

LEG. FINANCE - BILLS 1977 - 1978 853

HB 946

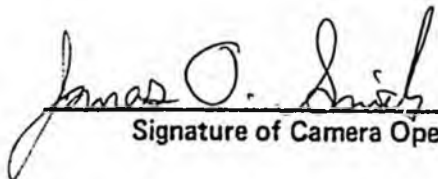
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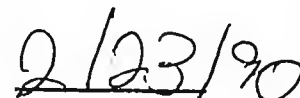


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Signature of Camera Operator


Date

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

Gen. Inv.

I. REQUEST

Bill/Resolution No. HB 046
Title Withdrawal From The Federal Social Security System
Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Administration - Division of Retirement and Benefits
Program Category Affected Retirement and Benefits (PERS)
Budget Request Unit(s) Affected Public Employees' Retirement System

EXPENDITURES (Thousands of Dollars)

	FY 78	^{FY 80} FY 79	⁸¹ FY 80	⁸² FY 81	⁸³ FY 82	⁸⁴ FY 83
100 PERSONAL SERVICES		37.3	79.1	83.8	88.8	94.2
200 TRAVEL		1.0	1.0	1.0	1.0	1.0
300 CONTRACTUAL		6.7				
400 COMMODITIES		0.6	0.6	0.6	0.6	0.6
500 EQUIPMENT		1.5				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
		4,232.5	4,655.8	5,121.3	5,633.5	6,196.8
TOTAL	-0-	4,279.6	4,736.5	5,206.7	5,723.9	6,292.6

FUNDING (Thousands of Dollars)

See Attachment 1

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		1.5	3	3	3	3
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See Attachment 1

Paul B. Arnoldt

IV. DATE 5-31-78 PREPARED BY Paul B. Arnoldt, Director
AGENCY Division of Retirement & Benefits
PHONE 465-4460

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named) Rules Committee
Office of the Governor (Keith Specking)

ATTACHMENT 1

HB 946

I. First Year Cost to the State:

1. Marine Transportation Employees	=	\$1,330,000
2. Police/Fire Employees	=	387,000
3. Other (PERS) Employees	=	<u>2,515,500</u>
Total	=	\$4,232,500

II. Funding:

1. The cost of this bill is determined as a percent of covered payroll. It is estimated that future payrolls will grow by 10% annually (salary and membership). Therefore, second year cost to the State will be \$4,655,750, and so forth for each year.

2.			<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>
	General Fund	82.0 %	\$3,470.6	\$3,817.9	\$4,199.5	\$4,619.5	\$5,081.3
	Federal Fund	4.5 %	190.5	209.5	230.5	253.5	278.9
	Veteran's Fund	.2 %	8.5	9.3	10.2	11.3	12.4
	Fish & Game Fund	.6 %	25.4	27.9	30.7	33.8	37.2
	Highway Fund	1.3 %	55.0	60.5	66.6	73.2	80.6
	Airport Fund	2.9 %	122.7	135.0	148.5	163.4	179.7
	Capital Fund	8.5 %	359.8	395.7	435.3	478.8	526.7
	PERS		<u>47.1</u>	<u>80.7</u>	<u>85.4</u>	<u>90.4</u>	<u>95.8</u>
	Total		\$4,279.6	\$4,736.5	\$5,206.7	\$5,723.9	\$6,292.6

III. Administrative Costs:

1. Establish and administer new Deferred Compensation Program: One Retirement and Benefit Specialist (Range 16) and one Retirement and Benefit Technician (Range 12).
2. Administer new survivor benefits, disability benefits and basic benefits for employees not previously covered: One Retirement and Benefit Specialist (Range 16).
3. Equipment (\$1,500), travel (\$1,000), and commodities (\$600) for new employees.

IV. Special Election:

1. One-time Data Processing costs to generate employee lists and mailing addresses (\$5,000).
2. Postage (\$1,500) and printing of ballots (\$200).

V. Additional Information:

Two letters from Robert F. Richardson to Paul B. Arnoldt dated May 25, 1978. (See Attachment 2 and Attachment 3)

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director
Division of Retirement & Benefits
State of Alaska
Department of Administration
Pouch CR
Juneau, Alaska 99811

Re: House Bill 946 Costs

Dear Paul:

We have calculated that passage of House Bill 946 will cost 1.36% of earnings for State employees covered under PERS. This cost can be broken down in the following manner:

(1) An extra 1% on the benefit formula	8.45%
(2) 25-and-out provision for present and new State employees	.30%
(3) 25-and-out provision for employees who transfer to State employment from other political subdivisions	.10%
(4) Improved disability benefits	<u>.10%</u>
(5) Total Cost	8.95%
(6) Less average contribution from special fund	<u>7.59%</u>
(7) Additional cost to the State	1.36%

As you can see, this cost is higher than the cost calculated by Milliman & Robertson, Inc. There are several explanations for these differences. Of prime importance is the fact that different actuarial assumptions have been used in the two calculations. M&R based its calculations on the former actuarial assumptions whereas our calculations have been based upon new assumptions adopted by the PERS Board this Spring. Perhaps of greatest significance, especially as relates to this bill, is the fact that the new actuarial assumptions assume that salaries will increase at 6% per year until age 39 while the former actuarial assumption assumes that salaries will increase at 5% per year. As you can imagine, a benefit based upon final average pay

Mr. Paul Arnoldt

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May 25, 1978

will be more costly if salaries go up at a faster rate. The present cost to the State for PERS is 12.06% of earnings. Passage of House Bill 946 will add 8.95% to this cost, arriving at a total cost of 21.01%. Adding 7.7% to the present 12.06% would arrive at a total cost of 19.76%. Thus, our total cost calculation is about 6% higher than M&R's estimated cost. Such a 6% difference in cost is easily explainable by the differences in actuarial assumptions.

Other differences bear mentioning. The present actuarial assumptions are more "liberal" than the former assumptions when it comes to determining cost for the 25-and-out provision. This is because we presently do not assume all employees will retire as soon as they meet the minimum eligibility for full retirement benefits. As pointed out in the Experience Analysis report presented this Spring, a large number of employees who are presently working are also eligible for unreduced full retirement benefits. I believe it is reasonable to assume that this phenomenon will continue in the future. In other words, even though an employee may be eligible to receive unreduced benefits after 25 years of service, he may elect to continue employment until age 55 or until he attains 30 years of service before actually retiring. In that event, the employee would not benefit at all from the 25 year and out provision of House Bill 946.

Only a small percentage of employees will actually "benefit" from this provision. At present, only 11 employees, or less than .15% of State employees, are eligible to retire under the 25-year-and-out provision. However, it is reasonable to assume that a good percentage of those 11 employees will work until at least age 55 or until they have 30 years of service and, therefore, not ever utilize the 25-year-and-out provision. In fact, our records indicate that there are 22 employees who meet the present eligibility provisions for full retirement and yet who have not retired.

Finally, the advantage of the 25-year-and-out provision for those employees electing it is not as significant as you might expect. By retiring one year earlier, an employee would "pass up" an assumed 5% increase in salary and a 3% increase due to an extra year of credited service. Consequently, for each year earlier an employee retires, his benefit will be 8% less. Obviously, in highly inflationary times where salaries are going up faster than 5%, he will be reducing his total benefit by more than 8% per year. Almost exactly counterbalancing this "loss" in benefits is the value of receiving benefits for one more year.

The cost we have calculated for the 25-year-and-out provision is significantly less than the cost calculated by M&R. This difference can be attributed to the more "liberal" actuarial assumptions presently

William M. Mercer, Incorporated

Mr. Paul Arnoldt
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adopted by the Board. I have reviewed this with M&R and they have indicated that their costs are based upon the assumption that employees will retire as soon as possible.

As you can see, line 3 above indicates a cost of .10% associated with the cost of providing unreduced benefits for employees who transfer to State employment after having accumulated several years of employment with a political subdivision. As we discussed, our interpretation of House Bill 946 allows an employee to work 24 years with a political subdivision and one year with the State and thus receive all 25 years of his benefits unreduced. In this example, the employee would get 24 years at 2% and one year at 3%. My cost calculation is based upon the assumption that 50% of the employees in other political subdivisions who are so inclined to take advantage of the 25-year-and-out provision will find employment with the State and be able to utilize that provision. It is my understanding that M&R did not take into consideration the effect of transfers from other political subdivisions on retirement under the 25-year-and-out provision.

As line 4 above indicates, I have determined that there is a cost of .10% to provide disability benefits which are the greater of 40% of pay or the accrued benefit under the Plan. Based upon a 2% formula, it would take 20 years to arrive at 40%. Under such a 2% formula, there would be very little cost for providing this provision. However, under the 3% formula, it would take slightly more than 13 years to accumulate 40%. It is much more likely under a 3% formula for the employee to have an accrued benefit which is greater than 40%. Our calculations indicate that the cost will be .10% of PERS earnings for State employees. It is my understanding that the M&R calculation of no cost for this benefit is based upon the 2% formula.

In summary, we have calculated that passage of House Bill 946 will increase the State's cost to PERS to a total of 21.01% of earnings, or an increase of 8.95% over the present contribution rate. While this total cost is approximately 6% higher than the total cost for the System implied in the March 15, 1978 report by Milliman & Robertson, Inc., it is our opinion that these differences are explainable as outlined above.

House Bill 946 also calls for the inclusion of Marine Transportation Employees. I have calculated that the cost of their future service benefits under PERS will be 14.71% of their earnings. Please note that this cost calculation includes the cost of medical benefits under PERS. The cost calculations also assume that Marine Transportation Employees will be allowed to retire after 25 years of service although only service after 1-1-80 will be counted for benefit purposes. In other words, a Marine Transportation Employee with 20

William M. Mercer, Incorporated

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years of service on 1-1-80 will be allowed to retire on 1-1-85 with five years of credited service. If this is not the intent of HB946, then my costs will have been slightly overstated. It is my understanding that Milliman & Robertson, Inc. determined the cost for Marine Transportation Employees to be 13.4% of their earnings. This would indicate that my cost calculations are 1.31% higher than theirs. You will note that this is about the same as the 1.36% higher cost I have calculated for the present PERS employees. Please note that these cost calculations do not include any military service for Marine Transportation Employees prior to 1-1-80 although such military service is provided for under the bill.

The supplementary survivor benefits provided for under HB946 are anticipated to cost .86% of PERS earnings. We believe this .86% figure to be a very good estimate of the cost for these benefits. Of course, the exact cost would not be known until bids are received from interested insurance carriers.

Actual contributions required by Social Security will vary from year to year. However, an average annual contribution of 10.2% is a good estimate of average contributions. Based upon this average contribution, I believe that the attached table correctly summarizes the financial impact of House Bill 946.

I look forward to going over these cost calculations and other aspects of House Bill 946 when I am in Juneau on May 30.

Sincerely,



Robert F. Richardson, MAAA
Vice President

RFR:jn

cc: Mr. R. Winkenwerder

William M. Mercer, Incorporated

Financial Impact of HB946

	<u>Average*</u> <u>S.S.</u> <u>Contrib.</u>	<u>Transferred</u> <u>From</u> <u>Special</u> <u>Account</u>	<u>Survivor**</u> <u>Benefits</u>	<u>Deferred</u> <u>Comp.</u> <u>Contrib.</u>	<u>Additional</u> <u>Cost</u> <u>For</u> <u>PERS</u>	<u>Net</u> <u>Additional</u> <u>Cost to</u> <u>State</u>
Other Employees	10.2%	7.7%	.86%	1.64%	9.0%	1.3%
Police/Fire	10.2%	6.8%	.86%	2.54%	8.6%	1.8%
Marine Transportation	10.2%	7.7%	.86%	1.64%	14.7%	7.0%

* Will vary from year to year as S.S. rates and Wage Base change.

** Will vary from year to year based on experience.

WILLIAM M.
MERCER
INCORPORATED

ATTACHMENT 3

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director
Division of Retirement & Benefits
State of Alaska
Department of Administration
Pouch CR
Juneau, Alaska 99811

Re: Comments on House Bill 946

Dear Paul:

Passage of House Bill 946 and subsequent opting out from Social Security will have monumental impact on the retirement system for State of Alaska employees. There are several aspects of this bill which should be understood completely by all affected parties.

(1) Cost

As indicated in a prior letter, the benefits provided by House Bill 946 will increase the State contribution to PERS to 21.01%, an increase of 8.95% over the present contribution rate. Contributions transferred from the "special account" to the State (presumably to pay for these increased benefits) will amount to an average of 7.59%. This 7.59% figure takes into consideration the relative weighting between police and fire employees who would contribute 6.8% of their earnings and other employees who would contribute 7.7%. Consequently, the total additional cost to the State will amount to 1.36% of earnings for State employees covered under PERS. Marine Transportation employees will cost 14.71% to include in PERS, or 7.01% more than the amount transferred from the special account for those employees.

(2) Equity

Benefits and contributions presently paid in PERS are equitable. By that, I mean that an employee contributes a given percentage on all his earnings and his benefit is related to a percentage of all earnings. Passage of HB946 would significantly alter this relationship. Both employees and the State would be contributing only on earnings up to the Social Security Wage Base whereas benefits would be based upon all earnings. Consequently, higher-paid employees would be getting a larger benefit relative to their contributions than lower-paid

William M. Mercer, Incorporated

Mr. Paul Arnoldt

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employees. Such a change would be a significant departure from the present philosophy underlying PERS.

