

HB

329

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22 ✓

| Retirement Incentive Program Detailed Savings Projection By Position | | | | |
|---|------------------------------------|-----------------------------------|---|----------------------|
| Date Submitted | | | | Department |
| PCN 026513 | | | | Budget BRU |
| Job Class Title Data Processing Manager II | | | | Budget Component |
| Job Class Code P1642 | | | | Administration |
| DOB | | | | Information Services |
| | | | | Information Services |
| Calculation of Costs and Savings | | | | |
| Projected Current Fiscal Year 00 | Projected Second Fiscal Year 01 | Projected Third Fiscal Year 02 | Projected Remainder of 3-Year Savings Period (if applicable) | Total |
| 1. Current Position Range and Step | 23F | 23F/J | 23J | |
| 2. Salary and Benefit Cost | 95,160.00 | 95,991.00 | 98,014.00 | 289,165.00 |
| 3. Will position be eliminated? If no, then complete lines 4 and 5 | | | | |
| 4. Replacement Range and Step | 22B | 22C | 22D | |
| 5. Replacement Salary and Benefit Cost | 78,776.00 | 81,019.00 | 83,760.00 | 243,555.00 |
| 6. Position Savings (line 2 minus line 5) | 16,384.00 | 14,972.00 | 14,254.00 | 45,610.00 |
| 7. Employer RIP cost for this employee | 12,364.00 | 12,364.00 | 12,364.00 | 37,092.00 |
| 8. Administrative cost (.01 times employer RIP cost) | 123.64 | 123.64 | 123.64 | 370.92 |
| 9. Additional employee replacement cost | | | | |
| Average Training Costs | | | | |
| Average Recruitment Costs | | | | |
| Other (Moving Costs, Uniforms, etc.) | | | | |
| 10. Total RIP and replacement costs (line 7+8+9) | 12,487.64 | 12,487.64 | 12,487.64 | 37,462.92 |
| 11. Net savings for this position (line 6 minus line 10) | 3,896.36 | 2,484.36 | 1,766.36 | 8,147.08 |

| Fund | Employer Number | Employer Name | RIP Count |
|------|-----------------|------------------------------------|-----------|
| P | 101 | STATE OF ALASKA | 4061 |
| T | 701 | ANCHORAGE SD | 1106 |
| P | 113 | UNIVERSITY OF ALASKA | 561 |
| P | 173 | MUNICIPALITY OF ANCHORAGE | 542 |
| P | 111 | ANCHORAGE SD | 489 |
| T | 706 | FAIRBANKS NORTH STAR BOROUGH SD | 420 |
| T | 722 | MATANUSKA-SUSITNA BOROUGH SD | 340 |
| T | 733 | UNIVERSITY OF ALASKA | 313 |
| T | 746 | KENAI PENINSULA BOROUGH SD | 305 |
| P | 145 | NORTH SLOPE BOROUGH | 202 |
| P | 117 | FAIRBANKS NORTH STAR BOROUGH SD | 190 |
| P | 126 | CITY AND BOROUGH OF JUNEAU | 151 |
| T | 710 | JUNEAU BOROUGH SD | 143 |
| P | 157 | LOWER KUSKOKWIM SD | 129 |
| P | 110 | MATANUSKA-SUSITNA BOROUGH SD | 114 |
| P | 116 | FAIRBANKS NORTH STAR BOROUGH | 96 |
| T | 718 | KODIAK ISLAND BOROUGH SD | 87 |
| P | 190 | KENAI PENINSULA BOROUGH SD | 78 |
| P | 108 | JUNEAU BOROUGH SD | 74 |
| P | 154 | NORTHWEST ARCTIC BOROUGH SD | 71 |
| T | 714 | KETCHIKAN GATEWAY BOROUGH SD | 70 |
| P | 219 | BARTLETT REGIONAL HOSPITAL | 68 |
| P | 152 | ALASKA HOUSING FINANCE CORPORATION | 68 |
| T | 754 | LOWER KUSKOKWIM SD | 63 |
| P | 161 | NORTH SLOPE BOROUGH SD | 54 |
| P | 153 | LOWER YUKON SD | 53 |
| P | 180 | KENAI PENINSULA BOROUGH | 51 |
| T | 727 | SITKA BOROUGH SD | 46 |
| P | 104 | BERING STRAIT SD | 42 |
| P | 109 | MATANUSKA-SUSITNA BOROUGH | 40 |
| T | 737 | ALASKA DEPARTMENT OF EDUCATION | 40 |
| T | 753 | LOWER YUKON SD | 38 |
| P | 158 | KODIAK ISLAND BOROUGH SD | 38 |
| T | 736 | NORTH SLOPE BOROUGH SD | 37 |
| T | 752 | BERING STRAIT SD | 33 |
| T | 751 | NORTHWEST ARCTIC BOROUGH SD | 33 |
| P | 181 | CITY OF KETCHIKAN | 27 |
| P | 115 | CITY OF KENAI | 26 |
| T | 765 | DELTA/GREELY SD | 25 |
| P | 120 | CITY AND BOROUGH OF SITKA | 25 |
| P | 102 | SOUTHWEST REGION SD | 24 |
| T | 730 | VALDEZ CITY SD | 24 |
| P | 125 | KUSPUK SD | 21 |
| P | 107 | CITY OF VALDEZ | 21 |
| P | 215 | CITY OF HOMER | 21 |
| T | 704 | CORDOVA CITY SD | 19 |
| P | 124 | IDITAROD AREA SD | 19 |
| T | 756 | SOUTHWEST REGION SD | 19 |
| P | 182 | CITY OF SEWARD | 18 |
| P | 165 | SITKA COMMUNITY HOSPITAL | 18 |
| P | 122 | KETCHIKAN GATEWAY BOROUGH | 17 |

| | | | |
|---|-----|------------------------------------|----|
| T | 744 | DILLINGHAM CITY SD | 17 |
| T | 720 | NOME CITY SD | 17 |
| T | 762 | YUKON / KOYUKUK SD | 16 |
| P | 134 | CITY OF PALMER | 16 |
| P | 159 | YUKON FLATS SD | 15 |
| T | 724 | PETERSBURG CITY SD | 15 |
| P | 123 | CITY OF SOLDOTNA | 15 |
| T | 705 | CRAIG CITY SD | 15 |
| P | 177 | KETCHIKAN GATEWAY BOROUGH SD | 14 |
| P | 143 | CITY OF PETERSBURG | 14 |
| P | 160 | YUKON / KOYUKUK SD | 13 |
| P | 139 | CITY OF NOME | 13 |
| T | 757 | LAKE AND PENINSULA BOROUGH SD | 13 |
| P | 195 | YUPIIT SD | 13 |
| P | 179 | CITY OF UNALASKA | 13 |
| P | 137 | VALDEZ CITY SD | 13 |
| P | 164 | LAKE AND PENINSULA BOROUGH SD | 13 |
| P | 128 | CITY OF KODIAK | 13 |
| T | 731 | WRANGELL PUBLIC SD | 13 |
| T | 719 | NENANA CITY SD | 12 |
| P | 167 | SOUTHEAST REGIONAL RESOURCE CENTER | 12 |
| P | 189 | HAINES BOROUGH | 12 |
| T | 707 | HAINES BOROUGH SD | 12 |
| P | 129 | CITY OF FAIRBANKS | 12 |
| T | 764 | DENALI BOROUGH SD | 11 |
| P | 133 | SITKA BOROUGH SD | 11 |
| T | 766 | ALASKA GATEWAY SD | 10 |
| T | 763 | YUKON FLATS SD | 10 |
| T | 767 | COPPER RIVER SD | 10 |
| P | 191 | CITY OF NORTH POLE | 9 |
| P | 275 | ILISAGVIK COLLEGE | 9 |
| P | 135 | CITY OF WRANGELL | 9 |
| T | 717 | KLAWOCK CITY SD | 9 |
| P | 131 | CITY OF WASILLA | 9 |
| P | 185 | CORDOVA CITY SD | 9 |
| T | 735 | GALENA CITY SD | 9 |
| T | 755 | KUSPUK SD | 9 |
| T | 778 | YUPIIT SD | 9 |
| P | 112 | COPPER RIVER SD | 9 |
| P | 156 | PRIBILOF SD | 8 |
| P | 270 | BERING STRAITS RHA | 8 |
| P | 144 | BRISTOL BAY BOROUGH | 8 |
| P | 174 | KODIAK ISLAND BOROUGH | 8 |
| P | 148 | CITY OF CORDOVA | 8 |
| P | 163 | CORDOVA COMMUNITY MEDICAL CENTER | 8 |
| P | 192 | CITY OF GALENA | 8 |
| T | 729 | UNALASKA CITY SD | 7 |
| T | 708 | HOONAH CITY SD | 7 |
| P | 140 | CITY OF KOTZEBUE | 7 |
| P | 186 | CITY OF CRAIG | 7 |
| T | 712 | KAKE CITY SD | 7 |
| P | 184 | BRISTOL BAY BOROUGH SD | 7 |

| | | | |
|---|-----|-------------------------------------|---|
| P | 105 | CHATHAM SD | 7 |
| P | 199 | CITY OF HOONAH | 7 |
| T | 761 | IDITAROD AREA SD | 7 |
| P | 149 | NOME CITY SD | 7 |
| P | 171 | CITY OF BARROW | 7 |
| P | 141 | GALENA CITY SD | 7 |
| P | 262 | COOK INLET HOUSING AUTHORITY | 7 |
| P | 136 | CITY OF BETHEL | 6 |
| P | 178 | CITY OF DILLINGHAM | 6 |
| P | 187 | PETERSBURG MEDICAL CENTER | 6 |
| T | 742 | BRISTOL BAY BOROUGH SD | 6 |
| P | 211 | KASHUNAMIUT SD | 6 |
| P | 196 | NENANA CITY SD | 6 |
| P | 146 | WRANGELL PUBLIC SD | 5 |
| P | 118 | DENALI BOROUGH SD | 5 |
| P | 279 | TLINGIT-HAIDA RHA | 5 |
| P | 132 | CITY OF SKAGWAY | 5 |
| T | 769 | SOUTHEAST ISLAND SD | 5 |
| T | 780 | ALEUTIANS EAST BOROUGH SD | 5 |
| P | 230 | ALEUTIANS EAST BOROUGH | 5 |
| P | 223 | BRISTOL BAY RHA | 5 |
| T | 779 | SPECIAL EDUCATION SERVICE AGENCY | 5 |
| P | 151 | CITY OF KING COVE | 4 |
| T | 732 | YAKUTAT SD | 4 |
| T | 709 | HYDABURG CITY SD | 4 |
| T | 770 | ANNETTE ISLAND SD | 4 |
| P | 103 | ANNETTE ISLAND SD | 4 |
| T | 771 | CHUGACH SD | 4 |
| P | 183 | CITY OF FORT YUKON | 4 |
| T | 777 | KASHUNAMIUT SD | 4 |
| T | 728 | SKAGWAY CITY SD | 4 |
| P | 247 | LAKE AND PENINSULA BOROUGH | 4 |
| T | 743 | SOUTHEAST REGIONAL RESOURCE CENTER | 4 |
| P | 228 | PETERSBURG CITY SD | 4 |
| P | 208 | CITY OF AKUTAN | 3 |
| P | 169 | CITY OF TANANA | 3 |
| P | 193 | CITY OF NENANA | 3 |
| P | 172 | CITY OF SAINT PAUL | 3 |
| P | 205 | DILLINGHAM CITY SD | 3 |
| T | 768 | CHATHAM SD | 3 |
| P | 263 | INTERIOR RHA | 3 |
| P | 240 | HAINES BOROUGH SD | 3 |
| P | 256 | CITY OF SAINT GEORGE | 3 |
| P | 121 | CHUGACH SD | 3 |
| P | 220 | NORTHWEST ARCTIC BOROUGH | 3 |
| P | 288 | NORTHWEST INUPIAT HOUSING AUTHORITY | 3 |
| P | 175 | NOME JOINT UTILITY SYSTEM | 3 |
| P | 221 | SAINT MARY'S SD | 3 |
| P | 244 | ALEUTIANS EAST BOROUGH SD | 3 |
| P | 186 | TANANA SD | 2 |
| P | 202 | CITY OF WHITTIER | 2 |
| P | 227 | CITY OF KLAWOCK | 2 |

| | | | |
|---|-----|------------------------------------|---|
| P | 235 | CITY OF HUSLIA | 2 |
| T | 758 | ALEUTIAN REGION SD | 2 |
| P | 170 | NORTH PACIFIC FISHERY MGMT COUNCIL | 2 |
| P | 248 | CITY AND BOROUGH OF YAKUTAT | 2 |
| P | 204 | CRAIG CITY SD | 2 |
| P | 168 | HYDABURG CITY SD | 2 |
| P | 200 | CITY OF PELICAN | 1 |
| P | 209 | UNALASKA CITY SD | 1 |
| T | 775 | TANANA SD | 1 |
| P | 155 | SOUTHEAST ISLAND SD | 1 |
| P | 289 | CITY OF ANGOON | 1 |
| P | 232 | BERING STRAITS CRSA | 1 |
| P | 249 | CITY OF UNALAKLEET | 1 |
| T | 759 | PRIBILOF SD | 1 |
| P | 176 | CITY OF SAND POINT | 1 |
| P | 138 | HOONAH CITY SD | 1 |
| P | 203 | ANCHORAGE PARKING AUTHORITY | 1 |
| T | 748 | SAINT MARY'S SD | 1 |
| P | 285 | CITY OF HOOPER BAY | 1 |
| P | 242 | CITY OF ELIM | 1 |
| P | 218 | SPECIAL EDUCATION SERVICE AGENCY | 1 |
| P | 241 | CITY OF NOORVIK | 1 |
| P | 257 | PELICAN CITY SD | 1 |
| P | 213 | CITY OF WAINWRIGHT | 1 |
| P | 243 | CITY OF ATKA | 1 |
| P | 278 | SAXMAN SEAPORT | 1 |
| P | 106 | ALASKA MUNICIPAL LEAGUE | 1 |
| P | 282 | CITY OF DELTA JUNCTION | 1 |

23-LS1109\H
Craver
1/28/04

CS FOR HOUSE BILL NO. 329()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - SECOND SESSION**

BY

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVE MCGUIRE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to retirement incentive programs for the public employees' retirement
2 system, the judicial retirement system, and the teachers' retirement system; and
3 providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
6 to read:

7 **FINDINGS AND PURPOSE.** The State of Alaska and many local governments and
8 school districts are facing the need to restructure their operations and their work forces in
9 order to reduce expenditures and balance budgets. Retirement incentives are management
10 tools that have been used extensively by the private sector, the federal government, and other
11 state and local governments across the country. The purpose of this Act is to make these
12 management tools temporarily available to the state and to the municipalities and school
13 districts of the state. This Act will enable these entities to be more efficient and cost-effective
14 by eliminating certain positions, and producing a net reduction in personnel costs.

1 * Sec. 2. The uncodified law of the State of Alaska is amended by adding a new section to
2 read:

3 RETIREMENT INCENTIVE PROGRAM. (a) An employer may adopt a retirement
4 incentive plan under secs. 3 - 6 of this Act, as appropriate, and designate categories of
5 employees eligible to participate in that plan. An employer need not extend the incentive plan
6 to all employees who would otherwise be eligible, but may choose to extend the plan only to
7 employees

8 (1) in specific budget or administrative components of the employer;

9 (2) in specific job classifications;

10 (3) in specific geographic locations; or

11 (4) on the basis of any combination of factors under (1) - (3) of this
12 subsection.

13 (b) An employee is eligible to participate in a retirement incentive plan under this Act
14 only if the

15 (1) employee is a vested member of the public employees' retirement system
16 or the teachers' retirement system;

17 (2) employee will be qualified to retire under AS 14.25.110 or AS 39.35.370
18 after receipt of the credit described in (f) of this section;

19 (3) savings to the employer in personal services costs for the employee's
20 position will exceed the costs to the employer for that position within three years after the
21 employee is appointed to retirement.

22 (c) An employer shall file its proposed retirement incentive plan with the
23 commissioner of administration. The commissioner shall approve the plan if the plan meets
24 the requirements of this Act, except that the commissioner may approve a state agency's
25 retirement incentive plan only if the office of management and budget approves the
26 calculation of savings under (b)(3) of this section. A proposed plan filed under this section
27 must

28 (1) identify job classifications of employees, and specific budget or
29 administrative components, eligible to participate in the plan;

30 (2) include a reimbursement agreement that

31 (A) requires the employer, for each employee who retires under the

1 plan, to reimburse the appropriate retirement system, within three years after the end
2 of the fiscal year in which the employee is appointed to retirement, in an amount equal
3 to

4 (i) the actuarial equivalent of the difference between the
5 benefits the participant receives after the addition of the credit under (f) of this
6 section and the amount the participant would have received without the credit,
7 less the amount the participant has paid on the indebtedness determined under
8 (d) or (e) of this section; and

9 (ii) an appropriate share of the administrative costs of the
10 program; and

11 (B) provides that contributions from the employer under this section
12 take priority over other obligations of the employer to the maximum extent permitted
13 by law.

14 (d) A member of the teachers' retirement system who participates in an approved
15 retirement incentive plan under this Act is indebted to that system for an amount calculated
16 under this subsection. The indebtedness is 25.95 percent of the member's actual
17 compensation for the school year in which the member terminates employment, or the
18 calculated school year compensation for a member who works less than the entire school year.
19 A member may apply annual or personal leave to the indebtedness before appointment to
20 retirement. An outstanding indebtedness at the time a member is appointed to retirement
21 under an approved retirement incentive plan requires an actuarial adjustment to the benefits
22 payable to that member.

23 (e) A member of the public employees' retirement system who participates in an
24 approved retirement incentive plan under this Act is indebted to that system for an amount
25 calculated under this subsection. The indebtedness is 22-1/2 percent for a peace officer or fire
26 fighter, and 20-1/4 percent for other members, of the member's actual annual compensation
27 for the year in which the member terminates employment, or the calculated annual
28 compensation for a member who works fewer than 12 months. A member may apply annual
29 or personal leave to the indebtedness before appointment to retirement. An outstanding
30 indebtedness at the time a member is appointed to retirement under an approved retirement
31 incentive plan requires an actuarial adjustment to the benefits payable to that member.

1 (f) An employee who participates in an approved retirement incentive plan under this
2 Act receives a credit of three years. The three years must be applied in the following order
3 until exhausted:

4 (1) to meet the age or service required for eligibility for normal retirement
5 under AS 14.25.110 before July 1, 1990, or AS 39.35.370 before July 1, 1986, as appropriate;

6 (2) to meet the age required for early retirement under AS 14.25.110 before
7 July 1, 1990, or AS 39.35.370 before July 1, 1986, as appropriate;

8 (3) to reduce the actuarial adjustment required for early retirement under
9 AS 14.25.110 before July 1, 1990, or AS 39.35.370 before July 1, 1986, as appropriate;

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

11 (g) In this section,

12 (1) "department" means

13 (A) a principal department of the executive branch of state
14 government; an independent state entity that is attached to a principal department of
15 the executive branch for administrative purposes but that is not a public organization
16 as defined in AS 39.35.680 is part of that department for purposes of this paragraph;
17 and

18 (B) the Office of the Governor;

19 (2) "employer" has the meaning given in AS 14.25.220 and AS 39.35.680 and
20 includes a department.

21 * Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to
22 read:

23 AUTHORIZATION FOR STATE EMPLOYEE RETIREMENT INCENTIVE. (a) A
24 state agency may adopt, and file with the commissioner of administration for approval, a
25 proposed retirement incentive plan for its employees.

26 (b) Upon the request of a state agency, the commissioner of administration shall
27 establish one or more periods during which the employees of that state agency who are
28 eligible under sec. 2(b) of this Act to participate in a retirement incentive plan may apply to
29 the commissioner of administration to participate in the state agency's approved plan. The
30 periods shall begin no earlier than July 1, 2004, and end no later than June 30, 2007. The
31 periods shall be no less than 30 days and no more than 60 days in duration, and may not begin

1 less than 30 days after their establishment. A state agency is not required to request an
2 application period, and may request more than one application period.

3 (c) A proposed retirement incentive plan adopted under this section may not permit an
4 employee who is the governor, the lieutenant governor, or a commissioner, deputy
5 commissioner, or assistant commissioner of a principal department of the executive branch to
6 participate in the plan.

7 (d) A proposed retirement incentive plan adopted under this section may permit
8 participation only by an employee who is eligible to participate under sec. 2(b) of this Act and
9 who

10 (1) has been continuously employed by the state for at least one year before
11 the employee applies to participate in the state agency's approved plan;

12 (2) is a permanent seasonal employee who has been continuously employed
13 by the state in a permanent seasonal position during all of the time in the one year before the
14 employee's application to participate in which the position normally is filled;

15 (3) has a job sharing agreement with a state agency in which two or more
16 employees share a single position identified by a single position control number and in which
17 the employee who applies to participate in the plan was continuously employed by the agency
18 during the portion of the one year before the employee's application in which the employee
19 normally worked under the job sharing agreement; or

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

21 (e) The commissioner of administration may not accept the application of an
22 employee to participate in an approved retirement incentive plan adopted under this section
23 unless the employee will be appointed to retirement not later than the first day of the month
24 that is six months after the last day of the application period established by the commissioner
25 under (b) of this section. A state agency, in a plan adopted under this section, may set an
26 earlier date by which an employee must be appointed to retirement in order to participate in
27 the plan.

28 * Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to
29 read:

30 AUTHORIZATION FOR RETIREMENT INCENTIVE FOR EMPLOYEES OF THE
31 UNIVERSITY OF ALASKA. (a) The Board of Regents of the University of Alaska may

1 adopt, and file with the commissioner of administration for approval, a proposed retirement
2 incentive plan for university employees.

3 (b) Upon the request of the Board of Regents, the commissioner of administration
4 shall establish one or more periods during which the employees of the university who are
5 eligible under sec. 2(b) of this Act to participate in a retirement incentive plan may apply to
6 the commissioner of administration to participate in the university's approved plan. The
7 periods shall begin no earlier than July 1, 2004, and end no later than June 30, 2007. The
8 periods shall be no less than 30 days and no more than 60 days in duration, and may not begin
9 less than 30 days after their establishment. The Board of Regents is not required to request an
10 application period, and may request more than one application period.

