

SB

83

**<TARGET><BILL>SB 83</BILL><SUBJECT>SB
83</SUBJECT><COMM>SSTA29</COMM></TARGET>**

ALASKA STATE LEGISLATURE

SENATE STATE AFFAIRS COMMITTEE

Senator Bill Stoltze, Chair
State Capitol, Room 125
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Official Business

Members:
Sen. John Coghill, Vice Chair
Sen. Charlie Huggins
Sen. Lesil McGuire
Sen. Bill Wielechowski

April 9, 2015
Bill Packet Information

SB 83 PEACE OFFICER/FIREFIGHTER RETIREMENT

- Sponsor Statement
- SB 83 version \H - *Initial Version*
- Sponsor Presentation to SSTA
- Fiscal Note(s):
 - *Forthcoming*
- Historical fiscal notes (28th Legislature - HB 247):
 - DOA-DRB 2-28-2014
 - DOA-DRB 2-28-2014 with Actuarial by Buck Consultants

SB 89 PARENT RIGHTS: EDUCATION; SCHOOL ABSENCE

<Scheduled Pending Referral from (S)EDC>

This bill is not yet in the committee

SB 1 REGULATION OF SMOKING

<Previously Heard/Scheduled on 4/2/2015>

Documents posted since last hearing:

- New / Replacement Fiscal Note:
 - Replaces FN #2 - DOT-IASO 3-27-15 (Zero) - *was previously fiscal*
- Additional Consolidated Public Input:
 - Letters of Support to SSTA (3-31-15 to 4-8-15) (95)
 - Letters of Opposition to SSTA (3-31-15 to 4-8-15) (11)

<Bills Previously Heard/Scheduled>

Daniel George

From: Genevieve Wojtusik
Sent: Wednesday, April 08, 2015 3:06 PM
To: Daniel George
Subject: SB83
Attachments: Variable Retirement Plan-Presentation to AK Senate - April 9 2015.pdf

Daniel,

Attached is the power point for tomorrow that Flick (William) Forna will be presenting over the phone.

Also testifying:

Tom Wescott, AKPFFA (Alaska Professional Fire Fighters Association)

Brian Murphy, AKPFFA (Alaska Professional Fire Fighters Association)

Jeremy Conkling, APD

Thank you!!!!

-Genevieve

Genevieve Wojtusik
Staff to Senator McGuire
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Alaska State Legislature

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Senator Lesil McGuire

SB 83 SPONSOR STATEMENT

"An Act relating to the Protective Occupation Retirement Council; relating to participation of certain employees in the defined benefit and defined contribution plans of the public employees' retirement system; and providing for an effective date."

In 2005, Alaska moved away from a defined benefit (DB) to a defined contribution (DC) retirement system for public employees hired after July 1st, 2006. Both the DB and DC plans contain risks and benefits to employees and employers. With a DB plan comes the advantage of professional money management, lower fees, pooled risk and long term investment strategies. However, employers carry significant risk if investment returns fall short or actuarial predictions prove inaccurate, which they are shielded from in a DC plan. Taking both of these points of view into account, the Variable Benefit Retirement System (VBRS) was developed.

The goal of the VBRS is to fund a retirement system for public safety employees through employee and employer contributions that will provide for self-sufficient retirees and protect employers and taxpayers from the liability suffered in the event of plan shortfalls. It affords public safety employees the distinct advantages and efficiencies of a DB plan by guaranteeing a benefit level and medical stipend, and affords employers the fiscal discipline and control of a DC plan by maintaining a fixed 22% employer contribution and adjusting benefit levels to address any changes in the size of the fund. Other features of the plan include:

- The ability to adjust COLA, minimum retirement ages, adjustable medical stipend and adjustable employees contribution rates to deal with shortfalls and maintain a healthy fund
- Protection against overtime-spiking
- Lower assumed growth rate (7%) to provide cushion against shortfalls

Alaska's public safety employees are faced with extremely taxing careers. Longevity is not assured and must be factored into any plan design created for public safety organizations. The VBRS represents not only a compromise between employees and employers, but presents those who risk their lives to protect our state with a better opportunity to achieve security and self-sufficiency in retirement.



