400
Hoonah City Schools	2	151,200	Bristol Bay Borough Schools (Note 17)	1	14,600
Haines Borough School District	2	150,700	Nome City Schools	5	12,900
Bering Strait Schools (Note 11)	17	149,800	Southeast Regional Resource Center	2	12,300
Wrangell City Schools	9	124,500	Ketchikan Gateway Borough	1	11,300
City of Hoonah (Note 14)	2	116,000	City of Ketchikan (Note 18)	1	5,400
Southwest Region Schools (Note 11)	9	112,500	City of Kotzebue	1	3,000
Delta/Greely Schools (Note 11)	7	107,500	City of Valdez	2	2,600
City of Homer	5	102,100	City of Seward	2	800
Valdez City Schools	3	84,100	Craig City Schools	1	(12,600)
City of Kodiak (Note 15)	6	77,500	Bristol Bay Borough	1	(14,400)
Kuspuk Schools (Note 11)	7	64,700	Yakutat City School District	1	(16,900)
Chatham Schools	6	64,600	Kake City Schools	1	(29,700)
Southeast Island Schools	4	63,000	Yupik School District	2	(30,600)
Sitka Community Hospital	3	60,100	City and Borough of Sitka	7	(31,300)
City of Wrangell	9	58,900	Seward General Hospital	2	(44,800)
Kodiak Island Borough	4	55,300	Total	1,764	\$22,984,800

REPORT CONCLUSIONS

As summarized by the schedule on the opposite page, the estimated savings for the 1989 Retirement Incentive Program (RIP) totalled \$22.9 million. The savings were generated mostly by the incremental difference in the salary and benefit costs between the typically higher paid RIP participant and their lower paid replacement rather than realized from an extensive elimination of positions left vacant.

The top five employers, with a total estimated savings of more than \$16.5 million accounted for 72% of the statewide total. The State of Alaska and the Anchorage School District had about the same average savings per participant. Both were among the highest three employers in savings essentially because of the large number of employees each had participating. Only one of ASD's 306 RIP participant positions was subsequently eliminated, whereas the State only benefitted from three eliminated positions in its RIP savings calculations.

University savings came from elimination of positions and high salary differentials

The University of Alaska's average savings of almost \$30,000 for each RIP participant was the highest of any employer. The University benefitted from both the elimination of some positions, and from having the highest incremental difference in salary and benefits of any employer. Tenured full professors retiring under RIP typically had salary and benefit costs of more than \$90,000. By comparison, their replacements, if any, were most often instructors or assistant professors who had salary and benefit costs in the range of \$40,000 to \$50,000. As shown on Schedule 3 on the next page, the University averaged savings of more than \$35,000 for each RIP participant covered by the Teachers' Retirement System.

For some employers savings were small or non-existent

Eleven of the sixty-five employers who elected to participate in the program had estimated savings of less than \$6,000. Seven of those eleven projected that they lost money from their participation in RIP. In these instances, replacement employees were paid at or near what the terminating employee received, generating little or no savings. Meanwhile, the employer still had the cost of their retirement contribution payments for the RIP participant's three credited years.

Five of these seven employers were school districts with a total of six participants. These districts are generally smaller in size and have trouble recruiting teachers. They have no or few positions to eliminate and must maintain even entry position salaries at a level necessary to attract teachers to their remote locales. Essentially, in these districts the RIP program is treated as part of a teacher's or administrator's total compensation. This was acknowledged by Craig City Schools which reported that their RIP participation was made part of a "departure" agreement between the local board and the outgoing superintendent.

Schedule 2 - Savings/Costs by Department

Department	Number of Retirees	Estimated Savings/Cost
Transportation and Public Facilities	197	1,616,200
Health and Social Services	77	561,600
Fish and Game	56	502,000
Education	41	467,500
Public Safety	54	422,800
Labor	51	393,700
Corrections	62	334,000
Commerce and Economic Development	21	332,500
Legislature	6	282,000
Administration	51	214,900
Natural Resources	31	206,000
Alaska Court System	19	190,300
Office of the Governor	15	159,800
Revenue	15	103,300
Environmental Conservation	16	87,700
Law	13	79,200
Military and Veterans Affairs	9	47,700
Community and Regional Affairs	5	31,900
Total	739	\$6,033,100

