

HB

242

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT
MAY 04 2001
SENATE FINANCE
COMMITTEE

DATE: 4/28/01

FURTHER:

DATE TURNED IN TO OFFICE: 5 May 2001

Finance Committee considered CS FOR HOUSE BILL NO. 242(FIN)
TRS & PERS REEMPLOYMENT & MEDICAL BENEFITS; COLA

and recommends:

- be replaced with 5 CS CS HB 242 (FIN)
- adopt previous CS forth coming - ()
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:

- same title
- new title

House Bill:

- same title
- technical title
- new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
Admin	7/1/01	91.0		

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>John Green</i>	/			
<i>John Custer</i>	✓			
<i>...</i>	✓			
<i>...</i>	⊗			
<i>Gary Wiley</i>			✓	
<i>...</i>	✓			
<i>Loren Human</i>	✓			
COCHAIR: <i>...</i>	✓			
COCHAIR: <i>...</i>	✓			✓



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 5/4/01 TIME: 7:30pm

TO: Legal SCS

NUMBER OF PAGES, INCLUDING COVER SHEET: 1

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
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NOTES: Final Please
SCS CS HB 242 22-LS0885\J
5/1/01
no changes
J
Thx
Mindy

adopted

WORK DRAFT

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22-LS0885J
Cramer
5/1/01

SENATE CS FOR CS FOR HOUSE BILL NO. 242()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES KOTT, Stevens, Hayes, Dyson, Cissna, Crawford, Guess

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to reemployment of and medical benefits for retired members of the
2 teachers' retirement system and public employees' retirement system; relating to the
3 inclusion of cost-of-living differentials on compensation and benefits under the public
4 employees' retirement system; and providing for an effective date."

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

6 * Section 1. AS 14.20 is amended by adding a new section to read:

7 Sec. 14.20.135. Employment of retired teachers because of shortages. (a)
8 A school district or regional educational attendance area that has or anticipates having
9 a shortage of teachers qualified to teach in a particular discipline or specialty may, by
10 resolution, adopt a policy that permits the employment of retired teachers who are
11 qualified to teach in the discipline or specialty in accordance with this section. The
12 policy must describe the circumstances that constitute the shortage. If a shortage of
13 teachers exists as described in the policy, the district or attendance area shall notify the
14 administrator of the teachers' retirement system (AS 14.25) that it is hiring retired

1 teachers under this section.

2 (b) A teacher who retired under AS 14.25.110(a) and is subsequently
3 reemployed under this section may, within 30 days after the date of reemployment,
4 elect to continue receiving retirement benefit payments under AS 14.25 during the
5 period of reemployment by filing a waiver of coverage as set out in AS 14.25.043(b).

6 (c) A school district or regional educational attendance area may not employ a
7 teacher, principal, or administrator who participated in a retirement incentive program
8 under ch. 26, SLA 1986; ch. 8^c, SLA 1989; ch. 65, SLA 1996; ch. 4, FSSLA 1996; or
9 ch. 92, SLA 1997, under this section.

10 (d) A retired teacher employed under this section is not eligible to acquire,
11 maintain, or reacquire tenure under AS 14.20.150.

12 * Sec. 2. AS 14.25.040(a) is amended to read:

13 (a) Unless a teacher or member has elected to participate in the optional
14 university retirement program under AS 14.40.661 - 14.40.799 or has filed an
15 election under AS 14.25.043(b), a teacher or member contracting for service with a
16 participating employer is subject to this chapter.

17 * Sec. 3. AS 14.25.040(a) is amended to read:

18 (a) Unless a teacher or member has elected to participate in the optional
19 university retirement program under AS 14.40.661 - 14.40.799 [OR HAS FILED AN
20 ELECTION UNDER AS 14.25.043(b)], a teacher or member contracting for service
21 with a participating employer is subject to this chapter.

22 * Sec. 4. AS 14.25.043 is amended to read:

23 **Sec. 14.25.043. Reemployment of retired members.** (a) If a retired member
24 again becomes an active member, benefit payments may not be made during the
25 period of reemployment unless the teacher makes an election under (b) of this
26 section. The retirement benefit must be suspended for the entire school year if the
27 teacher is reemployed as an active teacher for a period equivalent to a year of service.
28 During the period of reemployment, the member is subject to AS 14.25.050 and
29 deductions from the member's salary will be made in accordance with AS 14.25.050.

