

HB

354

HFIN

FILE

Adopted - 4/30/96 Amendment 3

Amendment CCFE 354 (STA)
by [unclear]

p. 2, line 14

delete "education" insert "administration"

p. 2, lines 15-17

delete "If certified by the Commission, the participating school district shall file the plan and the certification with the administrator."

p. 2, line 17 after "shall" insert

"review the plan and advise the Commission whether it complies with the requirements of this section. The administrator shall"

p. 2, line 18 ³ delete "education"
insert "administration"

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: March 6, 1996

FURTHER REFERRALS:

Date of Committee Action: 4/10/96

The FINANCE Committee considered:

HB 354

HOUSE BILL NO. 354

RIP FOR SCHOOL DISTRICT EMPLOYEES

"An Act relating to a retirement incentive program for certain employees of school districts under the teachers' retirement system and the public employees' retirement system; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 354 (Fin) [X] the same title [] a new title

[] additional referral to _____ Committee [] attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) APPROVES PREVIOUS: (Dept/Date) [X] fiscal note(s) _____ [X] fiscal note(s) DON 2/16/96

[] zero fiscal note(s) _____ [] zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
Gordon Mulder	X			
Larry Martin			X	
Ben Grussendorf	X			
Paul Parnell	X			
Cam Therriault			X	
Vic Kohring			X	
Fay Brown	X			
Richard Josey	X			
Mark Hanley			X	

CO CHAIR'S SIGNATURE Mark Hanley Richard Josey

FISCAL NOTE

No. 1
 Bill Version: HB 354
 (H) Publish Date: 2/16/96

STATE OF ALASKA
 1996 LEGISLATIVE SESSION

Revision Date: _____
 Title: An Act to retirement incentive programs for certain
employees of school districts under the teachers' retirement
 Sponsor: Representative Mackie
 Requestor: _____

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES	229.8	229.8	52.8	52.8	52.8	52.8
TRAVEL	3.0	3.0	0.0	0.0	0.0	0.0
CONTRACTUAL	12.9	11.4	2.8	2.8	2.8	2.8
SUPPLIES	6.0	1.5	3	3	3	3
EQUIPMENT	64.4	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	316.1	245.7	55.9	55.9	55.9	55.9

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
OTHER	316.1	245.7	55.9	55.9	55.9	55.9
TOTAL	316.1	245.7	55.9	55.9	55.9	55.9

Estimate of any current year (FY 96) cost: \$ zero

POSITIONS:

FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	5	5	0	0	0	0

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. An administrative charge for participating employers will cover the increased costs of administering the retirement incentive program.

Prepared by: Robert F. Stalnaker
 Division: Retirement & Benefits

Phone: 465-4470
 Date: _____

Approved by Commissioner: Mark Beyer
 Agency: Department of Administration

Date: 1/16/96

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FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB 354

ANALYSIS: (continued)

This bill creates a retirement incentive program for the Public Employees' (PERS) and Teachers' (TRS) Retirement System employees of school districts. Active school district employees 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 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 lifetime benefit for the indebtedness amount.

We estimate that one permanent full-time employee will be needed to manage the operations of the program and increased service demands into the future. Five long-term non-permanent employees will also be needed over the next two fiscal years. Personnel will handle increased counseling, address and beneficiary changes, account maintenance, and other services. Subsequent increases in the number of retirees will necessitate increased permanent employees to handle the increased demand for information and services.

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

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

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
PERSONAL SERVICES			
<u>FY 1997</u>			
1 Retirement & Benefits Specialist I	\$ 52.8		
3 Retirement & Benefits Tech VII (NP)	113.4		
1 Accounting Clerk III (NP)	34.1		
1 Admin Clerk I (NP)	<u>29.5</u>		
TOTAL FY 1997 COSTS		\$229.8	
<u>FY 1998</u>			
1 Retirement & Benefits Specialist I	\$ 52.8		
3 Retirement & Benefits Tech VII (NP)	113.4		
1 Accounting Clerk III (NP)	34.1		
1 Admin Clerk I (NP)	<u>29.5</u>		
TOTAL FY 1998 COSTS		\$229.8	
<u>FY 1999</u>			
1 Retirement & Benefits Specialist I	\$ 52.8		
TOTAL FY 1999 COSTS			\$52.8

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB 354

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
TRAVEL			
Traveling to various locations throughout the state to counsel prospective retirees and give seminars.	3.0	3.0	0.0
CONTRACTUAL			
Communication (Telephone, Postage)	6.6	6.6	1.6
Mainframe Computer Time	4.4	4.4	8
Software Maintenance	1.5		
Training/Risk Management	<u>4</u>	<u>4</u>	<u>4</u>
Total Contractual	12.9	11.4	2.8
SUPPLIES			
Office Supplies, Calculators, software	6.0	1.5	.3
EQUIPMENT			
Computer Workstations	20.0	0.0	0.0
File Cabinets (1)	.4	0.0	0.0
Office Chairs (5)	2.5	0.0	0.0
Microfiche Viewers (5)	1.5	0.0	0.0
Office Workstations	5.0	0.0	0.0
Computer/Network Printers	12.0	0.0	0.0
Computer Network Upgrades	20.0	0.0	0.0
Telephone Unit (5)	<u>3.0</u>	<u>0.0</u>	<u>0.0</u>
Total Equipment	<u>64.4</u>	<u>0.0</u>	<u>0.0</u>
TOTAL OPERATIONS COST	\$316.1	\$245.7	\$55.9

The retirement technicians, retirement specialists, 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 two additional computer printers. The previous RFPs put a great demand on our existing 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 printers for two years, coupled with our existing needs, purchasing new printers would be more cost effective.

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

Funding Source Breakdown for FY 1997:

1029	FERS	\$126.4
1034	TRS	<u>189.7</u>
		\$316.1



OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT Administration	DIVISION Retirement & Benefits	BILL NUMBER HB 354	SPONSOR Mackie
SHORT TITLE OF BILL "An Act relating to a retirement incentive program for certain employees of school districts under the teachers' retirement"			
DEPARTMENT POSITION			
PREPARED BY Robert F. Stalnaker	DATE <i>R. Stalnaker</i>	COMMISSIONER'S SIGNATURE <i>Jason H. Clay</i>	DATE 1/16/96

SUMMARY

OTHER AGENCIES AFFECTED BY BILL None	CONSTITUENT GROUP(S) AFFECTED BY BILL School District Employees
ORGANIZATIONAL SUPPORT FOR BILL NEA	ORGANIZATIONAL OPPOSITION TO BILL Unknown
FISCAL IMPACT: <input type="checkbox"/> NONE <input checked="" type="checkbox"/> FISCAL NOTE ATTACHED	

BACKGROUND/LEGISLATIVE INTENT
 There are a variety of RIP bills in the legislature. Last year a retirement incentive program (RIP) for school districts only was included in HB 217. HB 217 also dealt with teacher tenure, layoff and rehire rights. The bill was vetoed by the Governor.

ANALYSIS OF BILL/PROGRAM EFFECTS
 This bill creates a retirement incentive program for the Public Employees' (PERS) and Teachers' (TRS) Retirement System employees of school districts. Active school district employees could retire on an accelerated basis with an increased benefits under the following conditions: as early as age 47, if vested; with 17 years of service as a 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 lifetime benefit for the indebtedness amount.

We question whether this school district RIP should be supported as a stand alone or whether we should support combining all public employees as has been our position in the past.

