

SB

159

<TARGET><BILL>SB 159</BILL><SUBJECT>SB
159</SUBJECT><COMM></COMM></TARGET>

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 1/24/18

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 4/6/18

State Affairs Committee considered SENATE BILL NO. 159

SB 159 PERS/TERS DISTRIBUTIONS

"An Act relating to disbursement options under the Public Employees' Retirement System of Alaska and the Teachers' Retirement System of Alaska for participants in the defined contribution plan; and providing for an effective date."

and recommends:

- be replaced with CS _____ (_____) Same Title New Title
- adopt previous CS _____ (_____) Same Title New Title
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
EED	MVA
DEC	DNR
DFG	DPS
GOV	REV
DHS	DOT
AJS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
Adm			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Wilson			✓	
	Giessel			✓	
	Coghill	✓			
	Bear	✓			
CHAIR:	MEYER			✓	

SENATE BILL NO. 159

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTIETH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 1/24/18

Referred: State Affairs, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to disbursement options under the Public Employees' Retirement
2 System of Alaska and the Teachers' Retirement System of Alaska for participants in the
3 defined contribution plan; and providing for an effective date."

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

5 * Section 1. AS 14.25.420(a) is amended to read:

6 (a) A participant may elect to receive [DISTRIBUTION OF] the participant's
7 share of the individual account in a

8 (1) lump sum payment, which is a single payment of the entire balance
9 in the account; or

10 (2) periodic distribution option authorized by regulation [LUMP
11 SUM PAYMENT, WHICH IS A PAYMENT OF A PORTION OF THE BALANCE
12 IN THE ACCOUNT, NOT MORE THAN TWICE EACH YEAR;

13 (3) PERIOD CERTAIN ANNUITY PAYMENT, WHICH IS AN
14 ANNUITY PAYABLE IN A FIXED NUMBER OF MONTHLY INSTALLMENTS

*NOT statute
erodes legislative
powers?*

*ALL DISBURSEM-
ENTS DONE
BY REGULATION?*

1 FOR A DURATION OF 60, 120, OR 180 MONTHS;

2 (4) LIFE ANNUITY WITH A PERIOD CERTAIN PAYMENT,
3 WHICH IS AN ANNUITY PAYABLE UNTIL THE LATER OF THE FIRST DAY
4 OF THE MONTH IN WHICH THE ANNUITANT'S DEATH OCCURS, OR THE
5 DATE ON WHICH THE PAYMENT OF A FIXED NUMBER OF MONTHLY
6 INSTALLMENTS IS COMPLETED; THE PERIOD CERTAIN FOR
7 INSTALLMENTS IS 120 OR 180 MONTHS;

8 (5) SINGLE LIFE ANNUITY PAYMENT, WHICH IS AN
9 ANNUITY PAYABLE MONTHLY UNTIL THE FIRST OF THE MONTH IN
10 WHICH THE ANNUITANT'S DEATH OCCURS; OR

11 (6) JOINT AND SURVIVOR ANNUITY PAYMENT, WHICH IS
12 AN ANNUITY PAYABLE MONTHLY TO THE MEMBER UNTIL THE FIRST OF
13 THE MONTH IN WHICH THE MEMBER'S DEATH OCCURS; AFTER THE
14 MEMBER'S DEATH, A SURVIVOR ANNUITY EQUAL TO 50 PERCENT OR 100
15 PERCENT OF THE MEMBER'S BENEFIT, AS PREVIOUSLY ELECTED BY THE
16 MEMBER, SHALL BE PAID MONTHLY TO THE JOINT ANNUITANT FOR THE
17 REMAINDER OF THE SURVIVOR'S LIFETIME].

