

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 3013

Coupled with the HRA of 2% and the pension rate of 8.25% recommended above, the 3.75% medical contribution would yield a total employer's contribution rate of 14%, which is the actual amount the state and local government contributed at statehood.

Immediately after statehood, the cost share for public employees was split into about equal thirds; one-third from the State, one-third from the employer and one-third from the employee. When the State dropped their share (about 7% of salary) the promise was the State would increase revenue sharing to offset those costs. The State has deserted that commitment by no longer funding revenue sharing in the budget. Now the State proposes to shift its obligation to the employee. Instead of following the axiom that stuff flows downhill, the State should maintain the 14% original obligation. Remember this obligation was made before we had OIL!

It has been stated to House State Affairs that NEA-Alaska asked for a vesting period of five years. Let me correct the record, in testimony before the Senate Finance Committee we confirmed five years is a standard vesting period and we had no objection. We also pointed out that the five-year period coincided with the "five-year itch" that infects educational employees. The data is clear. We are losing 50% of new employees over the first five years. *If an employee can now take their contribution and return home, portability is not a factor that benefits Alaska's schools. However, if you are going to implement a Defined Contribution (DC) Plan, then we suggest that you provide the same benefit that NEA-Alaska provides to its employees, immediate vesting.*

The investment method outlined in SB 141 is a standard approach for DC plans. Sen. Stedman has confirmed to NEA-Alaska that most national data demonstrates that an individual making investment decisions is more conservative than a group responsible for investing. In fact the difference is 1 to 3% annually. *NEA-Alaska recommends that the investment responsibility be handled by ASPIB or the ARM Board.*

**TIMEFRAME:**

Mr. Chairman, I realize my time here is waning and there are so many other issues to touch on. I have addressed only the tip of the iceberg and have not even mentioned the mass of the iceberg which is containing medical costs/health insurance. This piece is estimated to be almost 70% of the unfunded liability problem. There have been many suggestions about how to contain these costs. I am confident that a "blended plan" with a major medical component that has built-in cost containment methods could be fashioned by all the stakeholders in six months.

I would like to go on record with a word of thanks for Sen. Stedman, Rep. Seaton and their staff. NEA-Alaska representatives have spent several hours with both legislators and their staff assigned to the PERS/TRS legislation. However, that time cannot serve as a substitution for meetings of all the stakeholders to provide a complete analysis of the legislation and its affect on public servants.

**Harvey Testimony**  
**House Finance (4/23/05)**  
**Page 6**

As we sit here on the 104<sup>th</sup> legislative day, I urge this committee to take the interim to truly study the retirement system and to make competitive changes in the retirement plan that affects over 70,000 Alaskans.

NEA-Alaska is fortunate to have many members that have served on the TRS board and understand retirement issues well. We look forward to working with all of you this summer and fall to design a plan that works for Alaska and Alaskan workers.

I appreciate your time and I would be happy to attempt to answer questions.

AMENDMENT

## OFFERED IN HOUSE FINANCE

TO: House CS for CS for SB 141 (STA)

Insert new sections to read:

\* Sec \_\_. AS 24.08.035(a) is amended to read:

(a) Before a bill or resolution, except an appropriation bill, is reported from the committee of first referral, there shall be attached to the bill a fiscal note containing an estimate of the amount of the appropriation increase or decrease that would result from enactment of the bill for the current fiscal year and five succeeding fiscal years or, if the bill has no fiscal impact, a statement to that effect shall be attached. The fiscal note of a bill that makes any change to the benefit structure of the state's retirement system shall include the additional analysis required in AS 24.08.036. The fiscal note or statement shall be prepared in conformity with the requirements of this section by the department or departments affected and may be reviewed by the office of management and budget. Except as allowed in AS 24.08.036, [T] the fiscal note or statement shall be delivered to the committee requesting it within five days of the request or within two days if the request is made after the 90th day of a regular session, or during a special session of the legislature. If the bill is presented by the governor for introduction in accordance with AS 24.08.060(b) and the uniform rules of the legislature, the fiscal note or statement shall be attached to the bill before the bill is introduced. An amendment or a substitute bill proposed by a committee of referral that changes the fiscal impact of a bill shall be explained in a revised fiscal note or statement attached to the bill.

\* Sec \_\_. AS 24.08.035(b) is amended to read:

(b) In addition to the fiscal note required by this section and AS 24.08.036, the sponsor of a bill or resolution may prepare a fiscal note in conformity with the requirements of this section, and submit it to the committee of first referral or the finance committee. A committee may prepare an additional fiscal note in conformity with the requirements of this section.

\* Sec \_\_. AS 24.08.036 is repealed and reenacted to read:

**Sec. 24.08.036. Fiscal notes on bills affecting the benefit structure of state retirement systems.** (a) In addition to the requirements of AS 24.08.035, the fiscal note of a bill that makes any change to the benefit structure of the state's retirement system shall include an actuarial analysis of the bill's affect on the assets and liabilities of the retirement systems. This analysis shall be prepared and certified by a member of the American Academy of Actuaries and coordinated through the division of retirement and benefits.

(b) The completed fiscal note shall be reviewed by the Commissioner of Administration and forwarded to the chair of the Alaska Retirement Management Board for comment and recommendations.

(c) The division of retirement and benefits shall be allowed 60 days from the time they receive a fiscal note request to complete the actuarial analysis, obtain the comments of the Alaska Retirement Management Board and deliver the fiscal note to the committee requesting it.

(d) A committee of referral proposing an amendment or a substitute bill that changes the inputs or assumptions used by the actuary in preparing the fiscal note required in this section must obtain a revised actuarial analysis prior to reporting the amended bill or committee substitute from committee. This revised actuarial analysis shall be prepared in accordance with this section except that the division of retirement and benefits shall have 30 days to deliver the fiscal note to the committee.

## Sitka Teacher Employed 8/15/05

Years of service	Sitka Salary Annual 2.6% Raise plus step	8% TRS plus 4.5%	Investment Return 8.3%		1.75% Medical		2% for HRA	
1	\$35,571.00	\$4,446.38	\$48,643.34	2005-06	\$622.49	\$6,810.07	\$711.42	\$7,782.93
2	\$38,685.33	\$4,835.67	\$48,840.23	2006-07	\$676.99	\$6,837.63	\$773.71	\$7,814.44
3	\$40,510.58	\$5,063.82	\$47,194.83	2007-08	\$708.94	\$6,607.28	\$810.21	\$7,551.17
4	\$42,334.81	\$5,291.85	\$45,562.84	2008-09	\$740.86	\$6,378.80	\$846.70	\$7,290.05
5	\$44,160.07	\$5,520.01	\$43,884.07	2009-10	\$772.80	\$6,143.77	\$883.20	\$7,021.45
6	\$45,620.06	\$5,702.51	\$41,856.41	2010-11	\$798.35	\$5,859.90	\$912.40	\$6,697.03
7	\$46,806.19	\$5,850.77	\$39,668.24	2011-12	\$819.11	\$5,553.55	\$936.12	\$6,346.92
8	\$48,023.15	\$6,002.89	\$37,578.11	2012-13	\$840.41	\$5,260.94	\$960.46	\$6,012.50
9	\$49,271.75	\$6,158.97	\$35,598.84	2013-14	\$862.26	\$4,983.84	\$985.43	\$5,695.81
10	\$50,552.81	\$6,319.10	\$33,744.00	2014-15	\$884.67	\$4,724.16	\$1,011.06	\$5,399.04
11	\$51,867.19	\$6,483.40	\$31,963.15	2015-16	\$907.68	\$4,474.84	\$1,037.34	\$5,114.10
12	\$53,215.73	\$6,651.97	\$30,260.15	2016-17	\$931.28	\$4,237.30	\$1,064.31	\$4,842.63
13	\$54,599.34	\$6,824.92	\$28,664.15	2017-18	\$955.49	\$4,013.05	\$1,091.99	\$4,586.34
14	\$56,018.93	\$7,002.37	\$27,109.18	2018-19	\$980.33	\$3,803.69	\$1,120.38	\$4,347.07
15	\$57,475.42	\$7,184.43	\$25,720.25	2019-20	\$1,005.82	\$3,600.83	\$1,149.51	\$4,115.24
16	\$58,969.78	\$7,371.22	\$24,398.75	2020-21	\$1,031.97	\$3,415.82	\$1,179.40	\$3,903.80
17	\$60,502.99	\$7,562.87	\$23,066.77	2021-22	\$1,058.80	\$3,229.35	\$1,210.06	\$3,690.68
18	\$62,076.07	\$7,759.51	\$21,881.81	2022-23	\$1,086.33	\$3,063.45	\$1,241.52	\$3,501.09
19	\$63,690.05	\$7,961.26	\$20,699.27	2023-24	\$1,114.58	\$2,897.90	\$1,273.80	\$3,311.88
20	\$65,345.99	\$8,168.25	\$19,603.80	2024-25	\$1,143.55	\$2,744.53	\$1,306.92	\$3,136.61
21	\$67,044.99	\$8,380.62	\$18,604.98	2025-26	\$1,173.29	\$2,604.70	\$1,340.90	\$2,976.80
22	\$68,788.16	\$8,598.52	\$17,626.96	2026-27	\$1,203.79	\$2,467.78	\$1,375.76	\$2,820.31
23	\$70,576.65	\$8,822.08	\$16,673.73	2027-28	\$1,235.09	\$2,334.32	\$1,411.53	\$2,667.80
24	\$72,411.64	\$9,051.46	\$15,840.05	2028-29	\$1,267.20	\$2,217.61	\$1,448.23	\$2,534.41
25	\$74,294.34	\$9,286.79	\$14,951.74	2029-30	\$1,000.15	\$2,093.24	\$1,485.89	\$2,392.28
26	\$76,226.00	\$9,528.25	\$14,197.09	2030-31	\$1,333.95	\$1,987.59	\$1,524.52	\$2,271.53
27	\$78,207.87	\$9,775.98	\$13,490.86	2031-32	\$1,368.64	\$1,888.72	\$1,564.16	\$2,158.54
28	\$80,241.28	\$10,030.16	\$12,738.30	2032-33	\$1,404.22	\$1,783.36	\$1,604.83	\$2,038.13
29	\$82,327.55	\$10,290.94	\$12,040.40	2033-34	\$1,440.73	\$1,685.66	\$1,646.55	\$1,926.46
30	\$84,468.07	\$10,558.51	\$11,403.19	2034-35	\$1,478.19	\$1,596.45	\$1,689.36	\$1,824.51
Total		\$201,636.02	\$800,128.71		\$31,147.97	\$115,300.12	\$35,597.68	\$131,771.57

## SITKA TEACHER HIRED 8/15/05 RETIREMENT

Sitka  
2.6%  
Annual  
Raise

Age	Investment Total @ 8.3%	Annual Annuity	New Balance	New Investment Return	Health Insurance Payment	HRA
54	\$800,128.71	\$38,121.33	\$762,007.38	\$825,253.99	\$96,602.00	\$131,771.57
55	\$860,423.56	\$38,121.33	\$822,302.23	\$871,640.36	\$104,330.00	
56	\$767,310.36	\$38,121.33	\$729,189.03	\$772,940.37	\$112,676.00	
57	\$660,264.37	\$38,121.33	\$622,143.03	\$659,471.62	\$121,690.00	
58	\$537,781.62	\$38,121.33	\$499,660.28	\$529,639.90	\$131,425.00	
59	\$398,214.90	\$38,121.33	\$360,093.57	\$381,699.18	\$141,939.00	
60	\$239,760.18	\$38,121.33	\$201,638.85	\$213,737.18	\$153,294.00	
61	\$60,443.18	\$38,121.33	\$22,321.84	\$23,661.16	\$165,558.00	
62	-\$141,896.84	\$38,121.33	-\$180,018.18	-\$190,819.27	\$178,802.65	
63	-\$369,621.92	\$38,121.33	-\$407,743.25	-\$432,207.85	\$193,106.86	
64	-\$625,314.71	\$38,121.33	-\$663,436.04	-\$703,242.20	\$208,555.41	
65	-\$911,797.61	\$38,121.33	-\$949,918.95	-\$1,006,914.08	\$225,239.84	
66	-\$1,232,153.92	\$38,121.33	-\$1,270,275.26	-\$1,346,491.77	\$24,325.90	
67	-\$1,370,817.67	\$38,121.33	-\$1,408,939.01	-\$1,493,475.35		
68	-\$1,493,475.35	\$38,121.33	-\$1,531,596.68	-\$1,623,492.48		
69	-\$1,623,492.48	\$38,121.33	-\$1,661,613.81	-\$1,761,310.64		
70	-\$1,761,310.64	\$38,121.33	-\$1,799,431.98	-\$1,907,397.89		
71	-\$1,907,397.89	\$38,121.33	-\$1,945,519.23	-\$2,062,250.38		
72	-\$2,062,250.38	\$38,121.33	-\$2,100,371.71	-\$2,226,394.02		
73	-\$2,226,394.02	\$38,121.33	-\$2,264,515.35	-\$2,400,386.27		

Sec. 24.08.036. Fiscal notes on bills affecting state retirement systems.

Before a bill which would have an effect on the retirement systems of the state is reported to the rules committee, there shall be attached to the bill an analysis of the long-term and short-term costs to the state if the bill is adopted, as well as the impact of the bill on the actuarial soundness of the fund. The analysis is in addition to the fiscal note requirements of AS 24.08.035 .

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 22, 2005

FURTHER REFERRALS:

Date of Committee Action: 5/1/05

The FINANCE Committee considered:

CSSB 141(FIN)

CS FOR SENATE BILL NO. 141(FIN)

PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS

"An Act relating to the teachers' and public employees' retirement systems and creating defined contribution and health reimbursement plans for members of the teachers' retirement system and the public employees' retirement system who are first hired after July 1, 2005; relating to university retirement programs; establishing the Alaska Retirement Management Board to replace the Alaska State Pension Investment Board, the Alaska Teachers' Retirement Board, and the Public Employees' Retirement Board; adding appeals of the decisions of the administrator of the teachers' and public employees' retirement systems to the jurisdiction of the office of administrative hearings; providing for nonvested members of the teachers' retirement system defined benefit plans to transfer into the teachers' retirement system defined contribution plan and for nonvested members of the public employees' retirement system defined benefit plans to transfer into the public employees' retirement system defined contribution plan; providing for political subdivisions and public organizations to request to participate in the public employees' defined contribution retirement plan; and providing for an effective date."

Recommends it be replaced with  HCS or  CS for SB 141 (FIN)  
 For Senate Bills with new title:  Technical Title  New Title: HCR  Same Title  New Title

- attach amendments
- add new referral to \_\_\_\_\_ Committee
- Letter of Intent \_\_\_\_\_ Committee

List of Abbrev for Depts.:

- ADM
- CEC
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- HSS
- LEG
- LAW
- LWF
- MVA
- DNR
- DPS
- REV
- DOT
- UA

NEW FISCAL NOTES				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
DOA		✓		
HFC/DOA				✓

PREVIOUS FISCAL NOTES				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
DOA	#1	✓		
DOR	#3	✓		
DOR	#4	✓		
DOR	#5	✓		
DOR	#6	✓		
DOR	#7	✓		

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	Hawker				*
	Weylmar				X
	Julie			X	X
	STOLTZ			X	
	Kullin	X			
	MOSES			X	
	FOSTER	X			
Chair:	Meyer			X	
Chair:	Cherant			X	

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: Fiscal Note 8 Amended  
 Bill Version: SB 141  
 ( ) Publish Date: 5/1/2005

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
 Title "An Act relating to the teachers and pt RDU \_\_\_\_\_  
 Component \_\_\_\_\_  
 Sponsor Senate Finance Committee  
 Requester Senate Finance Committee Component No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>FUND CAPITALIZATION</b>	<b>0.0</b>					
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

These costs are not costs necessary to implement this legislation and can be funded through the regular budget mechanisms.

