

SB

187

<TARGET><BILL>SB 187</BILL><SUBJECT>SB
187</SUBJECT><COMM>SFIN27</COMM></TARGET>



Senate Finance

Alaska State Legislature * State Capital * Juneau, AK 99801-1182

Sponsor Statement SB 187

The main purpose of SB 187 is to put forward a plan to eliminate unfunded liabilities in our PERS system without paying hundreds of millions of dollars in annual state assistance to the trust fund.

Back ground:

In FY08 the State took action to address concerns of other political subdivisions to the State's managed public employee's retirement system. The solution involved three steps:

1. Adopting a shared cost system—meaning that liabilities, assets and payrolls were pooled and every participating employer paid a single contribution rate based on the blended experience of all participating employers.
2. Setting employer contribution rates at 22% of payroll.
3. Shifting costs (in excess of those covered by the 22% rate) to the State.

These actions did not reduce the total cost of PERS, they simply provided State financial assistance to the political subdivisions. Unforeseen at the time, four events attributed to putting the State into a situation of having to make escalating annual contributions to the Trust Fund to keep the fund assets in line with the accrued liabilities. First was the crash of the markets, second is the rising cost of health care, third was the extended life expectancy of our covered population, and finally, the Alaska Retirement Management Board recently lowered future investment expectations of the fund. The combination of these events has put state's assistance costs, which are the costs above the 22% rate spiraling upward at an unsustainable rate.

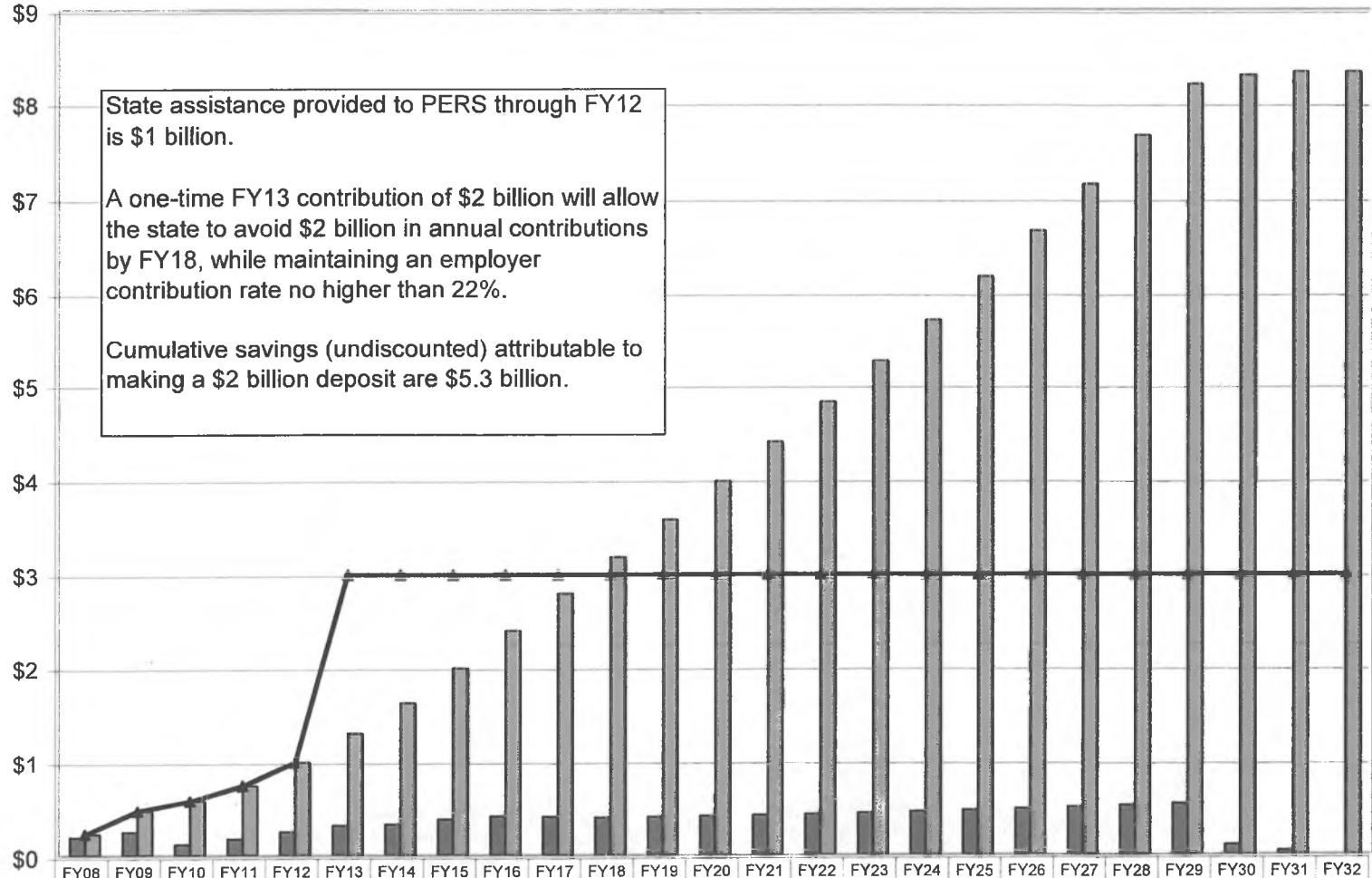
Reason SB 187 is needed:

State assistance to the PERS retirement system has grown from \$108 million in FY10 to \$165 million in FY11 to \$242 million in FY12. FY13 costs are expected to be \$307 million. The cost of state assistance is projected to continue to escalate—reaching a peak of \$533 million annually before turning downward near FY30 as the number of beneficiaries' begins to decline.

SB 187 Pension Reserve:

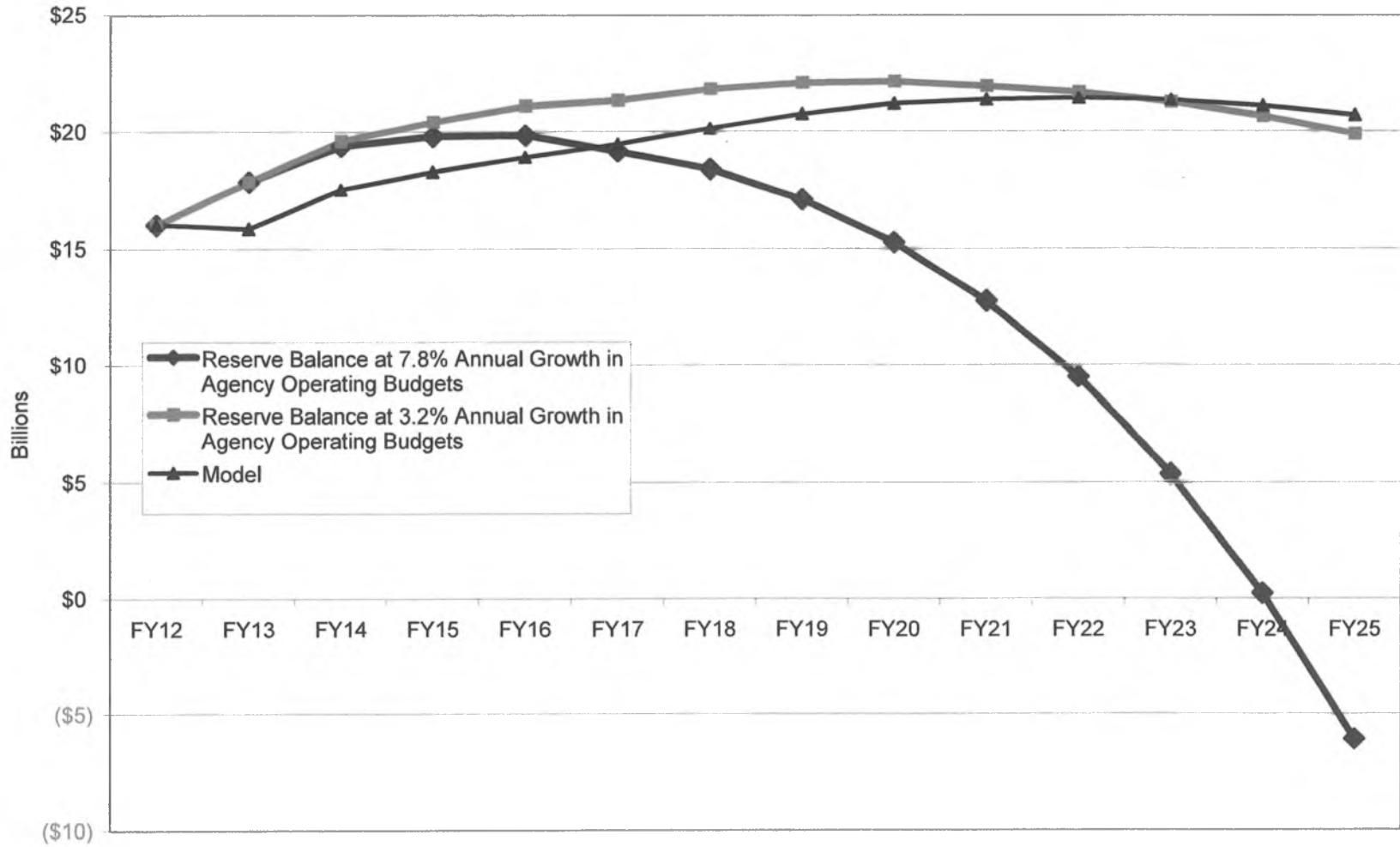
SB 187 will create a separate reserve account that will supplement the PERS Trust Fund as needed to ensure the unfunded liability ratio is maintained at no less than 50% and that the state does not have to make escalating annual payments. A \$2 billion dollar infusion in FY13 is projected to save the State \$7.3 billion in annual payments over a 20 year period. It will bring the PERS Trust Fund back on track as it was originally intended, and the separate reserve fund will allow the State to re-coop its original investment of \$2 billion dollars.