30 (b) A school district or regional educational attendance area that has
31 adopted a policy that permits the employment of retired teachers in accordance

1 with AS 14.20.135 shall notify the administrator that it is hiring retired teachers
2 under AS 14.20.135. A teacher who retired under AS 14.25.110(a) and
3 subsequently becomes an active member under a policy adopted in accordance
4 with AS 14.20.135 may, within 30 days of the date of reemployment, elect to
5 continue receiving benefit payments during the period of reemployment by filing
6 a waiver of coverage with the administrator on a form provided by the
7 administrator. An election under this subsection waives coverage for the period
8 of reemployment and is irrevocable during the period of reemployment.
9 Deductions from the member's salary may not be made under AS 14.25.050
10 during the period of reemployment, and the member may not receive credited
11 service for the period of reemployment. A member who participated in a
12 retirement incentive program under ch. 26, SLA 1986; ch. 89, SLA 1989; ch. 65,
13 SLA 1996; ch. 4, FSSLA 1996; or ch. 92, SLA 1997, is not eligible to make an
14 election under this subsection.

15 (c) Upon subsequent retirement, the retired member is entitled to receive an
16 additional benefit based on the credited service and the average base salary during the
17 period of reemployment in accordance with AS 14.25.110. If the initial benefit
18 payments to which the retired member is eligible have been actuarially reduced
19 because the member retired early under AS 14.25.110(b), the member shall also
20 receive an incremental benefit based on the amount of the actuarial reduction imposed
21 by AS 14.25.110(j) on the first benefit and the length of time that the employee was
22 reemployed and not receiving retirement benefits. The amount of the incremental
23 benefit is equal to the difference between the normal retirement benefit to which the
24 member would have been entitled had the member taken a normal retirement and the
25 early retirement benefit that the member has been receiving based on the member's
26 initial period of employment multiplied by the total number of months that the
27 member did not receive retirement benefits because of reemployment and that amount
28 actuarially adjusted to be paid over the expected lifetime of the member.

29 * Sec. 5. AS 14.25.043(a) is amended to read:

30 (a) If a retired member again becomes an active member, benefit payments
31 may not be made during the period of reemployment [UNLESS THE TEACHER

1 MAKES AN ELECTION UNDER (b) OF THIS SECTION]. The retirement benefit
2 must be suspended for the entire school year if the teacher is reemployed as an active
3 teacher for a period equivalent to a year of service. During the period of
4 reemployment, [THE MEMBER IS SUBJECT TO AS 14.25.050 AND] deductions
5 from the member's salary will be made in accordance with AS 14.25.050.

6 * Sec. 6. AS 14.25.168(d) is amended to read:

7 (d) A benefit recipient may elect major medical insurance coverage in
8 accordance with regulations and under the following conditions:

9 (1) a person who has less than 25 years of membership service and
10 who is younger than 60 years of age must pay an amount equal to the full monthly
11 group premium for retiree major medical insurance coverage;

12 (2) [A PERSON WHO IS AT LEAST 60 YEARS OF AGE BUT IS
13 YOUNGER THAN 65 YEARS OF AGE MUST PAY AN AMOUNT EQUAL TO
14 ONE-HALF OF THE FULL MONTHLY GROUP PREMIUM FOR RETIREE
15 MAJOR MEDICAL INSURANCE COVERAGE;

16 (3)] a disabled member, a disabled member who is appointed to
17 normal retirement, [OR] a person 60 [65] years of age or older, or a person who has
18 at least 25 years of membership service is not required to make premium payments.

19 * Sec. 7. AS 39.35.120(b) is amended to read:

20 (b) Inclusion in the system is a condition of employment for an employee
21 except as otherwise provided for an

22 (1) elected official;

23 (2) employee making an election under AS 39.35.150(b); and

24 (3) [FOR AN] employee of the university who has elected to
25 participate in the optional university retirement program under AS 14.40.661 -
26 14.40.799.

27 * Sec. 8. AS 39.35.150 is amended to read:

28 Sec. 39.35.150. Re-employment of retired employees. (a) If a retired
29 employee subsequently becomes an active member, benefit payments may not be
30 made during the period of re-employment unless the member makes an election
31 under (b) of this section. During the period of re-employment, deductions from the

1 employee's salary shall be made in accordance with AS 39.35.160. Upon subsequent
2 retirement, the retired employee is entitled to receive an additional pension based on
3 the credited service and the average monthly compensation earned during the period
4 of re-employment in accordance with AS 39.35.370.