	TRS			PERS			TOTAL		
	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant
State of Alaska	18	\$ 276,900	\$15,383	721	\$5,756,200	\$7,984	739	\$ 6,833,100	\$ 8,164
University of Alaska	72	2,577,100	35,793	73	1,740,700	23,845	145	4,317,800	29,778
Anchorage School District	204	2,894,500	14,189	102	(209,600)	(2,055)	306	2,684,900	8,774
Kenai Peninsula Borough Schools	58	1,810,500	31,216	14	178,300	12,736	72	1,988,800	27,622
Fairbanks North Star Borough Schools	58	734,400	12,662	27	819,700	30,359	85	1,554,100	18,284
North Slope Borough School District	24	308,600	12,858	18	208,900	11,606	42	517,500	12,321
Matanuska-Susitna Borough Schools	26	287,700	11,065	16	200,100	12,506	42	487,800	11,614
Kenai Peninsula Borough Schools	19	427,000	22,474	4	16,000	4,000	23	443,000	19,261
Lower Kuskokwim Schools	18	276,500	15,361	7	47,600	6,800	25	324,100	12,964
Juneau Borough Schools	27	196,700	7,285	1	21,000	21,000	28	217,700	7,775
Bering Strait Schools	4	61,400	15,350	13	88,400	6,800	17	149,800	8,812
Wrangell City Schools	5	35,600	7,120	4	88,900	22,225	9	124,500	13,833
Southwest Region Schools	6	92,200	15,367	3	20,400	6,800	9	112,600	12,511
Kuspuk Schools	2	30,700	15,350	5	34,000	6,800	7	64,700	9,243
Chatham Schools	5	64,700	12,940	1	(100)	(100)	6	64,600	10,767
Southeast Island Schools	3	49,600	16,533	1	13,300	13,300	4	62,900	15,725
Kodiak Island Borough Schools	2	39,900	19,950	2	3,800	1,900	4	43,700	10,925
Lower Yukon School District	3	66,400	22,133	2	(27,700)	(13,850)	5	38,700	7,740
Unalaska City School District	2	30,700	15,350	1	6,800	6,800	3	37,500	12,500
Total	556	\$10,261,100	\$18,455	1,015	\$9,006,700	\$8,874	1,571	\$19,267,800	\$12,265

Schedule 3 - Savings for Employers with Both TRS and PERS Retirees

The costs incurred by the City and Borough of Sitka (CBS) were attributed to a situation where the costs of replacement employees were higher than anticipated. It was reported to us that the Borough Assembly made the decision to participate in RIP based on projections of salary and benefits for replacement employees that subsequently proved to be inaccurate. When replacement employees were actually paid near or even above the outgoing RIP participant's salary then all projected savings were eliminated, turning the savings program into a cost for CBS.

1989 RIP legislative intent had two aspects

RIP's implementing legislation stated that the program was

intended to realize sufficient economies to offset the cost of administration and benefits to state agencies and other employers resulting from the award of retirement credits and to result in a net reduction in personal services costs to the state or other employers during a period of declining revenues.

This intent has two specific parts. The program was to pay for itself (*realize sufficient economies to offset the cost ...*) and was to provide for savings in personal services costs to the state (*a net reduction in ...*).

Overall, 1989 RIP did pay for itself

As discussed previously, most of the savings realized under the 1989 RIP were of an incremental nature. The assumptions, methodologies, and approach that we used to estimate savings could not practically consider all the variables that could have an affect on the actual savings realized. And as mentioned, seven of the employers appear not to have realized savings to offset the costs of their participation.

Despite these considerations, we are confident that the program achieved the first aspect of its established intent. In our view, on balance, the program *realized sufficient economies to offset the cost of administration and benefits* provided as an early retirement incentive. The incremental savings accumulated by the state agencies and other participating employers from RIP did, when considered for the organizations as a whole, exceed the cost to the employer for providing the additional three years of service.

RIP did generate a net reduction in personal service costs but budget impact is uncertain

We are also confident that state agencies realized a *net reduction in personal services costs*, or savings, through RIP. For the RIP participant positions (also known as PCNs for position control number in budgetary terms), where replacements were hired in at lower pay, there was a net reduction. State agencies spent, and will prospectively spend less for those specific PCNs in the first, second, and third years than they would have, had the RIP retiree remained as the incumbent.

Doubts are often expressed about the savings generated by RIP because they rarely, if at all, are reflected in state agency budget requests. Further, the incremental nature of most of the 1989 RIP savings contribute further to this lack of visibility in agency budgets. When savings are generated through the elimination of positions left vacant by RIP participants, then the budgetary impact is more clearly reflected in the fewer number of positions in the agencies' budget requests.

However, when savings are primarily due to the incremental difference between RIP participants' personal service costs and those of their replacements, identifying savings for legislative consideration is more difficult and subtle. Such savings get lost in a blend of budgetary incremental adjustments such as those generated by new union contracts, new positions for new programs, new positions for old programs, adjustments for vacancy and turnover, etc.