**Cost of State Assistance to PERS--with and without a \$2 Billion Deposit
(\$ billions)**

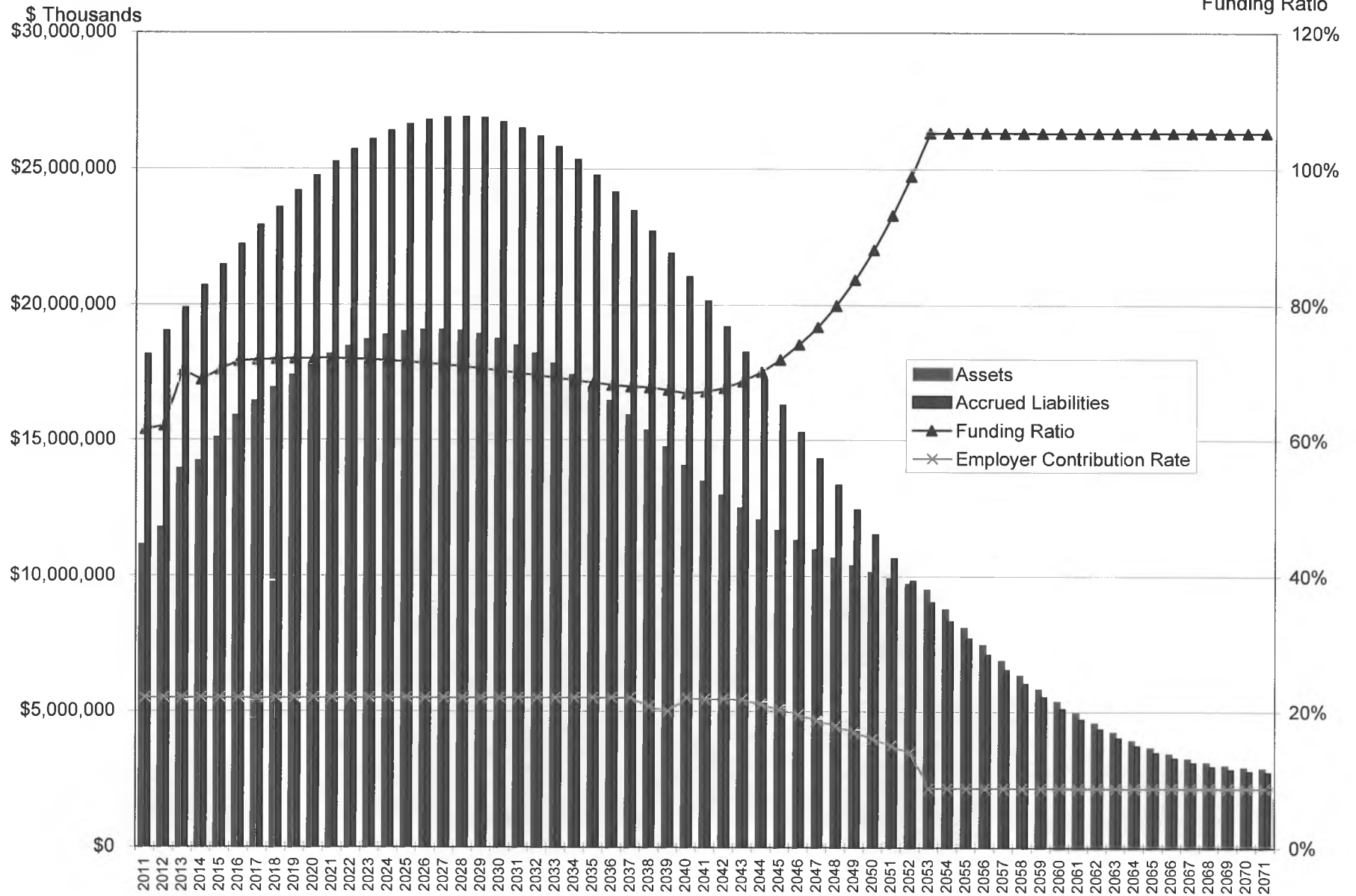


	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Annual (w/o Deposit)	0.185	0.242	0.108	0.166	0.243	0.307	0.318	0.371	0.404	0.397	0.390	0.396	0.405	0.414	0.425	0.438	0.452	0.466	0.482	0.498	0.515	0.533	0.100	0.039	0.000
Cumulative (w/o Deposit)	0.2	0.5	0.6	0.7	1.0	1.3	1.6	2.0	2.4	2.8	3.2	3.6	4.0	4.4	4.8	5.2	5.7	6.2	6.6	7.1	7.7	8.2	8.3	8.3	8.3
Cumulative (w/ \$2 billion Deposit)	0.2	0.5	0.6	0.7	1.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0

Figure 3. Projected Reserve Balances
 (Assumes revenue of \$7 billion annually after FY21 and a constant (\$882 million/year) capital budget)



PERS Actuarial Projections--with \$2 billion Deposit to a Reserve Fund in FY13 (Buck Model)



FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version SB187
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) SB187-DOR-TRS-02-07-12 Dept. Affected Revenue
 Title Pension Reserve Fund Appropriation Taxation and Treasury
 Allocation Treasury
 Sponsor Senate Finance Committee
 Requester Senate Finance Committee OMB Component Number 121

Expenditures/Revenues (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES								
Personal Services	209.5		209.5	209.5	209.5	209.5	209.5	209.5
Travel	4.9		4.9	4.9	4.9	4.9	4.9	4.9
Services	500.8		500.8	500.8	500.8	500.8	500.8	500.8
Commodities	7.1		7.1	7.1	7.1	7.1	7.1	7.1
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	722.3	0.0	722.3	722.3	722.3	722.3	722.3	722.3

