

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

6.2 SCOMM 4A: STUDY GROUP ON SOC. SECUR. WITHDRAWAL, 1977-1978

effective date of their termination from state service. The amount of death or disability benefit shall be based on the employee's earnings at the time of termination from state service.

Such eligibility shall be in effect only when all of the following requirements are complied with:

1. The employee is not eligible for retirement under P.E.R.S.
2. The employee or his beneficiaries must provide proof of disability or death as required by the Division of Retirement.
3. The employee must leave his contributions in the P.E.R.S. when he leaves state service.
4. The employee must make contributions to the P.E.R.S. on a monthly basis up to the time of his death or disability. The amount of such contribution shall be determined by the Division of Retirement. Such amount shall be the cost of those benefits, determined on an actuarial basis (i.e. the same amount that employees in state service will be required to pay, if the recommendation is implemented).

The employee may authorize the Division of Retirement to make monthly deductions from his contributions being held in the Retirement fund.

The employee shall refund to the P.E.R.S. those deductions with interest when he becomes eligible for retirement under the P.E.R.S.

5. Benefits under this section cease under the same conditions

affecting employees in state service.

It is also recommended that the provision which presently exists in the P.E.R.S. (section 39.25.420) insofar as it affects a deferred vested member of the P.E.R.S., be maintained. That is; if the death of a deferred vested member occurs before appointment to retirement and after completing at least 5 years of credited service, the surviving spouse may, at his or her discretion, receive either the lump sum death benefit or the 50% joint and survivor option based on credited service to the date of the employee's termination from state service.

However, no employee may simultaneously receive a pension under more than one section of the P.E.R.S.

(D) SOCIAL SECURITY MEDICAL BENEFIT

The full level of Social Security hospital insurance benefits is available to any individual who is age 65 and is receiving any retirement benefit from Social Security. In addition, supplementary medical insurance benefits are available, on an elective basis, to any individual who is eligible for hospital insurance. This means that any individual who is eligible for Social Security retirement benefits at any level will lose no Social Security medical care benefits because of withdrawal from the Social Security system. However, it must be noted that individuals who retire early are not eligible for Social Security medical benefits until they reach age 65.

It is possible that some individuals who become disabled while employed by the state or after leaving state service may not be eligible for Social Security

medical benefits. Medical benefits are provided for any individual who is under age 65 and has received Social Security disability benefits for at least 2 years. That is to say, the individual must be both fully and currently insured.

RECOMMENDATION

It is the opinion of this Committee that, should the recommendations given in the previous section of this report affecting employees who leave state service be adopted, no other changes be made in the P.E.R.S. affecting these employees.

(D) P.E.R.S. MEDICAL BENEFIT

Employees who retire from state service receive the same medical coverage that they received before retirement.

RECOMMENDATION

As most employees will be eligible for Social Security medical benefits after retirement based on either service with the state or service with other employers and, because employees who retire from state service receive medical insurance coverage from the P.E.R.S., no changes are recommended in the P.E.R.S. affecting employees who retire from state service.

TEMPORARY EMPLOYEES

Temporary employees do not participate in the P.E.R.S. However, they do contribute to the Social Security system and thus, earn "quarters of coverage" in

that system. Nevertheless, because the turnover rate of these employees is extremely high, it is not desirable to include them in the P.E.R.S. This would increase the administrative burden of that system substantially. It is, however, desirable to provide some benefit coverage for these employees.

RECOMMENDATION

This Committee recommends that, in the event the State of Alaska withdraws from the Social Security system, the State of Alaska shall provide a lump sum death benefit to beneficiaries of temporary employees who die while in state service. The amount of such benefit shall be equal to one full year's salary computed as though the employee had worked 12 continuous months.

The State of Alaska shall also provide a disability benefit to temporary employees who become disabled while in the employ of the state and when such disability has resulted from occupational causes. The disability benefit shall be equal to 40% of the disabled employees' monthly salary at the time disability occurs. Disability benefits begin the first month following the month disability occurs. The last payment shall be for the month in which: (1) The death of the disabled employee occurs; or (2) The month in which the disabled employee recovers from disability; or (3) The month in which the disabled employee ceases to be eligible for disability benefits under the Social Security Act; or (4) The month the disabled employee becomes eligible to receive a retirement pension from the P.E.R.S. (based on prior service).

PRELIMINARY REPORT

SOCIAL SECURITY WITHDRAWAL

A REPORT TO ALASKA PUBLIC EMPLOYEES

SAMPLE

PREPARED BY:

ALASKA PUBLIC EMPLOYEES
ASSOCIATION, COMMITTEE
ON SOCIAL SECURITY WITHDRAWAL

MIKE MURRAY, CHAIRMAN

NOT FOR DISTRIBUTION

Social Security Opt-out

31, 1975, the State of Alaska announced its intent to withdraw from Social Security. The State began a two year period during which Governor Hammond may exercise his option to withdraw the State and its employees from that program. Nothing has happened to date; the two year period is designed for study and debate on the relative merits of withdrawal. But time is growing short. A decision must be made during the coming legislative session if funds are to be reallocated in time to meet the federal deadline.

If the State opts-out, F.I.C.A. payroll deductions will stop immediately. Monies paid in to date of withdrawal and the benefits accrued would not be lost. An employee who has established his 40 quarter eligibility will still be able to draw benefits on retirement. Partial eligibility may be transferred to a participating employer later on without any loss of credit. However, once the State of Alaska opts-out, it and all its employees are out for good. Short of congressional action, there is no way for Alaska to get back in.

The question for most employees is how to get the best benefits for the money. The very real fear that many state employees have expressed regarding the imminent bankruptcy of the Social Security system is, fortunately, false. The system is as sound as the U.S. Government. Its ability to continue paying benefits depends not on the size of the reserve funds but on the Government's power to collect taxes. Far from being the retirement "insurance" most taxpayers suppose, Social Security is what economists call an "intergenerational transfer" program. Unlike a straight insurance plan, Social Security operates by handing the taxes collected from today's workers over to today's retired and disabled. The only insurance a worker receives for his future is the presumed willingness of future generations to similarly support him during his retired years.

There are other factors, however, which threaten Social Security as it operates today. In 1955, seven U.S. workers paid taxes for every person collecting benefits. Today that ratio has been reduced to 3-to-1. By the year 2030, based on the World War II baby crop reaching retirement age, there will be only two workers to support each retiree. This means that the taxes withheld to finance Social Security must increase proportionately as the ratio of worker to retiree diminishes.

All of this occurs without ever assuring the overtaxed worker that his future will be as well paid or as secure. Even though

today's beginning worker will pay four to five times the taxes his father paid, the Chief Actuary of the Social Security Administration estimates that he will do 20% worse in tax-to-payoff ratio than his father; his own son will do 14% worse than that.

Although benefits decline in real terms, Social Security taxes rise. The current 5.85% employee and employer deduction is scheduled to rise to 6.05% in 1978. As recently as 1965 the maximum Social Security tax that any worker paid was \$174; it is now \$895. In addition, maximum income subject to taxation has also been rising. The maximum taxable income in 1976 was \$15,300. By 1980 it is scheduled to reach \$21,600, based on assumptions regarding future increases in wages. The force of this upward trend is apparent in the proposal to raise the taxable wage base to \$25,000 by 1977, a proposal currently under consideration by the House Social Security Subcommittee.

The conclusion is inescapable: both the taxable wage base and the tax itself are on the rise while the ratio of worker-to- retiree worsens. By the year 2005, the large group of workers born

"THE SOCIAL SECURITY SYSTEM AS IT CURRENTLY EXISTS IS BASICALLY A WELFARE PROGRAM FUNDED BY PAYROLL TAXATION."

during the post-World War II baby boom will begin retiring. There will be a rapid increase in the number of individuals receiving benefits relative to the number of people working. Between 2005 and 2035, the combined payroll tax will have to rise from about 12% of covered earnings to more than 16% of covered earnings according to the Social Security Advisory Council. Since all of this is simply a transfer of funds between generations, the workers who are paying so heavily now have no guarantee that their future will be as well protected.

But the need for continuing tax increases is also inescapable. A 1972 law tied Social Security benefit levels to movement in the consumer price index so that they are automatically lifted each year by inflation. Today, many retirees benefit more in a single year than they have contributed in taxes through their entire working careers. In addition, social welfare programs such as Aid To Dependent Children, Foster Homes, and Medicare are funded through Social Security revenue.

All of these facts are part of the reason that public employees across the country are withdrawing from Social Security.

The Metropolitan Washington Council of Governments, which includes various communities near the District of Columbia, found that it could enter into a private pension plan and pay no more than it paid to Social Security. Their employees could then retire at age 60 instead of 65, with no loss in benefits. City workers in San Jose, California, left the Social Security system in 1975. They now contribute 3% less than they did under Social Security and enjoy benefits that average 25% higher.

The report prepared by the private consulting firm of V.M. Mercer for the Alaska State Division of Retirement concerning this issue states that Social Security benefits would cost 22% of employee's earnings to be completely duplicated. However, given the almost 12% that the State of Alaska and its workers jointly contribute to Social Security now, those funds invested in the Public Employees Retirement System (PERS) could provide an increased computation rate for retirement benefits (i.e. 2½%) as well as increased death and disability benefits.

It is possible that there are some unique benefits to the State as well. Alaska currently suffers from a nearly 40% turnover rate in State employment. If the State can offer its employees a financially attractive retirement system in which the benefits are significantly augmented by monies formerly contributed to Social Security, employees would be encouraged to sustain their employment.

The fact that Social Security is portable while private retirement systems are not means little in lost benefits to Alaska state employees. The average length of service for state workers is just four years. Those workers who change employers frequently would lose little, if anything, in retirement benefits earned through Social Security contributions made in other states. Given the same ready access to their money as now afforded employees who terminate under PERS, even those transient workers would have greater flexibility in managing their finances.

Perhaps the main issue, however, is as much philosophic as it is financial. The Social Security system as it currently exists is basically a welfare program funded by payroll taxation. State of Alaska employees will not get what they pay for in terms of their own retirement benefits. A choice must be made between providing for one's own future, and providing funds for a variety of social welfare programs.

The APEA Committee on Social Security Withdrawal, chaired by Mike Murray of Juneau, has prepared a special report on this issue which includes specific recommendations for consideration by public employees. If you wish additional information, contact your local Field Office or APEA Headquarters in Juneau.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Coming up:

Social Security Opt-out

On December 31, 1975, the State of Alaska filed a letter of its intent to withdraw from the Social Security system. That letter began a two year period during which Governor Hammond may exercise his option to withdraw the State and its employees from that program. Nothing has happened to date; the two year period is designed for study and debate on the relative merits of withdrawal. But time is growing short. A decision must be made during the coming legislative session if funds are to be reallocated in time to meet the federal deadline.

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The question for most employees is how to get the best benefits for the money. The very real fear that many state employees have expressed regarding the imminent bankruptcy of the Social Security system is, fortunately, false. The system is as sound as the U.S. Government. Its ability to continue paying benefits depends not on the size of the reserve funds but on the Government's power to collect taxes. Far from being the retirement "insurance" most taxpayers suppose, Social Security is what economists call an "intergenerational transfer" program. Unlike a straight insurance plan, Social Security operates by handing the taxes collected from today's workers over to today's retired and disabled. The only insurance a worker receives for his future is the presumed willingness of future generations to similarly support him during his retired years.

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ALASKA PUBLIC EMPLOYEES ASSOCIATION

REPORT

TO ALL EMPLOYEES OF THE STATE OF ALASKA CONCERNING THE DESIREABILITY
OF WITHDRAWAL FROM THE SOCIAL SECURITY SYSTEM;

AND

A BALLOT WHEREBY EMPLOYEES OF THE STATE OF ALASKA MAY ADVISE THE ALASKA
PUBLIC EMPLOYEES ASSOCIATION:

- A. WHETHER PUBLIC EMPLOYEES WANT TO OPT-OUT OF THE
SOCIAL SECURITY SYSTEM;
- B. WHAT BENEFITS, IF ANY, SHOULD BE REPLACED WHICH MAY
BE LOST TO SOME EMPLOYEES BECAUSE OF WITHDRAWAL FROM
THE SOCIAL SECURITY SYSTEM.

HISTORY

Being the representative of the largest group of state employees, APEA has over the years received considerable input from these employees and others expressing their desire to withdraw from the Social Security system. With this in mind, APEA negotiators entered into an agreement with the State of Alaska to jointly conduct a study to determine the desirability of terminating participation in the Social Security system for employees of the State of Alaska. The result of this agreement is the report prepared by William A. Mercer, and is referred to hereafter as the Mercer Report.

The federal law which establishes the Social Security system provides that a public employer may withdraw from the Social Security system after two years advance notification of withdrawal is given. The State of Alaska gave such notification in December, 1975 and, unless the State advises the Social Security Administration otherwise, the employees of the State of Alaska will not make contributions to that system after December, 1977.

This report is not intended to be an in-depth study of the Social Security system but, rather, to make recommendations based on the Mercer Report, a report prepared by the professional staff of APEA, information published by the Social Security Administration, the Public Employees Retirement System, the U.S. Senate Subcommittee on Aging, and other information gathered concerning other public employers who have withdrawn from the Social Security system. More importantly, however, this report also contains a ballot which gives the employees of the State of Alaska what may very well be a once-in-a-lifetime opportunity to express their wants

and needs concerning their future security and retirement.

The information collected from this ballot will be used, as much as is practical, to formulate a list of priorities for the purpose of drafting legislation that will effectuate those priorities. APEA's main lobbying effort during the session of the legislature will be the passage of this legislation. If the employees of the State of Alaska actually do opt-out of the Social Security system, assuming that they vote to withdraw, the benefit they may derive from that action will depend greatly on the success or failure of this legislation.