11 (c) The commissioner of administration may not accept the application of an
12 employee to participate in an approved retirement incentive plan adopted under this section
13 unless the employee will be appointed to retirement not later than the first day of the month
14 that is six months after the last day of the application period established by the commissioner
15 under (b) of this section. The Board of Regents, in a plan adopted under this section, may set
16 an earlier date by which an employee of the University of Alaska must be appointed to
17 retirement in order to participate in the plan.

18 (d) A participant in the optional university retirement program under AS 14.40.661 -
19 14.40.799 who is vested in the public employees' retirement system or the teachers' retirement
20 system may participate in a retirement incentive plan for that system if the participant meets
21 the other qualifications of this Act. If a provision of this subsection is inconsistent with
22 another provision of law, the provision of this subsection governs.

23 * Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to
24 read:

25 AUTHORIZATION FOR RETIREMENT INCENTIVE FOR OTHER EMPLOYEES
26 IN THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM. (a) The governing body of a
27 political subdivision of the state or public organization that has elected to participate in the
28 public employees' retirement system under AS 39.35.550 - 39.35.650 may adopt, and file with
29 the commissioner of administration for approval, a proposed retirement incentive plan for its
30 employees. Upon the request of the governing body, the commissioner of administration shall
31 establish one or more periods during which the employees of a political subdivision or public

1 organization who are eligible to participate in a retirement incentive plan may apply to the
2 commissioner of administration to participate in the approved plan. The periods shall begin
3 no earlier than October 31, 2004, and end no later than June 30, 2007. The periods shall be no
4 less than 30 days and no more than 60 days in duration, and may not begin less than 60 days
5 after their establishment. The governing body is not required to request an application period,
6 and may request more than one application period.

7 (b) The commissioner of administration may not accept the application of an
8 employee to participate in an approved retirement incentive plan adopted under this section
9 unless the employee will be appointed to retirement not later than the first day of the month
10 that is six months after the last day of the application period established by the commissioner
11 under (a) of this section. The governing body of the political subdivision or public
12 organization, in a plan adopted under this section, may set an earlier date by which an
13 employee must be appointed to retirement in order to participate in the plan.

14 * Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to
15 read:

16 AUTHORIZATION FOR RETIREMENT INCENTIVE FOR OTHER EMPLOYEES
17 IN THE TEACHERS' RETIREMENT SYSTEM. (a) An employer under the teachers'
18 retirement system who is not otherwise covered by secs. 3 or 4 of this Act may adopt, and file
19 with the commissioner of administration for approval, a proposed retirement incentive plan
20 for its employees. A plan adopted under this section must provide that the application period
21 for participation in the retirement incentive plan is July 1, 2004, through June 30, 2007.

22 (b) The commissioner of administration may not accept the application of an
23 employee to participate in an approved retirement incentive plan adopted under this section
24 unless the employee will be appointed to retirement on or before August 1, 2007. The
25 employer, in a plan adopted under this section, may set an earlier date by which an employee
26 must be appointed to retirement in order to participate in the plan.

27 * Sec. 7. The uncodified law of the State of Alaska is amended by adding a new section to
28 read:

29 POLITICAL SUBDIVISION OR PUBLIC ORGANIZATION EMPLOYMENT. For
30 purposes of determining the years of service requirements for retirement under AS 14.25.110
31 or AS 39.35.370, as appropriate, a vested member who is a state employee and who applies to

1 participate in a retirement incentive plan approved under this Act may receive credit for
2 employment with a political subdivision or public organization before the political
3 subdivision or organization became an employer under the public employees' retirement
4 system. The member may not receive credit for those years under this subsection for
5 purposes of determining benefits. If a provision of this section is inconsistent with any other
6 provision of law, the provision of this section governs.

7 * Sec. 8. The uncodified law of the State of Alaska is amended by adding a new section to
8 read:

9 PROVISION AND AUTHORIZATION FOR ADMINISTRATIVE DIRECTOR OF
10 COURT. (a) The chief justice of the state supreme court may adopt a retirement incentive
11 plan for an administrative director of the Alaska Court System who is a member of the
12 judicial retirement system under AS 22.25.012 if participation in the plan will result in
13 savings to the court system in personal services costs within three years after the
14 commencement of the plan. The administrative director may participate only if the
15 administrative director is vested in the judicial retirement system and will be qualified to
16 retire under AS 22.25.010 after receipt of the retirement incentive. To participate, the
17 administrative director shall apply to the commissioner of administration to participate in the
18 approved court system plan.

19 (b) The court system shall include in the retirement incentive plan a reimbursement
20 agreement that requires the court system, for each administrative director of the Alaska Court
21 System who is retired under the plan, to reimburse the judicial retirement system within three
22 years after the end of the fiscal year in which the administrative director is appointed to
23 retirement in an amount equal to

24 (1) the actuarial equivalent of the difference between the benefits the
25 administrative director receives after the addition of the credit under (e) of this section and the
26 amount the participant would have received without the credit, less the total of the amount the
27 participant has paid on the indebtedness determined under (d) of this section; and

28 (2) an appropriate share of the administrative costs of the program.

29 (c) A retirement incentive plan adopted under this section must provide that
30 contributions from the court system under (b) of this section take priority over other
31 obligations of the court system to the maximum extent permitted by law.

1 (d) An administrative director of the Alaska Court System who participates in an
2 approved retirement incentive plan is indebted to the system. The amount of indebtedness is
3 equal to 21 percent of the director's actual annual compensation for the year in which the
4 director terminates employment to participate in the program, or the calculated annual
5 compensation for an administrative director who works fewer than 12 months. An
6 outstanding indebtedness at the time the administrative director is appointed to retirement
7 under an approved retirement incentive plan will require an actuarial adjustment to the
8 benefits payable to the director.

9 (e) An administrative director of the Alaska Court System who participates in an
10 approved retirement incentive plan receives a credit of three years that may only be used to
11 meet the age requirements for normal or early retirement under AS 22.25.010(d).

12 (f) The chief justice of the Alaska Court System may adopt, and file with the
13 commissioner of administration for approval, a proposed retirement incentive plan for the
14 administrative director of the court system who is a member of the judicial retirement system.
15 Upon the request of the chief justice, the commissioner of administration shall establish a
16 period during which an administrative director eligible to participate in the retirement
17 incentive plan of the court system may apply to the commissioner of administration to
18 participate in the court system's approved plan. The period shall begin no earlier than July 1,
19 2004, and end no later than June 30, 2007. The period shall be no less than 30 days and no
20 more than 60 days in duration and may not begin less than 30 days after establishment. The
21 chief justice is not required to request an application period.

22 (g) The commissioner of administration may not accept the application of an
23 administrative director of the court system to participate in an approved retirement incentive
24 plan adopted under this section unless the administrative director will be appointed to
25 retirement not later than the first day of the month that is six months after the last day of the
26 application period established by the commissioner under (f) of this section. The chief
27 justice, in a plan adopted under this section, may set an earlier date by which an
28 administrative director must be appointed to retirement in order to participate in the plan.

29 * Sec. 9. The uncodified law of the State of Alaska is amended by adding a new section to
30 read:

31 RECOVERY OF EMPLOYER DELINQUENCIES. To recover a delinquency owed

1 by an employer other than the state under an agreement entered into under sec. 2(c)(2) of this
2 Act, the Department of Administration may

3 (1) direct that the amount of the delinquency or a lesser amount be withheld
4 from any money payable to the employer by a state department or agency and that the amount
5 withheld be credited to the delinquency; and

6 (2) bring an action against the employer.

7 * Sec. 10. The uncodified law of the State of Alaska is amended by adding a new section to
8 read:

9 REEMPLOYMENT INDEBTEDNESS; PROHIBITION ON REEMPLOYMENT.

10 (a) If an individual is reemployed as a member of the public employees' retirement system
11 under AS 39.35, the teachers' retirement system under AS 14.25, the judicial retirement
12 system under AS 22.25, or the optional university retirement program under AS 14.40.661 -
13 14.40.799 after appointment to retirement under this Act, that individual forfeits the incentive
14 credit received under sec. 2(f) of this Act and is indebted to the system under which the
15 individual took retirement. The indebtedness is 110 percent of the amount the individual
16 received as a result of participation in a retirement incentive plan under this Act and to which
17 the individual would not otherwise have been entitled, including the cost of health insurance.
18 The amount that the individual has paid under sec. 2(d) or (e) of this Act will be applied as a
19 credit toward the reemployment indebtedness. Interest on the reemployment indebtedness
20 accrues from the date of reemployment until the date that the individual either is appointed to
21 retirement and accepts an actuarial adjustment to the individual's future benefits or repays the
22 indebtedness in full. The rate of interest is that established by regulation for the public
23 employees' retirement system by the public employees' retirement board and for the teachers'
24 retirement system by the teachers' retirement board.

25 (b) An individual who was appointed to retirement under this Act may not be
26 employed by, or enter into a contract for personal services with, a state agency or the
27 University of Alaska within the three years after the date of appointment to retirement, except
28 that

29 (1) the University of Alaska may enter into a personal services contract with
30 the individual for teaching or research;

31 (2) the individual may accept employment with the legislature during a

1 legislative session if the employment is on an hourly basis and does not entitle the individual
2 to receive retirement, health, or leave benefits;

3 (3) the individual may accept employment with a school district as a substitute
4 teacher; and

5 (4) an individual who participated in the teachers' retirement system may
6 accept employment with a school district if the employment is on an hourly basis and does not
7 entitle the individual to receive retirement, health, or leave benefits.

8 (c) Notwithstanding the prohibition in (b) of this section, a state agency or the
9 University of Alaska may enter into a personal services contract with an individual who was
10 appointed to retirement under this Act if the Board of Regents, for the University of Alaska,
11 or the commissioner of administration, for a state agency, determines that there is a
12 compelling reason to do so because of the individual's specialized or extensive experience that
13 relates to a particular program or project of the state agency or university.

14 * **Sec. 11.** The uncodified law of the State of Alaska is amended by adding a new section to
15 read:

16 OFFICE OF MANAGEMENT AND BUDGET. (a) When designating an employee
17 category for participation in a retirement incentive plan under this Act, the executive head of
18 the relevant state agency shall describe in detail the expected effect of the plan on the agency's
19 personal services cost and operation. This financial report must be approved by the director
20 of the office of management and budget before the commissioner of administration may
21 approve the proposed plan. The state agency shall report each year to the office of
22 management and budget on the cost of each employee's participation and the effect on the
23 agency's personal services cost and operation.

24 (b) The office of management and budget shall submit to the legislature annual
25 reports on the retirement incentive under this Act beginning January 15, 2005, and continuing
26 through January 15, 2007, and shall submit a final report January 15, 2008. Each report must
27 provide the information necessary for the legislature to evaluate the effectiveness of the plans
28 in achieving their objectives. The report must include information on the designated
29 employee categories under the plans, including the cost of each plan per participant, the cost
30 to the state, the cost to the employee, the annual budgeted amount, by state agency, for the
31 incentives, the number of positions deleted or left vacant, and the projected or actual net

1 savings over the three-year period.

2 * Sec. 12. The uncodified law of the State of Alaska is amended by adding a new section to
3 read:

4 PROGRAM CHANGES. (a) An individual employee does not have a vested or
5 contractual right to a benefit under this Act until an agreement is executed with the
6 administrator that specifically authorizes that employee to participate in the retirement
7 incentive program under this Act. The legislature reserves the right to change any aspect of
8 the retirement incentive plan as it relates to employees for whom participation agreements
9 have not yet been executed with the administrator or with the commissioner of administration.

10 (b) In this section, "administrator" means the administrator of the public employees'
11 retirement system for employees who are members of that system, and the administrator of
12 the teachers' retirement system for employees who are members of that system.

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

15 REGULATIONS. The commissioner of the Department of Administration may adopt
16 regulations under AS 44.62 (Administrative Procedure Act) to implement and interpret this
17 Act.

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

20 DEFINITIONS. (a) Unless provided otherwise in this Act, the definitions set out in
21 AS 14.25.220 apply to provisions in secs. 2 - 10 of this Act that relate to the teachers'
22 retirement system and members of the teachers' retirement system.

23 (b) Unless provided otherwise in this Act, the definitions set out in AS 39.35.680
24 apply to provisions in secs. 2 - 10 of this Act that relate to the public employees' retirement
25 system and members of the public employees' retirement system.

26 (c) In this Act,

27 (1) "office of management and budget" means the office of management and
28 budget in the Office of the Governor;

29 (2) "public employees' retirement system" means the Public Employees'
30 Retirement System of Alaska (AS 39.35);

31 (3) "state agency"

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(A) means

(i) the legislative branch of state government;

(ii) the judicial branch of state government;

(iii) a principal department of the executive branch of state government; an independent state entity that is attached to a principal department of the executive branch for administrative purposes but that is not a public organization as defined in AS 39.35.680 is part of that department for purposes of this clause; and

(iv) the Office of the Governor;

(B) does not include

(i) the University of Alaska;

(ii) a political subdivision of the state; or

(iii) a public organization as defined in AS 39.35.680;

(4) "teachers' retirement system" means the Teachers' Retirement System of Alaska (AS 14.25).

* Sec. 15. Sections 1 - 8 of this Act are repealed July 1, 2007.

* Sec. 16. This Act takes effect immediately under AS 01.10.070(c).

Alaska State Legislature

Session:
State Capitol
Juneau, AK 99801
Phone: (907) 465-2995
Fax: (907) 465-6592



Interim:
716 W 4th Avenue, Suite 430
Anchorage, AK 99501-2133
Phone: (907) 269-0250
Fax: (907) 269-0249

Representative Lesil McGuire
Chair, Judiciary Committee

HB 329

"An Act relating to retirement incentive programs for the public employees' retirement system, the judicial retirement system, and the teachers' retirement system; relating to separation incentives for certain state employees; and providing for an effective date."

SPONSOR STATEMENT

As Alaska continues to struggle with a sizeable fiscal gap and the size and sustainability of our revenue stream uncertain, state government must consider creative policy options that will reduce the cost of government in a manner that is not immensely damaging to our local economies. "Slash and burn" budget cutting, while expedient is not a responsible manner to reduce state spending if avoidable. HB 329 offers state agencies, municipalities, and school districts an additional management tool to reduce headcount among their costliest employees.

House bill 329 proposes an optional retirement incentive in order to reduce the number of government employees, at multiple levels of government, as a way to reduce overall personnel costs while minimizing the negative economic impacts of across-the-board layoffs. While HB 329 is similar to other retirement incentive legislation adopted in the past, there are several innovative components that stand apart from previous versions.

First, this bill extends eligibility for the retirement incentive program (RIP) only to Tier I employees (TRS and PERS). The logic behind this decision is twofold:

- 1) Tier I employees are unquestionably the most expensive in the state workforce. Although many are nearing early and normal retirement age, offering an incentive may encourage numerous employees to retire earlier than originally planned thus reducing the overall retirement benefit while minimizing the impact to actuarial rates; and
- 2) It will be necessary to retain skilled and experienced employees to fill positions vacated by Tier II who could otherwise be eligible to retire under the provisions of this bill.

Secondly, this bill allows those who retire under this program to apply unused annual or personal leave to pay all or a portion of their indebtedness to the system. Lastly, while many of the original restrictions and prohibitions on reemployment remain, this bill offers two unique provisions to help Alaska's school districts meet their growing demand for substitute teachers and allow them access to our most experienced career educators while reducing cost. In both

instances, this bill limits those reemployment circumstances to hourly positions that do not receive leave, retirement, or insurance benefits.

After reviewing reports from the Office of Management and Budget (OMB) and Legislative Budget and Audit (LB&A), one thing becomes clear—Retirement Incentive Programs save the state money. In a report issued by OMB in January 2000, they estimated that the 1996 RIP would realize a total net savings of \$41.4 million through FY03. In addition, in 1991 LB&A concluded that the 1989 RIP realized a net savings of \$22.9 million among state agencies and the participating municipalities and school districts.

In a 2002 report entitled "Show Me The Money: Budget Cutting Strategies for Cash Strapped States", the American Legislative Exchange Council (ALEC) identified ten strategies for cutting budget deficits. The first recommendation is to reduce workforce costs and chief among their suggestions is to provide incentives for early retirement stating "Offering early retirement incentives, such as allowing employees to retire early with full benefits and severance package, typically results in a large exodus of state workers, thereby reducing the workforce without layoffs."

It is for these reasons that HB 329 enjoys wide support from many state employees, teachers, and school districts and it is for these reasons we ask you to support HB 329.

THE
FOLLOWING
DOCUMENT(S)
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POOR
ORIGINAL
COPIES



MATANUSKA-SUSITNA BOROUGH SCHOOL DISTRICT
OFFICE OF THE CHIEF SCHOOL ADMINISTRATOR
501 NORTH GULKANA STREET
PALMER, ALASKA 99645

Phone: 907-746-9255 • Fax: 907-761-4076

January 26, 2004

Representative Lesil McGuire
State Capitol, Room 118
Juneau, AK 99801-1182

Dear Representative McGuire:

Please consider this letter a statement of support for House Bill 329, which would allow government employers to reduce personnel costs through participation in a retirement incentive program. With drastic increases in mandatory contributions to PERS and TRS, our district finds itself in a critical situation. We respectfully ask assistance from the state in two forms: 1) Increased funding for education; and, 2) Increased flexibility to lower our overall cost for salaries and benefits.

Like other school districts, mandatory increases in payments to the state's retirement systems (PERS/TRS), annual inflation, and "status quo" funding have a negative impact on the quality of education. Unlike other school districts, we have no opportunity to increase local revenues, as our local Borough funds the district by the maximum allowable under state law. The State's Foundation Formula has no mechanism to adjust for inflation, meaning our district absorbs the cost of increases each year. Unfortunately, this translates to fewer programs, fewer services, and fewer staff.

Currently, 40 percent of our staff is at the "top" of our salary schedules and eligible for retirement, driving up the overall cost of salaries and benefits and reducing available resources to fund education programs. As a result, employee salaries and benefits account for more than 90 percent of our total Operating Budget (please see accompanying chart). A well-planned retirement incentive program would allow retirement for seasoned staff, opening the door for new, qualified employees at a lesser cost to the district.

Again, our budget forecast is grim. For the upcoming fiscal year, we will be forced to eliminate \$8 million in programs, personnel, and services. This can only be accomplished

to the detriment of our students and schools, as we can no longer absorb the negative impact of annual budget cuts. We can't afford to offer the education programs our community expects and our students need to be successful. Again, we must have additional funding, as well as greater flexibility in the form of a retirement incentive program.

In sum, our district strongly supports HB 329. We appreciate your sponsorship of this bill and your desire to provide relief from the impact of mandatory increases to state retirement programs.

Sincerely,

A handwritten signature in black ink, appearing to be 'RD', with a long horizontal line extending to the right.

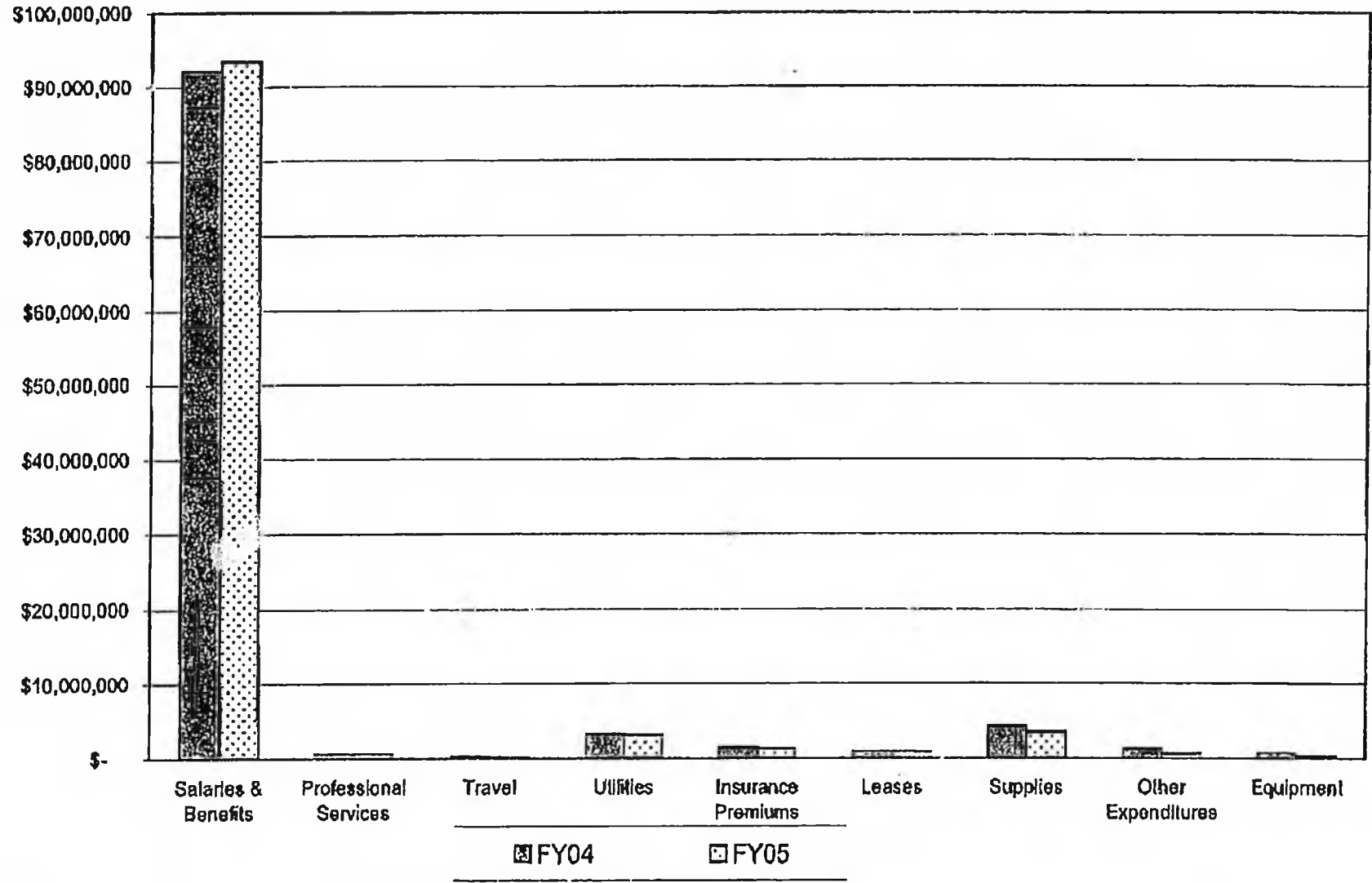
Robert Doyle
Chief School Administrator

Cc: House State Affairs Committee

Attachment

Matanuska-Susitna Borough School District

Expenditure Comparison by Object



SUPERINTENDENT

01/28/2004 11:16 9077614076

1/28/2004

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 329
 () Publish Date: _____

Revision Date/Time (Note if correction): 02/14/04; 16:30 Dept. Affected: Administration
 Title An Act relating to Retirement Incentive Programs RDU ALL
for PERS, TRS, JRS; related separation incentives Component ALL
 Sponsor Rep. McQuire
 Requester _____ Component No. 64

Expenditures/Revenues (Thousands of Dollars)

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

| OPERATING EXPENDITURES | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|------------------------|--------------|--------------|--------------|-------------|-------------|-------------|
| Personal Services | 321.5 | 321.5 | 321.5 | 74.9 | 74.9 | 74.9 |
| Travel | 30.0 | 30.0 | 30.0 | 0.0 | 0.0 | 0.0 |
| Contractual | 295.0 | 210.0 | 210.0 | 0.0 | 0.0 | 0.0 |
| Supplies | 16.0 | 8.0 | 8.0 | 2.0 | 2.0 | 2.0 |
| Equipment | 80.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Land & Structures | | | | | | |
| Grants & Claims | | | | | | |
| Miscellaneous | | | | | | |
| TOTAL OPERATING | 742.5 | 569.5 | 569.5 | 76.9 | 76.9 | 76.9 |

| | | | | | | |
|-----------------------------|--|--|--|--|--|--|
| CAPITAL EXPENDITURES | | | | | | |
|-----------------------------|--|--|--|--|--|--|

| | | | | | | |
|-------------------------------|--|--|--|--|--|--|
| CHANGE IN REVENUES () | | | | | | |
|-------------------------------|--|--|--|--|--|--|

FUND SOURCE (Thousands of Dollars)

| | | | | | | |
|--------------------------------|--------------|--------------|--------------|-------------|-------------|-------------|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | | | | | | |
| 1005 GF/Program Receipts | | | | | | |
| Retirement System - PERS - 67% | 497.5 | 381.6 | 381.6 | 51.5 | 51.5 | 51.5 |
| Retirement System - TRS - 33% | 245.0 | 187.9 | 187.9 | 25.4 | 25.4 | 25.4 |
| TOTAL | 742.5 | 569.5 | 569.5 | 76.9 | 76.9 | 76.9 |

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

| | | | | | | |
|-----------|---|---|---|---|---|---|
| Full-time | 2 | 2 | 2 | 2 | 2 | 2 |
| Part-time | 0 | 0 | 0 | 0 | 0 | 0 |
| Temporary | 6 | 6 | 6 | 0 | 0 | 0 |

ANALYSIS: (Attach a separate page if necessary)

The above fiscal information relates to costs to administer the program only; see page 2.