AMENDMENTS PROPOSED

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS

Alaska State Legislature

REPRESENTATIVE
JERRY MACKIE



House of Representatives

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RETIREMENT INCENTIVE PROGRAM FACTS

1. RIP is totally optional for each school district and teacher; not a mandate.
2. Each school district must show that savings will be realized by their RIP plan. This must be verified by the Commissioner of Education.
3. The retirement fund is not adversely affected because teachers participating must contribute up-front the money they would have paid into the fund had they continued working.
4. RIP offers a one time opportunity to participate. It is not open-ended, but has a sunset clause which terminates the program.
5. HB 354 was heard in HESS committee and had 3 do passes and 2 no recs. Heard in State Affairs Committee, it reported out with all do passes.
6. It is strongly supported by AASB, NEA, and Ak. School Administrators.
7. The administration supports a RIP program.
8. HB 354 has overwhelming support from the school districts across the state, both large and small.
9. \$20,000 is an appropriate estimate of savings per teacher per year that can be realized through RIP. A school district's total savings potential in one year can be calculated for their number of eligible participants.

Example:	Mat-Su	130 X 20,000 = \$2.6 million
	Kenai	175 X 20,000 = \$3.5 million
	Delta-Greely	21 X 20,000 = \$420,000

Alaska State Legislature

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SPONSOR STATEMENT

HB 354, Establishing a Teacher Retirement Incentive Program

I introduced HB 354 in response to the desire of many Alaskan school districts to achieve operational cost savings through a retirement incentive program. The program allows school districts to offer early retirement to teachers at the higher end of the district's salary scale. The savings would result from the hiring of replacement teachers that are younger and lower on the pay range.

The proposed early retirement program is similar to programs established for all public employees beginning in 1986 and ending in 1990. A November 1991 legislative audit estimated that the 1989-90 retirement incentive program saved approximately \$23 million on the early retirement of 1,764 employees taking advantage of the program. In the 1986-87 program 2,327 employees participated achieving a savings of over \$73 million. It should be noted that retirement incentive programs are commonly used by business corporations to attain a more efficient and economic operation.

The program established in HB 354 offers three years of service credited to eligible public school employees facing retirement. The offer is an inducement to employees near or at retirement eligibility to terminate their services. The resulting vacancies allow employers to achieve savings by filling positions with persons of lower step and pay range, down classing positions, or keeping positions vacant. A key provision requires agencies to show on a case by case basis that a three year credited service award would result in a net personnel services cost savings. It should be stressed that participation in the program is completely optional for either the employer or any employee.

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The three year credit must 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.

An employee awarded the benefit is required to contribute to the retirement system the amount they would have paid had they continued working the additional three years. The employer's cost is the difference between the employee's contribution and the full actuarial cost of the three year incentive. Thus, the TRS or PERS retirement system is fully compensated for the effects of an individual's early termination of service.

The employer's additional contribution to the retirement system as well as sharing in other program administration costs are primary factors in calculating whether a potential early retirement will result in a net savings and hence qualify. The calculation is based on a five year time period.

House Bill 354 has a sunset clause that terminates the incentive program on July 1, 1998.

I believe this legislature has to make a serious effort to address the state's continuing revenue shortfall and the need for long term financial stability. If education is faced with reduced or frozen budget funding levels, then we have to give the school districts the tools to make the necessary adjustments. Otherwise, the education of Alaska's youth will directly suffer. HB 354 is one of the tools that can be used to mitigate budget shortfalls and preserve the excellence in our public school system.

Alaska State Legislature

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CS HB 354 (STA), Establishing a Retirement Incentive Program

SECTIONAL ANALYSIS*

Section 1 states the legislative purpose in adopting a retirement incentive program for teachers and other public school 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 employer's retirement incentive plan and requires the employer to agree to reimburse the retirement system for the extra costs incurred by the system as a result of participation by the employer's employees. The commissioner of education must review the plan and certify that savings will result. The administrator of the TRS and PERS system has final approval that a school district's plan meets all requirements.

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

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contribution rate of 6.75% for 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 school districts to adopt a retirement incentive plan for its employees to begin June 30, 1996 and ending December 31, 1996. Subsection (b) requires that participants be appointed to retirement on or before August 1, 1997.

Section 4 permits the Department of Administration to take certain actions if school districts 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 5 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 a state department or agency for three years after the participant retired. There is an exception for work for the University of Alaska and for employment with the legislature during the session if the employment is on an hourly basis and if the employee is not entitled to retirement, health, or leave benefits. Subsection (c) permits the commissioner of administration to allow employers to enter into personal services contracts with participants during the three-year waiting period if the employer establishes that there is a compelling reason for hiring the participant because of the participant's specialized or extensive experience. Note that while subsections (b)

and (c) permit state agencies and school districts to hire certain participants, neither subsection excuses the participant from paying the penalty established under subsection (a).

Section 6 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 7 makes the definitions in TRS and PERS, as appropriate, applicable to the bill.

Section 8 repeals sections 2-3 of the Act, which establish and authorize the retirement incentive program, on July 1, 1998.

Section 9 is an immediate effective date.

*This analysis was copied in large part from a 1993 analysis by legislative attorney T. Cramer on bill draft 8-LS0182\A

A
AASA HB 354 Survey

How many certified teachers in your district would be eligible to participate in a RIP Program?				
They must have a minimum of 17 years of experience. Please answer regardless of whether your district would participate.				
District Name	Number Eligible	Yes	No	Comment
Adak	0	X		
Alaska Gateway				
Aleutian Region Schools	2	X		
Aleutians East Borough	7	X		
Anchorage Schools	600	X		
Annette Island	2	X		
Bering Strait Schools	7	X		
Bristol Bay Borough				
Chatham Schools	6	X		
Chugach Schools	3	X		
Copper River Schools	10	Questionable -- our cost would be		\$150,000 if all participated
Cordova City Schools	16	I believe so.		
Craig City Schools	0	X		
Delta/Grady Schools	21	X		
Denali Borough	10		90% unlikely	
Dillingham City Schools	12	X		
Fairbanks Schools		X		
Galena City Schools	2	X		
Haines Borough Schools	13	X		
Hoonah City Schools	12	X		
Hydaburg City Schools	4		probably not	
Iditarod Area Schools				
Juneau Borough	60	X		
Kake City Schools		X		
Kashunamiut Schools				
Kenai Peninsula	175 to 200	X		
Ketchikan	39	X		Board would decide, but leaning that way.
Klawock City Schools	2	X		
Kodiak Island Borough	28	X		
Kuspuk Schools	13 out of 54 on staff	X		We desperately need a RIP!!
Lake & Pen Borough	9		X	Not sure
Lower Kuskokwim				
Lower Yukon Schools	17			Don't know
Mat-Su Borough	130	X		Dependent on board approval
Nonana City Schools				

▲
AASA IIB 354 Survey

District	Number eligible	Yes	No	Comments
Nomo City Schools	14		X	
North Slope Borough	20+	X		
Northwest Arctic Boro	31			This is yet to be determined .
Pelican City Schools	1	X		
Petersburg City School	11			Don't know yet.
Prudhoe Island Schools	2		X	
St. Mary's Schools	4	X		
Sitka Borough Schools	34			Don't know yet.
Skagway City Schools	5	X		
Southeast Island				
Southwest Region	15			Undecided
Tanana Schools				
Unalaska City Schools	1	X		
Valdez City Schools	30	X		We would like to have the option .
Wrangell city Schools	13	X		
Yakutat City Schools				
Yukon Flats Schools	3	X		
Yukon/Koyukuk	9	X		
Yupik Schools	1	X		
Alaska Central Corrsp.				
Total Number eligible	1394	34	6	5 undecided/uncertain
45/55	75%			
3/21/96				