**PENSION
TRUSTEE
ADVISORS**

Alaska Variable Retirement Plan SB 83

William B. Fornia

Presentation to Senate State Affairs

April 9, 2015

Alaska Variable Retirement Plan

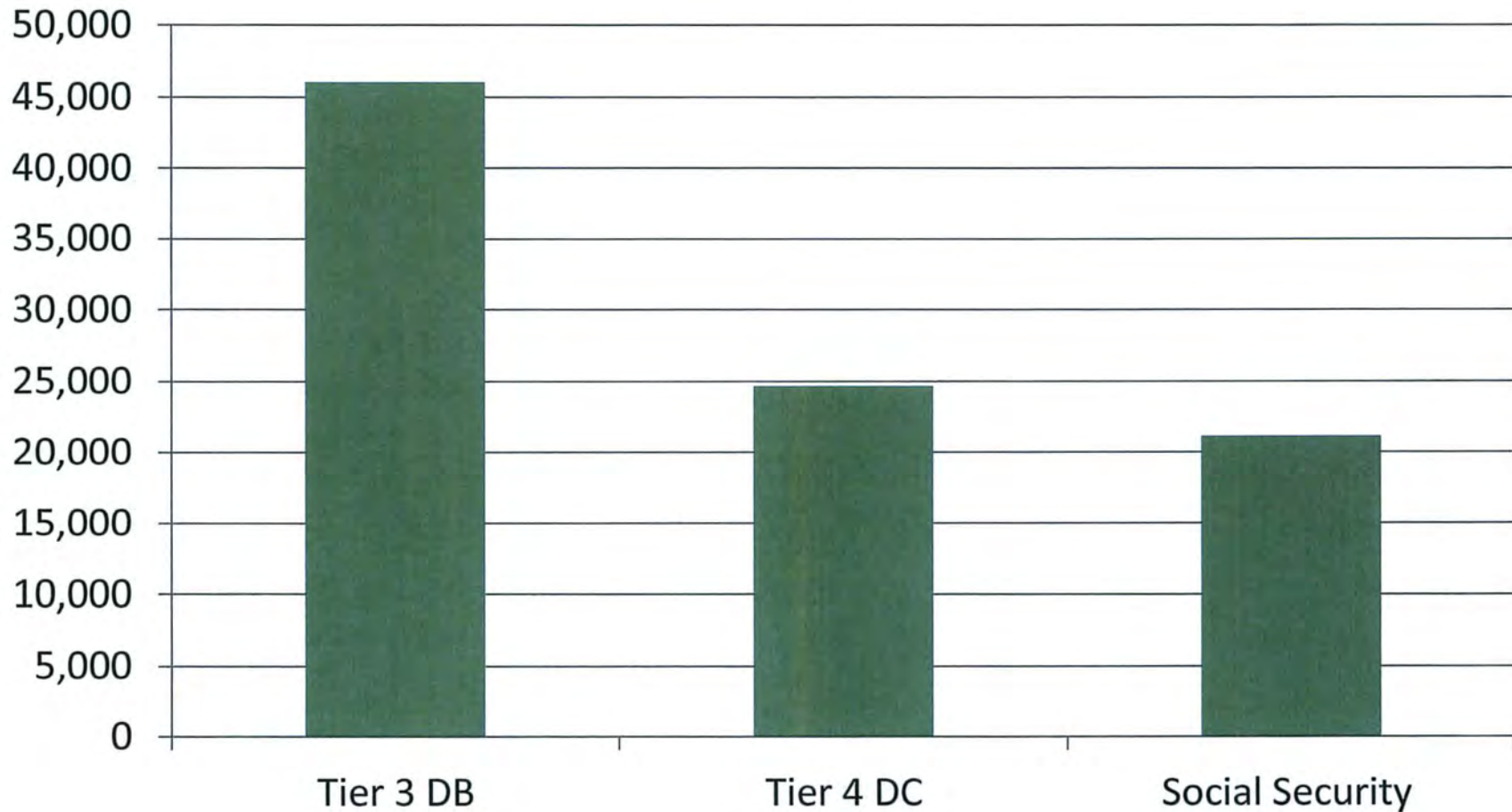
- Why is change necessary?
- Proposed structure of variable retirement plan
- Examples

Why is change necessary?

Tier 3 provided adequate benefits, Tier 4 does not

Typical Average Pension Illustration	Police & Fire	Other PERS
Hire Age	31	37
Retirement Age	56	60
Years of Service	25	23
DB Benefit as Percent of Final Average Compensation (based on Tier 3 provisions)	57%	50%
DCR Benefit as Percent of Final Average Compensation (calculated based on reduced return and uncertain longevity)	31%	30%
Reduction of Benefit % due to DCR program	26%	20%

Illustration of hypothetical police/fire benefits - \$80,000 Final Average Salary



The DCR healthcare is not likely to provide adequate pre-Medicare benefits

- Consider average of tier 4 police/fire
 - Average hire age is 32, now age 36
 - Assume male, retires at 25 years of service in 2034 at age 57
 - Will get Medicare supplement coverage at age 65
 - Will need 8 years of pre-Medicare insurance
- He will have 3% HRA contributions
 - But will only have enough of a HRA balance to pay for 30% of health insurance cost (member plus spouse) based on 7% return
- Will need to use other sources to pay for remaining 70%
- In 2013, a \$1,647 monthly premium is 39% of average PERS pay
 - But by 2034, it will be over 58%
 - This is because health care costs are projected to increase faster than wages

Key pros and cons of DB and DC programs

- DB Plans are more cost effective at providing retirement benefits
 - DB pension plans pool “longevity risks”
 - DB pension plans can maintain a better diversified portfolio because, unlike individuals, they do not age
 - DB pension plans achieve better investment returns because of professional asset management and lower fees
- DC Plans are more consistent with individual responsibility
 - Benefit is a clearly defined contribution from the employer and employee to a trust
 - Benefit is more under the control and full ownership of the individual
 - Benefit is much more portable
 - No risk of unfunded liabilities to employer

How does SB 83 strike a compromise?

- Start with fixed employer contribution and agree to manage plan within that budget
- Design current target benefit levels
 - Consider mix between pensions and health
 - Consider benefits provided by DCR and latest DB
- Build in benefit and/or employee contribution adjustment mechanisms
- Utilize lower discount rate to provide cushion against adverse experience

Contributions for Police and Fire Members

	Latest Tier Defined Benefit	Defined Contribution Retirement	Variable Benefit Plan
Members	7.50%	8.00%*	9.00%*
Employers make total contributions of 22%, allocated as follows:	10.51% for Normal Cost; 11.49% for legacy unfunded liabilities	5% toward DCR accounts; 2.72% toward DCR liabilities; 3% average toward HRA; 11.28% toward legacy unfunded liabilities	14% toward pension; 8% for legacy unfunded liabilities

Contributions for non - Police and Fire Members

	Latest Tier Defined Benefit	Defined Contribution Retirement	Variable Benefit Plan
Members	6.75%	8.00%*	8.00%*
Employers make total contributions of 22%, allocated as follows:	9.00% for Normal Cost; 13.00% for legacy unfunded liabilities	5% toward DCR accounts; 1.88% toward DCR liabilities; 3% toward HRA; 12.12% toward legacy unfunded liabilities	12% toward pension; 10% for legacy unfunded liabilities

Actuarial and governance safeguards to ensure adequately funded program

- Utilize reduced actuarial discount rate (1% less than prior tiers) to evaluate funded position
- Keep overtime pay on a DCR basis only
- Ability to increase employee contributions
- Transition benefits from DCR are at full actuarial cost
- Build up reserves in good times to provide added funding during bad times
- Increased normal retirement age versus Tier 3
 - Age 55 with 20 years for Police & Fire, versus 20 years service only from tier 3
 - Age 60 with 30 years for others, versus 30 years service only from tier 3

Safeguard #1 - Council Adjustments

- Employee contributions
- Cost of living increases
- Benefit formula
- Health care cost sharing

