

**ALASKA LEGISLATURE**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 3030**

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# 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>

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						
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: 0.0  
 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: 465-1885  
 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	133.1	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 & Commissions						
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>
<b>CAPITAL EXPENDITURES</b>						
<b>CHANGE IN REVENUES ( )</b>						

## 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-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, 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 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.

MAY 13 2005  
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# FISCAL NOTE

STATE OF ALASKA  
 2005 LEGISLATIVE SESSION

Fiscal Note Number: 3  
 Bill Version: CSSB 141(FIN)  
 s) 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

Forwarded by: Billy Martin, Comptroller Phone: 465-2352  
 Division: Treasury Date/Time: 4/5/05 3:28 PM  
 Approved by: Tom Boutin, Deputy Commissioner Date: 4/5/2005  
 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
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	23.0	12.0	12.0	12.0	12.0	12.0
Contractual	337.3	29.2	29.2	29.2	29.2	29.2
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 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

MAY 13 2005  
58141 Free Conference  
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COMMITTEE

# 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 \_\_\_\_\_ Investment Board

**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: 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 Phone 465-2352  
Division: Treasury Date/Time 4/5/05 3:28 PM  
Approved by: Tom Bucin, Deputy Commissioner Date 4/5/2005  
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
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
SB241 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

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
SB141 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

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 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

MAY 13 2005  
 SB141 Free Conference  
 SENATE FINANCE  
 COMMITTEE

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>				292.6	339.4	386.2
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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
10 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	132.1	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 Phone: 465-2352  
 Division: Treasury Date/Time: 4/5/05 3:28 PM  
 Approved by: Tom Boutin, Deputy Commissioner Date: 4/5/2005  
 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
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 3 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 Endawebe); a \$-40.0 reduction in current cost as elections will be eliminated; \$50.0 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

MAY 13 2005  
 SB141 Free Conference  
 SENATE FINANCE  
 COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
 2005 LEGISLATIVE SESSION

Fiscal Note Number: 6  
 Bill Version: CSSB 141(FIN)  
 § 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 Management Fees  
 Requester: Component No. 2311

**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 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	4,410.6	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. Depending 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 SB131. 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 Endweb); 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

MAY 13 2005  
 58141 Free Conference  
 SENATE FINANCE  
 COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
 2005 LEGISLATIVE SESSION

Fiscal Note Number: 7  
 Bill Version: CSSB 141(FIN)  
 Publish Date: 4/8/05

Revision Date/Time (Note if correction):  
 Title: An Act relating to the teachers' and public employees' retirement systems  
 Sponsor: Finance  
 Requester:  
 Dept. Affected: RDU  
 Component: ARM Custody and Management Fees  
 Revenue #: 5  
 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	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 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 Note:	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
SB241 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

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
SB141 Total incremental costs	590.2	266.2	266.2	266.2	266.2	266.2

#### 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 \$50.0/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 \$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

MAY 13 2005  
 SB141 Free Conference  
 SENATE FINANCE  
 COMMITTEE

STATE OF ALASKA  
 2005 LEGISLATIVE SESSION

Fiscal Note Number: 9  
 Bill Version: HCS CSSB 141(FIN)  
 (H) Publish Date: 5/2/2005

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
 Title "An Act relating to the teachers and pu 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>

FUND CAPITALIZATION	0.0					
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CHANGE IN REVENUES ( )						
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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 Phone 465-6619  
 Division: \_\_\_\_\_ Date/Time 5/2/05 12:26 PM  
 Approved by: Rep. Mike Chenault, Co-Chair House Finance Date 5/2/2005  
 Agency: Rep. Kevin Meyer, Co-Chair House Finance

# 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	657.0	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: 00

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 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	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.

# FISCAL NOTE

MAY 13 2005  
 SB141 Free Conference  
 SENATE FINANCE  
 COMMITTEE

STATE OF ALASKA  
 2005 LEGISLATIVE SESSION

Fiscal Note Number: 11  
 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>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )						
------------------------	--	--	--	--	--	--

**FUNC 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 Milhorn, 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 #11

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 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	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 FY2006-2011.

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.

# MERCER

Human Resource Consulting

One Union Square  
600 University Street, Suite 3200  
Seattle, WA 98101-3137  
206 806 8900 Fax 206 362 0627

## Memo

To: **Melanie Millhorn**  
Date: **May 2, 2005**  
From: **Sam Marin**  
Subject: **AS 24.08.036 Fiscal Notes on Bills Affecting State Retirement Systems, requires an additional analysis of the long term and short term costs to the state if a bill is adopted, as well as the impact of the bill on the actuarial soundness of the funds.**

As compared to the current PERS and TRS plans, House CS for CS for Senate Bill Number 141 (STA) Version X, will serve to significantly reduce the volatility of future costs associated with new hires, and the employer contribution rates for these new hires will be more predictable. The bill will have no negative impact on the actuarial soundness of the systems.

The major cost components as amended by House Finance include the following:

- 8% Employee contribution amount for PERS police and firefighter and "all others" and TRS
- 5% DC
- 2.5% Health Reimbursement Arrangement
- 2.5% Medical Claims\*
- Death and disability benefits for all PERS members in accordance with current statute provisions

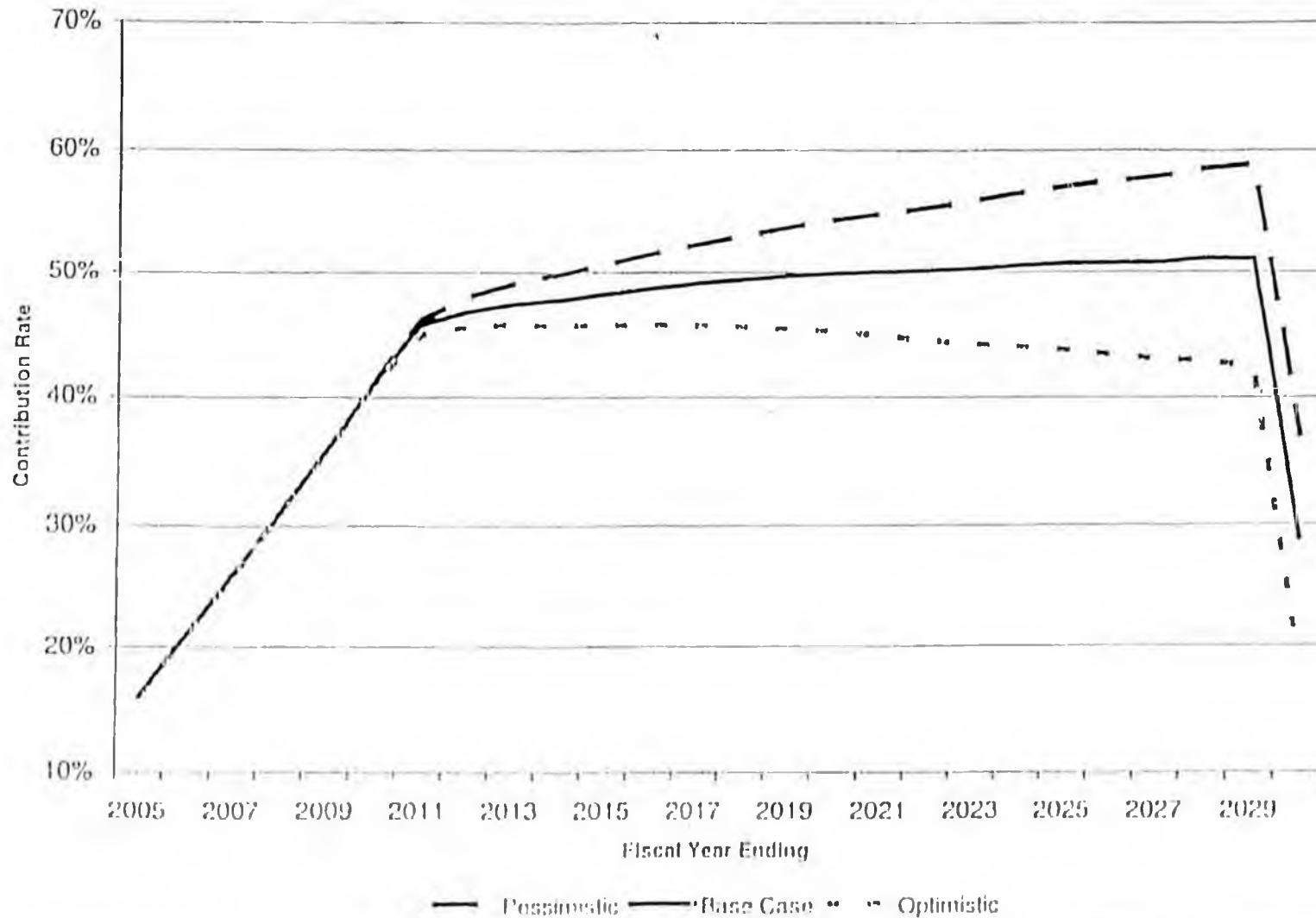
\* Note: House Finance adopted a modified Tier medical plan that includes pre-65 and post-65 medical coverage. Based on the changes made from the original medical Tier design a preliminary estimate would be between 2.5% and 3.75%. It is anticipated under the House Finance medical component that there may be an offsetting savings to the initial projection of 3.75%. A follow-up analysis will be forthcoming to confirm the amount.