(3) Deferred Compensation Contributions

We assume that the amounts allocated to each employee's deferred compensation account will be based upon an average rate differing only by "Police/Fire" and "Other Employees". Although the actual Social Security contributions will vary from year to year, it is anticipated that Social Security contributions made by both the State and the employees will average 10.2%. If we assume that the additional survivor benefits will cost .86% as indicated in the bill, this implies that all Police and Fire Employees will have 2.54% of their total earnings contributed to their deferred compensation accounts while all Other Employees and Marine Transportation Employees will have 1.64% contributed to their deferred compensation accounts.

Employees who earn less than the Social Security Wage Base as well as employees who earn more than the Social Security Wage Base will have the same percentage of total earnings contributed to their deferred compensation accounts. However, Social Security contributions are only made on earnings up to the Wage Base. Consequently, all employees who are earning less than the Social Security Wage Base would be "subsidizing" employees who earn above the Wage Base. I believe that such a situation is not desirable for the State of Alaska. The regressive tax aspects of Social Security are tolerated only because benefits, as a percentage of earnings, are also heavily weighted to the lower incomes.

As we discussed, there is an alternative way to administer this bill whereby all employees earning under the Wage Base would have a fixed percentage contributed to their deferred compensation accounts while employees earning above the Wage Base would have a declining percentage contributed to their deferred compensation account. Ignoring the administrative problems associated with this approach, this method will ultimately break down for employees in the upper salary bracket. In other words, total Social Security contributions for people in the upper salary ranges will be less than 7.7% of all earnings. Although it would be possible to have no amounts contributed to the deferred compensation accounts for these employees, the State would still have to pay for the additional benefits granted under PERS. For example, total Social Security contributions for a higher-paid individual might amount to only 6% of his total salary. After subtracting the .86% for the survivor

William M. Mercer, Incorporated

Mr. Paul Arnoldt

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benefits, this would leave only 5.14% to be transferred to the State in order to pay for the additional PERS benefits under HB946. Obviously, the State would have to pick up the additional cost between the 7.7% and the 5.14% in this example. As you can see, this approach would increase administrative problems associated with the deferred compensation contributions as well as lead to increases in the cost of this bill.

(4) Comparisons Between Police/Fire and Other Employees

In recent years, changes to PERS have attempted to minimize the differences between Police/Fire and Other Employees. To simplify, Police and Fire Employees contribute an additional .75% but enjoy 20 and out normal retirement. HB946 will allow Police and Fire Employees to have an additional .9% of their earnings contributed to their deferred compensation accounts. If that is in fact what happens, Police and Firemen will not contribute .75% more toward their benefits but in fact will contribute .15% less for the benefits. I believe that having Police and Firemen contribute less for a better benefit (20 and out) will present problems.

(5) 25 and Out Provisions

Only a very small percentage of employees who ultimately retire under this System will be able to take advantage of the 25 years and out provision provided by HB946. Of those employees ultimately receiving retirement benefits from the System, we have estimated that approximately 3% will in fact be retiring under the 25 year and out provision as opposed to 97% who will be retiring based upon the provisions presently found in PERS. Taking into consideration those who terminate before they become vested, we would estimate that the 25-and-out provision would benefit only 1% of all employees. Although all employees will be "paying" for the 25-year-and-out provision, only a small percentage will actually enjoy this benefit. An additional problem arises when an employee transfers from a political subdivision to employment with the State. As we have interpreted the Bill an employee who has 25 or more years of credited service with a political subdivision need only work 1 day with the State in order to be entitled to retire under the 25-year-and-out provision. Although such a situation will not increase the State's cost significantly (only .10% of earnings), it will perhaps lead to an inequitable situation. Some employees from the political subdivisions will be able to find State employment and receive the benefit of 25-year-and-out whereas other employees of political subdivisions may not be able to find such employment and, therefore, not be entitled to the 25-year-and-out provision.

Mr. Paul Arnoldt
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May 25, 1978

(6) Credit For Past Service

It appears that an employee who has any years of credited service with the State prior to January 1, 1980, may receive the additional 1% credit for that service so long as he makes some contributions under AS39.30.170. This again leads to the situation where an employee from another political subdivision (who has prior State service) may achieve a "windfall" by working for the State one day after January 1, 1980. In addition, there is a large unknown liability for present retirees. It appears that any present retiree might be able to work one day for the State after January 1, 1980 and thereby pick up the additional 1% windfall for all prior service with the State. Our cost calculations on this bill contemplate credit for past service only to present State employees and not to retirees or employees of other political subdivisions who have worked for the State.

I am sure we will discuss these comments and other aspects of House Bill 946 when I am in Juneau on May 30.

Sincerely,



Robert F. Richardson, MAAA
Vice President

RFR:Jn

TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. CS HB946
 Title Withdrawal From The Federal Social Security System
 Requested by _____ Date _____

II. FISCAL DETAIL
 Agency Affected Administration - Division of Retirement & Benefits
 Program Category Affected Retirement and Benefits (PERS)
 Budget Request Unit(s) Affected 02-96-8-01-01

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES			79.1	83.8	88.8	94.2
200 TRAVEL			1.0	1.0	1.0	1.0
300 CONTRACTUAL		6.7				
400 COMMODITIES			0.6	0.6	0.6	0.6
500 EQUIPMENT			1.5			
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
100 BENEFITS			(374.8)	(824.6)	(907.1)	(997.3)
TOTAL	-0-	6.7	(292.6)	(739.2)	(816.7)	(902.0)

FUNDING (Thousands of Dollars) See Attachment 1

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME			3	3	3	3
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

- A. See Attachment 1.
- B. Funding identified for FY 80 and future years would only be required if the State withdrew from Social Security. Note: The "Bracketed Numbers" represent savings to the State.

IV. DATE 6/07/78 PREPARED BY Paul B. Arnoldt - Director
 AGENCY Division of Retirement & Benefits
 PHONE 465-4460
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named) Finance Committee
 Office of the Governor (Keith Specking)
 33-001 (Rev. 12/77)

WILLIAM M.
MERCER
INCORPORATED

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director
Division of Retirement & Benefits
State of Alaska
Department of Administration
Pouch CR
Juneau, Alaska 99811

Re: House Bill 946 Costs

Dear Paul:

We have calculated that passage of House Bill 946 will cost 1.36% of earnings for State employees covered under PERS. This cost can be broken down in the following manner:

(1) An extra 1% on the benefit formula	3.45%
(2) 25-and-out provision for present and new State employees	.30%
(3) 25-and-out provision for employees who transfer to State employment from other political subdivisions	.10%
(4) Improved disability benefits	<u>.10%</u>
(5) Total Cost	8.95%
(6) Less average contribution from special fund	<u>7.59%</u>
(7) Additional cost to the State	1.36%

As you can see, this cost is higher than the cost calculated by Milliman & Robertson, Inc. There are several explanations for these differences. Of prime importance is the fact that different actuarial assumptions have been used in the two calculations. M&R based its calculations on the former actuarial assumptions whereas our calculations have been based upon new assumptions adopted by the PERS Board this Spring. Perhaps of greatest significance, especially as relates to this bill, is the fact that the new actuarial assumptions assume that salaries will increase at 6% per year until age 39 while the former actuarial assumption assumes that salaries will increase at 5% per year. As you can imagine, a benefit based upon final average pay

ATTACHMENT 1
CS HB946

I. FY 80 (6 months) Breakout of Benefits:

1. Marine Transportation Employees	=	\$ 512,050	Cost to State
2. Police/Fire Employees	=	(35,475)	Savings to State
3. Other (PERS) Employees	=	<u>(851,400)</u>	Savings to State
Total	=	\$(374,825)	

II. Funding:

1. The cost of this bill is determined as a percent of covered payroll. It is estimated that personal services will increase by 6% and benefits (salary and membership) will grow by 10% annually.

2.		<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>	
	General Fund	82.0 %	-0-	\$(307.3)	\$(676.3)	\$(743.8)	\$(818.2)
	Federal Fund	4.5 %	-0-	(16.9)	(37.1)	(40.9)	(44.9)
	Veteran's Fund	.2 %	-0-	(0.7)	(1.6)	(1.8)	(2.0)
	Fish & Game Fund	.6 %	-0-	(2.2)	(4.9)	(5.4)	(6.0)
	Highway Fund	1.3 %	-0-	(4.9)	(10.7)	(11.8)	(13.0)
	Airport Fund	2.9 %	-0-	(10.9)	(23.9)	(26.3)	(28.9)
	Capital Fund	8.5 %	-0-	(31.9)	(70.1)	(77.1)	(84.8)
	PERS		6.7	82.2	85.4	90.4	95.8
	Total		\$6.7	\$(292.6)	\$(739.2)	\$(816.7)	\$(902.0)

III. Administrative Costs:

1. Establish and administer new Deferred Compensation Program: One Retirement and Benefit Specialist (Range 16) and one Retirement and Benefit Technician (Range 12).
2. Administer new survivor benefits, disability benefits and basic benefits for employees not previously covered: One Retirement and Benefit Specialist (Range 16).
3. Equipment (\$1,500), travel (\$1,000), and commodities (\$500) for new employees.

IV. Special Election:

1. One-time Data Processing costs to generate employee lists and mailing addresses (\$5,000).
2. Postage (\$1 500) and printing of ballots (\$200).

V. Additional Information:

Two letters from Robert F. Richardson to Paul B. Arnoldt dated May 25, 1978. (See Attachment 2 and Attachment 3)

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director
Division of Retirement & Benefits
State of Alaska
Department of Administration
Pouch CR
Juneau, Alaska 99811

Re: Comments on House Bill 946

Dear Paul:

Passage of House Bill 946 and subsequent opting out from Social Security will have monumental impact on the retirement system for State of Alaska employees. There are several aspects of this bill which should be understood completely by all affected parties.

(1) Cost

As indicated in a prior letter, the benefits provided by House Bill 946 will increase the State contribution to PERS to 21.01%, an increase of 8.95% over the present contribution rate. Contributions transferred from the "special account" to the State (presumably to pay for these increased benefits) will amount to an average of 7.59%. This 7.59% figure takes into consideration the relative weighting between police and fire employees who would contribute 6.8% of their earnings and other employees who would contribute 7.7%. Consequently, the total additional cost to the State will amount to 1.36% of earnings for State employees covered under PERS. Marine Transportation employees will cost 14.71% to include in PERS, or 7.01% more than the amount transferred from the special account for those employees.

(2) Equity

Benefits and contributions presently paid in PERS are equitable. By that, I mean that an employee contributes a given percentage on all his earnings and his benefit is related to a percentage of all earnings. Passage of HB946 would significantly alter this relationship. Both employees and the State would be contributing only on earnings up to the Social Security Wage Base whereas benefits would be based upon all earnings. Consequently, higher-paid employees would be getting a larger benefit relative to their contributions than lower-paid

William M. Mercer, Incorporated

Mr. Paul Arnoldt
Page Two
May 25, 1978

employees. Such a change would be a significant departure from the present philosophy underlying PERS.

(3) Deferred Compensation Contributions

We assume that the amounts allocated to each employee's deferred compensation account will be based upon an average rate differing only by "Police/Fire" and "Other Employees". Although the actual Social Security contributions will vary from year to year, it is anticipated that Social Security contributions made by both the State and the employees will average 10.2%. If we assume that the additional survivor benefits will cost .86% as indicated in the bill, this implies that all Police and Fire Employees will have 2.54% of their total earnings contributed to their deferred compensation accounts while all Other Employees and Marine Transportation Employees will have 1.64% contributed to their deferred compensation accounts.

Employees who earn less than the Social Security Wage Base as well as employees who earn more than the Social Security Wage Base will have the same percentage of total earnings contributed to their deferred compensation accounts. However, Social Security contributions are only made on earnings up to the Wage Base. Consequently, all employees who are earning less than the Social Security Wage Base would be "subsidizing" employees who earn above the Wage Base. I believe that such a situation is not desirable for the State of Alaska. The regressive tax aspects of Social Security are tolerated only because benefits, as a percentage of earnings, are also heavily weighted to the lower incomes.

As we discussed, there is an alternative way to administer this bill whereby all employees earning under the Wage Base would have a fixed percentage contributed to their deferred compensation accounts while employees earning above the Wage Base would have a declining percentage contributed to their deferred compensation account. Ignoring the administrative problems associated with this approach, this method will ultimately break down for employees in the upper salary bracket. In other words, total Social Security contributions for people in the upper salary ranges will be less than 7.7% of all earnings. Although it would be possible to have no amounts contributed to the deferred compensation accounts for these employees, the State would still have to pay for the additional benefits granted under PERS. For example, total Social Security contributions for a higher-paid individual might amount to only 6% of his total salary. After subtracting the .86% for the survivor

William M. Mercer, Incorporated

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benefits, this would leave only 5.14% to be transferred to the State in order to pay for the additional PERS benefits under HB946. Obviously, the State would have to pick up the additional cost between the 7.7% and the 5.14% in this example. As you can see, this approach would increase administrative problems associated with the deferred compensation contributions as well as lead to increases in the cost of this bill.

(4) Comparisons Between Police/Fire and Other Employees

In recent years, changes to PERS have attempted to minimize the differences between Police/Fire and Other Employees. To simplify, Police and Fire Employees contribute an additional .75% but enjoy 20 and out normal retirement. HB946 will allow Police and Fire Employees to have an additional .9% of their earnings contributed to their deferred compensation accounts. If that is in fact what happens, Police and Firemen will not contribute .75% more toward their benefits but in fact will contribute .15% less for the benefits. I believe that having Police and Firemen contribute less for a better benefit (20 and out) will present problems.