PORC will make decisions to adjust

- Protective Occupation Retirement Council will have responsibility and authority to make periodic adjustments
 - Limited variation between actuarial requirement and contribution rates would be acceptable
 - Board will review annually
 - May build in triggers for change
- Employer contributions will not change

Flexible benefit design safeguards to ensure adequately funded program

Benefit Provision	Floor Benefit	Target Benefit
Plan formula – P&F	2% per year of service	2% for first 10, 2.5% after
Plan formula – Other	2% per year of service	2% for first 10, 2.25% for 10-20, 2.5% after 20
Alaska Cost of Living Adjustment	None	10%
Post Retirement Purchasing Adjustments	None	Same as Tier 3: CPI - based
Health reimbursement	Based on 2013 health premium rates	Based on current health premium rates

Safeguard #2 – Actuarial Methods

- Build in margin in actuarial assumptions
- Asset valuation method that minimizes gains/losses within acceptable range
- Build reserves in good times to provide added funding during bad times

Safeguard #3 – Reduced Discount Rate

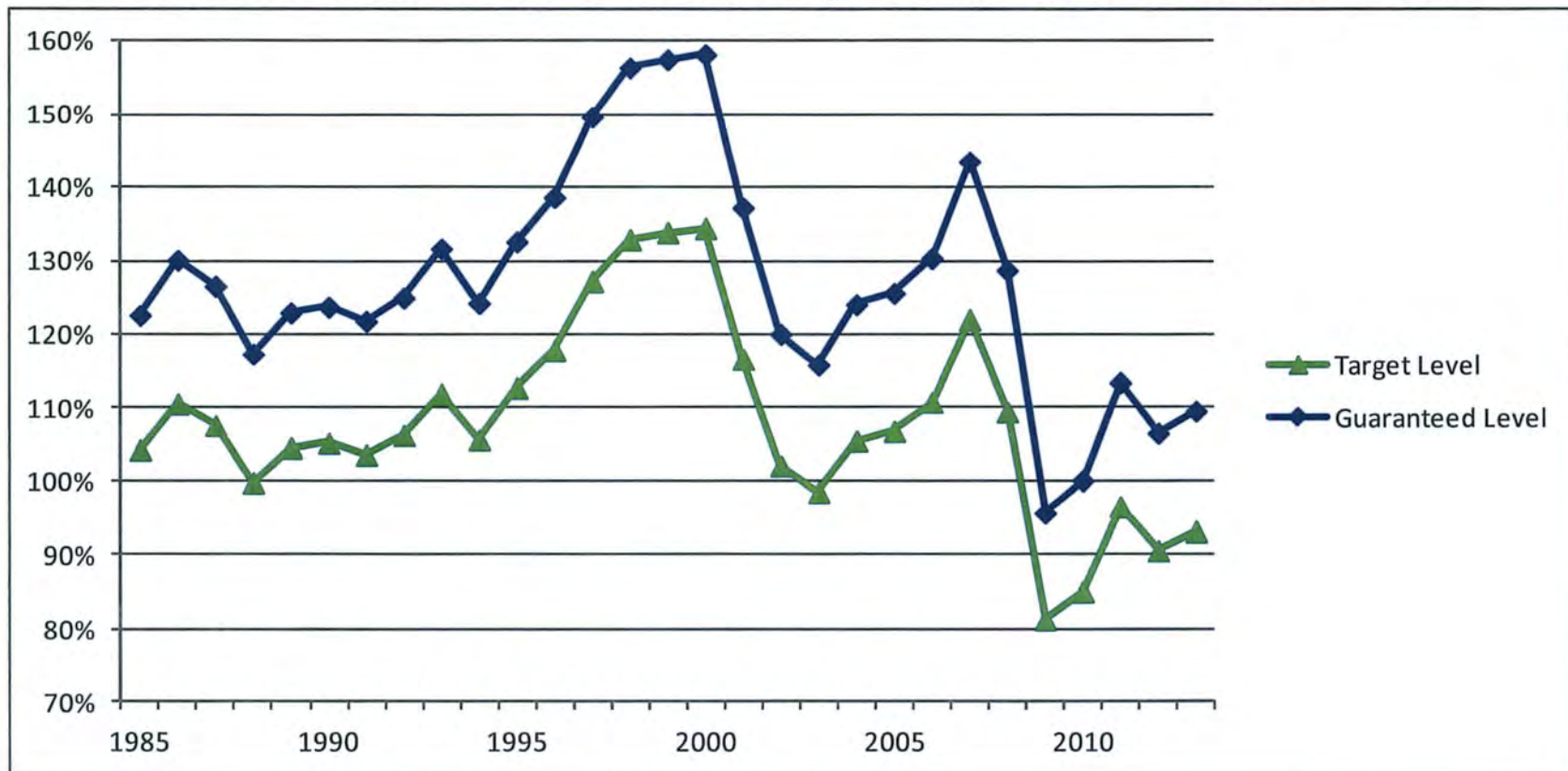
- Target the pension and health care benefits to be equal to latest tier DB
- Determine the costs based on 7% discount rate rather than 8%
- Seek additional funding for this level, and then commit to this fixed employer contribution rate going forward
 - This is 14% employer contribution for Police and Fire
 - This is 12% employer contribution for Other PERS
- Monitor experience and adjust benefits and/or contributions as necessary going forward

Variable Benefit Plan Simulations

- We modelled how plan might have worked if it had started at various times over the last fifty years
- We modeled investment returns
 - Based on historical Alaska fund returns since 1981
 - Based on national return statistics prior to 1981
- We used state population statistics to simulate police & fire populations
- We used national wage statistics to estimate average wage growth