AS 24.08.036 FISCAL NOTES ON BILLS AFFECTING STATE RETIREMENT SYSTEMS, requires an additional analysis of the long term and short term costs to the state if a bill is adopted, as well as the impact of the bill on the actuarial soundness of the funds. The analysis presented here does NOT include the employer and system wide costs related to RIP eligibles that results in a continuing liability to the system once the employee is retired, and the related increase in accrued liability for pension and post-retirement health costs over the life of RIP retirees.

Prepared by: Melanie Millhorn Phone 465-4408
 Division Retirement and Benefits Date/Time 2/14/04 12:00 AM
 Approved by: Mike Miller, Commissioner Date _____
 Agency Administration

STATE OF ALASKA
 2004 LEGISLATIVE SESSION
 ANALYSIS CONTINUATION

BILL NO. HB 329

The estimated administrative costs to the division by fiscal year are as follows:

| | FY 2005 | FY 2006 | FY 2007 | FY 08-10 | | |
|---------------------------------|--|---------|--------------|--------------|--------------|-------------|
| PERSONAL SERVICES: | | | | | | |
| 1 - R&B Specialist I - Range 16 | Counsel | NP | 52.0 | 52.0 | 52.0 | 0.0 |
| 4 - R&B Tech I/II - Range 12 | Process | NP | 159.6 | 159.6 | 159.6 | 0.0 |
| 1 - R&B Tech I/II - Range 12 | Process | Perm | 39.9 | 39.9 | 39.9 | 39.9 |
| 1 - Admin. Clerk - Range 10 | Intake | NP | 35.0 | 35.0 | 35.0 | 0.0 |
| 1 - Admin. Clerk - Range 10 | Records | Perm | 35.0 | 35.0 | 35.0 | 35.0 |
| | | | <u>321.5</u> | <u>321.5</u> | <u>321.5</u> | <u>74.9</u> |
| TRAVEL: | Counsel Prospective Retirees and Seminars | | 30.0 | 30.0 | 30.0 | 0.0 |
| CONTRACTUAL: | | | | | | |
| | Communications & Postage | | 90.0 | 45.0 | 45.0 | 0.0 |
| | Computer system modifications | | 50.0 | 10.0 | 10.0 | 0.0 |
| | Actuarial Services | | 75.0 | 75.0 | 75.0 | 0.0 |
| | Accounting & Legal Services | | 75.0 | 75.0 | 75.0 | 0.0 |
| | Training \ Risk Management | | 5.0 | 5.0 | 5.0 | 0.0 |
| | | | <u>295.0</u> | <u>210.0</u> | <u>210.0</u> | <u>0.0</u> |
| SUPPLIES: | Office supplies, calculators, desk-top software | | 16.0 | 8.0 | 8.0 | 2.0 |
| EQUIPMENT: | Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs | | 80.0 | 0.0 | 0.0 | 0.0 |
| | For non-perms and temp. - set-up and take down. | | | | | |
| TOTAL | | | <u>742.5</u> | <u>569.5</u> | <u>569.5</u> | <u>76.9</u> |

This bill creates a retirement incentive program for the Public Employers' (PERS), Teachers' (TRS) and Judicial (JRS) Retirement Systems. In addition, it allows for separation bonuses for state employees. Authorization for state employees could begin as early as June 30, 2003 or as late as June 30, 2006 (for purposes of this analysis updated to 2004-2007 for the 2nd Session). RIP eligibility periods for state employees would be designated by the Commissioner of Administration. RIP window periods would last from 30-60 days. RIP eligibility periods for the University of Alaska would be designated by the Board of Regents. The Board of Regents could adopt a RIP any time between June 30, 2003 or as late as June 30, 2006. Participating PERS political subdivision employers could adopt a RIP between October 31, 2003 and end no later than June 30, 2004. The chief justice of the state supreme court may adopt a retirement incentive plan for an administrative director of the Alaska Court System if the director is a member of JRS.

Active PERS, TRS and JRS members who meet the cost savings criterion could retire on an accelerated basis with an increased benefit under the following conditions: at age 47 or age 53 (depending on tier), if vested; with 17 years of service as a qualified peace officer, firefighter or teacher; or with 27 years of credited service in the PERS. Qualifying members are indebted to the retirement system and must make a lump sum payment or take an actuarial reduction from their lifetime benefit for the indebtedness amount. The total cost of the incentive is required to be paid within 3 years and will not impact the actuarial soundness of the systems.

Reemployment into the PERS, TRS or JRS or the optional university retirement program after appointment to a RIP retirement will require members to repay 110 percent of the amount they received as a result of RIP participation plus they will forfeit the RIP credit when they retire again.

We estimate that 2 permanent employees will be needed to manage the operations of the program and increased service demands into the future. 6 long-term non-permanent employees will also be needed over the next three fiscal years. Personnel will handle increased counseling in house as well as in field locations, 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.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB0329a
 () Publish Date: _____
 Dept. Affected: All
 RDU ALL
 Component ALL
 Component No. _____

Revision Date/Time (Note if correction): 02/13/04: 14:00

Title An Act relating to retirement incentive programs for PERS, TRS, JRS; related separation incentives
 Sponsor Rep. McGuire
 Requester _____

Expenditures/Revenues (Thousands of Dollars)

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

| OPERATING EXPENDITURES | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|------------------------|---|------------|------------|------------|------------|------------|
| Personal Services | See attach letter analysis by retirement system Actuary. | | | | | |
| Travel | Total employer cost for PERS, for all RIP eligible = \$ 786.3 million | | | | | |
| Contractual | Total employer cost for TRS, for all RIP eligible = \$ 431.6 million | | | | | |
| Supplies | | | | | | |
| Equipment | | | | | | |
| Land & Structures | | | | | | |
| Grants & Claims | | | | | | |
| Miscellaneous | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | |
|-------------------------------|--|--|--|--|--|--|
| CAPITAL EXPENDITURES | | | | | | |
| CHANGE IN REVENUES () | | | | | | |

FUND SOURCE (Thousands of Dollars)

| | | | | | | |
|---|----------------------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | ALL FUNDING SOURCES | | | | | |
| 1005 GF/Program Receipts | | | | | | |
| 1037 GF/Mental Health | | | | | | |
| Other (Specify Type--Do not abbreviate) | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

AS 24.08.036 FISCAL NOTES ON BILLS AFFECTING STATE RETIREMENT SYSTEMS, requires an analysis of the long term and short term costs to the state if a bill is adopted, as well as the impact of the bill on the actuarial soundness of the funds.

The attached summary by the system Actuary, Mercer Human Resources Consulting, determined the cost to the system of the RIP eligibles by 1) calculating a liability increase created by the retirement as result of RIP eligibility (more years of payments and benefits, 2) discounting that for the total present value of those benefits, 3) minus the member indebtedness to be paid to the Systems.

The 1996 RIP indicated 12,284 PERS members with a cost of \$341.8 million; and 4,730 TRS with a cost of \$175.9 million. This RIP involves 8,008 PERS members through 7/07 at a cost of \$786.3 million; and 3,470 TRS members through 7/07, at a cost of \$431.6 million.

The dramatic cost increase per member for this RIP is due to the use of newer life expectancy which adds more payments, health care costs that have more than doubled (\$350 per member 1996 to \$806 per member in 2004), etc.

Prepared by: Melanie Millhorn Phone _____
 Division Retirement and Benefits Date/Time 02/13/04; 14:00
 Approved by: Mike Miller, Commissioner Date _____
 Agency Administration

MERCER

Human Resource Consulting

One Union Square
600 University Street, Suite 3200
Seattle, WA 98101-3137
206 808 8800 Fax 206 382 0627
www.mercerHR.com

February 13, 2004

Ms. Melanie Millhorn
Director
State of Alaska
Division of Retirement & Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Subject:

House Bill 329 - Retirement Incentive Program (RIP)

Dear Melanie:

We have calculated the total employer cost for both the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) under the proposed RIP, as described in CS to House Bill 329.

The following data and assumptions were used in estimating the RIP costs:

1. June 30, 2003 actuarial valuation data as supplied by the Division of Retirement & Benefits with additional eligible members added by Mike Adams.
2. The interest rate is 8.25%.
3. The actual monthly premium for medical benefits is \$806 as provided by the State of Alaska, Division of Retirement & Benefits
4. All other assumptions and methods are consistent with the June 30, 2002 actuarial valuation reports for the respective Systems.

Under the proposed RIP employers can open the RIP for one or more periods to eligible members from June 30, 2004 to June 30, 2007. For purposes of this analysis, we've assumed an employer will open RIP windows sufficiently often to allow all members who become eligible during the three-year period to take advantage of the proposed RIP. We've assumed all eligible members will retire under the RIP. If fewer windows are opened or if fewer eligible members accept, then the total employer cost will be less.

MERCER

Human Resource Consulting

Page 2

February 13, 2004

Ms. Melanie Millhorn

State of Alaska

The total employer cost under proposed HB 329 is equal to the increase in the total present value of benefits, minus member indebtedness to be paid to the Systems. The total employer cost would be approximately \$786,300,000 for PERS and \$431,600,000 for TRS.

In determining the costs we've calculated the increase in present value of benefits for those who will be RIP eligible as of June 30, 2004. In order to account for those to become eligible over the next three years we increased the present value of benefits proportionately by the number of newly eligible members each June 30th, discounted with interest. As of June 30, 2004, 6,643 PERS members and 3,066 TRS members will be eligible for the RIP. The following table illustrates the number of additional members to become eligible thereafter:

| Become Eligible | PERS | TRS |
|-----------------|------|-----|
| 7/04 - 7/05 | 553 | 162 |
| 7/05 - 7/06 | 443 | 162 |
| 7/06 - 7/07 | 369 | 80 |

System payroll as of June 30, 2003 for all members to become eligible at any time before June 30, 2007 is \$413,400,000 for PERS and \$222,200,000 for TRS.

Our understanding is that each employee is directly charged the cost due to enhanced benefits and earlier eligibility available through the RIP. Thus the RIP is designed to be cost neutral under the actuarial assumptions and methods presently in use. While these assumptions are our best estimates, future changes (such as improvements in longevity or higher than anticipated medical cost increases) may affect the ultimate cost neutrality of the program.

MERCER

Human Resource Consulting

Page 3

February 13, 2004

Ms. McLanie Millhorn

State of Alaska

Please feel free to call either of us with any questions or comments.

Sincerely,



Robert Reynolds, ASA, EA



Christopher M. Bymes, EA

RMR/CMB/msk

Copy:

Kathy Lca

Anselm Staack

Alaska Division of Retirement & Benefits Public Employees' Retirement System Plan Comparison Chart Rev. 1/12/2004

| Tier I 1/1/61 - 6/30/86 | Tier II Entered on or after 7/1/86 | Tier III Entered on or after 7/1/96 |
|---|---|---|
| <p>Pre-tax employee contribution: 6.75% beginning 1/1/87—All others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district</p> | <p>Pre-tax employee contribution: 6.75% beginning 1/1/87—All others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district</p> | <p>Pre-tax employee contribution: 6.75% beginning 1/1/87—All others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district</p> |
| <p>Members vest with 5 years of service.</p> | <p>Members vest with 5 years of service.</p> | <p>Members vest with 5 years of service.</p> |
| <p>Normal retirement age is 55, with early retirement at age 50; police/fire members can retire at any age after 20 years of police/fire service; all other members can retire at any age after 30 years of membership service. Early retirement reduction will be ½% per month or 6% per year for every year less than the required normal retirement age.</p> | <p>Normal retirement age is 60, with early retirement at age 55; police/fire members can retire at any age after 20 years of police/fire service; all other members can retire at any age after 30 years of membership service. Early retirement reduction will be ½% per month or 6% per year for every year less than the required normal retirement age.</p> | <p>Normal retirement age is 60, with early retirement at age 55; police/fire members can retire at any age after 20 years of police/fire service; all other members can retire at any age after 30 years of membership service. Early retirement reduction will be ½% per month or 6% per year for every year less than the required normal retirement age.</p> |
| <p>Benefit formula is 2% for first 10 years and all years of service prior to July 1, 1986, 2.25% for the next 10 years, 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary.</p> <p>Police/Fire 2% x 10, 2.5% over 10.</p> | <p>Benefit formula is 2% for first 10 years, 2.25% for the next 10 years, and 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years salary.</p> <p>Police/Fire 2% x 10, 2.5% over 10.</p> | <p>Benefit formulas did not change; however, the benefit calculation is determined on the average of the high five consecutive years' salary. The benefit calculation for police and fire members is the average of the high three consecutive</p> |

| | | |
|--|--|---|
| | | years regardless of tier (effective 2002). |
| An Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater. | An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater. | An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater. |
| PRPA increases granted on an ad hoc basis. The automatic PRPA legislated in 1986 applied to all members regardless of hire date. | Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. | Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years. |
| Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system. | Medical coverage is provided to disabilitants, regardless of age and benefit recipients over age 60 or <ul style="list-style-type: none"> • police/fire members with 25 years of police/fire service • all other members with 30 years of membership service and their eligible dependents. The retirement system pays the retiree medical plan premium. Retirees and survivors under age 60 must pay the full premium cost if they want coverage. | Same as Tier II. However, employees must accrue a minimum of 10 years of credited service* , to have system-paid coverage at age 60. Employees with less than 10 years must pay the full premiums as long as they wish to continue medical coverage. |
| Disability benefits for members: nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation. Different occupational disability formula available before 7/1/76. | Disability benefits for members: nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation. | Disability benefits for members: nonoccupational disability benefits are calculated as a normal retirement. Occupational disability provides 40% of the gross monthly compensation. |

*Credited service includes all service used in the calculation of a retirement benefit.

Alaska Division of Retirement & Benefits TRS Plan Comparison Chart Rev. 1/12/2004

| Tier I 7/1/55 - 6/30/90 | Tier II Entered on or after 7/1/90 |
|---|--|
| Pre-tax employee contribution: 8.65% beginning 1/1/91 | Pre-tax employee contribution: 8.65% beginning 1/1/91 |
| Members vest with 8 years of service. | Members vest with 8 years of service. |
| Normal retirement age is 55, with early retirement at age 50; teachers can retire at any age after 20 years of membership service. | Normal retirement age is 60, with early retirement at age 55; teachers can retire at any age after 20 years of membership service. |
| Benefit formula is 2% for the first 20 years and all years of service prior to July 1, 1990, 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. | Benefit formula is: 2% for the first 20 years, 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. |
| An Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit. | An Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit. |
| PRPA increases granted on an ad hoc basis. The automatic PRPA legislated in 1990 applied to all members regardless of hire date. | Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years. |
| Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system. | The retirement system pays the retiree medical plan premium for all disabilities regardless of age, for retirees and survivors over age 60 and for retirees with at least 25 years of membership service. This coverage includes eligible dependents. Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage. |
| Disability benefits are 50% of base salary, plus 10% for each eligible dependent child up to a maximum of 4 children. | Disability benefits are 50% of base salary, plus 10% for each eligible dependent child up to a maximum of 4 children. |

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Pensions and Retirement Plan Enactments in 2003 State Legislatures

Ronald K. Snell

With assistance from Justin Marks

Posted 5 November 2003

Introduction. This report summarizes selected pensions and retirement legislation that state legislatures enacted in 2003. We have reviewed legislation enacted in all 50 states through October 31, 2003. The report also includes a few items of legislation enacted too late in 2002 for inclusion in the 2002 report.

The sources of this report are retirement systems' Web sites and direct communication with legislative staff and retirement system staff. We are grateful to the many legislative staff who write and share summaries of their Legislatures' acts, the many retirement system staff throughout the United States who have posted legislative summaries on their web sites, and the staff of legislatures and retirement systems who have taken time to identify and explain legislation and its context to us.

Our goal has been to include information that will help policy makers know how other states have addressed issues that could arise in any state. For that reason we exclude most clean-up legislation, cost-of-living adjustments, administrative procedures and technical changes that are state-specific. This report is organized by a list of the topics that legislatures addressed in 2003. The following summarizes action on the issues that received the most attention in 2003, in terms of the volume of legislation. Following it is a list of the topics the report covers and summaries of legislation, organized by topic.

Contribution Rates and Funding Issues

Fiscal, economic, and funding concerns dominated state retirement legislation in 2003.

- A number of states--California, Illinois, Kansas, New Jersey, Oregon, West Virginia and Wisconsin--authorized pension obligation bonds to address state or local current funding issues or actuarially accrued unfunded liabilities. New York authorized local governments to bond for any contributions in excess of 7 percent of salaries for FY 2005.
- Some states increased mandatory contribution rates by statute, including Connecticut, Florida, Kansas, Massachusetts, Missouri, Nebraska and Washington. Many states do not require legislation to increase contribution rates.
- Some states limited the mandatory contributions of state agency employers and local governments in order to phase in substantial increases in contributions (Colorado,

Missouri, New York and New Jersey) or otherwise provided temporary fiscal relief to local governments (Massachusetts). The Colorado legislation was vetoed.

- Some states prohibited benefit increases pensions systems' finances improve (Missouri and New Jersey)
- Oregon completely reorganized the Public Employee Retirement System to address an unfunded accrued liability that had grown from less than one billion dollars in 1999 to approximately \$15 billion in October 2002.

Early Retirement Incentives

At least eight states--Connecticut, California, Indiana, Maine, Michigan (in late 2002), Missouri, New Jersey and Texas--made early retirement incentive programs available to state employees or local government employees in 2003, in part to reduce or control the number of state employees in light of current state fiscal difficulties. Indiana, Maine and Texas adopted the unusual procedure of making cash payments to employees who took advantage of the early retirement incentives. Six states adopted such programs in 2002.

Governance

The reorganization of retirement system boards of trustees in Maryland and Oregon was in both states at least in part because of issues related to financial management.

Health Coverage

Health coverage for retirees was an issue in several states. California increased the minimum employer contribution for agencies that contract with the Public Employees Retirement System for health benefits and provided that after 2008 the minimum payment will be adjusted annually to reflect changes in the medical care component of the consumer price index. Kentucky, New Hampshire and Texas tightened eligibility for future retiree health benefits through minimum service requirements. Texas also enacted a levy on active Teachers Retirement System members for retiree health insurance; the levy will increase over time. Connecticut increased active teachers' and the state's payments to cover health insurance for retired teachers who are not eligible for Medicare, and also increased the beneficiaries' copayments.

Legislators' Retirement Plans

Several states made relatively minor adjustments in their legislative retirement plans to increase flexibility for legislators who previously were or subsequently become eligible for other state retirement programs, probably reflecting shorter legislative terms and term limits. Three states made more significant changes. Illinois reduced potential retirement benefits for long-term legislators. New Mexico created new optional retirement programs that would require higher contributions from legislators and increase potential benefits. Oregon will allow future legislators either to join its new Oregon Public Service Retirement Plan, join the state deferred compensation plan, or opt out of a retirement benefit based on legislative service.

Re-employment after Retirement

Easing or removing restrictions on collecting retirement benefits when a retiree returns to

covered employment was again an important issue in 2003, as it has been in the last few years. Ten states enacted such legislation in 2002, and 20 did so in 2001. New legislation in Connecticut, Florida, Illinois, Missouri, Montana, New Mexico, North Dakota, and Texas facilitates retired teachers' return to covered employment. Alaska allowed a retiree covered by the Public Employee Retirement System to enter teaching and earn credit in the Teachers' Retirement System within one year.

New York authorized local governments to hire retirees to fill in for activated employees without the replacement losing retirement benefits; Colorado enacted somewhat similar legislation. Maryland and West Virginia legislation eased the return of certain retired public safety personnel to covered employment. New Mexico legislation allows any retired public employee to return to covered employment without a loss of retirement benefits, but the returning employee must contribute to the retirement fund without earning any additional service credit.