(5) 25 and Out Provisions

Only a very small percentage of employees who ultimately retire under this System will be able to take advantage of the 25 years and out provision provided by HB946. Of those employees ultimately receiving retirement benefits from the System, we have estimated that approximately 3% will in fact be retiring under the 25 year and out provision as opposed to 97% who will be retiring based upon the provisions presently found in PERS. Taking into consideration those who terminate before they become vested, we would estimate that the 25-and-out provision would benefit only 1% of all employees. Although all employees will be "paying" for the 25-year-and-out provision, only a small percentage will actually enjoy this benefit. An additional problem arises when an employee transfers from a political subdivision to employment with the State. As we have interpreted the Bill an employee who has 25 or more years of credited service with a political subdivision need only work 1 day with the State in order to be entitled to retire under the 25-year-and-out provision. Although such a situation will not increase the State's cost significantly (only .10% of earnings), it will perhaps lead to an inequitable situation. Some employees from the political subdivisions will be able to find State employment and receive the benefit of 25-year-and-out whereas other employees of political subdivisions may not be able to find such employment and, therefore, not be entitled to the 25-year-and-out provision.

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(6) Credit For Past Service

It appears that an employee who has any years of credited service with the State prior to January 1, 1980, may receive the additional 1% credit for that service so long as he makes some contributions under AS39.30.170. This again leads to the situation where an employee from another political subdivision (who has prior State service) may achieve a "windfall" by working for the State one day after January 1, 1980. In addition, there is a large unknown liability for present retirees. It appears that any present retiree might be able to work one day for the State after January 1, 1980 and thereby pick up the additional 1% windfall for all prior service with the State. Our cost calculations on this bill contemplate credit for past service only to present State employees and not to retirees or employees of other political subdivisions who have worked for the State.

I am sure we will discuss these comments and other aspects of House Bill 946 when I am in Juneau on May 30.

Sincerely,



Robert F. Richardson, MAAA
Vice President

RFR:Jn

William M. Mercer, Incorporated

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will be more costly if salaries go up at a faster rate. The present cost to the State for PERS is 12.06% of earnings. Passage of House Bill 946 will add 8.95% to this cost, arriving at a total cost of 21.01%. Adding 7.7% to the present 12.06% would arrive at a total cost of 19.76%. Thus, our total cost calculation is about 6% higher than M&R's estimated cost. Such a 6% difference in cost is easily explainable by the differences in actuarial assumptions.

Other differences bear mentioning. The present actuarial assumptions are more "liberal" than the former assumptions when it comes to determining cost for the 25-and-out provision. This is because we presently do not assume all employees will retire as soon as they meet the minimum eligibility for full retirement benefits. As pointed out in the Experience Analysis report presented this Spring, a large number of employees who are presently working are also eligible for unreduced full retirement benefits. I believe it is reasonable to assume that this phenomenon will continue in the future. In other words, even though an employee may be eligible to receive unreduced benefits after 25 years of service, he may elect to continue employment until age 55 or until he attains 30 years of service before actually retiring. In that event, the employee would not benefit at all from the 25 year and out provision of House Bill 946.

Only a small percentage of employees will actually "benefit" from this provision. At present, only 11 employees, or less than .15% of State employees, are eligible to retire under the 25-year-and-out provision. However, it is reasonable to assume that a good percentage of those 11 employees will work until at least age 55 or until they have 30 years of service and, therefore, not ever utilize the 25-year-and-out provision. In fact, our records indicate that there are 22 employees who meet the present eligibility provisions for full retirement and yet who have not retired.

Finally, the advantage of the 25-year-and-out provision for those employees electing it is not as significant as you might expect. By retiring one year earlier, an employee would "pass up" an assumed 5% increase in salary and a 3% increase due to an extra year of credited service. Consequently, for each year earlier an employee retires, his benefit will be 8% less. Obviously, in highly inflationary times where salaries are going up faster than 5%, he will be reducing his total benefit by more than 8% per year. Almost exactly counterbalancing this "loss" in benefits is the value of receiving benefits for one more year.

The cost we have calculated for the 25-year-and-out provision is significantly less than the cost calculated by M&R. This difference can be attributed to the more "liberal" actuarial assumptions presently

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adopted by the Board. I have reviewed this with M&R and they have indicated that their costs are based upon the assumption that employees will retire as soon as possible.

As you can see, line 3 above indicates a cost of .10% associated with the cost of providing unreduced benefits for employees who transfer to State employment after having accumulated several years of employment with a political subdivision. As we discussed, our interpretation of House Bill 946 allows an employee to work 24 years with a political subdivision and one year with the State and thus receive all 25 years of his benefits unreduced. In this example, the employee would get 24 years at 2% and one year at 3%. My cost calculation is based upon the assumption that 50% of the employees in other political subdivisions who are so inclined to take advantage of the 25-year-and-out provision will find employment with the State and be able to utilize that provision. It is my understanding that M&R did not take into consideration the effect of transfers from other political subdivisions on retirement under the 25-year-and-out provision.

As line 4 above indicates, I have determined that there is a cost of .10% to provide disability benefits which are the greater of 40% of pay or the accrued benefit under the Plan. Based upon a 2% formula, it would take 20 years to arrive at 40%. Under such a 2% formula, there would be very little cost for providing this provision. However, under the 3% formula, it would take slightly more than 13 years to accumulate 40%. It is much more likely under a 3% formula for the employee to have an accrued benefit which is greater than 40%. Our calculations indicate that the cost will be .10% of PERS earnings for State employees. It is my understanding that the M&R calculation of no cost for this benefit is based upon the 2% formula.

In summary, we have calculated that passage of House Bill 946 will increase the State's cost to PERS to a total of 21.01% of earnings, or an increase of 8.95% over the present contribution rate. While this total cost is approximately 6% higher than the total cost for the System implied in the March 15, 1978 report by Milliman & Robertson, Inc., it is our opinion that these differences are explainable as outlined above.

House Bill 946 also calls for the inclusion of Marine Transportation Employees. I have calculated that the cost of their future service benefits under PERS will be 14.71% of their earnings. Please note that this cost calculation includes the cost of medical benefits under PERS. The cost calculations also assume that Marine Transportation Employees will be allowed to retire after 25 years of service although only service after 1-1-80 will be counted for benefit purposes. In other words, a Marine Transportation Employee with 20

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years of service on 1-1-80 will be allowed to retire on 1-1-85 with five years of credited service. If this is not the intent of HB946, then my costs will have been slightly overstated. It is my understanding that Milliman & Robertson, Inc. determined the cost for Marine Transportation Employees to be 13.4% of their earnings. This would indicate that my cost calculations are 1.31% higher than theirs. You will note that this is about the same as the 1.36% higher cost I have calculated for the present PERS employees. Please note that these cost calculations do not include any military service for Marine Transportation Employees prior to 1-1-80 although such military service is provided for under the bill.

The supplementary survivor benefits provided for under HB946 are anticipated to cost .86% of PERS earnings. We believe this .86% figure to be a very good estimate of the cost for these benefits. Of course, the exact cost would not be known until bids are received from interested insurance carriers.

Actual contributions required by Social Security will vary from year to year. However, an average annual contribution of 10.2% is a good estimate of average contributions. Based upon this average contribution, I believe that the attached table correctly summarizes the financial impact of House Bill 946.

I look forward to going over these cost calculations and other aspects of House Bill 946 when I am in Juncau on May 30.

Sincerely,



Robert F. Richardson, MAAA
Vice President

RFR:jn

cc: Mr. R. Winkenwerder

Financial Impact of HB946

	<u>Average*</u> <u>S.S.</u> <u>Contrib.</u>	<u>Transferred</u> <u>From</u> <u>Special</u> <u>Account</u>	<u>Survivor**</u> <u>Benefits</u>	<u>Deferred</u> <u>Comp.</u> <u>Contrib.</u>	<u>Additional</u> <u>Cost</u> <u>For</u> <u>PERS</u>	<u>Net</u> <u>Additional</u> <u>Cost to</u> <u>State</u>
Other Employees	10.2%	7.7%	.86%	1.64%	9.0%	1.3%
Police/Fire	10.2%	6.8%	.86%	2.54%	8.6%	1.8%
Marine Transportation	10.2%	7.7%	.86%	1.64%	14.7%	7.0%

* Will vary from year to year as S.S. rates and Wage Base change.

** Will vary from year to year based on experience.

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 916
Title Withdrawal From The Federal Social Security System
Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Administration - Division of Retirement and Benefits
Program Category Affected Retirement and Benefits (PERS)
Budget Request Unit(s) Affected Public Employees' Retirement System

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES			79.1	83.8	88.8	94.2
200 TRAVEL			1.0	1.0	1.0	1.0
300 CONTRACTUAL		6.7				
400 COMMODITIES			0.6	0.6	0.6	0.6
500 EQUIPMENT			1.5			
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
100 BENEFITS			2,327.9	5,121.3	5,633.5	6,196.8
TOTAL	-0-	6.7	2,410.1	5,206.7	5,723.9	6,292.6

FUNDING (Thousands of Dollars) See Attachment 1

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						

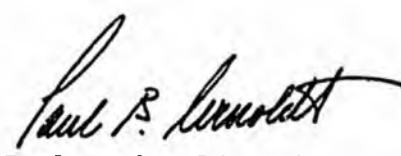
POSITIONS

FULL TIME			3	3	3	3
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See Attachment 1

Note: Funding identified for FY 80 and future years would only be required if the State withdrew from Social Security.



IV. DATE Rev. 6/01/78 PREPARED BY Paul B. Arnoldt, Director
AGENCY Division of Retirement & Benefits
PHONE 465-4460 *BSA*

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named) Rules Committee
Office of the Governor (Keith Specking)

ATTACHMENT 1
 HB 946

I. FY 80 (6 months) Breakout of Benefits:

1. Marine Transportation Employees	=	\$ 731,500
2. Police/Fire Employees	=	212,850
3. Other (PERS) Employees	=	<u>1,383,525</u>
Total	=	\$2,327,875

II. Funding:

1. The cost of this bill is determined as a percent of covered payroll. It is estimated that personal services will increase by 6% and benefits (salary and membership) will grow by 10% annually.

2.		<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>
General Fund	82.0 %	-0-	\$1,908.7	\$4,199.5	\$4,619.5	\$5,081.3
Federal Fund	4.5 %	-0-	104.8	230.5	253.5	278.9
Veteran's Fund	.2 %	-0-	4.7	10.2	11.3	12.4
Fish & Game Fund	.6 %	-0-	14.0	30.7	33.8	37.2
Highway Fund	1.3 %	-0-	30.3	66.6	73.2	80.6
Airport Fund	2.9 %	-0-	67.5	148.5	163.4	179.7
Capital Fund	8.5 %	-0-	197.9	435.3	478.8	526.7
PERS		<u>6.7</u>	<u>82.2</u>	<u>85.4</u>	<u>90.4</u>	<u>95.8</u>
Total		6.7	\$2,410.1	\$5,206.7	\$5,723.9	\$6,292.6

III. Administrative Costs:

1. Establish and administer new Deferred Compensation Program: One Retirement and Benefit Specialist (Range 16) and one Retirement and Benefit Technician (Range 12).
2. Administer new survivor benefits, disability benefits and basic benefits for employees not previously covered: One Retirement and Benefit Specialist (Range 16).
3. Equipment (\$1,500), travel (\$1,000), and commodities (\$600) for new employees.

IV. Special Election:

1. One-time Data Processing costs to generate employee lists and mailing addresses (\$5,000).
2. Postage (\$1,500) and printing of ballots (\$200).

V. Additional Information:

Two letters from Robert F. Richardson to Paul B. Arnoldt dated May 25, 1978. (See Attachment 2 and Attachment 3)

WILLIAM M.
MERCER
 INCORPORATED

ATTACHMENT 2

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director
 Division of Retirement & Benefits
 State of Alaska
 Department of Administration
 Pouch CR
 Juneau, Alaska 99811

Re: House Bill 946 Costs

Dear Paul:

We have calculated that passage of House Bill 946 will cost 1.36% of earnings for State employees covered under PERS. This cost can be broken down in the following manner:

(1) An extra 1% on the benefit formula	8.45%
(2) 25-and-out provision for present and new State employees	.30%
(3) 25-and-out provision for employees who transfer to State employment from other political subdivisions	.10%
(4) Improved disability benefits	<u>.10%</u>
(5) Total Cost	8.95%
(6) Less average contribution from special fund	<u>7.59%</u>
(7) Additional cost to the State	1.36%

As you can see, this cost is higher than the cost calculated by Milliman & Robertson, Inc. There are several explanations for these differences. Of prime importance is the fact that different actuarial assumptions have been used in the two calculations. M&R based its calculations on the former actuarial assumptions whereas our calculations have been based upon new assumptions adopted by the PERS Board this Spring. Perhaps of greatest significance, especially as relates to this bill, is the fact that the new actuarial assumptions assume that salaries will increase at 6% per year until age 39 while the former actuarial assumption assumes that salaries will increase at 5% per year. As you can imagine, a benefit based upon final average pay

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Mr. Paul Arnoldt

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will be more costly if salaries go up at a faster rate. The present cost to the State for PERS is 12.06% of earnings. Passage of House Bill 946 will add 8.95% to this cost, arriving at a total cost of 21.01%. Adding 7.7% to the present 12.06% would arrive at a total cost of 19.76%. Thus, our total cost calculation is about 6% higher than M&R's estimated cost. Such a 6% difference in cost is easily explainable by the differences in actuarial assumptions.