Division of Legislative
Audit

Report No. 02-4404-91

Nov. 22, 1991

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)	143	4,317,300	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)	85	1,554,100	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	3	38,600
Matanuska-Susitna Borough Schools (Note 9)	42	487,300	Unalaska City School District (Note 11)	3	37,500
North Slope Borough (Note 10)	12	469,600	Iditarod Area Schools (Note 11)	3	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	17,300
Igneau Borough Schools	28	217,700	Bartlett Memorial Hospital	2	16,300
Illingham City Schools	3	213,600	Nemana City Schools (Note 11)	1	15,400
City and Borough of Juneau	19	199,600	Skagway City School (Note 12)	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	3	12,900
Bering Strait Schools (Note 12)	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	118,000	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	3	102,100	City of Seward	2	800
Valdez City Schools	3	84,100	Craig City Schools	1	(12,300)
City of Kodiak (Note 15)	6	77,500	Bristol Bay Borough	1	(14,400)
Kuspuk Schools (Note 12)	7	64,700	Yakutat City School District	1	(16,900)
Chatham Schools	6	64,600	Kaka 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

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	422,500
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	56,033,100

	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	\$19,383	721	\$5,736,200	\$7,984	739	\$ 6,033,100	\$ 8,164
University of Alaska	72	2,577,100	35,793	73	1,740,700	23,945	145	4,317,800	29,778
Anchorage School District	204	2,394,500	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
Setchikan Gateway 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
Unalaska Borough Schools	27	196,700	7,285	1	21,000	21,000	28	217,700	7,775
Vering 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
Northwest Region Schools	6	92,200	15,367	3	70,400	6,800	9	112,600	12,511
Uspuk Schools	2	30,700	15,350	5	34,000	6,800	7	64,700	9,243
Ugashik Schools	5	64,700	12,940	1	(700)	(700)	6	64,000	10,767
Unalaska Island Schools	3	49,600	16,533	1	13,300	13,300	4	62,900	15,725
Unalaska Island Borough Schools	2	39,900	19,950	2	3,500	1,750	4	43,400	10,850
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

ASSOCIATION OF ALASKA SCHOOL BOARDS

316 W. 11th St. • Juneau, Alaska 99801-1510
(907) 586-1083 • Fax (907) 586-2995

POSITION PAPER

RETIREMENT INCENTIVE PROGRAM

The Association of Alaska School Boards supports passage of a retirement incentive program with the local option for school districts to determine if participation in the program is desirable and beneficial.

The ability of a school district to weigh the short term benefit of a retirement incentive program against its long term goal is critical when addressing the program needs of students and the fiscal uncertainties that all Alaska school districts face.

A retirement incentive program with the local option to participate, will provide school districts the opportunity to review its present personnel cost and determine if economies will create a positive financial and programmatic impact.



Lawrence A. Wiget, Ed.D.
Director, Government Relations/Legislative Liaison
Anchorage School District
4600 Debar Road
Anchorage, Alaska 99519-6614
(W) 907 269-2255 (FAX) 907 269-2340

TO: REPRESENTATIVE JERRY MACKIE
(W) 465-4925 (FAX) 465-3517

SUBJECT: RETIREMENT INCENTIVE PROGRAM

DATE: FEBRUARY 27, 1996

The Anchorage School District supports having an option to offer its employees a retirement incentive program if the savings to the District in personal services costs for the employee's position exceed the costs to us for that position within five years after the employee retires. Following an analysis to see if the program is helpful to us overall, the administration will make a recommendation to the School Board on whether to participate in the program or not.

Last year, the District had at least 600 teachers that would have been eligible for early retirement under HB 217.

H B 354

FAX TRANSMISSION

FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT

520 FIFTH AVENUE
FAIRBANKS, ALASKA 99701
(907) 452-2000 Ext. 401
FAX: (907) 451-0541

To: Representative Jeanette James, House State Affairs Committee Chairperson . . . Date: February 20, 1996

cc: Representative Joe Green

Fax #: c/o Fbks LIO 456-3346 . . . Pages: 1, Including this cover sheet.

From: P. Houts
Superintendent of Schools

Subject: H.B. 354

COMMENTS:

To Representative James:

This P.O.M. is to offer support for H. B. 354 and encourage its movement to hearing. This piece of legislation is seen by us as a tool that could possibly be used in making decisions to help us reach our hiring goals and budget goals.

FAXED
2/20/96



January 22, 1996

KETCHIKAN

KETCHIKAN GATEWAY BOROUGH
SCHOOL DISTRICT

January 22, 1996

Memo To: Keith Tolzin, Superintendent

From: David Means, Business Manager *DM*

Subject: Retirement Incentive Program Analysis

As requested, I counted the eligible teachers if the retirement incentive program were to pass requiring a minimum of 17.0 years of credited retirement service.

There are 33 teachers eligible for retirement under this option. They make a minimum of \$54,976 per year to a maximum of \$58,030. They average \$57,336 per year.

If the District were to replace these teachers with a newly hired teacher, I estimate an average difference in salary per position of \$19,157 (or \$20,902 after factoring in TRS' and social security.) If the District were to replace these teachers with teachers at the B-0 step, then the average difference in salary would become \$26,792 (or \$29,564 after factoring TRS' and social security).



JUNEAU SCHOOL DISTRICT
CITY AND BOROUGH OF JUNEAU
OFFICE OF THE SUPERINTENDENT

10014 CRAZY HORSE DRIVE • JUNEAU, ALASKA 99801-3529 • (907) 463-1700 • FACSIMILE (907) 463-1712

January 22, 1996

Representative Jerry Mackie
Alaska State Legislature
State Capitol
Juneau, AK 99811

Dear Representative Mackie:

In response to your inquiry regarding the potential savings from an early retirement incentive, the Juneau School District estimates a savings of \$100,000 per teacher over a five year period.

With a conservative estimate of 30 teachers participating, the savings would be three million dollars. Thank you for your work on this legislation.

Sincerely,

A handwritten signature in cursive script that reads "Mary Rubadeau".

Mary Rubadeau
Superintendent

Hoonah City Schools

Estimated Cost Savings from HB 98

I. Salary Costs for Current Employee Eligible for RIP in School Year 1992-93:

Teacher A	52,796
" B	53,386
" C	52,796
" D	52,796
" E	52,796
" F	56,631
" G	52,796
" H	<u>56,651</u>

TOTAL Employee Salary Costs 430,528

II. Total costs for eight new teachers at the beginning salary step of \$29,203: \$233,624.

III. Estimated RIP costs for teachers listed above \$ 232,539 paid out over a three-year period: \$77,513 per year.

IV. Cost Savings Per Year:

First Year Savings	\$ 119,487
*Second Year Savings	113,510
*Third Year Savings	<u>107,835</u>

TOTAL three Years Savings.....\$ 340,832

*NOTE: Estimated 5% increase in salaries for new employees in the second and third year.

Hoonah Public Schools

P.O. Box 157

(907) 945-3611

Hoonah, Alaska 99829

January 27, 1993

The Honorable Jerry Mackie
Alaska House of Representatives
Capital, Room 110
P. O. Box V
Juneau, AK 99811

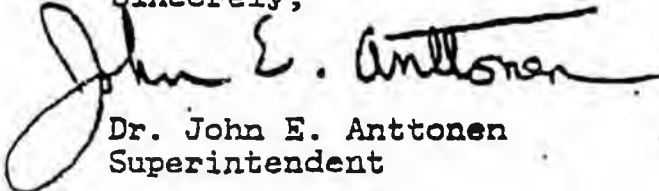
Dear Representative Mackie:

The purpose of this letter is to support the retirement incentive provisions contained in HB 36. The current version of this bill would provide Hoonah School District with a total possible certified employee savings of \$340,832 over a three year period. (See attached cost estimate.)