HCS CSSB 141(FIN) - FN #11

Page 3 of 9

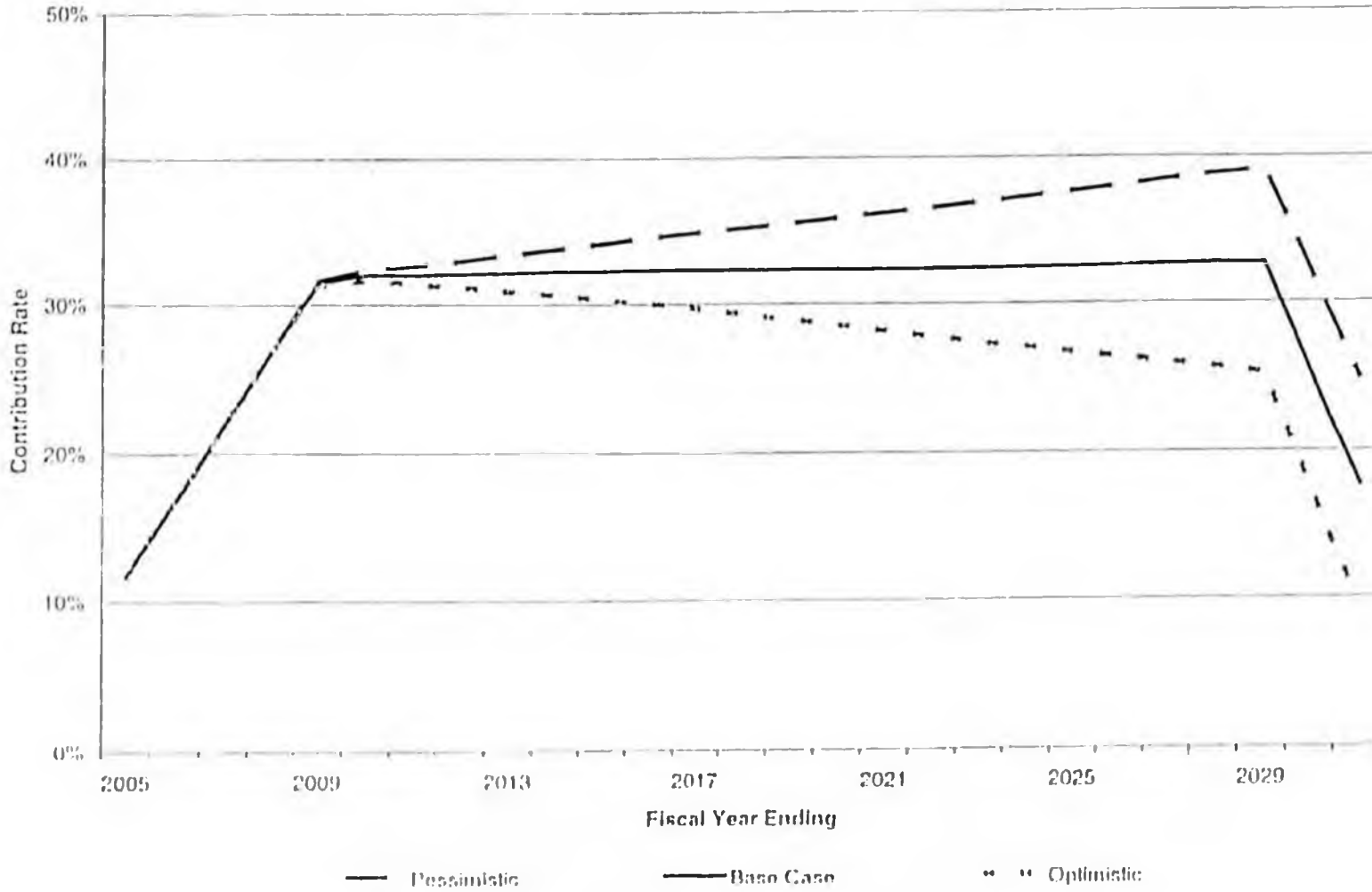
1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