Other differences bear mentioning. The present actuarial assumptions are more "liberal" than the former assumptions when it comes to determining cost for the 25-and-out provision. This is because we presently do not assume all employees will retire as soon as they meet the minimum eligibility for full retirement benefits. As pointed out in the Experience Analysis report presented this Spring, a large number of employees who are presently working are also eligible for unreduced full retirement benefits. I believe it is reasonable to assume that this phenomenon will continue in the future. In other words, even though an employee may be eligible to receive unreduced benefits after 25 years of service, he may elect to continue employment until age 55 or until he attains 30 years of service before actually retiring. In that event, the employee would not benefit at all from the 25 year and out provision of House Bill 946.

Only a small percentage of employees will actually "benefit" from this provision. At present, only 11 employees, or less than .15% of State employees, are eligible to retire under the 25-year-and-out provision. However, it is reasonable to assume that a good percentage of those 11 employees will work until at least age 55 or until they have 30 years of service and, therefore, not ever utilize the 25-year-and-out provision. In fact, our records indicate that there are 22 employees who meet the present eligibility provisions for full retirement and yet who have not retired.

Finally, the advantage of the 25-year-and-out provision for those employees electing it is not as significant as you might expect. By retiring one year earlier, an employee would "pass up" an assumed 5% increase in salary and a 3% increase due to an extra year of credited service. Consequently, for each year earlier an employee retires, his benefit will be 8% less. Obviously, in highly inflationary times where salaries are going up faster than 5%, he will be reducing his total benefit by more than 8% per year. Almost exactly counterbalancing this "loss" in benefits is the value of receiving benefits for one more year.

The cost we have calculated for the 25-year-and-out provision is significantly less than the cost calculated by M&R. This difference can be attributed to the more "liberal" actuarial assumptions presently

William M. Mercer, Incorporated

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adopted by the Board. I have reviewed this with M&R and they have indicated that their costs are based upon the assumption that employees will retire as soon as possible.

As you can see, line 3 above indicates a cost of .10% associated with the cost of providing unreduced benefits for employees who transfer to State employment after having accumulated several years of employment with a political subdivision. As we discussed, our interpretation of House Bill 946 allows an employee to work 24 years with a political subdivision and one year with the State and thus receive all 25 years of his benefits unreduced. In this example, the employee would get 24 years at 2% and one year at 3%. My cost calculation is based upon the assumption that 50% of the employees in other political subdivisions who are so inclined to take advantage of the 25-year-and-out provision will find employment with the State and be able to utilize that provision. It is my understanding that M&R did not take into consideration the effect of transfers from other political subdivisions on retirement under the 25-year-and-out provision.

As line 4 above indicates, I have determined that there is a cost of .10% to provide disability benefits which are the greater of 40% of pay or the accrued benefit under the Plan. Based upon a 2% formula, it would take 20 years to arrive at 40%. Under such a 2% formula, there would be very little cost for providing this provision. However, under the 3% formula, it would take slightly more than 13 years to accumulate 40%. It is much more likely under a 3% formula for the employee to have an accrued benefit which is greater than 40%. Our calculations indicate that the cost will be .10% of PERS earnings for State employees. It is my understanding that the M&R calculation of no cost for this benefit is based upon the 2% formula.

In summary, we have calculated that passage of House Bill 946 will increase the State's cost to PERS to a total of 21.01% of earnings, or an increase of 8.95% over the present contribution rate. While this total cost is approximately 6% higher than the total cost for the System implied in the March 15, 1978 report by Milliman & Robertson, Inc., it is our opinion that these differences are explainable as outlined above.

House Bill 946 also calls for the inclusion of Marine Transportation Employees. I have calculated that the cost of their future service benefits under PERS will be 14.71% of their earnings. Please note that this cost calculation includes the cost of medical benefits under PERS. The cost calculations also assume that Marine Transportation Employees will be allowed to retire after 25 years of service although only service after 1-1-80 will be counted for benefit purposes. In other words, a Marine Transportation Employee with 20

William M. Mercer, Incorporated

Mr. Paul Arnoldt
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years of service on 1-1-80 will be allowed to retire on 1-1-85 with five years of credited service. If this is not the intent of HB946, then my costs will have been slightly overstated. It is my understanding that Milliman & Robertson, Inc. determined the cost for Marine Transportation Employees to be 13.4% of their earnings. This would indicate that my cost calculations are 1.31% higher than theirs. You will note that this is about the same as the 1.36% higher cost I have calculated for the present PERS employees. Please note that these cost calculations do not include any military service for Marine Transportation Employees prior to 1-1-80 although such military service is provided for under the bill.

The supplementary survivor benefits provided for under HB946 are anticipated to cost .86% of PERS earnings. We believe this .86% figure to be a very good estimate of the cost for these benefits. Of course, the exact cost would not be known until bids are received from interested insurance carriers.

Actual contributions required by Social Security will vary from year to year. However, an average annual contribution of 10.2% is a good estimate of average contributions. Based upon this average contribution, I believe that the attached table correctly summarizes the financial impact of House Bill 946.

I look forward to going over these cost calculations and other aspects of House Bill 946 when I am in Juneau on May 30.

Sincerely,



Robert F. Richardson, MAAA
Vice President

RFR:jn

cc: Mr. R. Winkenwerder

William M. Mercer, Incorporated

Financial Impact of HB946

	<u>Average*</u> <u>S.S.</u> <u>Contrib.</u>	<u>Transferred</u> <u>From</u> <u>Special</u> <u>Account</u>	<u>Survivor**</u> <u>Benefits</u>	<u>Deferred</u> <u>Comp.</u> <u>Contrib.</u>	<u>Additional</u> <u>Cost</u> <u>For</u> <u>PERS</u>	<u>Net</u> <u>Additional</u> <u>Cost to</u> <u>State</u>
Other Employees	10.2%	7.7%	.86%	1.64%	9.0%	1.3%
Police/Fire	10.2%	6.8%	.86%	2.54%	8.6%	1.8%
Marine Transportation	10.2%	7.7%	.86%	1.64%	14.7%	7.0%

* Will vary from year to year as S.S. rates and Wage Base change.

** Will vary from year to year based on experience.

WILLIAM M.
MERCER
INCORPORATED

ATTACHMENT 3

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director
Division of Retirement & Benefits
State of Alaska
Department of Administration
Pouch CR
Juneau, Alaska 99811

Re: Comments on House Bill 946

Dear Paul:

Passage of House Bill 946 and subsequent opting out from Social Security will have monumental impact on the retirement system for State of Alaska employees. There are several aspects of this bill which should be understood completely by all affected parties.

(1) Cost

As indicated in a prior letter, the benefits provided by House Bill 946 will increase the State contribution to PERS to 21.01%, an increase of 8.95% over the present contribution rate. Contributions transferred from the "special account" to the State (presumably to pay for these increased benefits) will amount to an average of 7.59%. This 7.59% figure takes into consideration the relative weighting between police and fire employees who would contribute 6.8% of their earnings and other employees who would contribute 7.7%. Consequently, the total additional cost to the State will amount to 1.36% of earnings for State employees covered under PERS. Marine Transportation employees will cost 14.71% to include in PERS, or 7.01% more than the amount transferred from the special account for those employees.

(2) Equity

Benefits and contributions presently paid in PERS are equitable. By that, I mean that an employee contributes a given percentage on all his earnings and his benefit is related to a percentage of all earnings. Passage of HB946 would significantly alter this relationship. Both employees and the State would be contributing only on earnings up to the Social Security Wage Base whereas benefits would be based upon all earnings. Consequently, higher-paid employees would be getting a larger benefit relative to their contributions than lower-paid

William M. Mercer, Incorporated

Mr. Paul Arnoldt
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employees. Such a change would be a significant departure from the present philosophy underlying PERS.

(3) Deferred Compensation Contributions

We assume that the amounts allocated to each employee's deferred compensation account will be based upon an average rate differing only by "Police/Fire" and "Other Employees". Although the actual Social Security contributions will vary from year to year, it is anticipated that Social Security contributions made by both the State and the employees will average 10.2%. If we assume that the additional survivor benefits will cost .86% as indicated in the bill, this implies that all Police and Fire Employees will have 2.54% of their total earnings contributed to their deferred compensation accounts while all Other Employees and Marine Transportation Employees will have 1.64% contributed to their deferred compensation accounts.

Employees who earn less than the Social Security Wage Base as well as employees who earn more than the Social Security Wage Base will have the same percentage of total earnings contributed to their deferred compensation accounts. However, Social Security contributions are only made on earnings up to the Wage Base. Consequently, all employees who are earning less than the Social Security Wage Base would be "subsidizing" employees who earn above the Wage Base. I believe that such a situation is not desirable for the State of Alaska. The regressive tax aspects of Social Security are tolerated only because benefits, as a percentage of earnings, are also heavily weighted to the lower incomes.

As we discussed, there is an alternative way to administer this bill whereby all employees earning under the Wage Base would have a fixed percentage contributed to their deferred compensation accounts while employees earning above the Wage Base would have a declining percentage contributed to their deferred compensation account. Ignoring the administrative problems associated with this approach, this method will ultimately break down for employees in the upper salary bracket. In other words, total Social Security contributions for people in the upper salary ranges will be less than 7.7% of all earnings. Although it would be possible to have no amounts contributed to the deferred compensation accounts for these employees, the State would still have to pay for the additional benefits granted under PERS. For example, total Social Security contributions for a higher-paid individual might amount to only 6% of his total salary. After subtracting the .86% for the survivor

William M. Merçer, Incorporated

Mr. Paul Arnoldt
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benefits, this would leave only 5.14% to be transferred to the State in order to pay for the additional PERS benefits under HB946. Obviously, the State would have to pick up the additional cost between the 7.7% and the 5.14% in this example. As you can see, this approach would increase administrative problems associated with the deferred compensation contributions as well as lead to increases in the cost of this bill.

(4) Comparisons Between Police/Fire and Other Employees

In recent years, changes to PERS have attempted to minimize the differences between Police/Fire and Other Employees. To simplify, Police and Fire Employees contribute an additional .75% but enjoy 20 and out normal retirement. HB946 will allow Police and Fire Employees to have an additional .9% of their earnings contributed to their deferred compensation accounts. If that is in fact what happens, Police and Firemen will not contribute .75% more toward their benefits but in fact will contribute .15% less for the benefits. I believe that having Police and Firemen contribute less for a better benefit (20 and out) will present problems.

(5) 25 and Out Provisions

Only a very small percentage of employees who ultimately retire under this System will be able to take advantage of the 25 years and out provision provided by HB946. Of those employees ultimately receiving retirement benefits from the System, we have estimated that approximately 3% will in fact be retiring under the 25 year and out provision as opposed to 97% who will be retiring based upon the provisions presently found in PERS. Taking into consideration those who terminate before they become vested, we would estimate that the 25-and-out provision would benefit only 1% of all employees. Although all employees will be "paying" for the 25-year-and-out provision, only a small percentage will actually enjoy this benefit. An additional problem arises when an employee transfers from a political subdivision to employment with the State. As we have interpreted the Bill an employee who has 25 or more years of credited service with a political subdivision need only work 1 day with the State in order to be entitled to retire under the 25-year-and-out provision. Although such a situation will not increase the State's cost significantly (only .10% of earnings), it will perhaps lead to an inequitable situation. Some employees from the political subdivisions will be able to find State employment and receive the benefit of 25-year-and-out whereas other employees of political subdivisions may not be able to find such employment and, therefore, not be entitled to the 25-year-and-out provision.

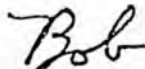
Mr. Paul Arnoldt
Page Four
May 25, 1978

(6) Credit For Past Service

It appears that an employee who has any years of credited service with the State prior to January 1, 1980, may receive the additional 1% credit for that service so long as he makes some contributions under AS39.30.170. This again leads to the situation where an employee from another political subdivision (who has prior State service) may achieve a "windfall" by working for the State one day after January 1, 1980. In addition, there is a large unknown liability for present retirees. It appears that any present retiree might be able to work one day for the State after January 1, 1980 and thereby pick up the additional 1% windfall for all prior service with the State. Our cost calculations on this bill contemplate credit for past service only to present State employees and not to retirees or employees of other political subdivisions who have worked for the State.

I am sure we will discuss these comments and other aspects of House Bill 946 when I am in Juneau on May 30.

Sincerely,



Robert F. Richardson, MAAA
Vice President

RFR:Jn

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS HB946
 Title Withdrawal From The Federal Social Security System
 Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Administration - Division of Retirement & Benefits
 Program Category Affected Retirement and Benefits (PERS)
 Budget Request Unit(s) Affected 02-96-8-01-01-01

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES			79.1	83.8	88.8	94.2
200 TRAVEL			1.0	1.0	1.0	1.0
300 CONTRACTUAL		6.7				
400 COMMODITIES			0.6	0.6	0.6	0.6
500 EQUIPMENT			1.5			
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
100 BENEFITS			(374.8)	(824.6)	(907.1)	(997.8)
TOTAL	-0-	6.7	(292.6)	(739.2)	(816.7)	(902.0)

FUNDING (Thousands of Dollars) See Attachment 1

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
FULL TIME			3	3	3	3
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

- A. See Attachment 1.
- B. Funding identified for FY 80 and future years would only be required if the State withdrew from Social Security. Note: The "Bracketed Numbers" represent savings to the State.