How would our program have worked if begun in 1985

- This was the average case: funding levels ranged from 80% - 158%



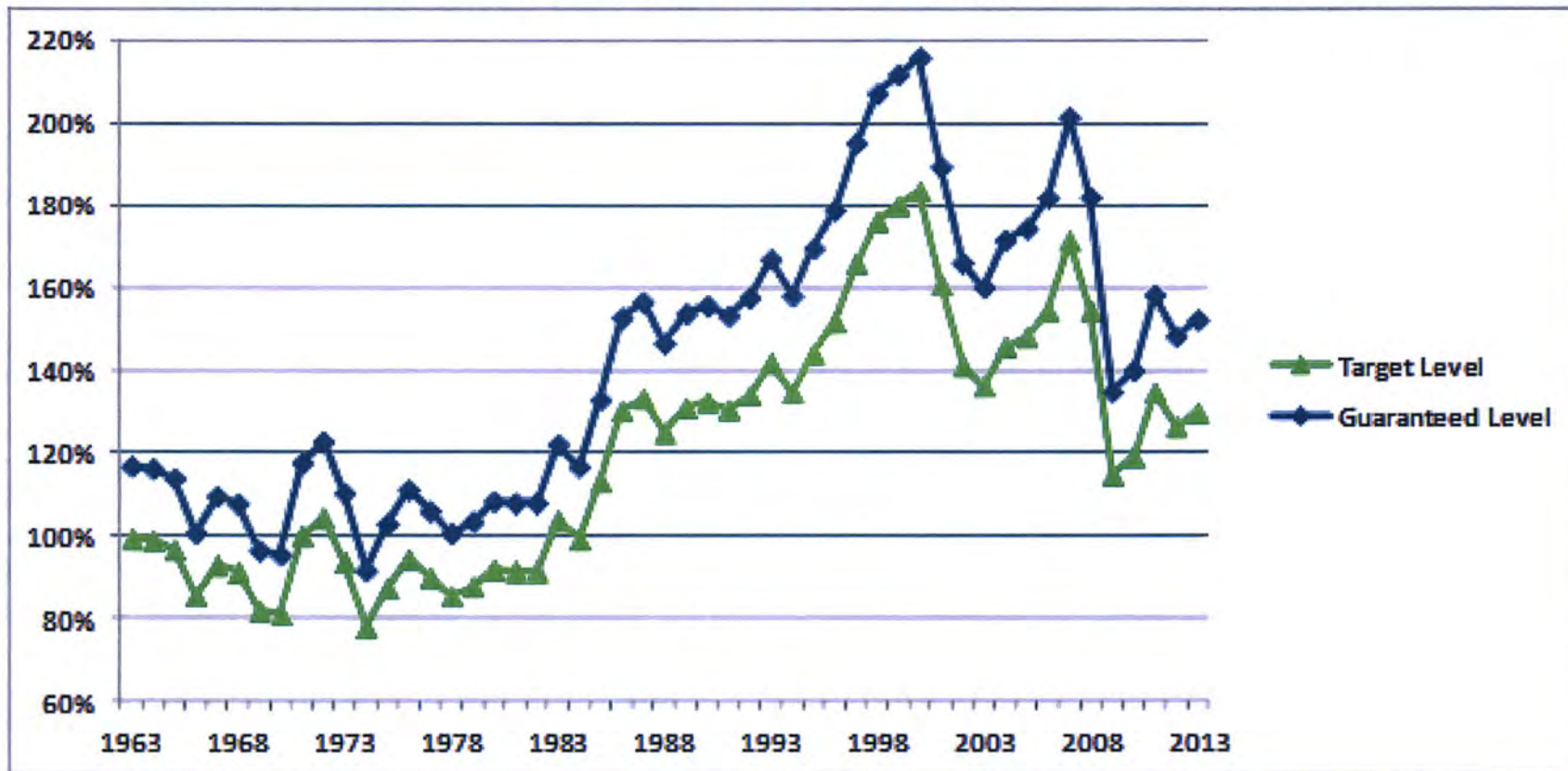
Pro Forma findings

	Worst Case	Best Case	Typical Case
First year of new program	1996	1963	1985
FUNDED RATIOS BASED ON TARGET LEVEL OF BENEFITS			
Target funded ratio as of 2013	87%	130%	93%
Target funded ratio after 15 years	78%	90%	134%
Worst target funded ratio in plan history	73% (2009)	78% (1974)	81% (2009)
Highest target funded ratio in history	107% (2007)	184% (2000)	134% (2000)
Difference between high and low	34% (2 years)	106% (26 y)	53% (9 yrs)
FUNDED RATIOS BASED ON GUARANTEED LEVEL OF BENEFITS			
Worst funded ratio in plan history	86%	92%	96%
Highest funded ratio in history	126%	216%	158%
Guaranteed funded ratio as of 2013	103%	153%	110%

Note that funded ratios are based on market value of assets. Use of smoothed actuarial value of assets would have made all funded ratios closer to 100%