5 (b) A member who retired under AS 39.35.370(a) and subsequently
6 becomes an active member may, within 30 days of the date of reemployment,
7 elect to continue receiving benefit payments during the period of reemployment
8 by filing an election with the administrator on a form provided by the
9 administrator. An election under this subsection waives coverage for the period
10 of reemployment and is irrevocable during the period of reemployment. During
11 the period of reemployment, deductions from the member's salary may not be
12 made under AS 39.35.160 and the member may not receive credited service. A
13 member who participated in a retirement incentive program under ch. 26, SLA
14 1986; ch. 89, SLA 1989; ch. 65, SLA 1996; ch. 4, FSSLA 1996; or ch. 92, SLA
15 1997, is not eligible to make an election under this subsection.

16 (c) A member who has not made an election under (b) of this section is
17 subject to AS 39.35.120 and 39.35.160.

18 (d) If the initial benefit payments to which the retired member is eligible have
19 been reduced because the member retired early under AS 39.35.370(b) or increased
20 because the member elected to receive a level income option benefit under former
21 AS 39.35.460, the member shall also receive an incremental benefit based on the
22 amount of the reduction imposed by AS 39.35.370(b) or the increase under former
23 AS 39.35.460 on the first benefit and the length of time that the employee was
24 reemployed and not receiving retirement benefits. The amount of the incremental
25 benefit is equal to the difference between the normal retirement benefit to which the
26 member would have been entitled had the member taken a normal retirement and the
27 early retirement benefit or benefit under the level income option that the member has
28 been receiving based on the member's initial period of employment multiplied by the
29 total number of months that the member did not receive retirement benefits because of
30 reemployment and that amount actuarially adjusted to be paid over the expected
31 lifetime of the member. In the case of a member who selected benefits under the level

1 income option, the total number of months may not include any month in which the
2 member was 65 years of age or older.

3 * **Sec. 9.** AS 39.35.150(a) is amended to read:

4 (a) If a retired employee subsequently becomes an active member, benefit
5 payments may not be made during the period of re-employment [UNLESS THE
6 MEMBER MAKES AN ELECTION UNDER (b) OF THIS SECTION]. During the
7 period of re-employment, deductions from the employee's salary shall be made in
8 accordance with AS 39.35.160. Upon subsequent retirement, the retired employee is
9 entitled to receive an additional pension based on the credited service and the average
10 monthly compensation earned during the period of re-employment in accordance with
11 AS 39.35.370.

12 * **Sec. 10.** AS 39.35.535(c) is repealed and reenacted to read:

13 (c) A benefit recipient may elect major medical insurance coverage in
14 accordance with regulations and under the following conditions:

15 (1) a person, other than a disabled member or a disabled member who
16 is appointed to normal retirement, must pay an amount equal to the full monthly group
17 premium for retiree major medical insurance coverage if the person is

18 (A) younger than 60 years of age and has less than

19 (i) 25 years of credited service as a peace officer under
20 AS 39.35.360 and 39.35.370; or

21 (ii) 30 years of credited service under AS 39.35.360 and
22 39.35.370 that is not service as a peace officer; or

23 (B) of any age and has less than 10 years of credited service;

24 (2) a person is not required to make premium payments for retiree
25 major medical coverage if the person

26 (A) is a disabled member;

27 (B) is a disabled member who is appointed to normal
28 retirement;

29 (C) is 60 years of age or older and has at least 10 years of
30 credited service; or

31 (D) has at least

1 (i) 25 years of credited service as a peace officer under
2 AS 39.35.360 and 39.35.370; or

3 (ii) 30 years of credited service under AS 39.35.360 and
4 39.35.370 not as a peace officer.

5 * Sec. 11. AS 39.35.675(b) is amended to read:

6 (b) The amount of a cost-of-living differential may not be included in the
7 employee's compensation for purposes of calculating benefits paid under this chapter
8 unless the employee has received a cost-of-living differential [IN A COMPARABLE
9 AMOUNT OR OF AT LEAST THAT MANY STEPS] for at least 50 percent of the
10 employee's credited service.

11 * Sec. 12. AS 14.20.135; AS 14.25.043(b); AS 39.35.120(b)(2), 39.35.150(b), and
12 39.35.150(c) are repealed July 1, 2005.

13 * Sec. 13. The uncodified law of the State of Alaska is amended by adding a new section to
14 read:

15 REPORT TO LEGISLATURE. Annually, beginning in 2002 and ending in 2006, the
16 administrator of the teachers' retirement system shall report to the legislature by the 30th day
17 of the regular legislative session concerning the effect of this Act on the retirement system.

18 * Sec. 14. The uncodified law of the State of Alaska is amended by adding a new section to
19 read:

20 TRANSITION: REGULATIONS. (a) Notwithstanding sec. 17 of this Act, the
21 Alaska Teachers' Retirement Board may immediately proceed to adopt regulations necessary
22 to implement changes made by secs. 2, 4, and 6 of this Act. The regulations take effect under
23 AS 14.25.022, but not before July 1, 2001.