Paul B. Arnoldt

IV. DATE 6/07/78 PREPARED BY Paul B. Arnoldt - Director
 AGENCY Division of Retirement & Benefits
 PHONE 465-4460
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named) Finance Committee
 Office of the Governor (Keith Specking)
 33-001 (Rev. 12/77)

WILLIAM M.
MERCER
 INCORPORATED

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director
 Division of Retirement & Benefits
 State of Alaska
 Department of Administration
 Pouch CR
 Juneau, Alaska 99811

Re: House Bill 946 Costs

Dear Paul:

We have calculated that passage of House Bill 946 will cost 1.36% of earnings for State employees covered under PERS. This cost can be broken down in the following manner:

(1) An extra 1% on the benefit formula	8.45%
(2) 25-and-out provision for present and new State employees	.30%
(3) 25-and-out provision for employees who transfer to State employment from other political subdivisions	.10%
(4) Improved disability benefits	<u>.10%</u>
(5) Total Cost	8.95%
(6) Less average contribution from special fund	<u>7.59%</u>
(7) Additional cost to the State	1.36%

As you can see, this cost is higher than the cost calculated by Milliman & Robertson, Inc. There are several explanations for these differences. Of prime importance is the fact that different actuarial assumptions have been used in the two calculations. M&R based its calculations on the former actuarial assumptions whereas our calculations have been based upon new assumptions adopted by the PERS Board this Spring. Perhaps of greatest significance, especially as relates to this bill, is the fact that the new actuarial assumptions assume that salaries will increase at 6% per year until age 39 while the former actuarial assumption assumes that salaries will increase at 5% per year. As you can imagine, a benefit based upon final average pay

ATTACHMENT 1
CS HB946

I. FY 80 (6 months) Breakout of Benefits:

1. Marine Transportation Employees	=	\$ 512,050	Cost to State
2. Police/Fire Employees	=	(35,475)	Savings to State
3. Other (PERS) Employees	=	<u>(851,400)</u>	Savings to State
 Total	=	 \$(374,825)	

II. Funding:

1. The cost of this bill is determined as a percent of covered payroll. It is estimated that personal services will increase by 6% and benefits (salary and membership) will grow by 10% annually.

2.			<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>
	General Fund	82.0 %	-0-	\$(307.3)	\$(676.3)	\$(743.8)	\$(818.2)
	Federal Fund	4.5 %	-0-	(16.9)	(37.1)	(40.9)	(44.9)
	Veteran's Fund	.2 %	-0-	(0.7)	(1.6)	(1.8)	(2.0)
	Fish & Game Fund	.6 %	-0-	(2.2)	(4.9)	(5.4)	(6.0)
	Highway Fund	1.3 %	-0-	(4.9)	(10.7)	(11.8)	(13.0)
	Airport Fund	2.9 %	-0-	(10.9)	(23.9)	(26.3)	(28.9)
	Capital Fund	8.5 %	-0-	(31.9)	(70.1)	(77.1)	(84.8)
	PERS		6.7	82.2	85.4	90.4	95.8
	 Total		 \$6.7	 \$(292.6)	 \$(739.2)	 \$(816.7)	 \$(902.0)

III. Administrative Costs:

1. Establish and administer new Deferred Compensation Program: One Retirement and Benefit Specialist (Range 16) and one Retirement and Benefit Technician (Range 12).
2. Administer new survivor benefits, disability benefits and basic benefits for employees not previously covered: One Retirement and Benefit Specialist (Range 16).
3. Equipment (\$1,500), travel (\$1,000), and commodities (\$600) for new employees.

IV. Special Election:

1. One-time Data Processing costs to generate employee lists and mailing addresses (\$5,000).
2. Postage (\$1,500) and printing of ballots (\$200).

V. Additional Information:

Two letters from Robert F. Richardson to Paul B. Arnoldt dated May 25, 1978. (See Attachment 2 and Attachment 3)

Benefit Services / Consulting Actuaries

May 25, 1978

Mr. Paul Arnoldt, Director
Division of Retirement & Benefits
State of Alaska
Department of Administration
Pouch CR
Juneau, Alaska 99811

Re: Comments on House Bill 946

Dear Paul:

Passage of House Bill 946 and subsequent opting out from Social Security will have monumental impact on the retirement system for State of Alaska employees. There are several aspects of this bill which should be understood completely by all affected parties.

(1) Cost

As indicated in a prior letter, the benefits provided by House Bill 946 will increase the State contribution to PERS to 21.01%, an increase of 8.95% over the present contribution rate. Contributions transferred from the "special account" to the State (presumably to pay for these increased benefits) will amount to an average of 7.59%. This 7.59% figure takes into consideration the relative weighting between police and fire employees who would contribute 6.8% of their earnings and other employees who would contribute 7.7%. Consequently, the total additional cost to the State will amount to 1.36% of earnings for State employees covered under PERS. Marine Transportation employees will cost 14.71% to include in PERS, or 7.01% more than the amount transferred from the special account for those employees.

(2) Equity

Benefits and contributions presently paid in PERS are equitable. By that, I mean that an employee contributes a given percentage on all his earnings and his benefit is related to a percentage of all earnings. Passage of HB946 would significantly alter this relationship. Both employees and the State would be contributing only on earnings up to the Social Security Wage Base whereas benefits would be based upon all earnings. Consequently, higher-paid employees would be getting a larger benefit relative to their contributions than lower-paid

William M. Mercer, Incorporated

Mr. Paul Arnoldt
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employees. Such a change would be a significant departure from the present philosophy underlying PERS.

(3) Deferred Compensation Contributions

We assume that the amounts allocated to each employee's deferred compensation account will be based upon an average rate differing only by "Police/Fire" and "Other Employees". Although the actual Social Security contributions will vary from year to year, it is anticipated that Social Security contributions made by both the State and the employees will average 10.2%. If we assume that the additional survivor benefits will cost .86% as indicated in the bill, this implies that all Police and Fire Employees will have 2.54% of their total earnings contributed to their deferred compensation accounts while all Other Employees and Marine Transportation Employees will have 1.64% contributed to their deferred compensation accounts.

Employees who earn less than the Social Security Wage Base as well as employees who earn more than the Social Security Wage Base will have the same percentage of total earnings contributed to their deferred compensation accounts. However, Social Security contributions are only made on earnings up to the Wage Base. Consequently, all employees who are earning less than the Social Security Wage Base would be "subsidizing" employees who earn above the Wage Base. I believe that such a situation is not desirable for the State of Alaska. The regressive tax aspects of Social Security are tolerated only because benefits, as a percentage of earnings, are also heavily weighted to the lower incomes.

As we discussed, there is an alternative way to administer this bill whereby all employees earning under the Wage Base would have a fixed percentage contributed to their deferred compensation accounts while employees earning above the Wage Base would have a declining percentage contributed to their deferred compensation account. Ignoring the administrative problems associated with this approach, this method will ultimately break down for employees in the upper salary bracket. In other words, total Social Security contributions for people in the upper salary ranges will be less than 7.7% of all earnings. Although it would be possible to have no amounts contributed to the deferred compensation accounts for these employees, the State would still have to pay for the additional benefits granted under PERS. For example, total Social Security contributions for a higher-paid individual might amount to only 6% of his total salary. After subtracting the .86% for the survivor

William M. Mercer, Incorporated

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benefits, this would leave only 5.14% to be transferred to the State in order to pay for the additional PERS benefits under HB946. Obviously, the State would have to pick up the additional cost between the 7.7% and the 5.14% in this example. As you can see, this approach would increase administrative problems associated with the deferred compensation contributions as well as lead to increases in the cost of this bill.

(4) Comparisons Between Police/Fire and Other Employees

In recent years, changes to PERS have attempted to minimize the differences between Police/Fire and Other Employees. To simplify, Police and Fire Employees contribute an additional .75% but enjoy 20 and out normal retirement. HB946 will allow Police and Fire Employees to have an additional .9% of their earnings contributed to their deferred compensation accounts. If that is in fact what happens, Police and Firemen will not contribute .75% more toward their benefits but in fact will contribute .15% less for the benefits. I believe that having Police and Firemen contribute less for a better benefit (20 and out) will present problems.

(5) 25 and Out Provisions

Only a very small percentage of employees who ultimately retire under this System will be able to take advantage of the 25 years and out provision provided by HB946. Of those employees ultimately receiving retirement benefits from the System, we have estimated that approximately 3% will in fact be retiring under the 25 year and out provision as opposed to 97% who will be retiring based upon the provisions presently found in PERS. Taking into consideration those who terminate before they become vested, we would estimate that the 25-and-out provision would benefit only 1% of all employees. Although all employees will be "paying" for the 25-year-and-out provision, only a small percentage will actually enjoy this benefit. An additional problem arises when an employee transfers from a political subdivision to employment with the State. As we have interpreted the Bill an employee who has 25 or more years of credited service with a political subdivision need only work 1 day with the State in order to be entitled to retire under the 25-year-and-out provision. Although such a situation will not increase the State's cost significantly (only .10% of earnings), it will perhaps lead to an inequitable situation. Some employees from the political subdivisions will be able to find State employment and receive the benefit of 25-year-and-out whereas other employees of political subdivisions may not be able to find such employment and, therefore, not be entitled to the 25-year-and-out provision.

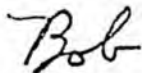
Mr. Paul Arnoldt
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(6) Credit For Past Service

It appears that an employee who has any years of credited service with the State prior to January 1, 1980, may receive the additional 1% credit for that service so long as he makes some contributions under AS39.30.170. This again leads to the situation where an employee from another political subdivision (who has prior State service) may achieve a "windfall" by working for the State one day after January 1, 1980. In addition, there is a large unknown liability for present retirees. It appears that any present retiree might be able to work one day for the State after January 1, 1980 and thereby pick up the additional 1% windfall for all prior service with the State. Our cost calculations on this bill contemplate credit for past service only to present State employees and not to retirees or employees of other political subdivisions who have worked for the State.

I am sure we will discuss these comments and other aspects of House Bill 946 when I am in Juneau on May 30.

Sincerely,



Robert F. Richardson, MAAA
Vice President

RFR:Jn

William M. Mercer, Incorporated

Mr. Paul Arnoldt

Page Two

May 25, 1978

will be more costly if salaries go up at a faster rate. The present cost to the State for PERS is 12.06% of earnings. Passage of House Bill 946 will add 8.95% to this cost, arriving at a total cost of 21.01%. Adding 7.7% to the present 12.06% would arrive at a total cost of 19.76%. Thus, our total cost calculation is about 6% higher than M&R's estimated cost. Such a 6% difference in cost is easily explainable by the differences in actuarial assumptions.

Other differences bear mentioning. The present actuarial assumptions are more "liberal" than the former assumptions when it comes to determining cost for the 25-and-out provision. This is because we presently do not assume all employees will retire as soon as they meet the minimum eligibility for full retirement benefits. As pointed out in the Experience Analysis report presented this Spring, a large number of employees who are presently working are also eligible for unreduced full retirement benefits. I believe it is reasonable to assume that this phenomenon will continue in the future. In other words, even though an employee may be eligible to receive unreduced benefits after 25 years of service, he may elect to continue employment until age 55 or until he attains 30 years of service before actually retiring. In that event, the employee would not benefit at all from the 25 year and out provision of House Bill 946.

Only a small percentage of employees will actually "benefit" from this provision. At present, only 11 employees, or less than .15% of State employees, are eligible to retire under the 25-year-and-out provision. However, it is reasonable to assume that a good percentage of those 11 employees will work until at least age 55 or until they have 30 years of service and, therefore, not ever utilize the 25-year-and-out provision. In fact, our records indicate that there are 22 employees who meet the present eligibility provisions for full retirement and yet who have not retired.

Finally, the advantage of the 25-year-and-out provision for those employees electing it is not as significant as you might expect. By retiring one year earlier, an employee would "pass up" an assumed 5% increase in salary and a 3% increase due to an extra year of credited service. Consequently, for each year earlier an employee retires, his benefit will be 8% less. Obviously, in highly inflationary times where salaries are going up faster than 5%, he will be reducing his total benefit by more than 8% per year. Almost exactly counterbalancing this "loss" in benefits is the value of receiving benefits for one more year.

The cost we have calculated for the 25-year-and-out provision is significantly less than the cost calculated by M&R. This difference can be attributed to the more "liberal" actuarial assumptions presently

William M. Mercer, Incorporated

Mr. Paul Arnoldt
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adopted by the Board. I have reviewed this with M&R and they have indicated that their costs are based upon the assumption that employees will retire as soon as possible.

As you can see, line 3 above indicates a cost of .10% associated with the cost of providing unreduced benefits for employees who transfer to State employment after having accumulated several years of employment with a political subdivision. As we discussed, our interpretation of House Bill 946 allows an employee to work 24 years with a political subdivision and one year with the State and thus receive all 25 years of his benefits unreduced. In this example, the employee would get 24 years at 2% and one year at 3%. My cost calculation is based upon the assumption that 50% of the employees in other political subdivisions who are so inclined to take advantage of the 25-year-and-out provision will find employment with the State and be able to utilize that provision. It is my understanding that M&R did not take into consideration the effect of transfers from other political subdivisions on retirement under the 25-year-and-out provision.