SUMMARY

Why do so many employees want to withdraw from the Social Security system? A recent survey conducted by APEA showed that 2/3 of the approximately 1500 employees who responded to that survey wanted to "opt-out" of Social Security. Why is this? Is the system really that bad? There is no question that some employees want to opt-out because they think that the system is "going broke." Others want to opt-out because they think that after they have established their 40 quarter eligibility they will be eligible for the maximum benefits provided by Social Security; for those employees there is no point to pouring more money into the system since they think they will not get any more out of it.

Both of these groups of employees are mistaken. In the first place, the system can never go broke. It is, quite literally, as strong as the U.S. Government itself. Or, to put it another way, it is as strong as the government's ability to collect taxes. What this means is that the government will simply raise Social Security taxes whenever the system needs more money to fund the programs it provides. As for the second group of employees who think they need only "40 quarters in," this report should clarify many of their misconceptions. However, it is safe to assume that the majority of employees who want to opt-out of Social Security do so because they feel they would receive greater benefits at retirement if the money that both they and the State are presently contributing to Social Security were invested, instead, in the Public Employees Retirement System.

There is no question that Social Security taxes are certain to increase dramatically in the future now that the taxable wage base is tied to the Consumer Price

Index. The tax (currently 5.85%) on the taxable wage base is also certain to increase. Although benefits are also tied to the Consumer Price Index, what these benefits will cost in the way of Social Security taxes to individuals cannot now be accurately predicted. With this "double indexing" of the Social Security benefit formula, some actuaries have projected Social Security benefit costs under the current system will reach as high as 30% to 50% of taxable pay in the years 2020 to 2050. That is, for many of us, eight to twelve times what we are now paying. Mr. A. H. Robertson, Chief Actuary of the Social Security Administration, in a speech he gave in October, 1975, said that, "Based on current projections of income to the Social Security system and benefit payouts, the current Social Security tax rates are insufficient to the extent that the Social Security Trust Fund could be depleted by 1982."

We do not get a realistic picture of what retirement benefits are worth if we compare future Social Security benefits with future P.E.R.S. benefits. The numbers that these kind of projections produce are so inflated, few are able to recognize their relative value. Considering the fact that Social Security benefits are now tied to inflation, it is fairly safe to assume that future benefits from that system will have a relative value equal to present benefits.

THE MAXIMUM BENEFIT PAYABLE TO AN INDIVIDUAL WHO RETIRED AT AGE 65 IN 1976 WAS \$364 PER MONTH. THE SPOUSE OF THAT INDIVIDUAL WOULD RECEIVE 50% OF THAT BENEFIT, ALSO AT AGE 65.

It is difficult to imagine how anyone could live on this amount of money today. Nevertheless, many do, although it is common knowledge that the standard of living among retired persons, living entirely on Social Security, is one of the lowest in the United States. The monthly check from Social Security is barely

enough to provide shelter for these individuals, let alone food or any luxuries. So it is little wonder many of them end up living out their lives in some old-age home or turning their Social Security checks over to some other institution so they can survive. It is a national disgrace that we, a nation of incredible wealth, systematically do this to our parents and grandparents. Perhaps, consciously or subconsciously, this is why many people want to get out of Social Security. And, as most workers are unable to accumulate enough wealth during their working years to enable them to maintain their standard of living after retirement, it would be prudent indeed for any worker to take advantage of an opportunity that will assist him in providing security for his retirement.

Such an opportunity is now at hand. If the employees of the State of Alaska withdraw from the Social Security system and, if the money that both the employees and the State are now paying into Social Security is reinvested in the Public Employees Retirement system, retirement benefits from P.E.R.S. can be substantially improved.

AN EMPLOYEE WHO RETIRED FROM STATE SERVICE AFTER 30 YEARS WOULD RECEIVE 75% OF THE AVERAGE OF HIS THREE HIGH YEARS' EARNINGS IF THE BENEFIT FORMULA WERE INCREASED TO 2-1/2%. AN EMPLOYEE WHO RETIRED AFTER 20 YEARS' SERVICE WOULD RECEIVE 50%.

What may be even more important, especially to young employees, is that under the P.E.R.S. they are eligible for a pension while they are still relatively young. An increased benefit formula could provide the means for these employees to advance their education or to pursue other careers. In any case, it would provide any career employee a benefit which would allow him to retire with the confidence of knowing that his future is secure.

When considering withdrawal from the Social Security system, the question of portability invariably arises. That is, that benefit accrual is fully portable for employees who go from one employer to another, so long as those employers participate in the Social Security system. Whereas, under the P.E.R.S., when employees leave state service benefit accrual stops, although they still may be eligible to receive retirement and death benefits. It should be noted that, currently under the P.E.R.S., any employee who leaves state service before reaching retirement age and who has at least 5 years of credited service will still be eligible for a retirement pension at age 50 or 55 if he has not withdrawn his contributions from the system (ie. a deferred, vested member). His retirement benefit will be based on his years of credited service.

It should also be noted that, should this same employee die before retirement and after leaving state service, the surviving spouse may, at his or her discretion, receive either the lump sum death benefit or the 50% joint and survivor option, based upon the deceased employee's credited service. In addition, any person who is receiving a retirement benefit from the P.E.R.S. is also entitled to major medical insurance coverage. But they do not accrue credited service when they leave state employment and they are not eligible for any disability benefit after leaving state service.

However, under the latest revisions in the P.E.R.S., the death and disability benefits for employees who either die or become disabled while in state service and whose death or disability resulted from occupational causes, are not based on credited service. In the case of death, the surviving spouse will receive 40% of the deceased employee's monthly earnings at the time of death, until such time, if the deceased spouse had lived, he would have been eligible to retire. At that time the surviving spouse will receive the normal retirement pension

based on the deceased employee's three high-year earnings, with service credit up to his retirement age, had he lived.

In the case of disability, the disabled employee also receives 40% of his current monthly salary until he is eligible for retirement. AT that time, he receives the normal retirement benefit based on his earnings at the time of disablement. The period of disability constitutes credited service.

It is the opinion of this committee that if the State of Alaska withdraws from the Social Security system and if the recommendations described elsewhere in this report concerning death and disability benefits affecting employees who leave state service are implemented, employees who leave state service will have adequate death and disability protection if they are not covered by Social Security and until such time as they may be eligible to receive these benefits from Social Security.

Another area of concern for some people is that the Federal Government will change the law which allows public employers to withdraw from Social Security or they will use general fund revenues to support the benefits of the Social Security system. The reason the Federal Government allows public employers a choice in participating in Social Security is due to the fact that it is questionable whether it is constitutional for the Federal Government to force public employers to belong. Even if the law is changed, it is doubtful whether it would apply to public employers who had already withdrawn.

As to the question of using general fund revenues to support Social Security benefits; this is quite possible. If this occurred after the State of Alaska withdrew from the Social Security system, public employees would, in fact, be

paying for some Social Security benefits by virtue of the fact that they pay federal taxes. If this were to happen, it is fairly safe to assume that Congress would, at the same time, make some benefits available to individuals who are not in the system, especially when one considers that there are so many federal employees, and they are not in the Social Security system.

As previously noted in this report, Social Security benefits are now tied to the Consumer Price Index. This was done, of course, to prevent inflation from reducing the buying power of retired workers living on Social Security. Now that this feature has been in effect for several years, there has been considerable concern expressed in the U.S. Congress about the cost of maintaining that provision. Thus, there is some possibility that Congress might put a limit on how much Social Security benefits will be increased due to inflation.

The fact that there is no automatic cost of living allowance built into P.E.R.S. benefits after retirement must be considered in regard to withdrawal from Social Security. It should be noted, however, that there is a provision in the P.E.R.S. whereby the Commissioner of Administration may authorize a cost of living adjustment for persons receiving benefits from the P.E.R.S., provided the financial condition of the retirement fund can permit it.

There is no question but that the cost of Social Security is going to increase substantially from now on, and it should not have to be pointed out that both the employee and the employer will pay the cost. In the event of withdrawal from the Social Security system, it would not be too optimistic to assume that any savings to both the employees and the State would be used to provide cost of living adjustments to retired employees.

ESTIMATED MONTHLY P.E.R.S. RETIREMENT BENEFIT

AT AGE 55

Current Age	Years of Service at age 55	Est. P.E.R.S. Retirement benefit Current salary <u>\$15,300/yr</u>	Est. P.E.R.S. Retirement benefit Current salary <u>\$20,000/yr</u>	Est. P.E.R.S. Retirement benefit Current salary <u>\$25,000/yr</u>	Est. P.E.R.S. Retirement benefit Current salary <u>\$30,000/yr</u>
50	5	\$201.21	\$263.02	\$328.77	\$394.52
45	10	\$538.52	\$703.95	\$879.94	\$1055.93
40	15	\$1081.00	\$1413.07	\$1766.33	\$2119.60
35	20	\$1928.82	\$2521.33	\$3151.67	\$3782.00
30	25	\$3226.50	\$4217.65	\$5272.06	\$6326.47
25	30	\$5181.35	\$6773.00	\$8466.25	\$10,159.50

Assumptions:

- (1) Future salary increases at annual rate of 6%.
- (2) 2-1/2% benefit formula "x" 3 high year average
- (3) Employee becomes age 55 while in state service.
- (4) Employee does not elect survivor option.

Note: When comparing P.E.R.S. retirement benefits to those of Social Security, it should be noted:

- (1) That full Social Security retirement benefits do not begin until age 65.
- (2) That most employees will receive a Social Security retirement benefit at age 65 at some level, in addition to the P.E.R.S. benefit.
- (3) That Social Security benefits are not subject to federal tax.
- (4) That P.E.R.S. benefits are not subject to state and local taxes in Alaska.
- (5) That P.E.R.S. benefits are not subject to federal tax until after retirement benefits paid to an individual exceed the individual's

- (5) contributions to the P.E.R.S. system.
- (6) That many employees will be in higher salary ranges before retirement age because of promotions.
- (7) Employees who retire at age 55 under P.E.R.S. will receive payments from that system for 10 years (120 months) before Social Security benefits begin. That is, for employees with 30 years' service whose current salary is \$15,300: $\$5181.35 \times 120 \text{ months} = \$621,762.00$ before Social Security benefits begin. For employees whose current salary is \$30,000: $\$10,159.50 \times 120 \text{ months} = \$1,219,140.00$ before Social Security benefits begin. With a 4% annual cost of living adjustment, these 10 year totals would be increased by 148%. An employee whose current age is 30 and who is currently earning \$15,300 annually, and who retires from the P.E.R.S. at age 55 at \$5181.35 per month, would be receiving \$7670 per month at age 65 if a 4% annual, post-retirement, cost of living adjustment were in effect when he retired.

Included in this report is a table from the Mercer Report showing estimated monthly Social Security retirement benefits at age 65. Although it is safe to assume that the Social Security benefits shown in that table are correct, based on the assumptions made, it would have been helpful if more information had been provided concerning Assumption #5, ie. "All workers remain eligible for Social Security benefit at some level." For instance: Line 1, Current age 30, in the column showing "Estimated Social Security Retirement Benefit -- Termination from OASDI (\$400, to an individual/ \$600 with spouse benefit).

The table shows that the worker terminated from Social Security at age 30. At that time he could have had as many as 10 or 12 years in the Social Security system while working for the state. He could then have continued working for the

state, after termination from Social Security, for another 20 years and retired under the P.E.R.S. at age 50. The question is; did that employee then go to work for an employer who was in the Social Security system? If he did, he would gain 15 more years of Social Security credits. The next logical question is: how many years did this worker contribute to the Social Security system and when, during his career, did he make the contributions which entitled him to a \$600 retirement benefit?

It should also be pointed out that there are several areas in the Mercer Report where the information presented is not now valid: namely in the area of death and disability benefits under the P.E.R.S.

Table 1

**Estimated Monthly Social Security Retirement Benefit
At Age 65**

<u>Current Age</u>	<u>Estimated Social Security Retirement Benefit - Continuation in OASDI</u>	<u>Estimated Social Security Retirement Benefit - Termination From OASDI</u>	<u>Social Security Retirement Benefit Lost in Termination</u>	<u>Social Security Retirement Benefit Lost - With Spouse Benefit</u>
30	\$ 3,824	\$ 400/\$600*	\$ 3,424	\$ 5,136
35	\$ 2,793	\$ 578/\$867*	\$ 2,215	\$ 3,323
40	\$ 1,968	\$ 595/\$892*	\$ 1,373	\$ 2,060
45	\$ 1,423	\$ 545/\$817*	\$ 878	\$ 1,317
50	\$ 1,068	\$ 499/\$748*	\$ 569	\$ 854

*with spouse's benefit

Assumptions

- (1) Future increases in wage base at the annual rate of 6%.
- (2) Future increases in the cost of living at the annual rate of 4%.
- (3) Spouse is same age as worker.
- (4) Worker's earnings in all years equal or exceed the wage base.
- (5) All workers remain eligible for Social Security benefit at some level.

NOTE: In comparing the benefits of the alternative programs to those of Social Security, the column headed "Social Security Retirement Benefit Lost - With Spouse Benefit" should be used.

THE BOTTOM LINE

STRUCTURE OF THE SOCIAL SECURITY BENEFIT FORMULA:

It is almost impossible to read anything about the Social Security system which doesn't express grave concern about the future of that system. There is no questions but that the basic cause of this concern is the Social Security benefit formula. For many years it has been apparent that retired workers living on Social Security were one of the poorest classes of people in the United States. These people living on "fixed incomes" were going from bad to worse as each year went by because of increases in the cost of living. Finally, in 1972, Congress revised the Social Security Law and established an automatic cost of living adjustment on Social Security retirement benefits by tying those benefits to the Consumer Price Index which reflects rises in the cost of living. At the same time, they also tied the taxable wage base to the benefit increases with the intent of thereby paying for the benefit increases. This is what is meant by "double indexing" of the benefit formula. However, as it turned out, when the benefits went up, for example: 4%, it was discovered that the taxable wage base had to be increased more than 4% to pay for the increased benefits.