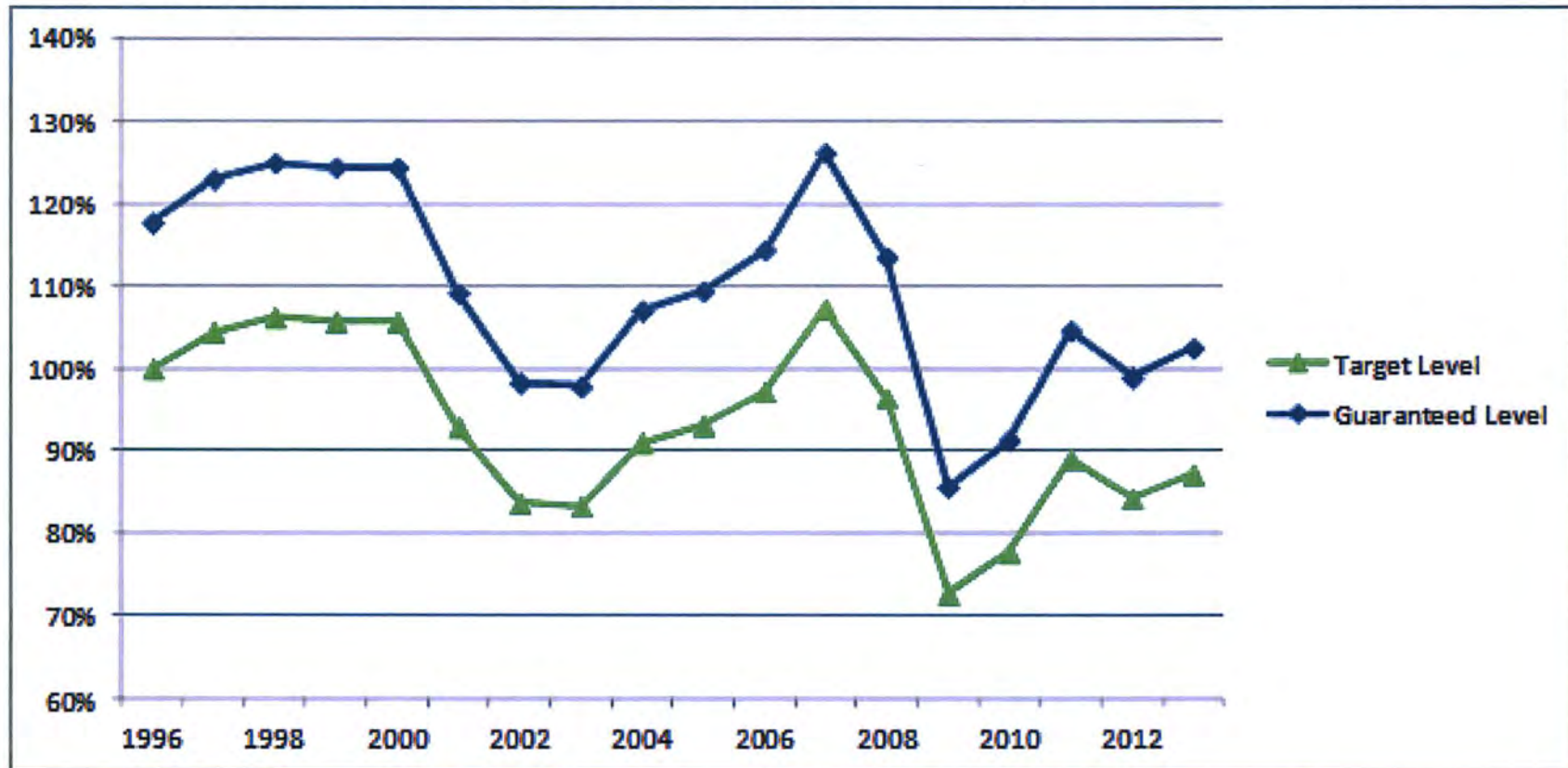
How would our program have worked if begun in 1963

- This was the best case: funding levels ranged from 78% - 216%

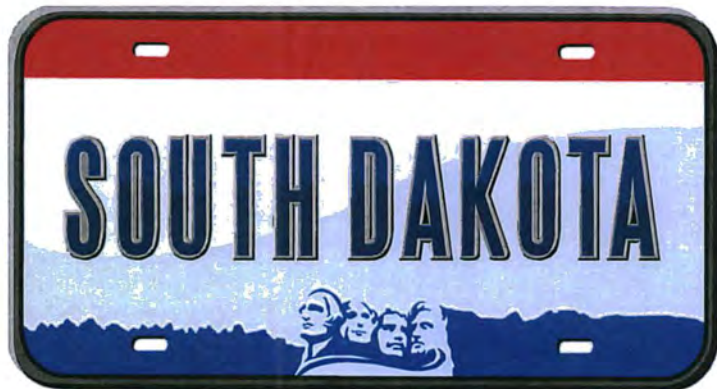


How would our program have worked if begun in 1996

- This was the worst case: funding levels ranged from 73% - 126%



How have other states operated?



Case Study – Wisconsin



- Cost of Living Adjustment is dependent on fund returns
- At retirement, each member has a fixed benefit
- A variable benefit is added to this, based on fund returns
- The variable benefit itself can go down as well as up, but the fixed benefit does not decrease
- Following 2008, the variable benefit did decrease, but has recovered

Case Study – FPPA



- Colorado Fire and Police Pension Association
 - Formed in 1980, creating new statewide plan
 - Contributions are fixed at 8% employee + 8% employer
 - This level is sufficient for core DB plan
 - Excess contributions went into DC plan during good times
 - Board has discretion over COLA, keeping costs below 16%

Case Study – SDRS



- Historically among best funded state plans
- SDRS is considered a hybrid DB plan with DC features
- History of substantive benefit improvements funded by favorable investment results—included retirees
- Fixed member and employer contributions
- Statutory triggers requiring Board recommendations for corrective actions/no higher employer contributions
- Primary benefit change tied COLA to Funded Ratio and CPI
- Retirees received smaller COLA as a result

Case Study – Ohio



- Employer contributions are fixed for each of five pension systems
- Major pension reform completed in 2012
- Systems were and are required to develop plans to keep funded periods within 30 years
- Systems are now imposing plan reductions in many cases
- Like Alaska, plans include retiree healthcare

Proposed 14% & 12% employer contribution is consistent

- Recently modified police & fire plans
 - Utah employer contribution of 12.0%
 - Ohio employer contribution of 14.0% for non-emergency, 19.5% for Police, & 24.0% for Fire
- Major Alaska employers
 - Wells Fargo
 - 6% match on 401(k)
 - Plus 6.2% Social Security for total of **12.2%**
 - Alaska Airlines
 - 7% match on 401(k) plus 1.5% Stock Purchase Plan subsidy
 - Plus 6.2% Social Security for total of **14.7%**

Recap

- Alaska has concern with potential future unfunded liabilities
- DCR provides inadequate benefits
- HB 247 is a potential solution
 - If actuarial experience is as expected, benefits will be paid comparable to Tier 3
 - If actuarial experience is unfavorable, lower benefits will be paid
 - Individuals do not take this risk, the government does not take this risk, pools of individuals do

Questions?

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Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 247
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB247-DOA-DRB-02-28-14
Title: PEACE OFFICER/FIREFIGHTER RETIREMENT
Sponsor: ** HOLMES, MILLETT
Requester: House Labor and Commerce

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Retirement and Benefits
OMB Component Number: 64

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services	368.1		167.9	102.7	102.7	102.7	102.7	102.7
Travel	88.5		88.5	88.5	88.5	88.5	88.5	88.5
Services	1,138.4		28.0	48.0	48.0	48.0	48.0	48.0
Commodities	25.0		2.5	2.5	2.5	2.5	2.5	2.5
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	1,620.0	0.0	286.9	241.7	241.7	241.7	241.7	241.7

Fund Source (Operating Only)

1004 Gen Fund	1,620.0		286.9	241.7	241.7	241.7	241.7	241.7
Total	1,620.0	0.0	286.9	241.7	241.7	241.7	241.7	241.7

Positions

Full-time	1.0		1.0	1.0	1.0	1.0	1.0
Part-time							
Temporary	5.0		2.0				

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/14

Why this fiscal note differs from previous version:

Not applicable, initial note.