Our estimate is based on eight teachers who are presently eligible for early retirement and hiring new teachers at the lower end of our current salary schedule. We have computed into this cost estimate the amount that the district would need to pay the retirement system for RIP participation.

Our district views HB 36 as a significant management tool capable of providing us with flexibility in controlling certificated employee costs. Declining State revenue in education demands that management have all opportunities to control employee costs. We see HB 36 as such an opportunity and wholeheartedly endorse its passage.

Sincerely,


Dr. John E. Anttonen
Superintendent

JEA/db

**AMENDMENT FOR CONSIDERATION
HB 354- Retirement Incentive Program, by Representative Mackie**

Submitted by the Department of Education
(contact Kimberly Homme at 465-2803)

The proposed amendment would add the following:

Referring to Section 2:

(a) A school district or a state operated school may adopt a retirement incentive plan under sec. 3 of this Act to designate organizational units of employees eligible to participate in the retirement incentive program.

Note: The intent of this amendment is to include state operated schools in the RIP

Adopted
4/10/96

AMENDMENT 1

OFFERED IN THE HOUSE
TO: CSHB 354(STA)

- 1 Page 2, lines 1 and 2:
- 2 Delete "to designate organizational units of employees eligible to participate in the
- 3 retirement incentive program"
- 4 Insert "and designate categories of employees eligible to participate in that plan. An
- 5 employer need not extend the incentive plan to all employees who would otherwise be
- 6 eligible, but may choose to extend the plan only to employees
- 7 (1) in specific budget or administrative components of the employer;
- 8 (2) in specific job classifications;
- 9 (3) in specific geographic locations; or
- 10 (4) on the basis of any combination of factors under (1) - (3) of this
- 11 subsection"

- 12 Page 2, line 3:
- 13 Delete "organizational units of"
- 14 Insert "categories of employees eligible to participate in"

- 15 Page 2, line 10:
- 16 Delete "in a designated organizational unit"
- 17 Insert "designated as eligible to participate under (a) of this section"

- 18 Page 2, line 19:
- 19 Delete "organizational units and employees"
- 20 Insert "job classifications of employees and specific budget or administrative
- 21 components"

Attachment
4/10/96

1 Page 5, lines 19 - 20:

2 Delete "permits the benefits to be offered to an organizational unit of which the
3 employee is a member"

4 Insert "authorizes that employee to participate in the retirement incentive program
5 under this Act"

6 Page 5, line 22:

7 Delete "members of organizational units for which"

8 Insert "employees for whom participation"

Adopted
4/10/96

9-LS0634\G.1 ✓
Cramer
4/9/96

AMENDMENT 2

OFFERED IN THE HOUSE
TO: CSHB 354(STA)

- 1 Page 5, line 24, following "DEFINITIONS.":
- 2 Insert "(a)"
- 3
- 4 Page 5, following line 26:
- 5 Insert a new subsection to read:
- 6 "(b) In this Act, "school district" means a city or borough school district or a regional
- 7 educational attendance area."

4/10/96
Attachment 3



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
committee name

committed on HB 354, dated 4-10-96
bill/subject

House Bill 354 needs to be passed today in your committee and then acted upon immediately as a whole House. Don't let this die in the legislature this year. This bill will help the economics of our state and will keep the monies in our state. There is no cost for the state, some of the people who are referred to as "dead wood" are simply ready to retire and want to help our new teachers (who will cost the district less money). Our district saved over 200,000 last time this was enacted. Please pass HB 354 today. Thanks

Signed:

Kathleen A. Jackson
Testifier

Representing (Optional)

Box 7384 Palmer

Address

745-6732

Phone No.

Alaska Legislative Information Office

4/10/96
ATT. 4



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354, dated 4-10-96
 bill/subject

I feel that this bill should be passed for all teachers who have a year or less to retire so that other teachers with new innovative ideas could enter the school districts. I do not want any additional pay out. I just want to give others a chance to teach. Would you rather have a burnt-out teacher for your child or someone who is excited about starting their teaching career?
 Signed: Lana K. Henley
 Testifier

Representing (Optional)
P.O. Box 3136 Palmer, AK 99645
 Address
746-1377
 Phone No.



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354, dated 4-10-96
 bill/subject

House Bill 354 needs to be addressed immediately and acted upon. Don't let this bill die!

Vote yes today!

Thank you

Signed: Trula Aclua
 Testifier
topper school district employee
 Representing (Optional)
5855 Columbus Way
 Address
Wadell, AK 99654
 Phone No.



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354 , dated 4-10-96
 bill/subject

When a person retires from years of service to a community, some of the foremost considerations in beginning their new life are income from pensions and having reasonable health care.

Lana Henley has been teaching in our community and in Alaska for nearly two decades. She has provided excellent service to hundreds of students in these years and now wishes to retire although our school would miss such a fine teacher and mentor.

Since the State of Alaska is currently developing more conservative spending policies (and considering the cost of state workers in these policies) as well as trying to cut various budgets, wouldn't it make sense to retire teachers like Lana Henley who are on the top of our pay scale and let them retire with dignity and security?

In doing this, state moneys may yet be saved in the long term and the State of Alaska will be able to keep its obligations to those who have sacrificed so much for the betterment of our citizens, communities, state, and nation.

Signed: Robert H. Johnson
 Testifier

Representing (Optional)
1236 W. Brewer Ave, Palmer, AK 9976
 Address
746 0321
 Phone No.



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354, dated 4-10-96
 bill/subject

I am writing to ask for your support in passing HB 354. I feel that by passing this bill positive effects would be felt by both individuals as well as government. Those persons who have 10 or less years to retirement are often tired of teaching and are more or less "killing" time 'til retirement. Often they have lost their excitement and enthusiasm towards students and teaching. Newer teachers have been trained in newer techniques and have fresh ideas. They also are excited about teaching and are anxious to work with students. This attitude benefits students, parents, administration, and overall building/district morale. A final benefit to passing HB 354 is a financial one. Many of these soon to be retired teachers have worked their way up pay scales and cost districts a lot of money. Districts could benefit by being able to hire more teachers for the same amount, or less, money. In these days of budget cuts and overcrowded classrooms this seems to me to be that this benefit would be great incentive to pass this bill.

Signed:

John J. Jenkins
 Testifier

Representing (Optional)

P.O. Box 771742 Eagle River, AK 99577
 Address

Address

(907) 745-8804
 Phone No.

Phone No.



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354, dated 4-10-96
 bill/subject

House Bill 354 needs to be passed today in your committee & then acted upon immediately - don't let this die in the legislature this year. Vote on it today & pass it. Thank you

Signed: Judy McKeelich
 Testifier

Representing (Optional)
PO 902 Palmer AK
 Address
745-3432
 Phone No.

W/00 Legislative Information Office



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354, dated 4-10-96
 bill/subject

Please support the retirement bill.
 It saves jobs and money. This is a
 good thing.

Signed: Marilee Taylor
 Testifier

Representing (Optional)
MCRI Box 6932 Palmer, AK 99645
 Address

745-6528
 Phone No.

900 Legislative Information Office



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354 , dated 4-10-96
 bill/subject

Please support and pass out of committee HB 354 today. It will save districts money. It will save jobs. It will not cost the state but rather save money. Some of the people who are referred to as "dead wood" are simply ready to retire and want to which will help our children. Please pass HB 354 NOW

Signed: M. C. Hunt
 Testifier

Representing (Optional)

H.C.M. Box 7308

Address

Palmer AK 99645

Phone No.

