

HB

242

Alaska State Legislature

House of Representatives

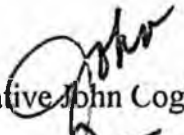
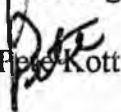
RULES COMMITTEE, CHAIR
COMMITTEE ON COMMITTEES
LABOR & COMMERCE COMMITTEE
MILITARY & VETERANS AFFAIRS
LEGISLATIVE COUNCIL



INTERIM:
10928 EAGLE RIVER RD., SUITE 141
EAGLE RIVER, AK 99577

SESSION:
ALASKA STATE CAPITOL
JUNEAU, AK 99801

Memorandum

TO: Representative  John Coghill
FROM: Representative  Pete Kott
SUBJECT: Request for Hearing, HB 242
DATE: April 10, 2001

I request that HB 242, an Act relating to reemployment of and medical benefits for retired members of the teachers' retirement system and public employees' retirement system; relating to the inclusion of cost-of-living differentials on compensation and benefits under the public employees' retirement system; and providing for an effective date, be scheduled for a hearing in the State Affairs Committee as soon as possible.

The following are included with this request:

- Current version of the bill
- Sponsor Statement
- Sectional Summary
- Fiscal Note

Point of Contact: Roger Wortman, X6848

Representative Pete Kott

JUNEAU OFFICE (907) 465-3777 TOLL FREE 1-800-861-KOTT(5688) FAX (907) 465-2819
EAGLE RIVER OFFICE (907) 694-8944 FAX (907) 694-8945 E-MAIL: representative_pete_kott@legis.state.ak.us
<http://www.akrepublicans.org/Kott.htm>



Alaska State Legislature

House of Representatives

RULES COMMITTEE, CHAIR
COMMITTEE ON COMMITTEES
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10928 EAGLE RIVER RD., SUITE 141
EAGLE RIVER, AK 99577

SESSION:
ALASKA STATE CAPITOL
JUNEAU, AK 99801

Sponsor Statement

HB 242

Public Workforce Retention Legislation Public Employees' and Teachers' Retirement Systems

This bill will make modest improvements to Alaska retirement statutes to assist Alaska's public employers in attracting and retaining qualified workers as workforce shortages become more pronounced. Employers throughout the state are having difficulty filling vacancies. This is occurring at all levels—teaching, professional, technical and clerical. It is clear from demographic trends that the workforce is aging. Attracting qualified employees will become more and more difficult over the next two decades.

This legislation incorporates a three-pronged legislative approach to address employee retention through the retirement systems:

1. Retiree Return Incentives—brings retirees back into the workforce.
2. Improvements to PERS and TRS Tier II and III medical benefits:
 - Add full system paid retiree medical benefits at age 60 and minimum service of 5 years for PERS Tier II, 10 years for PERS Tier III, and 8 years for TRS.
 - Add full system paid medical benefits for Tier II and Tier III members upon reaching 25 years of service for Teachers and Police/Fire members and upon reaching 30 years of service for Others.
3. Change geographic differential language to eliminate confusion and improve recruitment to and retention in high-cost areas of the state.

The retiree return incentive removes a disincentive for retirees to return to full time employment. Currently, a retiree who wishes to return to permanent public employment must forego retirement benefit payments during their period of return. The change we propose would allow the retiree to continue receiving benefit payments after returning to public employment. To keep this cost-neutral, an employee selecting this option would not accrue additional retirement credit during the period of return.

Public employees hired after June 30, 1986 and teachers hired after June 30, 1990 fall into the Tier II retirement plan. Tier II employees are not eligible for system paid

Representative Pete Kott

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EAGLE RIVER OFFICE (907) 694-8944 FAX (907) 694-8945 E-MAIL: representative_pete_kott@legis.state.ak.us
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Sponsor Statement (continued)

HB 242

medical benefits until age 60, and then the retirement plan only pays one half the premium. The legislation includes medical benefit enhancements to prompt employees to stay in the system an additional 5 or more years to qualify for system paid medical coverage. The fiscal impact associated with this enhancement is a modest 0.17% of payroll each year.