Prepared By: <u>Mike Barnhill, Deputy Commissioner</u>	Phone: <u>(907)465-5703</u>
Division: <u>Department of Administration</u>	Date: <u>02/28/2014 04:40 PM</u>
Approved By: <u>Curtis Thayer, Commissioner</u>	Date: <u>02/28/14</u>
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 247

Analysis

The Division of Retirement and Benefits (Division) will require two non-permanent employees in Member Services to complete the preparation work to account for and produce the necessary documents and forms for the inception of the new plan. Additionally, two non-permanent employees will be required in the Accounting - Payroll section to work on data analysis and payroll processing, and to work with employers on payroll related data issues specific to this bill. A non-permanent accountant will be required to assist in the preparation of financial statements as a result of the changes with the new plan. A permanent accountant will be needed for the complex and multiple reconciliations which will be needed due to the changes provided in the bill. This change would also require additional accounting work for fund tracking and financial reporting. The new Plan would be subject to additional costs from the Department of Revenue (DOR) as it matures and becomes subject to the Division's and the DOR's cost allocation plan. Additionally office cubicles and necessary equipment and supplies will need to be provided to staff.

Education for employers will be required to ensure proper electronic reporting of service and salaries of new employees and existing employees participating in defined contribution plans who elect to convert to the new plan. Education via electronic and written documentation provided to affected employees will be required for all affected employees.

The Division will also be required to re-program the Combined Retirement System (CRS), which tracks all the service and salaries by employers and employees to the system, to accommodate the new provision of the plan changes to both the DB and DCR plans. Additionally, the Division will need to re-program the employer reporting tool, the retirement calculators, and provide the necessary testing of the program changes to make certain they operate properly and provide the correct results.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 247

Analysis Continued

	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Personal Services						
Accounting						
1 Accountant III	\$ 102.7	\$ 102.7	\$ 102.7	\$ 102.7	\$ 102.7	\$ 102.7
1 LTNP Accountant II	\$ 76.2	\$ -	\$ -	\$ -	\$ -	\$ -
Active Payroll						
2 LTNP Tech I	\$ 124.0	\$ -	\$ -	\$ -	\$ -	\$ -
Processing						
1 LTNP Tech I	\$ 31.0	\$ 31.0	\$ -	\$ -	\$ -	\$ -
1 LTNP Tech II	\$ 34.2	\$ 34.2	\$ -	\$ -	\$ -	\$ -
Sub Total	\$ 368.1	\$ 167.9	\$ 102.7	\$ 102.7	\$ 102.7	\$ 102.7
Services						
Computer						
Reporting	\$ 409.6	\$ -	\$ -	\$ -	\$ -	\$ -
CRS	\$ 315.4	\$ -	\$ -	\$ -	\$ -	\$ -
Calculators & Misc	\$ 102.4	\$ -	\$ -	\$ -	\$ -	\$ -
Testing	\$ 250.0	\$ -	\$ -	\$ -	\$ -	\$ -
Sub Total	\$ 1,077.4	\$ -	\$ -	\$ -	\$ -	\$ -
Benefit Education						
Employer training	\$ 30.0	\$ -	\$ -	\$ -	\$ -	\$ -
Printed Communication	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0
Postage	\$ 3.0	\$ 3.0	\$ 3.0	\$ 3.0	\$ 3.0	\$ 3.0
Member Seminars	\$ 8.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0
Sub Total	\$ 61.0	\$ 28.0	\$ 28.0	\$ 28.0	\$ 28.0	\$ 28.0
	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Appeals						
1 Appeal per year	\$ -	\$ -	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0
Sub Total	\$ -	\$ -	\$ 20.0	\$ 20.0	\$ 20.0	\$ 20.0
Commodities						
Computer, phone, cubicle, supplies	\$ 25.0	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5
Sub Total	\$ 25.0	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5
Board Member Costs						
Travel Costs	\$ 73.5	\$ 73.5	\$ 73.5	\$ 73.5	\$ 73.5	\$ 73.5
Conference Rooms	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0
Sub Total	\$ 88.5	\$ 88.5	\$ 88.5	\$ 88.5	\$ 88.5	\$ 88.5
Totals	\$ 1,620.0	\$ 286.9	\$ 241.7	\$ 241.7	\$ 241.7	\$ 241.7

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 247
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB247-DOA-DRB-02-28-14-actuarial
Title: PEACE OFFICER/FIREFIGHTER RETIREMENT
Sponsor: ** HOLMES, MILLETT
Requester: House Labor and Commerce

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Office of the Commissioner
OMB Component Number: 45

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	3,877.0	0.0	4,539.0	5,219.0	5,915.0	6,624.0	7,363.0
Personal Services	3,877.0		4,539.0	5,219.0	5,915.0	6,624.0	7,363.0
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	3,877.0	0.0	4,539.0	5,219.0	5,915.0	6,624.0	7,363.0

Fund Source (Operating Only)

1004 Gen Fund	3,877.0		4,539.0	5,219.0	5,915.0	6,624.0	7,363.0
Total	3,877.0	0.0	4,539.0	5,219.0	5,915.0	6,624.0	7,363.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
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ASSOCIATED REGULATIONS

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If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/14

Why this fiscal note differs from previous version:

Not applicable, initial version

Prepared By: <u>Mike Barnhill, Deputy Commissioner</u>	Phone: <u>(907)465-5703</u>
Division: <u>Department of Administration</u>	Date: <u>02/28/2014 04:04 PM</u>
Approved By: <u>Curtis Thayer, Commissioner</u>	Date: <u>02/28/14</u>
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 247

Analysis

Actuarial Cost Analysis

The actuary for the PERS and TRS retirement systems, Buck Consultants, has prepared an actuarial analysis of HB 247 under AS 24.08.036. See Attachment A.