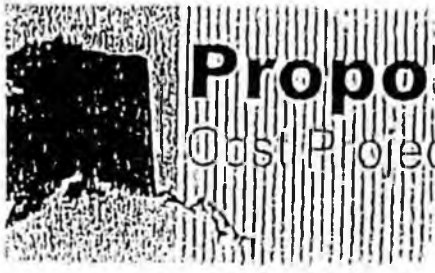
Contribution Rate



1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate

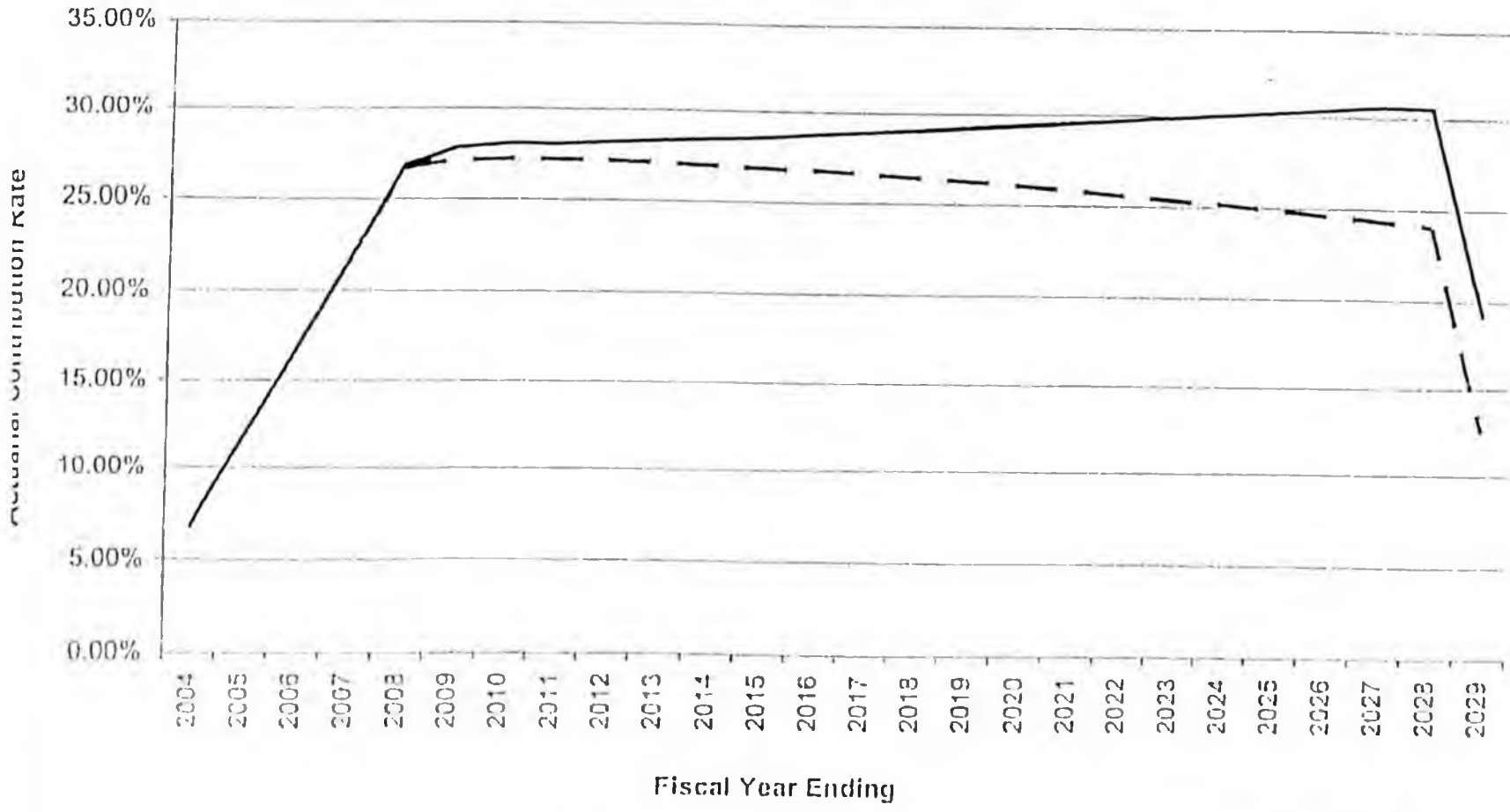




# Proposed Alternatives

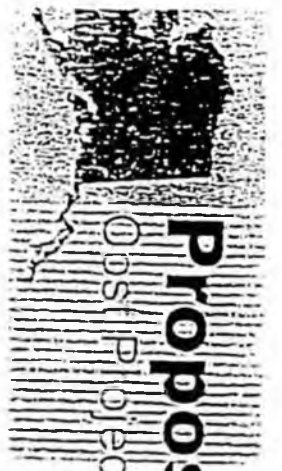
## Cost Projections - PERS

Contribution Comparison - PERS



— Current Plan      - - - - New Tier

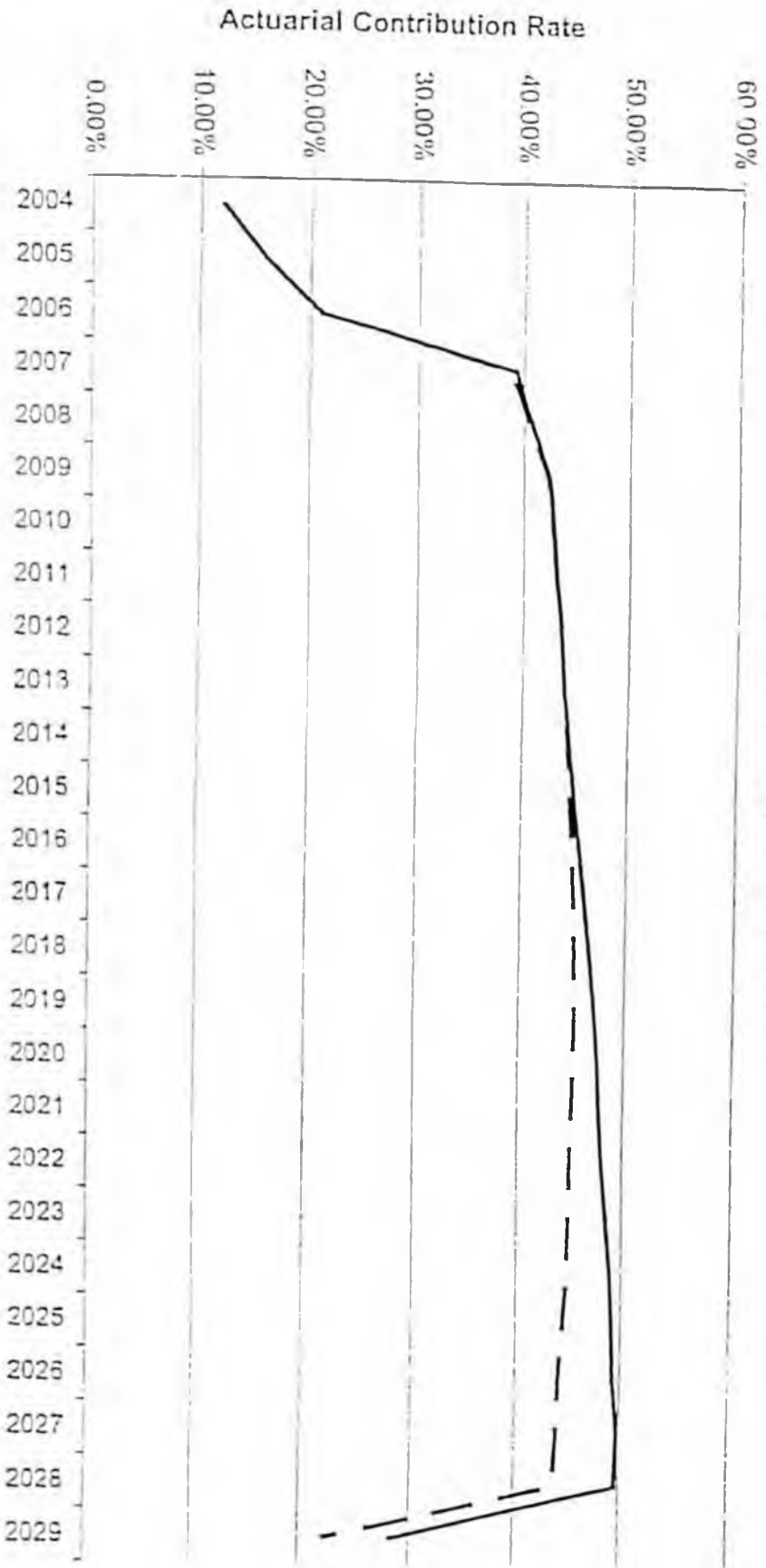
HCS CSSB 141(FIN) - FN #11



# Proposed Alternatives

## 005 Projections - TRS

Contribution Comparison - TRS



Merrett | Human Resource Consulting

— Current Plan  
- - - - - New Tier

HCS CSSB 141(FIN) - FN #11

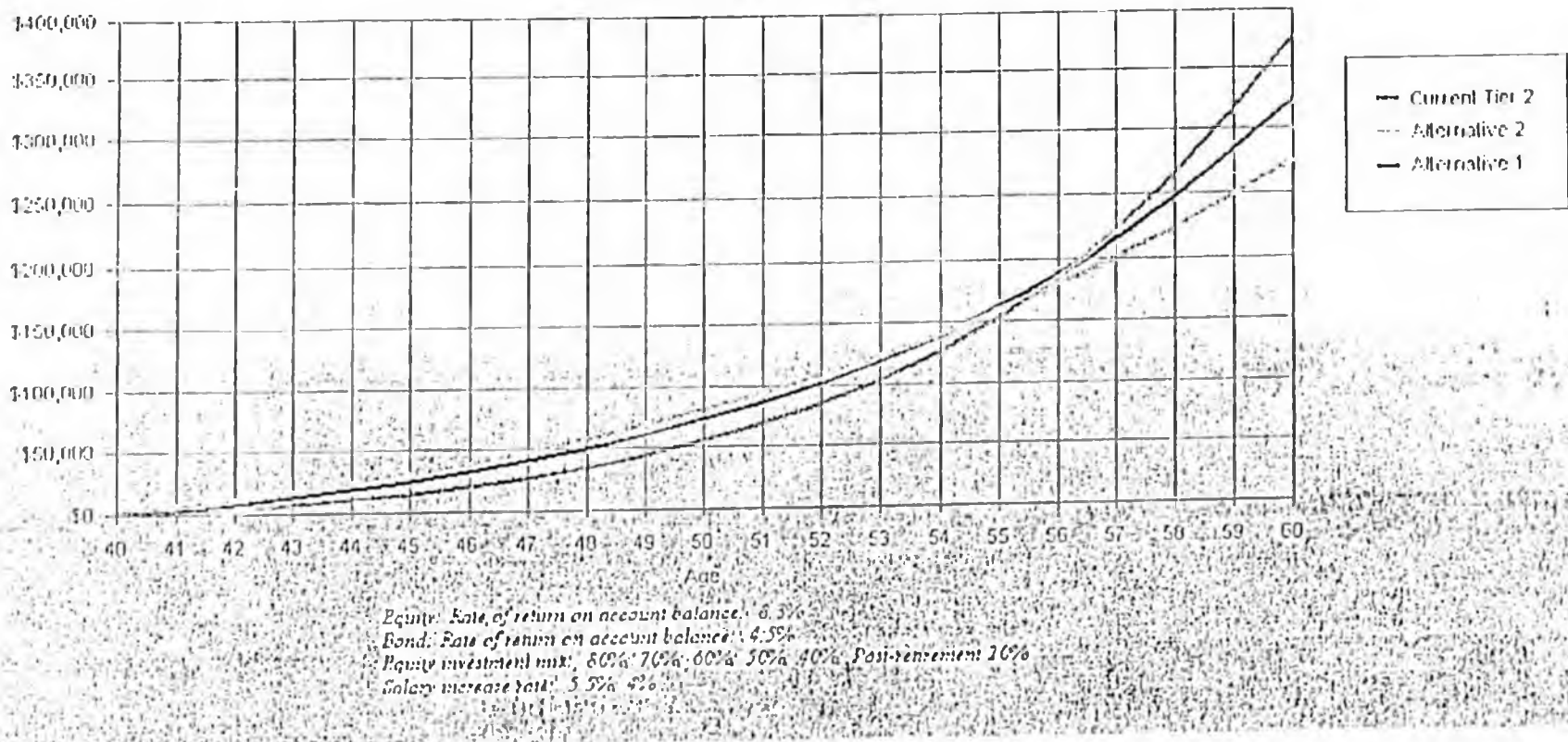


# Proposed Alternatives

## Accrual of Non-Medical Benefits - TRS

Present Value of Benefit Payable as a Lump Sum

Age = 40, Service = 0, Salary = 135,000

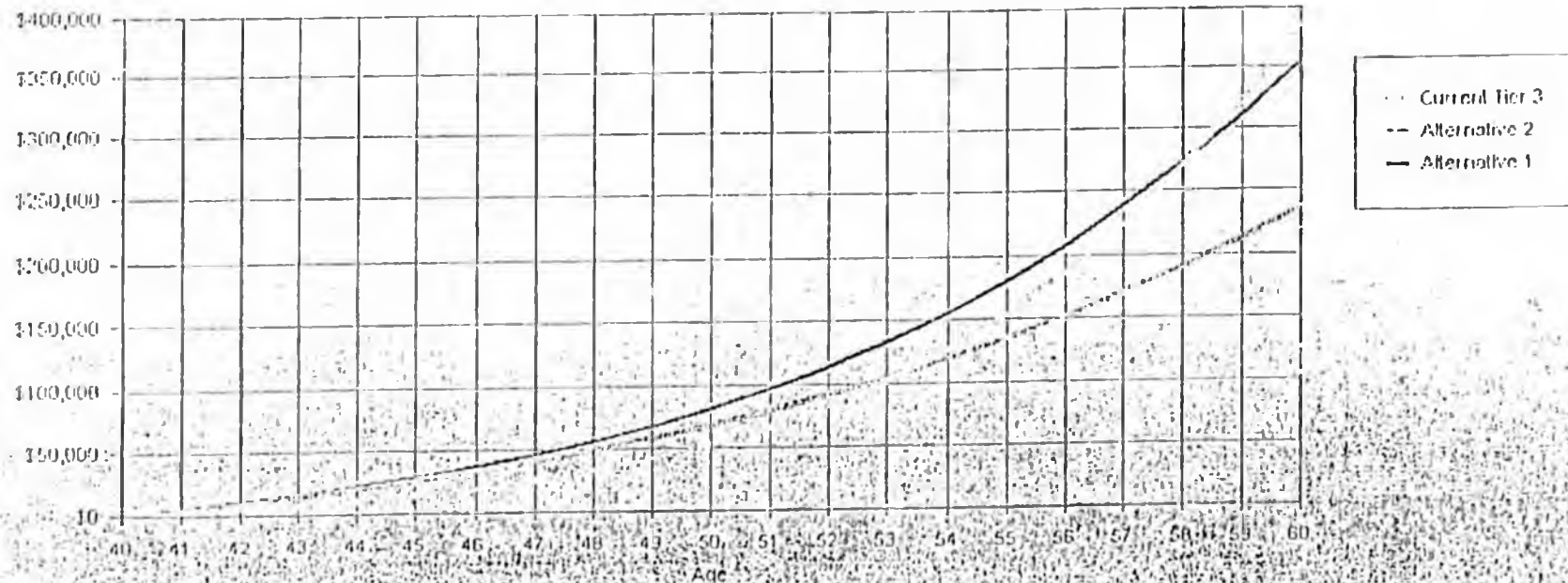


# Proposed Alternatives

## 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 balances: 8.3%  
 Bond: Rate of return on account balances: 4.5%  
 Equity investment mix: 80% / 70% / 60% / 50% / 40% Post-retirement 70%  
 Salary increase rate: 3.5% / 4.0%

#1  
adopted

**CONCEPTUAL  
AMENDMENT**

OFFERED IN FREE CONFERENCE COMMITTEE

TO: HCS CSSB 141(FIN) am H, version R.A

BY Rep Hawker

**Part 1**

Effective date: Sections 32, 67, 79, and 120 of this Act take effect July 1, 2006.

1. Section 32 is the Defined Contribution Plan under AS 14.25.
2. Section 67 amends AS 39.30.090, procurement of group insurance, to include the new medical benefits sections of the Defined Contribution Plans under AS 14.25 and AS 39.35.
3. Section 79 is the new Health Reimbursement Arrangement Plan for members of the Defined Contribution Plans.
4. Section 120 is the Defined Contribution Plan under AS 39.35.

Legal Services should make all conforming changes to other sections in the bill that reference sections 32, 67, 79, and 120. All other sections of this Act, except for those specified above and those contained in sections 146 and 147 on page 120, are effective July 1, 2005.

---

**Part 2**

Delete the sunset provision and the employee option to choose either the DB or DC plans.

Page 115, lines 13-29:

Delete all material.

Renumber the following bill sections accordingly.

---

**Part 3**

Delete the conditional retroactivity clause. The delayed effective date of the new Defined Contribution Plans makes the retroactivity clause unnecessary.

Page 120, lines 20-25:

Delete all material.

Renumber the following bill sections accordingly.

---

**Part 4**

AS 14.25.540 and AS 39.35.940: Transfer into defined contribution plan by nonvested members of defined benefit retirement plan.

The language in these sections needs to be clarified so that only the pre-tax contributions paid by a member into their individual account under the defined benefit plan, and the associated years of membership service, are eligible for transfer into the defined contribution plan.

This clarification is necessary to ensure the plans maintain compliance with the federal tax code, because after-tax contributions may not be made into a pre-tax contribution account.

Legal Services may change, or add to, the language of AS 14.25.540 and AS 39.35.940 to make this clarification.

SB 141  
Free Conference Committee  
5/13/2005

SUBJECT: SB 141 #1			
	Yea	Nay	Abstain
Representative Kerttula		✓	
Senator Elton		✓	
Representative Hawker <i>mod</i>	✓		
Senator Wilken	✓		
Representative Kelly	✓		
Senator Stedman <i>obj.</i>	✓		
total	4	2	

#2

AMENDMENT

Adopted

OFFERED IN FREE CONFERENCE COMMITTEE

BY Sen. Wilkey

TO: HCS CSSB 141 (FIN) am H, version R.A

Page 41, line 8:

Delete: "health"

Page 43, following line 23:

Insert new section to read:

\*\*\* Sec \_\_. AS 14.40.671 is amended by adding a new subsection to read:

(h) Notwithstanding (b) of this section, the university may offer an employee who made an election not to participate in an optional university retirement program at the time the employee was eligible to participate in the program, an option to enroll in a different university retirement program first established by the university after the effective date of this subsection."