The change in geographic differential will improve recruitment to rural areas of the state for such organizations as the State Troopers, the Department of Fish and Game, and the Department of Health and Social Services. This change carries no actuarial cost to the Public Employees' Retirement System.

I urge your support for this legislation.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 242
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: "An Act relating to reemployment of and BRU: Centralized Admin. Services
medical benefits of PERS & TRS members..." Component: Retirement & Benefits
 Sponsor: Representative Kott
 Requester: House State Affairs Component Number: 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	41.0	41.0	41.0	41.0	41.0	41.0
Travel						
Contractual	50.0	15.0	15.0	15.0	15.0	15.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	91.0	56.0	56.0	56.0	56.0	56.0

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (PERS, TRS, JRS)	91.0	56.0	56.0	56.0	56.0	56.0
TOTAL	91.0	56.0	56.0	56.0	56.0	56.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation will allow certain retirees who return to permanent employment the option to elect whether to continue receiving a retirement benefit (and forego additional retirement benefit accrual) or to receive additional retirement benefit accrual (and suspend receiving a retirement benefit). Additional member counseling and education will be necessary to assist reemployed retirees in their selection. A Retirement and Benefits Technician position will be needed to assist with member counseling. Contractual costs are included for computer programming to incorporate changes to the law and to cover the publication of educational materials.

Prepared by: Guy Bell, Director Phone 465-4471
 Division: Retirement & Benefits Date/Time 04/13/01
 Approved by: Jim Duncan, Commissioner Date 4/13/01
 Agency: Department of Administration

For distribution information, call the Governor's Legislative Office

House Bill 242
Reemployment of and Medical Benefits for Public Retirees
Sectional Analysis

Sections 1 and 2: Teachers' Retirement System Retiree Return Initiative

Adds an incentive for a retired teacher to return to full time teaching for a TRS employer. With this change, a retired teacher who took normal retirement may elect a new option when reemployed. The new option:

- allows the teacher to elect continuation of retirement benefit payments during reemployment;
- would stop additional retirement benefit accrual;
- must be selected within 30 days of reemployment; and
- is not available to RIP participants

If the retired teacher does not make the election, the current method would apply. Under the current method, the teacher would:

- stop receiving a retirement benefit during reemployment; and
- accrue additional retirement benefit during period of reemployment.

Fiscal Impact: NONE

Section 3: Teachers' Retirement System Tier II Medical Benefits Enhancement

Adds an incentive for teachers to stay in the TRS. Currently Tier II retirees are not eligible for system provided medical coverage until age 60—at which time the retirement system pays ½ the medical premium and the retiree is responsible for the other ½ — regardless of how many years the teacher taught in TRS.

With this change a teacher who stays an additional five years beyond the normal retirement service requirement of twenty years will be eligible for full system paid medical coverage. In addition, all retired teachers will be provided full system paid medical coverage at age 60.

We see this combination of incentives as a method of retaining teachers and attracting second and third career individuals to teaching.

Fiscal Impact: 0.17% of TRS salaries

Sections 4 and 5: Public Employees' Retirement System Retiree Return Initiative

Adds an incentive for a retired public employee to return to full time employment for a PERS employer. With this change, a retired public employee who took normal retirement may elect a new option when reemployed. The new option:

- allows the employee to elect continuation of retirement benefit payments during reemployment;
- would stop additional retirement benefit accrual;
- must be selected within 30 days of reemployment; and
- is not available to RIP participants

If the retired public employee does not make the election, the current method would apply. Under the current method, the teacher would:

- stop receiving a retirement benefit during reemployment; and
- accrue an additional retirement benefit during the period of reemployment.

Groups affected: all PERS employees including peace officers, professional, technical and clerical workers.

Fiscal Impact: NONE

Section 6: Public Employees' Retirement System Tier II Medical Benefits Enhancement

Adds an incentive for public employee to stay in the PERS through 30 years. Currently a Tier II retiree is not eligible for system provided medical coverage until age 60—at which time the retirement system pays ½ the medical premium and the retiree is responsible for the other ½—regardless of how many years the person is in PERS.