Prepared by: House Finance Committee  
 Division \_\_\_\_\_  
 Approved by: Rep. Mike Chenault, Co-Chair House Finance  
 Agency Rep. Kevin Meyer, Co-Chair House Finance

Phone 465-6619  
 Date/Time 5/1/05 2:32 PM  
 Date 5/1/2005

replaces #8

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: HCS CSSB141 (STA)  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
Title An Act relation to TRS and PERS creating a RDU Centralized Administrative Services  
defined contribution and health reimbursement plans..... Component Retirement and Benefits  
Sponsor Senate Finance Committee  
Requester Senate Finance Committee Component No. 64

## Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2006	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	667.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)	(12.5)	(41.5)	(41.5)	(41.5)	(41.5)	(41.5)
<b>TOTAL OPERATING</b>	<b>1,016.5</b>	<b>535.5</b>	<b>482.1</b>	<b>528.6</b>	<b>528.6</b>	<b>528.6</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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## FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,029.0	577.0	392.7	285.1	142.5	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS	(2.0)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
1034 TRS	(10.5)	(37.4)	(37.4)	(37.4)	(37.4)	(37.4)
Other (Specify Type--Do not abbreviate)			130.9	285.0	427.6	570.1
<b>TOTAL</b>	<b>1,016.5</b>	<b>535.5</b>	<b>482.1</b>	<b>528.6</b>	<b>528.6</b>	<b>528.6</b>

Estimate of any current year (FY2005) cost: 0.0  
Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

### POSITIONS

Full-time	2	2	2	2	2	2
Part-time	0	0	0	0	0	0
Temporary	3	2	1	1	1	1

### ANALYSIS: *(Attach a separate page if necessary)*

This bill will create a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS and TRS hired after the effective date of July 1, 2005. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new plans, create new plan publications and forms, train staff, employer contacts and new members, create new employee benefit education methods on the web, benefit seminars and one on one appointments, and to contract for financial planning services for members of the new plan. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate. It further assumes that cost reductions for the PERS and TRS Boards will be partially offset by payments to the Office of Administrative Hearings to conduct disability hearings, previously conducted by the boards.

Prepared by: Melanie Millhorn, Director Phone 465-4408  
Division: Retirement and Benefits Date/Time 4/22/05 3:29 PM  
Approved by: Mike Tiobles, Deputy Commissioner Date 4/22/2005  
Agency: Department of Administration

FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. HCS CSSB141 (STA)

ANALYSIS CONTINUATION

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

	FY 2006	FY 2007	FY 2008	FY 09-11
<b>PERSONAL SERVICES:</b>				
1 - Non Perm Analyst-Pgmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rptng / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
<b>TRAVEL:</b>				
Employer Reporting Software Upgrade Install & Help	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
<b>CONTRACTUAL:</b>				
Communications & Postage	82.0	17.0	17.0	17.0
Computer System Redesign (Est. 2,500 hours in FY06)	320.0	30.0	30.0	30.0
Audit, Accling, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>667.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
SUPPLIES: Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
EQUIPMENT: Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs	30.0	0.0	0.0	0.0
<b>MISCELLANEOUS (BOARD RECONFIGURATION, HEARINGS)</b>				
Board Member Election 2006/2008	0.0	0.0	0.0	0.0
Board Training	-15.0	-15.0	-15.0	-15.0
Board Attorney	-40.5	-40.5	-40.5	-40.5
Travel Members/Staff	-24.0	-24.0	-24.0	-24.0
Honorarium/Board Members	-29.0	-29.0	-29.0	-29.0
National Seminars (NASRA - NCTR)	-20.0	-20.0	-20.0	-20.0
Disability Hearings--Office of Administrative Hearings	116.0	87.0	87.0	87.0
	<u>-12.5</u>	<u>-41.5</u>	<u>-41.5</u>	<u>-41.5</u>
<b>TOTAL</b>	<b>1,016.5</b>	<b>535.5</b>	<b>482.1</b>	<b>528.6</b>

The above funding source is initially listed as General Fund because the existing tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. It is assumed that by FY2008, as more employees are hired into the new tiers, that program costs will be funded through an assessment on DC accounts, similar to the SBS program currently in place. General funds will be reduced 25% per year from FY2008-2011.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05. The startup costs are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related; however, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. A legal opinion was sought to determine how the funding and accounting needs to occur for the new DC plan.

replaces

#2

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: CSSB 141(FIN)  
(S) Publish Date: 4/8/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
Title: An Act relating to the teachers' and pu RDU: Central Administrative Services  
Component: Office of Administrative Hearings  
Sponsor: Senate Finance Committee  
Requester: Senate Finance Committee Component No.: 2771

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	98.0	74.0	74.0	74.0	74.0	74.0
Travel	4.0	4.0	4.0	4.0	4.0	4.0
Contractual	11.0	8.0	8.0	8.0	8.0	8.0
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	2.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>116.0</b>	<b>87.0</b>	<b>87.0</b>	<b>87.0</b>	<b>87.0</b>	<b>87.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1007 Interagency Receipts	116.0	87.0	87.0	87.0	87.0	87.0
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate) Int						
<b>TOTAL</b>	<b>116.0</b>	<b>87.0</b>	<b>87.0</b>	<b>87.0</b>	<b>87.0</b>	<b>87.0</b>

Estimate of any current year (FY2005) cost: 00

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time	1					
Part-time		1	1	1	1	1
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This bill transfers to the Office of Administrative Hearings (OAH) adjudicatory hearing functions now performed by the PERS and TRS boards with assistance from contract legal counsel. OAH would conduct hearings, exercise equitable powers, and issue final decisions, as well as perform ancillary pre-hearing functions presently performed by staff of the Division of Retirement and Benefits.

The numbers of cases referred and hearings conducted, as well as the number that might be resolved through alternative dispute resolution or on motions without an evidentiary hearing, likely would vary somewhat each year. To handle the additional caseload, OAH likely would need to add to the Administrative Law Judge (ALJ) staff a 3/4 PPT in all years except in FY 06, when an ALJ PPT would be needed due to the existing backlog of approximately 150 cases likely to carry over into FY 06.

Prepared by: Terry L. Thurbon, Chief Administrative Law Judge (Acting) Phone: 465-1886  
Division: Office of Administrative Hearings Date/Time: 3/29/05 11:20 AM  
Approved by: Michael A. Tibbles, Deputy Commissioner Date: 3/29/2005  
Agency: Department of Administration

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: CSSB 141(FIN)  
(S) Publish Date: 4/8/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
Title An Act relation to TRS and PERS creating a RDU Centralized Administrative Services  
defined contribution and health reimbursement plans..... Component Retirement and Benefits  
Sponsor Senate Finance Committee  
Requester Senate Finance Committee Component No. 64

### Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	667.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)	(92.5)	(41.5)	(121.5)	(41.5)	(41.5)	(41.5)
<b>TOTAL OPERATING</b>	<b>936.5</b>	<b>535.5</b>	<b>402.1</b>	<b>528.6</b>	<b>528.6</b>	<b>528.6</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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### FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,029.0	577.0	392.7	285.1	142.5	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS	(9.0)	(4.1)	(12.1)	(4.1)	(4.1)	(4.1)
1034 TRS	(83.5)	(37.4)	(109.4)	(37.4)	(37.4)	(37.4)
Other (Specify Type--Do not abbreviate)			130.9	285.0	427.6	570.1
<b>TOTAL</b>	<b>936.5</b>	<b>535.5</b>	<b>402.1</b>	<b>528.6</b>	<b>528.6</b>	<b>528.6</b>

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

### POSITIONS

Full-time	3	3	3	3	3	3
Part-time	0	0	0	0	0	0
Temporary	2	1	0	0	0	0

### ANALYSIS: (Attach a separate page if necessary)

This bill will create a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS and TRS hired after the effective date of July 1, 2005. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new plans, create new plan publications and forms, train staff, employer contacts and new members, create new employee benefit education methods on the web, benefit seminars and one on one appointments, and to contract for financial planning services for members of the new plan. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate. It further assumes that cost reductions for the PERS and TRS Boards will be partially offset by payments to the Office of Administrative Hearings to conduct disability hearings, previously conducted by the boards.

Prepared by: Melanie Millhorn, Director Phone 465-4408  
Division Retirement and Benefits Date/Time 4/5/05 1:25 PM  
Approved by: Mike Tibbles, Deputy Commissioner Date 4/5/2005  
Agency Department of Administration

FISCAL NOTE # 2

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. CSSB 141(FIN)

ANALYSIS CONTINUATION

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

	FY 2006	FY 2007	FY 2008	FY 09-11
<b>PERSONAL SERVICES:</b>				
1 - Non Perm Analyst-Pgrmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rpting / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
<b>TRAVEL:</b>				
Employer Reporting Software Upgrade Install & Help	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
<b>CONTRACTUAL:</b>				
Communications & Postage	82.0	17.0	17.0	17.0
Computer System Redesign (Est. 2,500 hours in FY06)	320.0	30.0	30.0	30.0
Audit, Accting, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>667.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
Supplies: Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
EQUIPMENT: Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs	30.0	0.0	0.0	0.0
<b>MISCELLANEOUS (BOARD RECONFIGURATION, HEARINGS)</b>				
Board Member Election 2006/2008	-80.0	0.0	-80.0	0.0
Board Training	-15.0	-15.0	-15.0	-15.0
Board Attorney	-40.5	-40.5	-40.5	-40.5
Travel Members/Staff	-24.0	-24.0	-24.0	-24.0
Honorarium/Board Members	-29.0	-29.0	-29.0	-29.0
National Seminars (NASRA - NCTR)	-20.0	-20.0	-20.0	-20.0
Disability Hearings--Office of Administrative Hearings	116.0	87.0	87.0	87.0
	<u>-92.5</u>	<u>-41.5</u>	<u>-121.5</u>	<u>-41.5</u>
<b>TOTAL</b>	<b>936.5</b>	<b>535.5</b>	<b>402.1</b>	<b>528.6</b>

The above funding source is initially listed as General Fund because the exiting tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. It is assumed that by FY2008, as more employees are hired into the new tiers, that program costs will be funded through an assessment on DC accounts, similar to the SBS program currently in place. General funds will be reduced 25% per year from FY2008-2011.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05. The startup costs are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related; however, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. A legal opinion was sought to determine how the funding and accounting needs to occur for the new DC plan.

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 3  
Bill Version: CSSB 141(FIN)  
§) Publish Date: 4/8/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue #1  
Title: An Act relating to the teachers' and public RDU: Taxation & Treasury  
employees' retirement systems Component: Treasury Division  
Sponsor: Finance  
Requester: \_\_\_\_\_ Component No.: 121

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>214.5</b>	<b>214.5</b>	<b>214.5</b>	<b>214.5</b>	<b>214.5</b>	<b>214.5</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						0.0
1005 GF/Program Receipts						
1017 Benefit Systems (SBS/DC)						0.0
IA from Alaska Retirement Mgmt Board	214.5	214.5	214.5	214.5	214.5	214.5
<b>TOTAL</b>	<b>214.5</b>	<b>214.5</b>	<b>214.5</b>	<b>214.5</b>	<b>214.5</b>	<b>214.5</b>

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time	3	3	3	3	3	3
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

See attached analysis

Prepared by: Betty Martin, Comptroller  
Division: Treasury  
Approved by: Tom Boutin, Deputy Commissioner  
Agency: Department of Revenue

Phone: 465-2352  
Date/Time: 4/5/05 3:28 PM  
Date: 4/5/2005

SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes	FY06	FY07	FY08	FY09	FY10	FY11
Treasury Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out IA between the two components <sup>1</sup>	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
<b>SB241 Total incremental costs</b>	<b>590.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	25.0	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	5	5	5	5	5
<b>SB141 Total incremental costs</b>	<b>590.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>

#### Assumptions

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141:

1. A new defined contribution plan will have a similar number and type of options as the current Supplement Benefits System. All options would be available on day one of the new plan. A plan similar to SRS will result in the hire of approximately 6 managers and the establishment of over 30 additional safekeeping accounts at the custodial bank and associated accounting records.
2. There is a need to add 2 additional professional and 1 additional technical staff to include a State Investment Officer II, an Accountant IV and an Accounting Technician III. The total cost included in the fiscal notes per year of these staff is \$214.5.
3. Funding for one extra board meeting in the first year for the new board to organize and receive start-up training as well as funding to reflect 1 additional board member traveling (current budget includes 5 existing members).

4. The costs of computers, office equipment and office space reconfiguration is included in year one for the new staff. In all years funding is included for training, investment software subscriptions (Bloomberg, Yieldbook, S&P and Moody's rating services) and miscellaneous supplies for new staff.

5. In year one, the cost for the external consultant to assist the board in selecting 6 new managers. The current contract cost for manager searches is \$30.0 per search.

6. The costs of an external consultant to calculate performance of the funds quarterly. Costs are expected to be \$30.0 year based on the current contract.

7. In FY2006 \$100.0 to cover the costs of an independent audit review of the performance consultant. It is a requirement in SB141 that this contractor be audited. We expect that audit to occur every 4 to 5 years after the initial audit review.

8. There is a \$40.0 reduction in current costs associated with the election of members as the new board will be appointed by the governor.

#### **Treasury Division fiscal note #1**

The Treasury Division's fiscal note includes \$214.5 each year for personal services. There are economies of scale in managing investments. However, the new funds created by Senate Bill 141 would require considerable additional responsibilities. If the number of options paralleled the existing SBS Plan, that would translate to 13 new manager accounts, 34 new custodial accounts and 4 new sets of monthly financial statements with annual audit requirements. The Department of Revenue currently manages a large number of funds with a limited investment and back office staff. In order to prudently meet the prospective demands of Senate Bill 141, Treasury would need to hire an additional investment staff and 2 middle back office staff.

#### **Background**

Prudent and productive management of investments is a resource intensive process. Managing a modern portfolio is a broad responsibility which requires significant expertise and high attention to detail.

Investment management responsibilities include designing investment policy guidelines, developing custom asset allocations, conducting investment manager searches, performing investment manager due diligence, negotiating and contracting with prospective managers, managing investment manager relationships, performing periodic portfolio rebalancing, monitoring and evaluating investment performance, presenting and consulting with oversight organizations, and following developments in investment research and analytic tools.

In addition, investment management requires a significant interface with back and middle office functions including fund accounting and audit, managing custody and brokerage relationships, cash management, securities lending, safeguarding assets, and compliance monitoring.

Senate Bill 141 would create the equivalent of four new funds to manage: the Employee Defined Contribution Accounts, the Employer Vetting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust.

The Employee Defined Contribution Accounts would likely offer employees a reasonably wide range of investment options. As a comparison, the Supplemental Benefits System offers a suite of 6 target of life style funds and 8 separate asset class funds, for a total of 14 options that participants may select from. Deciding on the mix of investment styles to offer, searching for and hiring investment managers, and evaluating and reporting on investment manager performance would be a considerable on-going undertaking.

While Treasury may realize fee economies from existing investment relationships, it is unlikely that the contributions in this account can be commingled with existing accounts. That means that there would be a completely new set of accounts for custodial and accounting purposes.

The Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust would all likely call for separate custom asset allocations. All three would individually require evaluation, reporting, and periodic portfolio rebalancing. They would also require separate custodial and accounting records including monthly financial reporting and audits.

There is likely to be an additional consequence of the change to a defined contribution plan. Currently there is a population of participants in SBS and Deferred Compensation that monitor their accounts daily. They often have questions whenever there are apparent anomalies in the change in the daily prices of the options. As a general rule, we would say that members of a defined benefit plan are not as price sensitive. The new plan will greatly increase the number of individuals who are monitoring on-line data on a daily basis. This will correlate directly to an increase in the amount of time we spend answering questions.

**Alaska State Pension Investment Board fiscal note #2**

**Alaska Retirement Management Board fiscal note #3**

Fiscal note #2 transfers the existing ASPIB budgeted funding to the new ARM board. This fiscal note also includes the ARM board's share of costs expected due to the implementation of SB141.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB budgeted funding fiscal note	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4
Incremental costs from SB141	590.2	266.2	266.2	266.2	266.2	266.2
Total costs on fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Total first year costs in fiscal note #3 include \$180.0 for manager selection; \$100.0 for an audit of the board's performance consultant (This audit is a new requirement of SB141. It does not have to occur in the first year, but once done we would expect it to occur every 4 to 5 years.); \$15.0 associated with one additional meeting for organizing and educating the new board members; and, \$29.0 for computers and the office setup for the new positions. These total start-up costs are \$324.0.