Page 44, line 1:

Insert a new section to read:

\*\*\* Sec \_\_. AS 14.40.691(c) is amended to read:

(c) The board may specify that contributions required by this section are made by a reduction in salary under 26 U.S.C. 403(b) or 26 U.S.C. 414(h)(2) (Internal Revenue Code)."

Explanations:

Page 41 -The University does not currently provide health coverage in its defined contribution program and the effect of leaving this in would require that this expensive accommodation be made. The UA designs programs appropriate for its employees based on market conditions necessary to keep competitive in recruitment and retention of faculty and staff.

Page 43 - This section will allow the University to open a defined contribution program to employees who may not have selected the option to join ORP when it was first offered. When the ORP program was established, there was a one-time, irrevocable opportunity to elect participation. Many employees who elected not to participate would now like a second change to elect a defined contribution program.

Page 44 - This language is necessary for the ORP program to be in compliance with Internal Revenue Code.

SB 141  
Free Conference Committee  
5/13/2005

SUBJECT: SB 141 #2			
	Yea	Nay	Abstain
Representative Kerttula			
Senator Elton <i>objected for questions</i>			
Representative Hawker			
Senator Wilken			
Representative Kelly <i>moved</i>			
Senator Stedman			
total			

CONCEPTUAL  
AMENDMENT

#1  
Amendment to  
Amendment  
failed

OFFERED IN FREE CONFERENCE COMMITTEE

TO: HCS CSSB 141(FIN) am H, version R.A

BY Rep Hawker

Part 1

Effective date: Sections 32, 67, 79, and 120 of this Act take effect <sup>2007</sup> ~~July 1, 2006~~.

1. Section 32 is the Defined Contribution Plan under AS 14.25.
2. Section 67 amends AS 39.30.090, procurement of group insurance, to include the new medical benefits sections of the Defined Contribution Plans under AS 14.25 and AS 39.35.
3. Section 79 is the new Health Reimbursement Arrangement Plan for members of the Defined Contribution Plans.
4. Section 120 is the Defined Contribution Plan under AS 39.35.

Legal Services should make all conforming changes to other sections in the bill that reference sections 32, 67, 79, and 120. All other sections of this Act, except for those specified above and those contained in sections 146 and 147 on page 120, are effective July 1, 2005.

---

Part 2

Delete the sunset provision and the employee option to choose either the DB or DC plans.

Page 115, lines 13-29:

Delete all material!

Re-number the following bill sections accordingly.

---

Part 3

Delete the conditional retroactivity clause. The delayed effective date of the new Defined Contribution Plans makes the retroactivity clause unnecessary.

Page 120, lines 20-25:

Delete all material.

Re-number the following bill sections accordingly.

---



Part 4

AS 14.25.540 and AS 39.35.940: Transfer into defined contribution plan by nonvested members of defined benefit retirement plan.

The language in these sections needs to be clarified so that only the pre-tax contributions paid by a member into their individual account under the defined benefit plan, and the associated years of membership service, are eligible for transfer into the defined contribution plan.

This clarification is necessary to ensure the plans maintain compliance with the federal tax code, because after-tax contributions may not be made into a pre-tax contribution account.

Legal Services may change, or add to, the language of AS 14.25.540 and AS 39.35.940 to make this clarification.

SB 141  
Free Conference Committee  
5/13/2005

SUBJECT: SB 141 #1 - <del>amend</del>			
	Yea	Nay	Abstain
Representative Kerttula	✓		
Senator Elton - <del>moved</del>	✓		
Representative Hawker		✓	
Senator Wilken	✓	✓	
Representative Kelly		✓	
Senator Stedman - <del>obj.</del>		✓	
total	2	4	

Failed

SB 141  
Free Conference Committee  
5/13/2005

SUBJECT: Report from Committee			
	Yea	Nay	Abstain
Representative Kerttula		✓	
Senator Elton obj.		✓	
Representative Hawker	✓		
Senator Wilken	✓		
Representative Kelly	✓		
Senator Stedman	✓		
total	4	2	

## Free Conference Committee Report for Senate Bill 141

	A	B	C	D	E	
	Items highlighted in green were adopted	CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	HCS for CS Senate Bill 141(FIN) am H	Page, Line (or Sec.)	FCCS for Senate Bill 141
4	<b>DC RETIREMENT ACCOUNT</b>					
5	Benefit Formula	12.5% per year to DC account + investment earnings.	P 16, L 8 and P 82, L 6	13% per year to DC account + investment earnings.	P 16, L 25 + P 17, L 15 and P 85, L 30 + P 86, L 19	<i>House:</i> 13% per year to DC account + investment earnings.
6	<b>CONTRIBUTION DETAILS</b>					
7	Employee Contribution Rates	DB Plan: TRS 8.65% or 1/2 of the normal cost rate. PERS: 6.75% and 7.5% (Police/Fire) or 1/2 of the normal cost rate. Maximum increase of .5% (50 basis points) per year.	P 7, Sec. 7-8 and P 68-69, Sec. 87-88	DB Plan: All changes eliminated. Existing employee contribution rates remain unchanged.		<i>House:</i> DB Plan: All changes eliminated. Existing employee contribution rates remain unchanged.
8	Employer Contribution Rates	DB Plan: 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting the member contribution.	P 7-8, Sec. 9-10 and P 71-72, Sec. 95-96	DB Plan: Employer cost is the difference between the actuarially calculated cost (normal rate + past service rate) less the member contribution rate, but may not be less than 11% for TRS and 10% for PERS.	P 7, Sec. 7-8 and P 73-74, Sec. 93-94	<i>Amended:</i> Employer cost is the difference between the actuarially calculated cost (normal rate + past service rate) less the member contribution rate. May not be less than the normal cost rate less member contribution rate.
9a 9b 9c		DC Plan: 8.25% employer contribution:  + 4.50% to DC account + 1.75% to Medical + 2.00% to HRA <hr/> 8.25% Total	P 16, Ls 8&10 and P 82, Ls 6&8; P 58, L 10	DC Plan: 10.00% employer contribution:  + 5.00% to DC account + 2.50% to Medical + 2.50% to HRA <hr/> 10.00% Total	P 17, L 15 & 17; P 61, L 8; and P 86, L 19 & 21	<i>House DC + Senate Medical + New HRA + D/D Bens:</i>  + 5.00% to DC account + 1.75% to Medical + 3.00% to HRA + .35% to D/D Benefits <hr/> 10.10% Total

## Free Conference Committee Report for Senate Bill 141

	A	B	C	D	E	
	Items highlighted in green were adopted	CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	HCS for CS Senate Bill 141(FIN) am H	Page, Line (or Sec.)	FCCS for Senate Bill 141
10	<b>MEDICAL PROGRAM</b>					
11	Medical Benefits	<p>Access to medical coverage at Medicare eligible age (currently 65) with 10 years of service, or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others.</p> <p><i>Not</i> required to retire directly from the system.</p>	P 26, Ls 3-6 and P 92, Ls 1-5	<p>Must retire directly from system for access to medical coverage.</p> <p>Access to medical coverage at "normal retirement age" (60 months prior to Medicare eligible age) with 10 years of service; or at any age with 25 years for P/F or 30 years all others.</p>	P 27, Ls 10-23 and P 96, L 18 thru P 97, L2	<b>Amended:</b> Must retire directly from system for access to medical coverage. Age/Service requirements: "normal retirement" at Medicare eligible age (currently 65) with 10 years of service; or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others.
12		No pre-Medicare cost sharing.		Upon reaching normal retirement age, employer pays a defined dollar subsidy of medical premium: 30% for 10 years of service, incremented by 3% each year. Maximum subsidy is 90% for 30 years or more. Employer share of health cost growth is capped at 5% annually, so retiree pays the balance of growth.	P 28, L 31 thru P 29, L 7; and P 98, Ls 15-22	<b>Senate:</b> No pre-Medicare cost sharing.
13		<p>Retiree share of medical premium at Medicare eligible age based on years of service:</p> <ul style="list-style-type: none"> <li>+ 10-14 years = 30%</li> <li>+ 15-19 years = 25%</li> <li>+ 20-24 years = 20%</li> <li>+ 25-29 years = 15%</li> <li>=&gt; 30 years = 10%</li> </ul>	P 27, Ls 18-28 and P 93, Ls 17-27	<p>At Medicare eligible age, the medical program changes to a percent contribution by the retiree and the growth cap is lifted so the system and retiree share the growth cost.</p> <ul style="list-style-type: none"> <li>+ 10-14 years = 30%</li> <li>+ 15-19 years = 25%</li> <li>+ 20-29 years = 20%</li> <li>=&gt; 30 years = 10%</li> </ul>	P 29, Ls 16-24; and P 98, L 31 thru P99, L 8	<b>Senate:</b> Retiree share of medical premium at Medicare eligible age based on years of service: <ul style="list-style-type: none"> <li>+ 10-14 years = 30%</li> <li>+ 15-19 years = 25%</li> <li>+ 20-24 years = 20%</li> <li>+ 25-29 years = 15%</li> <li>=&gt; 30 years = 10%</li> </ul>
14		Retiree and survivors pay full premium until Medicare eligible.	P 27, Ls 16-17 and P 93, Ls 15-16	"Early retirees" (meets service but not age requirements) and survivors pay full premium until normal retirement age.	P 27, Ls 16-17 and P 93, Ls 15-16	<b>Senate:</b> Retiree and survivors pay full premium until Medicare eligible.