List of Topics

- Benefit Cap
- Conformity with provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTERRA)
- Contribution rates and funding issues
- Deferred Compensation Plans/Optional Retirement Plans
- Defined Benefit Plan Changes
(including partial lump-sum options)
- Defined Benefit Plan - New
- Defined Contribution Plans For Broad Categories of Employees
- Deferred Retirement Option Plans
- Disability
- Early Retirement Incentives
- Governance
- Guarantee of Benefits
- Health Coverage
- Investments
- Legislators' Retirement Plans
- Loans
- Re-employment after Retirement
- Retirement Eligibility
- Service Credit/ Purchase of Service/ Transfer of Credit
- Special Pay Plans
- Studies
- Taxation
- Vesting
- Withdrawn Contributions

Benefit Cap

Louisiana. SB 428 provides that retirement benefits provided by existing law shall not exceed 100%, and when a member has earned a benefit accrual equal to 100% no further

contributions shall be required of him. However, the state shall continue to pay to the system the employer's contribution.

Conformity with provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTERRA)

Alaska. HB 254

North Dakota. SB 2057

Contribution rates and funding issues

California. Chapter 11, Statutes of 2003 (SBX1 29) authorized the sale of pension obligation bonds to fund or refund the state's pension obligations. The act also authorizes the Pension Obligation Bond Committee, as established by the bill, to bring an action to determine the validity of the bonds issued pursuant to the act. According to the Legislative Analyst's Office, the bonds would be repaid over five years.

The plan to issue bonds for \$1.9 billion was blocked as unconstitutional by a justice of the state supreme court on September 24, 2003.

In addition, the budget reduces a payment to the State Teachers' Retirement System supplemental benefit program (which protects retirees' benefits from the effects of inflation) by \$500 million on a one-time basis (reported by the Legislative Analyst's Office).

Colorado. SB 101, vetoed by the governor, would have limited year-over-year employer contribution rate increases, providing among other things that rates would have remained constant when the Public Employees' Retirement Association's funding ratio is between 95 percent and 110 percent, be amortized over 30 years when the ratio is between 85 percent and 95 percent, and be amortized over 20 years when the funding ratio is below 85 percent or above 115 percent. The bill would have frozen employer contributions until July 1, 2004, for state, school and judicial employers. The bill also included a ceiling on the year-over-year employer contribution rate increase. In the wake of the veto, the contribution rate for state and school division employers will increase from 10.04 percent in FY 2002 to 10.15 percent for FY 2003.

Connecticut. PA 03-6 requires that the state's contribution to the state employee retirement fund for FY 2004 and FY 2005 be revised to take the costs of the early retirement incentive program into account.

Florida. Chapter 2003-260 changed employer contribution rates for Florida Retirement System pensions. Increases included the contribution rate for regular members going from 5.76 percent for FY 2002 to 7.39 percent for FY 2003; for legislators and the governor, from 9.41 percent to 12.49 percent, and for county, city and special district elected officers, from 11.86 percent to 15.23 percent. Full details at http://www.frs.state.fl.us/frs/public/conrate/2003_contribs.htm.

Illinois. HB 2660 authorized the sale of \$10 billion in pension obligation bonds to pay the state employer's contribution to the State Employees' Retirement System of Illinois; the Teachers' Retirement System of the State of Illinois; the State Universities Retirement System; the Judges Retirement System of Illinois; and the General Assembly Retirement System for 2004 plus a remaining amount due for 2003 (about \$2.16 billion in all). The remainder will be used to reduce the accrued unfunded actuarial liability .

Kansas. HB 2014 provides for annual increases in the state employer contribution to the Kansas Public Employees Retirement Fund (KPERs) from 4.58 percent for FY 2004 to 7.58 percent for FY 2010. The bill also suspends state and local government contributions for the Death and Long Term Disability Benefits plan administered by KPERs from April 1, 2003 through June 30, 2004 for a savings of nearly \$28 million.

HB 2014 also authorized, but did not require, three bond issues:

- The Secretary of Administration was given discretion to issue up to \$15.5 million in revenue bonds to finance the unfunded actuarial liability that would ensue to KPERs as a result of the legislature's transferring a closed group of higher education and University of Kansas Hospital Authority active, inactive and retired employees to KPERs. The bonds would be for 10 years and would be repaid by the regents and the hospital authority from appropriated funds. The group members are presently covered by defined contribution plans.
- A second bond authorization in the amount of \$24.9 million would transfer the "13th check" for a closed group of about 15,000 KPERs members into a guaranteed benefit. 13th checks have been funded from fund investment returns above forecast. This provision would guarantee the benefit for the lives of the beneficiaries. The 10-year bonds would be repaid with increased state employer contributions beginning in 2005. An additional unfunded accrued liability will be unbonded and will be covered by an increase in the local government employer contribution beginning in 2005.
- Third, the legislation authorizes the issue of as much as \$500 million of revenue bonds to offset the unfunded actuarial liability of KPERs (presently \$1.5 billion), subject to the decision of the State Finance Council whether to issue such bonds. The council may also decide whether to issue taxable or untaxed bonds. The council itself will be advised by the Joint Committee on Pensions, Investments and Benefits after the committee studies the issue. The purpose of the proposed bond issue is to produce long-term savings in employer contributions.

Maine. Chapter 20, PL 2003, the budget bill, lengthened the amortization period of the unfunded actuarial liability for the Maine State Retirement System (MSRS) for the two years of the 2004-05 biennium. At the end of the 2004-05 biennium the amortization period is re-shortened, to the period it would have been absent the lengthening for the biennium. The Constitutionally-required amortization period for payment of the UAL is 31 years or less from July 1, 1997.

Massachusetts. Chapter 46, Acts of 2003, Section 128 allows local governments and authorities the option of reducing their appropriations for the unfunded accrued liability portion of their pension obligation for FY 2004 and 2005. Appropriations must meet or exceed normal cost; the reduction may not exceed the reduction a city or town received in local aid according to 2002 and 2003 legislation; the reduction must be approved by the state Department of Revenue and the Public Employee Retirement Administration Commission; and no reduction

may occur if the local government has access to certain reserve funds.

Missouri. HB 152 provides that the contribution rate for the Public School Retirement System (PSRS) shall rise no more than one-half of 1 percentage point at year, and the rate for the Non-Teacher Retirement System (NTRS) by no more than one-quarter of 1 percentage point a year. No legislation is to be enacted after July 1, 2003, to increase benefits to plan participants until the contribution rate is equal to or less than that in effect on July 1, 2003.

HB 346 enacted contribution rate increases at the cap specified in HB 152 and specified that no benefit enhancements may be enacted until the contribution rate equals 10.5 percent for PSRS and 5 percent for NTRS.

HB 221 requires county recorders of deeds to collect an additional \$1 on each document or instrument recorded to be contributed to the County Employees Retirement Fund.

Nebraska. LB 320 raised the contribution rates for the judges' retirement system, beginning July 1, 2003, from 6 percent to 8 percent of salary, for judges with less than 20 years of service. It also initiates a 4 percent contribution for judges with more than 20 years service. (It takes 20 years to earn the maximum retirement benefit in the judges retirement plan.)

Court fees are increased by the bill from one to five dollars. Fees accrue for all civil and criminal cases, traffic misdemeanors or infractions, and city and village ordinance violations filed in the district and county courts. Fees are, in effect, the state matching contribution for the judges plan. [The changes prescribed in LB 320 are meant to improve the financial condition of the judges system.]

New Jersey. Chapter 108, P.L. 2003, reduces for four years the pension contributions that local employers must make to the Public Employees' Retirement System of New Jersey (PERS) and the Police and Firemen's Retirement System (PFRS).

The State Treasurer will reduce local employer PERS normal and accrued liability contributions to be a percentage of the amount certified annually by PERS as follows: 20% for payments due in State fiscal year 2005; not more than 40% for payments due in State fiscal year 2006; not more than 60% for payments due in State fiscal year 2007; and not more than 80% for payments due in State fiscal year 2008. Local employer PFRS normal and accrued liability contributions will similarly be reduced.

The law also provides that, for the respective four-year periods during which local public employers' pension contributions to PERS and PFRS will be reduced, and for the year thereafter when the employers would again be subject to the full contribution requirement, the affected contribution payments shall be exempt from the limits imposed by the local budget "cap" law.

Chapter 15 and chapter 42, Laws of 2003 (S-109 and 2-577), allow local governments to issue refunding bonds to retire the unfunded accrued liability resulting from the granting of early retirement incentive benefits to employees of their local units under the State's various pension systems. In essence, the bill would permit local units to "refinance" certain of their existing pension liabilities.

The unfunded liability of a local unit accrues interest at 8.75 percent, the actuarially

established rate of return for the State's various pension systems. This bill would allow a local unit to issue refunding bonds to fund the present value of the accrued liability, effectively financing an existing debt at a lower rate of interest. This bill would offer this option to counties, municipalities, boards of education and local boards, authorities and commissions that have unfunded liabilities due to early retirement incentive benefits granted under the 1991 and 1993 laws, and under P.L.1999, c.59.

The Office of Legislative Services notes:

- At present, according to the Division of Pensions and Benefits, hundreds of local units have individual unfunded liabilities within the State administered pension systems. These unfunded liabilities were created when eligible employees of a local unit accepted the early retirement incentive benefits offered by the local unit pursuant to a series of laws adopted and effective in 1991 and 1993, and pursuant to P.L.1999, c59. These unfunded liabilities must be paid off by the local unit over a period of thirty-three years, although some local units have opted to fund the liability over shorter periods of time. In CY 2000, these units made payments in excess of \$66 million on these debts. As of June 30, 1999, the present value of these debts were believed to exceed \$594 million.

New Mexico. Chapter 86, laws of 2003 (SB 621) requires operators of oil and gas interests to withhold 6.75 percent from payments to out-of-state royalty and working-interest owners to support changes made in the Legislative Retirement fund. Receipts are deposited in the Tax Administration Suspense Fund. According to the Legislative Council Service, the legislation reflects a suspicion, supported by another state's experience, that out-of-state royalty owners do not always report royalties for income tax purposes; the goal of the legislation is enhanced income tax collection to support the retirement plan changes.

New York. Chapter 49, Laws of 2003, restructures the way state and local government members of the New York State and Local Retirement Systems make employer contributions to the systems. Annual minimum contributions of 4.5 percent of salaries will be required, with no suspension in the future, contrary to past practice, to establish a continual funding stream and build assets even in years when investment performance would allow a lower contribution.

The calculation of contributions will be changed to inform employers of their obligation for a coming year in time to plan for it in budgets. This will prevent the state government from delaying contributions, although it still will be able to do so in FY 2004 since the full required contribution was not budgeted.

For FY 2004-2005, local governments will be permitted to bond any contributions in excess of 7 percent of estimated salaries. In addition, the state comptroller may allow state and local governments to amortize required contribution above 7 percent of salaries over five years. Employers who do so will be required to pay 8 percent interest on the amortized amount.

Without these provisions, contributions for state and local governments would rise to 11 percent of payment for the Employee Retirement System for FY 2004 and to 15 percent of payroll for the Police and Fire Retirement System. They will rise to that for the following fiscal year, but governments are informed in time to address the budget issue. The required FY 2004 contributions from state and local governments have been reduced from an estimated \$2.7 billion to \$1.13 billion.

North Carolina. The General Assembly authorized a payment of \$10 million to the employee retirement funds toward the employer contribution funds withheld in 2001.

Oklahoma. HB 1278 established a lottery, subject to approval by the people. Five percent of the proceeds are earmarked for the Teachers Retirement System.

SB 206 redirected \$85.8 million in insurance premium taxes from pension funds for general budgetary purposes. The Insurance Premium Tax generates \$144 million a year. SB 206 provides that the tax, most of which is dedicated to the Oklahoma Police Pension and Retirement System, Oklahoma Firefighters Pension and Retirement System and the Oklahoma Law Enforcement Retirement System, will be diverted for one year in order to help balance the state budget. In return, the three retirement systems will be repaid over five years in an amount equal to the principal plus 7.5% beginning July 1, 2004.

SB 643 requires the employer's contribution rate for OPERS members to increase by 1% beginning July 1, 2006, and to increase by 1% each year thereafter until 2012.

Oregon. HJR 17 submitted a constitutional amendment to the vote of the people, to allow the state to issue general obligation bonds to finance the State of Oregon's pension liabilities.

The voters approved the referred issue on September 16, 2003.

HB 2003, 2004 and 3020 required the board of the Public Employee Retirement System to recalculate employer rates to reflect the effects of all bills passed pertaining to PERS. The new rates are effective July 1, 2003.

Washington. HB 2254 increased contribution rates the following plans:

- Public Employees' Retirement System (PERS) Plan 2
- Teachers' Retirement System (TRS) Plan 2
- School Employees' Retirement System (SERS) Plan 2
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2.

Effective July 1, 2003

| | Old | New | Change |
|--------------|-------|-------|--------|
| Pers plan 2 | 0.65% | 1.18% | 0.53% |
| Leoff plan 2 | 4.39% | 5.05% | 0.66% |

Effective September 1, 2003

Most members will see the change in September paychecks. Member contribution rates changed as follows:

| | Old | New | Change |
|-------------|-------|-------|--------|
| SERS Plan 2 | 0.35% | 0.85% | 0.50% |
| TRS Plan 2 | 0.15% | 0.87% | 0.72% |

West Virginia. HB 2592 increased employer contribution rates to PERS to 10.5 percent

effective July 1, 2003.

SCR 35 authorized the Secretary of Administration to issue bonds in an amount not to exceed \$3.9 billion to fund the Teachers' Retirement System, Trooper A Plan, and the Judges' Retirement System.

Credit for accrued leave

Deferred Compensation Plans/Optional Retirement Plans

Texas. HB 264 permits institutions of higher education to make contributions to employees' optional retirement plans.

Virginia. SB 849 authorizes institutions of higher education to establish optional retirement plans for teaching, administrative, or research employees, as an alternative to the Virginia Retirement System ("VRS") defined benefit retirement plan. Provides for review of new plans by VRS, requires substantial conformity to VRS policies, and requires reporting to the Legislature. Outlines membership and transfer requirements, and establishes exceptions.

Defined Benefit Plan Changes (including partial lump-sum options)

Alaska. HB 254 changes the number of years for calculation of average monthly compensation for peace officers and fire fighters from five years to three years.

Maryland. Chapter 229, Laws of 2003, allows retired members of the Employees' and the Teachers' Retirement and Pensions Systems eligible for a vested retirement allowance to convert it to a lump sum payment if the monthly vested allowance is less than \$50.

Missouri. HB 346 provides for a partial lump sum option for members of the Public School Retirement System (PSRS) and the Non-Teacher Employee Retirement System (NTRS) who have either 33 years of creditable service or whose age and service total 86 or more. Members may choose a lump-sum of either 1, 2 or 3 times the annual retirement allowance. Lifetime benefit is actuarially reduced accordingly, providing cost neutrality.

HCS for HB 347 and 348 provides a partial lump sum option for members of the Local Government Employees Retirement System eligible for normal retirement at age 60 in the amount equal to 24 months of the member's monthly annuity. Election of this option reduces the lifetime monthly annuity by 16%.

New Jersey. Chapter 108, P.L. 2003, provides for an increase to the special retirement benefit for members of the Police and Firemen's Retirement System (PFRS) beginning with the fiscal year following the adopted valuation report for the retirement system which indicates a funded level in excess of 104%. PFRS members who have 25 or more years of service are currently eligible for a pension of 65% of final compensation, plus 1% of final compensation multiplied by the number of years of creditable service over 25 but not over 30 (70% maximum). This law will increase that benefit to a pension of 70% of final compensation, plus

1% of final compensation for each year of creditable service over 25 but not over 30 (75% maximum) once the funded level exceeds 104%.

The law also provides for the establishment in PFRS of a benefit enhancement fund to which will be credited an amount of excess valuation assets for the valuation period beginning with the valuation report which indicates a funded level of 104%. The amount of excess valuation assets credited to the benefit enhancement fund will not exceed the present value of the expected additional normal and accrued liability contributions attributable to the increase in the PFRS special retirement benefits payable on behalf of the active PFRS members. No additional excess valuation assets will be credited to the benefit enhancement fund after the maximum amount is attained. The normal and accrued liability contributions for this increase in PFRS benefits for active employees will be paid from the benefit enhancement fund. If fund assets are insufficient to pay those contributions for a valuation period, the retirement system will pay the amount not covered by assets from the benefit enhancement fund.

New York. Chapter 167, Laws of 2003, allows retiring members to elect a lump-sum benefit payment in lieu of a maximum service retirement pension that would total \$2,400 per year or less. Previously, only members who would have a maximum pension of \$1,000 per year or less had this option. Enables certain current service retirees, as well as certain beneficiaries currently receiving a lifetime benefit (other than a Tier 3 or 4 accidental death benefit), to "cash out" their benefit entitlements if their annual benefit is no more than \$2,400 per year.

North Dakota. SB 2057 creates a partial lump sum distribution option (PLSO) for members of the Teachers' Fund for Retirement eligible for an unreduced retirement annuity to provide a lump sum cash payment in exchange for a permanent monthly benefit reduction.

- Member makes a one time election at retirement to receive a lump sum payment equal to 12 times the amount of the Single Life Annuity payable at the same time the monthly retirement annuity begins.
- The monthly retirement option selected is actuarially reduced to reflect the partial lump sum payment.
- This option is not available to members who select the level income option, members receiving disability benefits, or to beneficiaries of deceased members.

Oklahoma. SB Bill 643 allows for most members of the Oklahoma Public Employees Retirement System (OPERS) to make an election to increase or "step-up" the computation factor for all future service from 2% to 2 1/2%, effective January 1, 2004. The step-up election is irrevocable and is binding for all future employment under OPERS, even if there has been a break in service. This step-up election is available for all state, county and local government employees, except for elected officials and specified public safety categories of employees. After January 1, 2004, the election can be made at any time and will be effective the first day of the month following the election. Those making the election will also pay a higher or stepped-up contribution rate, currently an additional 2.91%.

HB 1440 provides a partial lump sum option for Teachers Retirement System members, permitting a payment equal to 12, 24 or 36 months' benefit with a commensurately reduced lifetime benefit. Only members with 30 or more years of credited service are eligible for the option.

Oregon. HB 2001, 2003 and 3020 provide that Tier One regular member accounts may not

be credited earnings in coming years until the deficit reserve account has been eliminated. Accounts may not be credited with a level of earnings that would create a new deficit reserve. Tier One regular accounts may be credited in excess of the assumed rate only after the deficit reserve account has been eliminated and the Tier One assumed rate reserve account is fully funded in each of three previous calendar years.

The limit on earnings crediting does not apply to any Tier One member who retires before April 1, 2004 or to judges (who are judge members on June 30, 2003). Only earnings on Tier One regular accounts may be used to eliminate the deficit account. The measures also eliminated the five-year limitation on a deficit reserve account.

Each Tier One member will have a minimum account balance guarantee if they retire on or after April 1, 2004. At the time of retirement, the regular account may be no less than what it would have been if it had been credited with the assumed interest rate (currently 8%) in every year the account existed. PERS must make an adjustment to the member's regular account if the account balance does not meet this test.

HB2003, 2020 and 3020 provided that Tier One and Tier Two members may not contribute or transfer funds to the Variable Annuity Account after January 1, 2004. Those accounts will continue to gain or lose interest earnings on existing balances.

Also starting January 1, 2004, the six percent employee contribution for Tier One and Tier Two members may not be made to a member's PERS account. Active members must instead make payments equaling six percent of their salary to the individual account program (IAP) portion of the Oregon Public Service Retirement Plan (set up for new hires per HB 2020). Each member will have a separate account that will be credited with earnings and losses over the lifetime of the account.

[Tier One, closed in 1996, provides member accounts to which member and employer contributions were credited. They were credited with interest earnings, in recent years guaranteed at 8 percent annually. When a member retired, the member's benefit calculation was based on accumulated contributions in member and employer accounts plus earnings and alternatively as a benefit based salary and years of service. The member received a benefit based on the higher result. In the recent past, the 8 percent earnings guarantee so far exceeded actual investment earnings as to create a very large accrued actuarial deficit that exhausted the deficit reserve (accumulated from investment earnings in excess of guarantees) and created a negative reserve. This legislation is part of an effort to bring the plan back into balance. It is currently challenged in the courts -- 10/03.]

Defined Benefit Plan - New

Oregon. HB 2020 established a successor retirement plan, the Oregon Public Service Retirement Plan (OPSRP). The new plan consists of a defined benefit program (the pension program) and a defined contribution portion (the individual account program (IAP)). OPSRP will be governed by the PERS Board and administered by the PERS agency. The Oregon Investment Council will make investments on behalf of the plan.

New public employees hired on or after August 29, 2003, become part of OPSRP. Tier One

or Tier Two PERS members who have a six-month service break will become a member of OPSRP when rehired for any subsequent employment. Beginning January 1, 2004, all current PERS member contributions will go into the Individual Account Program (IAP) portion of OPSRP (see "Employee Contributions" section, above).

The pension portion of the OPSRP provides a life pension funded by employer contributions. The formula for the life pension and retirement age varies for general service and police and fire members.

| | Pension Calculation | Retirement Age |
|-----------------|---|--|
| General service | 1.5 percent x final average salary x years of service | 65 or 58 with 30 years of retirement credit. |
| Police and fire | 1.8 percent x final average salary x years of service | 60 or 53 with 25 years of retirement credit |

OPSRP members are required to contribute six percent of their salary to the individual account program (IAP). Each member will have a separate account that will be credited with earnings and losses over the lifetime of the account. At retirement, the amount in a member's IAP will be distributed to the member in a single lump sum or an employee may opt to receive installment payments over 5, 10, 15, or 20 years.

Employers are allowed to agree to pay the six percent contribution ("pick up"). An employer picking up the employee contribution must do so until December 31, 2005. The employer must continue picking up the contribution after this time, unless the employer notifies the PERS Board in writing of a change in the employer's policy.

Wisconsin. 2003 Wisconsin Act 33, Section 181 ff (the budget act), authorizes the issuance of \$1.35 billion in revenue obligation or appropriation obligation bonds, \$750 million of which would be to pay all or part of the state's unfunded prior service pension liability, and the remaining \$600 million of which would cover the state's unfunded liability for its accumulated sick leave conversion credit program. Revenue obligation bonds would be funded by the state's excise taxes on alcoholic beverages, cigarettes and other tobacco products. Appropriation obligations are payable from annual general revenue appropriations and are not considered debts of the state. Both kinds of issue would be considered moral obligations of the state.

Defined Contribution Plans For Broad Categories of Employees

Oregon. See "Defined Benefit Plans -- New."