24 (b) Notwithstanding sec. 17 of this Act, the Public Employees' Retirement Board may
25 immediately proceed to adopt regulations necessary to implement changes made by secs. 7, 8,
26 10, and 11 of this Act. The regulations take effect under AS 39.35.042, but not before July 1,
27 2001.

28 * Sec. 15. Sections 3, 5, 9, and 12 of this Act take effect July 1, 2005.

29 * Sec. 16. Section 14 of this Act takes effect immediately under AS 01.10.070(c).

30 * Sec. 17. Except as provided in secs. 15 and 16 of this Act, this Act takes effect July 1,
31 2001.

prepared by:
Retirement &
Benefits

Senate CS for CS for House Bill 242(FIN)
Reemployment of and Medical Benefits for Public Retirees
Sectional Analysis

Section 1: Employment of Retired Teachers because of shortages

Specifies that a school district having or anticipating a shortage of teachers may by resolution adopt a policy that permits the employment of teachers under the provisions of Sections 2 and 4 of this Act.

Sections 2 and 4: 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:

- is available on the declaration of a shortage by a school district;
- 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 to TRS employer rates.

Sections 3, 5, 12 and 16: Repeal of Teachers' Retirement System Retiree Return Initiative

These sections repeal sections 2 and 4 on July 1, 2005.

Section 6: 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 7 and 8: 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 to PERS employer rates.

Sections 9, 13, and 17: Repeal of Public Employees' Retirement System Retiree Return Initiative

These sections repeal sections 7 and 8 on July 1, 2005.

Section 10: 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 11: 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 14: Requires annual reporting to legislature of effect of this act on the retirement system.

Section 15. Allows Public Employees' and Teachers' Retirement Boards to adopt regulations immediately to implement this legislation.

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

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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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.

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

Sections 1 and 3: Teachers' Retirement System Retiree Return Initiative

Adds an incentive for a retired teacher to return to full time or part time teaching for a TRS employer. With this change, a 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 an additional retirement benefit during period of reemployment.

Fiscal Impact: NONE

Sections 2, 4 and 11: Removes Teachers' Retirement System Retiree Return Initiative July 1, 2006

Restores the rehire of retired teachers provision to the current method where a rehired teacher would:

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

Section 5: 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 the TRS. At age 65 the system pays the full premium.

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

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 6 and 7: Public Employees' Retirement System Retiree Return Initiative

Adds an incentive for a retired public employee to return to full time or part 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 public employee would:

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

Groups affected: all PERS employees covered by the 200 participating employers including peace officers, professional, technical and clerical workers.

Fiscal Impact: NONE

Sections 8 and 11: Removes Public Employees' Retirement System Retiree Return Initiative July 1, 2006

Removes the provision for a retired public employee to elect continuation of retirement benefit payments during reemployment with no additional retirement benefit accrual.

Restores the rehire of retired employees provision to the current method where a rehired employee would:

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

Section 9: Public Employees' Retirement System Tier II Medical Benefits Enhancement

Adds an incentive for public employees 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 in the 30 year retirement plan who stays in PERS a total of 30 years will be eligible for full system paid medical coverage. Peace Officers who stay 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 PERS members aged 60 and over will be provided medical coverage with the premium paid in full by the retirement system.

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 10: 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 in PERS 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. In 1986 the law was changed to prevent abuse. An extreme example: John, a Fisheries Biologist who has spent 27 years 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 added 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.

The Division of Retirement and Benefits has had great difficulty explaining and applying the second clause. The division's approach is to (1) determine 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 no more than 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 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 11: New Sections Repealed Effective July 1, 2006

Removes the provision for a retired teachers and retired public employees to elect continuation of retirement benefit payments during reemployment with no additional retirement benefit accrual. Restores the current law where a rehired teacher or public employee would:

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

Section 12.

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

Section 13 and 15.

Effective date clauses

GEOGRAPHIC DIFFERENTIAL

- In 1986 a law was enacted changing the way geographic differential pay is used in the calculation of Public Employees' Retirement System retirement benefits. This change affected only members first hired after July 1, 1986.
- This amendment does not change how geographic differential pay is calculated for active employee pay purposes. It changes how the geographic differential pay is used in the determination of a retirement benefit.
- Currently, the law has two criteria:
 - 1) The person must spend at least 50% of his/her career in an area with a pay differential
 - 2) For a year's salary plus differential pay 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 received, on a per year basis, over the employee's service time.
- The first criteria is simple to understand.
- The second criteria, however, is more difficult for Retirement and Benefits to explain to the member and calculate benefit projections.
 - 1) There are different rates of differential pay across the State.
 - 2) Employees such as the State Troopers generally serve in many different areas with differing differentials .
 - 3) Calculating benefits under the current law creates confusion and hampers the member's ability to plan retirement because future service in an area with a lower differential will lower their projected retirement benefit.
 - 4) It is difficult for the average member to understand the value of their retirement benefit.
- Creates morale issues.
- No cost to the system.