Ongoing costs include interagency chargeback to the ARM for the costs of the 3 new positions totaling \$214.5; travel for the additional board member (the current board has 8 members versus the new board with 9 members) as well as increased due diligence of the new fund managers and training for the new staff in the amount of \$13.0; \$45.7 for the ongoing cost of phones, information technology charge backs, supplies and investment subscription services for the new staff (these include Bloomberg, Yieldbook, S&P and Moody's, and Tradeweb); a \$140.0 reduction in current cost as elections will be eliminated; \$30.0 per year for the calculation of the new funds' performance by an external consultant. These total on-going costs are \$266.2.

**State Pension Custody and Management Fees #4**  
**Alaska Retirement Management Board Fees #5**

Fiscal note #4 transfers the budgeted funding of the State Pension Custody and Management Fees to a new Alaska Retirement Management Board Fees component (fiscal note #5) in the Department of Revenue for the new ARM Board. This component includes the investment management and custody costs of the existing defined benefit plans and will not be impacted in the foreseeable future by SB141. Please note that in a defined contribution plan, invest manager fees and custodian costs are deducted from the individual accounts daily (through an adjustment to the per share price of the investments). These costs are not included in the Department's budget.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 4  
Bill Version: CSSB 141(FIN)  
Publish Date: 4/8/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue #2  
Title: An Act relating to the teachers' and public RDU: Taxation & Treasury  
employees' retirement systems Component: Alaska State Pension  
Sponsor: Finance Component No.: 1961  
Requester: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel	(127.9)	(127.9)	(127.9)	(127.9)	(127.9)	(127.9)
Contractual	(3,896.5)	(3,896.5)	(3,896.5)	(3,896.5)	(3,896.5)	(3,896.5)
Supplies	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
Equipment	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1029 PERS Retirement	(2,553.5)	(2,553.5)	(2,553.5)	(2,553.5)	(2,553.5)	(2,553.5)
1034 Teachers Retirement	(1,277.3)	(1,277.3)	(1,277.3)	(1,277.3)	(1,277.3)	(1,277.3)
1042 Judicial Retirement	(31.6)	(31.6)	(31.6)	(31.6)	(31.6)	(31.6)
1045 National Guard Retirement	(83.0)	(83.0)	(83.0)	(83.0)	(83.0)	(83.0)
1017 Benefits Systems (SBS/DC)	(199.0)	(199.0)	(199.0)	(199.0)	(199.0)	(199.0)
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>	<b>(4,144.4)</b>

Estimate of any current year (FY2005) cost: 00

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
See attached analysis.

Prepared by: Betty Martin, Comptroller Phone: 465-2352  
Division: Treasury Date/Time: 4/8/05 3:28 PM  
Approved by: Tom Boubin, Deputy Commissioner Date: 4/8/2005  
Agency: Department of Revenue

SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes	FY06	FY07	FY08	FY09	FY10	FY11
Treasur. Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out IA between the two components <sup>1</sup>	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
<b>SB241 Total incremental costs</b>	<b>590.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	12.0	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	.5	.5	.5	.5	.5
<b>SB141 Total incremental costs</b>	<b>590.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>

Assumptions:

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141.

1. A new defined contribution plan will have a similar number and type of options as the current Supplement Benefits System. All options would be available on day one of the new plan. A plan similar to SBS will result in the hire of approximately 6 managers and the establishment of over 30 additional safekeeping accounts at the custodial bank and associated accounting records.

2. There is a need to add 2 additional professional and 1 additional technical staff to include a State Investment Officer II, an Accountant IV and an Accounting Technician III. The total cost included in the fiscal notes per year of these staff is \$214.5.

3. Funding for one extra board meeting in the first year for the new board to organize and receive start-up training as well as funding to reflect 1 additional board member traveling (current budget includes 8 existing members).

4. The costs of computers, office equipment and office space reconfiguration is included in year one for the new staff. In all years funding is included for training, investment software subscriptions (Bloomberg, Yieldbook, S&P and Moody's rating services) and miscellaneous supplies for new staff.
5. In year one, the cost for the external consultant to assist the board in selecting 6 new managers. The current contract cost for manager searches is \$30,0 per search.
6. The costs of an external consultant to calculate performance of the funds quarterly. Costs are expected to be \$30,0 year based on the current contract.
7. In FY2006 \$100,0 to cover the costs of an independent audit/review of the performance consultant. It is a requirement in SB141 that this contractor be audited. We expect that audit to occur every 4 to 5 years after the initial audit/review.
8. There is a \$40,0 reduction in current costs associated with the election of members as the new board will be appointed by the governor.

#### Treasury Division fiscal note #1

The Treasury Division's fiscal note includes \$214.5 each year for personal services. There are economies of scale in managing investments. However, the new funds created by Senate Bill 141 would require considerable additional responsibilities. If the number of options paralleled the existing SBS Plan, that would translate to 13 new manager accounts, 34 new custodial accounts and 1 new sets of monthly financial statements with annual audit requirements. The Department of Revenue currently manages a large number of funds with a limited investment and back office staff. In order to prudently meet the prospective demands of Senate Bill 141, Treasury would need to hire an additional investment staff and 2 middle back office staff.

#### Background

Prudent and productive management of investments is a resource intensive process. Managing a modern portfolio is a broad responsibility which requires significant expertise and high attention to detail.

Investment management responsibilities include designing investment policy guidelines, developing custom asset allocations, conducting investment manager searches, performing investment manager due diligence, negotiating and contracting with prospective managers, managing investment manager relationships, performing periodic portfolio rebalancing, monitoring and evaluating investment performance, presenting and consulting with oversight organizations, and following developments in investment research and analytic tools.

In addition, investment management requires a significant interface with back and middle office functions including fund accounting and audit, managing custody and brokerage relationships, cash management, securities lending, safeguarding assets, and compliance monitoring.

Senate Bill 141 would create the equivalent of four new funds to manage: the Employee Defined Contribution Accounts, the Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust.

The Employee Defined Contribution Accounts would likely offer employees a reasonably wide range of investment options. As a comparison, the Supplemental Benefits System offers a suite of 6 target or life-style funds and 8 separate asset class funds for a total of 14 options that participants may select from. Deciding on the mix of investment styles to offer, searching for and hiring investment managers, and evaluating and reporting on investment manager performance would be a considerable on-going undertaking.

While Treasury may realize fee economies from existing investment relationships, it is unlikely that the contributions in this account can be commingled with existing accounts. That means that there would be a completely new set of accounts for custodial and accounting purposes.

The Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust would all likely call for separate custom asset allocations. All three would individually require evaluation, reporting, and periodic portfolio rebalancing. They would also require separate custodial and accounting records including monthly financial reporting and audits.

There is likely to be an additional consequence of the change to a defined contribution plan. Currently there is a population of participants in SBS and Deferred Compensation that monitor their accounts daily. They often have questions whenever there are apparent anomalies in the change in the daily prices of the options. As a general rule, we would say that members of a defined benefit plan are not as price sensitive. The new plan will greatly increase the number of individuals who are monitoring on-line data on a daily basis. This will correlate directly to an increase in the amount of time we spend answering questions.

#### Alaska State Pension Investment Board fiscal note #2

#### Alaska Retirement Management Board fiscal note #3

Fiscal note #2 transfers the existing ASPIB budgeted funding to the new ARM Board. This fiscal note also includes the ARM board's share of costs expected due to the implementation of SB141.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB budgeted funding fiscal note	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4
Incremental costs from SB141	590.2	266.2	266.2	266.2	266.2	266.2
Total costs on fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Total first year costs in fiscal note #3 include \$189.0 for manager selection; \$10.0 for an audit of the board's performance consultant (This audit is a new requirement of SB141. It does not have to occur in the first year, but once done we would expect it to occur every 4 to 5 years.); \$15.0 associated with one additional meeting for organizing and educating the new board members; and, \$29.0 for computers and the office setup for the new positions. These total start-up costs are \$324.0.

On-going costs include interagency chargeback to the ARM for the costs of the 5 new positions totaling \$214.5, travel for the additional board member (the current board has 8 members versus the new board with 9 members) as well as increased due diligence of the new fund managers and training for the new staff in the amount of \$17.0; \$48.7 for the ongoing cost of phones, information technology charge backs, supplies and investment subscription services for the new staff (these include Bloomberg, Yieldbook, S&P and Moody's and Tradeweb), a \$40.0 reduction in current cost as elections will be eliminated; \$30.0 per year for the calculation of the new funds' performance by an external consultant. These total on-going costs are \$266.2.

**State Pension Custody and Management Fees #4**  
**Alaska Retirement Management Board Fees #5**

Fiscal note #4 transfers the budgeted funding of the State Pension Custody and Management Fees to a new Alaska Retirement Management Board Fees component (fiscal note #5) in the Department of Revenue for the new ARM Board. This component includes the investment management and custody costs of the existing defined benefit plans and will not be impacted in the foreseeable future by SB141. Please note that in a defined contribution plan, invest manager fees and custodian costs are deducted from the individual accounts daily (through an adjustment to the per share price of the investments). These costs are not included in the Department's budget.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 5  
Bill Version: CSSB 141(FIN)  
Publish Date: 4/8/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue #3  
Title: An Act relating to the teachers' and public RDU: Taxation & Treasury  
employees' retirement systems Component: Alaska Retirement Management  
Sponsor: Finance Board  
Requester: \_\_\_\_\_ Component No.: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	23.9	12.0	12.0	12.0	12.0	12.0
Contractual	4,481.7	4,183.6	4,183.6	4,183.6	4,183.6	4,183.6
Supplies	14.5	0.5	0.5	0.5	0.5	0.5
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>4,734.6</b>	<b>4,410.6</b>	<b>4,410.6</b>	<b>4,410.6</b>	<b>4,410.6</b>	<b>4,410.6</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>				<b>292.6</b>	<b>339.4</b>	<b>386.2</b>
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**FUND SOURCE** (Thousands of Dollars)

FUND SOURCE	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
1029 PERS Retirement	2,553.5	2,553.5	2,553.5	2,553.5	2,553.5	2,553.5
1034 Teachers Retirement	1,277.3	1,277.3	1,277.3	1,277.3	1,277.3	1,277.3
1042 Judicial Retirement	31.6	31.6	31.6	31.6	31.6	31.6
1045 National Guard Retirement	83.0	83.0	83.0	83.0	83.0	83.0
1017 Benefits Systems (SBS/DC)	199.0	199.0	398.6	332.1	265.6	465.2
1004 GF	590.2	266.2	66.6	133.1	199.6	0.0
<b>TOTAL</b>	<b>4,734.6</b>	<b>4,410.6</b>	<b>4,410.6</b>	<b>4,410.6</b>	<b>4,410.6</b>	<b>4,410.6</b>

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

See attached analysis.

Prepared by: Betty Martin, Comptroller  
Division: Treasury  
Approved by: Tom Boutin, Deputy Commissioner  
Agency: Department of Revenue

Phone: 465-2352  
Date/Time: 4/5/05 3:28 PM  
Date: 4/5/2005

SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes	FY06	FY07	FY08	FY09	FY10	FY11
Treasury Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out IA between the two components <sup>1</sup>	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
<b>SB241 Total incremental costs</b>	<b>590.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	23.9	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	.5	.5	.5	.5	.5
<b>SB141 Total incremental costs</b>	<b>590.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>

Assumptions:

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141

1. A new defined contribution plan will have a similar number and type of options as the current Supplement Benefits System. All options would be available on day one of the new plan. A plan similar to SBS will result in the hire of approximately 6 managers and the establishment of over 30 additional safekeeping accounts at the custodial bank and associated accounting records.

2. There is a need to add 2 additional professional and 1 additional technical staff to include a State Investment Officer II, an Accountant IV and an Accounting Technician III. The total cost included in the fiscal notes per year of these staff is \$214.5.

3. Funding for one extra board meeting in the first year for the new board to organize and receive start-up training as well as funding to reflect 1 additional board member traveling (current budget includes 8 existing members).

4. The costs of computers, office equipment and office space reconfiguration is included in year one for the new staff. In all years funding is included for training, investment software subscriptions (Bloomberg, Yieldbook, S&P and Moody's rating services) and miscellaneous supplies for new staff.

5. In year one, the cost for the external consultant to assist the board in selecting 6 new managers. The current contract cost for manager searches is \$30.0 per search.

6. The costs of an external consultant to calculate performance of the funds quarterly. Costs are expected to be \$30.0/year based on the current contract.

7. In FY2006 \$100.0 to cover the costs of an independent audit/review of the performance consultant. It is a requirement in SB141 that this contractor be audited. We expect that audit to occur every 4 to 5 years after the initial audit/review.

8. There is a \$40.0 reduction in current costs associated with the election of members as the new board will be appointed by the governor.

#### **Treasury Division fiscal note #1**

The Treasury Division's fiscal note includes \$214.5 each year for personal services. There are economies of scale in managing investments. However, the new funds created by Senate Bill 141 would require considerable additional responsibilities. If the number of options paralleled the existing SBS Plan, that would translate to 13 new manager accounts, 34 new custodial accounts and 4 new sets of monthly financial statements with annual audit requirements. The Department of Revenue currently manages a large number of funds with a limited investment and back office staff. In order to prudently meet the prospective demands of Senate Bill 141, Treasury would need to hire an additional investment staff and 2 middle back office staff.

#### **Background**

Prudent and productive management of investments is a resource intensive process. Managing a modern portfolio is a broad responsibility which requires significant expertise and high attention to detail.

Investment management responsibilities include designing investment policy guidelines, developing custom asset allocations, conducting investment manager searches, performing investment manager due diligence, negotiating and contracting with prospective managers, managing investment manager relationships, performing periodic portfolio rebalancing, monitoring and evaluating investment performance, presenting and consulting with oversight organizations, and following developments in investment research and analytic tools.

In addition, investment management requires a significant interface with back and middle office functions including fund accounting and audit, managing custody and brokerage relationships, cash management, securities lending, safeguarding assets, and compliance monitoring.

Senate Bill 141 would create the equivalent of four new funds to manage: the Employee Defined Contribution Accounts, the Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust.

The Employee Defined Contribution Accounts would likely offer employees a reasonably wide range of investment options. As a comparison, the Supplemental Benefits System offers a suite of 6 target or life-style funds and 8 separate asset class funds for a total of 14 options that participants may select from. Deciding on the mix of investment styles to offer, searching for and hiring investment managers, and evaluating and reporting on investment manager performance would be a considerable on-going undertaking.

While Treasury may realize fee economies from existing investment relationships, it is unlikely that the contributions in this account can be commingled with existing accounts. That means that there would be a completely new set of accounts for custodial and accounting purposes.

The Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust would all likely call for separate custom asset allocations. All three would individually require evaluation, reporting, and periodic portfolio rebalancing. They would also require separate custodial and accounting records including monthly financial reporting and audits.

There is likely to be an additional consequence of the change to a defined contribution plan. Currently there is a population of participants in SBS and Deferred Compensation that monitor their accounts daily. They often have questions whenever there are apparent anomalies in the change in the daily prices of the options. As a general rule, we would say that members of a defined benefit plan are not as price sensitive. The new plan will greatly increase the number of individuals who are monitoring on-line data on a daily basis. This will correlate directly to an increase in the amount of time we spend answering questions.

**Alaska State Pension Investment Board fiscal note #2**

**Alaska Retirement Management Board fiscal note #3**

Fiscal note #2 transfers the existing ASPIB budgeted funding to the new ARM board. This fiscal note also includes the ARM board's share of costs expected due to the implementation of SB141.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB budgeted funding fiscal note	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4
Incremental costs from SB141	590.2	266.2	266.2	266.2	266.2	266.2
Total costs on fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Total first year costs in fiscal note #3 include \$180.0 for manager selection; \$100.0 for an audit of the board's performance consultant (This audit is a new requirement of SB141. It does not have to occur in the first year, but once done we would expect it to occur every 4 to 5 years.); \$15.0 associated with one additional meeting for organizing and educating the new board members; and, \$29.0 for computers and the office setup for the new positions. These total start-up costs are \$324.0.