With this change a public employee who stays in PERS employment a total of 30 years will be eligible for full system paid medical coverage. In addition, all retired public employees will be provided full system paid medical coverage at age 60.

We see this combination of incentives as a method of retaining public employees and attracting second and third career individuals to public employment.

Fiscal Impact: 0.17% of PERS salaries

Section 7: Geographic Differential Amendment

In 1986, a law was enacted changing the way geographic differential pay is used in calculating a retirement benefit. This change only affects members first hired after July 1, 1986.

Under the pre-1986 law, geographic pay differential was included in a person's retirement benefit calculation as regular salary, regardless of that person's total length of service in a geographic differential pay area. The law was changed to prevent abuse. An extreme example: John, a Fisheries Biologist who has spent his 27 year career in Anchorage, is transferred to Nome, where he spends his final three years, and retires with 30 years of service. While in Nome, he receives a 34% pay differential. His retirement benefit is 34% higher than it would have been had John finished his career in Anchorage.

The 1986 change adds two criteria for inclusion of geographic differential in a person's retirement benefit:

- The person must spend at least 50% of his/her career in an area with a pay differential.
- For a year's salary plus differential to be included in the benefit calculation, the pay differential must be "in a comparable amount or of at least that many steps" when compared to the entire pay differential service.

Again, this change applies only to employees hired after July 1, 1986. The Division of Retirement and Benefits has had great difficulty explaining and applying the second clause. The division's approach is to (1) determine that the person has spent at least 50% of his/her career in a geographic differential area; and (2) list all the geographic differential years and find the midpoint differential amount, then, for geographic differential to be included in total salary for a year, require that that year include at least the midpoint differential percentage.

Under this proposed legislation, a person like John (the person from the extreme example above) would be disqualified from including geographic pay differential in his retirement benefit calculation because he did not spend at least 50% of his career in a pay differential area.

Employees with the Department of Public Safety and other departments that regularly transfer employees between geographic differential areas are concerned over the application of the geographic differential. For the affected departments, this has raised morale and career planning issues. We propose to resolve these problems and the confusion by deleting the clause "in a comparable amount or of at least that many steps" from the law. With the change, a person must still spend at least 50% of his or her career in a geographic differential area for the differential to be applied to a retirement benefit.

Fiscal Impact: The Division of Retirement and Benefits will submit a zero fiscal note associated with this change. Our actuarial firm does not consider the current geographic differential law when calculating retirement system liability. Instead, they use current total salary (including any geographic differential) and project it forward to the expected retirement date to calculate system liabilities. That methodology won't change as a result of this legislation. For some Tier II members, the system will have a larger retirement benefit liability than would occur in the absence of this legislation. However, the amount of that liability cannot be predicted and it will depend on each member's total employment history.

Section 8. Allows Public Employees' and Teachers' Retirement Boards to adopt regulations immediately to implement this legislation.

Sections 9 and 10. Effective date clauses.

HB 242 – Continued (Actuarial Cost)

This legislation has three basic components:

1. Retiree Return Incentive
2. Improvements to Tier II Medical Benefits to address employee attraction and retention
3. Simplification of Geographic Differential language

1. Retiree Return Incentive

The retiree return incentive removes a disincentive for retirees to return to full time employment. Currently, a retiree who wishes to return to permanent public employment must forego retirement benefit payments during their period of return. The change we propose would allow the retiree to continue receiving benefit payments after returning to public employment. To keep this cost-neutral, an employee would not accrue additional retirement credit during the period of return. This provision will have no actuarial impact.

2. Improvements to Tier II Medical Benefits to address employee attraction and retention.

Currently, regardless of their length of service, Tier II retirees are not eligible for system paid medical coverage until age 60, at which point the retirement system pays half the cost. With the change proposed in this legislation, a Tier II peace officer or teacher with 25 years of such service, or a general public employee with 30 years of service, will qualify for system provided and paid medical coverage. In addition, any retiree over the age of 60 will receive system provided and paid medical coverage. This change will increase PERS and TRS employer rates a modest 0.17% of payroll.