Virginia. HB 1986 provides that the Commonwealth, the Board of Trustees of the Virginia Retirement System ("VRS"), the employees of VRS, and the Investment Advisory Committee of VRS shall not incur any liability for losses suffered by deferred compensation and defined contribution retirement plans administered by VRS.

Deferred Retirement Option Plans

Oklahoma. SB Bill 668 and HB 1464 created a "Back" DROP for members of the three statewide public safety retirement plans. The "Back" DROP allows the members who have worked for more than 20 years to decide retroactively to have service in excess of 20 years (up to a total of five years) to be treated as though the member had entered a DROP plan upon completing 20 years of service. A member, however, cannot receive credit to the DROP account any years prior to when the member reached his normal retirement date. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP. The systems' actuary has advised that the fiscal impact of the "Back" DROP is negligible.

Disability

Alaska. HB 254 allows a disabled peace officer or fire fighter to elect the higher of their disability benefit or their normal retirement benefit upon reaching normal retirement age. Currently, they are automatically converted to a normal retirement benefit, which often has the effect of reducing their pension benefit.

North Carolina. HB 397 rewrote definitions of disability for the short- and long-term disability plans to change the definition of short-term disability from "no longer able to perform his usual occupation" to "unable to perform the duties of the participant's job or any other available jobs with the State..." and the definition of long-term disability from "mentally or physically incapacitated for the further performance of duty" to "unable to perform any occupation for which the beneficiary or participant is reasonably qualified for by training or experience"

Oklahoma. SB 643 provides that an member of the Public Employees Retirement System (OPERS) who has retired under early retirement provisions, and who becomes qualified for a disability benefit under OPERS plan provisions with a disability date on or after July 1, 1999 can apply to receive disability benefits in lieu of the early retirement benefits

Utah. Chapter 241, Laws of 2003, requires that all public safety employees covered by the Utah State Retirement System be provided with long-term disability insurance.

Virginia. HB 1622 clarifies that state disability benefits are not to be offset by certain benefits received by a participating employee for service in the U.S. armed forces.

Early Retirement Incentives

Connecticut. F 03-2 establishes an early retirement incentive program for active full-and part-time state employees who retire directly from state employment between March 1 and June 1, 2003. The incentive allows an eligible employee to add up to three years to his age or service credit. The credit must be applied first to the employee's actual age to reach age 55, with any remainder added to his service. Additional credit for hazardous duty members must be applied to their service. (Hazardous duty members may retire after 20 years' hazardous duty service regardless of age.) Credit must be applied in one-month units.

Provisions include an age requirement of 52; 10 or 20 years of actual service depending on service category; eligibility for laid-off employees who would have been eligible had they not been laid off; and restrictions on return to work. The legislation also contained restrictions on replacing employees who take early retirement.

An employee who was laid off or whose position was abolished between November 1, 2002, and May 31, 2003, who would otherwise have been eligible for the Early Retirement Incentive Program, shall be eligible to receive the benefits of the plan beginning March 1, 2003, if such employee is at least fifty-two years of age. Any such employee who retires shall not be rehired. If such employee has received payment for accrued vacation and sick leave, such employee shall not be required to repay such amount in order to be eligible for ERIP.

PA 03-232 authorizes local boards of education to provide an early retirement incentive plan for teachers by buying up to five years of credited service per teacher, paying the Teachers Retirement Board the full actuarial value of the increased benefits for each participant. The purchase may be made in annual installments over a period not to exceed three times the additional number of years purchased.

California. AB 593, Chapter 1023, instructs the governor to issue an executive order giving state departments and agencies the option of participating in the "golden handshake" program, which credits retiring workers with two extra years of service, but does not add to age credits. Eligible workers would be able to retire with the extra two years of service credit from December 3, 2002 through February 1, 2003.

[The governor's executive order directs agencies to designate eligible employees' by job classification and organizational units only if savings generated by their early retirements would offset any cost to the state, and agency participation must be approved by the Department of Finance. A new report on October 14, 2003, reported that very few agencies had made use of the option in AB 593 on the ground that the program would not save money.]

AB 457 was vetoed by Governor Davis in October 2003. It would have allowed the state government and local governments and schools to offer workers an incentive to retire early, including two years of service credit and two years of age credit for free.

Indiana. The Indiana State Personnel Department administered a program of early retirement incentives in late 2002 and early 2003, not reported in the 2002 version of this report.

Eligibility requirements were state employment on November 1, 2002; age of at least 50 on the proposed date of retirement; 10 years of service credit in the public employees' or state teachers' retirement plan; at least one full year of state employment; and eligibility for retirement on the proposed retirement date when the incentive service credit made available under this plan was included. An employee had to indicate a decision to take advantage of the plan between 11/1/2002 and 2/28/2003 and retire by June 14, 2003. Employees who had previously submitted an intention to retire during the window were eligible for the incentive.

Employees who were eligible to purchase additional service credit under existing law could do so in order to augment the benefit calculation.

The incentives consisted of one additional year of service credit for each five years of

creditable service, prorated for additional incentive credit for service over ten years that did not add to a five year segment. The additional incentive credit would increase retirement benefits. In addition, employees received \$300 in cash for each year of credited service (including the additional incentive credit added under this program) paid in three equal payments from July 1, 2003 through July 1, 2004.

Maine. Pursuant to Chapter 451, P.L. 2003, Part M, the Department of Administrative & Financial Services offered a payment of \$3,000 in cash to state employees qualified to retire who did so on September 1 or October 1, 2003. Employees had to meet normal retirement age qualifications and age requirements, if any, imposed by the plan to which they belonged. The \$3,000 could be pro-rated for eligible part-time and seasonal employees. Employees who had given notice of their intention to retire before the incentive was announced were eligible for the incentive. The incentive did not alter retirement benefits or requirements other than by providing the cash payment.

Vacated positions cannot be filled before April 1, 2004, and participating employees cannot be re-employed by the state before July 1, 2004, on penalty of having to repay the incentive.

[On October 16, 2003, the Department reported that 68 state employees had taken advantage of the incentive program. According to the *Portland Press Herald* on July 31, 2003, about 760 state employees met the criteria for the program, and the goals of the program were to provide salary savings to finance merit increases for other state employees and to open senior positions to allow promotions for less senior employees.]

Michigan. HB 4605 (Substitute H-3 as passed) in 2002 created an early retirement incentive for legislative and governor's office employees and certain other unclassified state employees, effective in the month of December 2002, with a proposed retirement date no later than February 1, 2003. Qualifications included age and length of credited service that total at least 70 as of 12/31/02 with no minimum age requirement. For members of the Michigan State Retirement System defined benefit plan, the benefit calculation multiplier would be increased from 1.5 percent to 1.75 percent. Members of the defined contribution plan would receive a defined benefit calculated at 0.25 percent of final average compensation. The bill would also pay for accumulated sick leave in month installments over five years, as taxable compensation. It was thought that about 100 employees were eligible for the early retirement package. [This legislation was not included in the 2002 enactments report.]

Missouri. SB 248 Provides a medical incentive of 5 years of health care insurance at the active employee rate for those who are eligible to retire between February 1, 2002 and January 1, 2004. Members must retire by September 1, 2003. The Department of Transportation, Conservation, Highway Patrol, state colleges and universities may elect to provide the same medical incentive.

Replacement of positions vacated due to this incentive is limited to 25% with the exception of critical or seasonal positions or positions entirely federally funded. These exceptions will be determined by the office of administration. State colleges and universities are exempt from the 25% restriction.

Affected retirement plans are required to report by 04/01/04 on the workforce, payroll and fiscal effects of this incentive. The Office of Administration will report to the Governor by

04/01/04 on the budgetary effects of this incentive.

New Jersey. Chapters 127, 128, 129 and 130, P.L. 2003, authorize early retirement incentive programs for various local governments and educational institutions, with the authorization effective for one year, at the discretion of the employer government. Incentives include enhanced pension and health benefits. The cost of the enhanced benefits will be funded by the public agency or instrumentality that elects to participate through employer contributions to be paid over 15 years.

Texas. HB 3208 provides for a lump-sum payment of 25 percent of a retiree's previous twelve-months salary for persons eligible to retire on or after August 1, 2003 and before September 1, 2005, upon retirement. To be eligible for the lump-sum payment, a person must retire as soon as eligible for retirement.

Governance

Hawaii. Act 134 requires the Employee Retirement (ERS) system to pay retirees 4 1/2 percent interest if their pensions are not finalized within six months effective January 1, 2004. ERS shall assess departments \$10 per month for delays in retirement information. Unused sick leave and vacation pay must be provided within 90 days of retirement. Requests for other information must be answered within 30 days.

Louisiana. HB 1684 reestablished the Commission on Public Retirement, which expired in August, 1990. The commission's responsibility is to review the administration, benefits, investments and funding of the public retirement systems in Louisiana. It will make recommendations and annual reports to the Joint Legislative Retirement Committee on those issues. It will also review the efficiency and accountability of the various systems, differences in benefits within individual systems, issuance of bonds, and the need for retirement legislation. It will include legislators, the state treasurer, actuaries, attorneys with experience in public pension design and management and the president of the public affairs research council.

Maryland. Senate Bill 721 changes the composition and governance of the Board of Trustees of the State Retirement and Pension System. For the policy context of these changes, see the Maryland General Assembly's 90 Day Report, a summary of legislation action. -- Part C, State Government -- Pensions and Retirement.

Changes include:

- removing the Secretary of State Police as a trustee starting on July 1, 2003, and the State Superintendent of Schools as a trustee starting on July 1, 2004, and filling these vacancies with two members of the public appointed by the Governor to serve as investment experts;
- removing one of the two State Police trustees and filling this vacancy with a member of the public appointed by the Governor to serve as an investment expert;
- adding experience requirements for the investment expert trustees and for expert members of the board's investment committee;
- requiring appointed or elected trustees to attend at least 80 percent of the board's monthly

- meetings, not including excused absences, or face removal from the board;
- providing that the board is not responsible for considering benefit enhancements or reviewing the benefit structures for any of the several systems, except for the purpose of making technical corrections;
- requiring all trustees to receive at least eight hours of investment and fiduciary training each year;
- requiring the Department of Budget and Management to conduct, or hire an outside independent third party to conduct, a peer benefits study every four years;
- requiring that with regard to the two trustees representing the Employees' Retirement System (ERS) and the Employees' Pension System (EPS), one must be an active member of either the ERS or EPS, while the second trustee must be a retiree of either the ERS or the EPS; and
- requiring that with regard to the two trustees representing the Teachers' Retirement System (TRS) and the Teachers' Pension System (TPS), one must be an active member of either the TRS or TPS, while the second trustee must be a retiree of either the TRS or the TPS.

Oregon. HB 2005 and 3020 changed the Public Employee Retirement System (PERS) Board to a five member board beginning September 1, 2003, and the governor now appoints the board chair. Starting October 1, 2007, one of the five PERS Board members will also serve on the Oregon Investment Council.

HB 2003, 2004 and 3020 provide that, beginning January 1, 2005, the PERS Board must adopt actuarial equivalency factor tables, including factors for mortality, every two calendar years for the purpose of calculating retirement payments. For all members retiring between July 1, 2003, to January 1, 2005, PERS is required to use the updated actuarial equivalency factor tables adopted by the PERS Board on September 10, 2002.

Updated actuarial equivalency factors will be used to calculate all retirements after July 1, 2003 (except for certain judge members). PERS will perform two calculations to determine the member's retirement allowance. One calculation will use a member's account balance, final average salary, years of service, and the actuarial equivalency factors in effect on their effective retirement date. The calculation will be adjusted for the retirement option selected by the member. The second calculation, called a "look-back", will be made using the member's account balance, final average salary, years of service, and the actuarial equivalency factors in effect on June 30, 2003. The member will receive the higher of these two calculations.

The PERS Board is also required to conduct a study regarding the life expectancy of police and firefighter members of the system. If the board finds a substantially shorter life expectancy, the board is directed to use separate actuarial equivalency factor tables for those members starting January 1, 2005.

Oklahoma. HB 1067 repealed the Pension Commission's requirement to review retirement-related legislation.

Texas. H.B. 2240 adopted the prudent investor rule as the standard for governance of investment of pension system assets (Title 9, Section 117.001 ff).

Washington. Chapter 295, Laws of 2003, replaces the Joint Committee on Pension Policy with a 20-member Joint Select Committee on Pension Policy comprising eight legislators,

stakeholder representatives, employer representatives and the directors of the Department of Retirement Systems and the Office of Financial Management. The Select Committee will study pension issues, the retirement systems' funding status, and actuarial assumptions. Based on its findings, the committee will make recommendations to the Legislature.

Chapter 92, Laws of 2003, implements Initiative 790 which created the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) Board in November 2002. Initiative 790 provides that the LEOFF 2 Board chooses the economic assumptions, actuarial methods, and sets the contribution rates for LEOFF 2 employees, employers, and the state based on consultation with an enrolled actuary retained by the Board. The legislation was required to reconcile existing law with the new board. Chapter 93, Laws of 2003, repealed a section of Initiative 790 that provided that investment gains above the actuarially assumed rate of return would be used exclusively to fund additional benefits.

Guarantee of Benefits

Connecticut. PA 03-232 prohibits the state from passing any law that diminishes specific retirement benefits (1) in effect on October 1, 2003, for active members vested in the Teachers Retirement System as of that date or (2) for members not yet vested on October 1, 2003, in effect on the date they either vest or accumulate 10 years of credited service, whichever occurs later. It also extends the ban to diminishing any enhancements in the specified benefits enacted after October 1, 2003.

The prohibition applies to statutory TRS retirement provisions concerning credited service; retirement and survivors' benefits eligibility; benefit formulas, payment schedules, and cost of living allowances; death and survivors' benefits; and disability benefits. It does not apply to retired teachers' health coverage and health coverage contributions or to annual state contributions to the Teachers' Retirement Fund.

Health Coverage

California. SB 1464, Chapter 896, increases the minimum employer contribution for agencies contracting with the California Public Employees Retirement system for health benefits from \$16 per month per member up to \$97 for the 2008 calendar year. The amount would be \$32.20 per month in 2004 and increase incrementally thereafter until 2008. After 2008, the minimum employer contribution would be adjusted annually to reflect changes in the medical care component of the Consumer Price Index.

Connecticut. PA 03-232 increased the contributions that active teachers and the state will make toward to cost of health insurance for retired teachers. Retired teachers who are not eligible for Medicare continue to be covered by their last employing board of education and the Teachers' Retirement Board subsidizes their coverage. This legislation increases the active teachers' contribution from 1 percent to 1.25 percent of salary and increases the state contribution from 25 percent to one-third of the cost of the state's basic health plan as of 7/1/2004. As of 7/1/2005, the retirees' copayment will be increased from 25 percent to one-third of the basic plan premium.

Kentucky. HB 430 provides that employees hired July 1, 2003 or after will be required to earn at least 120 months of service credit before they will be eligible for insurance benefits at retirement. The percentage of the monthly insurance contribution paid for employees hired after July 1, 2003 is 0-119 months., none; 120-179 months, 50%; 180-239 months, 75%; and 240 months or more, 100%. The 120 month service requirement will be waived if the employee is disabled in the line of duty or killed in the line of duty. The provisions of the bill also allow the General Assembly to alter the level of insurance benefits for employees hired after July 1, 2003. Retired members and members with existing service credit in a Kentucky state retirement plan are unaffected by this legislation.

New Hampshire. RSA 21:1-30 changed retiree health insurance coverage for new hires. Those hired on or after July 1, 2003, must have 20 years of State service to be eligible at age 50 for retiree health insurance. Otherwise, the eligibility requirements for those employees hired prior to July 1, 2003 continues to be as follows: Group I must have at least 10 years of service at age 60 or 30 years of service at any age; Group II must have at least 20 years of service at age 45 or at age 60 with no minimum service required.

Chapter 124, Laws of 2003: Prior service purchases will no longer be applied as time toward eligibility for the medical insurance subsidy. They will continue to count to increase the level of the member's pension. This applies to:

- Previously withdrawn service.
- Probationary, temporary and non-permanent service.
- Modifications - service prior to your employer joining New Hampshire Retirement System.

New Jersey. Chapter 172, P.L. 2003, provides that a part-time state employee or a part-time faculty member, including part-time lecturers and adjunct faculty members, at a public institution of higher education, who is enrolled in a state-administered retirement system, will be entitled to participate in the State Health Benefits Program (SHBP) and may purchase health benefits coverage in the State managed care plan under the SHBP for the employee or faculty member, and the dependents of the employee or faculty member.

Chapter 142, P.L. 2003, provides health care benefits coverage through the SHBP to members of the New Jersey National Guard, and their dependents, during the period when the member is called to state active duty by the Governor for at least 30 days within a 35 consecutive day period.

Chapter 119, P.L. 2003, provided that state employees hired after July 1, 2003 will not be able to enroll in SHBP option of traditional plan --a fee for service plan, the only non-managed care plan in SHBP).

Chapter 3, P.L. 2003, expanded the group of employers that are allowed to waive health coverage for an employer-offered monetary incentive.

Oklahoma. SB 669 requires non-state agency employers who participate in the Public Employees Retirement System (OPERS) who offer health insurance to their active employees, to offer that same coverage to their retired and vested employees on or before January 1, 2004. If the member terminates employment and elects this coverage within 30 days, OPERS will pay \$105 each month after retirement towards the health insurance premium. Any former who terminated employment between 1/1/02 and 12/31/03 has a one-

time opportunity to make an election to join the insurance plan, and OPERS will begin the \$105 insurance premium supplement if the retiree is receiving monthly benefits from OPERS.

Texas. SB 1369, SB 1370 and HB 3459 strengthened funding and tightened eligibility for the Teachers Retirement System health program: TRS-Care. The state contribution was doubled to 1 percent of salary, the active member levy to 0.5 percent of salary, and the school district contribution to amounts between 0.25 percent and 0.75 percent of salary, on a scale that increases with time. [Previously, school districts did not contribute to health care costs.] In the future, the state will pay a maximum of 55 percent of program costs and retirees will pay at least 30 percent. The annual supplemental compensation for full-time non-professional employees to use toward health care was reduced from \$1000 to \$500; professional employees are ineligible for the supplement. Eligibility for TRS membership will occur after 90 days employment in 2004-2005 biennium, but members may purchase service credit for these 90 days at a cost yet to be determined.

Effective 9/1/04, eligibility for TRS-Care will be tightened. A member must have 10 years of actual Texas public school service, though purchased military service credit (up to five years) counts toward the 10 years. Purchased out-of-state service does not count. In addition, members must be 65 or older or must meet a Rule of 80 (age plus years of actual Texas service). Members as of 8/31/03 are grandfathered.

Other legislation broadened or adjusted health benefits under TRS-Care: HB 1735, HB 3257, SB 1117, and SB 1173.

Investments

Louisiana. Act 788 of 2003 requires that 10 percent of trades of listed equity and fixed income in separately managed account shall be directed to broker-dealers who maintain offices in Louisiana, and another 10 percent by broker-dealers who are incorporated and domiciled in Louisiana. Sunsets on June 30, 2005. Retirement Systems must do a cost study. The Louisiana Public Employee Retirement System must present a policy to both House and Senate Retirement Committees on or before December 31, 2003, in which the system will propose how it intends to invest in small and emerging businesses, venture capital, and in-state money management firms which either have been incorporated and domiciled in the state for at least 2 years.

Legislators' Retirement Plans

Illinois. Act 93-494 revises the legislators' retirement plan to eliminate benefit increases for legislators whose total public service (including legislative service) exceeds 20 years. The revised program is effective for people elected to the legislature hereafter. It repeals a provision that increased legislators' pensions by 3 percent for each year of public service above 20 years. It leaves a 3 percent per year post-retirement COLA intact. [Illinois elected officials' retirement benefits were the subject of media criticism in early 2003.]

Indiana. P.L. 126-2003 directs the trustees of the public employees' retirement system

(PERS) to conduct a pilot program concerning the defined contribution portion of the legislators' retirement system. The program would implement a member's investment selection by the next business day after PERS received it; allocate contributions to an account not later than the last day of the quarter in which they are received; use the market value of an account five days previous to a member's distribution or annuitization as the amount to be credited to it upon retirement, disability, death or withdrawal; and pay state contributions in quarterly allocations equal to 20 percent of the member's salary for the quarter at issue. PERS is to report findings before November 1, 2005, and if the findings are favorable, recommend legislation to implement the program for all funds for which PERS is responsible.

Kansas. HB 2014 affects legislators who are unclassified employees of the Board of Regents or a state university. Existing law provides that, beginning with the 2001 Legislative Session, a Regents' employee elected to the Legislature may choose to have the Board of Regents make contributions to the Regents' retirement plan on the employee's behalf while the employee holds elected office. This bill allows any employee who made use of that provision to have retroactive contributions made to the Regents retirement plan for legislative service before January 8, 2001.

Second, the bill allows legislators, who have retired from a KPERS participating employer and who are no longer eligible for membership as an active KPERS employee, to participate in the deferred compensation plan for specified state officials and legislative employees. The bill excludes death and disability coverage for the retired legislators who elect the defined contribution plan.

Third, any legislator who voluntarily chooses not to participate in KPERS may elect membership in the KPERS administered death and disability plan.

Missouri. Former general assembly members vested under the Missouri State Employees Plan "closed" plan appointed or employed as a state officer or employee mid-term are provided an election to transfer remaining legislative service equal to a pro rata portion of the biennial assembly actually served. Members continue to be prohibited from accumulating service simultaneously in more than one state retirement system. MSEP 2000 segregates all state service.

New Mexico. Chapter 86, Laws of 2003, revised the voluntary legislative retirement plan, which also applies to a lieutenant governor.

The previous plan, now identified as Plan 1A, required a legislator or the lieutenant governor to contribute \$100 for each year of service. Benefits were provided at age 65 with 5 years of service (or 64/8, or 63/11, or 60/12, or any age with 14 years of service). The annual benefit was \$250 x years of credited service. Plan 1B was enacted to allow the option of paying \$100 additional for each year of credited service after 1959 and receiving an annual benefit of \$500 x years of credited service. Interest is charged against annual contributions that are not made prior to December 31 of each year. Plan 1B is available only to those whose term ended on or before 12/1/02. Enrollment must be completed by 12/31/03. Retroactive purchase of service credit years must be exercised by 12/31/03.