On-going costs include interagency chargeback to the ARM for the costs of the 3 new positions totaling \$214.5; travel for the additional board member (the current board has 8 members versus the new board with 9 members) as well as increased due diligence of the new fund managers and training for the new staff in the amount of \$13.0; \$48.7 for the ongoing cost of phones, information technology charge backs, supplies and investment subscription services for the new staff (these include Bloomberg, Yieldbook, S&P and Moody's and Trideweb); a \$-40.0 reduction in current cost as elections will be eliminated; \$30.0 per year for the calculation of the new funds' performance by an external consultant. These total on-going costs are \$266.2.

**State Pension Custody and Management Fees #4**  
**Alaska Retirement Management Board Fees #5**

Fiscal note #4 transfers the budgeted funding of the State Pension Custody and Management Fees to a new Alaska Retirement Management Board Fees component (fiscal note #5) in the Department of Revenue for the new ARM Board. This component includes the investment management and custody costs of the existing defined benefit plans and will not be impacted in the foreseeable future by SB141. Please note that in a defined contribution plan, invest manager fees and custodian costs are deducted from the individual accounts daily (through an adjustment to the per share price of the investments). These costs are not included in the Department's budget.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 6  
Bill Version: CSSB 141(FIN)  
g) Publish Date: 4/8/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue #4  
Title: An Act relating to the teachers' and public RDU: Taxation & Treasury  
employees' retirement systems Component: State Pension Custody and  
Sponsor: Finance Component No.: 2311  
Requester: \_\_\_\_\_

### Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)	(31,913.6)
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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### FUND SOURCE (Thousands of Dollars)

1029 PERS Retirement	(20,692.8)	(20,692.8)	(20,692.8)	(20,692.8)	(20,692.8)	(20,692.8)
1034 Teachers Retirement	(10,760.9)	(10,760.9)	(10,760.9)	(10,760.9)	(10,760.9)	(10,760.9)
1042 Judicial Retirement	(328.4)	(328.4)	(328.4)	(328.4)	(328.4)	(328.4)
1045 National Guard Retirement	(131.5)	(131.5)	(131.5)	(131.5)	(131.5)	(131.5)
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>	<b>(31,913.6)</b>

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

### POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

See attached analysis

Prepared by: Betty Martin, Comptroller  
Division: Treasury  
Approved by: Tom Boudin, Deputy Commissioner  
Agency: Department of Revenue

Phone: 465-2352  
Date/Time: 4/8/05 3:28 PM  
Date: 4/5/2005

SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes	FY06	FY07	FY08	FY09	FY10	FY11
Treasury Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out 1A between the two components <sup>1</sup>	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
<b>SB141 Total incremental costs</b>	<b>590.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	23.9	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	.5	.5	.5	.5	.5
<b>SB141 Total incremental costs</b>	<b>590.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>

#### Assumptions:

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141.

1. A new defined contribution plan will have a similar number and type of options as the current Supplement Benefits System. All options would be available on day one of the new plan. A plan similar to SBS will result in the hire of approximately 6 managers and the establishment of over 30 additional safekeeping accounts at the custodial bank and associated accounting records.
2. There is a need to add 2 additional professional and 1 additional technical staff to include a State Investment Officer II, an Accountant IV and an Accounting Technician III. The total cost included in the fiscal notes per year of these staff is \$214.5.
3. Funding for one extra board meeting in the first year for the new board to organize and receive start-up training as well as funding to reflect 1 additional board member traveling (current budget includes 8 existing members).

4. The costs of computers, office equipment and office space reconfiguration is included in year one for the new staff. In all years funding is included for training, investment software subscriptions (Bloomberg, Yieldbook, S&P and Moody's rating services) and miscellaneous supplies for new staff.
5. In year one, the cost for the external consultant to assist the board in selecting 6 new managers. The current contract cost for manager searches is \$30.0 per search.
6. The costs of an external consultant to calculate performance of the funds quarterly. Costs are expected to be \$30.0 year based on the current contract.
7. In FY2006 \$100.0 to cover the costs of an independent audit review of the performance consultant. It is a requirement in SB141 that this contractor be audited. We expect that audit to occur every 4 to 5 years after the initial audit review.
8. There is a \$40.0 reduction in current costs associated with the election of members as the new board will be appointed by the governor.

#### Treasury Division fiscal note #1

The Treasury Division's fiscal note includes \$214.5 each year for personal services. There are economies of scale in managing investments. However, the new funds created by Senate Bill 141 would require considerable additional responsibilities. If the number of options paralleled the existing SBS Plan, that would translate to 13 new manager accounts, 34 new custodial accounts and 4 new sets of monthly financial statements with annual audit requirements. The Department of Revenue currently manages a large number of funds with a limited investment and back office staff. In order to prudently meet the prospective demands of Senate Bill 141, Treasury would need to hire an additional investment staff and 2 middle/back office staff.

#### Background

Prudent and productive management of investments is a resource intensive process. Managing a modern portfolio is a broad responsibility which requires significant expertise and high attention to detail.

Investment management responsibilities include designing investment policy guidelines, developing custom asset allocations, conducting investment manager searches, performing investment manager due diligence, negotiating and contracting with prospective managers, managing investment manager relationships, performing periodic portfolio rebalancing, monitoring and evaluating investment performance, presenting and consulting with oversight organizations, and following developments in investment research and analytic tools.

In addition, investment management requires a significant interface with back and middle office functions including fund accounting and audit, managing custody and brokerage relationships, cash management, securities lending, safeguarding assets, and compliance monitoring.

Senate Bill 141 would create the equivalent of four new funds to manage - the Employee Defined Contribution Accounts, the Employer Vetting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust.

The Employee Defined Contribution Accounts would likely offer employees a reasonably wide range of investment options. As a comparison, the Supplemental Benefits System offers a suite of 6 target or life-style funds and 8 separate asset class funds for a total of 14 options that participants may select from. Deciding on the mix of investment styles to offer, searching for and hiring investment managers, and evaluating and reporting on investment manager performance would be a considerable on-going undertaking.

While Treasury may realize fee economies from existing investment relationships, it is unlikely that the contributions in this account can be commingled with existing accounts. That means that there would be a completely new set of accounts for custodial and accounting purposes.

The Employer Vesting Accounts, the Medical Program Fund, and the Health Reimbursement Arrangement Trust would all likely call for separate custom asset allocations. All three would individually require evaluation, reporting, and periodic portfolio rebalancing. They would also require separate custodial and accounting records including monthly financial reporting and audits.

There is likely to be an additional consequence of the change to a defined contribution plan. Currently, there is a population of participants in SBS and Deferred Compensation that monitor their accounts daily. They often have questions whenever there are apparent anomalies in the change in the daily prices of the options. As a general rule, we would say that members of a defined benefit plan are not as price sensitive. The new plan will greatly increase the number of individuals who are monitoring on-line data on a daily basis. This will correlate directly to an increase in the amount of time we spend answering questions.

**Alaska State Pension Investment Board fiscal note #2**  
**Alaska Retirement Management Board fiscal note #3**

Fiscal note #2 transfers the existing ASPIB budgeted funding to the new ARM board. This fiscal note also includes the ARM board's share of costs expected due to the implementation of SB141.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB budgeted funding fiscal note	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4	4,144.4
Incremental costs from SB141	390.2	266.2	266.2	266.2	266.2	266.2
Total costs on fiscal note #3	4,734.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6

Total first year costs in fiscal note #3 include \$180.0 for manager selection, \$100.0 for an audit of the board's performance consultant (this audit is a new requirement of SB141. It does not have to occur in the first year, but once done we would expect it to occur every 4 to 5 years), \$15.0 associated with one additional meeting for organizing and educating the new board members, and, \$29.0 for computers and the office setup for the new position. These total start-up costs are \$324.0.

Ongoing costs include interagency chargeback to the ARM for the costs of the 3 new positions totaling \$214.8; travel for the additional board member (the current board has 5 members versus the new board with 9 members) as well as increased due diligence of the new fund managers and training for the new staff in the amount of \$13.0; \$48.7 for the ongoing cost of phones, information technology charge backs, supplies and investment subscription services for the new staff (these include Bloomberg, Yieldbook, S&P and Moody's and Tradeweb); a \$ 40.0 reduction in current cost as elections will be eliminated; \$30.0 per year for the calculation of the new funds' performance by an external consultant. These total on-going costs are \$266.2.

**State Pension Custody and Management Fees #4**  
**Alaska Retirement Management Board Fees #5**

Fiscal note #4 transfers the budgeted funding of the State Pension Custody and Management Fees to a new Alaska Retirement Management Board Fees component (fiscal note #5) in the Department of Revenue for the new ARM Board. This component includes the investment management and custody costs of the existing defined benefit plans and will not be impacted in the foreseeable future by SB141. Please note that in a defined contribution plan, invest manager fees and custodian costs are deducted from the individual accounts daily (through an adjustment to the per share price of the investments). These costs are not included in the Department's budget.

	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6



SB141 creates a new 9 member Alaska Retirement Management (ARM) Board and replaces the current 8 member Alaska State Pension Investment Board (ASPIB) staffed by the Treasury Division. It also creates a defined contribution plan with employee and employer contributions, a separate defined benefit health fund and a health care reimbursement trust. Funds currently budgeted under the ASPIB will be transferred to the new board. A summary of the fiscal notes follows.

Summary of Fiscal Notes	FY06	FY07	FY08	FY09	FY10	FY11
Treasury Division fiscal note #1	214.5	214.5	214.5	214.5	214.5	214.5
Alaska State Pension Investment Board fiscal note #2	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4	-4,144.4
ARM Board fiscal note #3	4,754.6	4,410.6	4,410.6	4,410.6	4,410.6	4,410.6
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6
Total	804.7	480.7	480.7	480.7	480.7	480.7
Back out 1A between the two components <sup>1</sup>	-214.5	-214.5	-214.5	-214.5	-214.5	-214.5
<b>SB241 Total incremental costs</b>	<b>590.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>	<b>266.2</b>

Note 1: Currently 100% of the Treasury Division's personal services costs are included in the Treasury Division component under personal services. These incremental costs are included in the new ARM budget (as in the prior ASPIB budget as a contractual expense). Simply adding the two budgets would double count this amount.

The following table shows the breakdown of incremental costs by budget category. Following are discussed the assumptions we have made and how these total costs have been allocated between fiscal note 1 and 3.

	FY06	FY07	FY08	FY09	FY10	FY11
Personal Services	214.5	214.5	214.5	214.5	214.5	214.5
Travel	23.9	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	39.2	39.2	39.2	39.2	39.2
Supplies	14.5	.5	.5	.5	.5	.5
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#### Assumptions:

Following are the assumptions used in arriving at the estimate of the incremental costs of SB141.

1. A new defined contribution plan will have a similar number and type of options as the current Supplement Benefits System. All options would be available on day one of the new plan. A plan similar to SBS will result in the hire of approximately 6 managers and the establishment of over 50 additional safekeeping accounts at the custodial bank and associated accounting records.

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	FY06	FY07	FY08	FY09	FY10	FY11
ASPIB Custody and Management Fees fiscal note #4	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6	-31,913.6
ARM Board Custody and Management Fees fiscal note #5	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6	31,913.6

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 8  
Bill Version: CSSB 141(FIN)  
(S) Publish Date: 4/11/2005

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
Title "An Act relating to to the teachers' and public employees' retirement systems..." RDU \_\_\_\_\_  
Sponsor Senate Finance Committee Component Retirement & Benefits  
Requester Senate Finance Committee Component No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>FUND CAPITALIZATION</b>	<b>69,531.8</b>					
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	69,531.8					
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS Trust						
1034 Teach Ret						
<b>TOTAL</b>	<b>69,531.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This fiscal note appropriates \$69,531,800 from the general fund to the PERS and TRS trust funds:

Public Employees' Retirement System (Fund Code 1029): \$67,158.3

Teacher' Retirement System (Fund Code 1034): \$2,373.5

This is the amount required to hold the participating employers harmless from the 5% increase to the employer contribution that is effective July 1, 2005 for the 2006 fiscal year. The employer cost for school districts is handled in HB 1.

See attached summary and detail sheets for the PERS and TRS participating employers

Prepared by: Senate Finance Committee Phone 465-6600  
Division: \_\_\_\_\_ Date/Time 3/17/05 8:24 AM  
Approved by: \_\_\_\_\_ Date 3/17/2005  
Agency: \_\_\_\_\_

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (in Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
		<b>TOTAL BOTH PERS AND TRS</b>	<b>108,042,636</b>	<b>386,448,932</b>	<b>111,686,411</b>	<b>510,881,144</b>	<b>115,684,006</b>	<b>644,731,842</b>	<b>48,407,834</b>	<b>716,695,197</b>
<b>TOTAL PERS AND TRS FOR STATE, POLITICAL SUBDIVISIONS, AND SCHOOL DISTRICTS</b>										
		POLITICAL SUBDIVISIONS	18,426,926	55,913,660	19,117,936	77,128,359	19,834,859	99,855,531	3,996,494	107,706,448
		SCHOOL DISTRICTS	38,510,745	151,099,097	39,581,491	194,745,319	40,890,935	242,029,923	31,260,039	281,411,389
		STATE OF ALASKA	39,966,574	142,083,708	41,460,806	188,853,693	43,013,516	238,938,458	8,939,278	257,086,305
		UNIVERSITY	7,769,429	26,326,893	8,032,460	35,227,657	8,320,689	44,801,844	3,386,468	49,826,975
		<b>TOTAL</b>	<b>104,673,675</b>	<b>375,423,359</b>	<b>108,192,693</b>	<b>495,955,028</b>	<b>112,059,999</b>	<b>625,625,756</b>	<b>47,582,278</b>	<b>696,031,118</b>
<b>TOTAL PERS AND TRS FOR ALL OTHERS</b>										
		ALASKA HOUSING FINANCE CORPORATION	798,115	2,576,315	828,044	3,500,971	859,096	4,491,353	173,098	4,837,817
		ALASKA MUNICIPAL LEAGUE	16,035	129,848	16,636	151,354	17,260	174,289	3,478	184,494
		ALEUTIAN HOUSING AUTHORITY	26,172	100,292	27,154	131,207	28,172	164,300	5,676	176,318
		ALEUTIANS WEST CRSA	2,817	12,148	2,923	15,527	3,033	19,142	611	20,492
		ANCHORAGE PARKING AUTHORITY	52,900	150,024	54,884	210,533	56,942	275,370	11,473	297,472
		BARANOF ISLAND HA	23,645	72,875	24,532	100,140	25,452	129,347	5,128	139,468
		BARTLETT REGIONAL HOSPITAL	890,282	2,872,049	923,667	3,903,418	958,305	5,008,100	193,087	5,394,500
		BERING STRAITS CRSA	3,546	23,248	3,679	27,799	3,817	32,658	769	34,688
		BERING STRAITS RHA	53,837	213,298	57,931	279,228	60,104	349,803	12,110	375,415
		BRISTOL BAY RHA	57,562	203,311	59,721	270,656	61,961	342,766	12,484	368,481
		COOK INLET HOUSING AUTHORITY	134,066	466,283	139,094	622,862	144,310	790,529	29,077	850,120
		COPPER RIVER BASIN RHA	27,798	90,900	28,841	123,150	29,922	157,690	6,029	169,806
		CORDOVA COMMUNITY MEDICAL CENTER	131,150	397,121	136,068	548,081	141,170	709,804	28,444	765,647
		ILISAGVIK COLLEGE	206,157	638,263	213,888	876,086	221,909	1,130,848	44,712	1,219,211
		INTERIOR RHA	52,437	184,474	54,403	245,795	56,444	311,456	11,373	334,851
		INTER-ISLAND FERRY AUTHORITY	6,605	20,582	6,853	28,206	7,110	36,374	1,433	39,211
		NOME JOINT UTILITY SYSTEM	50,792	101,584	52,697	158,090	54,673	218,692	11,016	238,149
		NORTH PACIFIC FISHERY MGMT COUNCIL	57,725	208,271	59,889	275,971	62,135	348,455	12,520	374,425
		NORTH PACIFIC RIM HA	48,977	162,408	50,814	219,313	52,719	280,256	10,622	301,697
		NORTHWEST INUPIAT HOUSING AUTHORITY	28,131	86,757	29,186	119,197	30,281	153,947	6,101	165,991
		PETERSBURG MEDICAL CENTER	149,103	328,027	154,695	495,023	160,496	674,082	32,338	732,439
		SAXMAN SEAPORT	1,996	7,639	2,070	9,996	2,148	12,518	433	13,434
		SITKA COMMUNITY HOSPITAL	225,166	763,762	233,610	1,026,013	242,370	1,306,859	48,835	1,406,138
		SOUTHEAST REGIONAL RESOURCE CENTER	136,869	475,538	141,276	631,599	146,241	799,794	73,287	901,629
		SPECIAL EDUCATION SERVICE AGENCY	84,283	326,902	86,590	422,165	89,445	525,405	69,562	612,514
		TILINGIT-HAIDA RHA	100,793	413,654	104,573	533,739	108,494	662,248	21,860	709,674
		<b>TOTAL</b>	<b>3,368,960</b>	<b>11,025,574</b>	<b>3,493,717</b>	<b>14,926,116</b>	<b>3,624,007</b>	<b>19,106,086</b>	<b>825,556</b>	<b>20,664,079</b>