Testimony of Peter Hallgren on HB242 to Senate Finance Committee 5/2/01

I speak in favor of Passage HB 242.

I served from 1994 until early this year on both the Alaska Personnel Board and also on the PERS Board in what is now the Non-State Employee seat.

I am an active Tier 1 employee with 22 years accrued coverage and I have never worked for the State of Alaska, previously having worked for the City & Borough of Sitka and currently for the City of Delta Junction.

I wish to make 3 points in support of HB242 with respect to the PERS employers:

- A. This bill aids not only the state of Alaska but also grants the over 160 non-state PERS employers the valuable option of being able to attract experienced PERS retirees out of the private sector or out of non-employment.
- B. This bill saves money for the PERS employer, the PERS employee, and the PERS system itself. It is a win, win, win situation.
- C. The 4 year Sunset Provision ensures against major unintended consequences, and if things work well it can be statutorily renewed. This point is self evident and wise to include in HB242.

With respect to point A:

Passage of HB242 will allow PERS retirees to not only fill the empty State slots with experienced employees, it will allow the many hundreds of retired municipal employees to return to local government. Many small PERS employers, such as the City of Delta Junction have a difficult time recruiting experienced personnel, especially if the position is not necessarily designed to be on a career path or of long term duration. Today I have begun advertising for a Planner for the City. A year ago I failed to attract candidates for a similar position and eventually hired a consultant firm that employs many retired state employees (and is located hundreds of miles from Delta Junction).

While HB242 covers all PERS retirees, I would expect it to have an immediate impact on Tier 1 retirees (first hire prior to 7/1/86). With Tier 1 regular retirement age set at 55, there is currently a disincentive to continue work with any PERS employer after your 55th birthday, and a severe financial disincentive to return to any of the 160+ PERS employers after retirement. For retirees wishing to again apply their skills in government, the current situation often necessitates moving out of Alaska to continue to work in their field. Passage of HB242 could solve these problems.

With respect to point B:

The PERS employer saves real dollars by not having to make the PERS employer contribution—currently over 20% of wages for some PERS employers. The regular PERS employee saves the 6%% PERS contribution—cops save even more. The PERS system itself saves the cost of retiree medical coverage. I personally believe any potential increased PERS system cost of folks retiring earlier than envisioned by the systems actuarial assumptions will be truly negligible, and certainly be totally outweighed by savings to PERS on retiree medical coverage.

SENATE FINANCE COMMITTEE

SIGN-IN

HB 242-TRS & PERS REEMPLOY & MED BENEFITS; COLA

NAME: Guy Bell Subject/Bill No: HB242
Co./Dept./Title: Retirement Benefits / Director Phone: 465-4471
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: Thine Rogers Subject/Bill No: HB242
Co./Dept./Title: MUNICIPALITY OF AUCH Phone: 343-4467
Address: PO Box 196610 AUCH Zip: 99519
Do you wish to testify? Yes No Respond To Questions

NAME: Bruce Johnson Subject/Bill No: HB242
Co./Dept./Title: EDD Phone: 8678
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

SENATE FINANCE COMMITTEE

SIGN-IN

HB 242-TRS & PERS REEMPLOY & MED BENEFITS; COLA

NAME: Rich Kronberg Subject/Bill No: HB242
Co./Dept./Title: NEA-Alaska president Phone: 586-3090
Address: 114 Second A Juneau Zip: 99801
Do you wish to testify? Yes No Respond To Questions

NAME: Bruce Johnson Subject/Bill No: HB 242
Co./Dept./Title: EEO Phone: 465-8678
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: Tim Rogers Subject/Bill No: HB242
Co./Dept./Title: MUNICIPALITY OF ANCHORAGE Phone: 343-4467
Address: PO Box 196610 ANCH Zip: 99579
Do you wish to testify? Yes No Respond To Questions

NAME: Craig Persson Subject/Bill No: HB242
Co./Dept./Title: Public Safety Employers Assoc. Phone: 107-337-1979
Address: Anchorage, AK Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: Guy Bell Subject/Bill No: HB242

Co./Dept./Title: Div. of Retirement Benefits/ Director Phone: 465-4471

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

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