4452927



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354 , dated 4-10-96
 bill/subject

Please pass and support H.B. 354
 Today! Do not let it die in your committee
 This bill will save our state money. Last
 time it was enacted it saved the Kotzebue
 District 200,000. It will save jobs and help
 our revenue stay in Alaska. There is
no cost to the state. Please help and pass
H.B. 354 today.

Signed: William Mark T.
 Testifier

Representing (Optional)

PO Box 3024 Palmer, AK 99645
 Address

(907) 246-2249
 Phone No.



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354, dated 4-10-96
 bill/subject

Please support and pass out of committee
 HB 354 Now! It will in the long run save
 the state of Alaska money. It will keep
 monies in the state. It will save jobs
 for our new employees who are ready
 to learn their trade at a substantial
 difference in pay than our long term employees.
Don't let this die in your committee or
 this legislative session. Thank you. Pass HB
354

Signed: Paul F. Fugle
 Testifier

Teacher & school district employees
 Representing (Optional)

Box 2447 Palmer, AK
 Address

745-5254
 Phone No.

MSG



Alaska State Legislature

Please enter into the record my testimony to the

House Finance Committee

committee name

committee on HB 354 Jerry Mackie RIP Bill, dated

1/10/96

bill/subject

I hope that our legislatures will pass this bill. It would give financial relief to our school district. It would help the economy of our district as new, bright teachers can stay in the Matanuska Valley and practice their trade and buy locally. It would help the morale of our district too. We need action (positive) now so change can take place. Please, pass this bill. This bill - HB 354 will save money and provide jobs. Please don't let it die in your committee by lack of action for in the Legislature (1996).

Signed:

Testifier

Margaret V. Mills
Self as Parent and teacher and tax payer in Mat-Su School District

Representing (Optional)

P.O. Box 876218 Wasilla, AK 99687

Address

907-373-6198 or 907-746-4871

Phone No.



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354, dated 4-10-96
 bill/subject

This bill needs to be
Passed due to budget cuts so
 that it will create more
 jobs for new teachers, with new
 ideas, teaching styles, methods!

Signed: Zina Gahery Jensen
 Testifier
TAX Payer
 Representing (Optional)
PO Box 3937 Palmer
 Address
(907) 373-9742
 Phone No.

966 Legislature Information Office



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committed on HB 354, dated 4-10-96
 bill/subject

Please pass the retirement bill HB 354.
 Passing this bill will be an asset to
 all of those involved in education - allowing
 new teachers to bring forward new and
 fresh ideas.

Signed: *Leslie Jackson*
 Testifier
school employee / tax payer
 Representing (Optional)
PA 724 Palmer AK
 Address
746-5779
 Phone No.

9/88 Legislative Information Office



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354, dated 4-10-96
 bill/subject

This bill needs to pass. We need
 new and exciting teachers for our schools.
 Due to budget cuts this bill
 needs to pass because these
 teachers at the top of the
 scale would create new positions.
 Please listen to the teachers
 who need jobs !!

Signed: Leslie Hill
 Testifier
Taxpayer / Teacher
 Representing (Optional)
PO Box 878367 Wasilla, AK 99687
 Address
(907) 373-3357
 Phone No.



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
committee name

committee on HB 354, dated 4-10-96
bill/subject

Please support and pass HB 354 Now
I am in favor of this cost saving measure.
It has worked in the past and will work
now. If we are really in a financial
crunch - do something! Pass HB 354
today and then hurry it to the House Floor
support!

Signed: [Signature]
Testifier

Representing (Optional) HCWS Box 7221
Address Palmer, AK 99571
Phone No. 745-4871



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354, dated 4-10-96
 bill/subject

I am in favor of the early retirement bill because it saves money for school districts and allows younger teachers to keep their jobs

Signed: Al. Borker
 Testifier

Representing (Optional)
Nasella AK
 Address
376-5178
 Phone No.



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
 committee name
 committee on HB 354 , dated 4-10-96
 bill/subject

*I'm in favor of the early retirement program
 which in a positive way this way teachers
 can retire & also some new teachers can
 start into the profession.*

Signed: *Greg L. Forley*
 Testifier
tax payer
 Representing (Optional)
POB 3282, Palmer, AK 99645
 Address
745-6728
 Phone No.

1988 Legislative Information Office



Alaska State Legislature

Please enter into the record my testimony to the HOUSE FINANCE COMMITTEE
committee name

committed on HB 354, dated 4-10-96
bill/subject

*I fully support HB 354
Please give this your immediate
attention and careful
consideration.*

Signed: *Jeff Johnson, Registered Voter*
Testifier

Representing (Optional)
H402 Box 7384

Address
(907) 745-6722
Phone No.



Alaska State Legislature

Please enter into the record my testimony to the House Finance Committee
committee name
 committee on HB 354 dated 4/9/96
bill/subject

It is important for this bill to pass because it would ease the financial burden of the district; it would also improve morale; it would heighten interest in all subject areas with the new ideas brought in by new teachers.

Signed: *Jason Rennie*
Testifier
Teacher
Representing (Optional)
P.O. Box 1509 Palmer, AK 99645
Address
(907) 745-4650
Phone No.

Thank you for your response in scheduling HB 354 in a teleconference hearing. I believe that allowing higher paid teachers to retire early and replacing them with lower paid teachers will make a notable difference for the 97-98 and subsequent school budgets.

I urge your passage of this bill without regard to partisan lines for the benefit of budgetary considerations across the State of Alaska.

Loai Jordan



NEA-ALASKA

Affiliated with the National Education Association

NEA-ALASKA POSITION PAPER RETIREMENT INCENTIVE PROGRAM

NEA-Alaska supports the utilization of a retirement incentive program (RIP) as a cost effective means to reduce school district personnel costs, thus reducing the cost of school district operation, during a time when the student population is increasing yet additional funding is not being provided to address the educational needs of our children and our communities.

The incentive program utilized in HB 354 is fair because the decision to exercise the incentive option rests with a qualifying employer and employee. It avoids an arbitrary, capricious or irrational application of the RIP. This is an excellent opportunity to achieve cost reductions without harming any employees at the upper or lower end of the salary schedule. Absent this RIP opportunity to cut operating costs, school districts are being forced to lay off the less experienced employees and in so doing are creating a hardship on younger employees and their families.

HB 354 provides certificated and non-certificated school employees the benefits of the retirement incentive. NEA-Alaska represents over 10,000 members; over 2,000 of our members are non-certificated educational support personnel. This bill extends the benefits of RIP to all school employees.

The decision to trigger the RIP rests with the employer. The retirement incentive program offers school district administrators an opportunity to reduce staff at the top end of the salary schedule and replace those with employees who could be hired at the lower end of the salary schedule. If school administration employs equally qualified, but less experienced teachers and support personnel, a school district will net a reduction in operating costs.

The RIP offers experienced employees an early retirement option by providing them a credit of three additional years of service provided the employer and employee pay the actuarial cost of that service. HB 354 will not overly encourage experienced school employees to retire, but it may provide the necessary incentive for some to retire earlier than planned.

We commend the sponsor of the bill for introducing a fair and equitable way to deal with economic uncertainty, while at the same time presenting an equitable and fair plan for the employees of Alaska's schools.