FUND SOURCE (Thousands of Dollars)

1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1091	GF/Desig (DGF)	722.3	722.3	722.3	722.3	722.3	722.3	722.3
TOTAL		722.3	0.0	722.3	722.3	722.3	722.3	722.3

POSITIONS

Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES

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Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Prepared by Pam Leary, Comptroller Phone 465-2350
 Division Treasury Date/Time 2/7/12 12:00 AM
 Approved by Angela Rodell, Deputy Commissioner Date 2/7/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB187

Analysis

SB 187 establishes a pension reserve fund. This fiscal note outlines the estimated cost of managing the pension reserve fund based on the following assumptions:

- \$2 billion initial appropriation into a separately managed fund
- Asset allocation of 41% Fixed Income, 27% Domestic Equity, 32% International Equity
- Earnings are not appropriated back to the pension reserve fund
- The ratio of assets to liabilities in the retirement trust funds do not go below 50% so no transfer from the reserve to the systems are made.

Note that this fiscal note includes all costs associated with managing this fund which is assumed to be sourced from the fund itself. However, the incremental budget request would only be for the additional services costs of \$500,800. The remaining amount would not be a budget increase request as it relates to finite internal costs that are spread amongst all funds managed by Treasury.

LEGAL SERVICES

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

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

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

February 3, 2012

SUBJECT: Pension reserve fund sectional summary
(SB 187; Work Order No. 27-LS1249\B)

TO: Senator Lyman Hoffman
Chair of the Senate Finance Committee
Attn: Tim Grussendorf

FROM: Dan Wayne
Legislative Counsel



You have requested a sectional summary of the above-described bill.

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

Section 1. Prevents money transfers from the proposed pension reserve fund money to the Public Employees' Retirement System from causing reductions in potential damage awards for wrongful or negligent conduct of third parties.

Section 2. Adds management of a proposed pension reserve fund to the primary mission of the Alaska Retirement Management Board.

Section 3. Adds duties related to management of the proposed pension reserve fund to the existing duties of the Alaska Retirement Management Board, including duties to annually make calculations, by independent actuarial assessment, related to the ratio of the value of the assets of the Public Employees' Retirement System of Alaska and the value of the assets of the proposed pension reserve fund, combined, to the total liabilities of the Public Employees' Retirement System of Alaska.

Section 4. Establishes a pension reserve fund, allows appropriations to the fund, and requires money appropriated to the fund to be spent on the past service liability of the Public Employees' Retirement System or returned to the general fund.

Section 5. Allows the Alaska Retirement Management Board to determine the percentage rate that employer contributions to the Public Employees' Retirement System are based on.

Senator Lyman Hoffman
February 3, 2012
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Section 6. Adds a requirement that, notwithstanding subsection (i), proposed in section 7 of the bill, the annual employer contribution rate may not be less than the rate sufficient to cover payment of employer contributions required for both the defined contribution plan of the Public Employee's Retirement System and for the teachers' and public employees' health reimbursement arrangement plan trust fund as required by the defined benefit plan of the Public Employees' Retirement System.

Section 7. Requires that the rate used to calculate employer contributions under section 5 of the bill may not exceed 22 percent when the assets of the Public Employees' Retirement System of Alaska and the pension reserve fund, combined, are equal to or greater than 60 percent of the total of that system's liabilities.

Section 8. Eliminates a reference to AS 39.35.280, in connection to retiree medical benefits, because AS 39.35.280 would be repealed by section 9 of the bill.

Section 9. Repeals AS 39.35.280, a law that requires the state to annually contribute money to the past service liability of the Public Employees' Retirement System in addition to the contributions the state makes to the system as an employer.

Section 10. This section would make the bill effective on June 30, 2012.

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