Accordingly, we believe the savings shown for the various state agencies in Schedule 2 on page 10 were realistic, and for the most part, have been or will be realized. However, we cannot reasonably estimate how much of these savings were reflected in agency budget requests or remained in year-end balances that lapsed back to the general fund, although we believe that, to some degree, both of these happen.

Savings and program recommendations discussed further in Auditor Comments

In the following Auditor Comments section we offer examples of how state agencies may be using RIP-generated savings, and discuss how the university is using savings for what they term "budget reallocation" and "budget reduction" purposes. We also suggest that the legislature provide for improved monitoring of RIP-generated savings, when considering any future RIPs.

AUDITOR COMMENTS

As concluded in the previous section, we are confident that RIP generated a *net reduction in personal services costs* (as intended by its authorizing legislation). However, existence of these savings is met with some skepticism, because they do not appear to be reflected in state agency operating budgets. Often, agencies take advantage of the flexibility afforded from the reduction of personal services costs to reallocate and use the savings without legislative budgetary oversight. To the skeptics, and from a conservative budgetary viewpoint, to the extent this occurs, such reallocations do not represent savings, nor do they result in a *net reduction in personal services costs*.

Four examples illustrate how RIP "savings" may have been used besides budget reduction

For example, consider the *net reduction in personal service costs* that may or may not be involved in the following situations:

1. RIP savings are used to hire temporary staff. With the RIP savings that an agency generates in its personal services budget, management decides to hire temporary workers to carry out a special project. The work was important, necessary to the agency's functioning, but until the flexibility provided by the RIP, the agency never had the available funding to accomplish the task.

Although RIP generated the savings used to hire the staff and pay the overtime, agency management has decided how those savings were used. In this instance, RIP generated a savings, but from a budgetary aspect, none would be reflected in a *net reduction in personal services costs*.

2. RIP savings are transferred to contractual budget category. With the savings generated by RIP an agency transfers authorizations from the personal services to the contractual services budget category. With this increased funding, the agency contracts for some or all of the services that had previously been performed by the RIP retiree.

Again, in this example RIP has provided savings. Through the use of a budgetary mechanism, even a *net reduction in personal services costs* has been achieved. However, as in the first example, it is agency management that is deciding how to reallocate RIP savings, and from a budget reduction viewpoint, no savings are realized despite the personal services cost reduction.

3. RIP savings allotted to other programs. One difficulty that both we and officials at the University of Alaska had with estimating RIP savings was the treatment of "budget reallocation" savings. University officials reported that RIP provided administrators

increased flexibility and was used in part, to reconfigure the instructional staff at various campuses in response to student demand (see inset at right).

For example, if an accounting professor retired under RIP, that position itself may be left vacant but the savings generated may be used for a myriad of other activities.

Again, RIP has generated savings, and to some extent, a *net reduction in personal services costs* was probably generated, but all was done outside the influence of legislative budget review. From the budgetary aspect, no savings were realized, because none were reflected in the university's budget request.

4. RIP participant's position is cut. When RIP generates savings through elimination of a position, without a budgetary monitoring system, even these more discrete savings can be temporary. For example, an agency eliminates a position from the budget left vacant by a RIP retiree. The agency has decided to either to absorb the RIP participant's workload with existing staff, discontinue the services provided by the retiree, or perhaps, as mentioned above, "contract-out" the tasks. Now, from a budgetary perspective, RIP savings are more readily realized, since agency budget requests are reduced to reflect the eliminated position.

However, two years later, perhaps under a different administration, management requests and obtains funding for a "new" position. The new position is needed to perform all or most of the tasks that were previously done by the RIP retiree. If funded, the legislature is reallocating, probably unknowingly, a portion of RIP's *net reduction in personal services costs*.

UNIVERSITY REALLOCATION INDICATES HOW RIP SAVINGS ARE USED

One university campus wrote us describing what they did with more than \$170,000 in savings (projected over a three-year period) generated by one retiring professor.

The position vacated by the [RIP participant] was an associate professor of Business Administration at the Sitka campus. The position was not filled in order to save money that could be reallocated for use in meeting the changing needs of the campus' constituency. Reallocation of funds saved by not filling this position made it possible to increase business program offerings in the consortium arrangement with Sheldon Jackson College, partially fund a faculty position in Computer Information Systems, add courses outside of the faculty member's expertise and eliminate courses no longer pertinent. The work of the position was accomplished through the hire of temporary faculty for teaching, and non-teaching duties were reassigned to another employee.