Plan 2 is available to current and future officeholders, who must choose to enroll within 180 days of taking office. It requires an annual contribution of \$500 per year of service. Current

legislators may enhance years of service credit earned under Plan 1 to the Plan 2 level by making additional contributions by 12/31/04; the deadline for electing the enhancement is 12/31/03. The Plan 2 benefit equals 11 percent of the IRS per diem rate in effect on December 31st of the year a legislator retires x (60) x (the years of credited service). For a member who retires in 2003, the annual benefit would be \$957 x years of credited service. The legislation provides for an annual 3 percent COLA. Retirement benefits are available at age 65 with five years of service or at any age with 10 years of service.

Oregon. HB 2020 provides that within 30 days of being elected or appointed to the Legislative Assembly, a person must decide whether to: 1) become a member of the Oregon Public Service Retirement Plan (OPSRP, newly created in 2003); 2) become a legislator member of the state deferred compensation plan; or 3) decline to become a member of either the OPSRP or state deferred compensation plan. Legislators are allowed to roll over their regular Public Employee Retirement System (PERS) accounts to the OPSRP or the state deferred compensation plan if they choose those options. The Legislative Assembly is required to make a six percent of salary contribution on behalf of legislators opting to become a member of the OPSRP or the state deferred compensation plan.

Legislators who serve on August 29, 2003, may elect to stay in the current PERS system, so long as they continuously serve in the Legislative Assembly. However, upon re-election to office, service performed after August 29, 2003 will be subject to a reduced retirement calculation (1.67 percent x

Independent Auditor's Report

Members of the Legislative Budget
and Audit Committee:

We have audited the accompanying Final Summary Schedules of the 1996 Retirement Incentive Program, Office of the Governor, Office of Management and Budget, for the Department of Administration, Information Technology Group, and the University of Alaska, dated January 15, 2001 according to the terms of the 1996 Retirement Incentive Program legislation and underlying policies and procedures. These schedules are the responsibility of the Office of the Governor, the Department of Administration, and the University of Alaska. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform audits to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the summary schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

As described in the Notes to the Final Summary Schedules, the Office of Management and Budget (OMB) adopted policies, procedures, and assumptions to be used for this program. This presentation was not intended to be in accordance with generally accepted accounting principles.

One of the more significant policies was that it required agencies to show a net savings for each retiring employee without inclusion of any vacancy savings. These are the personal services costs "saved" by not immediately filling a vacated position.

As described in the Notes to the Final Summary Schedules, OMB interpreted the legislation to require agencies to update their summary schedules to show actual savings to date and forecasts for the remaining years. Thus, the January 15, 2001 schedule was to show actual savings amounts for FY 97 through FY 00 and estimated amounts for FY 01 through FY 03.

Also described in the Notes to the Final Summary Schedules, OMB required agencies to reduce an individual's estimated savings by the expected position costs of the replacement employee.

Because of departures from the policies and procedures established by OMB, the savings presented for the University of Alaska Retirement Incentive Program in its January 15, 2001 Final Summary Schedule were materially overstated. This was primarily due to the misstatement of replacement employee costs. However, the amount of the savings overstatement is not reasonably determinable.

Because of departures from the policies and procedures established by OMB, the amount reported as net savings for the Information Technology Group Retirement Incentive Program was overstated by \$423,000 (35%). This was primarily due to the inclusion of vacancy savings in the schedule. These amounts were included even though OMB instructed state agencies to include only the savings from deleted or downgraded positions in justifying an individual employee's qualifying retirement. In the text that accompanied the January 15, 2001 Final Summary Schedule, the OMB erroneously stated that vacancy savings had been excluded.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the Final Summary Schedules referred to above do not present fairly, in conformity with the Retirement Incentive Program legislation and the underlying policies and procedures, the results of the University of Alaska and Information Technology Group's 1996 Retirement Incentive Programs.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2001 on our tests of compliance with certain provisions of laws and policies and on our consideration of the State of Alaska's internal control over financial reporting.

Pat Davidson, CPA
Legislative Auditor

November 15, 2002

Independent Auditor's Report on Compliance and on Internal Control
Over Financial Reporting of the Final Summary Schedules Performed
In Accordance with Government Auditing Standards

Members of the Legislative Budget
and Audit Committee:

We have audited the Final Summary Schedules of the 1996 Retirement Incentive Program, Office of the Governor, Office of Management and Budget, for the Department of Administration, Information Technology Group, and the University of Alaska, dated January 15, 2001, according to the terms of the 1996 Retirement Incentive Program legislation and underlying policies and procedures. We have issued our report on the schedules dated November 15, 2002. The report contains an adverse opinion because the amounts reported are materially overstated. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the schedules referred to in the preceding paragraph are free of material misstatement, we performed tests of the agencies' compliance with certain provisions of laws, regulations and policies, noncompliance with which could have a direct and material effect on the determination of amounts reported in the schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the Report Conclusions section of this report.

Internal Control Reporting

In planning and performing our audit, we considered the agencies' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedules identified above and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over

financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agencies ability to record, process, summarize and report financial data consistent with the assertions of management in the Final Summary Schedules. Reportable conditions are described in the Report Conclusions section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material, in relation to the Final Summary Schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions discussed in the Report Conclusions section of this report are material weaknesses.

This report is intended for the information of the State's management and members of the Alaska Legislature. However, this report is a matter of public record and its distribution is not limited.

Pat Davidson, CPA
Legislative Auditor

November 15, 2002

Office of the Governor
Office of Management and Budget
1996 Retirement Incentive Program
Final Summary Schedules
for
Department of Administration
Information Technology Group (ITG)
and
University of Alaska (UA)
January 15, 2001

| | <u>ITG</u> | <u>UA</u> |
|---------------------------------------|--------------------|---------------------|
| Number of Employees Retired under RIP | 14 | 377 |
| Number of Positions Deleted | 3 | 279 |
| Number of Positions Reclassified | 2 | Not Available |
| Net Savings by Fiscal Year: | | |
| FY 97 | Actual | \$ - 0 - |
| FY 98 | Actual | \$ 432,000 |
| FY 99 | Actual | 4,236,000 |
| FY 00 | Actual | 5,971,000 |
| FY 01 | Estimated | 3,479,000 |
| FY 02 | Estimated | 1,627,000 |
| FY 03 | Estimated | - 0 - |
| | <u>\$1,201,000</u> | <u>\$17,779,000</u> |

Dollar amounts are rounded to the nearest thousand.

The amounts shown in the schedule for ITG were appropriately combined with other Department of Administration divisions and reported in total for the department in its January 15, 2001 Final Summary Schedule.

The accompanying notes are an integral part of these financial schedules.

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Office of Governor
Office of Management and Budget
1996 Retirement Incentive Program
Notes to the Final Summary Schedules
for
Department of Administration
Information Technology Group
and
University of Alaska
January 15, 2001

The purpose of the Retirement Incentive Program⁶ (RIP) was to provide an incentive for employees to retire earlier so their positions could be deleted, downgraded through reorganization of operations, or filled with less expensive employees. The program was to provide agencies with a management tool to help meet budget pressures by reducing personal service costs and to help avoid layoffs that would otherwise be necessary due to budget cuts. It was to enable the agencies to be more efficient and cost-effective by eliminating certain nonessential positions and producing a net reduction in personnel costs.

The State of Alaska's most recent RIP began June 1996 and ended January 2000. Under this program, agencies were authorized to adopt RIP plans at any time beginning June 1996 and continuing through June 1999 with the requirement that participating employees retire no later than January 2000. Under this retirement program, the Office of the Governor, Office of Management and Budget (OMB), was required to report the costs and savings attributable to this program to the legislature. In order to gather this data in a consistent and meaningful manner, OMB adopted the following policies, procedures, and assumptions:

- The total salary and benefit costs of each RIP participant were compared over a three-year period to the expected position costs of the replacement employee, unless the position was deleted.
- The replacement employee's salary was assumed to start at the second pay step of the related salary range, rather than the initial step.
- Vacancy savings⁷ were not included because such savings were deemed to be a normal part of employee turnover and, if included, these savings would have overstated the savings from RIP.
- Net savings were calculated by deducting the employer RIP costs, which were the amounts paid into the retirement system for the additional costs related to RIP, and a small administrative fee from the position savings.
- The calculations assumed that none of the employees who retired under RIP would have retired at that time if RIP was not available.

⁶ Chapter 4, FSSLA 1996.

⁷ These are the personal services costs "saved" by not immediately filling a vacated position.

- The calculations did not include the long-term savings that should result from replacing employees in the Tier I and Tier II retirement categories with Tier III employees.⁸
- The calculations did not include the “ripple effects” of additional savings from vacancies created by promotions and transfers into RIP positions vacated by the retirees.
- Agencies, including the University of Alaska, were to update the calculations each year with actual savings achieved to-date and with revised estimates for the remaining years. The January 15, 2001 final summary schedule was to include actual savings for FY 97 through FY 00 and estimates for FY 01 and FY 03.

The assumptions in the above list were necessary, as a practical matter, to allow the RIP to occur. It cannot be known if this employee or that one might have elected to retire, absent RIP. To the extent that some of these employees were going to retire anyway, these calculations overstated the savings. However, as noted above, the calculations did not include the Tier III replacements or the “ripple effects” of replacements. Excluding these understated the savings. However, it would have been similarly impractical to calculate them.

⁸ Public Employees' Retirement System has reduced the benefits, and hence the costs, for those employees hired after June 1986. Employees hired after June 1986, but before July 1996, are referred to as Tier II employees, while those hired July 1996 or after are referred to as Tier III employees. Benefit costs for Tier III employees are less than for Tier I or Tier II employees and benefit costs for Tier II employees are less than for Tier I employees. These differences are due to changes enacted by the legislature.

December 27, 2002

Pat Davidson, Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson:

This letter is in response to the preliminary audit on the retirement incentive program (Audit #02-30001-03). As you know, this program ended under the prior Administration. I have reviewed the preliminary audit, as well as the response to the Legislative Audit management letter on this issue that was prepared by the former OMB director, and have no additional comments.

Sincerely,

Cheryl Frasca
Director

December 2, 2002

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.

OFFICE OF THE GOVERNOR
OFFICE OF MANAGEMENT AND BUDGET

1996 RETIREMENT INCENTIVE PROGRAM
FOR
DEPARTMENT OF ADMINISTRATION
INFORMATION TECHNOLOGY GROUP
AND
UNIVERSITY OF ALASKA

January 15, 2001

Audit Control Number

02-30001-03

The purpose of our audit was primarily to determine whether the Office of the Governor, Office of Management and Budget, Department of Administration, Information Technology Group, and the University of Alaska, fairly stated the 1996 Retirement Incentive Program, Final Summary Schedules dated January 15, 2001, in accordance with the program legislation and the underlying policies and procedures.

The audit was conducted in accordance with generally accepted government auditing standards. Fieldwork procedures utilized in the course of developing the findings and discussion presented in this report are discussed in the Objectives, Scope, and Methodology section. Audit results are found in the Report Conclusions, Independent Auditor's Report, and Final Summary Schedules.

Pat Davidson, CPA
Legislative Auditor

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with a Legislative Budget and Audit Committee special request and Title 24 of the Alaska Statutes, we conducted an audit of the 1996 Retirement Incentive Program (RIP) Final Summary Schedules dated January 15, 2001, issued by the Office of the Governor (OG), Office of Management and Budget (OMB), for the Department of Administration (DOA), Information Technology Group (ITG), and the University of Alaska (UA). The objectives, scope, and methodology of our review were as follows.

Objectives

The objectives of the audit were to:

- Determine if the net savings reported as of January 15, 2001, by OMB to the legislature, presents fairly the results of the retirement incentive programs utilized by ITG and UA, in conformity with the retirement incentive program legislation and the underlying policies and procedures.
- Determine whether OMB, ITG and UA complied with the applicable laws, regulations, and mandated procedures in its use of RIP. Specifically, we were asked to review changes, reclassifications, and inequities in the eligibility determination process.

Scope and Methodology

Employees were deemed to be eligible if the calculations showed a net savings. Approximately one-half of those eligible, and offered RIP, did not wish to retire.

| | <u>UA</u> | <u>ITG</u> |
|------------------|--------------|-------------|
| Eligible for RIP | 784 | 27 |
| Declined | <u>(407)</u> | <u>(13)</u> |
| RIP Participants | <u>377</u> | <u>14</u> |

We reviewed the files for all 14 ITG participants.

We reviewed 42 of the 377 UA participant files. Although our sample was judgment based, it was not spread across the entire population. That is, for sampling purposes, our universe was reduced from 377 to 230. This was due to a 1997 payroll conversion that made the tracking of

pre-1998 RIP participants much more difficult. Therefore, we had a scope limitation for these pre-1998 participants due to practicality.

This scope limitation had no impact on our audit of the net savings reported by UA, because our sample of 42 participants indicated the reported amounts were likely to be overstated and so we had already given the statement an adverse opinion. These practical considerations did, however, represent an audit limitation of our compliance review of this program.

Our review included the following:

- Records of RIP participants maintained by the Department of Administration, Division of Retirement and Benefits.
- Files pertaining to the participants maintained by the personnel and administrative services sections of DOA and UA.
- Information on the participants obtained from the State of Alaska and UA automated payroll systems.
- Instructions issued by OMB regarding the assumptions, procedures, and methods to be used in determining participant eligibility and calculation of individual net savings.
- Instructions issued by OMB regarding the annual reporting of net savings by agencies who offered a RIP.
- Annual reports to the legislature issued by OMB beginning January 1998 and ending with the final report in January 2001.
- Detailed schedules of individual participant's net savings from OMB supporting the summary data reported in the annual reports for DOA and UA.
- Discussions with management and staff of DOA, ITG and Division of Administrative Services, OMB, and UA.
- Results of an audit performed by DOA, Division of Retirement and Benefits, on UA's payroll system and reporting procedures relevant to PERS, TRS, and the Social Security Administration.
- Legislative committee minutes pertaining to the 1996 RIP.

ORGANIZATION AND FUNCTION

In 1996 the Legislature authorized¹ a retirement incentive program (RIP) for State employees and the employees of various local governments. The introduction to the legislation was as follows:

The State of Alaska and many local governments are facing the need to restructure their operations and their work forces in order to reduce expenditures and to balance budgets. Retirement incentives are management tools that have been used extensively by the private sector, the federal government, and other state and local governments across the country. . . . This Act will enable these entities to be more efficient and cost-effective by eliminating certain nonessential positions and producing a net reduction in personnel costs.

Under the legislation, an employer who adopted a plan under RIP could designate categories of employees eligible to participate in that plan.

An employer need not extend the incentive plan to all employees who would otherwise be eligible, but may choose to extend the plan only to employees

- (1) in specific budget or administrative components of the employer;*
- (2) in specific job classifications;*
- (3) in specific geographic locations; or*
- (4) on the basis of any combination of factors under (1) - (3).*

An employee was eligible to participate in a retirement incentive plan only if the employee was a vested member of the public employees' retirement system or the teachers' retirement system and, with the additional RIP credit of three years service, would be qualified to retire under one of those systems. In addition, accumulated savings to the employer in personal services costs had to exceed the total cost to the employer spread over the three years from the employee's retirement date. This period was referred to as the "three-year savings period."

Each State agency had to submit a detailed plan to the Office of the Governor, Office of Management and Budget (OMB), describing the effect on the agency's personal services costs and operations. This plan, along with its financial information, had to be approved by OMB before it could be approved by the commissioner of administration.

¹ Chapter 4, FSSLA 1996.

The head of OMB testified in legislative hearings² that

[My] office intends to very tightly scrutinize the proposals because [these agencies] need the cost savings. They cannot afford to be inaccurate on projections . . . [My] office will review proposals both from a budget analyst side and from a policy and organizational side to be sure both are achievable.

OMB was required to report RIP information annually to the legislature, beginning January 1998 and ending January 2001. These reports were to include, among other things, the number of positions affected by the RIP and a schedule showing actual savings for years past and projected amounts for the remainder of the three-year period.

² House State Affairs Standing Committee minutes, April 1, 1995.

REPORT CONCLUSIONS

The Office of the Governor, Office of Management and Budget (OMB), overstated the 1996 Retirement Incentive Program (RIP) savings for the Department of Administration (DOA), Information Technology Group (ITG), by \$423,000 and the University of Alaska (UA) by a significant but indeterminable amount. These overstatements were due to the erroneous inclusion of vacancy savings and exclusion of rehires. In other respects, OMB, DOA, and UA generally complied with the laws and rules governing this program. Our findings are outlined below.

Department of Administration, Information Technology Group:

Adverse opinion on financial schedule

As discussed in the Independent Auditor's Report, the \$1,201,000 in Retirement Incentive Program savings reported by the Office of the Governor, Office of Management and Budget, on its Final Summary Schedule for ITG were overstated by approximately \$423,000, or 35% of the reported amount. Given the magnitude of this misstatement, we issued an adverse opinion on this schedule.

Savings overstated primarily by inclusion of vacancy savings

OMB's misstatement of ITG savings was made up of several errors, with an erroneous inclusion of vacancy savings representing \$326,000 of the \$423,000.

As discussed in the Notes to the Final Summary Schedules, OMB was responsible for adopting the program's policies and procedures. OMB specifically prohibited the inclusion of vacancy savings, but it did allow the savings from position eliminations to be counted. That is, OMB decided that temporary vacancies were a normal result of employee turnover and should not be considered part of RIP savings. However, long-term position eliminations were to be counted as RIP savings.

ITG had estimated a net savings from RIP of \$875,000. However, when the staff of DOA, Division of Administrative Services, compiled the data to be submitted to OMB, it estimated \$1,201,000. The \$326,000 increase was largely due to inclusion of vacancy savings from positions remaining vacant rather than being filled. DOA's Administrative Services erred by including vacancy savings and OMB erred by failing to remove them. In its January 15, 2001 report to the legislature, OMB erroneously stated that vacancy savings had been excluded.

University of Alaska:

Adverse opinion on financial schedule

As discussed in the Independent Auditor's Report, the \$17.8 million in RIP savings reported by OMB on its Final Summary Schedule for UA were significantly overstated. Although the amount of the overstatement was not determinable, we nevertheless concluded that, given its probable magnitude, an adverse opinion on this schedule was appropriate.

Savings overstated by ignoring rehires

UA rehired approximately 140 RIP participants³ after they retired. OMB instructed agencies to include the cost of replacement employees in the calculations. Had UA included the cost of these rehires, the savings presented would have been substantially less. However, how much less was not reasonably determinable by audit procedures, either by full examination or through sampling.⁴ Typically, there was a savings because these RIP participants only worked part-time or part of the year up to 49% of their previous salary and UA only paid into Social Security. That is, UA was no longer responsible for their health insurance and retirement costs.

Laws and other program rules broken in only a few instances

Except for the rehire rule discussed above, UA generally complied with the laws and rules governing this program. However, we noted a few deviations in our sample, such as the following:

- A term employee working on a capital project was allowed to retire under this program. This position would have terminated at the end of the project. Applying this methodology, this employee did not qualify⁵ for retirement. There was a \$30,000 net cost to the State, not a savings.
- A position was "deleted" in one department and used to justify a RIP retirement. However, the position was merely transferred to another department.
- A position was downgraded and a low step within the salary range was selected in order to show a RIP savings. However, the replacement came in at a much higher step. UA recognized the error, but determined that it was too late to correct it.

³ This count was obtained from a review done by the Department of Administration, Division of Retirement and Benefits.

⁴ Full examination of the entire population of RIP retirees, or even only those who were rehired, would have been a long and expensive process at this late date. A sampling approach would also not have been a very efficient approach due to the population's high standard deviation, thus requiring a large sample size. Further, based upon our internal control review and our initial sample, we believe our Independent Auditor's Report would still have been adverse, regardless of how much audit work was done in this area.

⁵ Section 22(b)(3), Chapter 4, FSSLA 1996.