18 * **Sec. 2.** AS 39.35.820(a) is amended to read:

19 (a) A participant may elect to receive the participant's share of the individual
20 account in a

21 (1) lump sum payment, which is a single payment of the entire balance
22 in the account; **or**

23 (2) periodic distribution option authorized by regulation [LUMP
24 SUM PAYMENT, WHICH IS A PAYMENT OF A PORTION OF THE BALANCE
25 IN THE ACCOUNT, NOT MORE THAN TWICE EACH YEAR;

26 (3) PERIOD CERTAIN ANNUITY PAYMENT, WHICH IS AN
27 ANNUITY PAYABLE IN A FIXED NUMBER OF MONTHLY INSTALLMENTS
28 FOR A DURATION OF 60, 120, OR 180 MONTHS;

29 (4) LIFE ANNUITY WITH A PERIOD CERTAIN PAYMENT,
30 WHICH IS AN ANNUITY PAYABLE UNTIL THE LATER OF THE FIRST DAY
31 OF THE MONTH IN WHICH THE ANNUITANT'S DEATH OCCURS, OR THE

1 DATE ON WHICH THE PAYMENT OF A FIXED NUMBER OF MONTHLY
2 INSTALLMENTS IS COMPLETED; THE PERIOD CERTAIN FOR
3 INSTALLMENTS IS 120 OR 180 MONTHS;

4 (5) SINGLE LIFE ANNUITY PAYMENT, WHICH IS AN
5 ANNUITY PAYABLE MONTHLY UNTIL THE FIRST OF THE MONTH IN
6 WHICH THE ANNUITANT'S DEATH OCCURS; OR

7 (6) JOINT AND SURVIVOR ANNUITY PAYMENT, WHICH IS
8 AN ANNUITY PAYABLE MONTHLY TO THE MEMBER UNTIL THE FIRST OF
9 THE MONTH IN WHICH THE MEMBER'S DEATH OCCURS; AFTER THE
10 MEMBER'S DEATH, A SURVIVOR ANNUITY EQUAL TO 50 PERCENT OR 100
11 PERCENT OF THE MEMBER'S BENEFIT, AS PREVIOUSLY ELECTED BY THE
12 MEMBER, SHALL BE PAID MONTHLY TO THE JOINT ANNUITANT FOR THE
13 REMAINDER OF THE SURVIVOR'S LIFETIME].

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

16 TRANSITION: REGULATIONS. (a) The Department of Administration may adopt
17 regulations necessary to implement this Act. Regulations adopted by the Department of
18 Administration under this Act relate to the internal management of a state agency and are not
19 subject to AS 44.62 (Administrative Procedures Act) under AS 14.25.005 and AS 39.35.005.

20 (b) Regulations adopted under this section may not take effect before the effective
21 date of the law being implemented by the regulation.

22 * **Sec. 4.** Section 3 of this Act takes effect immediately under AS 01.10.070(c).

SB 159 PERS/TERS DISTRIBUTIONS

Rules by Request of the Governor

What this bill does:

This bill amends AS 14.25.420 and AS 39.25.420 to allow PERS/TERS distribution options through regulation. This has been recommended by the Alaska Retirement Management Board as a tool to enable the department to be more flexible in responding to participant needs.

Potential Issues:

This cites the PERS TERS statutes, it could very easily be used as a vehicle. Isn't the whole idea of long term accounts to keep money in as long as possible and limit distribution so that the funds last? Will allowing the department more options to distribute funds under their own regulations rather than coming to the legislature make it more likely that funds will be distributed more rapidly thereby increasing the possibility of people outliving their earnings? Or worse, exacerbate any unfunded liability? Also, by doing this through regulation rather than by statute, the legislature cedes some control and power. Granted, disbursement of these particular funds are to individuals who have earned them, but still—the power of the purse is part of the legislature's duties and this bill would give that responsibility to the administration.

Legislative History

While it is stated in the support materials that the Alaska Retirement Management Board (ARMB) has made these recommendations, how long as the department considered this?

Fiscal Impact:

Zero

QUESTIONS:

- This bill allows for a lump sum payment and then the rest of the distribution options by regulation. What other kinds of distribution plans have been requested besides the ones that are in statute currently?

- How does this compare with private plans? People who have retirement funds in other places—how varied are their options for distribution?
- How long has the department been considering this newer method of distribution as an option?
- When did the Alaska Retirement Management Board make these recommendations?
- I noticed in your fiscal note that regulations would need to be changed by 7/1/2018, can new regulations be drawn up and approved in that short of a time frame?
- How often does the division have to have a statutory change to meet new Internal Revenue requirements?
- So there is an emphasis to make sure that people do not outlive their savings--by making more options available is there a concern that this could erode funds over time?
- Are there rules for disbursement options that are required by the Internal Revenue Service?