All assumptions and projections of savings made by the university were reasonable and supportable, but in light of the narrative above, it is debatable about whether the projections could be considered "savings." Since we wanted to be conservative in developing our estimates of savings, we classified this particular situation as a "budget reallocation." In erring on the side of conservatism, we defined budget reallocations as not being savings.

Because we knew more about the circumstances surrounding University retirees, we actually were more conservative in refining their cost estimates than we could be with state government retirees. We have limited insight into how State of Alaska savings may have been similarly reallocated.

Legislature was concerned about RIP accountability

The legislature was concerned about the accountability of RIP savings. The program's implementing legislation required the Office of Management and Budget (OMB) to submit annual reports on RIP and its impact each January 15 from 1991 through 1994. The report was required to provide the

information necessary for the legislature to evaluate the effectiveness of the program in achieving its objectives. The report should include information on the designated organizational units under the retirement incentive plans including the cost of the retirement incentive program per participant, the cost to the state, the cost to the employee, the annual budgeted amount by agency for the retirement incentive, and the projected or actual savings over the three-year period.

The 1991 report, did contain the information specified in the legislation, and we used the report as a basis for developing the costs and savings included in this report. However, the costs and data specified and submitted does not provide necessary information regarding how the projected savings were utilized or how they affected the subsequent FY 92 budget.

Either OMB or Legislative Finance should monitor future RIPs

In addition to the report information required by the 1989 RIP legislation, the legislature should consider directing either OMB or the Division of Legislative Finance to specifically monitor RIP-generated savings. The legislature should direct one of these agencies to account for savings generated by vacant positions and the incremental differences in salary and benefits for various state agency budget request units.

By breaking down and analyzing the budgetary impact of RIP retirees, these budget review agencies could develop an adjustment factor to be used in budget construction and review. Such a factor, similar to the adjustments currently made for personnel vacancy and turnover, could be used to reduce agency personal services budget requests. Such a factor would reflect the amortization of projected RIP savings over the same time period as that provided by additional credited service.

Further, any new positions that may be included in each agency's annual budget request should be scrutinized in the context of the duties and services formerly provided by RIP participants. In addition, OMB or the Division of Legislative Finance should review the use of temporary employees and agency overtime to determine if any significant increases could be attributable to RIP.

Improved monitoring would provide enhanced legislative oversight of savings

By implementing such an upfront, monitoring and control procedure, the legislature could provide greater assurance that RIP-generated savings are being used to reduce personal service costs. Further, such a procedure more clearly identifies the amount and impact of program savings. Legislative oversight of how the savings generated from RIP are used would be improved, and such ongoing monitoring would allow the legislature a decision-making role in how savings are to be reallocated.

1990 measure reduced emphasis on savings

In 1990 the legislature amended the 1989 RIP to allow employees to "make up the difference" if the State could not project a savings for their position. This amendment had the effect of eliminating any possibility for the State to realize a *net reduction in personal services costs* for those employees.

Otherwise eligible employees, for whom no savings could be projected over a five-year period, could now participate in RIP by paying off the State's projected costs. Accordingly, under the legislation the State just "broke even" on 78 additional participants, realizing no *net reduction in personal services costs* for those individuals.

From legislative committee minutes of the testimony and discussion of the amending legislation, the primary concern appeared to be one of equity. From testimony and discussion it seems the intent of the legislature was to allow all state employees that met the basic eligibility criteria an opportunity to participate in the program, regardless of the savings that might be generated from their particular situation.

UNIVERSITY ALSO USE RIP SAVINGS TO RESPOND TO BUDGET REDUCTIONS

University officials also reported that they used the large savings generated by RIP participants to meet across-the-board budget reductions.

In FY 90, because of cutbacks in general fund appropriations, the university directed all departments to cut their budget by 2.5%.

For the School of Fisheries and Ocean Science (SFOS), this represented a cut of more than \$100,000. An SFOS support engineer retired under RIP and was not replaced. Three year savings generated by the retirement were estimated to be more than \$100,000.

SFOS used a third of the three-year savings generated by their RIP participant (approximately \$64,000) to partially offset the impact of the across-the-board reduction. Such use of RIP-generated savings clearly meets both the mandate for RIP to generate a net reduction in personal services costs and satisfies the conservative budgetary perspective that all savings must necessarily involve a budget reduction.

RIP reduces personal services costs, central issue is who decides how savings are used

In summary, concerns about savings generated by RIP are often misdirected. RIP, if structured appropriately, does generate personal service cost savings. Skepticism of the program is not so much attributable to an absence of any real savings, but rather exists because the current budget review process does not adequately track and reflect economies generated. Only if there are major lay-offs and budget cutbacks, do savings generated by RIP become readily apparent in state agencies' budget requests.

