

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
6.3 SCOMM 4A: STUDY GROUP ON SOC. SECUR. WITHDRAWAL 1977-1978

- d. Elected officials (PERS is voluntary with elected officials, although all elected officials are covered under the medical programs.)
2. Improvements of PERS to be considered:
 - a. Disability (See Item 6, Minutes of 8/18/77)
 - b. Increase in non-occupational death benefit
 - c. Retirement (considering cost of retirement after 20-25 years)
 - d. Changing from 2% to 2½%
 3. Improvement of medical plans to be considered:
 - a. Life insurance enhancement
 - b. Long term disability
 - c. Dental plan (will examine bringing it up to date to meet Alaska dental costs.)
 - d. Consider fully paid-for medical benefit program

Richard Winkenwerder stated that as Social Security funding increases in the future, so we will have use of the moneys later that are based on what the increase would have been.

Paul Arnoldt objected, stating that future funds must not be tied up and suggested alternatives to Social Security must be based upon current funding level of 5.85 contributions. The level of funding must be established, as we do not know what Social Security is going to do in the future. Employees are concerned about rising costs of funded programs and they would prefer having the money in their pockets. If the federal government raises the level, it will be doing so for the purpose of catching up. We will be collecting not to catch up, but to enhance the program.

Mike Miller stated that the alternative program is not limited to the present level. In the future he sees the State continuing to pay whatever they would have paid in Social Security.

Roy Dunn stated that the language of the legislation would tie everything into scale. He suggested that there is no point in giving up something now and then trying to negotiate it back in the future. He said that we should plug increases in contributions into the system and have well defined schedule of increases.

Richard Winkenwerder commented that projections are difficult, especially if contributions will be changing.

Mike Murray asked Mr. Winkenwerder to elaborate on how Social Security funds could be used for the enhancement of the PERS. He suggested, for instance, that of the 11.9% total contribution, 8% be used to improve benefits and the balance of 3.9% could go into some sort of savings account for the retiree. Whatever becomes the initial commitment to PERS enhancement will be a firm commitment.

Paul Arnoldt stated that our objective is to strengthen the PERS system so that a career retiree will be able to maintain the same standard of living as he had before retirement. The State will continue to take money from the employee even after we opt out of Social Security, and the employee may say he would rather have that money today than to have his PERS augmented. He asked, should the excess funds be put back into the employee's pocket, or are we mandating his contribution? If we have an excellent death, disability and retirement program, how can we ask the employee to augment further. It would be the same as saying, when you retire you will be better off than when you are working. If we do not deduct from their salary, it will be the same as their getting a pay increase.

Mike Miller said that from the standpoint of retirement systems, it is his opinion that ours is certainly good, but it could be much better.

Paul Arnoldt was asked how a person living on 40% of his pay can maintain his working standard of living. He responded that in addition to retirement income, from which the retiree does not pay taxes for a period of about three years, he has his Social Security benefits which includes medicaid and medicare, as well as his State medical benefits. He compared our system to that of other states, and said that in terms of retirement age, years of service, vesting time, state contributions, etc., Alaska's program far outshines that of most other states.

Roy Dunn said that he feels it is possible that in come distant future there will be an excess of money for enhancement purposes, but for the present he can't see that we will reach the time when we will have money that we don't know how to use.

RECESS

Richard Winkenwerder returned to a discussion of his proposal for enhancement of the PERS. He inquired if there is a possibility of providing an extension of disability insurance. At present a person who does not qualify for Social Security does not qualify for medicare. If PERS is extended to pay disability benefits and a medical plan, the employee will not have lost a thing by opting out of Social Security.

Mike Murray theorized on an employee who terminates employment with the State after it has opted out, and then does not qualify for Social Security benefits under a new employer until he has been covered anew for several years, and in the meantime he becomes disabled. He asked if it

would not be desirable for the State to give an option for a disability benefit to such a person until such a time as he is again eligible for Social Security benefits.

Richard Winkenwerder responded that this is possible, and that many employers have such disability plans.

Paul Arnoldt stated that the administration of such a plan should be considered, and explained the difficulty of disability determination. It is also possible that the employee may take later employment that has a greater risk rate. At the present time disability is paid entirely by the employer.

Richard Winkenwerder spoke for the fellow who loses both disability insurance and Social Security, and wondered how many people would choose to pay for it. The question of determining disability was again discussed, and the difficulty, awkwardness and expense of administration of such a disability benefit option was repeated.