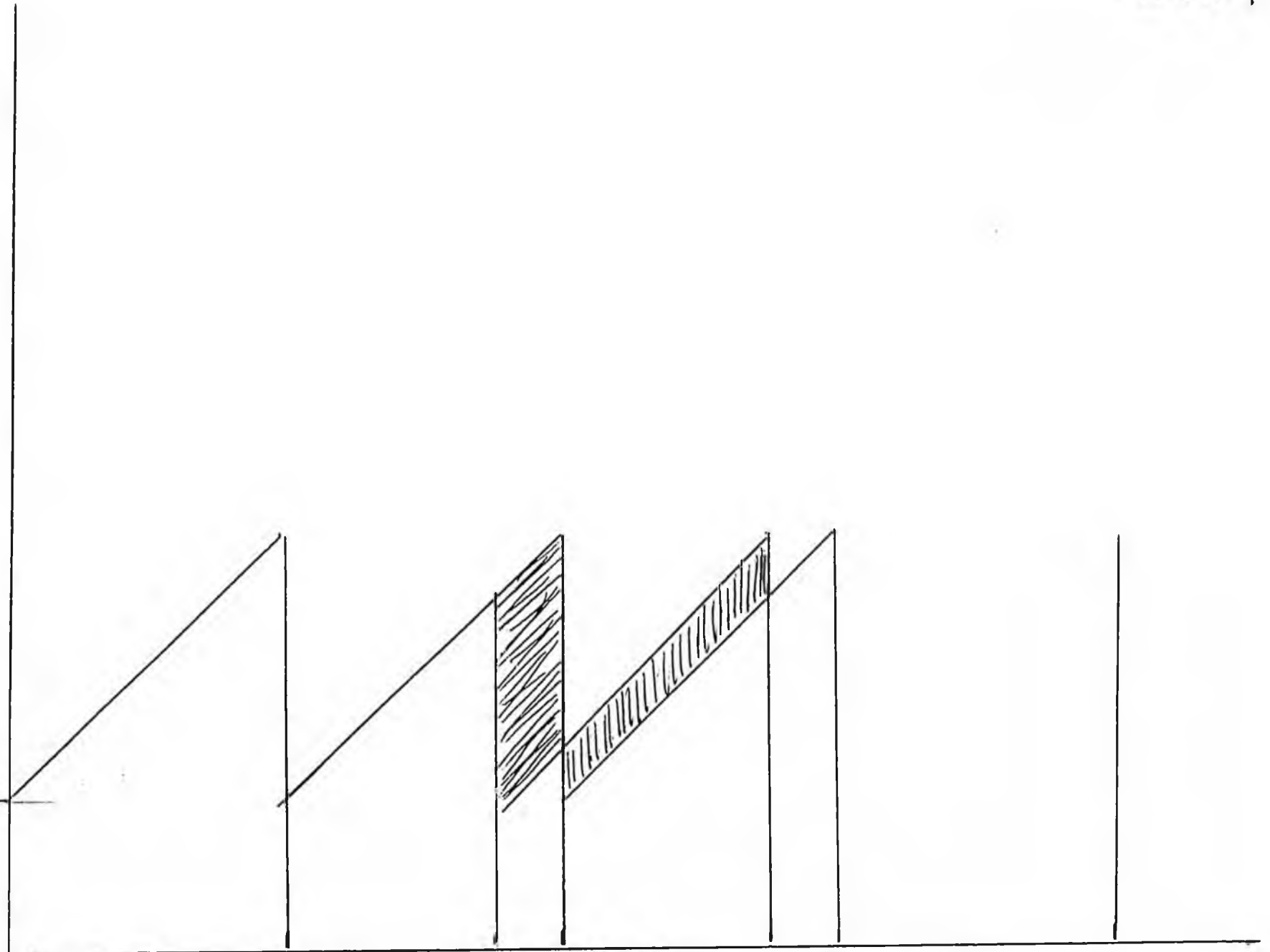
4-9-96

4/10/96
Attachments

Attachment 6
4/16/96 pm

\$

Starting
Pay



Status
quo

new hire
date w/o
RIP

New
Hire
date
w/ RIP

New
Hire date
w/ RIP

Phil & Deborah Smith 201 226 1222

FACSIMILE TRANSMISSION

Phil Smith

1782 Evergreen Avenue • Juneau, Alaska 99801
Home Tel: 586-1175 • Home Fax: 586-1586
Work Tel: 586-7359 • Work Fax: 586-7354
e-mail: psmith@fak_jnu02.afsc.noaa.gov

DATE: April 8, 1996
TO: Alaska House of Representatives
Finance Committee
FAX NO: 465-2418
PAGES: One (1), this one
SUBJECT: HB 354 - Retirement Incentive Program

Dear Co-Chairmen Hanley & Foster, and Members of the Committee:

It is my understanding that HB 354 will be heard in your Committee on the afternoon of Wednesday, April 10. By this facsimile, I express my support, and that of the Juneau School Board, for the proposed legislation, and urge your swift and favorable consideration of the measure.

In so urging, I respectfully request that you consider the following comments:

- Many School Districts in Alaska are under tremendous financial pressure, occasioned by flat funding for Instructional Units under the Foundation Formula (a 1.67% increase during the last 8 years);
- School Boards in Alaska have a statutory obligation to negotiate with teachers' unions, and to do so in good faith; the inevitable result, no matter how "firm" a Board may try to be, is escalating personnel costs;
- Unlike the State Government and Borough Assemblies, School Boards in Alaska have no independent authority to raise revenues to cover those (or any other) costs;
- Some districts (such as Juneau's) are restricted by the disparity test from receiving additional local revenues (Juneau's Assembly currently, and generously, funds the district to the maximum allowed under the "cap");
- Some districts (such as Juneau's), benefit significantly from a highly-qualified and experienced teacher corps; at the same time, however, the cost of maintaining that corps continues to increase (currently, some

20% of Juneau's 300 teachers have served long enough to retire -- and over 50% are compensated at the highest level on our pay scale);

- Some districts (such as Juneau's) are currently suffering from severe budget constraints and are hard-pressed to find the funds in their own budgets to pay for district-sponsored RIPs;
- For some districts (such as Juneau's), an RIP is an attractive fiscal option (in Juneau, we estimate that replacing a retiring teacher with a teacher lower on the pay scale will result in savings, on average, of \$20,000/position);
- Some districts in Alaska are facing situations decidedly different from Juneau's, and an imposed RIP could work to their disadvantage; however,
- HB 354 is permissive, in that it allows each district to analyze its own situation and to determine whether extending an RIP offer to its staff makes fiscal and programmatic sense -- it's not just one more "unfunded mandate" being imposed on districts.

Put succinctly, the Retirement Incentive Program that would be authorized by HB 354 makes good sense, particularly during these times of increasing expectations and decreasing revenues. For the reasons set out above, I urge that you make this fiscal tool available to local School Boards throughout the State.

Thanks very much for your consideration of these remarks.

Sincerely,



Philip J. Smith, President
Juneau School Board

cc: Hon. Gail Phillips
Speaker of the House

b
(7)

HOUSE COMMITTEE REPORT

Date Referred to Committee: February 16, 1996

FURTHER REFERRALS:

3/6/96
Finance

Date of Committee Action: 3-5-96

The STATE AFFAIRS Committee considered:

HB 354

HOUSE BILL NO. 354

RIP FOR SCHOOL DISTRICT EMPLOYEES

"An Act relating to a retirement incentive program for certain employees of school districts under the teachers' retirement system and the public employees' retirement system; and providing for an effective date."

recommends it be replaced with the following committee substitute CSHB 354 (Sta) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) Admin 2/16/96
 fiscal note(s) _____ fiscal note(s) _____

zero fiscal note(s) _____ zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Janette James</i>	James	✓			
<i>Frank Porter</i>	Porter	✓			
<i>Robert Robinson</i>	Robinson	✓			
<i>Scott Ogan</i>	Ogan	✓			
		(4)			

CHAIR'S SIGNATURE *Janette James*
James

2/16/96

(7)
Date Referred to Committee: January 8, 1996

HOUSE COMMITTEE REPORT

FURTHER REFERRALS:

State Affairs
Finance

Date of Committee Action: 2/15/96

The HEALTH, EDUCATION AND SOCIAL SERVICES Committee considered:

HB 354

HOUSE BILL NO. 354

RIP FOR SCHOOL DISTRICT EMPLOYEES

"An Act relating to a retirement incentive program for certain employees of school districts under the teachers' retirement system and the public employees' retirement system; and providing for an effective date."

recommends it be replaced with the following committee substitute _____ [] the same title [] a new title

[] additional referral to _____ Committee
[] attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
[x] fiscal note(s) Admin [] fiscal note(s) _____

[] zero fiscal note(s) _____ [] zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>[Signature]</i> G. DAVIS	✓			
<i>[Signature]</i> Bunde			✓	
<i>[Signature]</i> Toohy			✓	
<i>[Signature]</i> Robinson	✓			
<i>[Signature]</i> Brice	✓			
	(3)		(2)	

30

CHAIR'S SIGNATURE

[Signature]
Rinda

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

April 9, 1996

SUBJECT: Equal protection issues raised by Amendment 9-LS0634\G.2
to CSHB 354(STA) (School district retirement incentive program)

TO: Representative Jerry Mackie

FROM: Teresa B. Cramer *TBC*
Legislative Counsel

You have asked whether the provisions of amendment G.2, permitting school districts to extend the retirement incentive plan (RIP) to groups of employees based on budget or administrative components of the employer, on job classifications, or on specific geographic locations violates the equal protection clause.

In my opinion, the provision does not violate the equal protection clause, so long as the school district implementing the RIP can demonstrate a valid reason for its decision to offer the RIP to some but not others.

The state equal protection clause provides that "all persons are equal and entitled to equal rights, opportunities, and protection under the law." Article 1, Sec. 1, Constitution of the State of Alaska. The state supreme court has stated that

Alaska law analyzes alleged violations of the equal rights clause using a "sliding scale." When fundamental rights or constitutionally suspect classifications are involved, we employ heightened scrutiny. The rigor of the scrutiny determines what the government must show:

As the level of scrutiny selected is higher on the [sliding] scale, we require that the asserted governmental interests be relatively more compelling and that the legislation's means-to-end fit be correspondingly closer. On the other hand, if relaxed scrutiny is indicated, less important governmental objectives will suffice and a greater degree of over-or underinclusiveness in the means-to-ends fit will be tolerated.

Representative Jerry Mackie

April 9, 1996

Page 2

Peloza v. Freas, 871 P.2d 687, 690 (Alaska 1994) quoting State v. Ostrosky, 667 P.2d 1184, 1193 (Alaska 1983).

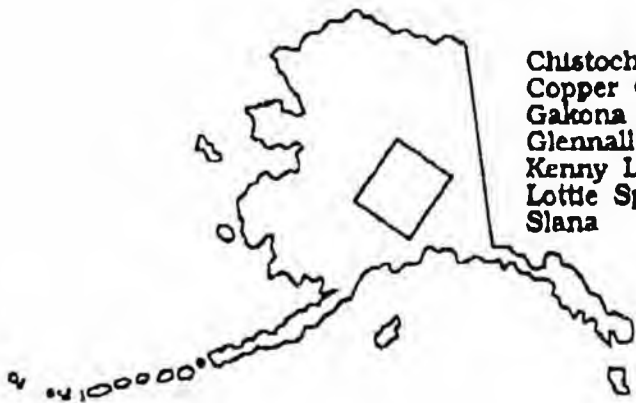
The amendment proposed for the retirement incentive program would allow school districts to offer early retirement or increased retirement benefits to some teachers while denying other teachers the opportunity to participate. This is a monetary interest, which I do not believe would be entitled to enhanced scrutiny. Accordingly, as indicated above, the court would accept a less compelling governmental reason for treating the groups of employees differently. So long as the school district can demonstrate a need to reduce the number of teachers at a particular location, or with expertise in a particular field, or paid out of a particular federal program, for example, I believe that the court would accept a district's decision to offer the RIP only to those teachers. If a district structured a RIP without that kind of justification, then the RIP would probably not survive an equal protection challenge.

Please let me know if you have additional questions on this matter.

TC:klb

96-264.klb

Copper River School District



Chistochina
Copper Center
Gakona
Glennallen
Kenny Lake
Lottie Sparks
Slana

Superintendent's Office
Box 108
Glennallen, Alaska 99568
(907) 822-3234

April 9, 1996

House Finance Committee
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

House Finance Committee Members:

The Copper River School District Board of Education strongly supports swift passage of the RIP; therefore, allowing us the opportunity to address the program needs of our students and the fiscal uncertainty that our district faces in the near future.

Sincerely,

Linda Marchini, Chairperson
CRSD Board of Education

Norma Traw, Legislative Liaison
CRSD Board of Education

Hoonah City Schools

P.O.Box 157 Hoonah, Alaska 99829 (907) 945-3611 Fax (907) 945-3614

April 9, 1996

Representative Mark Hanley
Alaska State Capitol Room 507
Juneau, AK 99801-1182

Dear Representative Hanley:

The members of Hoonah City School Board and I want to encourage you to support HB354 which is scheduled to be heard on April 10 at 1:30 p.m. in the House Finance Committee.

School districts in Alaska need this bill passed as quickly as possible so they can assess how many employees will take advantage of the RIP and can utilize it to its fullest extent.

In order to address the program needs of students and fiscal uncertainties in Alaska at this time, we truly need this bill passed into law. Because the bill would allow districts several years in which to pay into the incentive program, it would be financially more accessible to more districts than an individual RIP would be.

Many districts in the past few years have laid off nontenured teachers in order to pay "top of the rung" teachers, even though class sizes have increased and educational programs have been curtailed.

A statewide RIP program would allow us to continue to offer the very best educational program for our students and yet save substantially on our expenditures for staffing.

We urge you to vote "yes" on HB354.

Sincerely,

Dr. Virgie L. Fryrear

Dr. Virgie L. Fryrear
Superintendent of Hoonah Schools

Mary A. Peterson

Mary A. Peterson
Board of Education President



LEGISLATIVE BULLETIN

AASB Legislative Network

Association of Alaska School Boards ♦ 316 West Eleventh Street, Juneau, Alaska 99801 ♦ 907/586-1083

April 8, 1996

ATTN: BOARD PRESIDENTS, LEGISLATIVE LIAISONS, SUPERINTENDENTS

ACTION REQUIRED

RETIREMENT INCENTIVE PROGRAM (RIP) TO BE HEARD APR. 10

HB 354, by Rep. Mackia, will be heard in House Finance Committee, April 10, at 1:30 pm. 6 4:00
The sponsor of the bill said he has assurances that HB 354 will be heard first by the committee.

AASB supports of the RIP. Districts need this bill passed as quickly as possible so they can assess how many employees will take advantage of the program, and so they are able to use it to its fullest benefit.

What you can do:

FAX all House Finance Committee Members a letter of support ...urging its swift passage.
Let committee members know why this bill is important to you.

• The ability of a school district to weigh the short term benefit of a retirement incentive program against its long term goal is critical when addressing the program needs of students and the fiscal uncertainties that all Alaska school districts face. A statewide RIP incentive program, like HB 354, allows school districts several years to pay into the retirement program, something unavailable to districts who offer local RIPs. (Local RIPs are required to put forth the funds at the beginning of the program.)

• A retirement incentive program with the local option to participate—and the option to extend the incentive plan to certain job classifications or geographic locations—will provide school districts the opportunity to review its present personnel cost and determine if economies will create a positive financial and programmatic impact.