This lack of a developed budget control process, limits the legislature in performing its oversight role. Decision making is transferred to agency administrators. They get to decide how to reallocate or use RIP savings, with no specific legislative inquiry or direction.

EMPLOYER COMMENTS AND DISCUSSION

The opening section of the 1989 legislation that implemented RIP stated that

since it may be necessary for state agencies and other employers who participate in the state retirement systems to reduce their personal services costs because of declining state revenue, reimplementation of the [1986] retirement incentive program encouraging employees to retire voluntarily, will reduce the hardship of layoffs.

However, as it turned out, concerns about layoffs and declining revenues proved, for most employers, not to be a critical factor.

Stable fiscal conditions and prior RIP may have reduced need for staff cut savings

As summarized in the Report Conclusions section, most savings generated by the 1989 RIP were due to the incremental difference in the personnel costs of retiring workers and their replacements. A comparatively small part of the savings on a statewide basis were due to the reduction in public employment. We surmise that savings generated by the elimination of positions were minimal because of two factors:

1. The fiscal situation was better. The fiscal situation faced by the State of Alaska, most local governments, and school districts proved not to be as adverse as had been anticipated when the merits of the 1989 RIP were being debated. As a result, there was not as much pressure or need to eliminate positions in order to meet demanding budget cutbacks.
2. The impact of the earlier RIP. If local governments and school districts had an excessive number of positions, their management likely took full advantage of the earlier 1986 RIP to reduce the number of employees. That RIP was implemented at a time when both the fiscal situation and prospects at all levels of government were more problematic. With the advent of the 1989 RIP, local governments and school districts were in a situation where all or most retirees necessarily had to be replaced.

Three employers criticize RIP as causing "brain drain" and being a costly alternative

Three of the participating employers surveyed in the course of our review expressed two common complaints regarding RIP. One is the concern over the loss of experience, sometimes referred to as "brain drain." Another employer-expressed concern was that RIP is sometimes used "as an easy way out," and that other, less costly alternatives to reducing personnel costs were not being considered.

One respondent wrote that his local assembly was

not thrilled with RIP. This notable lack of enthusiasm was due to the potential loss of long term employees -- the real loss to the organization of those years of experience

Another local personnel officer observed that snow removal in his community had been adversely affected by the loss of experienced snowplow operators. Increased property damage to mailboxes, taking more time to clear streets and improper maintenance of equipment were all "hidden" costs of losing experienced employees to RIP.

Another local government participant responded that

Any net savings identified in this study is an imaginary figure. There exist other alternatives to personnel cost reduction not being [considered]. My belief is that the most favorable outcome of a RIP is that it may be used as a tool to encourage selected employees to terminate employment when the government is unable or unwilling to achieve this result through intelligent and sound personnel management. It's an easy way out.

Auditor discussion - The loss of experience and "brain drain" are concerns that have been expressed during legislative deliberations and consideration of RIP. In some situations, as discussed next in this section, the participating employer often welcomes the increased flexibility and new ideas brought in by new employees. But for some areas of service, such as operating heavy equipment, the loss of experience can be more telling.

The second criticism, we think neglects one of the other stated aspects and purposes of RIP. RIP was designed in part to mitigate the social hardship of layoffs. The legislature felt it was good public policy to have people in the community receiving retirement payments rather than having a like number receiving unemployment checks. Given these additional program aims, RIP cannot be judged strictly on a cost-benefit basis.

In our view, the legislature recognized that under RIP, it would cost money to reduce staff compared to achieving the same goal through lay-offs at little or no additional cost, but with greater negative social impact. The 1989 RIP, as it turned out, was implemented at a time when across-the-board layoffs and cutbacks proved not to be a widespread necessity. In these circumstances, the costliness of the program become more evident, and its social benefits were obscured.

RIP provides increased administrative flexibility

Early retirement incentive programs have other benefits beyond costs savings. These programs can be used to achieve important non-financial goals such as increased managerial flexibility in restructuring operating procedures, in making promotions, and an increased ability to maintain a balance in the age and composition of the workforce (something that might not occur with seniority-based lay-offs).

The 1989 RIP did produce other benefits beyond the estimated cost savings. One school district in responding to our survey commented that

RIP allows us more flexibility. We give our teachers tenure, RIP allowed us flexibility in our staffing. Also now a district can establish new directions for programs that was nearly impossible to pursue with long-entrenched faculty.

Both the Anchorage School District (ASD) and the university reported that RIP provided administrators with increased staffing flexibility. Both the university and ASD grant tenure to their professors and teachers, respectively. One benefit of RIP was that it allowed the two organizations to replace tenured faculty with entry level instructors and teachers without tenure. As a result, it was easier to reassign and transfer instructors without having to consider the limitations and restrictions that are involved with the prerogatives of tenured staff.