3. Simplification of Geographic Differential language

This change will not have an impact on employer rates. Our actuarial firm does not consider the current geographic differential law when calculating retirement system liability. Instead, they use current total salary (including any geographic differential) and project it forward to the expected retirement date to calculate system liabilities. That methodology won't change as a result of this legislation.

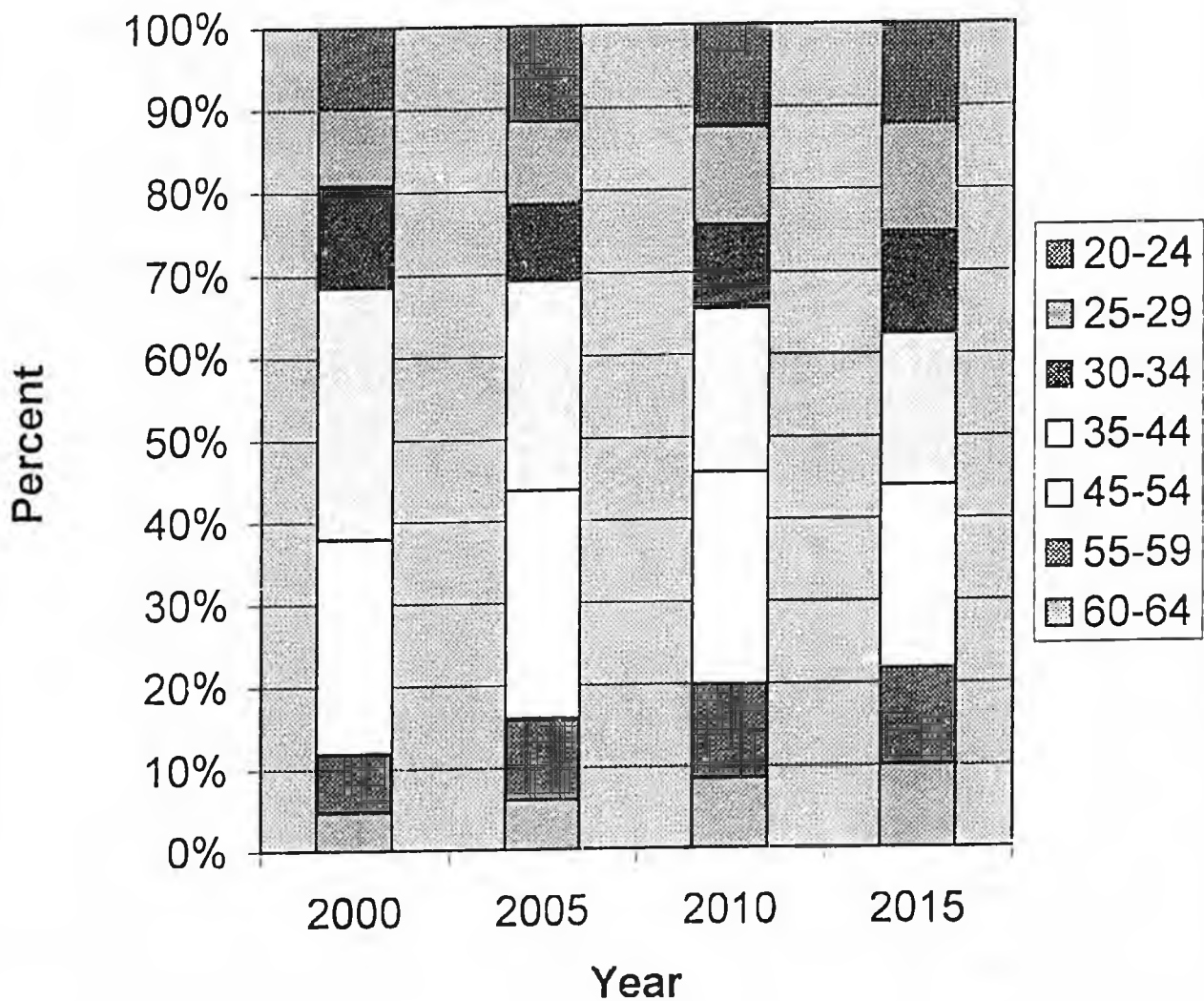
For some Tier II members, the system will have a larger retirement benefit liability than would occur in the absence of this legislation. However, the amount of that liability cannot be predicted and it will depend on each member's total employment history.