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

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 | 4,317,800 | 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 | 1,554,100 | 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 | 5 | 38,600 |
| Matanuska-Susitna Borough Schools (Note 9) | 42 | 487,800 | Unalaska City School District (Note 11) | 3 | 37,500 |
| North Slope Borough (Note 10) | 12 | 469,600 | Iditarod Area Schools (Note 11) | 5 | 34,000 |
| Ketchikan Gateway Borough Schools | 23 | 443,000 | Cordova Community Hospital | 3 | 31,400 |
| Lower Kuskokwim Schools (Note 11) | 25 | 324,000 | Alaska Gateway Schools | 2 | 27,900 |
| Matanuska-Susitna Borough (Note 12) | 9 | 310,900 | City of Kenai | 3 | 27,700 |
| Sitka School District | 17 | 229,700 | National Education Association | 1 | 21,600 |
| Kenai Peninsula Borough (Note 13) | 6 | 224,900 | City of Haines | 1 | 17,300 |
| Juneau Borough Schools | 28 | 217,700 | Bartlett Memorial Hospital | 2 | 16,300 |
| Hingham City Schools | 3 | 213,600 | Nenana City Schools (Note 11) | 1 | 15,400 |
| City and Borough of Juneau | 19 | 199,600 | Skagway City School (Note 11) | 1 | 15,400 |
| Honnah City Schools | 2 | 151,200 | Bristol Bay Borough Schools (Note 17) | 1 | 14,600 |
| Haines Borough School District | 2 | 150,700 | Nome City Schools | 5 | 12,900 |
| Bering Strait Schools (Note 11) | 17 | 149,800 | Southeast Regional Resource Center | 2 | 12,300 |
| Wrangell City Schools | 9 | 124,500 | Ketchikan Gateway Borough | 1 | 11,300 |
| City of Honnah (Note 14) | 2 | 118,000 | City of Ketchikan (Note 18) | 1 | 5,400 |
| Southwest Region Schools (Note 11) | 9 | 112,500 | City of Kotzebue | 3 | 3,000 |
| Delta/Greely Schools (Note 11) | 7 | 107,500 | City of Valdez | 2 | 2,600 |
| City of Homer | 5 | 102,100 | City of Seward | 2 | 800 |
| Valdez City Schools | 3 | 84,100 | Craig City Schools | 1 | (12,800) |
| City of Kodiak (Note 15) | 6 | 77,500 | Bristol Bay Borough | 1 | (14,400) |
| Kuspuk Schools (Note 11) | 7 | 64,700 | Yakutat City School District | 1 | (16,900) |
| Chatham Schools | 6 | 64,600 | Kake City Schools | 1 | (29,700) |
| Southeast Island Schools | 4 | 63,000 | Yupik School District | 2 | (30,600) |
| Sitka Community Hospital | 3 | 60,100 | City and Borough of Sitka | 7 | (31,300) |
| City of Wrangell | 9 | 58,900 | Seward General Hospital | 2 | (44,800) |
| Kodiak Island Borough | 4 | 55,300 | Total | 1,764 | \$22,984,800 |

REPORT CONCLUSIONS

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

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

University savings came from elimination of positions and high salary differentials

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

For some employers savings were small or non-existent

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

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

Schedule 2 - Savings/Costs by Department

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

| | TRS | | | PERS | | | TOTAL | | |
|--------------------------------------|--------------------|------------------------|---------------------------------|--------------------|------------------------|---------------------------------|--------------------|------------------------|---------------------------------|
| | Number of Retirees | Estimated Savings/Cost | Average Savings Per Participant | Number of Retirees | Estimated Savings/Cost | Average Savings Per Participant | Number of Retirees | Estimated Savings/Cost | Average Savings Per Participant |
| State of Alaska | 18 | \$ 276,900 | \$15,383 | 721 | \$5,756,200 | \$7,984 | 739 | \$ 6,033,100 | \$ 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 | 204 | 2,894,500 | 14,189 | 102 | (209,600) | (2,055) | 306 | 2,684,900 | 8,774 |
| Kenai Peninsula Borough Schools | 58 | 1,810,500 | 31,216 | 14 | 178,300 | 12,736 | 72 | 1,988,800 | 27,622 |
| Fairbanks North Star Borough Schools | 58 | 734,400 | 12,662 | 27 | 819,700 | 30,359 | 85 | 1,554,100 | 18,284 |
| North Slope Borough School District | 24 | 308,600 | 12,858 | 18 | 208,900 | 11,606 | 42 | 517,500 | 12,321 |
| Matanuska-Susitna Borough Schools | 26 | 287,700 | 11,065 | 16 | 200,100 | 12,506 | 42 | 487,800 | 11,614 |
| 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 | 7,775 |
| Bering Strait Schools | 4 | 61,400 | 15,350 | 13 | 88,400 | 6,800 | 17 | 149,800 | 8,812 |
| Wrangell City Schools | 5 | 35,600 | 7,120 | 4 | 88,900 | 22,225 | 9 | 124,500 | 13,833 |
| Southwest Region Schools | 6 | 92,200 | 15,367 | 3 | 20,400 | 6,800 | 9 | 112,600 | 12,511 |
| Kuspuk Schools | 2 | 30,700 | 15,350 | 5 | 34,000 | 6,800 | 7 | 64,700 | 9,243 |
| Chatham Schools | 5 | 64,700 | 12,940 | 1 | (100) | (100) | 6 | 64,600 | 10,767 |
| Southeast Island Schools | 3 | 49,600 | 16,533 | 1 | 13,300 | 13,300 | 4 | 62,900 | 15,725 |
| Kodiak Island Borough Schools | 2 | 39,900 | 19,950 | 2 | 3,800 | 1,900 | 4 | 43,700 | 10,925 |
| Lower Yakona School District | 3 | 66,400 | 22,133 | 2 | (27,000) | (13,850) | 5 | 38,700 | 7,740 |
| Alaska City School District | 2 | 30,700 | 15,350 | 1 | 6,800 | 6,800 | 3 | 37,500 | 12,500 |
| Total | 556 | \$10,261,100 | \$18,455 | 1,015 | \$9,006,700 | \$8,874 | 1,571 | \$19,267,800 | \$12,265 |

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

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

1989 RIP legislative intent had two aspects

RIP's implementing legislation stated that the program was

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

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

Overall, 1989 RIP did pay for itself

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

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

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

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

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

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

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

Savings and program recommendations discussed further in Auditor Comments

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

BUDGET-CUTTING STRATEGIES FOR CASH-STRAPPED STATES



AMERICAN LEGISLATIVE EXCHANGE COUNCIL
ALEC

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Show Me the Money

Budget-Cutting Strategies for Cash-Strapped States

By William D. Eggers
Senior Fellow, Manhattan Institute for Policy Research &
Director, Deloitte Research

It's the most dire situation we've seen in over 20 years. Governors are dealing with unprecedented fiscal pressure. Even as the economy turns around, the state budget forecast will remain stormy since revenue growth lags the recovery by at least 12 to 18 months.¹

—Raymond C. Scheppach, Executive Director, National Governors Association

I. INTRODUCTION

The 2002 mid-term elections produced nearly two dozen new governors—the largest turnover in years. They didn't have long to celebrate their victories because their first day at work will coincide with one of the worst state fiscal crises in decades. By the time they take office, the cumulative 2003 state budget shortfall will likely be over \$50 billion.² The causes of the deficits are clear: the recession, September 11, spiraling Medicaid costs, and profligate spending in the mid- and late 1990s.³ Add them all up, and you have the budgetary equivalent of a perfect storm.

If this gives you a strong sense of déjà vu, do not be surprised. We have been through all this before, the last time only a decade ago, during the previous recession. Unfortunately, memories are short. Many states failed to learn one of the most important lessons from previous boom-bust cycles: spending must be contained during growth periods in order to avoid fiscal imbalances when the economy goes south, as it always does eventually.

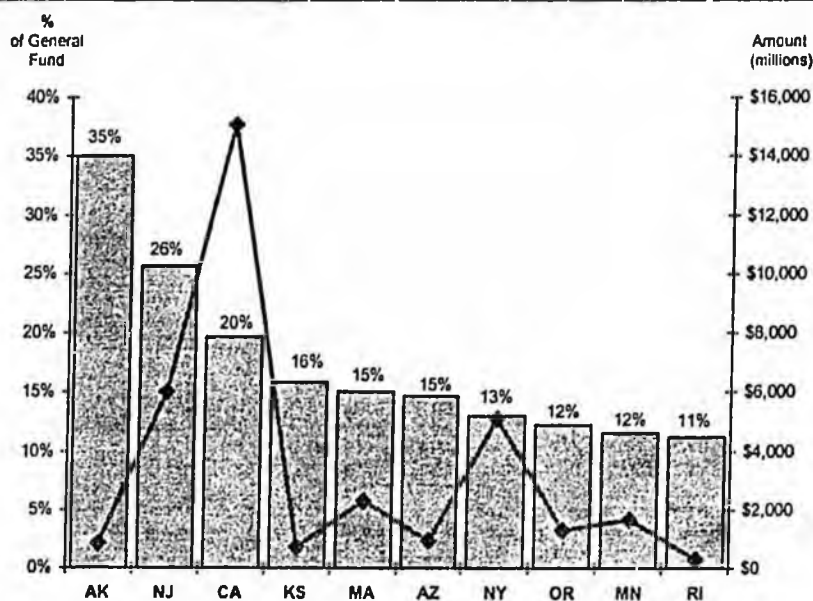
Faced with constitutional requirements to balance their budgets, the governors and state legislators from Honolulu, Hawaii, to Augusta, Maine, are scrambling to find a way out of their budget jams. Making their task eminently more difficult is the way in which many governors and state legislatures looked the fiscal year 2002 \$49 billion collective deficit square in the face—and punted. The full panoply of accounting gimmicks, rainy day fund raids, sin tax hikes and other short-term measures—enough to make Jeffrey Fastow blush—were employed in a desperate attempt to whistle past the electoral graveyard.

As hard as it is to fathom, budget problems in fiscal year 2003 will be even worse than they were in fiscal year 2002.

The National Association of State Budget Officers (NASBO) and the National Governors Association predict difficult times in the next 12 months—at least. "It's worse than anybody expected," said Scott Pattison, NASBO's executive director. "We already knew that [this fiscal year] was going to be bad, but now it's going to be terrible."⁴

Every one of the myriad campaign promises made by this year's group of new governors will have to take a back seat to closing the budget gaps. Just ask Virginia first-year governor Mark Warner whose governing agenda has been entirely eclipsed by his state's worst fiscal crisis in 40 years. He closed a massive initial \$3.8 billion budget gap through a mixture of mild spending cuts, some accounting sleight of hand, and by deferring a planned car tax cut. But, thanks to dismal revenue growth, in October 2002 Warner was forced to announce another \$855 million in spending cuts. These included lay offs of over 1800 state employees; 15 percent budget cuts in 63 state agencies;

States with the largest relative budget gaps
FY 2003



Source: National Conference of State Legislatures

The bottom line: some states made serious spending cuts, but most didn't do much to reduce the medium- and long-term costs of operating government. This objective can be accomplished by reducing the size and scope of government in strategic and imaginative ways, whether by reorganizing or redesigning departments and programs. Absent large tax increases, such steps are now unavoidable.

III. TEN STRATEGIES FOR CUTTING BUDGET DEFICITS

The strategies outlined in this study include short-, medium-, and long-term plans for reducing the cost of government. Some of the short-term measures are imperfect and impolitic and will do little to fix long-term budget imbalances. In many states, however, the severity of the current fiscal situation makes stopgap measures unavoidable.

It is important to remember that no matter how successful state governments are in employing short-term measures to close deficits, the seeds of fiscal crisis will remain. Only by fundamentally restructuring government will state policy makers be able to contain spending growth and return accountability to state finance. The following ten strategies will help states do both.

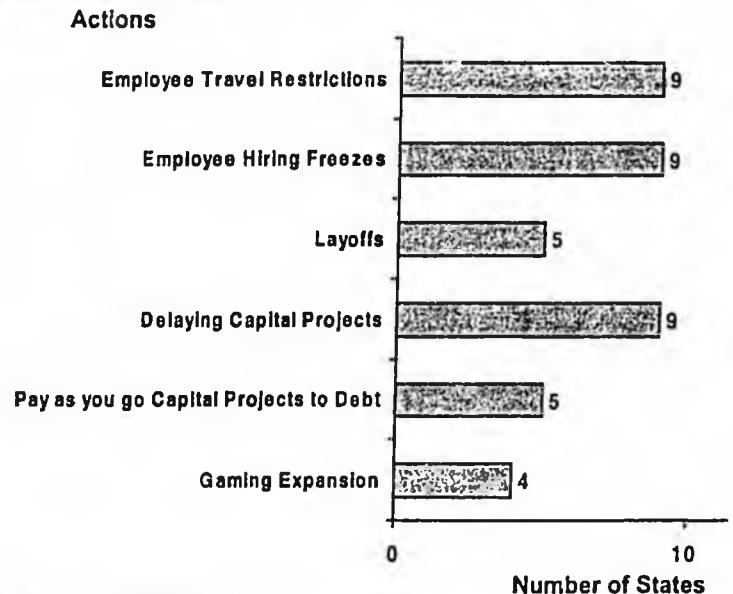
1 Go Where the Money Is: Reduce Workforce Costs

One of the most effective short-term cost reduction measures is reducing workforce costs. The reason is simple: state employees' salaries and benefits account for a significant portion of states' costs. Most states will find it almost impossible to balance their budgets without impacting state employees. Fortunately, the innovative use of Web-enabled technology can help to ease the impact of workforce reductions on customer service, while an aging workforce will allow some workforce reduction without massive layoffs.

Recommendations

- **Cap Employment:** Agencies hate full-time equivalent (FTE) employment caps because they restrict their ability to hire new employees. Nevertheless, FTE caps are a proven way to trim workforce costs.⁹
- **Freeze State Hiring:** A number of states, including Illinois and Massachusetts, froze state hiring recently.¹⁰ Although appealingly simple, this approach leaves little room for agencies to adjust their organization to function with a

Closing FY 2003 Budget Gaps (continued) States Actions (FY 2003)



Source: National Conference of State Legislatures

smaller workforce; the budgetary impact is also harder to estimate than with an FTE cap.

- **Reduce the number of government positions:** The most direct way to reduce the size of the state workforce is simply to eliminate government positions outright. In Florida, Governor Jeb Bush has set a goal of reducing the state workforce by 5 percent a year for five years. Through a combination of outsourcing and streamlining, Bush has already cut thousands of permanent and temporary positions from the state payroll. In Missouri, Governor Bob Holden targeted 688 jobs for elimination in his 2002 budget.¹¹
- **Eliminate phantom positions:** When agencies and higher education institutions receive funding for a certain employment level, invariably a percentage of the positions are never filled. Eliminating these positions is a relatively painless way to extract workforce savings from agency budgets. Many of the positions eliminated in Florida fell into this category.¹²
- **Provide incentives for early retirement:** Offering early retirement incentives, such as allowing employees to retire early with full benefits and a severance package, typically results in a large exodus of state workers, thereby reducing the workforce without layoffs. For maximum

savings, each agency's funding should be cut by the same amount as the total salaries of retiring employees. The budget bill adopted by the Wisconsin State Senate in 2002 contains such an early retirement package.¹³ Unfortunately, early retirement packages also carry some potential disadvantages. First, if the severance packages are too generous, they negate potential cost savings. Second, the best and most qualified employees tend to be the first to take the packages, which can hurt program management.

- **Renegotiate labor contracts:** State employee unions sometimes can be persuaded to make contractual concessions during severe budget crises rather than face the prospect of unavoidable layoffs. When former Philadelphia Mayor and now Pennsylvania Governor-elect Edward Rendell first assumed office in 1992, he faced a \$208 million budget shortfall, at the time, the city's worst fiscal crisis since the Great Depression. To reduce costs, he proposed numerous work rule changes and cutbacks in the very generous compensation packages—such as 41 paid vacation days a year—enjoyed by city employees. After holding firm after the unions walked out of their jobs, Rendell was able to extract \$353 million in concessions from the unions over four years.¹⁴ Most attempts to renegotiate contracts, however, are not this successful. Outgoing Illinois Governor Ryan failed in his attempt to renegotiate union contracts with state employee unions in 2001.¹⁵
- **Reduce retirement costs:** Some analysts question the fairness of asking current state employees to bear all the pain of budget cuts. Most states provide generous pension and health benefits for retired state employees, many of whom embark on lucrative second careers. In the spirit of shared sacrifice, states can realize savings by temporarily freezing cost-of-living adjustments (COLAs) for retirees or requiring them to pay a larger share of their health care insurance premiums, as outgoing Governor Lincoln Almond has proposed in Rhode Island.

2 Spread the Pain: Impose Broad-Based Spending Cuts

Across-the-board spending cuts are not the best way to reduce the size and cost of government. They provide little guidance about what services government should deliver or how they should be delivered. Moreover, cutbacks are usually restored as soon as tax revenues begin flowing back into government coffers, meaning long-term cost reductions are not achieved.¹⁶ But for governments needing to quickly identify budget savings—with no time to implement a more strategic process of "rightsizing" and restructuring—across-the-board spending cuts are often a necessary weapon in the budget-balancing arsenal.

Recommendations

- **Make across-the-board budget reductions:** The simplest way to address a budget deficit is to impose across-the-board cuts on all state agency budgets. When not micromanaged, across-the-board cuts allow agencies more flexibility to determine which expenses are essential and which are not. The main problem with this approach is that it penalizes the leanest and most efficient agencies, since they have less fat to cut. Dozens of states enacted across-the-board cuts this year and last, including Iowa, New Jersey, Oklahoma, and Virginia.
- **Freeze spending to prior year's level:** Another simple way to cut spending is to fund agencies at the previous year's level.
- **Freeze COLAs:** Freezing COLAs received by entitlement recipients can save costs in the short term without removing people from program rolls. The freeze can be reversed once the budget picture improves. The only governor to propose a measure of this type in 2002 is John Engler of Michigan, whose budget includes a freeze on Medicaid COLAs.¹⁷

3 Modernize Government: Reform Entitlement Programs

States have no chance to solve their long-term budget problems without getting a handle on the rising cost of entitlements. Next to the recession, the runaway cost of Medicaid—the biggest budget cost driver in most states—is the biggest cause of the current state fiscal crisis. Medicaid now accounts for one-fifth of total state expenditures, second only to education.

For the past two years, Medicaid spending has been growing at a rate of 11.7 percent per year, almost double the 6.4 percent increase in state spending projected for the next fiscal year. The ten-year projections from the Centers for Medicaid and Medicare Services show double-digit cost increases far into the future.¹⁸ States are experimenting with a variety of approaches to reduce Medicaid costs: cutting mental health care; tightening eligibility requirements; reducing payments to providers; lowering drug costs through generic drugs and drug rebates; and reducing coverage for acupuncture, podiatry, dental care, home health care, and chiropractic care. Some of these proposals make sense. Some will even save money. But none of them are likely to have more than a marginal impact on the long-term problem of rising Medicaid costs.

The real problem, as noted in an American Legislative Exchange Council (ALEC) Medicaid study by Richard Teske, lies in Medicaid's defined benefits structure, which fixes

State of Alaska Retirement Incentive Program Status Report

**Office of Management and Budget
January 14, 2000**

Introduction

The Retirement Incentive Program (RIP) statute (Sec. 32(b), ch. 4, FSSLA 1996) calls for the Office of Management and Budget to submit annual status reports on the program to the Legislature. The report requirements include the following:

The report must include information on the designated employee categories under the incentive program, the cost to the state, the cost to the employee, the annual budgeted amount by state agency for the incentives, the number of positions deleted or left vacant, and the projected or actual net savings over the three-year period, and recommendations to the Legislature for changes in appropriations that reflect the cost and cost savings resulting from the retirement incentive program.

Overview of the Program

The purpose of the Retirement Incentive Program is to provide an incentive for employees to retire earlier so their positions can be deleted, downgraded through reorganization of operations, or filled with less expensive employees. The program provides agencies with a management tool to help meet budget pressures by reducing personal services costs. It is also intended to help avoid layoffs that would otherwise be necessary due to budget cuts or the impact of absorbing unfunded inflation and population increases.

This program was designed with significant differences at the state government level from the last RIP in 1989-90. The prior program was offered on a statewide basis, and virtually all employees meeting the age and service requirements were authorized to participate in the program. The current program was designed using a more targeted approach similar to most private sector retirement incentive programs. Each department tailors its use of the program to meet its own budget and staffing requirements. In addition, a greater emphasis has been placed on deleting and reclassifying positions as part of streamlining state government operations wherever possible.

Under the current program, agencies were authorized to adopt RIP plans at any time beginning June 30, 1996 and continuing through June 30, 1999. Participating employees were required to retire no later than January 1, 2000. RIP plans have been adopted by every state department, the University, the Court System and the Legislature.

Summary Program Results

The results of the program from its inception on June 30, 1996 through January 1, 2000 are summarized in the attached table. On a statewide basis, 2,649 positions have been approved for participation in the RIP; 1,273 employees have applied for the program; and 1,270 have retired as of January 1, 2000.

A total of 358 positions have been deleted under the program, with an additional 158 positions reclassified at a lower salary level. In addition, 16 positions were required to be held open for at least three months after becoming vacant, in order to determine whether agency operations could be reorganized to do without the vacated positions.

The estimated statewide net savings from the employees who have actually retired so far total:

- FY1997: \$0.5 million;
 - FY1998: \$6.8 million;
 - FY1999: \$10.4 million;
 - FY 2000: \$12.8 million;
 - FY 2001: \$7.0 million;
 - FY 2002: \$3.7 million; and
 - FY 2003: \$0.3 million.
-
- The total estimated savings for FY1997 – FY 2003 is \$41.4 million. These figures include both general funds and other funds.

The reason that the net savings for certain departments and years shown on the table are negative is that some RIP windows occurred late in the fiscal year. Therefore, the savings for those years were smaller than the one-third share of the employer RIP cost owed for those years. These negative savings are offset by additional savings in subsequent fiscal years, when RIP savings continue but the employer RIP cost has been fully paid in the prior years.

Except for the first year, when \$1.5 million was cut from the budget specifically anticipating RIP, the RIP savings have helped state agencies absorb budget reductions and cost increases, and avoid some layoffs that would have been necessary in the absence of the RIP.

The estimated net savings shown in the table were calculated using the following procedures and assumptions. Under the RIP statute, savings are required to be calculated over a three-year period. The total salary and benefits costs of each RIP participant were compared over a three-year period to the expected position costs of the replacement employee (unless the position was deleted).

The savings were calculated assuming that the position was filled immediately at a B step. We did not include vacancy savings because such savings are a normal part of employee turnover and would therefore overstate savings from the RIP. To calculate net savings, the employer RIP cost (the amount paid into the retirement system for the additional RIP cost) and the administrative fee were deducted from the position cost savings.

One important caveat concerning these savings projections is that the projections assume that none of the employees who retired under the RIP would have retired at that time if the RIP were not available. Some RIP participants were eligible for normal or early retirement without the RIP and some of them probably would have retired even if the RIP were not available. This assumption tends to overstate RIP savings, because some of the savings attributed to the RIP would have happened without the program. However, this assumption is necessary because there is no way to know how many and which employees would have retired normally without the RIP.

On the other hand, these savings projections do not include the long-term savings that will result from replacing employees in the Tier I and Tier II retirement categories with Tier III employees, who have lower benefit costs. The projections also do not include the "ripple effects" of additional savings from vacancies created by promotions and transfers into RIP vacancies.

Additional Information

The RIP statute also calls for the following information to be included in this report:

Designated Employee Categories: The designated employee categories varied by agency. In some cases RIP participation was offered on a division-wide basis; in other cases particular job classes were selected for participation based on the budget and staffing needs of the department. More information on specific RIP plans is available from each agency or OMB.

Cost to the Employee: Most employees are required to pay an amount equal to 20.25 percent of their annual salary to the retirement system for the additional cost of their RIP benefits. Peace officers and fire fighters pay 22.5 percent.

Budgeted Amount for Incentives: No funds were budgeted to pay for agency RIP costs. Agencies have paid for these costs from savings generated by the RIP or other cost-cutting measures.

Recommendations to Legislature for Appropriation Changes: None at this time.

December 27, 2002

Pat Davidson, Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson:

This letter is in response to the preliminary audit on the retirement incentive program (Audit #02-30001-03). As you know, this program ended under the prior Administration. I have reviewed the preliminary audit, as well as the response to the Legislative Audit management letter on this issue that was prepared by the former OMB director, and have no additional comments.

Sincerely,

Cheryl Frasca
Director

State of Alaska Retirement Incentive Program Status Report

**Office of Management and Budget
January 14, 2000**

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This program was designed with significant differences at the state government level from the last RIP in 1989-90. The prior program was offered on a statewide basis, and virtually all employees meeting the age and service requirements were authorized to participate in the program. The current program was designed using a more targeted approach similar to most private sector retirement incentive programs. Each department tailors its use of the program to meet its own budget and staffing requirements. In addition, a greater emphasis has been placed on deleting and reclassifying positions as part of streamlining state government operations wherever possible.

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Budgeted Amount for Incentives: No funds were budgeted to pay for agency RIP costs. Agencies have paid for these costs from savings generated by the RIP or other cost-cutting measures.

Recommendations to Legislature for Appropriation Changes: None at this time.