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (In Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	208	AKUTAN, CITY OF	14,932	42,079	15,492	59,149	16,073	77,440	3,239	83,668
PERS	230	ALEUTIANS EAST BOROUGH	50,537	200,431	52,432	260,379	54,399	324,542	10,961	348,030
PERS	259	ALLAKAKET, CITY OF	2,564	5,127	2,660	7,979	2,759	11,038	556	12,020
PERS	173	ANCHORAGE, MUNICIPALITY OF	6,615,843	18,061,251	6,863,937	25,602,485	7,121,335	33,683,913	1,434,866	36,418,979
PERS	283	ANDERSON, CITY OF	2,009	2,009	2,084	4,168	2,162	6,486	436	7,172
PERS	289	ANGOON, CITY OF	15,955	49,206	16,553	67,604	17,174	87,314	3,460	94,144
PERS	243	ATKA, CITY OF	3,708	14,832	3,847	19,235	3,991	23,948	804	25,677
PERS	171	BARROW, CITY OF	53,772	192,072	55,788	255,063	57,880	322,507	11,662	346,618
PERS	136	BETHEL, CITY OF	235,324	644,787	244,148	913,115	253,304	1,200,661	51,038	1,298,044
PERS	144	BRISTOL BAY BOROUGH	70,944	184,313	73,605	264,830	76,365	351,126	15,387	380,066
PERS	148	CORDOVA, CITY OF	98,482	290,917	102,175	404,002	106,007	525,159	21,359	566,789
PERS	186	CRAIG, CITY OF	94,438	383,983	97,979	496,362	101,653	616,628	20,482	660,912
PERS	282	DELTA JUNCTION, CITY OF	3,419	13,059	3,547	17,095	3,680	21,416	741	22,984
PERS	258	DENALI BOROUGH	29,484	200,493	30,590	238,601	31,737	279,286	6,395	296,461
PERS	178	DILLINGHAM, CITY OF	122,152	395,285	126,733	536,841	131,485	688,458	26,493	741,525
PERS	271	EGEGIK, CITY OF	5,075	14,007	5,265	19,798	5,463	26,003	1,101	28,108
PERS	242	ELIM, CITY OF	9,077	25,980	9,418	36,372	9,771	47,507	1,969	51,310
PERS	116	FAIRBANKS NORTH STAR BOROUGH	867,894	2,765,110	900,440	3,769,241	934,206	4,844,794	188,232	5,220,035
PERS	129	FAIRBANKS, CITY OF	305,784	1,875,679	317,251	2,263,268	329,148	2,677,288	66,319	2,846,951
PERS	183	FORT YUKON, CITY OF	15,338	30,677	15,914	47,741	16,510	66,041	3,327	71,917
PERS	192	GALENA, CITY OF	68,486	136,972	71,054	213,162	73,719	294,875	14,853	321,110
PERS	189	HAINES BOROUGH	105,665	468,518	109,627	595,715	113,738	731,793	22,917	782,957
PERS	215	HOMER, CITY OF	245,743	635,001	254,959	913,772	264,520	1,212,559	53,298	1,312,661
PERS	199	HOONAH, CITY OF	33,095	104,248	34,336	142,493	35,623	183,460	7,178	197,719
PERS	285	HOOPER BAY, CITY OF	30,735	94,788	31,888	130,230	33,084	168,198	6,666	181,356
PERS	235	HUSLIA, CITY OF	4,785	17,486	4,965	23,106	5,151	29,124	1,038	31,286
PERS	126	JUNEAU, CITY AND BOROUGH OF	1,351,743	4,385,054	1,402,433	5,951,927	1,455,025	7,630,149	293,171	8,217,844
PERS	260	KACHEMAK, CITY OF	3,068	15,569	3,183	19,336	3,303	23,364	665	24,932
PERS	277	KAKE, CITY OF	15,138	51,438	15,705	69,072	16,294	87,956	3,283	94,634
PERS	237	KALTAG, CITY OF	1,479	5,471	1,535	7,211	1,593	9,074	321	9,745
PERS	180	KENAI PENINSULA BOROUGH	625,569	2,228,278	649,028	2,960,866	673,367	3,745,265	135,676	4,025,508
PERS	115	KENAI, CITY OF	278,462	761,316	288,905	1,078,770	299,739	1,418,962	60,394	1,534,128
PERS	122	KETCHIKAN GATEWAY BOROUGH	206,307	639,140	214,044	877,152	222,070	1,132,115	44,745	1,220,560
PERS	181	KETCHIKAN, CITY OF	415,937	2,073,029	431,534	2,582,302	447,717	3,126,856	90,210	3,337,762
PERS	151	KING COVE, CITY OF	53,681	157,071	55,694	218,656	57,783	284,638	11,643	307,268
PERS	227	KLAWOCK, CITY OF	42,542	95,210	44,138	142,918	45,793	194,070	9,227	210,788
PERS	174	KODIAK ISLAND BOROUGH	113,667	227,334	117,929	353,788	122,352	489,407	24,652	532,950
PERS	128	KODIAK, CITY OF	293,700	952,175	304,714	1,292,596	316,140	1,657,208	63,699	1,784,875

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (in Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	140	KOTZEBUE, CITY OF	162,767	325,534	168,871	506,612	175,203	700,813	35,301	763,165
PERS	287	KOYUK, CITY OF	1,113	3,433	1,155	4,716	1,198	6,091	241	6,568
PERS	247	LAKE AND PENINSULA BOROUGH	32,811	150,276	34,042	189,953	35,318	232,395	7,116	248,482
PERS	109	MATANUSKA-SUSITNA BOROUGH	496,101	1,586,530	514,704	2,160,729	534,006	2,775,762	107,596	2,990,502
PERS	193	NENANA, CITY OF	19,388	75,458	20,115	98,403	20,869	122,962	4,205	131,913
PERS	139	NOME, CITY OF	129,462	271,870	134,317	416,382	139,354	571,350	28,078	621,482
PERS	241	NOORVIK, CITY OF	18,250	52,559	18,934	73,465	19,644	95,864	3,958	103,522
PERS	191	NORTH POLE, CITY OF	107,535	322,604	111,567	446,269	115,751	578,755	23,322	624,418
PERS	145	NORTH SLOPE BOROUGH	2,458,409	6,214,859	2,550,600	8,998,515	2,646,247	11,982,207	533,188	12,977,908
PERS	220	NORTHWEST ARCTIC BOROUGH	36,340	104,151	37,703	145,760	39,117	190,343	7,882	205,571
PERS	134	PALMER, CITY OF	132,967	493,041	137,953	649,483	143,126	816,955	28,838	877,338
PERS	200	PELICAN, CITY OF	6,559	18,181	6,805	25,668	7,060	33,690	1,423	36,413
PERS	143	PETERSBURG, CITY OF	198,490	934,095	205,934	1,175,058	213,656	1,432,778	43,049	1,531,133
PERS	266	QUINHAGAK, CITY OF	1,552	5,380	1,610	7,192	1,671	9,133	337	9,822
PERS	216	RUBY, CITY OF	6,153	22,153	6,384	29,368	6,624	37,092	1,335	39,859
PERS	256	SAINT GEORGE, CITY OF	18,988	52,330	19,700	73,992	20,438	97,205	4,118	105,075
PERS	214	SAINT MARY'S, CITY OF	15,895	64,341	16,491	83,245	17,109	103,476	3,447	110,917
PERS	172	SAINT PAUL, CITY OF	70,881	175,077	73,539	255,182	76,297	347,548	15,373	369,586
PERS	176	SAND POINT, CITY OF	39,312	95,214	40,786	139,571	42,316	187,121	8,526	202,870
PERS	198	SAXMAN, CITY OF	21,534	141,438	22,342	169,084	23,180	198,605	4,670	210,941
PERS	222	SELAWICK, CITY OF	4,016	12,860	4,167	17,509	4,323	22,488	871	24,227
PERS	286	SELDOVIA, CITY OF	4,997	15,411	5,185	21,174	5,379	27,347	1,084	29,486
PERS	182	SEWARD, CITY OF	192,943	530,207	200,178	750,268	207,685	986,087	41,846	1,065,996
PERS	120	SITKA, CITY AND BOROUGH OF	371,607	1,413,591	385,542	1,852,143	400,000	2,321,597	80,595	2,491,806
PERS	132	SKAGWAY, CITY OF	72,524	284,729	75,244	370,650	78,065	462,615	15,729	496,201
PERS	123	SOLDOTNA, CITY OF	139,473	403,357	144,704	563,187	150,130	734,437	30,249	793,035
PERS	169	TANANA, CITY OF	11,285	46,608	11,708	60,064	12,147	74,464	2,448	79,785
PERS	206	THORNE BAY, CITY OF	14,513	43,830	15,057	60,531	15,622	78,422	3,148	84,597
PERS	280	TOKSOOK BAY, CITY OF	881	2,644	914	3,657	949	4,743	191	5,117
PERS	249	UNALAKLEET, CITY OF	13,698	40,738	14,212	56,478	14,745	73,340	2,971	79,142
PERS	179	UNALASKA, CITY OF	493,130	1,685,517	511,622	2,260,346	530,808	2,875,917	106,952	3,093,879
PERS	107	VALDEZ, CITY OF	255,619	711,133	265,205	1,003,005	275,150	1,315,768	55,440	1,421,996
PERS	131	WASILLA, CITY OF	173,593	570,773	180,103	772,280	186,856	988,097	37,649	1,063,887
PERS	202	WHITTIER, CITY OF	48,977	97,954	50,814	152,441	52,719	210,877	10,622	229,639
PERS	135	WRANGELL, CITY OF	125,854	420,855	130,573	567,211	135,470	723,951	27,296	779,191
PERS	248	YAKUTAT, CITY AND BOROUGH OF	22,773	85,535	23,627	112,370	24,513	141,096	4,939	151,482
		<b>Subtotal: Political Subs PERS</b>	<b>18,426,926</b>	<b>55,913,660</b>	<b>19,117,936</b>	<b>77,128,359</b>	<b>19,834,859</b>	<b>99,855,531</b>	<b>3,996,494</b>	<b>107,706,448</b>
PERS	152	ALASKA HOUSING FINANCE CORPORATION	798,115	2,576,315	828,041	3,500,971	859,096	4,491,353	173,098	4,837,817

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (in Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	106	ALASKA MUNICIPAL LEAGUE	16,035	129,848	16,636	151,354	17,260	174,289	3,478	184,494
PERS	267	ALEUTIAN HOUSING AUTHORITY	26,172	100,292	27,154	131,207	28,172	164,300	5,676	176,318
PERS	245	ALEUTIANS WEST CRSA	2,817	12,148	2,923	15,527	3,033	19,142	611	20,492
PERS	203	ANCHORAGE PARKING AUTHORITY	52,900	150,024	54,884	210,533	56,942	275,370	11,473	297,472
PERS	281	BARANOF ISLAND HA	23,645	72,875	24,532	100,140	25,452	129,347	5,128	139,468
PERS	219	BARTLETT REGIONAL HOSPITAL	890,282	2,872,049	923,667	3,903,418	958,305	5,008,100	193,087	5,394,500
PERS	232	BERING STRAITS CRSA	3,546	23,248	3,679	27,799	3,817	32,658	769	34,688
PERS	270	BERING STRAITS RHA	55,837	213,298	57,931	279,228	60,104	349,803	12,110	375,415
PERS	223	BRISTOL BAY RHA	57,562	203,311	59,721	270,656	61,961	342,766	12,484	368,481
PERS	262	COOK INLET HOUSING AUTHORITY	134,066	466,283	139,094	622,862	144,310	790,529	29,077	850,120
PERS	224	COPPER RIVER BASIN RHA	27,798	90,900	28,841	123,150	29,922	157,690	6,029	169,806
PERS	163	CORDOVA COMMUNITY MEDICAL CENTER	131,150	397,121	136,068	548,081	141,170	709,804	28,444	765,647
PERS	275	ILISAGVIK COLLEGE	206,157	638,263	213,888	876,086	221,909	1,130,848	44,712	1,219,211
PERS	263	INTERIOR RHA	52,437	184,474	54,403	245,795	56,444	311,456	11,373	334,851
PERS	284	INTER-ISLAND FERRY AUTHORITY	6,605	20,582	6,853	28,206	7,110	36,374	1,433	39,211
PERS	175	NOME JOINT UTILITY SYSTEM	50,792	101,584	52,697	158,090	54,673	218,692	11,016	238,149
PERS	170	NORTH PACIFIC FISHERY MGMT COUNCIL	57,725	208,271	59,889	275,971	62,135	348,455	12,520	374,425
PERS	276	NORTH PACIFIC RIM HA	48,977	162,408	50,814	219,313	52,719	280,256	10,622	301,697
PERS	288	NORTHWEST INUPIAT HOUSING AUTHORITY	28,131	86,757	29,186	119,197	30,281	153,947	6,101	165,991
PERS	187	PETERSBURG MEDICAL CENTER	149,103	328,027	154,695	495,023	160,496	674,082	32,338	732,439
PERS	278	SAXMAN SEAPORT	1,996	7,639	2,070	9,996	2,148	12,518	433	13,434
PERS	165	SITKA COMMUNITY HOSPITAL	225,166	763,762	233,610	1,026,013	242,370	1,306,859	48,835	1,406,138
PERS	279	TLINGIT-HAIDA RHA	100,793	413,654	104,573	533,739	108,494	662,248	21,860	709,671
PERS	167	SOUTHEAST REGIONAL RESOURCE CENTER	86,812	265,298	90,068	365,315	93,445	472,459	18,828	509,525
PERS	218	SPECIAL EDUCATION SERVICE AGENCY	25,409	79,632	26,362	108,980	27,350	140,417	5,511	151,348
		<b>Subtotal: Other PERS</b>	<b>3,260,030</b>	<b>10,568,064</b>	<b>3,382,281</b>	<b>14,346,647</b>	<b>3,509,116</b>	<b>18,393,763</b>	<b>707,046</b>	<b>19,810,808</b>
PERS	101	ALASKA, STATE OF	39,655,236	140,776,087	41,142,307	187,197,498	42,685,144	236,902,548	8,600,561	254,647,547
PERS	113	UNIVERSITY OF ALASKA	5,816,153	18,123,132	6,034,258	24,837,007	6,260,543	32,028,938	1,261,427	34,526,682
		<b>Subtotal: State &amp; Univ PERS</b>	<b>45,471,388</b>	<b>158,899,219</b>	<b>47,176,566</b>	<b>212,034,505</b>	<b>48,945,687</b>	<b>268,931,486</b>	<b>9,861,988</b>	<b>289,174,229</b>
PERS	255	ALASKA GATEWAY SD	74,074	225,629	76,852	310,941	79,734	402,335	16,065	433,931
PERS	162	ALEUTIAN REGION SD	0	0	7,898	7,898	8,195	16,389	1,651	18,673
PERS	244	ALEUTIANS EAST BOROUGH SD	60,500	254,705	62,769	327,025	65,122	404,411	13,121	433,142
PERS	111	ANCHORAGE SD	3,653,549	14,066,162	3,790,557	18,384,200	3,932,703	23,006,310	792,394	24,686,747
PERS	103	ANNETTE ISLAND SD	63,144	126,289	65,512	196,537	67,969	271,876	13,695	296,065
PERS	104	BERING STRAIT SD	366,736	1,013,658	380,489	1,432,159	394,757	1,880,622	79,539	2,032,753
PERS	184	BRISTOL BAY BOROUGH SD	36,254	123,989	37,614	166,252	39,024	211,511	7,863	227,538
PERS	105	CHATHAM SD	35,721	113,807	37,061	155,136	38,450	199,404	7,747	214,848