This bill would re-open the PERS defined benefit plan to members defined as "protective occupation employees" to include peace officers or firefighters using the current PERS definitions and expands PERS peace officer / firefighter pension plan provisions to administrative, professional or clerical employees of a municipal police or fire department, University fire department, or the Department of Public Safety regardless of hire date. Current PERS Defined Contribution Retirement (DCR) plan employees can elect to convert to a new defined benefit tier in the PERS Defined Benefit (DB) plan. This bill also requires simultaneous participation in the DCR plan for each member to contribute a percentage of overtime pay to an individual investment account.

Based on the analysis located in Attachment A, the actuary has assumed that the plan defined in HB 247 will be similar to the PERS DB Tier 3 members, unless otherwise amended by HB 247. The actuary has determined that in FY 2015, the increase in annual employer paid benefit costs will be \$3,877,000 rising up to an estimate of \$7,363,000 by FY 2020.

However, the variable benefit described in Sections 7 - 9 of the bill was not actuarially valued in the analysis as the variable benefit was not clearly defined in the bill. The assumed variable benefit would be calculated based on a percentage of the employee's annual compensation rate in the year the employee is appointed to retirement, the employee's age, and the employee's credit service on the date the employee is appointed to retirement. These three variable items are used in a calculation and also prepared by an actuary as set out in section 9 of the bill, and is not valued in this fiscal note.

In addition, the actuary noted that while "the account balances of the DCR member's transfer to the Protective Occupation Retirement Council (PORC) plan will be sufficient to fund the accrued liability, the amount to be transferred is subject to another actuary's calculations as selected by the PORC. If another actuary calculates a lower amount to be transferred into the PORC plan to purchase service credit, an unfunded liability would result requiring an amortization payment to the unfunded liability."

Additionally, the 2013 annual medical premium used for the actuary's calculations was not increased to account for future increases in medical premiums. The June 30, 2012 PERS actuarial valuation report continues to show a 9% average compound annual increase since FY 1978. While unclear where medical premiums can go in the future, one can assume that this component is an unknown amount moving forward and impacts future costs to the plan.

February 18, 2014

VIA EMAIL

Ms. Kathy Lea
Deputy Director
Division of Retirement and Benefits
Department of Administration
State of Alaska
333 Willoughby Avenue
6th Floor State Office Building
Juneau, AK 99811-0208

**RE: Fiscal Note for Adding the Protective Occupation Retirement Plan under HB 247
(Revised)**

Dear Kathy:

As requested, we are providing the following information for the fiscal note on HB 247, which sets up a new retirement plan for Protective Occupation employees who are currently participating in the State of Alaska Public Employees' Retirement System Defined Contribution Retirement Plan (PERS DCR). Under HB 247, a new retirement plan will be added for Protective Occupation employees, which include peace officers or firefighters using the current PERS definitions and expand PERS peace officer/firefighter pension plan provisions to administrative, professional or clerical employees of a municipal police or fire department, University fire department or the Department of Public Safety. The members we have considered to be a Protective Occupation employee was based on the information provided by you on January 24, 2014. We have revised our study provided on February 11, 2014 based on the intent that the employer cost of these benefits be included in determining the employer contribution rate cap of 22% of total employer payroll for PERS under AS 39-35-255.

We have assumed that the new Protective Occupation Retirement Council (PORC) plan will be similar to the PERS Defined Benefit Retirement Plan for Tier 3 members unless otherwise amended by HB 247. A summary of the basic plan provisions and our interpretations considered in our actuarial study follows:

- The standard retirement benefit for the PORC plan is 2 percent of the average of the highest five consecutive years of compensation times credited service.
- The variable benefit for the PORC plan was not valued in this analysis since it is not clearly defined in HB 247.

- A protective employee who is employed as a peace officer/firefighter will pay pre-tax contributions of 9% of employee compensation (8% of employee compensation for a protective employee who is not employed as a peace officer/firefighter) excluding overtime.
- Overtime compensation is not tracked for PERS DCR members so we have assumed that none of the reported compensation is due to overtime.
- Participating employers will contribute 14% of peace officer/firefighter compensation, excluding overtime, and 12% for non-peace officer/firefighter employees will be contributed to the PERS Defined Benefit Plan for PORC plan members.
- PORC members will become eligible for normal retirement at age 55 with at least 20 years of service if they are a peace officer or firefighter, or at age 60 with 30 years of service if they are a protective employee not employed as a peace officer or firefighter.
- We have assumed that each DCR member's account balance will be sufficient to purchase their current credited service when they transfer to the PORC plan.
- Protective Occupation retirees who are peace officers or firefighters or their surviving spouse receive an annual stipend towards purchasing major medical insurance coverage. The stipend is equal to 4% of the 2013 annual medical premium per year of service if the employee has 10 or more years of service.
- Protective Occupation retirees who are not peace officers or firefighters or their surviving spouses receive an annual stipend equal to 3.3% of the 2013 annual medical premium per year of service if the employee has 10 or more years of service.
- The 2013 annual medical premium used for our calculations was \$9,876 and was not increased to account for future increases in medical premiums.
- All PORC members must have 10 or more years of service in order to be eligible to receive a stipend for medical coverage.
- We assumed the stipend is paid only to the member regardless of eligible dependents. If there are eligible dependents, the full stipend is paid to a survivor upon the member's death.
- A disabled Protective Occupation employee receiving disability benefits or who is appointed to normal retirement will receive medical benefits without premium payment. Please note that this benefit includes the effect of the RDS subsidy.

Although our calculations indicate that the account balances of DCR member's transferring to the PORC plan will be sufficient to fund the accrued liability, the amount to be transferred is subject to another actuary's calculations as selected by the PORC. If another actuary calculates a lower amount to be transferred into the PORC plan to purchase prior service, an unfunded liability would result requiring an amortization payment to the unfunded liability.