Subject: HB 329

Date: Wed, 28 Jan 2004 12:18:23 -0900

From: Craig Shelton <craig_shelton@dot.state.ak.us>

To: ginny_austerman@legis.state.ak.us

I support HB 329
Thanks for your work on this item.

Craig Shelton

Subject: Support for HB 329 Retirement Incentive
Date: Wed, 28 Jan 2004 13:37:14 -0900
From: "Patrick D. Miller" <patrick_miller@dot.state.ak.us>
Organization: DOT & P.F. Design
To: ginny_austerman@legis.state.ak.us

Dear Ginny,

I would like to be counted as one who supports HB 329 with several amendments. For now please count me as a supporter.

Sincerely,

Patrick Miller,
State of Alaska employee

RIP

Subject: RIP

Date: Wed, 28 Jan 2004 11:29:08 -0900

From: Mike Lee <mike_lee@dot.state.ak.us>

To: ginny_austerman@legis.state.ak.us

I support HB 329.

Regards,

Mike Lee

Subject: HB 329

Date: Wed, 28 Jan 2004 11:29:41 -0900

From: Jim Payne <jim_payne@dot.state.ak.us>

To: Ginny Austerman <ginny_austerman@legis.state.ak.us>

I give my full support to this bill. I think that the overall affect of the RIP program improves the State work force and also saves the State money.

October 10, 2003

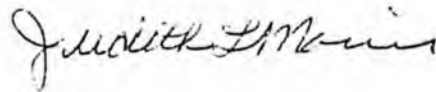
Dear Representative Bruce Weyhrauch,

I am writing because I would like you to support **House Bill 329**. In these times we need to economize where possible, and it makes sense to retire our more expensive state workers and take on younger talented employees. This would help the economy to retire the higher paid employees to save the state money. Hiring new younger employees, which are paid at a less range and benefits that would help the state financially.

House Bill 329 would create jobs for the younger people of Alaska and keeping them here in our state. If the knowledge of the older employee is a concern, then after retiring they can be rehired at step A and no benefit package costing the state less money until the young employee can be trained to take over.

Thank you so much for your attention to this timely piece of legislation and I would appreciate your support for it when it comes before you.

Sincerely,

A handwritten signature in cursive script that reads "Judith L. Morris".

Judith L. Morris
4941 Klondike Ave.
Anchorage, Alaska 99508-2413

Subject: HB 329

Date: Wed, 28 Jan 2004 10:10:58 -0900

From: doug hummel <doug_hummel@dot.state.ak.us>

To: Ginny Austerman <ginny_austerman@legis.state.ak.us>

Hi Ginny,

I want to let you know that I support HB 329.

Doug

Subject: HB329 Early Retirement - and University of Alaska Layoffs

Date: Wed, 28 Jan 2004 10:57:55 -0800 (PST)

From: darryl earnshaw <darryl7734@yahoo.com>

To: Ginny_Austerman@legis.state.ak.us

1/28/03

Re: Early Retirement Incentive Program - HB329

This bill maybe good for those employees that were notified recently at the University of Alaska Fairbanks, Physical Plant that they might or will be laid off as soon as bumping has been figured out.

My husband for one has worked for the University of Alaska for 23 years, he will be 51 in March and hopefully he would qualify via some sub section of this bill for early retirement. This would certainly eliminate alot of personal stress.

Any bill that would help reduce the cost of State government while at the same time treating its employees with decency and respect for their valued years of service would be greatly appreciated.

Sincerely, Ruth Earnshaw, 517 Longspur Loop,
Fairbanks, Alaska 99709 - (907) 479-0102

Do you Yahoo!?

Yahoo! SiteBuilder - Free web site building tool. Try it!

<http://webhosting.yahoo.com/ps/sb/>

Subject: [Fwd: HB 329]

Date: Tue, 27 Jan 2004 15:40:03 -0900

From: Kenai Legislative Information Office <Kenai_lio@legis.state.ak.us>

To: Ginny Austerman <Ginny_Austerman@legis.state.ak.us>

Ginny, Paul Kubena sent me two message for HB329. Rather than send you 2 forms of written testimony (they both relay the same message) I am forwarding this one and attaching a written testimony form. Hope this works for you.

-Alyson

Kenai LIO

----- Original Message -----

Subject: HB 329

Date: Tue, 27 Jan 2004 15:18:50 -0900

From: "Paul Kubena" <pkubena@kpbsd.k12.ak.us>

To: Kenai_LIO@legis.state.ak.us

Please vote yes on HB 329

Alaska has long suffered a "Brain Drain" of creative and talented young citizens forced to seek carrers Outside. This migration away has been further enabled from a lack of oppourtuntiy for the next generation of Alaskans to start fresh new families and careers in the state. By offering incentive to free up job positions within the state we can capture some of the very talent and skills we need to "re-invest" in our states future. Vote yes on HB329. It's a win / win situation that is a proactive choice for our states future. Please vote YES for Alaska. Vote Yes for HB 329. Thank You.

 Kubena HB57.doc

ation/msword)

essage

Copy for

Jhura

HB 329



Alaska State Legislature

Please enter into the record my testimony to the ___House State Affairs

(committee name)

committee on _____HB329____, dated 012904_____.

I'm in favor of passage of HB 329. The state of Alaska has already recognized the "Brain Drain" that our economy is suffering from. Our "Best & Brightest" young citizens are being forced, by economic necessity, to seek careers "Outside". Much of the fresh new talent and creativity Alaska needs for her future is being held in check because a top heavy, salaried, workforce that is close to or beyond retirement age are not leaving to open up job opportunity for the next generation of state employees. The incentive to come here and build the new next generation of families will be greatly enhanced through the opening up of jobs created through retirement of state employees. I see it as a Win / Win scenario. Good for the past and good for the future. Please vote yes on HB 329.

Paul Kubena
44960 Big Eddy Rd.
Soldotna, Alaska

Signed:

Testifier

Representing (optional)

Address



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 dated 1-28-04
Bill/Subject

As a teacher for 4 years in the Mat-Su Borough School District, I support a retirement incentive program at this time to help alleviate the funding crisis for quality education.

I further support allowing early retirees to return to work for a 3-year period at entry-level salaries while maintaining retirement benefits. This would mitigate the teacher-shortage situation, and keep schools from losing experienced staff.

Signed: Annita Ramberg
Testifier

Representing (Optional)

P.O. Box 319, Talkeetna, AK 99676

Address

(907) 733-1419

Phone number



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1/29/04
Bill/Subject

Honorable Committee members

Please consider the HB329 for the Retirement Incentive Program. By passing this bill you will be helping to alleviate some of the pressure local districts are now feeling due to the large percent of the budget that is devoted to senior level teachers.

We are all aware of the difference in cost between a veteran teacher and a beginning teacher. There fore by providing a RIP you may just help one district come a little closer to balancing their budget.

Michael Mc Namara

Signed: _____
Testifier

Representing (Optional)

Meadow Lakes Elementary
Address

907-357-9840
Phone number



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
committee name

committee on HB 329, dated 1-29-04
bill/subject

Much needed bill for
all involved!

Please acknowledge
my support

Signed: James D Erwin

Testifier

POB

Wasilla

Representing (Optional)

Address

(907) 376-5021 hm (907) 357-9840 wk



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
committee name

committee on HB 329 , dated 1/29/04
bill/subject

I support this much needed bill.

I think HB 329 is needed for
the teachers, administrators,
and government workers of
Alaska.

Deborah J Buser

Signed: _____

Testifier

Representing (Optional)

POB 870649 Wasilla AK 99687

Address

(907) 373-1216



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1/09/04
Bill/Subject

This is a well needed bill,
please acknowledge my support.

Signed: Leslie Heide mann
Mat. Sa Borough School dist
Testifier

Representing (Optional)

Address

907 - 357 - 9840
Phone number

01/28/2004 10:15 7331363
JAN-28-04 WED 10:04 AM MATSU LIO

SUVALLEY
FAX NO. 9073766180

PAGE 02/02
P. 01
371-3704



Alaska State Legislature

Please enter into the record my testimony to the House STATE Affairs Committee
Committee name

Committee on HB 329 R/P dated 1-28-04
Bill/Subject

Please Support HB 329. I urge all members
to support HB 329 for the following reasons

1. COST SAVINGS to the STATE
2. Most people in Tier I can TAKE ADVANTAGE of this BILL
3. Some Jobs would not Be Filled
4. IF the Job is filled it would Be hired at A much Lower Salary

I Also think a amendment of Letting the Window of opportunity Be Extended for 3 years

Signed: Neal Sull
Testifier

Representing (Optional)

P.O. Box 1005 Willow Alaska 99688
Address

907 495-~~0000~~ 7330
Phone number

Phone number
 907-733-6262
 Address
 P.O. Box 412, Talkeetna, AK 99676
 Representing (Optional)

Signature: *James A. Jorman - Schuyler*
 Title: _____

I am writing to support passage of HB329. I will reduce education costs to districts across the state. In addition to passing HB329, the state legislature needs to increase funding & inflation proof education funding & increase funding to support NCLEB legislation.

Committee on _____
 HB329
 Date: 1/28/04
 Committee name

Please enter into the record my testimony to the House State Affairs Committee

Alaska State Legislature





Alaska State Legislature

Please enter into the record my testimony to the House State Affairs Committee

Committee on HB 329

Committee name
Status date: 5-21-03
dated: 1-28-04 (today's date)

Bill/Subject
Re: Teacher Buy Out -

This would be an excellent way to decrease spending in schools in the long run. There are many young teachers waiting to fill positions. By saving money on salaries, more money could be spent on directly helping students (there are more + more students with high needs, technology changes every day, etc.)

Please support the bill to cut future spending.

Signed: [Signature]
Testifier

Representing (Optional)
P.O. Box 155; Talkeetna, Alaska 99676
Address
(907) 733-2155
Phone number

JAN 29 11:04 AM MATSU LIO FAX NO: 9073766180



*Please Fax 376-6180
I Support HB 329*
Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 TIP dated 1-28-04
Bill/Subject

Please Support HB 329

Signed: Sandra L Bennett
Testifier

Representing (Optional)

po box 3576 Palmer AK
Address

907 376 9292
Phone number

JAN-28-04 WED 10:03 AM MATSU LTO

FAX NO. 9073766180

P: 02



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1-28-04
Bill/Subject

*I support the RIP bill HB 329,
Please give your support to its
Passage.*

Signed: *Lauree Green*
Testifier

Representing (Optional)

1260 W Gail Dr Wasilla
Address

907 376 9292
Phone number

JAN-28-04 WED 10:03 AM MATSU L10

FAX NO: 9073766180

P. 02



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 dated 1-28-04
Bill/Subject

I support HB 329. Please do all you can to make this Bill go through.

Signed: Diane C. Marble

Testifier
Diane Marble

Representing (Optional)

P.O. Box 1151, Palmer, AK 99645

Address

907-745-4156

Phone number



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 dated 1-28-04
Bill/Subject

*I support the HB 329
This is important for the Mat-Su School
Dist*

Signed: *Joe Berard*
Testifier

Representing (Optional)

260 So Colch, Palmer, Ak 99645
Address

Phone number

FAX NO. 907-745-6100



Please Fax 376-6180
I Support HB 329
Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 TIF dated _____
Bill/Subject

I support HB 329. Please
do all you can to make
this bill pass.

Signed: Gottel Reese
Testifier

Representing (Optional)
PO Box 1355 Palmer AK 99645
Address

907 745-2237
Phone number

JAN-28-04 WED 10:03 AM MATSU LIO

FAX NO. 9073766180

P. 02



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 dated 1-28-04
Bill/Subject

Please support HB 329

Mary K. Meyer

Signed: _____
Testifier

Representing (Optional)

Address

Phone number



Alaska State Legislature

Please Fax 376-6180
I Support HB 329

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 RIF dated _____
Bill/Subject

no support whis bill!
Also, get with funding education!
our kids are suffering!!
NCLB has created more burdens
on everyone, but no money to
support these requirements!!

Signed Rebecca Hardy
Testifier

Representing (Optional)

PO Box 855910-296 Wasilla, AK 99154
Address

907-376-5996
Phone number



Please Fax 376-6180
I Support HB 329
Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 TIF dated 1-28-04
Bill/Subject

Please support HB 329

Signed: Marie Rogers DR
Testifier

Representing (Optional)
PO box 1151 Palmer
Address

745 6248
Phone number

[Fwd:]

Subject: [Fwd:]

Date: Tue, 03 Feb 2004 11:12:58 -0900

From: Bruce Weyhrauch <Representative_Bruce_Weyhrauch@Legis.state.ak.us>

Organization: Alaska State Legislature

To: Ginny Austerman <Ginny_Austerman@legis.state.ak.us>

can you take care of this.

Bruce

Subject:

Date: Mon, 02 Feb 2004 19:46:30 -0900

From: Annette Nadreau <timna@gci.net>

To: Representative_Bruce_Weyhrauch@legis.state.ak.us

Dear Bruce

My wife and I are your constituents and are writing in concern with HB329. I see where the Rules committee has held some hearings on this bill.

We are both State employees and wish to express my support for this bill.

I just do not see a down side to this legislation. It would give those employees who qualify a chance to leave state government while at the same time save the State money. Some could argue there would be a brain drain. However, I do not see it that way in that a rip has not been offered for several years. It would also offer others outside state government a chance at a good job at entry levels as new positions are filled. (if they are)

I am very interested in following the legislative process on this bill. Can you tell me if any other hearing are currently scheduled for this bill? Also, can you tell if hb329 is currently scheduled for a full rules committee vote or when it will be? What committee is it passed to once it leaves the Rules committee? And finally, I am hearing that most people I talk to about this bill feel that it really does not have the support of the full legislator and do not feel it will pass both houses this year. Can you give me your gut feeling on this? Do you think it will pass out of the full house, senate or both? (I know its very early in the process)

Thank you for your support on this bill.

Tim and Annette Nadreau
4114 victoria ct.
99502

Subject: Re: CS HB 329

Date: Mon, 2 Feb 2004 20:18:55 -0900

From: "Mark Inghram" <minghram@alaska.net>

To: "Ginny Austerman" <Ginny_Austerman@Legis.state.ak.us>

GINNY:

Thanks, I received the FAX today of HB329. I read through it once....more than just a little confusing. First read through certainly left impression of too many caveats leaving way too much discretion to the Department/Division level. I have heard a Director say that it is his intention to allow NO ONE in his Division to participate in a RIP. This is exactly the situation that needs to be avoided, & why the bill needs to be written as to remove discretionary participation to the Department/Division level. Please offer a revision that simplifies the participation rules to allow all who meet a set of standards perscribed by the legislature to elect the RIP. It is the only fair way to do it, and the only way to encourage/allow enough employee participation to save the State sufficient money to make the RIP worthwhile.

Thank you for being responsive. I will write a more formal response as time allows me to fully comprehend the convoluted language in HB329.

MARK

----- Original Message -----

From: Ginny Austerman

To: Mark Inghram

Sent: Monday, February 02, 2004 12:37 PM

Subject: Re: CS HB 329

Mark - I have just sent the fax, it is 13 pages. Ginny

Mark Inghram wrote:

Thank you Ginny for the email. Our fax number is 907-694-4794. We would appreciate any information you can forward on HB 329, version H. We look forward to receiving your fax. Mary and Mark

----- Original Message -----

From: Ginny Austerman

To: minghram@alaska.net

Sent: Friday, January 30, 2004 11:19 AM

Subject: CS HB 329

Hi Mark:

Rep. Weyhrauch has forwarded you testimony on HB 329 to me for the committee packets and for response.

Version H of the bill is not available on-line as it has not been formally adopted by the House State Affairs Committee, it is only in the discussion stages. If you have a fax number, I can fax the pages to you. It is a 13 page bill.

I would suggest that you contact Rep. Lesil McGuire's office, too, they will always have the information on where and when HB 329 will be heard next. You can also find the information at the State website on BASIS. You just have to key in HB 329 (at the Bill Root prompt) and the status of the bill will come up telling you when and where it is. You can also see the *current adopted* bill version there. If you have Adobe Acrobat you can look at the PDF version which is easier to read.

The bill is on the House State Affairs calendar for next Thursday. At this time the bill is listed 2nd on the calendar, but there is no guarantee that is where it will be heard, as the chair can change the order of bills during the meeting. Also, check with your LIO, they should know the schedule for the bill.

Thank you for your testimony.

Ginny Austerman
House State Affairs Committee Aide

Corinne W. McVee
6300 Habicht Court
Anchorage, AK 99504
907-338-0289
907-338-7815 fax
starcats@alaska.com

February 17, 2004

Representative Max Gruenberg
fax 907-465-3766

Dear Max,

Thanks to you and your aide for trying to get me on the agenda this morning at the House State Affairs committee hearing on HB 329. As you know, I called in to testify but had to leave the house in order to get to school, so instead of live testimony I submit my statement in writing. Please distribute this to the other committee members.

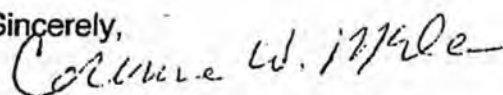
I urge the Alaska Legislature to pass HB 329, the retirement incentive bill. Alaskan school districts desperately need to save money to avoid layoffs, program cuts, and increased class sizes. By allowing the most expensive teachers to retire more easily, less expensive teachers can be hired to replace them. I am a 23 year veteran teacher and I cost the Anchorage School District about twice what a new teacher would cost.

Some members of the Legislature may be concerned that a retirement incentive can have a negative effect on schools. The loss of experienced teachers is a problem, but it could be partly solved by allowing only a limited number of teachers per year opt to retire early. Other members may be concerned about the financial impact on the retirement system, but since the incentive offered in this bill is a three-year buyout, not a Service Recognition Program, the retiree still contributes to the retirement system.

I have seen newer teachers become very discouraged by receiving pink slips due to budget shortfalls. I know several who have left the profession because of it. If this bill will help avoid layoffs, it will be an excellent way to help retain the bright young teachers I know as well as let the older ones exit gracefully. Of course, layoffs are also bad for the economy.

Thanks to you and all the committee members for considering my opinion on this matter. Many thanks for your support of quality education in Alaska.

Sincerely,



Corinne W. McVee



Alaska State Legislature

Please enter into the record my testimony to the ___House State Affairs Committee

on HB329, dated 021704

20 + years of commitment and dedication to this great state and what might these Alaskans receive in recognition of their service? Does it require an explanation? Future Alaskans will be standing on the shoulders of those who came before them. Alaskans have achieved the quality of life they have all come to enjoy and expect due to the efforts of these citizens. Giving governmental agencies the ability and discretion to recognize such citizen contributions in a manner within their budgetary means is indeed a small thing to ask. Allowing the state to give the credit of three (3) additional years to their PERS or TRS accounts will, in and of itself, be incentive and reward for the few who have done so much for the many. It's an opportunity for the "Last Great Place" to salute the contributions of their own.

Paul C. Kubena
44960
Big Eddy Rd.
Soldotna, Alaska
99669

FEB 23 2004



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs Committee

Committee name

Committee on HB 329
Bill/Subject

dated 2-17-04

Please consider HB329 as a way to decrease spending statewide. Many layoffs are now predicted. The passing of HB329 would relieve budgets across the state.

Thank you for listening.

Signed: Cathy Teich
Testifier

Representing (Optional)

P.O. Box 155, Talkeetna, Alaska 99676

Address

(907) 733-2155

Phone number

FEB 23 2004



Alaska State Legislature

Please enter into the record my testimony to the HOUSE STATE AFFAIRS COMMITTEE
Committee name

Committee on HB 329 R.I.P. dated 2-17-04
Bill/Subject

IF THE EMPLOYEES WHO ARE TOPPED OUT ON THEIR SALARY SCHEDULES ARE GIVEN AN INCENTIVE TO RETIRE, I THINK MANY WILL. IF NEW EMPLOYEES ARE ADDED AT THE BOTTOM OF THE SALARY SCHEDULE, THIS SHOULD RESULT IN SAVINGS OF \$20,000 - \$30,000 PER EMPLOYEE PER YEAR.

Signed: BRUCE C. GUNDERSON *Bruce C. G.*
Testifier

Representing (Optional)
HC 89 BOX 621 WILLOW, AK 99688
Address

HM 907-733-2528 WK 907-733-2241
Phone number

HB 329

FEB 06 2004

We the undersigned wholeheartedly support this bill:

Mike Jenkins
Earnest D. Kenten

Robert R. Hull

Rod Steiner

Hunt B. Poyer

David J. Bryan

Michael K. Jelle

Rita Hall

KRHall Kim R. Hall

Suzanne L. Knudsen

John A. Rajek

Eddie d. Buckley

Michael C. Knoufs

Ferry H. Frost

Edward Cress

Tom Nashen

Rick P.
Tom Peterson

Jimmi Almon

Dave Rutz

Craig Fitzgerald

Bennett D. Dyer

W. E. Galt, M.

Stewart A. Fleming

Wally R. R. Hoff

R. J. S.

bill file

December 26, 2003

The Honorable Representative Bruce Weyhrauch
State Capitol, Room 102
Juneau, AK 99801-1182

JAN 02 2004


Dear Representative Weyhrauch:

I am writing to ask for your support of HB 329, an act relating to retirement incentive programs for public employees. This bill is or will come before a committee that you presently occupy. I will tell you up front that this request is self serving because I am a state employee getting close to the age of retirement and may qualify for early retirement under criteria set forth in the act. More importantly, however, passage of the bill allows for sound fiscal management and is particularly important given the state's ever deepening fiscal crisis. The bill would allow for the early retirement of long time employees who are at the highest steps of their pay ranges to be replaced with newer and younger employees at reduced step levels, thereby decreasing the cost of state government. In some cases, Divisions within state government would choose not to replace certain retiring employees, saving additional state dollars. Passage of the bill would provide another tool to reduce the costs and size of state government and certainly be much more palatable to the public than implementation of a state sales tax, income tax or use of the permanent fund to finance government operations.

Using myself as an example, I am a class one employee in the supervisory unit at a range 19, step M pay rate. That range and step is paid at \$2,895.50 per pay period or \$5,791.00 per month. My replacement, should the Division I work for choose to replace me, could come in to the position as low as a range 19, step A. That range and step is paid at \$2,159.00 per pay period or \$4,318.00 per month, a savings of \$1,473.00 per month or \$17,676.00 per year.

HB 329 has the potential to save significant amounts of money for the state and it is incumbent upon legislators to save money where they can to reduce the state budget deficit. Please support HB 329 as a demonstration of fiscal responsibility and monetary conservatism.

Most Sincerely Yours,


Gary S. Neubauer