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (In Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	121	CHUGACH SD	12,060	36,687	12,512	50,576	12,982	65,454	2,616	70,596
PERS	112	COPPER RIVER SD	63,726	232,728	66,116	307,571	68,595	387,700	13,821	416,486
PERS	185	CORDOVA CITY SD	32,539	100,611	33,759	138,143	35,025	178,349	7,057	192,290
PERS	204	CRAIG CITY SD	56,375	211,292	58,489	277,704	60,682	348,800	12,227	374,491
PERS	246	DELTA/GREELY SD	47,576	150,245	49,360	205,240	51,211	264,148	10,318	284,662
PERS	118	DENALI BOROUGH SD	43,730	162,937	45,370	214,417	47,071	269,529	9,484	289,417
PERS	205	DILLINGHAM CITY SD	63,229	171,097	65,600	243,113	68,060	320,290	13,713	346,366
PERS	117	FAIRBANKS NORTH STAR BOROUGH SD	1,234,537	3,928,296	1,280,832	5,356,439	1,328,863	6,886,168	267,750	7,419,725
PERS	141	GALENA CITY SD	163,263	576,318	169,385	767,316	175,737	971,827	35,409	1,044,749
PERS	240	HAINES BOROUGH SD	51,494	181,672	53,425	241,910	55,429	306,410	11,168	329,406
PERS	138	HOONAH CITY SD	26,739	189,099	27,742	223,932	28,782	261,111	5,799	276,989
PERS	168	HYDABURG CITY SD	13,463	26,926	13,968	41,903	14,491	57,966	2,920	63,123
PERS	124	IDITAROD AREA SD	82,335	312,048	85,422	409,172	88,625	513,142	17,857	550,806
PERS	108	JUNEAU BOROUGH SD	465,932	1,670,834	483,405	2,216,895	501,533	2,801,561	101,053	3,010,754
PERS	265	KAKE CITY SD	25,057	95,818	25,997	125,408	26,972	157,083	5,434	168,581
PERS	211	KASHUNAMIUT SD	61,755	229,112	64,071	301,775	66,474	379,565	13,394	407,610
PERS	190	KENAI PENINSULA BOROUGH SD	644,117	2,165,521	668,271	2,915,000	693,332	3,717,644	139,698	4,000,843
PERS	177	KETCHIKAN GATEWAY BOROUGH SD	187,852	595,867	194,897	813,109	202,205	1,045,806	40,742	1,126,916
PERS	251	KLAWOCK CITY SD	29,668	121,222	30,780	156,548	31,934	194,353	6,434	208,290
PERS	158	KODIAK ISLAND BOROUGH SD	235,674	699,951	244,542	970,711	253,681	1,260,793	51,114	1,360,573
PERS	125	KUSPUK SD	114,491	341,641	118,785	473,237	123,239	614,223	24,831	662,763
PERS	164	LAKE AND PENINSULA BOROUGH SD	131,433	435,832	136,362	588,538	141,476	752,084	28,506	809,620
PERS	157	LOWER KUSKOKWIM SD	859,238	2,369,779	891,459	3,350,105	924,889	4,400,623	186,354	4,756,841
PERS	153	LOWER YUKON SD	236,407	589,600	245,273	856,983	254,470	1,142,590	51,273	1,239,005
PERS	110	MATANUSKA-SUSITNA BOROUGH SD	996,633	3,187,234	1,034,007	4,340,762	1,072,782	5,576,323	216,153	6,007,722
PERS	196	NENANA CITY SD	48,549	164,291	50,370	220,822	52,259	281,362	10,530	302,752
PERS	149	NOME CITY SD	73,463	305,460	76,218	393,133	79,076	486,952	15,933	521,681
PERS	161	NORTH SLOPE BOROUGH SD	652,578	2,092,166	677,050	2,847,672	702,439	3,656,899	141,533	3,939,589
PERS	154	NORTHWEST ARCTIC BOROUGH SD	360,719	721,437	374,246	1,122,737	388,280	1,553,119	78,234	1,691,304
PERS	257	PELICAN CITY SD	4,047	16,051	4,199	20,852	4,356	25,991	878	27,872
PERS	228	PETERSBURG CITY SD	53,938	143,259	55,961	204,592	58,059	270,324	11,698	292,456
PERS	156	PRIBILOF SD	33,091	135,871	34,332	175,298	35,619	217,491	7,177	233,063
PERS	221	SAINT MARY'S SD	21,240	42,481	22,037	66,111	22,863	91,453	4,607	99,590
PERS	133	SITKA BOROUGH SD	94,373	359,372	97,912	470,761	101,584	589,998	20,468	633,240
PERS	225	SKAGWAY CITY SD	18,464	75,111	19,156	97,084	19,875	120,599	4,005	129,259
PERS	155	SOUTHEAST ISLAND SD	50,437	207,296	52,328	267,398	54,291	331,716	10,939	355,459
PERS	102	SOUTHWEST REGION SD	143,618	439,471	149,004	604,955	154,591	782,232	31,148	843,575
PERS	166	TANANA SD	8,091	47,414	8,395	57,587	8,709	68,456	1,755	72,853
PERS	209	UNALASKA CITY SD	47,987	170,257	49,786	226,428	51,653	286,573	10,408	308,042

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change in Employer Contribution (In Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
PERS	137	VALDEZ CITY SD	86,400	178,848	89,640	275,195	93,002	378,517	18,739	411,866
PERS	146	WRANGELL PUBLIC SD	42,618	127,514	44,217	176,513	45,875	229,007	9,243	247,090
PERS	264	YAKUTAT SD	19,499	70,041	20,230	92,898	20,989	117,371	4,229	126,130
PERS	160	YUKON / KOYUKUK SD	109,970	219,941	114,094	342,283	118,373	473,492	23,851	515,619
PERS	159	YUKON FLATS SD	65,909	131,818	68,381	205,142	70,945	283,779	14,295	309,028
PERS	195	YUPIIT SD	109,492	297,160	113,598	421,902	117,858	555,580	23,747	600,773
Subtotal: School District PERS			12,213,786	40,651,869	12,679,702	54,856,016	13,155,191	70,068,307	2,650,618	75,423,562
TOTAL PERS			79,372,131	266,032,812	82,356,484	358,365,527	85,444,852	457,249,086	17,216,147	492,115,048
TRS	766	ALASKA GATEWAY SD	122,058	512,643	124,865	649,299	128,736	798,104	132,791	956,097
TRS	758	ALEUTIAN REGION SD	18,118	76,097	18,535	96,382	9,110	118,479	19,711	141,923
TRS	780	ALEUTIANS EAST BOROUGH SD	119,964	503,849	122,723	638,160	126,528	784,471	130,513	939,695
TRS	701	ANCHORAGE SD	8,945,912	37,572,829	9,151,668	47,588,671	9,435,369	58,499,289	9,732,583	70,074,600
TRS	770	ANNETTE ISLAND SD	81,357	341,701	83,229	432,788	85,809	532,014	88,512	637,284
TRS	752	BERING STRAIT SD	556,156	2,335,857	568,948	2,958,530	586,585	3,636,830	605,063	4,356,453
TRS	742	BRISTOL BAY BOROUGH SD	66,251	278,254	67,775	352,429	69,876	433,230	72,077	518,954
TRS	768	CHATHAM SD	65,684	275,875	67,195	349,415	69,278	429,525	71,461	514,516
TRS	771	CHUGACH SD	47,326	198,768	48,414	251,754	49,915	309,473	51,487	370,709
TRS	767	COPPER RIVER SD	144,588	607,270	147,914	769,151	152,499	945,494	157,303	1,132,580
TRS	704	CORDOVA CITY SD	104,904	440,595	107,316	558,045	110,643	685,988	114,128	821,725
TRS	705	CRAIG CITY SD	117,364	492,928	120,063	624,329	123,785	767,468	127,684	919,328
TRS	765	DELTA/GREELY SD	151,836	637,712	155,328	807,707	160,144	992,890	165,188	1,189,354
TRS	764	DENALI BOROUGH SD	84,599	355,315	86,545	450,032	89,227	553,210	92,038	662,675
TRS	744	DILLINGHAM CITY SD	145,270	610,133	148,611	772,777	153,218	949,951	158,044	1,137,919
TRS	706	FAIRBANKS NORTH STAR BOROUGH SD	2,945,480	12,371,017	3,013,226	15,668,777	3,106,636	19,261,146	3,204,495	23,072,367
TRS	735	GALENA CITY SD	227,943	957,362	233,186	1,212,568	240,415	1,490,572	247,986	1,785,513
TRS	707	HAINES BOROUGH SD	93,831	394,089	95,989	499,142	98,965	613,580	102,082	734,990
TRS	708	HOONAH CITY SD	79,670	334,615	81,503	423,813	84,029	520,981	86,676	624,067
TRS	709	HYDABURG CITY SD	35,628	149,638	36,448	189,528	37,578	232,981	38,761	279,081
TRS	761	IDITAROD AREA SD	129,851	545,375	132,838	690,756	136,956	849,125	141,270	1,017,142
TRS	710	JUNEAU BOROUGH SD	1,021,263	4,289,305	1,044,752	5,432,711	1,077,139	6,678,264	1,111,069	7,999,699
TRS	712	KAKE CITY SD	39,935	167,728	40,854	212,440	42,120	261,145	43,447	312,818
TRS	777	KASHUNAMIUT SD	73,716	309,609	75,412	392,142	77,750	482,048	80,199	577,432
TRS	746	KENAI PENINSULA BOROUGH SD	1,918,041	8,055,774	1,962,156	10,203,213	2,022,983	12,542,496	2,086,707	15,024,292
TRS	714	KETCHIKAN GATEWAY BOROUGH SD	466,086	1,957,560	476,806	2,479,389	491,587	3,047,837	507,072	3,650,915
TRS	717	KLAWOCK CITY SD	58,619	246,199	59,967	311,829	61,826	383,322	63,174	459,170
TRS	718	KODIAK ISLAND BOROUGH SD	632,619	2,657,001	647,169	3,365,281	667,232	4,136,837	688,250	4,955,397
TRS	755	KUSPUK SD	140,344	589,445	143,572	746,574	148,023	917,740	152,685	1,099,334

Public Employees' Retirement System (PERS) & Teachers' Retirement System (TRS)										
Composite Employer Contribution Rate - Active Employers										
ESTIMATED FY 06 - 07 - 08 - 09 - Change In Employer Contribution (In Dollars)										
(Based on 2004 Valuation; June 30, 2003 Financials)										
			Fiscal Year 2006		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
Fund	ER Num	Employer	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.	AVE Increase	TOTAL Contrib.
TRS	757	LAKE AND PENINSULA BOROUGH SD	163,178	685,346	166,931	868,040	172,106	1,067,055	177,527	1,278,194
TRS	754	LOWER KUSKOKWIM SD	946,224	3,974,141	967,987	5,033,533	997,995	6,187,567	1,029,432	7,411,907
TRS	753	LOWER YUKON SD	457,613	1,921,973	468,138	2,434,316	482,650	2,992,430	497,853	3,584,545
TRS	722	MATANUSKA-SUSITNA BOROUGH SD	2,589,746	10,876,933	2,649,310	13,776,413	2,731,439	16,934,921	2,817,479	20,285,850
TRS	719	NENANA CITY SD	107,508	451,535	109,981	571,901	113,390	703,020	116,962	842,128
TRS	720	NOME CITY SD	158,350	665,072	161,993	842,361	167,014	1,035,489	172,275	1,240,382
TRS	736	NORTH SLOPE BOROUGH SD	728,566	3,059,978	745,323	3,875,680	768,428	4,764,254	792,634	5,706,962
TRS	751	NORTHWEST ARCTIC BOROUGH SD	631,148	2,650,821	645,664	3,357,454	665,680	4,127,215	686,649	4,943,871
TRS	723	PELICAN CITY SD	7,422	31,173	7,593	39,483	7,828	48,535	8,075	58,139
TRS	724	PETERSBURG CITY SD	147,167	618,100	150,552	732,868	155,219	962,355	160,108	1,152,778
TRS	759	PRIIBILOF SD	34,771	146,040	35,571	184,970	36,674	227,378	37,829	272,369
TRS	748	SAINT MARY'S SD	43,938	184,541	44,949	233,735	46,342	287,323	47,802	344,176
TRS	727	SITKA BOROUGH SD	345,793	1,452,330	353,746	1,839,480	364,712	2,261,216	376,201	2,708,645
TRS	728	SKAGWAY CITY SD	35,750	150,151	36,573	190,177	37,706	233,779	38,894	280,037
TRS	769	SOUTHEAST ISLAND SD	68,398	287,273	69,971	363,852	72,141	447,272	74,413	535,774
TRS	756	SOUTHWEST REGION SD	256,747	1,078,339	262,653	1,365,793	270,795	1,678,927	279,325	2,011,138
TRS	775	TANANA SD	14,438	60,640	14,770	76,805	15,228	94,414	15,708	113,096
TRS	729	UNALASKA CITY SD	108,771	456,838	111,273	578,618	114,722	711,277	118,336	852,019
TRS	730	VALDEZ CITY SD	236,952	995,200	242,402	1,260,492	249,917	1,549,483	257,789	1,856,081
TRS	731	WRANGELL PUBLIC SD	106,026	445,311	108,465	564,018	111,827	693,330	115,350	830,520
TRS	732	YAKUTAT SD	46,921	197,070	48,001	249,603	49,489	306,830	51,048	367,542
TRS	762	YUKON / KOYUKUK SD	193,646	813,312	198,099	1,030,117	204,241	1,266,291	210,674	1,516,854
TRS	763	YUKON FLATS SD	120,969	508,070	123,751	643,507	127,588	791,043	131,607	947,568
TRS	778	YUPIIT SD	112,500	472,499	115,087	598,453	118,655	735,660	122,392	881,226
Subtotal: School District TRS			26,296,959	110,447,228	26,901,789	139,889,303	27,735,745	171,961,616	28,609,420	205,987,827
TRS	737	ALASKA DEPARTMENT OF EDUCATION	311,338	1,307,621	318,499	1,356,196	328,373	2,035,910	338,716	2,438,758
TRS	733	UNIVERSITY OF ALASKA	1,953,277	8,203,761	1,998,202	10,390,650	2,060,146	12,772,906	2,125,041	15,300,293
TRS	743	SOUTHEAST REGIONAL RESOURCE CENTER	50,057	210,240	51,208	266,284	52,796	327,335	54,459	392,105
TRS	779	SPECIAL EDUCATION SERVICE AGENCY	58,874	247,270	60,228	313,185	62,095	384,988	64,051	461,167
Subtotal: Other TRS			2,373,546	9,968,892	2,428,137	12,626,314	2,503,410	15,521,139	2,582,267	18,592,322
TOTAL TRS			28,670,505	120,416,120	29,329,926	152,515,617	30,239,154	187,482,755	31,191,687	224,580,150
TOTAL BOTH PERS AND TRS			108,042,636	386,448,932	111,686,411	510,881,144	115,684,006	644,731,842	48,407,834	716,695,197

*adopted 5-2-05*  
**FISCAL NOTE**

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 10  
Bill Version: HCS CSSB 141(FIN)  
(H) Publish Date: 5/2/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
Title: An Act relation to TRS and PERS creating a RDU: Centralized Administrative Services  
defined contribution and health reimbursement plans..... Component: Retirement and Benefits  
Sponsor: Senate Finance Committee  
Requester: Senate Finance Committee Component No.: 64

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	276.5	227.5	163.1	163.1	163.1	163.1
Travel	37.5	17.5	3.5	5.0	5.0	5.0
Contractual	667.0	327.0	352.0	397.0	397.0	397.0
Supplies	18.0	5.0	5.0	5.0	5.0	5.0
Equipment	30.0					
Land & Structures						
Grants & Claims						
Miscellaneous (Board Restructure)	(12.5)	(41.5)	(41.5)	(41.5)	(41.5)	(41.5)
<b>TOTAL OPERATING</b>	<b>1,016.5</b>	<b>535.5</b>	<b>482.1</b>	<b>528.6</b>	<b>528.6</b>	<b>528.6</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,029.0	577.0	392.7	285.1	142.5	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
1029 PERS	(2.0)	(4.1)	(4.1)	(4.1)	(4.1)	(4.1)
1034 TRS	(10.5)	(37.4)	(37.4)	(37.4)	(37.4)	(37.4)
Other (Specify Type--Do not abbreviate)			130.9	285.0	427.6	570.1
<b>TOTAL</b>	<b>1,016.5</b>	<b>535.5</b>	<b>482.1</b>	<b>528.6</b>	<b>528.6</b>	<b>528.6</b>

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time	2	2	2	2	2	2
Part-time	0	0	0	0	0	0
Temporary	3	2	1	1	1	1

**ANALYSIS:** (Attach a separate page if necessary)

This bill will create a new defined contribution retirement plan and a health reimbursement arrangement for new employees of the PERS and TRS hired after the effective date of July 1, 2005. As the new plan significantly differs from the current defined benefit plans, the division will be required to reprogram its computer systems, set up and account for two new plans, create new plan publications and forms, train staff, employer contacts and new members, create new employee benefit education methods on the web, benefit seminars and one on one appointments, and to contract for financial planning services for members of the new plan. The fiscal note assumes fund manager fees, custody, and record keeper's individual account fees are separate. It further assumes that cost reductions for the PERS and TRS Boards will be partially offset by payments to the Office of Administrative Hearings to conduct disability hearings, previously conducted by the boards.