The effect of this is that the taxable wage base is increasing at a greater rate than are the wages of the workers who are contributing to the system, and that every year more and more workers are not earning the maximum wage subject to Social Security tax. Consequently, the Social Security system is not collecting the revenue necessary to support the programs it provides. Although the tax rate which is currently 5.85% is scheduled to increase to 6.05% in 1978, 6.30% in 1981,

6.45% in 1986, and to 7.45% in 2011, the Social Security Administration has stated that the tax rates are insufficient to fund the benefits.

Of course, if the tax rates increase as scheduled and double-indexing of the benefit formula continues, the inequities which already exist in the system will be greatly increased. That is, that workers who earn the maximum wages subject to Social Security taxes will be paying for an even greater share of the benefits paid to workers who do not earn the maximum amount subject to Social Security tax. By comparison, the retirement benefits paid to a worker under the P.E.R.S. are directly proportional to what that worker pays into the system.

In view of the fact that a worker may retire from the P.E.R.S. as early as age 50, or even earlier in many cases; and

- because that worker will almost certainly return to work for an employer who is in the Social Security system; and
- because retirement benefits for career employees are substantially greater from the P.E.R.S. and will be even more so if the benefit formula is increased to replace any retirement benefit that may be lost to state employees after withdrawal from the Social Security system; and
- because short term staff employees would lose little, if any, Social Security retirement benefit; and
- because the Social Security retirement system contains numerous inequities which are discriminatory; and
- more importantly, because the cost of Social Security is certain to increase at a greater rate than benefits will be improved;

THIS COMMITTEE CAN FIND NO REASON OF SUFFICIENT CONCERN TO CAUSE STATE EMPLOYEES TO VOTE AGAINST WITHDRAWAL FROM THE SOCIAL SECURITY SYSTEM.

RECOMMENDATIONS IN GENERAL

I. It is recommended that the employees of the State of Alaska vote "yes" to the question "Should the employees of the State of Alaska terminate their participation in the Social Security system?", on the condition that the State of Alaska contribute a sum of money to the Public Employees Retirement System equal to, or greater than, the sum that the State is currently contributing to the Social Security system on behalf of its employees.

Such money shall be used, as much as is practical, to improve and/or replace those benefits which may be lost to employees because of their non-participation in the Social Security system, or as otherwise determined by the tally of the Advisory Ballot accompanying this report.

II. It is also recommended that the employees of the State contribute to the Public Employees Retirement system at least part of the money they are currently contributing to the Social Security system. Such amount shall be determined, as much as is practical, by the tally of the Advisory Ballot.

FACTORS WHICH MUST BE CONSIDERED BEFORE VOTING TO WITHDRAW FROM
THE SOCIAL SECURITY SYSTEM

- BENEFITS: (A) RETIREMENT
(B) SURVIVORS' BENEFIT
(C) DEATH & DISABILITY BENEFITS
(D) MEDICAL BENEFIT

The following discussion describes what benefits are provided by Social Security and how withdrawal from the Social Security system may affect state employees' eligibility for these benefits. This discussion also describes what benefits these employees may be eligible to receive from the P.E.R.S. Also included here are recommendations for improvement and/or replacement of benefits which may either be lost or decreased for some employees because of withdrawal from the Social Security system.

(A) RETIREMENT

1. SOCIAL SECURITY

---The normal retirement age for workers covered by Social Security is 65 years.

A worker may retire at age 62 with a penalty of 5/9 of 1% for each month that he retires before his 65th birthday.

---To be "fully insured," a worker must have one "quarter of coverage" for each year after 1950 (or, if later, the year he reaches age 21) or before the year death occurs or, if earlier, the year he reached age 62.

- The maximum number of "quarters of coverage" required is 40. The minimum number required is 6. A quarter of coverage is a calendar quarter in which a worker has earned at least \$50 in wages for employment covered under this law.
- The "taxable wage base" is the maximum amount of annual earnings subject to Social Security tax and used to calculate the average monthly wage. The taxable wage base in 1976 was \$15,300. The Social Security tax in 1976 was $5.85\% \times \$15,300 = \895 .
- The monthly retirement benefit payable to an individual at full retirement age is determined from a "schedule" based on the "average monthly wage."
- The "average monthly wage" is the average wage subject to Social Security tax earned by a worker over his career after 1950.
- The "Primary Insurance Amount" is the monthly benefit payable to an individual at full retirement age before application of any delayed retirement credit. Such amount is determined from a schedule based on the Average Monthly Wage.

This means that an employee's earnings (up to the maximum taxable wage) for each year after 1950 or, if later, the year he reaches 21, up to the year he is 62, are totaled and then divided by that number of years. (If an employee becomes 21 years of age after 1950, that is 41 years until he becomes 62. It is also 164 quarters of coverage: $41 \times 4 = 164$.) There is a provision in the law to drop from this total the five lowest earning years, which means that the average monthly wage is based on 36 years of employment. That may be important, especially if, in those years, the contribution to Social Security was \$0. The result of all the addition, subtraction and division is (when the total is divided by 12 months) the "average monthly wage."

The maximum average monthly wage possible up to 1976 was \$585. The maximum retirement benefit, payable to an individual who retired in 1976, was \$364.

(i.e. primary insurance amount.) If the average monthly wage was one-half of the maximum possible (1/2 of \$585) or approximately \$293, the benefit from Social Security would be \$229. That is 78% of the average monthly wage, whereas \$364, the maximum benefit, is only 62% of \$585. In this way, Social Security retirement benefits are far more profitable for those workers who do not earn the maximum amount subject to Social Security tax.

WIFE'S BENEFIT

A wife or dependent husband or a retired worker receives 50% of the spouse's benefit at age 65. A wife may receive this benefit at age 62; but her benefit will be reduced by 25/36 of 1% for each month before she is 65 years old that she receives the benefit. A wife may receive her benefit at any age if she is caring for a child entitled to a child's benefit. Payments cease when either spouse dies, or when they are divorced after less than 20 years of marriage, or there is no child entitled to a child's benefit and the wife is under age 62.

CHILD'S BENEFIT

Every child of a worker who is entitled to a retirement benefit will receive 50% of the worker's benefit until age 18, or age 22 if the child is a full-time student. Payments cease when the child either dies, is married, or is no longer a student. If the child's benefit is based on his being disabled, the benefit stops the third month following the month he ceases to be disabled.

There is also a maximum limit that Social Security will pay to any family. That limit is approximately 180% of the retirement benefit. For 1976 that figure was $180\% \times \$364 = \655 .

TO SUMMARIZE

A worker needs at least six (6) quarters of coverage, but not more than 40 quarters of coverage, to be eligible for a Social Security retirement benefit. The amount of that benefit is determined by the employee's "average monthly wage."

Because the taxable wage base is much greater during the worker's later years, his average monthly wage will be higher if he earns quarters of coverage just before reaching age 65.

The Social Security retirement benefit formula favors workers in the lowest income bracket; that is, those workers get a higher return on their money than do workers in higher income brackets. The taxable wage base on which Social Security contributions are based is currently \$15,300. By 1980, based on assumptions regarding wage increases, it is scheduled to climb to \$21,600. There is also a bill under consideration by the U.S. House Social Security Subcommittee which will further increase the taxable wage base to \$25,000 without any guarantee that benefits will be raised proportionately. This trend will have a greater impact on Alaskans than on workers in other states since wages are higher here.

Many employees in state service are either already vested in Social Security or will become vested in that system in the future, regardless of Alaska's withdrawal from the program, because a high percentage of state employees work for the State for less than four years. However, some employees, because of their long-term employment with the State of Alaska after withdrawal from the Social Security system, will lose some Social Security retirement benefit.

This may happen to an employee who is vested in Social Security before the State withdraws from that system but who continues in state employment for some time (possibly 10 or 20 years) after withdrawal from Social Security, and who does not contribute to Social Security after leaving state service.

If an employee retires under P.E.R.S., the Social Security retirement benefit that he would receive would be based on the "average monthly wage" he earned while he was contributing to the Social Security system. It follows, then, that the employee would receive a smaller Social Security retirement benefit at age 65 than he would have received had he remained in that system until his retirement age. This is true since the "average monthly wage" would have been higher if the employee had contributed to Social Security during his highest-earning years of employment.

However, if that employee left state service at age 40 or 50 or even 55 years of age (regardless of whether he received a retirement benefit from P.E.R.S.), and if he then went to work for an employer covered by the Social Security system, that worker would then add quarters of coverage to his Social Security earnings which would increase his average monthly wage. This is especially true at this time because the taxable wage base will normally be much higher during a worker's later years of employment. Consequently, an employee who leaves the Social Security system and later returns to it may receive, on retirement, a benefit only slightly reduced.

Also, it must be pointed out that single workers and married working women pay into the Social Security system for retirement benefits they may never receive.

That is, single workers pay for spouse and child benefits that they cannot possibly collect because they are not married. Also, a married working woman pays for full benefits but she can only receive 50% of her husband's benefit unless he dies. At that time she receives her own, or his full benefit, whichever is greater. For this reason many widows and widowers who are retired on Social Security live together without being married. As a widow or widower, each receives one full retirement benefit; if they get married, the wife receives only 50% of her husband's benefit. This applies to every woman, whether or not she ever worked or contributed to Social Security.

(A) RETIREMENT

2. P.E.R.S.

Unlike the Social Security system, the retirement benefit that an employee receives from the Public Employees Retirement System is directly proportional to what that employee pays into the system. State employees are currently contributing four and one-quarter percent of their earnings to the P.E.R.S. An employee is vested in this system after five years service. The benefit formula is: $2\% \times \text{number of years of service} \times \text{the average of three consecutive high year earnings}$. Normal retirement age after vesting is 55 years, with an option for retirement at age 50. An employee who elects to retire before his 55th birthday will lose $1/2$ of 1% of his normal benefit for each month that he retires before his 55th birthday. That is to say, a 6% penalty for each year of early retirement. Also, it should be noted that any employee may retire without penalty after 30 years of service regardless of age, except that peace officers, firemen, correctional officers, and Fish and Game field biologists and technicians may retire after 20 years of service without penalty, regardless of age.

It is also worth noting that teachers and other employees who are required to hold a teaching certificate have their own retirement system. This system is the "Teachers Retirement System" and these employees may retire without penalty after 20 years of service regardless of age.

Employees who retire from state service under the P.E.R.S. may elect, at their own option, any one of three survivor options. Ordinarily, upon death after retirement, there will be no continuing benefit for the spouse unless the employee applies for it 30 days prior to retirement. Under each of these options, normal retirement benefits are actuarially reduced, with the spouse continuing to receive payment after the employee's death in accordance with the plan that is chosen.

An employee who retires and wants to provide a continuing benefit to the spouse in the event of his own death may elect:

- A. 75% joint and survivor option; or
- B. 50% joint and survivor option; or
- C. 66 and 2/3% last survivor option.

An employee who elects either (A) or (B) above will have his normal retirement benefit actuarially reduced based on the age of the spouse at the time of the employee's retirement. Upon the employee's death, the spouse will receive either 75% or 50% of his reduced pension for life, whichever was chosen before retirement.

An employee who elects (C) above will have his normal retirement reduced also but, upon the death of either employee or spouse, the survivor receives 66 and 2/3% of the reduced benefit for life.

The difference between (C) and either (A) or (B) is that retirement benefits under (A) and (B) will not change on the death of the spouse. However, under option (C), either survivor receives 66 and 2/3% of the reduced benefit.

In selecting any of these options, an employee should keep two general principles in mind: (a) the lower the age of the spouse at the time the employee retires, the greater the reduction in the normal retirement benefit; and (b) the lower the continuing payments to the spouse, the smaller the reduction will be to normal retirement benefits.

Another option is also available under the P.E.R.S. called the "level income option," whereby employees who retire under the P.E.R.S. before they are eligible for Social Security retirement benefits, may have their P.E.R.S. benefit increased until their Social Security benefit payments begin. At that point, the P.E.R.S. benefit will be reduced proportionately. The result is a more "level income" throughout the retirement years.

It should be noted that any employee who leaves state service may withdraw all of his contribution plus interest from the system. Of course, if he does this he will not be eligible for any benefits. Additionally, there is a provision in the P.E.R.S. regulations whereby any employee who leaves state service and withdraws his contributions may be reinstated in the system at a later date without penalty, if he pays back his contributions plus interest.

(B) SURVIVORS' BENEFIT

1. SOCIAL SECURITY

A widow or dependent widower (who received at least half of his support from his wife) will receive at age 65 100% of the "primary insurance amount"

the deceased spouse would have received at normal retirement age had he lived. The survivor may receive this benefit at age 60 with a penalty reduction of approximately 1/2 of 1% for each month that the survivor receives the benefit before she or he attains age 65. This benefit stops when the surviving spouse dies or remarries.

A widow not entitled to a widow's benefit may be entitled to a mother's benefit. (A widow must be at least 60 years old to receive a widow's benefit.) A mother's benefit is payable to the widow of a worker who dies while fully insured (40 quarters of coverage) or currently insured (6 quarters of coverage in the 13 quarters period ending with the quarter in which the death of the worker occurred) provided the widow is:

- (a) not married
- (b) not entitled to widow's benefit
- (c) has in her care a child of her deceased husband entitled to a child's benefit.

A woman need not be age 60 to qualify for a mother's benefit. The mother's benefit is equal to 3/4 of the "primary insurance amount" the deceased spouse would have received at normal retirement, had he lived. The mother's benefit ceases when she dies or remarries, or becomes entitled to a widow's benefit, or no longer has a child who is entitled to a child's benefit.