The cost of the accruing benefit for future service earned under the PORC plan is equal to the normal cost rate of 11.32% of protective occupation employee pay. The average employee contribution rate of 8.99% of protective occupation employee pay covers most of the cost of the accruing benefit, leaving 2.33% of protective occupation employee pay to be paid by employers.

The 14% employer contribution rates (12% for non-peace officer/firefighter) are more than sufficient to pay this cost. However, since the employer contributions to fund the PORC plan are part of the 22% of total pay cap on total employer contributions to PERS, the difference between the employer contribution rate to the PORC plan of 13.98% of protective occupation employee pay and the current employer rate of 9.98% of protective occupation employee pay to the DCR plan, or 4.00% of protective occupation employee pay represents an increased cost that is shifted to the state.

The table below shows the estimated cost to the state of HB 247 for Fiscal Years 2015 through 2020. Dollars are shown in thousands.

PERS	FY15	FY16	FY17	FY18	FY19	FY20
Total Increase in Annual State Contribution Amount due to HB 247	\$3,877	\$4,539	\$5,219	\$5,915	\$6,624	\$7,363

Summary for Analysis Continuation Section of Fiscal Note

The assumptions, plan provisions and methods used for the DCR plan costs are described in the draft actuarial valuation report as of June 30, 2013. The assumptions, plan provisions and methods used for the Protective Occupation Retirement plan costs are described in those for Tier 3 members of the DB plan in the DB plan draft actuarial valuation report as of June 30, 2013, unless otherwise amended by HB 247. The assets are based on the June 30, 2013 information provided by Christina Maiquis. We have assumed that all active DCR members who are considered Protective Occupation Employees will transfer to the new Protective Occupation plan.

Please let us know if you need any further information.

Sincerely,



David H. Sliskinsky, F.C.A., A.S.A., E.A.
Principal and Consulting Actuary

- c: Mr. Mike Barnhill, State of Alaska
Mr. Jim Puckett, State of Alaska
Mr. Kevin Worley, State of Alaska
Mr. Lee James, Buck Consultants
Ms. Kyla Kaltenbach, Buck Consultants
Ms. Melissa Bissett, Buck Consultants

04/09/2015

Senator Stoltze
State Capitol Room 125
Juneau, AK 99801
Phone: 907-465-4958

Dear Senator:

My name is Patrick O'Connor and I have been an Alaska resident for 10 years and I have been in your district for 6 after moving down from the interior. I am a Police Officer with the Anchorage Police Department and am currently working on day shift patrol after working Mid shift for 3 years. I have been working for the APD for three and half years after leaving a position as a Special Agent with the Federal Government in Anchorage. Throughout my tenure as a law enforcement officer I have acquired numerous certifications and trainings that not only benefit me but the people that I serve in Anchorage, Chugiak, and Eagle River. Many of these trainings are very desirable in the law enforcement profession such as the Critical Incident Team (CIT Officer) training. I also perform as a Field Training Officer (FTO) where I am tasked with training and evaluating new Police Officers. I have also had the opportunity to work very closely with the Anchorage Police Department Employee's Association on issues that I feel are very important to our profession.

One of the current issues that I am most concerned with is our Tier IV retirement system. I made the decision to give up a pension where I was vested with the Federal Government to work under the Tier IV retirement system in 2011 to serve the citizens of Alaska. Since I have been a part of the APD I have observed state wide that the retirement program is a detriment to its employees and the people they serve. There is now no incentive for employees to continue to work under this system and it has become a training ground where people can get top- notch training and take it elsewhere, either to the private sector or agencies in the lower 48. I have seen this first hand on many occasions and as a husband, and father of two I have serious thought about it myself. Then I think: "who will fill in my shoes?" Years ago it was not a problem to find police officers and firefighters but in today's climate we can not even fill academies. There may be several factors to all of this and I can assure you of one thing, Tier IV is a major contributor.

Even though I have been in law enforcement for many years I started in the Tier IV system at 31 years old. It just so happens that I was the average age of most hired by the department. Based on the physical nature of the work, the amount of gear I carry (my duty gear and vest is approximately an additional 30 pounds that I carry everyday), and the mental stress my opportunity to work and be successful is much shorter than many other professions. With the shorter work life expectancy I do not have the ability to ensure a healthy retirement for my family.

I am a police officer not a financial planner, broker, or investment banker. I am a responsible adult and family man and I take responsibility for my financial well-being. There is little in life I have control over and that includes my families financial future with a defined contribution retirement plan. I continue to give everything I can to help keep the citizens of Alaska and the Municipality of Anchorage safe.

HB 90 introduces a plan that I believe will meet the concerns of the State and also it's employees. This plan is called a Variable Benefit Retirement Plan and it allows the state to remain fiscally responsible while addressing some of my worries with Tier IV. This plan is crucial to the survival of current and future public safety employees by providing a defined benefit. This plan will create self sufficient retirees instead of ones that are forced onto government assistance. Unlike other retirement plans that have been very successful in the past to employees, this plan does not include overtime into the employees "high 5" years so there will not be any "padding" the personal retirement fund.

To me, the bottom line of HB90 is it will help departments of public safety throughout the state be able to hire AND retain good, intelligent, and desirable employees for the future of Alaska.

Thank you for your time and attention to this very important matter which concerns all citizens of this great state. If you have any further questions or wish to contact me please do not hesitate.

Sincerely,

Patrick O'Connor
4061 S. Caudill Rd
Palmer, Ak 99645 (Butte)
yetipup@gmail.com

Daniel George

From: Italias Itouch <angieandmatt@msn.com>
Sent: Friday, April 10, 2015 10:01 AM
To: Sen. Bill Stoltze
Subject: SB 83

Mr. Stoltze,

My husband and I are both police officers at the Anchorage Police Department and I am a full time trainer with the Academy. We are really struggling to get and retain qualified applicants for our police officer academy. A main reason that officers are leaving us after spending a lot of money on them to train them is because they have no stable retirement future. My husband and I are PERS T3, and one of the main reasons we stay is because of our retirement. We are wasting TONS of money on these young officers that don't stay more than 5 years. This senate bill has a companion bill and is building steam. Please please support this, it will save us a TON of money!!

Thanks for you support!

Angie and Matt Fraize