AK Population Projections

Source: AK Dept. of Labor

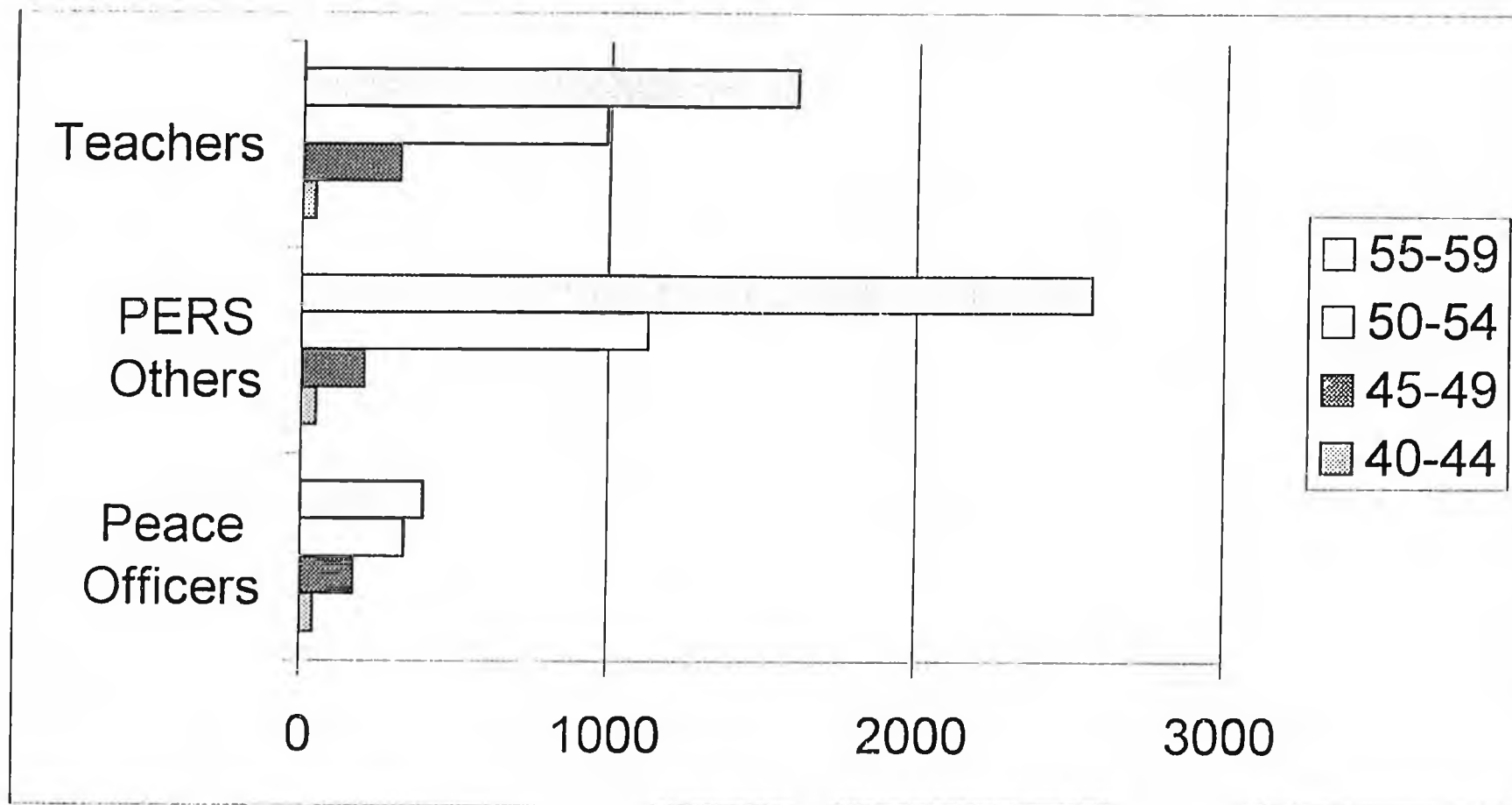
	2000	2005	2010	2015
60-64	17,827	24,511	35,836	43,120
55-59	27,484	39,862	48,060	50,374
45-54	99,430	111,204	108,799	95,507
35-44	116,831	102,570	83,608	79,227
30-34	47,147	36,967	42,569	53,033
25-29	35,238	40,582	50,551	56,575
20-24	37,869	46,784	52,451	52,241