## Free Conference Committee Report for Senate Bill 141

	A	B	C	D	E	
	Items highlighted in green were adopted	CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	HCS for CS Senate Bill 141(FIN) am H	Page, Line (or Sec.)	FCCS for Senate Bill 141
14a	Deferral of Election to Partcpate in Medical Plan	An eligible person must make the irrevocable election to participate or not participate in the retiree major medical insurance plan by the age of 70 1/2 or upon termination of employment, whichever is later.	P 26, Ls 18-20; and P 92, Ls 17-19	Deleted.		<b>Senate:</b> An eligible person must make the irrevocable election to participate or not participate in the retiree major medical insurance plan by the age of 70 1/2 or upon termination of employment, whichever is later.
15	Occupational Disability Benefit	None.		A public employee shall receive a pension benefit if a disabling injury occurs on the job.	P 100, L 7 thru P 102, L 29	<b>House +:</b> A public employee shall receive a pension benefit if a disabling injury occurs on the job. <b>Separate calculations for P/F and "others".</b>
16	Occupational Death Benefit	None.		A surviving spouse of an employee killed in the line of duty shall receive a pension benefit.	P 102, L 30 thru P 104, L 6	<b>House +:</b> A surviving spouse of an employee killed in the line of duty shall receive a pension benefit. <b>Separate calculations for P/F and "others".</b>
17	Health Reimbursement Arrangement (HRA)	Employer contributes 2% of annual average employer's group compensation.	P 58, L 10	Employer contributes 2.5% of annual average employer's group compensation.	P 61, L 8	<b>Amended:</b> Employer contributes 3.0% of annual average employer's group compensation.
18		HRA can be used even if not participating in State's medical insurance plan and vice versa, you can participate in the medical insurance plan and not use the HRA.	P 26, Ls 13-17; and P 92, Ls 12-16	Deleted.		<b>Senate:</b> HRA can be used even if not participating in State's medical insurance plan and vice versa, you can participate in the medical insurance plan and not use the HRA.
19		Employee forfeits rights to HRA if terminating before 10 years of service. Employee can return to a participating employer within 5 years, and have account balance restored <b>without</b> interest or other adjustment.	P 58, Ls 15-21	Employee forfeits rights to HRA if terminating before 10 years of service. An employee can return to a participating employer -- without time limitation -- and have account balance restored <b>with</b> interest.	P 61, Ls 17-20	<b>Amended:</b> Employee forfeits rights to HRA if terminating before 10 years of service. An employee can return to a participating employer <b>by Dec. 31st of the year in which age 65 is reached</b> . Account balance restored at time of termination <b>plus inflation at rate of Anchorage CPI</b> .

## Free Conference Committee Report for Senate Bill 141

	A	B	C	D	E	
	Items highlighted in green were adopted	CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	HCS for CS Senate Bill 141(FIN) am H	Page, Line (or Sec.)	FCCS for Senate Bill 141
20	<b>RETIREMENT BOARDS</b>					
21	<b>Board Members</b>	<p>Nine trustees appointed by the Governor:</p> <p>Commissioner of Admin                      Commissioner of Revenue                      3 AK residents, non-beneficiary                      1 finance officer of municipality                      1 finance officer of school dist                      1 PERS members                      1 TRS members</p>	P 46, Ls 14-31	<p>Nine trustees appointed by the Governor. The PERS/TRS members shall be selected from a list of three nominees submitted by the appropriate bargaining units.</p> <p>Commissioner of Admin                      Commissioner of Revenue                      1 AK resident, non-beneficiary                      1 finance officer of municipality                      1 finance officer of school dist                      2 PERS members                      2 TRS members</p>	P 48, L 12 thru P 49, L 3	<p><b>House Amended:</b> Nine trustees appointed by the Governor. The PERS/TRS members shall be selected from a list of <b>four</b> nominees submitted <b>from among</b> the appropriate bargaining units <b>by a reasonable date certain</b>.</p> <p>Commissioner of Admin                      Commissioner of Revenue                      2 AK resident, non-beneficiary                      1 <b>munl or SD finance officer</b>                      2 PERS members                      2 TRS members</p>
22	<b>Board Terms</b>	Three year terms, maximum of three consecutive terms. One year break required.	P 47, Ls 1-4	Six year terms, maximum of two consecutive terms. One year break required.	P 49, Ls 4-7	<b>Amended:</b> Four year staggered terms, <b>unlimited, no break required.</b>
22a		Initial staggered terms of trustees of the ARMB, who are not commissioners, set in the manner provided for nine-member boards by AS 39.05.055(7).	P 105, Sec. 132	Additional language that the terms of the two finance officers and 4 PERS/TRS members are staggered three years apart from the terms of their counterparts.	P 115-116, Sec. 134	<p><b>House Amended:</b> Initial staggered terms of trustees of the ARMB, who are not commissioners, set in the manner provided for <b>seven</b>-member boards by AS 39.05.055(7). Additional language that the terms of the 4 PERS/TRS members are staggered <b>two</b> years apart from the terms of their counterparts.</p>
23	<b>Board Duties</b>	None.		Added requirement for ARMB to annually evaluate that employer rate for medical insurance is sufficient to cover projected costs.	P 51, Ls 7-14	<b>Senate:</b> None.

## Free Conference Committee Report for Senate Bill 141

	A	B	C	D	E	
	Items highlighted in green were adopted	CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	HCS for CS Senate Bill 141(FIN) am H	Page, Line (or Sec.)	FCCS for Senate Bill 141
24		None.		Added duty that the board assist the retirement system administrator in prescribing policies for the operation of the retirement system.	P 50, Ls 10-12	<b>House:</b> Added duty that the board assist the retirement system administrator in prescribing policies for the operation of the retirement system.
25	Board Compensation	\$150 honorarium per day including travel days, plus per diem	P 50, L 15	\$400 honorarium per day, plus per diem.	P 50, L 15	<b>House:</b> \$400 honorarium per day, plus per diem.
26	<b>CHANGES TO EXISTING RETIREMENT PLANS</b>					
27	Ad hoc PRPAs	Defined "financial condition of the retirement fund" for ad hoc PRPAs as 110% ratio of assets to liabilities (see Editor's notes under AS 14.25.143 & AS 39.35.483)	P 11 Sec. 17-18, and P 77 Sec. 113	Changed fund ratio to 105%.	P 11 Sec. 17-18, and P 77 Sec. 113	<b>House:</b> Changed fund ratio to 105%.
28	Conditional Service Retirement Benefits	Changed the credited service requirement to 120 days for legislative employee under AS 39.35.385(f).	P 76-77, Sec. 111	Deleted.	P 76-77, Sec. 111	<b>House:</b> Deleted.
29	Medical Benefits under AS 14.25.168 and AS 39.35.535(a)	None.		This section repealed and reenacted to close loophole on coverage for second families that had no relationship to the retiree before the retiree died.	P 11-12, Sec. 19; and P 80-81, Sec. 114	<b>House:</b> This section repealed and reenacted to close loophole on coverage for second families that had no relationship to the retiree before the retiree died.



## Free Conference Committee Report for Senate Bill 141

	A	B	C	D	E	
	Items highlighted in green were adopted	CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	HCS for CS Senate Bill 141(FIN) am H	Page, Line (or Sec.)	FCCS for Senate Bill 141
30	University of Alaska Optional Retirement Program  <i>Amendment #2</i>	Changed AS 14.40.661-14.40.799 giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees. Specifies the University's retirement programs are not subject to collective bargaining. Also provides a one-time option for current employees who chose to participate in PERS or TRS to transfer into the existing optional retirement program.	P 38, Sec. 35 thru P 42, Sec. 50	Removed the provision that the University may create a <i>mandatory</i> retirement plan.	P 41, Sec. 35 thru P 45, Sec. 50	<i>House Amended:</i> Added provision for the University to open a defined contribution program to employees who may not have selected participation in the Optional Retirement Program (ORP) when it was first offered. Also made two technical changes: (1) deleted "health" from the list of benefits the University can offer; and (2) added reference to 26 USC 403(b) under "contributions" to bring the ORP into IRC compliance.
31	OTHER BILL COMPONENTS					
32	Penalty for False Statements AS 14.25.210	No change from existing statute.		Removed the existing language that a person who knowingly makes a false statement "forfeits all rights under this chapter". Language conforms to PERS AS 39.35.670.	P 13, Sec. 25	<i>House:</i> Removed the existing language that a person who knowingly makes a false statement "forfeits all rights under this chapter". Language conforms to PERS AS 39.35.670.
33	Definition of "teacher" AS 14.25.220 (DB plan) and AS 14.25.590 (DC plan)	No change from existing statute.		Adds AVTEC instructors to the definition of "teacher" and "member" for participation in TRS regardless of whether the position requires a certificate if the instructor is certified.	P 14-15, Sec. 30; P 39, L 28 thru P 40, L 1	<i>Senate:</i> No change from existing statute.
34	Cost Saving Measures in Retiree Health System	None.		Added new statutes that R&B implement by regulation cost-saving measures in the retiree health care system.	P 30, Ls 14-22	<i>Senate:</i> None.
35		None.		Requires annual report to legislature by R&B on implementation of cost-saving measures.	P 118, Sec. 141	<i>House:</i> Requires annual report to legislature by R&B on implementation of cost-saving measures.

## Free Conference Committee Report for Senate Bill 141

	A	B	C	D	E	
	Items highlighted in green were adopted	CS for Senate Bill 141(FIN)	Page, LIno (or Sec.)	HCS for CS Senate Bill 141(FIN) am H	Page, Line (or Sec.)	FCCS for Senate Bill 141
36	Conditional Retroactivity <i>Amendment #1</i>	None.		Added conditional language that makes the effective date retroactive to July 1, 2005.	P 120, Sec. 145	<i>Senate:</i> None. The retroactive clause is not needed because of the delayed implementation date.
37	Sunset <i>Amendment #1</i>	None.		Added sunset provision to repeal the defined contribution plan on June 1, 2006 unless legislation amending the PERS or TRS statutes is enacted by Sept. 30, 2006.	P 115, Sec. 132-133	<i>Amended:</i> Delay implementation date of placing new employees into a defined contribution retirement plan to July 1, 2006.
38	Choice of Retirement Plans <i>Amendment #1</i>	None.		Employees hired on or after July 1, 2005 have 30 days to choose either the defined benefit plan or the defined contribution plan. If an employee fails to make an election within the 30 days, they are defaulted to the defined contribution plan.	P 15, L 15 thru P 16, L 2; and P 84, L 20 thru P 85, L 7	<i>Senate:</i> None.
39	Fiscal Notes 1-11	FNs 1-8		FNs 1,3-7, 9, 11		<i>House:</i> FNs 1,3-7, 9, 11