Social Security also provides a child's benefit for children under 18 years of age or 22 years of age, if the child is a student. Eligibility requirements and benefits are similar to a mother's benefit. That is the worker who dies must be fully or currently insured.

Parents are also eligible for a Social Security benefit if they are dependent

(receive 1/2 of their support) on a worker who dies. For the parent to be eligible, the worker who dies must be fully insured.

In addition to the benefits already mentioned, Social Security pays a one-time lump sum benefit of \$255.00 to the widow or widower of a worker who dies while fully or currently insured.

MAXIMUM LIMIT OF FAMILY BENEFITS

The total monthly benefit payable to any family from Social Security is approximately 170% of the primary insurance amount.

(B) SURVIVORS' BENEFIT

2. P.E.R.S.

If an employee's death is the result of non-occupational causes, and if he has at least five years of service, his beneficiary may elect a lump sum death benefit or the 50% joint and survivor option, based on credited service. If death occurs before he has one year of service, his beneficiary will receive a refund of his contribution, plus interest.

LUMP SUM DEATH BENEFIT (Non-occupational Cause)

After one year of service, but less than five years of service, an employee's beneficiary will receive \$1000.00 plus \$100.00 for each year of service up to the time of his death, plus the balance of his contributions to the fund.

50% JOINT SURVIVOR OPTION (Non-occupational Cause)

After five years of service, an employee's beneficiary will receive 50% of:
2% X the average of his three high consecutive years' earnings X the number

of years service he had until the time of his death. This amount is subject to actuarial reduction which is based on the age of the beneficiary or beneficiaries.

Additional death benefits are payable to beneficiaries of employees in the P.E.R.S. who are covered by medical insurance and/or collective bargaining agreements. In most cases, these benefits are lump sum payments.

P.E.R.S. DEATH BENEFIT BEFORE RETIREMENT

If death is a result of occupational causes in the performance of an employee's duties while in state service, the surviving spouse will receive 40% of the deceased employee's monthly compensation at the time of death, until such time, if the deceased employee had lived, he would have been eligible to retire. At that time the surviving spouse will receive the normal retirement pension based on the deceased employee's 3 high year earnings, with service credit up to his retirement age, had he lived. If there is no surviving spouse, the pension will be paid to surviving children who are under 19 years of age or 23 years of age if full-time students. Payments cease when there is no surviving spouse or child.

RECOMMENDATION

To be eligible to receive any death benefit from Social Security, a widow must be at least 60 years old unless she has a child who is entitled to a child's benefit. Even then her deceased spouse must have died while "fully" or "currently insured".

In the event the State of Alaska withdraws from the Social Security system, the employees most likely to lose this benefit are employees who are not vested

under Social Security and who die while in state service. These employees may often be young people who may very well have children. Unless these employees have been in state service for a considerable number of years, their benefit under the P.E.R.S. would be less than what they could receive from Social Security had they been covered by that system. It is assumed the employee dies from non-occupational causes.

Therefore, it is recommended that, should the State of Alaska withdraw from the Social Security system, the following revision be made in the P.E.R.S.:

Beneficiaries of employees who have five years or more of credited service, who die while in state service before retirement, and whose death results from non-occupational causes, shall be provided the same death benefit as provided when death is a result of occupational causes.

The above recommendations will certainly provide greater benefits to beneficiaries of employees who die while in state service than are provided from Social Security. This is especially true when one considers that under Social Security the surviving wife must be 65 years old to get a full benefit unless she has dependent children. Also, the husband will get nothing from Social Security if his working wife dies and he was not dependent on her while she was alive.

Under the P.E.R.S. a spouse will receive a pension regardless of his or her age and whether or not he or she was dependent.

It should be noted that under P.E.R.S., if there is no surviving spouse, this same pension will go to a surviving minor or minors (equally divided) until they

are age 19 or age 23, if full-time students.

The most difficult situation that we have to deal with is: Should the P.E.R.S. provide a death or disability benefit to survivors or dependents of individuals who either die or become disabled after they leave state service but may not be eligible for death or disability benefits from Social Security because of the State's withdrawal from that system?

When answering this question, it should be remembered that even under Social Security a worker must be both "fully" and "disability" insured in order for him or his dependents to be eligible to receive any disability benefit. In the case of death, a worker must be either "fully" or "currently" insured, for his dependents to be eligible for death benefits.

Nevertheless, there are undoubtedly some employees who are presently eligible for Social Security death and disability benefits who will lose eligibility for some of these benefits after they leave state service and after the State has withdrawn from the Social Security system.

For example, let us assume:

1. A worker who is fully insured under Social Security leaves state service and then dies. What benefits are lost?
 - (a) The widow or widower of a dependent worker will lose no eligibility for retirement benefits at age 65 because of withdrawal from Social Security.

(b) The widow will still be eligible for a mother's or a child's benefit.

2. A worker who is fully insured under Social Security leaves state service and then becomes disabled.

(a) The worker or his dependents will lose no disability benefits if the worker had 20 quarters of coverage during the 10-year period prior to becoming disabled. That is to say, a worker is still eligible for Social Security disability benefits for five years after he stops contributions to that system.

Summarizing the above examples, we find that the benefits lost to fully insured individuals who leave state service after withdrawal from the Social Security system depends on their "disability" insured status. If these individuals, after leaving state service, go to work for an employer who is in the Social Security system, and if they had lost their "disability" insured status by the time they left state service, they would again be "disability" insured under Social Security in 5 years.

Another question that must be considered is the problem of employees who leave state service and are not covered by Social Security.

For instance: An employee enters state service after Alaska withdraws from Social Security and never contributes anything to that system. There are two major concerns regarding these employees.

1. Many of these employees who leave state service will have

dependents who need protection, and

2. What meaningful protection can the P.E.R.S. provide for these employees that is fair and equitable, not only to those employees who leave state service but to the rest who stay with the State.

This Committee recommends that in the event the State of Alaska withdraws from Social Security system and, if the majority of employees, as indicated by the tally of the Advisory Ballot accompanying this report, vote to provide death and disability protection for employees who leave state service before retirement, the following revisions be made in the P.E.R.S.:

When considering the following recommendations it should be remembered that employees in state service pay for these benefits every month.

Employees who, after completing at least five years of credited service and who then leave state service, shall remain eligible for death and disability benefits from the P.E.R.S. for a period not to exceed ten years from the effective date of their termination from state service. The amount of death or disability benefit shall be based on the employee's earnings at the time of termination from state service.

Such eligibility shall be in effect only when all of the following requirements are complied with:

1. The employee is not eligible for retirement under P.E.R.S.

2. The employee or his beneficiaries must provide proof of disability or death as required by the Division of Retirement.
3. The employee must leave his contributions in the P.E.R.S. when he leaves state service.
4. The employee must make contributions to the P.E.R.S. on a monthly basis up to the time of his death or disability. The amount of such contribution shall be determined by the Division of Retirement. Such amount shall be the cost of those benefits, determined on an actuarial basis (i.e. the same amount that employees in state service will be required to pay, if the recommendation is implemented).

The employee may authorize the Division of Retirement to make monthly deductions from his contributions being held in the Retirement fund.

The employee shall refund to the P.E.R.S. those deductions with interest when he becomes eligible for retirement under the P.E.R.S.

5. Benefits under this section cease under the same conditions affecting employees in state service.

It is also recommended that the provision which presently exists in the P.E.R.S., (section 39.35.420) insofar as it affects a deferred vested member of the P.E.R.S., be maintained. That is; if the death of a deferred vested member occurs before appointment to retirement and after completing at least 5 years of credited

service, the surviving spouse may, at his or her discretion, receive either the lump sum death benefit or the 50% joint and survivor option based on credited service to the date of the employee's termination from state service.

However, no employee may simultaneously receive a pension under more than one section of the P.E.R.S.

(C) DISABILITY BENEFIT

1. SOCIAL SECURITY

To be eligible to receive any disability benefit from Social Security an individual must be unable to engage in any substantial gainful activity by reason of medically determined physical or mental impairment which can be expected to result in death, or has lasted, or can be expected to last, for a continuous period of not less than 12 months. In addition, a worker must be "fully insured", that is, have 40 quarters of coverage (ten years) and also have had not less than 20 quarters of coverage (5 years) during the ten years prior to becoming disabled. However, special exceptions apply in the case of individuals who become disabled prior to age 31 and in the case of the blind. A worker must wait 5 months before he receives any disability payment.

The disability benefit payable from Social Security is equal to the normal retirement benefit computed as though the worker had attained age 62.

The wife or dependent husband of a disabled worker receives 50% of the spouse's benefit at age 62. A wife may receive a 50% benefit at any age if she is caring for a child entitled to a child's benefit. A child of a disabled worker is entitled to a 50% benefit also, if he is under 18 years old or 23 years old, if he

is a student.

Maximum family benefit is approximately 170% of the disabled worker's normal retirement benefit.

(C) DISABILITY BENEFIT

2.. P.E.R.S.

Eligibility:

If an employee incurs a physical or mental condition which permanently prevents him from satisfactorily performing the duties of his position, or any other position for which he is qualified by education and training and which is made available by his employer, and if he is not eligible to retire:

Non-occupational disability (with 5 or more years credited service)

Benefit: $2\% \times$ (the average of the 3 consecutive high year earnings)
 \times number of years credited service.

OR

Occupational disability (no minimum service requirement)

Benefit: 40% of current monthly earnings while disabled or until employee is eligible for a retirement benefit. Service credit granted for entire period of occupational disability when computing retirement benefit. Upon the death of a retired employee who is receiving or is entitled to receive an occupational disability pension, a surviving spouse's pension equal to 40% of his average

monthly compensation shall be paid to the surviving spouse.

If there is no surviving spouse, the survivor's pension shall be paid in equal parts to his children who are under 19 years of age or, if full-time students, under 23 years of age. On the date normal retirement would have occurred if the employee had lived, monthly payments shall equal the monthly amount of the normal retirement benefit to which the employee, had he lived and continued his employment until his normal retirement date, would have been entitled with an average monthly compensation as existed at his death and the credited service to which he would have been entitled.

It should be noted that under Social Security there is no distinction between occupational and non-occupational disability, but in order to receive any benefit a worker must have 40 quarters of coverage (10 years) and half of this must be in the 10 years prior to becoming disabled.

In other words, employees in state service now, who are eligible for a Social Security disability benefit, if they become disabled, would still be eligible for that benefit for five years after withdrawal from the Social Security system. They would also receive a disability benefit from P.E.R.S.

RECOMMENDATION

It is therefore recommended that, should the State of Alaska withdraw from the Social Security system, the following revision be made in P.E.R.S.:

Employees in state service who become disabled after completing 5 or more years of credited service and when such disability has resulted from non-occupational

causes shall be provided the same disability benefit as provided when disability has resulted from occupational causes

(D) MEDICAL BENEFIT

1. SOCIAL SECURITY

The full level of Social Security hospital insurance benefits is available to any individual who is age 65 and is receiving any retirement benefit from Social Security. In addition, supplementary medical insurance benefits are available, on an elective basis, to any individual who is eligible for hospital insurance. This means that any individual who is eligible for Social Security retirement benefits at any level will lose no Social Security medical care benefits because of withdrawal from the Social Security system. However, it must be noted that individuals who retire early are not eligible for Social Security medical benefits until they reach age 65.

It is possible that some individuals who become disabled while employed by the State or after leaving state service may not be eligible for Social Security medical benefits. Medical benefits are provided for any individual who is under age 65 and has received Social Security disability benefits for at least 2 years. That is to say, the individual must be both fully and currently insured.

RECOMMENDATION:

It is the opinion of this Committee that, should the recommendations given in the previous section of this report affecting employees who leave state service be adopted, no other changes be made in the P.E.R.S. affecting these employees.

(D) MEDICAL BENEFIT

2. P.E.R.S.

Employees who retire from state service receive the same medical coverage that they received before retirement.

RECOMMENDATION:

As most employees will be eligible for Social Security medical benefits after retirement based on either service with the State or service with other employers and, because employees who retire from state service receive medical insurance coverage from the P.E.R.S., no changes are recommended in the P.E.R.S. affecting employees who retire from state service.

TEMPORARY EMPLOYEES

Temporary employees do not participate in the P.E.R.S. However, they do contribute to the Social Security system and thus, earn "quarters of coverage" in that system. Nevertheless, because the turnover rate of these employees is extremely high, it is not desirable to include them in the P.E.R.S. This would increase the administrative burden of that system substantially. It is, however, desirable to provide some benefit coverage for these employees.

RECOMMENDATION:

This Committee recommends that, in the event the State of Alaska withdraws from the Social Security system, the State of Alaska shall provide a lump sum death benefit to beneficiaries of temporary employees who die while in state service. The amount of such benefit shall be equal to one full year's salary computed as

though the employee had worked 12 continuous months.



National Governors' Association

HALL OF THE STATES • 444 North Capitol Street • Washington, D.C. 20001 • (202) 624-5300

Governors' Bulletin

Editor: Bernard Chabel

October 14, 1977 77-41

FLOOR ACTION ON
SOCIAL SECURITY
EXPECTED NEXT WEEK

The House is expected to consider legislation (HR 9346) next week that would mandate coverage, beginning in January 1982, for all federal, state, and local government and nonprofit organization employees under the social security system. The measure, which was reported to the floor by the Ways and Means Committee, also provides for increased social security taxes and an accelerated increase in the wage base against which these taxes are levied. Currently, states and localities have the option of including their employees under social security. About 30 percent of all state and local employees are not included in the system.