Fairbanks school board feels that repeated RIPs disrupts recruitment

In a September 1990 resolution (see inset on next page), the Fairbanks North Star Borough School Board expressed its concern over the need for, and the impact of, repeated RIPs. In adopting a resolution opposed to the creation of another RIP program the board felt that while the program assisted schools in responding to fiscal emergencies, that its repeated use when there was no crisis is disruptive to normal teacher turnover and harmful to recruitment.

As reflected by the resolution the board felt that teachers develop expectations that another RIP will eventually be offered. This expectation encourages employees who might normally retire to postpone doing so until the next RIP. The number of retirees then accumulate and when a RIP is offered, all leave the district collectively, causing havoc in teacher recruiting and a major loss of experienced personnel all at once.

Auditor discussion - The 1989 RIP program was designed to maximize "local control." The decision whether to participate is made at the local level, as is establishing the criteria for which employees may retire. To some extent, this local option flexibility has led to what some may consider are abuses of RIP. Rather than using the program to lessen the impact of layoffs and realize savings, some employers used RIP as a means to provide additional

**FNSBSD BOARD OPPOSES IMPLEMENTATION OF RIP
WHEN NO FISCAL EMERGENCY EXISTS, CONCERNED
ABOUT EFFECT OF TEACHER EXPECTATIONS**

1 September 1990 the Fairbanks school board adopted the following resolution opposing any new retirement incentive program.

WHEREAS, the State of Alaska passed an Early Retirement Incentive Plan in 1986 to help school districts and other public agencies realize significant personnel cost reductions in response to a statewide fiscal emergency; and

WHEREAS, the State of Alaska passed another Early Retirement Incentive Plan in 1989, although there was not a fiscal emergency; and,

WHEREAS, this is creating the expectation that there will be another Retirement Incentive Plan program offered again in several years; and,

WHEREAS, this expectation works counter to the program's intent of encouraging people to retire, because of instead of the normal attrition rate, employees who might normally retire will postpone doing so until such time as another Retirement Incentive Program is offered; and,

WHEREAS, our district also has serious concerns about a teacher work shortage and fears it will become more and more difficult to replace our valuable and experienced work force; and,

WHEREAS, our district does not wish to lose our experienced employees, but has decided it would not be fair to deny them access to a Retirement Incentive Plan once it is passed into law;

NOW, THEREFORE, BE IT RESOLVED that the Fairbanks North Star Borough Board of Education requests the Legislature and the Governor not enact any future legislation authorizing early retirement.

compensation and consideration. Under our reading of the 1989 legislation, such use of the program is permissible. RIP is a "take-it-or-leave-it" program in which employers can structure their participation in the program in any manner they wish within the broad confines of the program eligibility requirements.

"Speed-up" scenario is a drawback to RIP's goal to save employers money

The "speed-up" scenario has been generally recognized as a drawback to RIP. Providing incentives may speed up the retirement of individuals who would have retired in the near future with or without an added incentive. Under RIP, the employer must pay the added cost of providing the incentive even though the employee would have eventually retired anyway at no extra cost.

Two participants cite impact of the "speed-up" scenario in criticizing estimated savings

Some employers contacted during the course of the review pointed out that the savings estimated using our assumptions and approach tended to inflate totals. In their comments they cited the "speed-up" scenario as contributing to an overstatement of savings. One employer commented that under the formula we suggested be used to calculate savings or costs that

Savings for our school district are based on a "bogus" assumption. What is not considered is when would have these individuals have normally retired if there had been no RIP. It is possible that the individuals would have retired anyway,[without the school district having to pay any additional RIP employer contribution costs.]

Another district commented that *normal retirement would generate far greater savings for each district. The cost for RIP has to be budgeted for, while the "savings" are used for other purposes.*

Auditor discussion - Under the methodology used in this report, participants who would have normally retired would generate a certain amount of savings over the costs involved to provide the three additional years of service. Had they retired without RIP then there would have been no additional employer costs involved, and the district would have realized even more savings, either by eliminating the position or replacing the retiree with a lower paid replacement.

It is likely that some of the almost 1,800 RIP participants would probably have taken normal retirement, involving no additional contribution from their employer. We acknowledge that this normal retirement factor does overstate our savings estimate, but there was no practicable way for us to calculate its effect and adjust our estimates accordingly.