Adopted by SB 141 Conference Committee with Limited Free Powers

	A	B	C	D	E	
	Items highlighted in green were adopted	CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	HCS for CS Senate Bill 141(FIN) am H	Page, Line (or Sec.)	CC on SB 141 with Limited Powers
4	<b>DC RETIREMENT ACCOUNT</b>					
5	Benefit Formula	12.5% per year to DC account + investment earnings.	P 16, L 8 and P 82, L 6	13% per year to DC account + investment earnings.	P 16, L 25 + P 17, L15 and P 85, L 30 + P 86, L 19	<b>House:</b> 13% per year to DC account + investment earnings.
6	<b>CONTRIBUTION DETAILS</b>					
7	Employee Contribution Rates	DB Plan: TRS 8.65% or 1/2 of the normal cost rate. PERS: 6.75% and 7.5% (Police/Fire) or 1/2 of the normal cost rate. Maximum increase of .5% (50 basis points) per year.	P 7, Sec. 7-8 and P 68-69, Sec. 87-88	DB Plan: All changes eliminated. Existing employee contribution rates remain unchanged.	.	<b>House:</b> DB Plan: All changes eliminated. Existing employee contribution rates remain unchanged.
8	Employer Contribution Rates	DB Plan: 50% of normal cost plus past service cost. May not be less than total normal cost after subtracting the member contribution.	P 7-8, Sec. 9-10 and P 71-72, Sec. 95-96	DB Plan: Employer cost is the difference between the actuarially calculated cost (normal rate + past service rate) less the member contribution rate, but may not be less than 11% for TRS and 10% for PERS.	P 7, Sec. 7-8 and P 73-74, Sec. 93-94	<b>Amended:</b> Employer cost is the difference between the actuarially calculated cost (normal rate + past service rate) less the member contribution rate. May not be less than the normal cost rate less member contribution rate.
9a 9b 9c		DC Plan: 8.25% employer contribution: + 4.50% to DC account + 1.75% to Medical + <u>2.00% to HRA</u> 8.25% Total	P 16, Ls 8&10 and P 82, Ls 6&8; P 58, L 10	DC Plan: 10.00% employer contribution: + 5.00% to DC account + 2.50% to Medical + <u>2.50% to HRA</u> 10.00% Total	P 17, L 15 & 17; P 61, L 8; and P 86, L 19 & 21	<b>House DC + Senate Medical + New HRA + D/D Liens:</b> + 5.00% to DC account + 1.75% to Medical + 3.00% to HRA + <u>.35% to D/D Benefits</u> 10.10% Total

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10	<b>MEDICAL PROGRAM</b>					
11	Medical Benefits	Access to medical coverage at Medicare eligible age (currently 65) with 10 years of service, or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others.  <i>Not</i> required to retire directly from the system.	P 26, Ls 3-6 and P 92, Ls 1-5	Must retire directly from system for access to medical coverage.  Access to medical coverage at "normal retirement age" (60 months prior to Medicare eligible age) with 10 years of service; or at any age with 25 years for P/F or 30 years all others.	P 27, Ls 10-23 and P 96, L 18 thru P 97, L2	<b>Amended:</b> Must retire directly from system for access to medical coverage. Age/Service requirements: "normal retirement" at Medicare eligible age (currently 65) with 10 years of service; or at any age after (1) 25 years for peace officer/firefighter, or (2) 30 years for all others.
12		No pre-Medicare cost sharing.		Upon reaching normal retirement age, employer pays a defined dollar subsidy of medical premium: 30% for 10 years of service, incremented by 3% each year. Maximum subsidy is 90% for 30 years or more. Employer share of health cost growth is capped at 5% annually, so retiree pays the balance of growth.	P 28, L 31 thru P 29, L 7; and P 98, Ls 15-22	<b>Senate:</b> No pre-Medicare cost sharing.
13		Retiree share of medical premium at Medicare eligible age based on years of service:  + 10-14 years = 30% + 15-19 years = 25% + 20-24 years = 20% + 25-29 years = 15% => 30 years = 10%	P 27, Ls 18-28 and P 93, Ls 17-27	At Medicare eligible age, the medical program changes to a percent contribution by the retiree and the growth cap is lifted so the system and retiree share the growth cost.  + 10-14 years = 30% + 15-19 years = 25% + 20-29 years = 20% => 30 years = 10%	P 29, Ls 16-24; and P 98, L 31 thru P99, L 8	<b>Senate:</b> Retiree share of medical premium at Medicare eligible age based on years of service:  + 10-14 years = 30% + 15-19 years = 25% + 20-24 years = 20% + 25-29 years = 15% => 30 years = 10%
14		Retiree and survivors pay full premium until Medicare eligible.	P 27, Ls 16-17 and P 93, Ls 15-16	"Early retirees" (meets service but not age requirements) and survivors pay full premium until normal retirement age.	P 27, Ls 16-17 and P 93, Ls 15-16	<b>Senate:</b> Retiree and survivors pay full premium until Medicare eligible.

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14a	Deferral of Election to Participate in Medical Plan	An eligible person must make the irrevocable election to participate or not participate in the retiree major medical insurance plan by the age of 70 1/2 or upon termination of employment, whichever is later.	P 26, Ls 18-20; and P 92, Ls 17-19	Deleted.		<b>Senate:</b> An eligible person must make the irrevocable election to participate or not participate in the retiree major medical insurance plan by the age of 70 1/2 or upon termination of employment, whichever is later.
15	Occupational Disability Benefit	None.		A public employee shall receive a pension benefit if a disabling injury occurs on the job.	P 100, L 7 thru P 102, L 29	<b>House +:</b> A public employee shall receive a pension benefit if a disabling injury occurs on the job. <b>Separate calculations for P/F and "others".</b>
16	Occupational Death Benefit	None.		A surviving spouse of an employee killed in the line of duty shall receive a pension benefit.	P 102, L 30 thru P 104, L 6	<b>House +:</b> A surviving spouse of an employee killed in the line of duty shall receive a pension benefit. <b>Separate calculations for P/F and "others".</b>
17	Health Reimbursement Arrangement (HRA)	Employer contributes 2% of annual average employer's group compensation.	P 58, L 10	Employer contributes 2.5% of annual average employer's group compensation.	P 61, L 8	<b>Amended:</b> Employer contributes 3.0% of annual average employer's group compensation.
18		HRA can be used even if not participating in State's medical insurance plan and vice versa, you can participate in the medical insurance plan and not use the HRA.	P 26, Ls 13-17; and P 92, Ls 12-16	Deleted.		<b>Senate:</b> HRA can be used even if not participating in State's medical insurance plan and vice versa, you can participate in the medical insurance plan and not use the HRA.
19		Employee forfeits rights to HRA if terminating before 10 years of service. Employee can return to a participating employer within 5 years, and have account balance restored <i>without</i> interest or other adjustment.	P 58, Ls 15-21	Employee forfeits rights to HRA if terminating before 10 years of service. An employee can return to a participating employer -- without time limitation -- and have account balance restored <i>with</i> interest.	P 61, Ls 17-20	<b>Amended:</b> Employee forfeits rights to HRA if terminating before 10 years of service. An employee can return to a participating employer <i>by Dec. 31st of the year in which age 65 is reached</i> . Account balance restored at time of termination <i>plus inflation at rate of Anchorage CPI</i> .

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21	<b>Board Members</b>	Nine trustees appointed by the Governor:  Commissioner of Admin Commissioner of Revenue 3 AK residents, non-beneficiary 1 finance officer of municipality 1 finance officer of school dist 1 PERS members 1 TRS members	P 46, Ls 14-31	Nine trustees appointed by the Governor. The PERS/TRS members shall be selected from a list of three nominees submitted by the appropriate bargaining units.  Commissioner of Admin Commissioner of Revenue 1 AK resident, non-beneficiary 1 finance officer of municipality 1 finance officer of school dist 2 PERS members 2 TRS members	P 48, L 12 thru P 49, L 3	<b>House Amended:</b> Nine trustees appointed by the Governor. The PERS/TRS members shall be selected from a list of <i>four</i> nominees submitted <i>from among</i> the appropriate bargaining units <i>by a reasonable date certain</i> .  Commissioner of Admin Commissioner of Revenue 2 AK resident, non-beneficiary <b>1 muni or SD finance officer</b> 2 PERS members 2 TRS members
22	<b>Board Terms</b>	Three year terms, maximum of three consecutive terms. One year break required.	P 47, Ls 1-4	Six year terms, maximum of two consecutive terms. One year break required.	P 49, Ls 4-7	<b>Amended:</b> <i>Four</i> year staggered terms, <i>unlimited, no break required</i> .
22a		Initial staggered terms of trustees of the ARMB, who are not commissioners, set in the manner provided for nine-member boards by AS 39.05.055(7).	P 105, Sec. 132	Additional language that the terms of the two finance officers and 4 PERS/TRS members are staggered three years apart from the terms of their counterparts.	P 115-116, Sec. 134	<b>House Amended:</b> Initial staggered terms of trustees of the ARMB, who are not commissioners, set in the manner provided for <i>seven</i> -member boards by AS 39.05.055(5). Additional language that the terms of the 4 PERS/TRS members are staggered three years apart from the terms of their counterparts.
23	<b>Board Duties</b>	None.		Added requirement for ARMB to annually evaluate that employer rate for medical insurance is sufficient to cover projected costs.	P 51, Ls 7-14	<b>Senate:</b> None.

Adopted by SB 141 Conference Committee with Limited Free Powers

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24		None.		Added duty that the board assist the retirement system administrator in prescribing policies for the operation of the retirement system.	P 50, Ls 10-12	<b>House:</b> Added duty that the board assist the retirement system administrator in prescribing policies for the operation of the retirement system.
25	Board Compensation	\$150 honorarium per day including travel days, plus per diem	P 50, L 15	\$400 honorarium per day, plus per diem.	P 50, L 15	<b>House:</b> \$400 honorarium per day, plus per diem.
26	<b>CHANGES TO EXISTING RETIREMENT PLANS</b>					
27	Ad hoc PRPAs	Defined "financial condition of the retirement fund" for ad hoc PRPAs as 110% ratio of assets to liabilities (see Editor's notes under AS 14.25.143 & AS 39.35.483)	P 11 Sec. 17-18, and P 77 Sec. 113	Changed fund ratio to 105%.	P 11 Sec. 17-18, and P 77 Sec. 113	<b>House:</b> Changed fund ratio to 105%.
28	Conditional Service Retirement Benefits	Changed the credited service requirement to 120 days for legislative employee under AS 39.35.385(f).	P 76-77, Sec. 111	Deleted.	P 76-77, Sec. 111	<b>House:</b> Deleted.
29	Medical Benefits under AS 14.25.168 and AS 39.35.535(a)	None.		This section repealed and reenacted to close loophole on coverage for second families that had no relationship to the retiree before the retiree died.	P 11-12, Sec. 19; and P 80-81, Sec. 114	<b>House:</b> This section repealed and reenacted to close loophole on coverage for second families that had no relationship to the retiree before the retiree died.