Alaska Population Distribution



Retiree Age Summary June 30, 1999

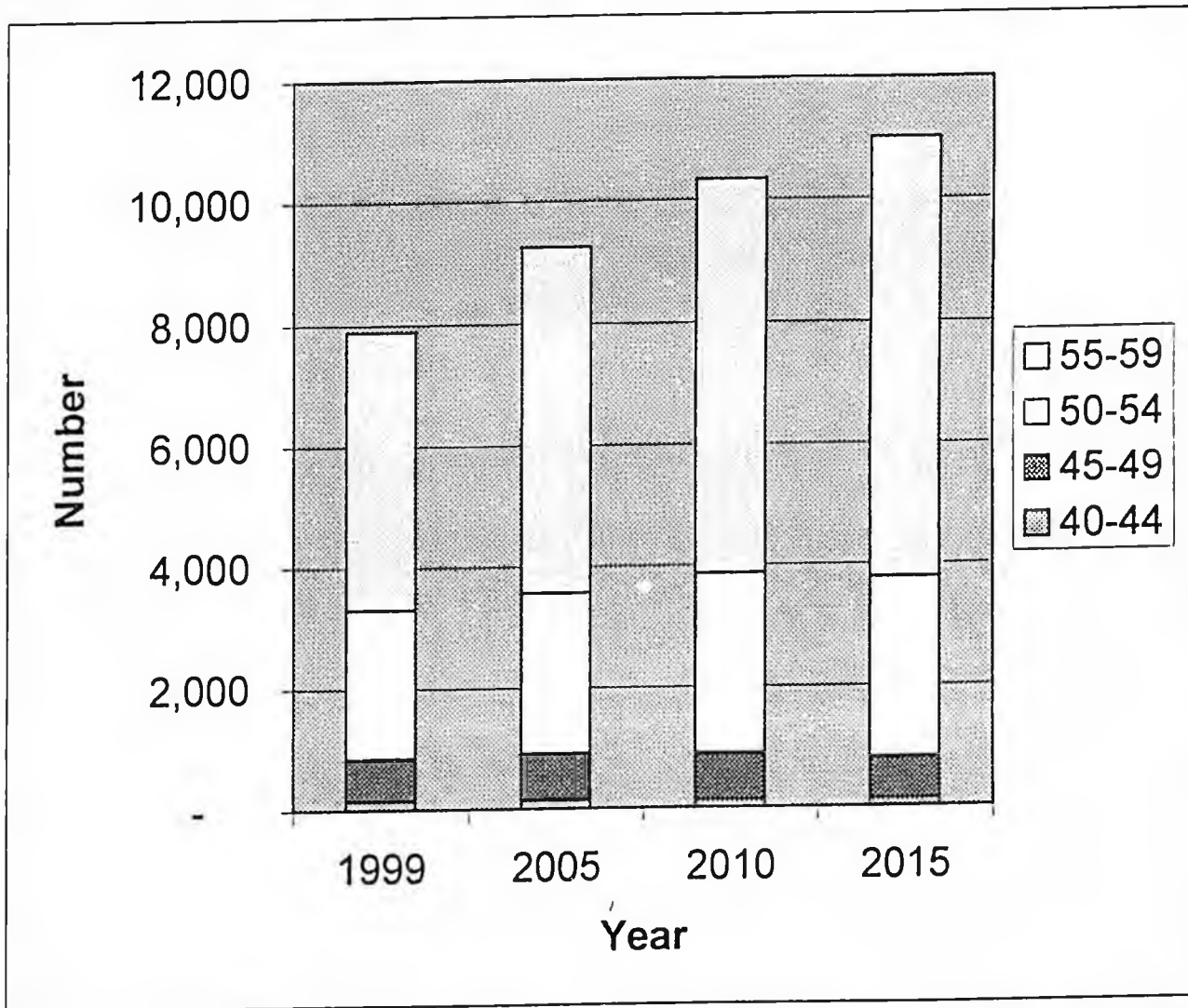
	40-44	45-49	50-54	55-59
Peace Officers	45	176	340	402
PERS Others	51	208	1129	2570
Teachers	45	319	991	1607