Prepared by: Melanie Millhorn, Director Phone: 465-4408  
Division: Retirement and Benefits Date/Time: 4/22/05 3:29 PM  
Approved by: Mike Tibbles, Deputy Commissioner Date: 4/22/2005  
Agency: Department of Administration

FISCAL NOTE #10

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. HCS CSSB 141(FIN)

ANALYSIS CONTINUATION

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

	FY 2006	FY 2007	FY 2008	FY 09-11
<b>PERSONAL SERVICES:</b>				
1 - Non Perm Analyst-Pgmr III - DC-Benefits Sys - R 16	64.4	64.4	64.4	64.4
1 - Accountant II - Range 16	52.0	52.0	52.0	52.0
1 - R&B Tech I/II - ER Rplng / Contrib. Recon. - Range 12	46.7	46.7	46.7	46.7
1-Non Permanent Publications Tech II or Spec I - Range 13	49.0	0.0	0.0	0.0
1-Non Permanent Retirement Counselor - Range 18	64.4	64.4	0.0	0.0
	<u>276.5</u>	<u>227.5</u>	<u>163.1</u>	<u>163.1</u>
<b>TRAVEL:</b>				
Employer Reporting Software Upgrade Install & Help	30.0	15.0	0.0	0.0
Employer Plan Education	7.5	0.0	0.0	0.0
Regional Counselor travel	0.0	2.5	3.5	5.0
	<u>37.5</u>	<u>17.5</u>	<u>3.5</u>	<u>5.0</u>
<b>CONTRACTUAL:</b>				
Communications & Postage	82.0	17.0	17.0	17.0
Computer System Redesign (Est. 2,500 hours in FY06)	320.0	30.0	30.0	30.0
Audit, Accting, Tax, Benefits Consulting, Legal	100.0	75.0	50.0	50.0
Training \ Risk Management	15.0	5.0	5.0	0.0
Employee financial planning services	150.0	200.0	250.0	300.0
	<u>667.0</u>	<u>327.0</u>	<u>352.0</u>	<u>397.0</u>
<b>SUPPLIES:</b> Office supplies, calculators, desk-top software	18.0	5.0	5.0	5.0
<b>EQUIPMENT:</b> Workstation & cubicle, chairs, file cabinets, computers, telephone, set-up costs	30.0	0.0	0.0	0.0
<b>MISCELLANEOUS (BOARD RECONFIGURATION, HEARINGS)</b>				
Board Member Election 2006/2008	0.0	0.0	0.0	0.0
Board Training	-15.0	-15.0	-15.0	-15.0
Board Attorney	-40.5	-40.5	-40.5	-40.5
Travel Members/Staff	-24.0	-24.0	-24.0	-24.0
Honorarium/Board Members	-29.0	-29.0	-29.0	-29.0
National Seminars (NASRA - NCTR)	-20.0	-20.0	-20.0	-20.0
Disability Hearings--Office of Administrative Hearings	116.0	87.0	87.0	87.0
	<u>-12.5</u>	<u>-41.5</u>	<u>-41.5</u>	<u>-41.5</u>
<b>TOTAL</b>	<b>1,016.5</b>	<b>535.5</b>	<b>482.1</b>	<b>528.6</b>

The above funding source is initially listed as General Fund because the existing tiers of PERS / TRS are Defined Benefit plans, and the present DC plans, SBS and DCP are legally separate from the intended plan. It is assumed that by FY2006, as more employees are hired into the new tiers, that program costs will be funded through an assessment on DC accounts, similar to the SBS program currently in place. General funds will be reduced 25% per year from FY2008-2011.

The new plan effective date is July 1, 2005. Therefore, startup costs will start in FY 05. The startup costs are not costs of the PERS and TRS Defined Benefit plans. Tiers 1, 2, and 3 are logically related; however, tier 4 PERS and Tier 3 TRS would not be. The purpose of the bill is to separate the DB and DC side. A legal opinion was sought to determine how the funding and accounting needs to occur for the new DC plan.

passed  
out on  
H. floor  
5.2.05



# Proposed Alternatives



# Proposed Alternatives

## Overview

- ⇒ Two alternatives are being presented to the PERS and TRS Boards, with the Tier Committee recommending Alternative 1
- ⇒ Components of Alternative 1
  - defined benefit
  - defined contribution
  - medical
  - health reimbursement account (HRA)
- ⇒ Components of Alternative 2
  - defined contribution
  - medical
  - health reimbursement account (HRA)
- ⇒ Member contributions under both alternatives are higher than the current tiers
- ⇒ Contribution rates for the defined contribution component are higher for Alternative 2
- ⇒ Post-retirement medical program is the same for both alternatives



# Proposed Alternatives

## Defined Benefit Alternative

Key features of Alternative 1 defined benefit program

- ⇒ 1 percent of career average pay
- ⇒ Pay is indexed from year received to year preceding retirement (or termination) based on the Anchorage CPI
  - for example, 1997 pay for a member retiring on December 31, 2009 would be increased at Anchorage CPI for 12 years
- ⇒ Base pay only
- ⇒ Normal retirement at the earlier of
  - (1) age 60 with 5 years of service (8 years for TRS), or
  - (2) 25 years of service (30 years for PERS “others”)
- ⇒ Post-retirement pension adjustments similar to current tiers
- ⇒ No 10 percent Alaska cost-of-living adjustment (COLA)



# **Proposed Alternatives**

## Defined Contribution Alternatives

Key features of defined contribution components

- ⇒ Individual accounts are maintained for each member
- ⇒ Contributions are a percentage of base pay
- ⇒ Various investment options (member-directed)
- ⇒ 100% vested
- ⇒ Terminating or retiring member takes account (eligible for rollover)

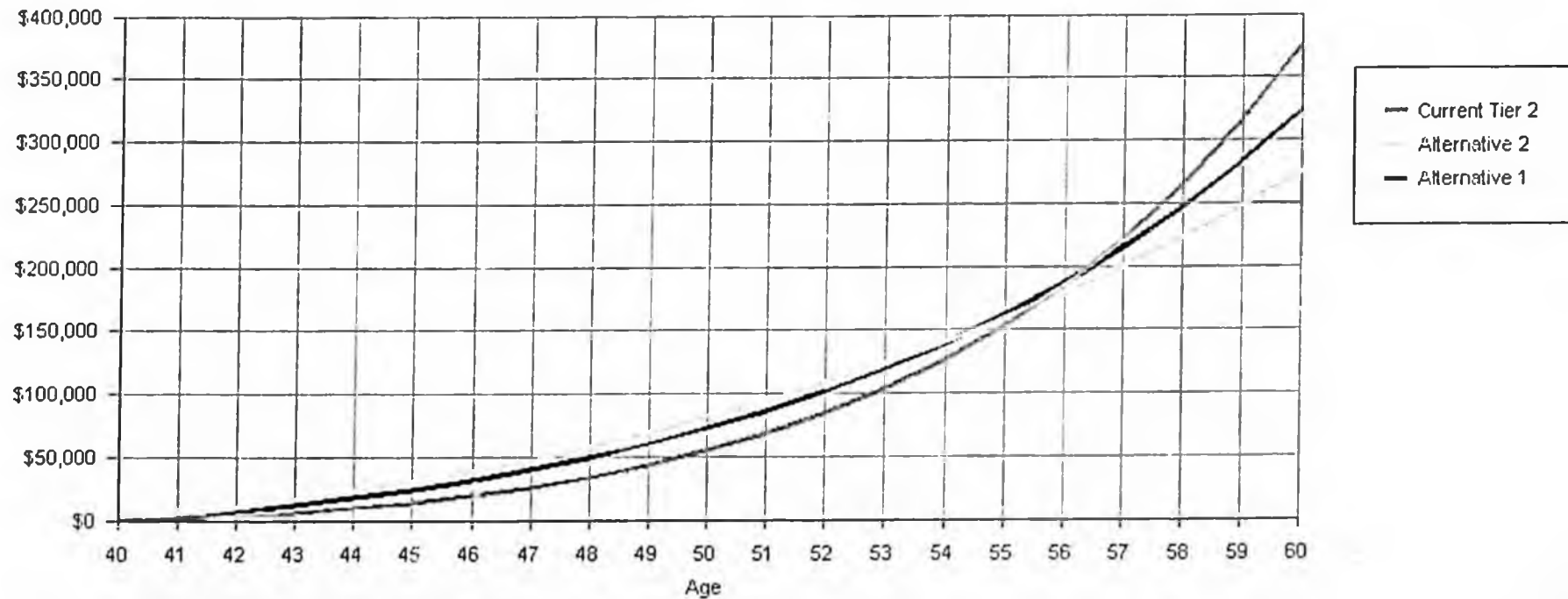


# Proposed Alternatives

## Accrual of Non-Medical Benefits - TRS

Present Value of Benefit Payable as a Lump Sum

Age = 40, Service = 0, Salary = \$35,000



Equity: Rate of return on account balance: 8.3%  
Bond: Rate of return on account balance: 4.5%  
Equity investment mix: 80% 70% 60% 50% 40% Post-retirement 20%  
Salary increase rate: 5.5% 4%

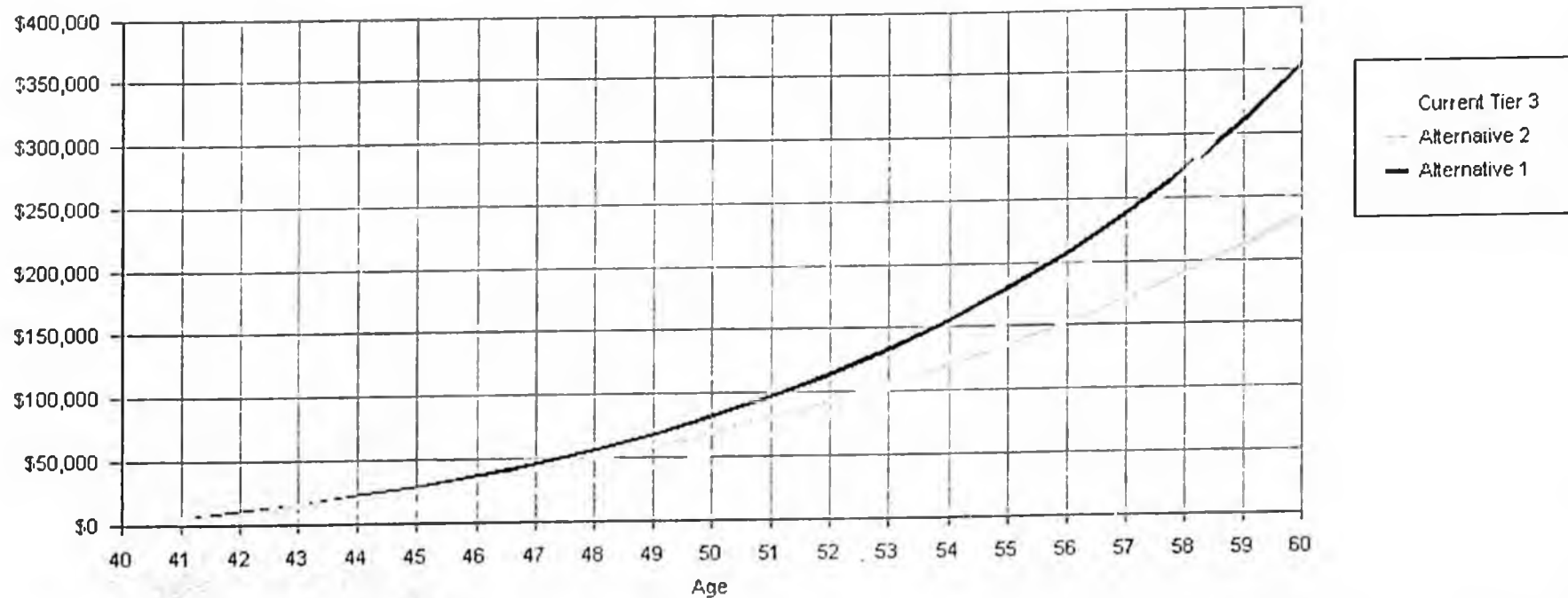


# Proposed Alternatives

## Accrual of Non-Medical Benefits - PERS

Present Value of Benefit Payable as a Lump Sum

Age = 40, Service = 0, Salary = \$35,000



Equity: Rate of return on account balance: 8.5%  
 Bond: Rate of return on account balance: 4.5%  
 Equity investment mix: 80% / 70% / 60% / 50% / 40% Post-retirement 20%  
 Salary increase rate: 5.5% / 4%



# Proposed Medical Program

## Key Features

Key features of post-retirement medical program

- ⇒ Members must retire directly from the System to be eligible
- ⇒ System sponsored health plan with varying levels of subsidy or cost to members
- ⇒ Early retirees get “access only” prior to normal retirement eligibility
- ⇒ Defined dollar benefit from normal retirement to Medicare eligibility (currently age 65)
- ⇒ Defined health benefit after Medicare eligibility, similar to the current program with the following key exceptions:
  - Method of coordination with Medicare
  - Retired members will share in the cost through premium contributions



# Proposed Medical Program

## System Sponsored Health Care Plan

- ⇒ System sponsored health plan available to all eligible retirees, but with varying levels of subsidy
- ⇒ Basic plan design elements

	Current Plan	Alternative Plan
<b>Medical</b>		
▪ Coordination with Medicare	Total Allowable	Maintenance of Benefits
▪ Deductible	\$150/person, \$450/family	\$250/person, \$750/family
▪ Out of Pocket	\$800	\$2,500
▪ Outpatient Surgery Coinsurance	100%	80%
<b>Prescription Drug</b>		
▪ Retail	90 day supply	30 day supply
- Generic	\$4	\$5
- Brand Formulary	\$8	\$15
- Brand Non-Formulary	\$8	\$30
▪ Mail Order	90 day supply	90 day supply
- Generic	\$0	\$5
- Brand Formulary	\$0	\$15
- Brand Non-Formulary	\$0	\$30
<b>Dental, Vision, Audio</b>	No Change	