— investment options



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Administration

LESLIE RIDLE, Commissioner

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www.doa.alaska.gov

January 30, 2018

The Honorable Kevin Meyer, Chair
Senate State Affairs Committee
State Capitol Building, Room 103
Juneau, AK 99801

Dear Senator Meyer:

The Department of Administration (DOA) respectfully requests that SB 159, "PERS/TRS Distributions" be considered for a scheduled hearing in the Senate State Affairs Committee.

This bill would allow DOA's Division of Retirement and Benefits to expand options through regulation for the types of distribution available to a state retirement plan participant at retirement. This bill is a response to recommendations by the Alaska Retirement Management Board (ARMB) to be more flexible in responding to participant needs.

When was this recommended?

We greatly appreciate your consideration of this important piece of legislation. If you need additional information, please contact Minta Montalbo, Special Assistant to the Commissioner for the Department of Administration at (907) 465-2200.

Sincerely,

A handwritten signature in cursive script that reads "Leslie D. Ridle".

Leslie Ridle, Commissioner

CC: Darwin Peterson, Legislative Director, Office of the Governor



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Administration

LESLIE RIDLE, Commissioner

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Juneau, AK 99311-0200
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www.doa.alaska.gov

SB 159 PERS/TRS Disbursement Options: Sectional Analysis

Section 1: Amends AS 14.25.420(a) to allow for distribution options for participants in the Teachers' Retirement System (TRS) defined contribution plan to be authorized by regulation.

Section 2: Amends AS 39.35.820(a) to allow for distribution options for participants in the Public Employees' Retirement System (PERS) defined contribution plan to be authorized by regulation.

Section 3: Adds section to the uncodified law to allow the Department of Administration to adopt regulations as necessary to implement this legislation.

Section 4: Establishes an immediate effective date.



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Governor Bill Walker
 STATE OF ALASKA

January 23, 2018

The Honorable Pete Kelly
 President of the Senate
 Alaska State Legislature
 State Capitol, Room 111
 Juneau, AK 99801-1182

Dear President Kelly,

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to disbursement options for the defined contribution retirement plans.

In 2005, the state established a defined contribution retirement plan for certain employees of the State, political subdivision, or public organization of the State. The plan applies to qualified members of the public employees' retirement system (AS 39.35), and the teachers' retirement system (AS 14.25) hired after July 1, 2006. Each plan includes provisions for membership, participation, contributions by members and employers, and distribution of a participant's share.

Currently, the law places statutory restrictions on the forms of distribution. Unfortunately, for plan participants, the statutory options have proven to be inflexible and serve to limit plan participant options. The Division of Retirement and Benefits has found through surveys that plan participants desire further options, including an option for a guaranteed lifetime income product. To meet this need, the Department of Revenue (DOR) and the Department of Administration (DOA) are considering available options and will make those recommended options available for consideration by the Alaska Retirement Management Board in the spring of 2018. ? DATE of mtg.?

Do private plans expand distribution Plans?
Done through regulation?

This bill would provide DOA with the ability to put plan options in regulation. Through the regulation process, DOA would have more flexibility to respond to participant needs. This will result in better options for participants, enhance the desirability of public service as a career, and provide a more stable financial future for plan participants.

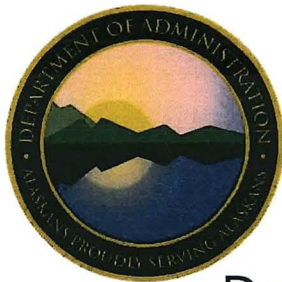
I urge your prompt and favorable action on this measure.