Source: Alaska Division of Retirement and Benefits

PERS TRS Projected Retirees Between Ages 40 and 59

	1999	2005	2010	2015
40-44	141	139	126	119
45-49	703	764	764	689
50-54	2,460	2,660	2,967	2,967
55-59	4,579	5,684	6,471	7,222



Source: Alaska Division of Retirement and Benefits, US Census Bureau /PERS and TRS population statistics.

Sectional Analysis

HB 242

This sectional summary should not be considered an authoritative interpretation of the bill, with the bill itself the best statement of its contents.

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- stop receiving a retirement benefit during reemployment; and
- accrue additional retirement benefit during period of reemployment.

Fiscal Impact: NONE

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We see this combination of incentives as a method of retaining teachers and attracting second and third career individuals to teaching.

Fiscal Impact: 0.17% of TRS salaries

Sections 4 and 5: Public Employees' Retirement System Retiree Return Initiative

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Groups affected: all PERS employees including peace officers, professional, technical and clerical workers.

Fiscal Impact: NONE

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Section 8. Allows Public Employees' and Teachers' Retirement Boards to adopt regulations immediately to implement this legislation.

Sections 9 and 10. Effective date clauses.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: _____
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title: An Act relating to reemployment of BRU: Centralized Administrative Services
and medical benefits for retired ... Component: Retirement and Benefits
Sponsor: _____
Requester: _____ Component Number: 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	41.0	41.0	41.0	41.0	41.0	41.0
Travel						
Contractual	55.0	25.0	25.0	25.0	25.0	25.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	96.0	66.0	66.0	66.0	66.0	66.0

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (PERS; TRS)	96.0	66.0	66.0	66.0	66.0	66.0
TOTAL	96.0	66.0	66.0	66.0	66.0	66.0

Estimate of any current year (FY2001) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation will allow certain retirees who return to permanent employment the option to elect whether to continue receiving a retirement benefit (and forego additional retirement benefit accrual) or to receive additional retirement benefit accrual (and suspend receiving a retirement benefit). Additional member counseling and education will be necessary to assist reemployed retirees in their selection. A Retirement and Benefits Technician position will be needed to assist with member counseling. Contractual costs are included for computer programming to incorporate changes to the law and to cover the publication of educational materials.

Analysis continued on page 2.

Prepared by: Guy Bell, Director Phone 465-4471
Division: Retirement and Benefits Date/Time March 23, 2001
Approved by: Commissioner Jim Duncan Date March 23, 2001
Agency: Department of Administration

For distribution information, call the Governor's Legislative Office

Fiscal Note (Retiree Return) – Continued

Actuarial Cost

This legislation has three basic components:

1. Retiree Return Incentive
2. Improvements to Tier II Medical Benefits to address employee attraction and retention
3. Simplification of Geographic Differential language

1. Retiree Return Incentive

The retiree return incentive removes a disincentive for retirees to return to full time employment. Currently, a retiree who wishes to return to permanent public employment must forego retirement benefit payments during their period of return. The change we propose would allow the retiree to continue receiving benefit payments after returning to public employment. To keep this cost-neutral, an employee would not accrue additional retirement credit during the period of return. This provision will have no actuarial impact.