# Proposed Medical Program

## Eligibility

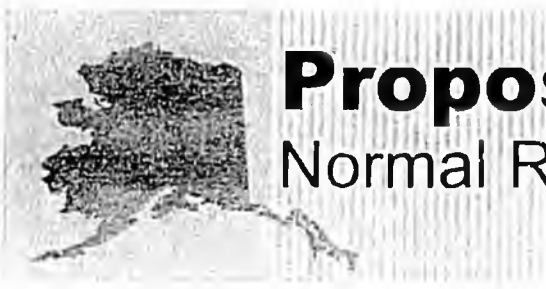
- ⇒ Normal retirement eligibility for medical benefits will be defined as the earlier of
  - (1) age 60 with 10 years of service
  - (2) 25 years of service (30 years for PERS “others” retirees).
- ⇒ Disabled participants will be eligible
- ⇒ Terminated vested participants are not eligible. A member must retire directly from active service in order to receive coverage



# Proposed Medical Program

## Early Retirement

- ⇒ Early retirees who have not reached normal retirement eligibility
  - Receive “access only” plan
  - Will not be eligible for subsidized retiree health plan costs
  - Pay 100% of the pre-Medicare eligible (currently pre-age 65) per member per year (PMPY) claim costs
- ⇒ Dependent spouses of early retirees will pay 100% of the appropriate pre-Medicare or Medicare eligible PMPY claim cost



# **Proposed Medical Program**

## Normal Retirement to Medicare Eligibility

- ⇒ Members who retire directly from the Systems will be eligible for a “defined dollar” benefit upon reaching eligibility for normal retirement
- ⇒ Fixed dollar subsidy toward system sponsored health coverage
- ⇒ Access to system sponsored retiree medical plan as outlined above
- ⇒ Subsidy amount is based on length of service
- ⇒ Subsidy amount indexed each year by healthcare inflation up to a maximum of 5 percent (with a “catch-up” provision based on years when healthcare inflation is less than 5%)



# **Proposed Medical Program**

## Normal Retirement to Medicare Eligibility

- ⇒ Upon becoming eligible for Medicare, such members will become eligible for the “defined health” benefit
- ⇒ Pre-Medicare dependent spouse is eligible for the same subsidy as retiree
- ⇒ Medicare eligible dependent spouse is eligible for the Medicare eligible benefit level, with contribution percentage based on retiree length of service



# Proposed Medical Program

## Normal Retirement to Medicare Eligibility

⇒ Apply percentages to the applicable subsidy base to arrive at the appropriate subsidy amount.

⇒ Defined Dollar Subsidy Base Annual PMPY for fiscal year 2004:

Pre Medicare                      \$5,962\*

⇒ Subsidy Percentage

<u>Service (yrs)</u>	<u>Subsidy %</u>
10-14	30%
15-19	45%
20-24	60%
25-29	75%
30+	90%

⇒ Member contributions are determined by subtracting the annual subsidy amount from the annual claims cost for a given year.

⇒ \*Equivalent to FY2004 pre-Medicare projected claim cost.



# Proposed Medical Program

## Defined Dollar Subsidy Projection

### ⇒ Subsidy Projection Assumptions

- Pre Medicare retiree, 25 years of service
- Year 1 assumes plan cost and subsidy base are equal
- Average plan cost increases at proposed valuation trend
- Assumes inflation of 3.5%
- Subsidy base increases at healthcare inflation rate up to 5%

	Plan Cost	Subsidy Base	Retiree Subsidy	Retiree Contribution	Present Value Retiree Contribution	Percent Increase	Contribution Percent
Year 1	5,962	5,962	4,472	1,491	1,491	N/A	25%
Year 2	6,605	6,260	4,695	1,910	1,846	28%	29%
Year 5	8,714	7,247	5,435	3,278	2,857	17%	38%
Year 10	12,431	9,249	6,937	5,495	4,032	8%	44%
Year 15	15,956	11,804	8,853	7,103	4,388	5%	45%



# **Proposed Medical Program**

## After Medicare Eligibility

- ⇒ Defined health benefit similar to current program
- ⇒ Retirees who were previously eligible for 100% subsidy of retiree health plan costs will now participate in the premium cost.
- ⇒ Contributions are per covered individual
- ⇒ Pre-Medicare dependent spouses are eligible to receive a defined dollar subsidy with percentage based on retiree length of service
- ⇒ Medicare eligible dependent spouses are eligible to receive the same defined health benefits as the retiree and pay the same contributions



# Proposed Medical Program

## After Medicare Eligibility

⇒ Contribution Base PMPY for fiscal year 2004:

Medicare Eligible                      \$2,667

⇒ Contribution Percentage

<u>Service (yrs)</u>	<u>Contribution %</u>
10-14	30%
15-19	25%
20-24	20%
25-29	15%
30+	10%

⇒ Apply percentages to the contribution base to arrive at the applicable contribution amount



# Proposed Alternatives

## Alternative 1 – Normal Cost Rates

⇒ “Normal cost” rates for Alternative 1 are expected to be as follows:

	Normal Cost Rates			
	TRS		PERS	
Medical normal cost rate	3.75%	(9.07%)	3.5%	(8.68%)
Defined benefit normal cost rate	5.0%	(13.90%)	4.5%	(11.37%)
Defined contribution rate	8.5%	(N/A)	7.0%	(N/A)
HRA contribution rate	1.5%	(N/A)	1.0%	(N/A)
Gross normal cost rate	18.75%	(22.97%)	16.0%	(20.05%)
Member contribution rate	(10.0)%	(8.69%)	(8.0)%	(6.81%)
Employer normal cost rate	8.75%	(14.28%)	8.0%	(13.24%)

[ Normal cost rates for the current program (all tiers) are shown in parentheses for comparative purposes.



# Proposed Alternatives

## Alternative #2 - Normal Cost Rates

⇒ “Normal cost” rates for Alternative 2 are expected to be as follows:

	<u>Normal Cost Rates</u>	
	<u>TRS</u>	<u>PERS</u>
Medical normal cost rate	3.75%	3.5%
Defined contribution rate	13.5%	11.5%
HRA contribution rate	<u>1.5%</u>	<u>1.0%</u>
Gross normal cost rate	18.75%	16.0%
Member contribution rate	<u>(10.0)%</u>	<u>(8.0)%</u>
Employer normal cost rate	8.75%	8.0%



# **Proposed Alternatives**

## **Cost Projections**

The following pages show the approximate effect the new tier would be expected to have over time on actuarial calculated contribution rates

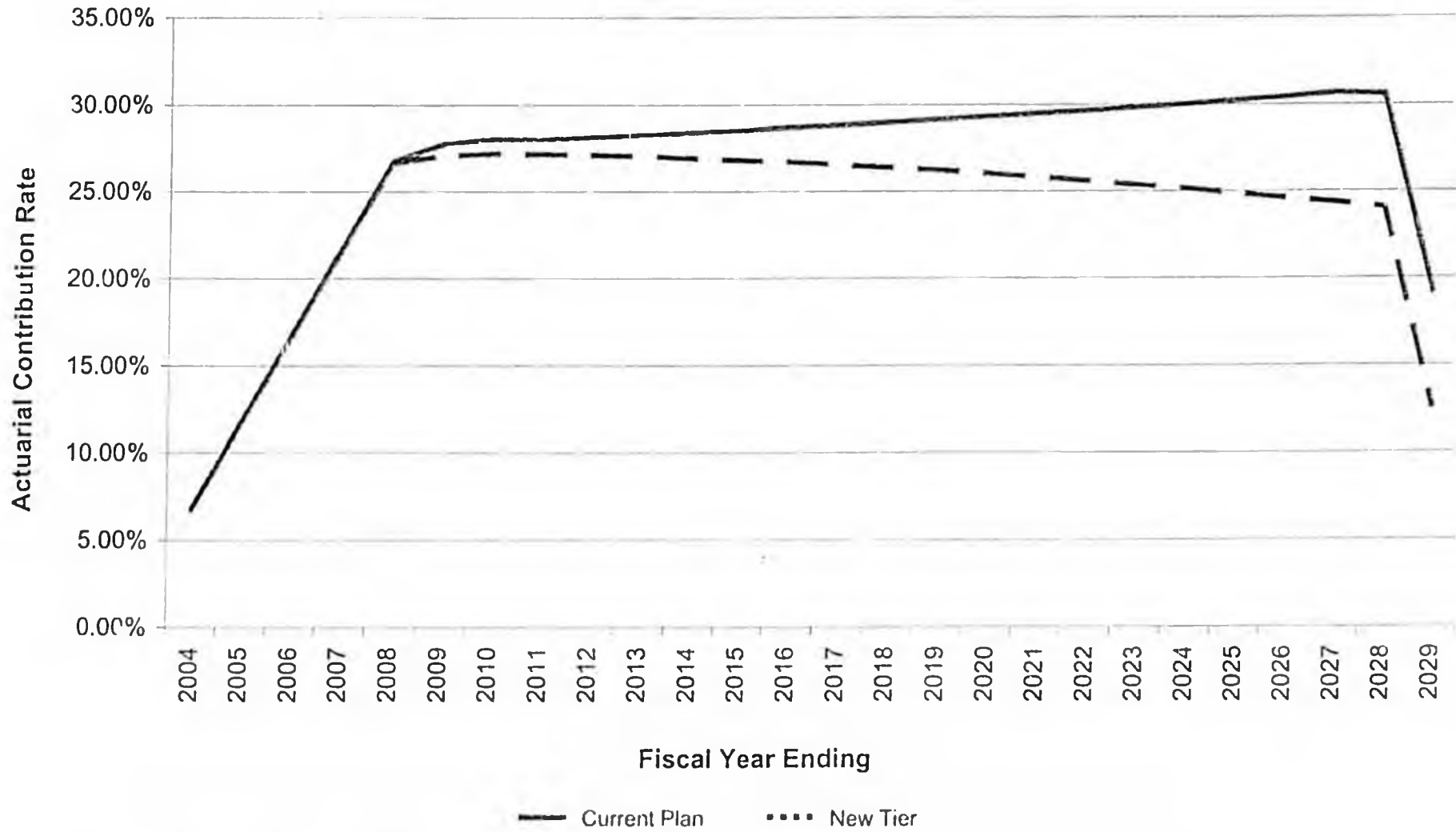
⇒ Data, assumptions and methods are as previously described, including changes to medical valuation methodology



# Proposed Alternatives

## Cost Projections - PERS

Contribution Comparison – PERS

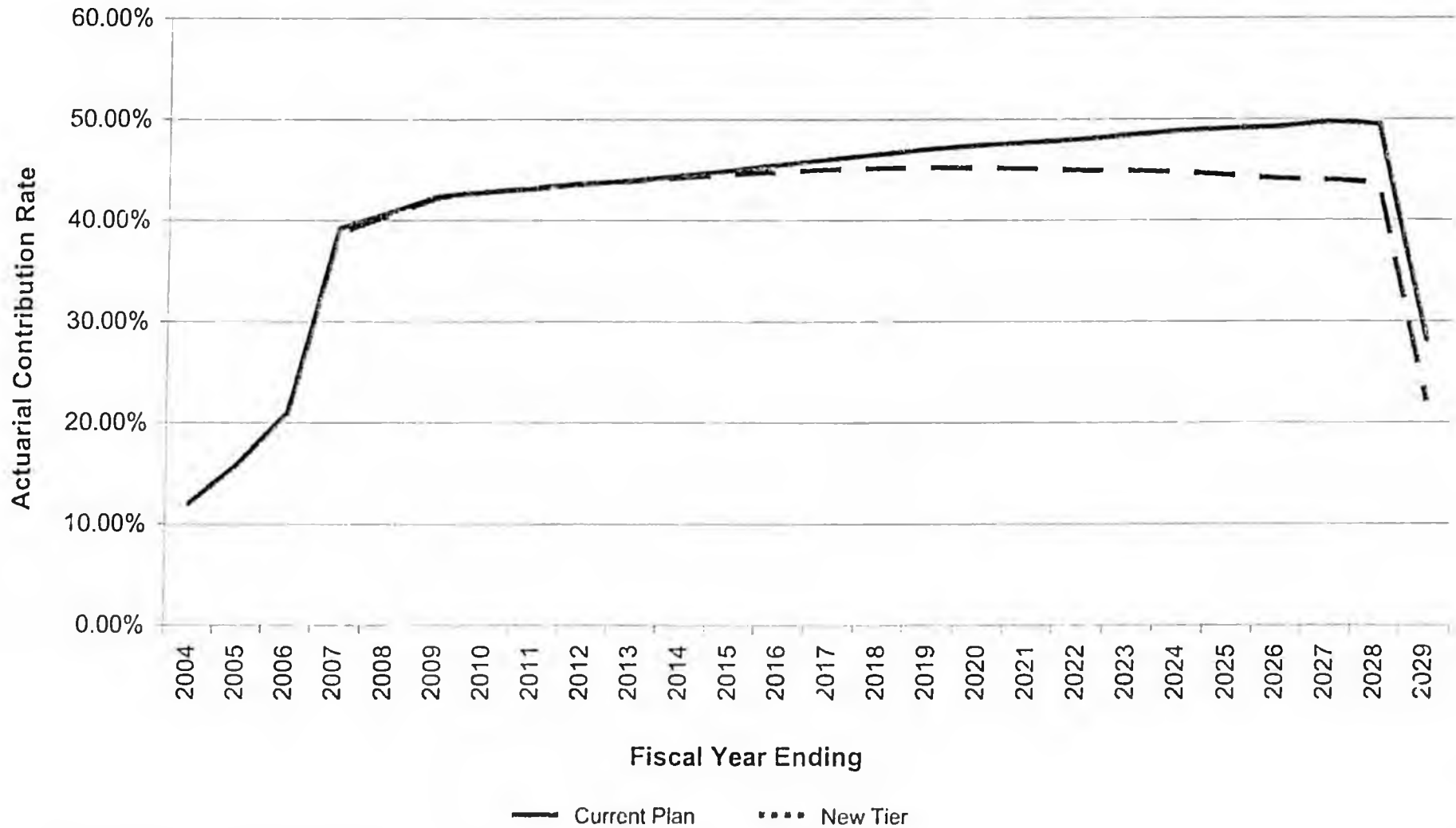




# Proposed Alternatives

## Cost Projections - TRS

Contribution Comparison – TRS





# **Health Reimbursement Accounts (HRAs)**



# Health Reimbursement Accounts Overview

- ⇒ Arrangement that:
  - Is solely employer paid
  - Reimburses employees for medical expenses
  - Provides reimbursements up to a maximum dollar amount for a defined coverage period
- ⇒ Unused funds are carried forward to the next coverage period
- ⇒ Usually, but not required to be, associated with high-deductible health plans or consumer directed health plans
- ⇒ Includes aspects of FSAs
- ⇒ Also known as
  - Health Reimbursement Arrangements
  - Defined contribution health care plans



# Health Reimbursement Accounts Overview

## Funding

- ⇒ Employer only
- ⇒ Employer sets own limits
- ⇒ Notional or funded accounts
  - general assets
  - VEBA
  - other trusts

## Eligibility

- ⇒ Current and former employees (including retired employees), spouses and dependents
- ⇒ COBRA participants
- ⇒ Dependent medical expenses on death of employee



# Health Reimbursement Accounts

## Overview

### Benefits

- ⇒ Reimbursements for medical expenses as defined in IRC section 213(d)
- ⇒ No IRS limit on reimbursements
- ⇒ Employee responsible for substantiating expenses
- ⇒ Cannot use for over-the-counter drugs
- ⇒ Can be used for after tax insurance premium payments (LTC is gray area)
- ⇒ Cannot have any right to receive cash benefit
- ⇒ Can be used with FSA, but special rules apply



# Health Reimbursement Accounts

## Overview

### Plan design

- ⇒ Plan sponsor dictates plan design
  - Contribution amount
  - Covered expenses
  - Termination provisions

### Tax Treatment

- ⇒ Requirements for exclusion from employee/retiree income:
  - Employer funding only – no employee contributions
  - Only reimbursed for qualified medical expenses
- ⇒ Subject to non-discrimination rules under IRS code section 105(h)