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30	University of Alaska Optional Retirement Program	Changed AS 14.40.661-14.40.799 giving the Board of Regents flexibility to design both optional and mandatory retirement programs for future University employees. Specifies the University's retirement programs are not subject to collective bargaining. Also provides a one-time option for current employees who chose to participate in PERS or TRS to transfer into the existing optional retirement program.	P 38, Sec. 35 thru P 42, Sec. 50	Removed the provision that the University may create a <i>mandatory</i> retirement plan.	P 38, Sec. 35 thru P 42, Sec. 50	OPEIN
31	<b>OTHER BILL COMPONENTS</b>					
32	Penalty for False Statements AS 14.25.210	No change from existing statute.		Removed the existing language that a person who knowingly makes a false statement "forfeits all rights under this chapter". Language conforms to PERS AS 39.35.670.	P 13, Sec. 25	<b>House:</b> Removed the existing language that a person who knowingly makes a false statement "forfeits all rights under this chapter". Language conforms to PERS AS 39.35.670.
33	Definition of "teacher" AS 14.25.220 (DB plan) and AS 14.25.590 (DC plan)	No change from existing statute.		Adds AVTEC instructors to the definition of "teacher" and "member" for participation in TRS regardless of whether the position requires a certificate if the instructor is certified.	P 14-15, Sec. 30; P 39, L 28 thru P 40, L 1	<b>Senate:</b> No change from existing statute.
34	Cost Saving Measures in Retiree Health System	None.		Added new statutes that R&B implement by regulation cost-saving measures in the retiree health care system.	P 30, Ls 14-22	<b>Senate:</b> None.
35		None.		Requires annual report to legislature by R&B on implementation of cost-saving measures.	P 118, Sec. 141	<b>House:</b> Requires annual report to legislature by R&B on implementation of cost-saving measures.



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	Items highlighted in green were adopted	CS for Senate Bill 141(FIN)	Page, Line (or Sec.)	HCS for CS Senate Bill 141(FIN) am H	Page, Line (or Sec.)	CC on SB 141 with Limited Powers
36	Conditional Retroactivity	None.		Added conditional language that makes the effective date retroactive to July 1, 2005.	P 120, Sec. 145	<b>House:</b> Added conditional language that makes the effective date retroactive to July 1, 2005.
37	Sunset	None.		Added sunset provision to repeal the defined contribution plan on June 1, 2006 unless legislation amending the PERS or TRS statutes is enacted by Sept. 30, 2006.	P 115, Sec. 132-133	OPEN
38	Choice of Retirement Plans	None.		Employees hired on or after July 1, 2005 have 30 days to choose either the defined benefit plan or the defined contribution plan. If an employee fails to make an election within the 30 days, they are defaulted to the defined contribution plan.	P 15, L 15 thru P 16, L 2; and P 84, L 20 thru P 85, L 7	OPEN
39	Fiscal Notes 1-11	FNs 1-8		FNs 1,3-7, 9, 11		<b>House:</b> FNs 1,3-7, 9, 11

**SB**

**141**

**2<sup>ND</sup>**

**FREE**

**CONF.**

**COMM.**

**SFIN**

**FILE**

Received in the Senate: \_\_\_\_\_  
(Date/Time)

Received in the House: \_\_\_\_\_  
(Date/Time)

### CONFERENCE COMMITTEE REPORT

Date: \_\_\_\_\_

MR. PRESIDENT: MR. SPEAKER: (Reported out of committee)

The 2d FREE CONFERENCE COMMITTEE considering:

•Senate Version:

CS FOR SENATE BILL NO. 141(FIN)

"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."

and

•House Version:

HOUSE CS FOR CS FOR SENATE BILL NO. 141(FIN) am H  
(Same Title)

Recommends the:

2d FCCS \_\_\_\_\_ be adopted.


New Title (tech. - see attached)  Same Title as:  Senate Version  House Version

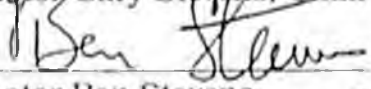
-- or -- Recommends the:  Senate Version  House Version be adopted.

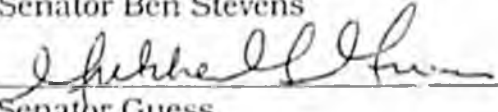
\_\_\_\_\_ Letter of Intent attached.

FN #	List by Dept(s)	New Fiscal Note	Previous Fiscal Note	Fiscal Impact	Indet.	Zero

**Senate Conferees:**

  
Senator Gary Stevens, Chair

  
Senator Ben Stevens

  
Senator Guess

**House Conferees:**

  
Representative Rumpas, Chair

  
Representative Elkins

  
Representative Berkowitz

Return Conference Bill and attachments to the Senate Secretary's Office.

SB 141  
 2nd Free Conference Committee  
5/20/2005

24-LS0637\N as

amended

SUBJECT: Report Bill from Committee			
	Yea	Nay	Abstain
Representative Berkowitz		✓	
Senator Guess		✓	
Representative Elkins	✓		
Senator Ben Stevens	✓		
Representative Ramras	✓		
Senator Gary Stevens	✓		
<b>total</b>	<b>4</b>	<b>2</b>	

obj.

moved

SENATE FINANCE  
COMMITTEE #1  
Amendment Number: #1  
Bill Number: SB 141  
Sponsor: Ramros Date: 5/20/05  
Logged In By: Mindy

24-LS0637\N.2  
Craver  
5/20/05

*adopted*

AMENDMENT

OFFERED IN CONFERENCE

TO: FCCS SB 141

1 Page 16, line 18:

2 Delete "five"

3 Insert "seven"

4

5 Page 29, following line 5

6 Insert new material to read:

7 "Sec. 14.25.485. Occupational disability benefits and reemployment of  
8 disabled members. (a) A member is eligible for an occupational disability benefit if  
9 employment is terminated because of a total and apparently permanent occupational  
10 disability before the member's normal retirement date.

11 (b) The occupational disability benefits accrue beginning the first day of the  
12 month following termination of employment as a result of the disability and are  
13 payable the last day of the month. If a final determination granting the benefit is not  
14 made in time to pay the benefit when due, a retroactive payment shall be made to  
15 cover the period of deferment. The last payment shall be for the first month in which  
16 the disabled member

17 (1) dies;

18 (2) recovers from the disability;

19 (3) fails to meet the requirements under (f) or (h) of this section; or

20 (4) reaches normal retirement age.

21 (c) If the disabled member becomes ineligible to receive occupational  
22 disability benefits before the normal retirement date, the disabled member shall then  
23 be entitled to receive retirement benefits if the member would have been eligible for

1 the benefit had employment continued during the period of disability. The period of  
2 disability constitutes membership service in regard to determining eligibility for  
3 retirement.

4 (d) The monthly amount of an occupational disability benefit is 40 percent of  
5 the disabled member's gross monthly compensation at the time of termination due to  
6 disability. While a member is receiving disability benefits, based on the disabled  
7 member's gross monthly compensation at the time of termination due to disability, the  
8 employer shall make contributions to the

9 (1) member's individual account under AS 14.25.340 on behalf of the  
10 member, without deduction from the member's disability payments; and

11 (2) appropriate accounts and funds on behalf of the member under  
12 AS 14.25.350.

13 (e) A member is not entitled to an occupational disability benefit unless the  
14 member files an application for an occupational disability benefit with the  
15 administrator within 90 days after the date of terminating employment. If the member  
16 is unable to meet a filing requirement of this subsection, the filing requirement may be  
17 waived by the administrator if there are extraordinary circumstances that resulted in  
18 the member's inability to meet the filing requirement.

19 (f) A disabled member receiving an occupational disability benefit shall  
20 undergo a medical examination as often as the administrator considers advisable, but  
21 not more frequently than once each year. The administrator shall determine the place  
22 of the examination and engage the physician or physicians. If, in the judgment of the  
23 administrator, the examination indicates that the disabled member is no longer  
24 incapacitated because of a total and apparently permanent occupational disability, the  
25 administrator may not issue further disability benefits to the member.

26 (g) A disabled member's occupational disability benefit terminates when the  
27 disabled member first attains eligibility for normal retirement. At that time, the  
28 member's retirement benefit shall be determined under the provisions of AS 14.25.420  
29 -14.25.440, 14.25.470, and 14.25.480. A member receiving disability benefits up until  
30 eligibility for retirement shall be considered to have retired directly from the plan.

31 (h) A member appointed to disability benefits shall apply to the division of

1 vocational rehabilitation of the Department of Labor and Workforce Development  
2 within 30 days after the date disability benefits commence. The member shall be  
3 enrolled in a rehabilitation program if the member meets the eligibility requirements  
4 of the division of vocational rehabilitation. Unless the member demonstrates cause,  
5 benefits shall terminate at the end of the first month in which a disabled member

6 (1) fails to report to the division of vocational rehabilitation;

7 (2) is certified by the division of vocational rehabilitation as failing to  
8 cooperate in a vocational rehabilitation program;

9 (3) fails to interview for a job; or

10 (4) fails to accept a position offered.

11 (i) Upon the death of a disabled member who is receiving or is entitled to  
12 receive an occupational disability benefit, the administrator shall pay the surviving  
13 spouse a surviving spouse's pension, equal to 40 percent of the member's monthly  
14 compensation at the termination of employment because of occupational disability. If  
15 there is no surviving spouse, the administrator shall pay the survivor's pension in equal  
16 parts to the dependent children of the member. The first payment of the surviving  
17 spouse's pension or of a dependent child's pension shall accrue from the first day of  
18 the month following the member's death and is payable the last day of the month. The  
19 last payment shall be made for the last month in which there is an eligible surviving  
20 spouse or child. On the date the normal retirement of the member would have  
21 occurred if the member had lived, the retirement benefit shall be determined under the  
22 provisions of AS 14.25.420 - 14.25.440, 14.25.470, and 14.25.480. A member who  
23 died while receiving disability benefits shall be considered to have retired directly  
24 from the plan on the date the normal retirement of the member would have occurred if  
25 the member had lived.

26 (j) In this section, "occupational disability" has the meaning given in  
27 AS 39.35.680.

28 **Sec. 14.25.487. Occupational death benefit.** (a) If (1) the death of a  
29 member occurs before the member's retirement and before the member's normal  
30 retirement date, (2) the proximate cause of death is a bodily injury sustained or a  
31 hazard undergone while in the performance and within the scope of the member's



1 duties, and (3) the injury or hazard is not the proximate result of wilful negligence of  
2 the member, a monthly survivor's pension shall be paid to the surviving spouse. If  
3 there is no surviving spouse or if the spouse later dies, the monthly survivor's pension  
4 shall be paid in equal parts to the dependent children of the member.

5 (b) The first payment of the surviving spouse's pension or of a dependent  
6 child's pension shall be made for the month following the month in which the member  
7 dies, and payment shall cease to be made beginning with the month in which the  
8 member would have first qualified for retirement.