As line 4 above indicates, I have determined that there is a cost of .10% to provide disability benefits which are the greater of 40% of pay or the accrued benefit under the Plan. Based upon a 2% formula, it would take 20 years to arrive at 40%. Under such a 2% formula, there would be very little cost for providing this provision. However, under the 3% formula, it would take slightly more than 13 years to accumulate 40%. It is much more likely under a 3% formula for the employee to have an accrued benefit which is greater than 40%. Our calculations indicate that the cost will be .10% of PERS earnings for State employees. It is my understanding that the M&R calculation of no cost for this benefit is based upon the 2% formula.

In summary, we have calculated that passage of House Bill 946 will increase the State's cost to PERS to a total of 21.01% of earnings, or an increase of 8.95% over the present contribution rate. While this total cost is approximately 6% higher than the total cost for the System implied in the March 15, 1978 report by Milliman & Robertson, Inc., it is our opinion that these differences are explainable as outlined above.

House Bill 946 also calls for the inclusion of Marine Transportation Employees. I have calculated that the cost of their future service benefits under PERS will be 14.71% of their earnings. Please note that this cost calculation includes the cost of medical benefits under PERS. The cost calculations also assume that Marine Transportation Employees will be allowed to retire after 25 years of service although only service after 1-1-80 will be counted for benefit purposes. In other words, a Marine Transportation Employee with 20

William M. Mercer, Incorporated

Mr. Paul Arnoldt
Page Four
May 25, 1978

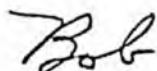
years of service on 1-1-80 will be allowed to retire on 1-1-85 with five years of credited service. If this is not the intent of HB946, then my costs will have been slightly overstated. It is my understanding that Milliman & Robertson, Inc. determined the cost for Marine Transportation Employees to be 13.4% of their earnings. This would indicate that my cost calculations are 1.31% higher than theirs. You will note that this is about the same as the 1.36% higher cost I have calculated for the present PERS employees. Please note that these cost calculations do not include any military service for Marine Transportation Employees prior to 1-1-80 although such military service is provided for under the bill.

The supplementary survivor benefits provided for under HB946 are anticipated to cost .86% of PERS earnings. We believe this .86% figure to be a very good estimate of the cost for these benefits. Of course, the exact cost would not be known until bids are received from interested insurance carriers.

Actual contributions required by Social Security will vary from year to year. However, an average annual contribution of 10.2% is a good estimate of average contributions. Based upon this average contribution, I believe that the attached table correctly summarizes the financial impact of House Bill 946.

I look forward to going over these cost calculations and other aspects of House Bill 946 when I am in Juneau on May 30.

Sincerely,



Robert F. Richardson, MAAA
Vice President

RFR:jn

cc: Mr. R. Winkenwerder

Financial Impact of HB946

	<u>Average*</u> <u>S.S.</u> <u>Contrib.</u>	<u>Transferred</u> <u>From</u> <u>Special</u> <u>Account</u>	<u>Survivor**</u> <u>Benefits</u>	<u>Deferred</u> <u>Comp.</u> <u>Contrib.</u>	<u>Additional</u> <u>Cost</u> <u>For</u> <u>PERS</u>	<u>Net</u> <u>Additional</u> <u>Cost to</u> <u>State</u>
Other Employees	10.2%	7.7%	.86%	1.64%	9.0%	1.3%
Police/Fire	10.2%	6.8%	.86%	2.54%	8.6%	1.8%
Marine Transportation	10.2%	7.7%	.86%	1.64%	14.7%	7.0%

* Will vary from year to year as S.S. rates and Wage Base change.

** Will vary from year to year based on experience.

COMMITTEE REPORT
HOUSE

8/24/78

FURTHER: _____

Date: _____

Mr. Speaker:

The Committee on FINANCE has had HE 946

"An Act relating to withdrawal from the federal Social Security System; eff. date."

under consideration and (a majority of the committee) (the committee reports it back as follows

() recommends it do pass () recommends it do not pass

() recommends it do pass . attached amendment(s)

() recommends it be replaced with CS for 446

and _____ () new title () same title

() AND attaches a Letter of Intent () New Fiscal Note

() reports it back without recommendation

() and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

Martin

Williams

Duncan

OTHER RECOMMENDATIONS:

Ferguson No Rec

Rhode No Rec

Thompson " "

J " "

J " "

Thompson " "

Ferguson
Chairman
Vice

News Release

News Release

THURSDAY, May 11, 1978.

Local 71 had its regular membership meeting, and there adopted a position regarding the question of Social Security. It was unanimously agreed that Local 71 would continue to support the intent, purpose, and basic concept of the Social Security system and the way it is applied to all public employees; State, Municipality, or Borough; and any other employees in the United States, whether self-employed or otherwise.

At that meeting a great deal of discussion took place. It was pointed out that the Social Security Act of 1935 was one of the most important pieces of social legislation ever enacted in this country, and what the Act needs is to broaden its basis and to put barriers before certain groups to prevent them from opting out of the Social Security system; particularly those who only wish to do so for their own personal interests.

Social Security, by inference and practice, must be thought of on a collective basis -- for an entire society. It was agreed at the meeting that the young should support the old; because the citizens of our country today who are at an advanced age at one time were the younger people who are greatly responsible for the high standard of living which we currently enjoy. Today, anything except support of the Social Security system would be devastating to those who have made it possible for the youth of today (and others) to get a better education, to have a better place to live, and to have a decent income as a result of their efforts and employment.

It is only fair and proper that today the younger people in turn support the Social Security system so that our older citizens can live in dignity for the remainder of their lives.

Al J. Baffone, Sr.

AL J. BAFFONE, SR.
Business Manager
Secretary/Treasurer

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Al J. Buffone, Sr.

AL J. BAFFONE, SR.
Business Manager
Secretary/Treasurer

SUMMARY OF HOUSE BILL NO. 946

Retirement system affected: PERS

Provides for an election in which the state employees who are currently covered by federal social security may choose whether to continue that coverage or to continue the same contributions required by social security, opt out and receive an alternative package of benefits provided by the state.

Provides that an occupational disability pension be the greater of 40 percent of the disabled employee's compensation or the accrued retirement benefit.

The alternate package of benefits for affected state employees includes:

- (1) membership in the PERS for employees of the division of marine transportation engaged in operating the state ferry system who are covered by a union or group retirement system to which the state makes contributions;
- (2) a 25-and-out provision for PERS employees;
- (3) an additional one percent on the PERS benefit crediting factor for each year of service;
- (4) survivor's and disability insurance; and
- (5) a mandatory deferred compensation program for contributions in excess of deductions.

May 19, 1978

Legislative Board of Retirement Benefits analysis and recommendations on:

House Bill No. 946

No detailed fiscal analysis of HB 946 is possible at this time; however, with the exception of including maritime employees in the PERS, most costs should be covered by funds that would otherwise go to the social security system.

Five members of the board recommend that HB 946 do pass; one member has no recommendation; and one member was absent.

The board feels that, if HB 946 passes, the state should support a program to provide affected employees with adequate information on which to base their decision prior to the election. Providing a voter information pamphlet containing pro and con arguments would constitute a minimal program.

The board feels that the ballot should not contain a description of any benefits but simply reference the benefits to be provided in lieu of social security.

SUMMARY OF HOUSE BILL NO. 946

Retirement system affected: PERS

Provides for an election in which the state employees who are currently covered by federal social security may choose whether to continue that coverage or to continue the same contributions required by social security, opt out and receive an alternative package of benefits provided by the state.

Provides that an occupational disability pension be the greater of 40 percent of the disabled employee's compensation or the accrued retirement benefit.

The alternate package of benefits for affected state employees includes:

- (1) membership in the PERS for employees of the division of marine transportation engaged in operating the state ferry system who are covered by a union or group retirement system to which the state makes contributions;
- (2) a 25-and-out provision for PERS employees;
- (3) an additional one percent on the PERS benefit crediting factor for each year of service;
- (4) survivor's and disability insurance; and
- (5) a mandatory deferred compensation program for contributions in excess of deductions.

May 19, 1978

Legislative Board of Retirement Benefits analysis and recommendations on:

House Bill No. 946

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The board feels that the ballot should not contain a description of any benefits but simply reference the benefits to be provided in lieu of social security.

1 secret ballot between February 1 and April 1, 1979. The department shall, at
2 least 90 days before the election, prepare a list of all affected state
3 employees, including permanent, seasonal and temporary employees, who shall
4 be eligible to vote, along with mailing addresses, and make the list avail-
5 able to interested persons or employee representative organizations. The
6 question on the ballot shall read: "Do you favor withdrawal from the Social
7 Security System?" The ballot shall contain a description of the benefits
8 provided for in this Act which would be provided in lieu of further benefits
9 under the Social Security System. No other information concerning the elec-
10 tion issue may be distributed with or attached to the ballot. A simple
11 majority of those employees voting shall determine the outcome of this issue.

12 * Sec. 9. Sections 1 - 7 of this Act take effect on January 1, 1980 if
13 approved by a majority of the votes cast by affected state employees under
14 sec. 8 of this Act. Section 8 of this Act takes effect immediately in accor-
15 dance with AS 01.10.070(c).

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1 (3) emergency temporary or casual workers not covered under
2 AS 39.35 (PERS) or AS 14.25 (TRS).

3 (c) From the amount contributed by an employee and on behalf of
4 that employee by the State of Alaska under this section, the Department
5 of Administration shall deduct:

6 (1) for each employee, the amount determined under (b) of
7 this section to pay the cost of providing benefits under secs. 150 and
8 160 of this chapter;

9 (2) for those employees covered under the Alaska Public
10 Employees' Retirement System (AS 39.35) except peace officers and fire-
11 men (as defined in AS 39.35.680(27)), an additional 7.7 per cent of
12 gross monthly compensation;

13 (3) for peace officers or firemen covered under AS 39.35
14 (PERS), an additional 6.8 per cent of gross monthly compensation.

15 (d) The balance of the contributions made by an employee and by
16 the state on behalf of that employee into the special employee benefit
17 account shall, after deduction of the amounts specified in (b) of this
18 section, be deposited in a deferred compensation account in the name of
19 that employee. The director of the division of retirement and benefits
20 shall administer the deferred compensation program and shall, by regula-
21 tion, establish operating procedures for the program which allow for
22 deferment of the state and federal income tax until benefits are receiv-
23 able in accordance with federal requirements under the Internal Revenue
24 Code.

25 * Sec. 7. If approved by employees of the State of Alaska as set out in
26 sec. 8 of this Act, the state's notice of intention to withdraw from the
27 federal Social Security System shall be allowed to become effective January 1,
28 1980.

29 * Sec. 8. The Department of Administration shall conduct an election by
CSHB 946

1 month the disabled employee reaches normal retirement age, or (3) the
2 month the disabled employee reaches the age of 65, whichever comes
3 first.

4 (e) An employee receiving a disability benefit under this section
5 shall provide the director of the division of retirement and benefits,
6 one year after appointment to disability benefits and once each year
7 thereafter until disability benefits cease, satisfactory proof of con-
8 tinuing disability. If the employee provides satisfactory proof that
9 the disability is permanent, the requirement of submitting further proof
10 of continuing disability may be waived by the director.

11 Sec. 39.30.165. BASIC MONTHLY COMPENSATION. In secs. 150 - 160 of
12 this chapter, "basic monthly compensation" means the amount earned by
13 the employee during the month, including normal overtime; however,
14 unusual or seasonal overtime or work of a seasonal nature may be ad-
15 justed to reflect a 12-month average.

16 Sec. 39.30.170. CONTRIBUTIONS. (a) The amounts which both the
17 state and the employee of the state would have otherwise paid into the
18 federal Social Security System at the rate then in effect had the state
19 continued in the federal Social Security System shall be paid into a
20 special employee benefit account in the Department of Administration to
21 be used to provide employee retirement and death and disability bene-
22 fits.

23 (b) There shall be determined the cost of providing the survivor
24 and disability benefits provided under secs. 150 and 160 of this chapter
25 expressed as a percentage of payroll for each of the following groups:

26 (1) employees covered under the Alaska Public Employees
27 Retirement System (AS 39.35);

28 (2) employees covered under the Judicial Retirement System
29 (AS 22.25);

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

Original sponsor: Rules Committee
by request of the Legislative Council
(for the Study Group on Withdrawal
from Social Security)

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 946

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL.

6 For an Act entitled: "An Act relating to withdrawal from the federal Social
7 Security System; and providing for an effective date."

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

9 * Section 1. AS 39.35.160(b) is amended to read:

10 (b) In addition each employee shall pay the appropriate social
11 security contribution or the contribution required under AS 39.30.170 in
12 lieu of a social security contribution.