NOTES TO SCHEDULE 1

Note 1 - General Assumptions, Methodology, and Approach to Develop Estimates

Unless otherwise discussed in a specific note, the estimated savings or costs presented in Schedule 1 on page 8 were calculated using the following assumptions, methodology, and approach:

1. Savings and costs totals represent projections over a three year period.
2. For most participants, the calculations of estimated savings or costs reflect the projected costs of salaries and benefits for both the RIP retiree and their replacement. However, some employers used salaries only as a basis for their projections and estimates. In any event, for any one participant's calculation the same basis was used for both the retiree and the replacement employee.
3. In addition to the administrative costs involved with each RIP participant, the estimated savings/costs also reflect any administrative fees paid by the employer for individuals who were eligible for the program but did not participate.

Note 2 - State of Alaska

Savings presented for the State of Alaska represent a combination of projected savings. The total includes both:

1. Three year projected savings for individuals who qualified and participated in the initial RIP program.
2. Net savings projected over a five year period for individuals who participated under the amended RIP program. According to OMB records, 78 of the State of Alaska's 739 participants did not generate any savings, and accordingly do not contribute to the total savings of \$6,033,100. The table below summarizes savings estimates and the number of participants for both the 3-year and 5-year periods

	Participants	Savings
3 YEAR PERIOD	547	\$ 5,131,400
5 YEAR PERIOD	192	901,700
TOTALS	739	\$ 6,033,100

Note 3 - University of Alaska

We reduced the savings for the University of Alaska by more than \$ 4,900,000 from estimates developed by the University. The adjustments were made in an effort to make the totals more comparable with those developed by the State of Alaska for their RIP participants. The university originally calculated RIP savings of \$9,240,700.

A large portion of these savings total was attributable to extended vacancies in the RIP participant positions that were eventually filled. Further, the university noted that some of the "savings" were actually reallocated to other staff and programs rather than being used to offset budget reductions (see inset on page 14 for discussion of the university's budget reallocation process). We based our adjustments on salary, vacancy, and budgetary information provided to us by the university.

Note 4 - Anchorage School District (ASD)

In calculating savings estimates for TRS participants, ASD used the average, district-wide teacher and administrator salaries as a basis for the replacement employees' salary and benefit costs. Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that it would tend to understate the estimated savings.

ASD's estimated savings as listed in the schedule are based on three year projections. The district also projected savings for a five year period. ASD's five-year projected RIP savings breakdown as follows:

<u>Retirement System</u>	<u>Estimated Savings</u>
TRS Participants	\$ 6,578,000
PERS Participants	<u>528,000</u>
Total 5-year savings projections	\$ <u>7,106,000</u>

Both the 3-year savings listed in the schedule on page 8 and the 5-year savings summarized above, have been reduced to reflect almost \$673,000 that the district paid out as retirement incentives. Depending on when participants retired, they were eligible for payments of 2.5% to 5% of their salary and from \$50 to \$100 for each year of service as an incentive to participate in RIP.

Note 5 - Kenai Peninsula Borough Schools (KPBS)

Although KPBS had thirteen fewer participants than the Fairbanks North Star Borough Schools, the district had \$400,000 more in estimated savings. This difference was largely a result of KPBS not replacing some of their RIP participants, whereas Fairbanks filled all the teaching vacancies left by the participating employees.

Note 6 - Fairbanks North Star Borough School District (FNSBSD)

In estimating savings, FNSBSD used the average salary and benefit costs for all newly hired teachers for the first school year following the RIP period. For PERS participants, FNSBSD used the actual salary of the replacement employee as a basis for projecting the savings generated by the RIP participant.

Note 7 - City of Fairbanks

More than \$580,000 of the projected savings were generated from the city not replacing four individuals who participated in RIP. Thirteen of the twenty-two participants were from either the city's police or fire departments. At the time these 13 individuals retired, the city consolidated its police and fire protection functions into a single department of public safety. Many of these 13 retirees were high ranking officers, whose command and management functions were combined and restructured as part of the consolidation process.

This consolidation of command responsibilities made it difficult to determine which retiree was replaced by which promoted officer. Thus, it was not practicable to match these promoted individuals with the outgoing RIP retirees. However, the city is certain that available funding was used to recruit and hire entry level officers into the new public safety agency. Accordingly, they based their estimates of projected savings on the difference in salaries and benefits between the retiring officers and these entry level recruits.

Note 8 - North Slope Borough School District (NSBSD)

In calculating savings estimates for TRS participants, NSBSD used the average, district-wide teacher salary as a basis for the calculating the replacement employees' salary and benefit costs. Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that would tend to understate the estimated savings.

Note 9 - Matanuska-Susitna Borough Schools (MSBS)

In calculating savings estimates for TRS participants, MSBS used the average, district-wide teacher salary as a basis for calculating the replacement employees' salary and benefit costs.

Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that it would tend to understate the estimated savings.

Note 10 - North Slope Borough (NSB)

For all but one of NSB's 12 RIP participants, estimated savings are based on three-year projections. The other individual's savings are estimated over a five-year period.

Note 11 - Calculated Estimates for Nine School Districts not responding to our survey

We developed the estimate of savings for nine school districts which did not respond to our survey. For these districts we calculated savings for their RIP participants using the average participant savings for all districts who did respond to our survey. Savings from districts calculated using this approach totalled to \$860,800 (3% of the total estimated savings statewide) for 75 RIP participants (4%). Districts for which savings were calculated using this approach were:

District	No. of TRS Retirees	Estimated Savings of TRS Retirees @ \$15,359/ea	No. of PERS Retirees	Estimated Savings of PERS Retirees @ \$6,798/ea	Total Calculated Savings for Schools (Rounded)
Lower Kuskokwim Schools	18	\$ 276,462	7	\$ 47,586	\$ 324,000
Bering Strait Schools	4	61,436	13	88,374	149,800
Southwest Region Schools	6	92,154	3	20,394	112,500
Delta/Greely Schools	7	107,513	0	-0-	107,500
Kuspuk Schools	2	30,718	5	33,990	64,700
Unalaska City School District	2	30,718	1	6,798	37,500
Iditarod Area Schools	0	-0-	5	33,990	34,000
Nenana City Schools	1	15,359	0	-0-	15,400
Skagway City School	1	15,359	0	-0-	15,400

Note 12 - Matanuska-Susitna Borough

For all but two of the borough's nine RIP participants, estimated savings are based on three-year projections. The other two individuals' savings are estimated over a five-year period.

Note 13 - Kenai Peninsula Borough

Almost \$200,000 of the borough's \$224,900 in estimated savings is attributable the elimination of one management position.

Note 14 - City of Hoonah

More than \$90,000 of the city's \$118,000 in estimated savings is attributable to the elimination of one position.

Note 15 - City of Kodiak

Estimated savings are based on a combination of three-year and five-year projections. Two of the RIP participants' savings are based on five-year projections.

Note 16 - Fairbanks North Star Borough

One of the individuals' estimated savings are based on a three-year projection while the other is based on a five-year projection.

Note 17 - Bristol Bay School District (BBSD)

The estimated projected savings for BBSD of \$14,600 reflect an additional cost of \$10,144 retirement bonus paid to the RIP participant. The bonus represented 21% of the participant's annual salary.

Note 18 - City of Ketchikan

As related on page 7 of the report, if the City of Ketchikan can collect from its one RIP participant, it will realize a projected estimated savings of \$20,200. However, as of the date of this report, the city has not collected the employer costs that it conditionally paid on behalf of the city's participant.

2/1/92

Hickel endorses early retirement bill

The Associated Press

JUNEAU — The Hickel administration has endorsed legislation to revive the early retirement incentive program for public employees, but only with changes that would limit the number of eligible state workers.

The bill would allow most state and local government employees the chance to retire three years early. The idea is to save money by encouraging the replacement of higher-paid, longtime workers with new, lower-paid workers — or leaving the positions empty.

Two previous retirement programs saved the state and municipalities between \$95 million and \$100 million over several years, according

to state audits.

The latest bill, sponsored by Sen. Jim Duncan, D-Juneau, was recently approved by the Senate State Affairs Committee after changes recommended by Gov. Wally Hickel's office were adopted.

Commissioner Nancy Bear Usera of the Administration Department told the committee the bill could help Hickel reach his goal of shrinking the bureaucracy through attrition.

Usera said early retirement is "an appropriate tool" to save money, although she had concerns about the turnover it creates.

"We, as a general rule,

don't feel like we should be rushing people through state service," she told the committee.

Usera asked lawmakers to shorten the period for participation in the program to make budget planning easier. She said the change would shrink the number of eligible state workers from 4,366 to 3,919.

In the most recent program, about 30 percent of those eligible took early retirement, she said.

Under Duncan's proposal, state employees would have been able to apply for the program between next Dec. 31 and June 30, 1993, and would have had to retire by February 1994.

Usera asked lawmakers

to shrink the application period to between next July 31 and Oct. 31. She asked the retirement deadline to change to July 1993.

Duncan said he would go along with the change if it would improve the bill's chances of passing.

Usera also persuaded the committee to include a provision banning early retirees from taking state employment within a year of leaving government service. The provision exempts University of Alaska employees returning to work on contract.

Senate Bill 337 was referred to the Senate Health, Education and Social Services Committee for further consideration.