Mandating coverage of federal, state, and local government and nonprofit organization employees would add an estimated 6 million workers to the system. Such mandatory coverage, however, creates three major problems for state and local governments. Many observers feel mandatory coverage is an unconstitutional intrusion by the federal government. Also, employees of six states and hundreds of local units of government currently are not covered. These governmental units would experience a major fiscal impact because they would be compelled to make social security contributions for all their employees beginning in January 1982. All state and local governments also will feel the effects of the proposed increases in the tax rate and wage base. Finally, over 6,700 state and local pensions plans now in operation would be affected. Many of these plans provide a benefit structure that is integrated with social security benefits. A significant number of plans, however, would have to be completely redesigned to mesh with social security. In some cases, such integration would entail constitutionally or statutorily prohibited reductions in employee benefits under state and local plans to reflect new benefits available through social security.

An amendment to delete the mandatory coverage provision will be offered by Rep. Joseph Fisher (D-Va.), but is not expected to pass without vigorous support from state and local government leaders. Governors are urged to inform their House delegations immediately of the consequences of mandatory coverage on their states.

CARTER SIGNS
JUVENILE JUSTICE
EXTENSION

President Carter signed the Juvenile Justice and Delinquency Prevention Act extension (PL 95-115) on October 3. The bill extends the current law for three years, with annual authorizations of \$150 million in FY '78, \$175 million in FY '79, and \$200 million in FY '80. The measure continues the current 10 percent state match requirement for FY '78 and allows states to use up to 15 percent of their annual formula allocation for planning and administration. However, beginning in FY '79 the match requirement will be eliminated but the states will be required to match administration and planning funds on a dollar-for-dollar basis up to 15 percent of the state's annual allocation formula.

RESOLUTION OF
UR PENALTY
CONTROVERSY

Congress last night approved and sent to the White House legislation to resolve the nursing home utilization review controversy. The bill, HR 3, would waive unconditionally any penalties assessed against a state for allegedly unsatisfactory utilization control surveys in quarters before calendar 1977. The bill also unconditionally waives any penalties for unsatisfactory reviews in calendar 1977 quarters, if the state is in compliance at the end of the October-December 1977 quarter.

The bill restructures the penalty to be levied against a state not in full compliance for the October-December 1977 quarter so that the one-third reduction of federal matching funds will be applied only to the proportion of Medicaid recipients in allegedly inadequately surveyed facilities compared to the total of Medicaid recipients whose facilities are required to be surveyed. Full compliance, under the bill, would be redefined to be actual review of all large facilities and at least 98 percent review of all other covered facilities, so long as a good faith effort was made to review all facilities. The HEW secretary could waive penalties if he finds the above standard was not met for technical reasons.

CONTINUING
RESOLUTION FOR
LABOR-HEW MONEY
BILL SIGNED

The House and Senate yesterday agreed to a resolution that continues providing funds for the programs and employees of the Departments of Health, Education and Welfare, Labor, and several smaller agencies through the end of October. President Carter promptly signed the measure. The action gives House and Senate negotiators more time to resolve the Medicaid abortion funding issue deadlock which has tied-up the \$60 billion fiscal 1978 appropriations bill for months.

Both the House and Senate would allow the federal government to pay for abortions under the Medicaid program if the woman's life is endangered by a continued pregnancy. The Senate language also authorizes abortion funds in cases of rape or incest "or if the mother or fetus would suffer serious health damage." The House language is more restrictive. It would permit only "medical procedures" such as dilation and curettage "performed before the fact of pregnancy is established" in cases of rape and incest which are reported to law enforcement authorities and would eliminate the "serious health damage" clause.

HOUSE APPROVES
INLAND WATERWAYS
USER FEES

The House this week approved legislation (HR 8309) to impose a fuel tax on commercial users of inland waterways. The measure, approved 331 to 70, would impose a tax of four cents per gallon as of October 1, 1979, with the levy climbing to six cents per gallon on October 1, 1981. The House bill must be reconciled with a Senate-passed measure that would charge barge users 100 percent of the annual cost of operation and maintenance of river projects and 50 percent of the construction costs for new ones. Those fees would be phased-in over a ten-year period. The House-approved user tax was attached to a bill authorizing \$432 million for the replacement of Locks and Dam 26 on the Mississippi River at Alton, Illinois. President Carter warned that without the user fee he would veto any measure funding the project.

MANPOWER
SEMINAR

The NGA Employment and Vocational Training Program will hold a national manpower seminar October 26-28 in San Francisco. The seminar will emphasize state manpower officials' participation in discussing key issues in current and proposed legislative agendas. Those interested in participating should contact NGA.



The new attempts to mandate federal, state and local coverage is an effort to restore short-range solvency to the social security system. In recent years, benefits have been outpacing tax receipts at a growing rate. Social Security officials predict a deficit of about \$5.6 billion in 1977, following losses of \$3.2 billion last year and \$1.2 billion in 1975. At this rate, the reserve funds will be depleted within 5 years.

1. The Committee's proposal to mandate social security coverage of state and local government employees is unconstitutional.

--A 1939 Ways and Means Committee report stated that:

"no method has yet been devised which would overcome constitutional difficulties and also protect the old-age insurance system against adverse selection."

--The U.S. Supreme Court supports the view that Congress cannot tax governmental functions. In New York v. United States (326 U.S. 572), Chief Justice Stone stated that no non-discriminatory tax could be levied on revenues from taxes.

--The U.S. Supreme Court, in National League of Citires v. Usery (426 U.S. 833, 1976) stated:

...that when Congress seeks to regulate directly the activities of States as public employers, it transgresses an affirmative limitation on the exercise of its power akin to other commerce power affirmative limitations contained in the Constitution.

2. The Committee proposal for mandatory coverage of state and local government employees would disrupt existing retirement systems established by responsible governments.

--70 percent of state and local government employees are now covered by Social Security. Those employees enjoy social security benefits which are integrated with existing retirement plans as a matter of state or local policy. Mandating coverage for the remaining 30 percent of employees will force wholesale changes in state and local law.

--States and local governments cannot reduce pension benefits for state and local government employees due to constitutional restrictions or court decisions (see 90 Harvard Law Review 992). Imposition of social security benefits would thus provide windfall benefits to some employees, allowing many employees to retire to a higher income than their last year salary.

3. The Committee proposal for expanded coverage would place a federal tax on state and local governments which have not joined the Social Security System.

--The cost to state and local governments is estimated at \$27 billion by 1984. Although only 5 states do not have social security coverage, states might be affected if their localities were forced into the system. Many states either directly or indirectly subsidize local employee benefits.

--This cost factor will be applied to state and local governments which can least afford to incur the added costs. Indeed, some jurisdictions are considering withdrawing from Social Security in order to save money.

NATIONAL CONFERENCE OF STATE LEGISLATURES

ACTION

October 5, 1977

CONTACT: Jeff Esser or Paul Sweet
(202) 624-5408

- THE ISSUE:** Federal Mandate To Force States and Localities to Join The Social Security System
- STATUS:** The U.S. House Ways and Means Committee has adopted an amendment to the social security financing bill which would force states and localities to join the social security system. The bill (HR 9346) would mandate universal coverage of all federal, state and local government employees under the system by 1982.
- ACTION URGED:** The National Conference of State Legislatures requests your assistance in contacting the members of Congress from your state, asking them to vote against federal-mandated coverage of state and local employees. NCSL supports Congressional efforts to improve the social security system so that state and local decisionmakers will voluntarily elect to participate; however, we feel that coverage and the option to withdraw should remain as it is under current law. Although Congress clearly has the authority to mandate coverage of federal employees, there are constitutional prohibitions on taxing state and local governments as employers.
- BACKGROUND:** Because of these prohibitions, the current law does not automatically cover all state and municipal employees as it does all private sector firms and their employees. Those state and local governments that participate in the system do so on an optional basis.

-more-

ALERT

REGISTRATION FORM

NCSL Pensions Task Force Meeting
Hall of the States -- 2nd Floor Conference Room
444 North Capitol Street, N.W., Washington, D.C.

October 17-18, 1977

Name _____ Title _____

Mailing Address _____

City _____ State _____ Zip _____

Telephone Number :Area Code _____ Number _____

Arrival Date _____ Arrival Time _____

Departure Date _____ Departure Time _____

Hotel Accommodations Required: _____ YES _____ NO / LATE GUARANTEE _____ YES _____ NO

*** We have reserved rooms at the following hotels on a first-come-first-served basis. Please indicate your preference:

Quality Inn Capitol Hill -- 415 New Jersey Avenue, N.W.

\$36 Single _____ \$46 Double _____
Reservations deadline September 19, 1977

Capitol Hilton Hotel -- 16th and K Streets, N.W.

\$45 Single _____ \$57 Twin _____
Reservations deadline September 30, 1977

Please return this form to the following address:

MRS. BARBARA SIMCOE
National Conference of State Legislatures
444 North Capitol Street, N.W.
2nd Floor
Washington, D.C. 20001
(202) 624-5409

(If you do not plan to arrive by 4 p.m. and want to guarantee your room, please indicate your approximate arrival time at the hotel. If you guarantee your room and do not arrive or cancel your reservation, you will be responsible for payment. NCSL will not be responsible for any guarantees.)

***There will be no registration fee for this meeting.



PENSION NEWSLETTER



Vol. I Number I

September 1, 1977

A Publication of The National Conference of State Legislatures

REVIEW OF STATE LEGISLATION

State legislators are becoming increasingly aware of the problems of state pension plans. The 1977 legislative sessions saw major efforts on the part of legislators to deal with these complex issues, including growing unfunded liabilities, adequacy of retirement income, and disparate accounting methods between different state systems.

To get a handle on some of these problems, many legislatures have authorized comprehensive studies of their pension systems. By initiating these studies, legislators have been able to obtain detailed information on their systems, and identify areas where legislative action is needed.

Studies

Utah and Virginia are among the states studying whether benefits should be integrated with Social Security. Hawaii recently completed a similar study which recommended that the state continue participation in Social Security by adopting an integrated benefit formula whereby Social Security benefits are calculated in the determination of retirement income. New Jersey recently authorized a study on cost comparisons of three different actuarial cost methods. Wyoming and Tennessee are examining the feasibility of their states paying full contributions. North Dakota is studying the cost of converting the present North Dakota Public Employees Retirement System from "money purchase" to "fixed benefit formula." The New Mexico Legislature has authorized a major \$250,000 study on both their public employees and teachers retirement plans. Other states authorizing studies include: Arizona, Colorado, Idaho, Iowa, Kentucky, Maryland, Massachusetts, Michigan and Nebraska.

Commissions

States are also looking at permanent pension commissions as mechanisms for studying pension issues, analyzing fiscal implications of proposed legislation and developing recommendations for improvements. In addition to the eleven existing commissions, six states (California, New Jersey, Michigan, Nevada, West Virginia and Pennsylvania) have created special interim committees or introduced legislation to establish permanent pension commissions during the 1977 sessions.

1977 Legislation

In addition to bills which have fallen into the category of basic pension housekeeping measures, there has been some significant pension legislation enacted

during the 1977 sessions.

South Carolina passed legislation which if passed by referendum will become an amendment of their constitution. The bill stipulates that increased retirement benefits shall not be paid unless funding for the increase has been provided. It also requires that all state retirement programs operate on a sound actuarial basis.

In Tennessee, legislation was enacted which requires that any bill which creates financial liability on their retirement system must include funding for such liabilities. This legislation also requires that any bill reported by the council must be accompanied by an appropriation bill or appropriate amendment which provides the first years' funding. Other states are following this same trend by stipulating that fiscal notes accompany all pension legislation.

California has been able to get a better accounting of their pension systems through the work of an actuary who has been hired as a consultant to the Senate Committee on Public Employment and Retirement. In addition to testifying at committee hearings, the actuary provides cumulative annual cost/unfunded liability studies on bills before the committee. A pension study of the New Jersey Legislature has recently recommended the hiring of a part-time actuary, and legislation introduced this session in Pennsylvania calls for the establishment of an Office of Actuarial Review within the State's Auditor General's Office.

Indiana created a new police and firefighters pension and disability fund as a separate account in the public employees' retirement fund but administered by the state board.

Arkansas created a new retirement plan for public employees and state police. The purpose of the act is to establish uniform benefit specifications and minimum financing, accounting, and reporting standards for the two plans.

PERMANENT COMMISSIONS

A Special Subcommittee of the Michigan House of Representative's Committee on Retirement has recently completed a study of permanent legislative retirement commissions. The report identifies ten states that now have permanent commissions and numerous other states, including Michigan, have introduced legislation during the 1977 sessions to create comparable commissions. Those already in existence include:

- Illinois Public Employees Pension Commission
- Louisiana Joint Legislative Retirement Committee
- Massachusetts Retirement Law Commission
- Minnesota Legislative Retirement Study Commission
- New York Permanent Commission on Public Employee Pension and Retirement Systems
- Ohio Retirement Study Commission
- South Carolina Retirement Committee
- South Dakota Retirement Laws Committee
- Tennessee Council on Pensions and Retirement
- Wisconsin Joint Survey Committee on Retirement
- Wisconsin Retirement Research Committee

Florida and Maine have already eliminated mandatory retirement. Illinois, Massachusetts, California, New York and Georgia have introduced similar legislation during the 1977 sessions.

IRS RULING

Responding to the concerns of the states and NCSL's Public Pension Task Force, the IRS announced August 10 that it would postpone the July 31 filing deadline for state and local government retirement plans. On April 21, the IRS had announced that under a provision of the Internal Revenue Code (Section 401) state retirement plans were required to meet federal qualifications in order to remain tax exempt.