13 Sec. 2. AS 39.35.680(21) is amended to read:

14 (21) "member" or "employee"

15 (A) means a person eligible to participate in the system
16 and who is covered by the system;

17 (B) includes

18 (i) active member;

19 (ii) inactive member;

20 (iii) vested member;

21 (iv) deferred vested member;

22 (v) non-vested member;

23 (vi) disabled member;

24 (vii) retired member;

25 (viii) employees of the division of marine transpor-
26 tation engaged in operating the state ferry system who are
27 covered by a maritime union contract; however, other than
28 military service credit, only service after January 1, 1980
29 may be credited under this chapter;

1 (C) does not include

2 (i) former members;

3 (ii) persons compensated on a contractual or fee
4 basis;

5 (iii) casual, emergency or temporary workers;

6 (iv) persons covered by the Alaska Teachers' Retirement System; and

7
8 [(v) EMPLOYEES OF THE DIVISION OF MARINE TRANSPORTATION ENGAGED IN OPERATING THE STATE FERRY SYSTEM WHO ARE COVERED BY A UNION OR GROUP RETIREMENT SYSTEM TO WHICH THE STATE MAKES CONTRIBUTIONS; AND]

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11
12 (vi) justices of the supreme court or judges of the superior or district courts of Alaska;

13
14 * Sec. 3. AS 39.35.680(25) is amended to read:

15 (25) "normal retirement" means retirement for a member who is
16 at least 55 years old and has a minimum of five years credited service,
17 or who is any age and has 30 years or more of credited service, or who
18 is making contributions under AS 39.30.170, is any age and has 25 years
19 or more of credited service, or a peace officer or fireman who is any
20 age and has 20 years or more of credited service;

21 * Sec. 4. AS 39.35.370(c) is amended to read:

22 (c) The monthly amount of a retirement benefit for a peace officer
23 or fireman is two percent of the average monthly compensation times the
24 years of credited service up through 10 years, plus two and one-half
25 percent of the average monthly compensation times the years of service
26 over 10 years. For all other employees it is two per cent of the average
27 monthly compensation times the years of service. The monthly amount
28 of a retirement benefit for an employee covered by this chapter who is
29 making contributions under AS 39.30.170 shall be increased by three-

1 quarters of one per cent of the average monthly compensation times the
2 years of credited service with the state. An actuarial adjustment must
3 be made for an early retirement benefit.

4 * Sec. 5. AS 39.35.410(d) is amended to read:

5 (d) The monthly amount of an occupational disability pension is
6 the greater of 40 per cent of the disabled employee's gross monthly com-
7 penetration at the time of termination due to disability or the amount
8 determined in accordance with sec. 370(c) of this chapter, considering
9 the employee's credited service and compensation before termination of
10 employment.

11 * Sec. 6. AS 39.30 is amended by adding new sections to read:

12 ARTICLE 4. SUPPLEMENTARY EMPLOYEE BENEFITS ON WITHDRAWAL
13 FROM FEDERAL SOCIAL SECURITY.

14 Sec. 39.30.150. SURVIVOR'S BENEFITS. (a) The State of Alaska
15 shall provide for survivor's benefits for occupational and non-occupa-
16 tional death effective as of an employee's first day of employment, or
17 January 1, 1980, whichever is later, to employees of the state who are
18 making contributions under AS 39.30.170 as follows:

19 (1) for employees covered under the Judicial Retirement
20 System (AS 22.25) or the Alaska Public Employees' Retirement System (AS
21 39.35), the benefit payable to the beneficiary shall be a lump sum equal
22 to 12 times the employee's basic monthly compensation at the time of
23 death;

24 (2) for all casual, emergency or temporary employees not
25 covered by the Alaska Public Employees' Retirement System (AS 39.35) or
26 the Alaska Teachers' Retirement System (AS 14.25) the benefit payable to
27 the beneficiary shall be a lump sum of \$15,000.

28 (b) For purposes of this section, "basic monthly compensation at
29 the time of death" means the employee's basic monthly compensation for

1 the last full month of employment immediately preceding his death or
2 disability leading to his death.

3 Sec. 39.30.160. DISABILITY BENEFIT. (a) The state shall provide
4 an occupational and non-occupational disability benefit program covering
5 each employee of the state making contributions under AS 39.30.170.
6 Coverage shall begin on the first day of employment or January 1, 1980,
7 whichever is later. Disability payments are not payable during the
8 first six months of disability.

9 (b) In this section, "disability" means the complete inability of
10 the employee to engage in his regular occupation during the first 12
11 months of disability, and thereafter the complete inability to engage in
12 any employment or occupation for which he is reasonably fitted by reason
13 of education, training or experience.

14 (c) For a casual, emergency or temporary employee not covered by
15 the Alaska Public Employees' Retirement System (AS 39.35) or the Alaska
16 Teachers' Retirement System (AS 14.25), the disability benefit is \$100
17 per week and shall be payable only if the disabled employee fulfills the
18 requirements set out in (e) of this section. The last payment shall be
19 for the week in which (1) the death of the disabled employee occurs, or
20 (2) the disabled employee reaches the age of 65, whichever occurs first.

21 (d) For all employees other than those covered in (c) of this
22 section, the monthly disability benefit shall be 60 per cent of the
23 first \$5,000 of the employee's basic monthly earnings at the date of
24 disability less any disability benefits the employee is entitled to
25 under Social Security or any other disability plan to which the state
26 makes contributions on behalf of that employee. The disability benefit
27 shall be payable only if the disabled employee fulfills the requirements
28 set out in (e) of this section. The last payment shall be for (1) the
29 month in which the death of the disabled employee occurs, or (2) the

1 month the disabled employee reaches normal retirement age, or (3) the
2 month the disabled employee reaches the age of 65, whichever comes
3 first.

4 (e) An employee receiving a disability benefit under this section
5 shall provide the director of the division of retirement and benefits,
6 one year after appointment to disability benefits and once each year
7 thereafter until disability benefits cease, satisfactory proof of con-
8 tinuing disability. If the employee provides satisfactory proof that
9 the disability is permanent, the requirement of submitting further proof
10 of continuing disability may be waived by the director.

11 Sec. 39.30.165. BASIC MONTHLY COMPENSATION. In secs. 150 - 160 of
12 this chapter, "basic monthly compensation" means the amount earned by
13 the employee during the month, including normal overtime; however,
14 unusual or seasonal overtime or work of a seasonal nature may be ad-
15 justed to reflect a 12-month average.

16 Sec. 39.30.170. CONTRIBUTIONS. (a) The amounts which both the
17 state and the employee of the state would have otherwise paid into the
18 federal Social Security System at the rate then in effect had the state
19 continued in the federal Social Security System shall be paid into a
20 special employee benefit account in the Department of Administration to
21 be used to provide employee retirement and death and disability bene-
22 fits.

23 (b) There shall be determined the cost of providing the survivor
24 and disability benefits provided under secs. 150 and 160 of this chapter
25 expressed as a percentage of payroll for each of the following groups:

26 (1) employees covered under the Alaska Public Employees
27 Retirement System (AS 39.35);

28 (2) employees covered under the Judicial Retirement System
29 (AS 22.25);

1 (3) emergency temporary or casual workers not covered under
2 AS 39.35 (PERS) or AS 14.25 (TRS).

3 (c) From the amount contributed by an employee and on behalf of
4 that employee by the State of Alaska under this section, the Department
5 of Administration shall deduct:

6 (1) for each employee, the amount determined under (b) of
7 this section to pay the cost of providing benefits under secs. 150 and
8 160 of this chapter;

9 (2) for those employees covered under the Alaska Public
10 Employees' Retirement System (AS 39.35) except peace officers and fire-
11 men (as defined in AS 39.35.680(27)), an additional 7.7 per cent of
12 gross monthly compensation;

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15 (d) The balance of the contributions made by an employee and by
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18 section, be deposited in a deferred compensation account in the name of
19 that employee. The director of the division of retirement and benefits
20 shall administer the deferred compensation program and shall, by regula-
21 tion, establish operating procedures for the program which allow for
22 deferment of the state and federal income tax until benefits are receiv-
23 able in accordance with federal requirements under the Internal Revenue
24 Code.

25 * Sec. 7. If approved by employees of the State of Alaska as set out in
26 sec. 8 of this Act, the state's notice of intention to withdraw from the
27 federal Social Security System shall be allowed to become effective January 1,
28 1980.

29 * Sec. 8. The Department of Administration shall conduct an election by

1 secret ballot between February 1 and April 1, 1979. The department shall, at
2 least 90 days before the election, prepare a list of all affected state
3 employees, including permanent, seasonal and temporary employees, who shall
4 be eligible to vote, along with mailing addresses, and make the list avail-
5 able to interested persons or employee representative organizations. The
6 question on the ballot shall read: "Do you favor withdrawal from the Social
7 Security System?" The ballot shall contain a description of the benefits
8 provided for in this Act which would be provided in lieu of further benefits
9 under the Social Security System. No other information concerning the elec-
10 tion issue may be distributed with or attached to the ballot. A simple
11 majority of those employees voting shall determine the outcome of this issue.

12 * Sec. 9. Sections 1 - 7 of this Act take effect on January 1, 1980 if
13 approved by a majority of the votes cast by affected state employees under
14 sec. 8 of this Act. Section 8 of this Act takes effect immediately in accor-
15 dance with AS 01.10.070(c).

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THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. CSHB 946
 Title Withdrawal from federal social security system
 Requested by House Finance Committee Date 6/2/78

II. FISCAL DETAIL
 Agency Affected Administration
 Program Category Affected _____
 Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL			6.7			
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL			6.7			

FUNDING (Thousands of Dollars)

GENERAL FUND			6.7			
FEDERAL FUNDS						
OTHER (Specify)						


POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Costs for special election:

One-time Data Processing costs to generate employee lists and mailing addresses	\$5.0
Postage	1.5
Printing of Ballots	.2
	\$6.7


 Steve Cowper, Chairman, House Finance

IV. DATE _____ PREPARED BY A. Farnan, Fiscal Analyst
 AGENCY Legislative Finance
 PHONE 465-3795
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named) _____
 FOR HOUSE FINANCE COMMITTEE

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

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IV. DATE 6/1/78 PREPARED BY *A. Farnan* Alison E. Farnan, Fiscal Analyst
 AGENCY Legislative Finance Division
 PHONE 465-3795
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

KATHY - JOY

WHEN YOU GET HB 946 (Social Security)
in your committee, I have a stack of
fiscal notes already xeroxed -- I've
put them in the pending fiscal note file.

Pat

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. CSHB 946
 Title Withdrawal from federal social security system
 Requested by House Finance Committee Date 6/2/78

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TOTAL			6.7			

FUNDING (Thousands of Dollars)

GENERAL FUND			6.7			
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Steve Cowper, Chairman, House Finance

IV. DATE _____ PREPARED BY A. Farnan, Fiscal Analyst
 AGENCY Legislative Finance
 Original: Legislative Finance PHONE 465-3795
 cc: Budget and Management FOR HOUSE FINANCE COMMITTEE
 Prime Sponsor (First Legislator Named)

w la e reru FN

Introduced: 4/24/78
Referred: Finance

BY THE RULES COMMITTEE BY REQUEST
OF THE LEGISLATIVE COUNCIL (for the
Study Group on Withdrawal from
Social Security)

1 IN THE HOUSE

2 HOUSE BILL NO. 946

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to withdrawal from the federal Social
7 Security System; and providing for an effective date."

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

9 * Section 1. AS 39.35.160(b) is amended to read:

10 (b) In addition each employee shall pay the appropriate social
11 security contribution or the contribution required under AS 39.30.170 in
12 lieu of a social security contribution.

13 Sec. 2. AS 39.35.680(21) is amended to read:

14 (21) "member" or "employee"

15 (A) means a person eligible to participate in the system
16 and who is covered by the system;

17 (B) includes

18 (i) active member;

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23 (vi) disabled member;

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25 (viii) employees of the division of marine transpor-
26 tation engaged in operating the state ferry system who are
27 covered by a maritime union contract; however, other than
28 military service credit, only service after January 1, 1980
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22 to 12 times the employee's basic monthly compensation at the time of
23 death;

24 (2) for all casual, emergency or temporary employees not
25 covered by the Alaska Public Employees' Retirement System (AS 39.35) or
26 the Alaska Teachers' Retirement System (AS 14.25) the benefit payable to
27 the beneficiary shall be a lump sum of \$15,000.

28 (b) For purposes of this section, "basic monthly compensation at
29 the time of death" means the employee's basic monthly compensation for

CORRECTION

**THIS DOCUMENT
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TO ASSURE LEGIBILITY**

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Introduced: 4/24/78
Referred: Finance

BY THE RULES COMMITTEE BY REQUEST
OF THE LEGISLATIVE COUNCIL (for the
Study Group on Withdrawal from
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11
12 (vi) justices of the supreme court or judges of the superior or district courts of Alaska;

13
14 * Sec. 3. AS 39.35.680(25) is amended to read:

15 (25) "normal retirement" means retirement for a member who is
16 at least 55 years old and has a minimum of five years credited service,
17 or who is any age and has 30 years or more of credited service, or who
18 is making contributions under AS 39.30.170, is any age and has 25 years
19 or more of credited service, or a peace officer or fireman who is any
20 age and has 20 years or more of credited service;

21 * Sec. 4. AS 39.35.370(c) is amended to read:

22 (c) The monthly amount of a retirement benefit for a peace officer
23 or fireman is two percent of the average monthly compensation times the
24 years of credited service up through 10 years, plus two and one-half
25 percent of the average monthly compensation times the years of service
26 over 10 years. For all other employees it is two per cent of the average
27 monthly compensation times the years of service. The monthly amount
28 of a retirement benefit for an employee covered by this chapter who is
29 making contributions under AS 39.30.170 shall be increased by ^{3/4% of 1} one per

three-quarters
of one percent

3/4 of one percent
(due to compounding effect)

1 cent of the average monthly compensation times the years of credited
2 service with the state. An actuarial adjustment must be made for an
3 early retirement benefit.

4 * Sec. 5. AS 39.35.410(d) is amended to read:

5 (d) The monthly amount of an occupational disability pension is
6 the greater of 40 per cent of the disabled employee's gross monthly com-
7 penetration at the time of termination due to disability or the amount
8 determined in accordance with sec. 370(c) of this chapter, considering
9 the employee's credited service and compensation before termination of
10 employment.