9 (c) The monthly survivor's pension in (b) of this section for survivors of  
10 members is 40 percent of the member's monthly compensation in the month in which  
11 the member dies. While the monthly survivor's pension is being paid, the employer  
12 shall make contributions on behalf of the member's beneficiaries based on the  
13 deceased member's gross monthly compensation at the time of occupational death

14 (1) to the member's individual account under AS 14.25.340, without  
15 deduction from the survivor's pension; and

16 (2) to the appropriate accounts and funds on behalf of the member  
17 under AS 14.25.350.

18 (d) If a member's death is caused by an act of assault, assassination, or  
19 terrorism directly related to the person's status as a member, whether the act occurs on  
20 or off the member's job site, the death shall be considered to have occurred in the  
21 performance of and within the scope of the member's duties for purposes of (a)(2) of  
22 this section. If the expressed or apparent motive and intent of the perpetrator of the  
23 harm inflicted upon the member was due to the performance of the member's job  
24 duties or employment, the death shall be considered to be directly related to the  
25 member's status as a member. A member's job duties are those performed within the  
26 course and scope of the person's employment with an employer.

27 (e) On the date the normal retirement of the member would have occurred if  
28 the member had lived, the retirement benefit shall be determined under the provisions  
29 of AS 14.25.420 - 14.25.440, 14.25.470, and 14.25.480. A member who died and  
30 whose survivors receive occupational death benefits under this section shall be  
31 considered to have retired directly from the plan on the date the normal retirement of

1

the member would have occurred if the member had lived."

SB 141  
2nd Free Conference Committee  
5/2/2005

SUBJECT: Amendment #1			
	Yea	Nay	Abstain
Representative Berkowitz		✓	
Senator Guess obj	✓		
Representative Elkins	✓		
Senator Ben Stevens	✓		
m Representative Ramras <del>mod</del>	✓		
Senator Gary Stevens	✓		
total	5	1	

SENATE FINANCE  
COMMITTEE #1  
Amendment Number: #1  
Bill Number: SB 141  
Sponsor: Ramrez Date: 5/20/05  
Logged in By: Mindy

24-LS0637\N.2  
Craver  
5/20/05

AMENDMENT divided  
failed

OFFERED IN CONFERENCE  
TO: FCCS SB 141

#1A {  
1  
2  
3  
4

Page 16, line 18:  
Delete "five"  
Insert "seven"

#1B

Page 29, following line 5:  
Insert new material to read:

"Sec. 14.25.485. Occupational disability benefits and reemployment of disabled members. (a) A member is eligible for an occupational disability benefit if employment is terminated because of a total and apparently permanent occupational disability before the member's normal retirement date.

(b) The occupational disability benefits accrue beginning the first day of the month following termination of employment as a result of the disability and are payable the last day of the month. If a final determination granting the benefit is not made in time to pay the benefit when due, a retroactive payment shall be made to cover the period of deferment. The last payment shall be for the first month in which the disabled member

- (1) dies;
- (2) recovers from the disability;
- (3) fails to meet the requirements under (f) or (h) of this section; or
- (4) reaches normal retirement age.

(c) If the disabled member becomes ineligible to receive occupational disability benefits before the normal retirement date, the disabled member shall then be entitled to receive retirement benefit if the member would have been eligible for

↓

1 the benefit had employment continued during the period of disability. The period of  
2 disability constitutes membership service in regard to determining eligibility for  
3 retirement.

4 (d) The monthly amount of an occupational disability benefit is 40 percent of  
5 the disabled member's gross monthly compensation at the time of termination due to  
6 disability. While a member is receiving disability benefits, based on the disabled  
7 member's gross monthly compensation at the time of termination due to disability, the  
8 employer shall make contributions to the

9 (1) member's individual account under AS 14.25.340 on behalf of the  
10 member, without deduction from the member's disability payments; and

11 (2) appropriate accounts and funds on behalf of the member under  
12 AS 14.25.350.

13 (e) A member is not entitled to an occupational disability benefit unless the  
14 member files an application for an occupational disability benefit with the  
15 administrator within 90 days after the date of terminating employment. If the member  
16 is unable to meet a filing requirement of this subsection, the filing requirement may be  
17 waived by the administrator if there are extraordinary circumstances that resulted in  
18 the member's inability to meet the filing requirement.

19 (f) A disabled member receiving an occupational disability benefit shall  
20 undergo a medical examination as often as the administrator considers advisable, but  
21 not more frequently than once each year. The administrator shall determine the place  
22 of the examination and engage the physician or physicians. If, in the judgment of the  
23 administrator, the examination indicates that the disabled member is no longer  
24 incapacitated because of a total and apparently permanent occupational disability, the  
25 administrator may not issue further disability benefits to the member.

26 (g) A disabled member's occupational disability benefit terminates when the  
27 disabled member first attains eligibility for normal retirement. At that time, the  
28 member's retirement benefit shall be determined under the provisions of AS 14.25.420  
29 -14.25.440, 14.25.470, and 14.25.480. A member receiving disability benefits up until  
30 eligibility for retirement shall be considered to have retired directly from the plan.

31 (h) A member appointed to disability benefits shall apply to the division of

1 vocational rehabilitation of the Department of Labor and Workforce Development  
2 within 30 days after the date disability benefits commence. The member shall be  
3 enrolled in a rehabilitation program if the member meets the eligibility requirements  
4 of the division of vocational rehabilitation. Unless the member demonstrates cause,  
5 benefits shall terminate at the end of the first month in which a disabled member

6 (1) fails to report to the division of vocational rehabilitation;

7 (2) is certified by the division of vocational rehabilitation as failing to  
8 cooperate in a vocational rehabilitation program;

9 (3) fails to interview for a job; or

10 (4) fails to accept a position offered.

11 (i) Upon the death of a disabled member who is receiving or is entitled to  
12 receive an occupational disability benefit, the administrator shall pay the surviving  
13 spouse a surviving spouse's pension, equal to 40 percent of the member's monthly  
14 compensation at the termination of employment because of occupational disability. If  
15 there is no surviving spouse, the administrator shall pay the survivor's pension in equal  
16 parts to the dependent children of the member. The first payment of the surviving  
17 spouse's pension or of a dependent child's pension shall accrue from the first day of  
18 the month following the member's death and is payable the last day of the month. The  
19 last payment shall be made for the last month in which there is an eligible surviving  
20 spouse or child. On the date the normal retirement of the member would have  
21 occurred if the member had lived, the retirement benefit shall be determined under the  
22 provisions of AS 14.25.420 - 14.25.440, 14.25.470, and 14.25.480. A member who  
23 died while receiving disability benefits shall be considered to have retired directly  
24 from the plan on the date the normal retirement of the member would have occurred if  
25 the member had lived.

26 (j) In this section, "occupational disability" has the meaning given in  
27 AS 39.35.680.

28 **Sec. 14.25.487. Occupational death benefit.** (a) If (1) the death of a  
29 member occurs before the member's retirement and before the member's normal  
30 retirement date, (2) the proximate cause of death is a bodily injury sustained or a  
31 hazard undergone while in the performance and within the scope of the member's

1 duties, and (3) the injury or hazard is not the proximate result of wilful negligence of  
2 the member, a monthly survivor's pension shall be paid to the surviving spouse. If  
3 there is no surviving spouse or if the spouse later dies, the monthly survivor's pension  
4 shall be paid in equal parts to the dependent children of the member.

5 (b) The first payment of the surviving spouse's pension or of a dependent  
6 child's pension shall be made for the month following the month in which the member  
7 dies, and payment shall cease to be made beginning with the month in which the  
8 member would have first qualified for retirement.

9 (c) The monthly survivor's pension in (b) of this section for survivors of  
10 members is 40 percent of the member's monthly compensation in the month in which  
11 the member dies. While the monthly survivor's pension is being paid, the employer  
12 shall make contributions on behalf of the member's beneficiaries based on the  
13 deceased member's gross monthly compensation at the time of occupational death

14 (1) to the member's individual account under AS 14.25.340, without  
15 deduction from the survivor's pension; and

16 (2) to the appropriate accounts and funds on behalf of the member  
17 under AS 14.25.350.

18 (d) If a member's death is caused by an act of assault, assassination, or  
19 terrorism directly related to the person's status as a member, whether the act occurs on  
20 or off the member's job site, the death shall be considered to have occurred in the  
21 performance of and within the scope of the member's duties for purposes of (a)(2) of  
22 this section. If the expressed or apparent motive and intent of the perpetrator of the  
23 harm inflicted upon the member was due to the performance of the member's job  
24 duties or employment, the death shall be considered to be directly related to the  
25 member's status as a member. A member's job duties are those performed within the  
26 course and scope of the person's employment with an employer.

27 (e) On the date the normal retirement of the member would have occurred if  
28 the member had lived, the retirement benefit shall be determined under the provisions  
29 of AS 14.25.420 - 14.25.440, 14.25.470, and 14.25.480. A member who died and  
30 whose survivors receive occupational death benefits under this section shall be  
31 considered to have retired directly from the plan on the date the normal retirement of

1 the member would have occurred if the member had lived."



SB 141  
2nd Free Conference Committee  
    /    /2005

divide amendment #1

SUBJECT:				
		Yea	Nay	Abstain
(f)	Representative Berkowitz	✓		
	Senator Guess	✓		
	Representative Elkins		✓	
o	Senator Ben Stevens		✓	
	Representative Ramras		✓	
	Senator Gary Stevens		✓	
	total	2	4	-

Failed

COMMITTEE  
Amendment Number: #2  
Bill Number: SB 141  
Sponsor: Ramon Date: 5/19/05  
Logged In By: Mindy

24-LS0637\N.3  
Craver  
5/20/05

adopted

AMENDMENT

OFFERED IN CONFERENCE

TO: FCCS SB 141

1 Page 100, line 28:

2 Delete "AS 39.35.840 and 39.35.870"

3 Insert "AS 39.35.820 - 39.35.840, 39.35.870, and 39.35.880"

4

5 Page 101, lines 3 - 6:

6 Delete all material and insert

7 "(1) employee's retirement benefit calculated under the provisions of

8 AS 39.35.820 - 39.35.840; or

9 (2) employee's retirement benefit calculated as if the provisions of

10 AS 39.35.370(c) were to apply; however, retirement benefits paid under this paragraph

11 may not be made from the trust fund of the public employees' defined benefit

12 retirement plan."

13

14 Page 102, line 1:

15 Delete "AS 39.35.840 and 39.35.870"

16 Insert "AS 39.35.820 - 39.35.840, 39.35.870, and 39.35.880"

17

18 Page 103, line 11:

19 Delete "AS 39.35.840 and 39.35.870"

20 Insert "AS 39.35.820 - 39.35.840, 39.35.870, and 39.35.880"