2. Improvements to Tier II Medical Benefits to address employee attraction and retention.

Currently, regardless of their length of service, Tier II retirees are not eligible for system paid medical coverage until age 60, at which point the retirement system pays half the cost. With the change proposed in this legislation, a Tier II peace officer or teacher with 25 years of such service, or a general public employee with 30 years of service, will qualify for system provided and paid medical coverage. In addition, any retiree over the age of 60 will receive system provided and paid medical coverage. This change will increase PERS and TRS employer rates a modest 0.17% of payroll.

3. Simplification of Geographic Differential language

This change will not have an impact on employer rates. Our actuarial firm does not consider the current geographic differential law when calculating retirement system liability. Instead, they use current total salary (including any geographic differential) and project it forward to the expected retirement date to calculate system liabilities. That methodology won't change as a result of this legislation.

For some Tier II members, the system will have a larger retirement benefit liability than would occur in the absence of this legislation. However, the amount of that liability cannot be predicted and it will depend on each member's total employment history.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 242
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: "An Act relating to reemployment of and BRU: Centralized Admin. Services
medical benefits of PERS & TRS members..." Component: Retirement & Benefits
 Sponsor: Representative Kott
 Requester: House State Affairs Component Number: 64

Expenditures/Ravenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	41.0	41.0	41.0	41.0	41.0	41.0
Travel						
Contractual	50.0	15.0	15.0	15.0	15.0	15.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	91.0	56.0	56.0	56.0	56.0	56.0

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
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1037 GF/Mental Health						
Other (PERS, TRS, JRS)	91.0	56.0	56.0	56.0	56.0	56.0
TOTAL	91.0	56.0	56.0	56.0	56.0	56.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation will allow certain retirees who return to permanent employment the option to elect whether to continue receiving a retirement benefit (and forego additional retirement benefit accrual) or to receive additional retirement benefit accrual (and suspend receiving a retirement benefit). Additional member counseling and education will be necessary to assist reemployed retirees in their selection. A Retirement and Benefits Technician position will be needed to assist with member counseling. Contractual costs are included for computer programming to incorporate changes to the law and to cover the publication of educational materials.

Prepared by: Guy Bell, Director Phone 465-4471
 Division: Retirement & Benefits Date/Time 04/13/01
 Approved by: Jim Duncan, Commissioner Date 4/13/01
 Agency: Department of Administration

For distribution information, call the Governor's Legislative Office

HB 242 – Continued (Actuarial Cost)

This legislation has three basic components:

1. Retiree Return Incentive
2. Improvements to Tier II Medical Benefits to address employee attraction and retention
3. Simplification of Geographic Differential language

1. Retiree Return Incentive

The retiree return incentive removes a disincentive for retirees to return to full time employment. Currently, a retiree who wishes to return to permanent public employment must forego retirement benefit payments during their period of return. The change we propose would allow the retiree to continue receiving benefit payments after returning to public employment. To keep this cost-neutral, an employee would not accrue additional retirement credit during the period of return. This provision will have no actuarial impact.

2. Improvements to Tier II Medical Benefits to address employee attraction and retention.

Currently, regardless of their length of service, Tier II retirees are not eligible for system paid medical coverage until age 60, at which point the retirement system pays half the cost. With the change proposed in this legislation, a Tier II peace officer or teacher with 25 years of such service, or a general public employee with 30 years of service, will qualify for system provided and paid medical coverage. In addition, any retiree over the age of 60 will receive system provided and paid medical coverage. This change will increase PERS and TRS employer rates a modest 0.17% of payroll.

3. Simplification of Geographic Differential language

This change will not have an impact on employer rates. Our actuarial firm does not consider the current geographic differential law when calculating retirement system liability. Instead, they use current total salary (including any geographic differential) and project it forward to the expected retirement date to calculate system liabilities. That methodology won't change as a result of this legislation.

For some Tier II members, the system will have a larger retirement benefit liability than would occur in the absence of this legislation. However, the amount of that liability cannot be predicted and it will depend on each member's total employment history.