In their recent press release the IRS said, "Issues concerning discrimination and the taxability of the income of trusts relating to state and local government employee retirement plans will not be raised until a review of these matters is completed." The release also stated that, "The IRS is reconsidering whether the statutory prohibition against discrimination in coverage and contributions or benefits, under Section 401(a) of the Internal Revenue Code, applies to plans covering various elected and appointed officials of state and local governments. Also under consideration is whether the trusts relating to such plans are subject to tax on their income."

By extending the filing date, the IRS met the objectives of an NCSL Pension Task Force Resolution adopted July 8 which asked that the IRS extend the July 31 deadline until the issues are resolved and the law clarified. The Task Force passed a companion resolution endorsing the objectives of federal legislation (S. 1587) introduced by Senator Richard Stone (D-Fla.) to specifically exempt state and local government retirement systems from the federal income tax.

NCSL PUBLIC PENSIONS CLEARINGHOUSE

The National Conference of State Legislature's Public Pensions Clearinghouse has been designed as a central source for legislators and their staffs to exchange information on public pension issues. To help us respond to requests for information on public pensions, we are anxious to receive copies of legislation and special studies in these areas. We have identified at least one pension contact in each state, and hope that by working with these individuals, our pension resources will continue to expand. It is also our intent that the Pension Newsletter serve as an information exchange between the states. We plan to highlight special pension studies and major legislative initiatives of both the federal and state governments. By opening the lines of communication among the states in the pensions area, we hope to help legislators deal with the complexities of their public pension systems.

NCSL Contacts: Lanny Proffer
 Dena Bellows
 303/623-6600

NCSL PUBLIC PENSION TASK FORCE MEETING

The next meeting of the Public Pension Task Force is scheduled for Monday and Tuesday, October 17 & 18, at the Hall of the States, 444 N. Capitol Street, Washington, D.C. The meeting will focus on the soon-to-be-released Report of the Pension Task Force of the House of Representative's Committee on Education and Labor, and on Social Security Amendments. The meeting is open to interested legislators and their staffs. A reservation form for the meeting and hotel accommodations are attached.

The report highlights the responsibilities of the different commissions which range from reviews of pension and retirement bills, including preparation of fiscal notes, to special studies of public retirement systems, to recommending legislation to promote more efficient administration of the systems. Structure varies among the commissions as noted in the case of Wisconsin where there are two permanent commissions. The Wisconsin Joint Survey Committee on Retirement Systems is responsible for submitting reports analyzing all legislation affecting public employee pension or retirement plans, while the Wisconsin Retirement Research Committee conducts studies and publishes reports on a variety of public pension issues.

The study examines the membership of the different commissions. With the exception of New York and Massachusetts, nine of the eleven commissions are composed primarily of legislators or state administrative officials. Three of these commissions, Minnesota, Louisiana and South Dakota are made up entirely of legislators. In Massachusetts, Wisconsin, Tennessee, South Carolina and Ohio, representatives from retirement systems or public employee groups are designated to serve on the commissions. The number of regular members assigned to the commissions ranges from 6 to 18, with about 10 as the average.

Financing of the commissions is discussed in detail in the study. Most appropriations range between \$30,000 and \$50,000 annually. However, during 1975-1976, New York's Commission operated on a \$364,300 budget, while the South Dakota Retirement Law Committee was budgeted at \$5,000. In Tennessee, no separate appropriation is made for their Council on Pensions and Retirement. The Michigan study includes a table listing the appropriations of these eleven commissions.

A final section of the report examines staffing of the permanent commissions. On the average, these staffs total from four to six full-time employees. Specifics on the job descriptions are included in the text of the study.

Copies of the Michigan report may be obtained by writing:

House Committee on Senior Citizens and Retirement
House of Representatives
State Capitol - 373-1837 (517)
Lansing, Michigan 48901

Harold Smith
373-1743

HR 5383 - AGE DISCRIMINATION IN EMPLOYMENT ACT AMENDMENTS OF 1977

The House Committee on Education and Labor has reported out HR 5383, legislation to eliminate mandatory retirement on account of age for federal employees and to raise the age limit from 65 to 70 in the Age Discrimination in Employment Act. The proposed legislation also clarifies the conditions under which an employer with a bona fide employee benefit plan may require early retirement. The Act, which was passed in 1967, and amended in 1974 to include federal, state and local public employees, prohibits discrimination because of age in hiring, job retention, compensation and other conditions of employment. The Act now covers persons aged 40 through 64.

The proposed amendments also instruct the Secretary of Labor to study the feasibility of eliminating the upper age limit on retirement. An interim report reviewing this issue would be due on year after the effective date of the Act, with a final report due two years after its effective date.

3. Financing of Michigan Local Government Retirement Systems.

May 1977
38 pages

Department of Management and Budget
Office of Intergovernmental Relations
Lansing, Michigan 48901

Minnesota

Overview of Minnesota Public Pension Plans

March 1977
32 pages

The Legislative Commission on Pensions and
Retirement. 147 State Office Building
St. Paul, Minnesota 55155

New Jersey

✓ The State-Administered Retirement Systems of New Jersey: Report of the
Special Committee to Study Public Pension Programs.

June 2, 1977
119 pages

Legislative Services Agency
Division of Legislative Information & Research
State House
Trenton, New Jersey 08625

New York

Public Pension Fund Regulation

October 29, 1976
52 pages

Legislative Commission on Expenditure Review
111 Washington Avenue
Albany, New York 12210

2. Recommendation for Reform of Section 207-a of the General Municipal Law.

(Relates to disabled firemen of city of less than one million population)

May 1977
7 pages of recommendations
40 pages of tables for municipalities

The Permanent Commission on Public Employee Pension and Retirement Systems
880 Third Avenue
New York, New York 10022

STATE PENSION STUDIES

Arkansas

Report of the Arkansas Retirement Systems Study Committee and The Joint Interim Committee on Public Retirement and Social Security Programs.

Nov. 12, 1976

374 pages

Arkansas Legislative Council
State Capitol
Little Rock, Arkansas 72201

Illinois

Expenditures For Fringe Benefits In Illinois Municipalities.

Nov. 1976

115 pages

Public Policy Research Institute
Western Illinois University
Macomb, Illinois 61455

Indiana

Performance Audit of Public Employee Retirement Systems In Indiana.

Dec. 1976

245 pages

Office of Fiscal and Management Analysis
Indiana Legislative Council
302 State House
Indianapolis, Indiana 46204

Michigan

1. Permanent Legislative Retirement Commissions.

Dec. 1976

20 pages

Michigan House of Representatives
Committee on Retirement
State Capitol
Lansing, Michigan 48901

2. Benefits of Michigan Local Retirement Systems.

May 1977

35 pages

Department of Management and Budget
Office of Intergovernmental Relations
Lansing, Michigan 48901

Utah

Report and Recommendations of the Subcommittee on Retirement to the Intergovernmental Relations Study Committee of the 42nd Legislature.

(To determine whether State Retirement System benefits and those provided by social security should be integrated)

June 15, 1977
14 pages

Office of Legislative Research
326 State Capitol
Salt Lake City, Utah 84114

Wisconsin

The Retirement Research Committee, directed by Blair Testin, publishes staff reports on pension issues on a periodic basis. For information on all the 1977 reports contact the Committee directly. Some of the studies include:

Staff Report 34--1977

A study of Retirement Plans for Legislators, Judges, and other Elected Officials.

Staff Report 35--1977

Department of Employee Trust Funds Retirement Plan Improvement Considerations As to Post-Retirement Adjustments, Formula Improvements and Normal Retirement Age Reductions.

Staff Report 40--1977

The Department of Employee Trust Funds and Collective Bargaining.

Staff Report 43--1977

Deferred Compensation Plans.

Contact: Blair Testin, Director
Retirement Research Committee
Room 318
122 W. Washington Avenue
Madison, Wisconsin 53702

Published By: The National Conference of State Legislatures
1405 Curtis Street, 23rd Floor
Denver, Colorado 80202
303/623-6600



STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

July 19, 1977
1944

SUBJECT: First Meeting of the HCR 66 Study Group on Social Security
Withdrawal

TO: Representatives of the Various Organizations Involved With the
HCR 66 Study

FROM: Ken Humphreys *J. K. H.*
Research Analyst

The first meeting of the group directing the study of social security withdrawal per House Concurrent Resolution No. 66 convened in the State Capitol at Juneau at 9:15 a.m., July 11. Representative Mike Miller, representing the Legislative Council, presided informally and reviewed the events which led to HCR 66 and the current study. Having mentioned two previous reports on the subject (the William M. Mercer report of June 1, 1976, and the A.P.E.A. report of March 1977) and having indicated that there was a general feeling on the part of both legislators and employee groups that more information was needed to make an intelligent decision, Representative Miller asked those present to give brief introductory statements. Others present and the gist of their remarks are as follows:

Mr. Ken Humphreys, research analyst with the Legislative Affairs Agency and assigned to the study, felt that the business of the first meeting should include a decision on an actuary and some attempt to narrow the field of endeavor.

Mr. Robert Gates, director of the division of retirement and benefits, indicated that there was a need to establish points of view on the basis of which an actuary could operate and felt that there would be cost and time savings associated with using the actuary already on contract with the state who is familiar with and has data on the Public Employees Retirement System.

Mr. Roy Dunn, representing the Alaska Public Employees Association, felt that most members of A.P.E.A. wanted to use social security contributions to finance an enriched retirement program, not reduce contributions; he favored an "independent" actuary, particularly Mr. Richard Winkenwerder, a consulting actuary with the firm of Milliman and Robertson, Inc.

Ms. Ann Sheppard, representing the Alaska Public Safety Employees Association, felt that she could not yet accurately reflect the desires of the members and hoped to get answers to various questions with a view to polling the public safety employees in the near future.

Mr. Paul Arnold, deputy director of the division of retirement and benefits (appointed director when Mr. Gates' promotion to deputy commissioner takes effect) said that, in the interest of efficiency, he hoped input could be restricted and the present group could reach agreement on a package which could be evaluated actuarially and presented to interested parties in a relatively simple and understandable form.

Ms. Lynda McCurry, representing the Confidential Employees Association, indicated that she had formed no opinions yet. Ms. McCurry will be sharing the representation of the confidential employees with Mr. Roger Thayer.

Mr. Gregg O'Claray, representing the Inlandboatmen's Union of the Pacific, the Masters, Mates and Pilots, and the Marine Engineers Beneficial Association, said the marine groups' priority item would be to investigate the feasibility of merging with the P.E.R.S. in conjunction with withdrawing from social security and not just a separate, "add-on", defined contribution plan. He felt that some plan which returned more dollars for each dollar contributed by the employee was possible and desirable. Mr. O'Claray favored Mr. Winkenwerder for the group's actuarial work.

Mr. Ken Spray who will represent Local 71 of the Laborer's Union was unable to attend the first meeting.

Following a short recess and some further discussion, the group agreed to contact Mr. Winkenwerder and, if possible, arrange for him to attend the next meeting and provide the necessary actuarial and benefit consulting services.

Representative Miller felt that most legislators wanted to investigate enrichment of the P.E.R.S. in addition to other plans. The group agreed that they should investigate a plan which would enrich the P.E.R.S. by providing 1) an increase in the 2% of salary per year of service, 2) a cost-of-living increment, and 3) a "20 (or 25) and out" provision. It was felt that a scheme similar to this might serve as a point of departure, be investigated for cost feasibility, and should be included for study along with a defined contribution plan which Mr. Gates had recommended. Mr. Gates pointed out the "before tax," deferred compensation advantages of a defined contribution plan and felt it would protect the state much better if it were mandated back into the social security system--there would be no open-ended obligations which the state would be constitutionally obligated to retire. Representative Miller requested that Mr. Gates reduce a version of his plan to writing for the next meeting.

July 19, 1977

It was agreed that the second meeting would be held in the State Capitol at Juneau, Room 216, at 9:00 a.m., August 18.

Following the first meeting, I contacted Mr. Winkenwerder who indicated that he would be pleased to accept the assignment and would attend the second meeting. Terms of the contract were necessarily left open. I will provide him with whatever background information I can in the meanwhile.

KH:jm

Mailing List for HCR 66 Study Group on Social Security Withdrawal

The Honorable Mike Miller
Capitol Bldg.
(Thru Helen Gowdy)

Mr. Gregg O'Claray
Inlandboatmen's Union of the
Pacific-Alaska Region
124 Front Street
Juneau, Alaska 99801

✓ Mr. Robert Gates
Director
Division of Retirement and Benefits
Department of Administration
7th Floor S.O.B.
Mail Station 0200

Mr. Ken Spray 6-6993
A.P.S.E. Local 71
114 S. Franklin
Juneau, Alaska 99801

✓ Mr. Roy Dunn
A.P.E.A. Juneau Field Office
130 Seward Street, Suite 511
Juneau, Alaska 99801

Mr. Richard A. Winkenwerder
Milliman & Robertson, Inc.
914 Second Avenue
Seattle, Washington 98104

Ms. Ann Sheppard
Public Safety Employees Assn.
P. O. Box 4-2624
Anchorage, Alaska 99501

Ken Humphreys
Research Analyst
Legislative Affairs Agency
MS 3101

✓ Mr. Paul Arnold
Deputy Director
Division of Retirement and Benefits
Department of Administration
7th Floor S.O.B.
Mail Station 0200

Ms. Lynda McCurry
Confidential Employees Association
Department of Labor, Personnel Section
Box 3-7000
Juneau, Alaska 99811

Mr. Roger Thayer
Confidential Employees Association
Department of Transportation
Mail Station 1300

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

POUCH C - JUNEAU 99811

August 4, 1977

The Honorable Mike Miller
P.O. Box 1494
Juneau, AK 99802

Dear Representative Miller:

I am writing this letter to provide you and the other members of the committee with a written outline of the proposal that I made at our first meeting concerning an alternative program to be considered should the State opt out of Social Security. When considering the issue of attempting to replace the current and anticipated future benefits from social security there are a myriad of alternatives which might be considered. After giving considerable thought to this issue there is one approach which, if adopted, would overcome most if not all of the objections I have heard concerning continued participation in the social security program.