Other key points of this bill supported by AASB:

- Allows a 3-year credit to meet early or normal retirement requirements or for increased benefits.
- Employees must pay their normal share for those 3 years.
- A district is eligible if participation results in savings to the district within 5 years.
- Many districts are under tremendous pressure to meet strained operating budgets. Some have been forced to layoff non-tenured staff or curtail educational programs. The unfortunate result of this is to increase class sizes or do away with valuable programs. A statewide RIP would allow some districts to reduce class sizes or continue to operate critical educational programming.

House Finance Committee

Fax (907) 465-2278

Individual Fax Numbers

Hanley, Co-chair	465-2418	Kelly	465-5241	Grussendorf	465-2278
Foster, Co-chair	465-3242	Theriault	465-3884	Brown	465-4419
Mulder	465-3518	Martin	465-2289	Speaker Gail Phillips	465-3472
Parnell	465-2278	Kohring	465-3618		

KUSPUK SCHOOL DISTRICT

P.O. Box 49
Aniak, Alaska 99557
(907) 675-4250

Bobette D. Bush
SUPERINTENDENT OF SCHOOLS
SUPERINTENDENT/BUSINESS OFFICE
FAX (907) 675-4336
GENERAL FAX (907) 675-4305

April 9, 1996

The Honorable Mark Hanley
Alaska State House of Representatives
State Capitol
Juneau, Alaska 99801-1182

Dear Representative Hanley:

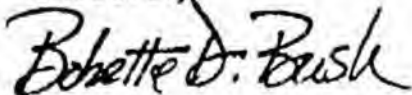
KuspuK School District would greatly benefit by the passage of HB 354. We have a high percentage of veteran staff members, and the passage of HB 354 would have an enormous positive impact on our budget. Approximately thirty percent of our certified educators would be eligible for this retirement incentive program. Passage of this legislation would allow us to direct more of our financial resources toward improving our educational program as well as granting us the opportunity to revitalize our staff.

Hundreds of thousands of dollars would be redirected from salary to school improvement over the next five years. Please contact me if you would like a detailed cost analysis.

As Superintendent of the KuspuK School District I urge you to support the passage of HB 354 and in a timely fashion. Since this would have such a great effect on the make up of our staff, we need time to seek quality applicants for the vacancies resulting from the enactment of this bill.

Thank-you for your consideration.

Sincerely,



Bobette Bush
Superintendent

KLAWOCK CITY SCHOOL DISTRICT

MORRIS D. VERVERS, Ed. D.
Superintendent

TIM MACDONALD
Principal

P.O. Box 9
Klawock, Alaska 99925
907-755-2228

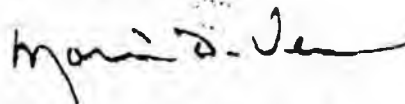
April 9, 1996

Representative Mark Hanley
HOUSE OF REPRESENTATIVES
State Capitol, Room 507
Juneau, Alaska 99801

Dear Representative Hanley,

The Klawock City School District is strongly in favor of the passage of House Bill (HB) 354. The District worked hard during last years Legislative Session for the passage of the RIP portion of HB 217. We have one of the highest average teacher salaries in the state. Lack of increases in the funding unit plus a potential decline in enrollment due to decreased logging will dictate extreme action in the area of personnel. We believe HB 354 would provide an important means of dealing with this issue in the least disruptive way. We urge your support of this Bill.

Sincerely,



Morris D. Ververs, Ed. D.
Superintendent

MDV:ps

TANANA CITY SCHOOL DISTRICT

P.O. Box 89
Tanana, Alaska 99777
(907) 366-7203 / 7207
FAX: (907) 366-7201

Ron DeLay
Superintendent

Tuesday
April 9, 1996

The Honorable Representative Mark Hanley
Alaska State Capitol
Juneau, Alaska 99801
FAX: 465-2418

Re: HB 354 (Retirement Incentive Program)

Dear Representative Hanley:

It is my understanding that tomorrow the House Finance Committee will be hearing HB 354, the Retirement Incentive Program. It is crucial to districts throughout the state to have this bill pass. Like so many districts, Tanana does everything in its power to streamline our costs, having all staff wear many, many hats. That said, our hands have been tied fiscally by staff who have moved to the top of the salary schedule, nearly making double what a beginning teacher makes. While an experienced master teacher is a celebration of what we all want for our children's education, many teachers at that level of expertise reach a point where their passion for teaching has waned and quite frankly, they would seek an early retirement were it an option for them.

It is my sincere hope that you will support this bill and give both teachers and districts the option they so desperately need in this climate of declining revenues. Thank you for your consideration.

Regards,


Ron DeLay

The mission of the Tanana City School District, in partnership with the community, is to produce students who possess the necessary attitudes, skills, and knowledge to pursue their dreams through a curriculum which celebrates the diversity of all people while preserving each individual's unique cultural heritage.

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 113300, 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.

As a guide to all their work, the Division of Legislative Audit complies with generally accepted auditing standards established by the American Institute of Certified Public Accountants and with government auditing standards established by the U.S. General Accounting Office.

Audits are performed at the direction of the Legislative Budget and Audit Committee. Individual legislators or committees can submit requests for audits of specific programs or agencies to the committee for consideration. Copies of all completed audits are available from the Division of Legislative Audit's offices in either Anchorage or Juneau.

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Representative Pat Carney
Representative Eileen MacLean
Representative Terry Martin
Representative Fran Ulmer
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Randy S. Welker, CPA
Legislative Auditor
Merle R. Jenson, CPA
Deputy Legislative Auditor

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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P. O. Box W
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347

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.

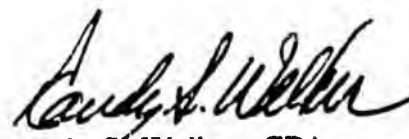

Randy S. Welker, CPA
Legislative Auditor

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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 Benefits	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)	85	1,584,100	Kodiak Island Borough Schools	4	43,700
City of Fairbanks (Note 7)	22	776,700	Alaska State Housing Authority	5	62,700
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	34,600
Ketchikan Gateway Borough Schools	23	443,000	Cordova Community Hospital	3	31,400
Lower Kuskokwim Schools (Note 11)	25	324,800	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	17,300
Juneau Borough Schools	28	217,700	Bartlett Memorial Hospital	2	16,300
Ilingsham City Schools	3	213,600	Nemana 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	138,700	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	118,000	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	182,100	City of Seward	2	800
Valdez City Schools	3	84,100	Craig City Schools	1	(12,800)
City of Kodiak (Note 15)	6	77,900	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	Yapuk School District	2	(30,600)
Sitka Community Hospital	3	60,100	City and Borough of Sitka	7	(31,300)
City of Wrangell	9	54,900	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	422,900
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	190,800
Revenue	15	109,300
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	\$19,383	721	\$3,756,200	\$7,984	739	\$ 6,033,100	\$ 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	200	2,894,500	14,189	102	(209,400)	(2,053)	306	2,684,900	8,774
Kenai Peninsula Borough Schools	58	1,910,500	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	280,100	12,906	42	487,800	11,614
Ketchikan Gateway 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	7,773
Bering Strait Schools	4	61,400	15,350	13	88,400	6,800	17	149,800	8,812
Wrangell City Schools	5	39,600	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
Matanuska City School District	2	30,700	15,350	1	6,800	6,800	3	37,500	12,500
Total	556	\$10,261,100	\$18,458	1,115	\$9,806,700	\$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 Seward 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 concerted 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 conservative; 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 estimate 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 know 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 88, 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 \$190,000.

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.

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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**

In September 1988 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 1988 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 1988, 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.

(Intentionally left blank)

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 @ \$15,700/ea	No. of PERB Retirees	Estimated Savings of PERB Retirees @ \$5,790/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
Nemana 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.