11 * Sec. 6. AS 39.30 is amended by adding new sections to read:

12 ARTICLE 4. SUPPLEMENTARY EMPLOYEE BENEFITS ON WITHDRAWAL
13 FROM FEDERAL SOCIAL SECURITY.

14 Sec. 39.30.150. SURVIVOR'S BENEFITS. (a) The State of Alaska
15 shall provide for survivor's benefits for occupational and non-occupa-
16 tional death effective as of an employee's first day of employment, or
17 January 1, 1980, whichever is later, to employees of the state who are
18 making contributions under AS 39.30.170 as follows:

19 (1) for employees covered under the Judicial Retirement
20 System (AS 22.25) or the Alaska Public Employees' Retirement System (AS
21 39.35), the benefit payable to the beneficiary shall be a lump sum equal
22 to 12 times the employee's basic monthly compensation at the time of
23 death;

24 (2) for all casual, emergency or temporary employees not
25 covered by the Alaska Public Employees' Retirement System (AS 39.35) or
26 the Alaska Teachers' Retirement System (AS 14.25) the benefit payable to
27 the beneficiary shall be a lump sum of \$15,000.

28 (b) For purposes of this section, "basic monthly compensation at
29 the time of death" means the employee's basic monthly compensation for

1 the last full month of employment immediately preceding his death or
2 disability leading to his death.

3 Sec. 39.30.160. DISABILITY BENEFIT. (a) The state shall provide
4 an occupational and non-occupational disability benefit program covering
5 each employee of the state making contributions under AS 39.30.170.
6 Coverage shall begin on the first day of employment or January 1, 1980,
7 whichever is later. Disability payments are not payable during the
8 first six months of disability.

9 (b) In this section, "disability" means the complete inability of
10 the employee to engage in his regular occupation during the first 12
11 months of disability, and thereafter the complete inability to engage in
12 any employment or occupation for which he is reasonably fitted by reason
13 of education, training or experience.

14 (c) For a casual, emergency or temporary employee not covered by
15 the Alaska Public Employees' Retirement System (AS 39.35) or the Alaska
16 Teachers' Retirement System (AS 14.25), the disability benefit is \$100
17 per week and shall be payable only if the disabled employee fulfills the
18 requirements set out in (e) of this section. The last payment shall be
19 for the week in which (1) the death of the disabled employee occurs, or
20 (2) the disabled employee reaches the age of 65, whichever occurs first.

21 (d) For all employees other than those covered in (c) of this
22 section, the monthly disability benefit shall be 60 per cent of the
23 first \$5,000 of the employee's basic monthly earnings at the date of
24 disability less any disability benefits the employee is entitled to
25 under Social Security or any other disability plan to which the state
26 makes contributions on behalf of that employee. The disability benefit
27 shall be payable only if the disabled employee fulfills the requirements
28 set out in (e) of this section. The last payment shall be for (1) the
29 month in which the death of the disabled employee occurs, or (2) the

1 month the disabled employee reaches normal retirement age, or (3) the
2 month the disabled employee reaches the age of 65, whichever comes
3 first.

4 (e) An employee receiving a disability benefit under this section
5 shall provide the director of the division of retirement and benefits,
6 one year after appointment to disability benefits and once each year
7 thereafter until disability benefits cease, satisfactory proof of con-
8 tinuing disability. If the employee provides satisfactory proof that
9 the disability is permanent, the requirement of submitting further proof
10 of continuing disability may be waived by the director.

11 Sec. 39.30.165. BASIC MONTHLY COMPENSATION. In secs. 150 - 160 of
12 this chapter, "basic monthly compensation" means the amount earned by
13 the employee during the month, including normal overtime; however,
14 unusual or seasonal overtime or work of a seasonal nature may be ad-
15 justed to reflect a 12-month average.

16 Sec. 39.30.170. CONTRIBUTIONS. (a) The amounts which both the
17 state and the employee of the state would have otherwise paid into the
18 federal Social Security System at the rate then in effect had the state
19 continued in the federal Social Security System shall be paid into a
20 special employee benefit account in the Department of Administration to
21 be used to provide employee retirement and death and disability bene-
22 fits.

23 (b) There shall be determined the cost of providing the survivor
24 and disability benefits provided under secs. 150 and 160 of this chapter
25 expressed as a percentage of payroll for each of the following groups:

26 (1) employees covered under the Alaska Public Employees
27 Retirement System (AS 39.35);

28 (2) employees covered under the Judicial Retirement System
29 (AS 22.25);

1 (3) emergency temporary or casual workers not covered under
2 AS 39.35 (PERS) or AS 14.25 (TRS).

3 (c) From the amount contributed by an employee and on behalf of
4 that employee by the State of Alaska under this section, the Department
5 of Administration shall deduct:

6 (1) for each employee, the amount determined under (b) of
7 this section to pay the cost of providing benefits under secs. 150 and
8 160 of this chapter;

9 (2) for those employees covered under the Alaska Public
10 Employees' Retirement System (AS 39.35) except peace officers and fire-
11 men (as defined in AS 39.35.680(27)), an additional 7.7 per cent of
12 gross monthly compensation;

13 (3) for peace officers or firemen covered under AS 39.35
14 (PERS), an additional 6.8 per cent of gross monthly compensation.

15 (d) The balance of the contributions made by an employee and by
16 the state on behalf of that employee into the special employee benefit
17 account shall, after deduction of the amounts specified in (b) of this
18 section, be deposited in a deferred compensation account in the name of
19 that employee. The director of the division of retirement and benefits
20 shall administer the deferred compensation program and shall, by regula-
21 tion, establish operating procedures for the program which allow for
22 deferment of the state and federal income tax until benefits are receiv-
23 able in accordance with federal requirements under the Internal Revenue
24 Code.

25 * Sec. 7. If approved by employees of the State of Alaska as set out in
26 sec. 8 of this Act, the state's notice of intention to withdraw from the
27 federal Social Security System shall be allowed to become effective January 1,
28 1980.

29 * Sec. 8. The Department of Administration shall conduct an election by

1 secret ballot between February 1 and April 1, 1979. The department shall, at
2 least 90 days before the election, prepare a list of all affected state
3 employees, including permanent, seasonal and temporary employees, who shall
4 be eligible to vote, along with mailing addresses, and make the list avail-
5 able to interested persons or employee representative organizations. The
6 question on the ballot shall read: "Do you favor withdrawal from the Social
7 Security System?" The ballot shall contain a description of the benefits
8 provided for in this Act which would be provided in lieu of further benefits
9 under the Social Security System. No other information concerning the elec-
10 tion issue may be distributed with or attached to the ballot. A simple
11 majority of those employees voting shall determine the outcome of this issue.

12 * Sec. 9. Sections 1 - 7 of this Act take effect on January 1, 1980 if
13 approved by a majority of the votes cast by affected state employees under
14 sec. 8 of this Act. Section 8 of this Act takes effect immediately in accor-
15 dance with AS 01.10.070(c).

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THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. CSHB 946
 Title Withdrawal from Federal Social Security System
 Requested by House Finance Committee Date 6/1/78

II. FISCAL DETAIL
 Agency Affected Administration
 Program Category Affected _____
 Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL			6.7			
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL			6.7			

FUNDING (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
GENERAL FUND			6.7			
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Special Election Costs:
 --One-time data processing costs to generate employee lists and mailing addresses \$5.0
 --Postage 1.5
 --Printing of Ballots .2
 \$6.7

IV. DATE 6/1/78 PREPARED BY Alison E. Farnan, Fiscal Analyst
 AGENCY Legislative Finance Division
 PHONE 465-3795
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

Original sponsor: Rules Committee
by request of the Legislative Council
(for the Study Group on Withdrawal
from Social Security)

Offered: 6/3/78
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 946

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to withdrawal from the federal Social
7 Security System; and providing for an effective date."

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

9 * Section 1. AS 39.35.160(b) is amended to read:

10 (b) In addition each employee shall pay the appropriate social
11 security contribution or the contribution required under AS 39.30.170 in
12 lieu of a social security contribution.

13 Sec. 2. AS 39.35.680(21) is amended to read:

14 (21) "member" or "employee"

15 (A) means a person eligible to participate in the system
16 and who is covered by the system;

17 (B) includes

18 (i) active member;

19 (ii) inactive member;

20 (iii) vested member;

21 (iv) deferred vested member;

22 (v) non-vested member;

23 (vi) disabled member;

24 (vii) retired member;

25 (viii) employees of the division of marine transpor-
26 tation engaged in operating the state ferry system who are
27 covered by a maritime union contract; however, other than
28 military service credit, only service after January 1, 1980
29 may be credited under this chapter;

1 (C) does not include

2 (i) former members;

3 (ii) persons compensated on a contractual or fee
4 basis;

5 (iii) casual, emergency or temporary workers;

6 (iv) persons covered by the Alaska Teachers' Retirement System; and

7 [(v) EMPLOYEES OF THE DIVISION OF MARINE TRANSPORTATION ENGAGED IN OPERATING THE STATE FERRY SYSTEM WHO ARE COVERED BY A UNION OR GROUP RETIREMENT SYSTEM TO WHICH THE STATE MAKES CONTRIBUTIONS; AND]

8 (vi) justices of the supreme court or judges of the superior or district courts of Alaska;

9 * Sec. 3. AS 39.35.680(25) is amended to read:

10 (25) "normal retirement" means retirement for a member who is
11 at least 55 years old and has a minimum of five years credited service,
12 or who is any age and has 30 years or more of credited service, or who
13 is making contributions under AS 39.30.170, is any age and has 25 years
14 or more of credited service, or a peace officer or fireman who is any
15 age and has 20 years or more of credited service;

16 * Sec. 4. AS 39.35.370(c) is amended to read:

17 (c) The monthly amount of a retirement benefit for a peace officer
18 or fireman is two percent of the average monthly compensation times the
19 years of credited service up through 10 years, plus two and one-half
20 percent of the average monthly compensation times the years of service
21 over 10 years. For all other employees it is two per cent of the average
22 monthly compensation times the years of service. The monthly amount
23 of a retirement benefit for an employee covered by this chapter who is
24 making contributions under AS 39.30.170 shall be increased by three-

1 quarters of one per cent of the average monthly compensation times the
2 years of credited service with the state. An actuarial adjustment must
3 be made for an early retirement benefit.

4 * Sec. 5. AS 39.35.410(d) is amended to read:

5 (d) The monthly amount of an occupational disability pension is
6 the greater of 40 per cent of the disabled employee's gross monthly com-
7 ensation at the time of termination due to disability or the amount
8 determined in accordance with sec. 370(c) of this chapter, considering
9 the employee's credited service and compensation before termination of
10 employment.

11 * Sec. 6. AS 39.30 is amended by adding new sections to read:

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20 System (AS 22.25) or the Alaska Public Employees' Retirement System (AS
21 39.35), the benefit payable to the beneficiary shall be a lump sum equal
22 to 12 times the employee's basic monthly compensation at the time of
23 death;

24 (2) for all casual, emergency or temporary employees not
25 covered by the Alaska Public Employees' Retirement System (AS 39.35) or
26 the Alaska Teachers' Retirement System (AS 14.25) the benefit payable to
27 the beneficiary shall be a lump sum of \$15,000.

28 (b) For purposes of this section, "basic monthly compensation at
29 the time of death" means the employee's basic monthly compensation for

1 the last full month of employment immediately preceding his death or
2 disability leading to his death.

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7 whichever is later. Disability payments are not payable during the
8 first six months of disability.

9 (b) In this section, "disability" means the complete inability of
10 the employee to engage in his regular occupation during the first 12
11 months of disability, and thereafter the complete inability to engage in
12 any employment or occupation for which he is reasonably fitted by reason
13 of education, training or experience.

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22 section, the monthly disability benefit shall be 60 per cent of the
23 first \$5,000 of the employee's basic monthly earnings at the date of
24 disability less any disability benefits the employee is entitled to
25 under Social Security or any other disability plan to which the state
26 makes contributions on behalf of that employee. The disability benefit
27 shall be payable only if the disabled employee fulfills the requirements
28 set out in (e) of this section. The last payment shall be for (1) the
29 month in which the death of the disabled employee occurs, or (2) the

1 month the disabled employee reaches normal retirement age, or (3) the
2 month the disabled employee reaches the age of 65, whichever comes
3 first.

4 (e) An employee receiving a disability benefit under this section
5 shall provide the director of the division of retirement and benefits,
6 one year after appointment to disability benefits and once each year
7 thereafter until disability benefits cease, satisfactory proof of con-
8 tinuing disability. If the employee provides satisfactory proof that
9 the disability is permanent, the requirement of submitting further proof
10 of continuing disability may be waived by the director.

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12 this chapter, "basic monthly compensation" means the amount earned by
13 the employee during the month, including normal overtime; however,
14 unusual or seasonal overtime or work of a seasonal nature may be ad-
15 justed to reflect a 12-month average.

16 Sec. 39.30.170. CONTRIBUTIONS. (a) The amounts which both the
17 state and the employee of the state would have otherwise paid into the
18 federal Social Security System at the rate then in effect had the state
19 continued in the federal Social Security System shall be paid into a
20 special employee benefit account in the Department of Administration to
21 be used to provide employee retirement and death and disability bene-
22 fits.

23 (b) There shall be determined the cost of providing the survivor
24 and disability benefits provided under secs. 150 and 160 of this chapter
25 expressed as a percentage of payroll for each of the following groups:

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27 Retirement System (AS 39.35);

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29 (AS 22.25);