When considering the proposal set forth in this letter it is necessary to keep the following basic assumptions in mind:

1. The contributions will be paid into the supplemental program at the same level as is currently being required from Social Security. It would also be possible to consider making contributions in the future at the same level as social security requires. There will be an equal sharing of contributions into the systems, i.e., 5.85% from employee and employer and those contributions will be made on earnings up to the social security maximum, currently \$16,500 per year.
2. The Internal Revenue Service will approve a Deferred Compensation Plan which would be mandatory for all state employees. (I have had some preliminary discussions with a consultant on this matter and as far as I can tell there is nothing to suggest that such a ruling couldn't be obtained.)
3. That statutory language is enacted which would provide for the termination of such a program in the event that social security coverage was mandated in the future by the Federal government.

The following proposal is submitted for consideration by the committee. Quite obviously there will need to be further discussion and amplification on certain issues in order to design a program which will meet the general needs of the vast majority of employees.

1. The social security deductions currently being withheld from the employees paycheck would be mandatorily placed into a Deferred Compensation Plan. Each employee would defer the equivalent dollar amount currently required for social security, i.e., 5.85% of \$16,500 or \$965.25. This amount could be pegged at a fixed level or increase at the same rate as required by social security. The level of earnings subject to deductions could be fixed or variable depending on the wishes of the parties involved.
2. The required employer contributions would be placed into a trust and would be partially used to purchase any ancillary benefits agreed upon by all parties concerned. Any residual balances in the trust remaining after the ancillary benefits have been purchased from the employers contribution would be distributed to the employees account on a pro rata basis according to earnings of that employee in the given calendar year. For example, if the employers contribution was \$965.25 per year for an individual earning maximum social security wages and the ancillary benefits were purchased for \$500, then the remaining \$465.25 would be distributed into an account maintained for the ultimate benefit of that employee. During the time an individual is employed the monies deferred or placed in his account by the employer would not be subject to withdrawal and would therefore be accumulating earnings on a non-taxable basis until the time the funds are withdrawn.
3. The Social Security System currently affords a number of benefits other than a straight annuity at the time of reaching ages 62 or 65 such as a \$250 death benefit, a disability income benefit, a survivors benefit and medicare. A decision will have to be made as to which of these or other benefits should be provided under this supplemental benefit program in order to assure that employees and their families have some sort of basic protection in the event of serious illness or premature death. One approach that might be taken would be to try and provide similar benefits to those currently offered by social security and in general terms use the same eligibility requirements. If this approach is taken it will tend to keep the cost of the ancillary benefits at a fairly modest level and consequently make a larger percentage of the employers contributions available for distribution to the individual employees account.

August 4, 1977

Establishment of a program such as I have outlined above would be, in my opinion, a very straight forward program. This approach would be relatively easy to understand and inexpensive to administer. The major benefits of such a program are listed below.

1. A uniform supplemental benefit program would be established that would provide benefits that are supplemental to any other benefit program in which a state employee participates.
2. There would be a direct relationship between the amount of contributions made to the plan and the ultimate benefits to which the individual was entitled. This would overcome a current objection to social security where many employees feel they and the employer are making contributions to the system for benefits which the individual never will become entitled, i.e., a single person making contributions has a portion of social security contributions going towards providing a survivors benefit.
3. Under this proposal the individual can be guaranteed, either in the form of a refund or in the form of an annuity, the total amount of the contributions made by the individual, any ancillary benefit provided by the plan, and a share of the employer contribution made on his behalf.
4. The individual could receive such income at a future date without being concerned about the limitations on earnings currently imposed on a person drawing an annuity from social security.
5. Since the employees contributions would be channeled into a Deferred Compensation Plan, those deductions would be made on a pretax basis. This would have the effect of immediately increasing every employees net paycheck by varying amounts depending on the individuals tax bracket.
6. By taking this approach, which is considered a defined contribution plan as opposed to the PERS which is a defined benefit plan, there would be no difficulty in terminating such a supplemental program in the event social security coverage should become mandatory in the future for public employees.
7. It would be a relatively simple conversion to send the magnetic tape currently provided to social security to an insurance company to administer the supplemental benefit program. Consideration could be given to internal administration of the program.
8. Any administrative expenses necessary to operate this plan could be deducted from the income earned on the employers contributions prior to distributions to the individual members account. By taking this approach there would be no greater cost to either the individual or the State of Alaska for operating such a separate program.

9. Several options could be offered relating to pay out of funds so there would be more flexibility in receiving payments from the system than is presently available under social security.

There are numerous other minor advantages which could be recited, however, I think the main points that immediately come to mind have been presented. I will be happy to discuss this proposal in greater detail if you and the other committee members would care to pursue this matter further. As I mentioned at our meeting I am assuming the position of Deputy Commissioner of Administration and will not likely be able to regularly attend future meetings of the committee. Paul Arnoldt, who will become Director of the Division of Retirement and Benefits is familiar with this proposal and I will assist him in any way I can to further refine this proposal or comment on other ideas which maybe presented by the committee.

If you have any further questions on this matter I would appreciate hearing from you.

Sincerely,


Robert S. Gates
Acting Deputy Commissioner

RSG/jb

cc: Ken Humphreys
Legislative Affairs Agency ✓

Roy Dunn
Alaska Public Employees Association

Ann Sheppard
Alaska Public Safety Employees Association

Lynda McCurry
Confidential Employees Association

Gregg O'Claray
Inlandboatmen's Union

Ken Spray
Alaska Public Service Employees

Paul Arnoldt
Division of Retirement & Benefits

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MINUTES

SOCIAL SECURITY WITHDRAWAL STUDY GROUP

A meeting of the Social Security Withdrawal Study Group commenced at the State Capitol, Juneau, Alaska on August 18, 1977. Presiding at the meeting was Representative Mike Miller. Also present were:

Roy Dunn
Mike Murray
APEA Juneau Field Office

Ann Sheppard
Public Safety Employees Association

Paul Arnoldt, Director
Division of Retirement and Benefits

Dave Warren
Confidential Employees Association

Ken Spray
APSE Local 71

Richard A. Winkenwerder
Milliman & Robertson, Inc.

Ken Humphreys
Research Analyst
Legislative Affairs Agency

James L. Baldwin
Legislative Counsel
Legislative Affairs Agency

As the first order of business, Representative Miller stated that he had reviewed the contract for actuarial services with Milliman and Robertson, Inc. and recommended that the study group approve the contract. The contract was approved for submittal to the contractors for their review and execution.

Mr. R. A. Winkenwerder was introduced to the study group and discussion ensued concerning guidelines for his investigation of alternative approaches to Social Security. The members of the study group expressed interest in investigation of the following approaches or problems:

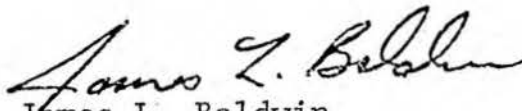
- (1) Improve PERS in general with the use of additional funds released from Social Security contributions.
- (2) Improve the current deferred compensation plan.
- (3) Establish a new program essentially replacing Social Security.
- (4) Study the benefits under the Public Safety Employees Retirement Program in relation to benefits enhanced under PERS.
- (5) Modify PERS in some specific aspects; for example, consider a retirement after 20 or 25 years, consider an increase in the benefit accrual formula above 2 percent, (perhaps 2 1/2 percent) and finally, consider the addition of a cost of living adjustment like Social Security.
- (6) Examine the disability provisions of PERS particularly in relation to the difference between the occupational and nonoccupational categories and perhaps also consider an increase in the disability benefit. In considering the disability situation, it was suggested that disability benefits from all sources be considered before arriving at any recommendations for alterations in the PERS benefit. Also consider a temporary extension for employees who leave the State.
- (7) Specifically what would the current 5.85 percent of Social Security contributions buy under the PERS program? It might be considered to have the employee contributions sent directly to a deferred compensation system with the State's share of the contributions going directly to PERS to improve that program.
- (8) Consider a fully-paid-for medical benefit program.

(9) It was mentioned that perhaps there might not be too much concern about specifically what additional benefits are being provided but rather that the employee would like to get more benefits for the dollars that are being contributed.

(10) Consider establishing a new deferred compensation plan along the guidelines of those recommended by Robert Gates in his August 14, 1977 letter.

Mr. Winkenwerder indicated that he would begin preliminary studies to analyze the current system and would report at the next regular meeting of the study group. The date for the next meeting is to be set by a call of the Chairman upon further consultation with Mr. Winkenwerder.

Respectfully submitted,



James L. Baldwin
Legislative Counsel

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

Ken
POUCH - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

August 22, 1977

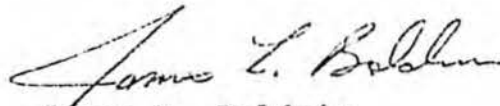
Mr. Richard Winkenwerder
Milliman & Robertson, Inc.
914 Second Avenue
Seattle, WA 98104

Dear Mr. Winkenwerder:

Please find enclosed the original and one copy of a contract for personal services relating to the social security withdrawal study group of the Alaska State Legislative Council. I hope that upon review of the contract you or your authorized contracting officer will execute the original and return it to me for execution by the Executive Director. I will send you a copy of the fully executed contract soon thereafter.

Please feel free to call me at (907) 465-4627 if you have questions or need my assistance.

Sincerely,



James L. Baldwin
Staff Attorney

JLB:jpd

Enclosures

CONTRACT BETWEEN
STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY
AND
MILLIMAN & ROBERTSON, INC.

THIS AGREEMENT is made under authority of Legislative Resolve 107-77 between the LEGISLATIVE AFFAIRS AGENCY, hereinafter referred to as the "Agency, on behalf of the Legislative Council's Social Security Withdrawal Study Group, and MILLIMAN & ROBERTSON, INC., hereinafter referred to as the "Contractor."

THE PURPOSE OF THIS AGREEMENT is to provide for an actuarial study of the costs and benefits which would accrue to the State of Alaska and its employees if the contributions which are currently paid to the social security system are used to provide benefits under a public employee benefit program to replace and augment benefits now provided by social security. The study shall include consideration of the retirement formula, survivor's benefits, death and disability benefits, medical benefits, post-retirement pension adjustments and other replacement or augmentation benefits which may be relevant under the alternative systems which are proposed by the study group in consultation with the Contractor.

IT IS MUTUALLY AGREED THAT:

CLAUSE I. - STATEMENT OF WORK

- (a) The Contractor shall, with the consent and approval of the Project Director, provide the study group with the benefit and actuarial consulting services needed to discover the most feasible alternative and replacement benefit systems and to perform a cost-benefit analysis of these plans to be presented to the Legislative Council in a final report.
- (b) The Contractor agrees to:
 - (1) Analyze present retirement programs in consultation with members of the study group to determine the adequacy of the programs and advise members of the group concerning the compatibility of suggested alternative systems to be funded through contributions which would no longer be required by the social security system.
 - (2) Analyze the programs suggested under (a) above from a cost-benefit and actuarial standpoint to explain the advantages and disadvantages of the programs from both

the employers' and the employees' points of view and present these in the final written report to the Legislative Council.

- (3) Confer with and assist the Agency in designing programs and drafting enabling legislation as requested by the Project Director.
- (4) Be available to appear and consult with and present expert testimony before the study group and committees of the Tenth Alaska State Legislature in Juneau and to perform such additional consulting duties as relate to the written report and are mutually agreed upon with the Project Director. Insofar as practicable the times of appearances shall be scheduled by the Agency so as not to conflict with the Contractor's other professional obligations.
- (5) Perform whatever services are requested by the Project Director in connection with this project.

CLAUSE II. - PERIOD OF PERFORMANCE

- (a) The final report described in Clause I shall be completed and delivered to the Agency on or before March 1, 1978, and in no case shall the contractor be required to provide further professional services after June 30, 1978.
- (b) This contract may be terminated by either party upon written notice to the other.
- (c) If this contract is terminated by either party prior to completion, the amount due under the fee schedule for services rendered as of the date of termination shall be the amount due.

CLAUSE III. - PROJECT DIRECTOR

The Project Director shall be the Chairman of the Legislative Council or his duly appointed designee.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

- (a) The Contractor shall be compensated for work under this contract according to the rates set out in the appendix.
- (b) The Contractor shall be reimbursed for travel expenses approved by the Project Director at the same rates and under the same regulations that govern the payment of per diem for legislators.
- (c) Payments under this contract shall be made by the Agency to the Contractor in response to billings submitted to and approved by the Project Director.
- (d) Total payments (including expenses) to the Contractor under this contract shall not exceed \$35,000 without prior written approval of the Project Director.

BILLING RATES - HOURLY

Principal & Consulting Actuary	\$66 - \$96
Actuary (F. S. A.)	\$44 - \$55
Associate Actuary (A. S. A.)	\$30 - \$40
Actuarial Assistant (student)	\$17 - \$25

CONTRACT BETWEEN
STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY
AND
MILLIMAN & ROBERTSON, INC.

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- (4) Be available to appear and consult with and present expert testimony before the study group and committees of the Tenth Alaska State Legislature in Juneau and to perform such additional consulting duties as relate to the written report and are mutually agreed upon with the Project Director. Insofar as practicable the times of appearances shall be scheduled by the Agency so as not to conflict with the Contractor's other professional obligations.

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- (c) Payments under this contract shall be made by the Agency to the Contractor in response to billings submitted to and approved by the Project Director.
- (d) Total payments (including expenses) to the Contractor under this contract shall not exceed \$35,000 without prior written approval of the Project Director.