Sincerely,

Bill Walker
 Governor

Enclosure

SB 159 PERS/TRS Disbursement Options



Presented by

Commissioner Leslie Ridle

Deputy Director & Chief Pension Officer Kathy Lea

Proposed Change

- The Alaska Retirement Management Board (ARMB) must be able to add or change distribution options easily and in a relatively short timeframe.
- Our proposal is to move disbursement options from statute into regulation to allow for a faster response to participant needs.
- The ARMB unanimously approved this proposal. *When?*

The Issue

- The PERS/TRS DCR (Tier IV) plans use the statutes as the plan document.
- Any changes to modernize options or to meet new Internal Revenue requirements require a statutory change. *How often does this happen now?*
- Statutory changes can take several sessions to accomplish, if at all.
- Meanwhile, participants needs are being unmet.
- This bill would give the DCR plans the same flexibility as the SBS and Deferred Compensation plans. *I don't know if this is a good thing.*

PERS/TRS DCR Needs

- The PERS/TRS DCR plans have vested employees who are retiring and need help facing the challenges of retirement.
- The ARMB Defined Contribution Subcommittee is exploring options that will help participants:
 - not outlive their retirement savings,
 - address purchasing power over time, and
 - protect against market uncertainty.

Transparent Process for Change

- Discussions regarding disbursement options are done in a public forum during the selection process.
- Participants and groups representing participants will have input during subcommittee and ARMB committee meetings.
- The process remains public and transparent, but allows for faster adoption of needed change.
- All interested parties are notified of any changes through the regulation process.

Questions?

For more information on Department of Administration services, priorities, or other issues, please contact:

Minta Montalbo, Legislative Liaison

minta.Montalbo@Alaska.gov

465-2200

Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version:	SB 159
Fiscal Note Number:	1
(S) Publish Date:	1/24/2018

Identifier: DOA-DRB-01-16-18
 Title: PERS/TERS DISTRIBUTIONS
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: Governor

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)

	FY2019	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2019 Request	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
OPERATING EXPENDITURES	FY 2019	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) 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? 07/01/18

Why this fiscal note differs from previous version/comments:

Not applicable, initial version

Prepared By: <u>Ajay Desai</u>	Phone: (907)465-4471
Division: <u>Retirement and Benefits</u>	Date: 01/16/2018 12:00 AM
Approved By: <u>Leslie Ridle, Commissioner</u>	Date: 01/16/18
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2018 LEGISLATIVE SESSION

Analysis

This bill amends AS 14.25.420(a) and AS 39.35.820(a) to remove the list of disbursement options from statute and move the options to regulations. New language removes the list of disbursement options and replaces it with general language authorizing a lump sum payment of the entire balance or a periodic payment option authorized by the regulations.

This change will allow more flexibility to the Plan Administrator, with adoption by the Alaska Retirement Management Board, to add new options as they become available and are of benefit to participants. Future disbursement options will go through the regulatory process with public notice to all stakeholders and interested parties.

This bill has zero fiscal impact.

Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version: SB 159
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB159-DOA-DRB-03-15-18
Title: PERS/TERS DISTRIBUTIONS
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: (S) STA

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)

	FY2019	Included in	Out-Year Cost Estimates				
	Appropriation Requested	FY2019 Request	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
OPERATING EXPENDITURES	FY 2019	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) 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? 07/01/18 *New regulations in 2 months?*

Why this fiscal note differs from previous version/comments:

Updated to specify lack of actuarial impact to retirement plan.

Prepared By: Ajay Desai Phone: (907)465-4471
Division: Retirement and Benefits Date: 03/15/2018 05:30 PM
Approved By: Leslie Ridle, Commissioner Date: 03/15/18
Agency: Department of Administration

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2018 LEGISLATIVE SESSION

BILL NO. SB 159

Analysis

This bill amends AS 14.25.420(a) and AS 39.35.820(a) to remove the list of disbursement options from statute and move the options to regulations. New language removes the list of disbursement options and replaces it with general language authorizing a lump sum payment of the entire balance or a periodic payment option authorized by the regulations.

This change will allow more flexibility to the Plan Administrator, with adoption by the Alaska Retirement Management Board, to add new options as they become available and are of benefit to participants. Future disbursement options will go through the regulatory process with public notice to all stakeholders and interested parties.

This legislation will have no actuarial impact to the TRS or PERS since any costs incurred when electing a distribution option is borne by the participant. Therefore, the agency submits a zero fiscal note.