CLAUSE V. - RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records, including detailed time records, as may be required by the Project Director. The records are subject to inspection by the Project Director at all reasonable times. All documents, reports and writings generated as a consequence of work done under this contract shall become the property of the State of Alaska, and on completion of the work or at the termination of this contract shall be delivered to the Agency.

CLAUSE VI. - REPORTS

The Contractor shall keep the Project Director informed as to the progress of the work performed under this agreement in the manner requested by the Project Director and shall be prepared to make presentations to the study group as scheduled by the Project Director.

CLAUSE VII. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties to this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates noted next to their signatures.

CONTRACTOR

LEGISLATIVE AFFAIRS AGENCY

Richard A. Wiseman
Vice President, Inc. 9/14/77
MILLIMAN & ROBERTSON, INC. Date

John C. Dejeu 9/20/77
EXECUTIVE DIRECTOR Date

Approved as to form:

A. Polaha 9/20/77
AGENCY LEGAL COUNSEL Date

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

Kan
POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

November 9, 1977

SUBJECT: Third Meeting of Social Security Withdrawal Study Group
(HCR 66)

TO: Representatives of the Various Organizations Involved With the
HCR 66 Study

FROM: Ken Humphreys *J.K.H.*
Research Analyst

The third meeting of the Social Security Withdrawal Study Group has been scheduled for 10:30 a.m., November 17, in Room 100 of the Capitol Building in Juneau. Mr. Winkenwerder will have preliminary results to report to the group at that time.

This schedule was checked with as many interested parties as possible, but if you are unable to send a representative, please let me know.

KH:jm

Mailing List for HCR 66 Study Group on Social Security Withdrawal

The Honorable Mike Miller
Capitol Bldg.
(Thru Helen Gowdy)

~~Mr. Robert Gates
Director
Division of Retirement and Benefits
Department of Administration
7th Floor S.O.B.
Mail Station 0200~~

✓ Mr. Roy Dunn
A.P.E.A. Juneau Field Office
130 Seward Street, Suite 511
Juneau, Alaska 99801

Ms. Ann Sheppard
Public Safety Employees Assn.
P. O. Box 4-2624
Anchorage, Alaska 99501

✓ Mr. Paul Arnoldt
Deputy Director
Division of Retirement and Benefits
Department of Administration
7th Floor S.O.B.
Mail Station 0200

Ms. Lynda McCurry
Confidential Employees Association
Department of Labor, Personnel Section
Box 3-7000
Juneau, Alaska 99811

Mr. Roger Thayer
Confidential Employees Association
Department of Transportation
Mail Station 1300

Mr. Gregg O'Claray
Inlandboatmen's Union of the
Pacific-Alaska Region
124 Front Street
Juneau, Alaska 99801

Mr. Ken Spray 6-6993
A.P.S.E. Local 71
114 S. Franklin
Juneau, Alaska 99801

Mr. Richard A. Winkenwerder
Milliman & Robertson, Inc.
914 Second Avenue
Seattle, Washington 98104

~~Ken Humphreys
Research Analyst
Legislative Affairs Agency
MS 3101~~

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

January 3, ¹⁹⁷⁸1977

MEMORANDUM

SUBJECT: Developments since the last meeting.

TO: Members of the Social Security Withdrawal Study Group

FROM: Ken Humphreys *J.K.H.*
Research Analyst

I have contacted Mr. Winkenwerder and he has indicated that he feels confident that the study can be completed on schedule by the end of February. Representative Mike Miller felt that members would like to be apprised of the current status of the actuarial work so I have requested and Mr. Winkenwerder has provided the enclosed progress report.

As indicated in the enclosed report, results which will provide a basis for the next meeting should be available in late January. We have planned to meet on Tuesday, January 24 if computer results are available. Plans must remain tentative until about January 10. I will notify members as soon as the availability of preliminary results is confirmed.

Summary minutes of the last meeting are enclosed.

Enclosures
KH:dh

SUMMARY MINUTES

Social Security Withdrawal Study Group

The third meeting of the Social Security Withdrawal Study Group was convened at the State Capitol, Juneau, Alaska on November 17, 1977. Representative Mike Miller presided.

Also present were:

Roy Dunn
Mike Murray
APEA

Wayne B. Powers
Confidential Employees Association

William D. Richards
APSE Local 71

Paul Arnoldt, Director
Division of Retirement and Benefits

Richard A. Winkenwerder, Consulting Actuary
Milliman & Robertson, Inc.

James L. Baldwin, Legislative Counsel
Ken Humphreys, Research Analyst
Legislative Affairs Agency

As the first order of business, the minutes from the last meeting were reviewed. Mr. Winkenwerder then described the preliminary work that was underway collecting data and developing profiles of existing plans.

It was agreed that, generally, Mr. Winkenwerder should continue along the lines suggested at the last meeting with the following provisos:

1. An improvement or replacement plan should be mandatory and contributions should increase with Social Security contributions. If defined benefit improvements do exhaust the contributions, the excess should be channeled into some type of deferred compensation plan until such time as benefits are again increased.
2. A small amount of time should be devoted to the possibility of providing some form of continuing disability coverage for the employee who leaves State service and is not eligible for Social Security coverage.

3. Plans to be considered should not make use of Social Security funds to improve negotiable items such as pre-retirement medical coverage.
4. There should be no attempt to precisely replace Social Security coverage. Replacement plans should be comparable in basic areas such as death, retirement and disability coverage but need not measure up on a point-for-point basis.
5. Plans should continue to provide the most economical possible post-retirement medical coverage. This includes the possibility that the State might choose to pay an insurance premium on behalf of a retiree rather than to provide direct coverage.
6. Mr. Winderwerder should study the situation of the I.B.U. in regard to P.E.R.S. membership and inclusion in replacement programs.

The next meeting has been tentatively scheduled for January 24, at the State Capitol in Juneau. Members will be notified definitely as soon as it is known whether computer results will be available on schedule.

KH:ftc

MILLIMAN & ROBERTSON, INC.
CONSULTING ACTUARIES

ALLAN D. AFFLECK, F. S. A.
LARRY D. BABER, F. S. A.
JAMES R. BEROUIST, F. C. A. S.
GEORGE L. BERRY, F. S. A.
DAVID R. BICKERSTAFF, F. C. A. S.
THOMAS P. BLEAKNEY, F. S. A.
BRUNO V. BOIN, F. S. A.
STEPHEN D. BRINK, F. S. A.
ROBERT M. CHANDLER, F. S. A.
MILTON F. CHAUNER, F. S. A.
THOMAS M. CHIAPPETTI, F. S. A.
KENNETH T. CLARK, F. S. A.
BARTON H. CLENNON, F. S. A.
ROBERT L. COLLETT, F. S. A.
JOHN P. COOKSON, F. S. A.
RONALD K. CURLEE, F. S. A.
JAMES A. CURTIS, F. S. A.
GARY E. DAHLMAN, F. S. A.
ROBERT H. DOBSON, F. S. A.
ROBERT H. DREYER, F. S. A.
ROBERT J. DYMOWSKI, F. S. A.
JOHN S. ECKERT, F. S. A.
CARY B. EKLOF, F. S. A.
RICHARD J. FALLOQUIST, F. C. A. S.
DANIEL J. FLAHERTY, F. C. A. S.
DENNIS J. GRAF, F. S. A.
JANET S. GRAVES, F. C. A. S.
WILLIAM A. HALVORSON, F. S. A.
PAUL C. HART, F. S. A.
ROBERT D. HOGUE, F. S. A.
ANTHONY L. HOLLOBON, F. S. A.
FENTON R. ISAACSON, F. S. A.

SUITE 3600
1301 FIFTH AVENUE SEATTLE, WASHINGTON 98101
206/624-7940

December 20, 1977

GILBERT E. KERNS, F. S. A.
DAVID W. KRUEGER, F. S. A.
JOHN M. LENSER, F. S. A.
LEONARD R. J. LEONG, F. S. A.
FREDERIC T. LHAMON, F. S. A.
D. ALAN LITTLE, F. S. A.
TSU-YI LOO, F. S. A.
BRIAN J. MATTSON, F. S. A.
ROBERT G. MAULE, F. S. A.
DANIEL J. MCCARTHY, F. S. A.
JOSEPH C. NOBACK, F. S. A.
DAVID E. NORTON, F. S. A.
RICHARD E. OSTUW, F. S. A.
J. LYNN PEABODY, F. S. A.
RAYMOND E. PINCZKOWSKI, JR., F. S. A.
JAMES H. RIGGS, F. S. A.
STUART A. ROBERTSON, F. S. A.
WALTER S. RUGLAND, F. S. A.
KEVIN M. RYAN, F. C. A. S.
ROBERT D. SHAPIRO, F. S. A.
T. THOMAS SIMLATER, F. S. A.
WILLIAM D. SMITH, F. S. A.
JOHN B. SNYDER, II, F. S. A.
STEVEN D. SOMMER, F. S. A.
KAREN I. STEFFEN, F. S. A.
DENIS J. SULLIVAN, F. S. A.
ALAN M. THALER, F. S. A.
WILLIAM S. THOMAS, F. S. A.
GERALD G. TOY, F. S. A.
RICHARD A. WINKENWERDER, F. S. A.
WENDELL MILLIMAN, F. S. A. (1976)

Mr. Ken Humphreys
Research Analyst
Legislative Affairs Agency
State of Alaska
Pouch Y - State Capitol
Juneau, Alaska 99811

Dear Ken:

You indicated that the committee members were interested in a progress report. I felt that the November 17 meeting was very helpful in terms of clarifying the direction we are to go, and in settling on some of the finer points of the issues at hand. I guess a simple, but yet well stated, progress report is that we are proceeding with the determination of the design features and cost features of the programs that we have discussed.

Specifically, Ken, at this moment the biggest concern that we have had and do have, is receiving and reviewing all of the data for state employees, which will enable us to make the necessary design and cost calculations to come up with some alternative programs. We have received from Paul a tape of the PERS participants and separate tab listings of the IBU employees and temporary employees. We have spent considerable time in examining that information. We are now satisfied that we do have the information that we need for the PERS participants. The major step now then is to determine the cost of specific improvements in the PERS system for the current PERS participants and, in addition, to determine the cost for adding IBU employees to that system.

As soon as we have received necessary output from the computer, we will be proceeding with the design, which is virtually done, and the cost of approximately replacing the survivorship,

Mr. Ken Humphreys
December 20, 1977
Page Two

disability and death benefits under the Social Security system and, of course, will present that as one alternative. We had already settled on a handful of specific changes in the PERS system in which the committee was interested; as a matter of fact, those were pretty well summarized in the hand-out at our last meeting which constituted the minutes of the August 18 meeting. Specifically, we would refer to items 5 and 6 in those minutes.

Ken, I really don't know what else there is to say at this moment other than to assure you and the committee members that we do have all of the necessary data and information now to enable us to proceed with the pricing out of the alternatives to be considered. I believe that I fully understand the committee's general desires and specific considerations that they wish me to evaluate. We are at that point in time now where the study is really under way in terms of creating some output and coming up with some specific design and cost programs that can be considered as alternatives.

It is clear that we do have a substantial amount of work to do between now and the end of February. I feel comfortable with that deadline, however. At the present time I would guess that it would probably be somewhere in the latter part of January when we would have some tentative results back for the programs that we are going to consider. When I am at that point, I will be in touch with you to see if it's appropriate to have another committee meeting or whether a written confirmation as to what we have found would be sufficient.

Sincerely,



Richard A. Winkenwerder
Consulting Actuary

RAW:db

cc: Mike Miller

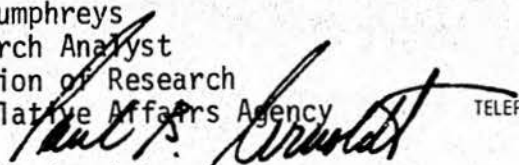
STATE
of ALASKA**MEMORANDUM**TO: Ken Humphreys
Research Analyst
Division of Research
Legislative Affairs Agency

DATE: January 4, 1978

FILE NO:

TELEPHONE NO: 4460

FROM:


Paul B. Arnoldt
Director
Division of Retirement & Benefits
Department of AdministrationSUBJECT: Social Security Withdrawal
Study Group

Attached for your information is a copy of the minutes of the meeting of the Social Security Withdrawal Study Group which was held on November 17, 1977.

PBA/ms
Attachment

STATE
of ALASKA

MEMORANDUM

TO: FILE

DATE: November 17, 1977

FILE NO:

TELEPHONE NO:

FROM: Paul B. Arnoldt
Director
Retirement & Benefits

SUBJECT: Social Security Withdrawal
Study Group

The meeting of the Social Security Withdrawal Study Group convened at 10:40 a.m. on November 17, 1977, in Room 100 of the Capitol Building, in Juneau, Alaska, Representative Mike Miller presiding. Also present were Richard Winkenwerder, Roy Dunn, Mike Murray, Paul Arnoldt, Ken Humphreys, Bill Richards, Wayne Power and James Baldwin.

Richard Winkenwerder of the actuarial firm of Milliman & Robertson, Inc. explained that in his investigation of alternative approaches to Social Security his biggest concern is trying to determine which groups will be involved, what kinds of coverage will be available, the availability of data, and reviewing the existing retirement program with a view toward its improvement through utilizing available employee data.

Mike Miller asked Mr. Arnoldt if he can provide the tape information, to which Mr. Arnoldt responded that the tape contains information on all the employers, but it may be possible to spin off State data or to give him the entire tape.

Richard Winkenwerder summarized the goals of the alternative plan:

1. To include all State employees covered under PERS (permanent and part time), except
 - a. temporary employees
 - b. judicial system members
 - c. IBU members of Alaska Marine Highway System. (These employees now belong to the Northwest Marine Retirement Trust, to which the State contributes,)