Paul Arnoldt stated that in the future an employee will come into State employment knowing full well that the State does not have Social Security. He reminded the group that disability can be claimed for up to five years after opting out of Social Security. He emphasized that employees should be thoroughly informed regarding disability coverage when leaving State employment, and this topic should be publicized. It was concluded that Mr. Winkenwerder will not discard the disability option plan, but will also not spend a large amount of time on it. This was concurred in by Mr. Miller.

Richard Winkenwerder returned to the subject of the PERS enhancement proposal, and questioned what impact a 20-year PERS plan would have

on police. It was concluded that there should be uniform benefits for all categories. If it is later concluded that there should be some differential among groups, it will be addressed at that time. Mr. Winkenwerder stated that he sees no problem in doing different things for different groups. In terms of the design of his plan, the following items within the PERS will be enhanced: retirement, death benefits, disability, survivorship and medical benefits. He asked if the committee considered one of the foregoing to have a priority. He stated again that a certain percentage of the matching contributions will be used for such enhancement, and excessive funds placed in a kind of a tax free savings for the employee. Mr. Miller sees the proposed savings plan as an entirely State funded undertaking, and because it will therefore be tax free it will enhance the employee's income.

Mike Miller responded to a discussion as to whether or not the employee's contribution in lieu of Social Security would be voluntary or mandatory by stating that it would be a mandatory contribution.

Paul Arnoldt urged that overage of contributions be used to supplement health insurance, and suggested that excess amounts should be returned to the individual employee's account with a means to allow him to pick up on a tax break.

Mike Miller made it clear that if the State chooses to opt out of Social Security, it will make no attempt to replace Social Security benefits, but will make every effort to enhance the PERS. At present the PERS is a supplement to the Social Security. He is concerned that the total package would be approximately equal to combination of the existing two systems.

Richard Winkenwerder asked if the State is anticipating anything in the PERS plan so that there can be a combination of the two benefits. Mr. Arnoldt replied that all benefits supplied in the two programs should be studied, and then an effort should be made to fill in the voids.

Paul Arnoldt explained the State medical benefit, and that presently the State program is offset against the Social Security system.

Richard Winkenwerder discussed the costs of medicare (approximately \$60 per month, or \$500 per year), and asked if there is an interest in trying to design some kind of specific benefit or provision that will prepay the medicare or provide a fund to assist the retiree to pay for the program. He suggested that if the State medical program is under-financed now, perhaps it would be wise for the State to pay the employee premium.

Mike Miller emphasized that under the new program the employees must have the same coverage as they now have, and the State will contribute whatever is determined to be the least expensive plan.

Paul Arnoldt provided the members in attendance with compiled information on the future of the Social Security System, as predicted by A. Haeworth Robertson, chief actuary, whom he spoke with at a recent meeting of retirement and benefits administrators.

The meeting adjourned at 12:45 p.m.

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:

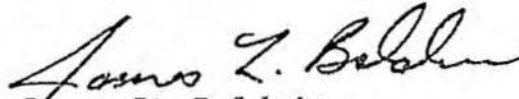
- (1) Improve PERS in general with the use of additional funds released from Social Security contributions.
- (2) Improve the current deferred compensation plan.
- (3) Establish a new program essentially replacing Social Security.
- (4) Study the benefits under the Public Safety Employees Retirement 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

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

January 10, 1978

MEMORANDUM

SUBJECT: Next Meeting of Social Security Withdrawal Study Group

TO: Members of the Social Security Withdrawal Study Group

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

Mr. Winkenwerder has indicated that, even if computer output is not available, he will have a substantial amount of material to present to the study group on January 24. This material will include his suggested plan for improving PERS. He also needs group input at this point in the study.

Consequently, the next meeting of the study group is scheduled for 1:00 p.m. on Tuesday, January 24 in Room 311 of the Court Building, Juneau. If necessary, we will continue on January 25.

KH:ftc

Mailing List for HCR 66 Study Group on Social Security Withdrawal

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~~(Thru Helen Gowdy)~~

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

Extra for Jim Baldwin
& me



STATE OF ALASKA

Legislative Affairs Agency

ALTERNATIVES TO THE SOCIAL SECURITY
SYSTEM FOR EMPLOYEES OF THE
STATE OF ALASKA

A Report by Milliman & Robertson, Inc.
for the
Alaska State Legislature's Study Group
on
Withdrawal from Social Security

March

1978

ALTERNATIVES TO THE SOCIAL SECURITY
SYSTEM FOR EMPLOYEES OF THE
STATE OF ALASKA

Prepared by:

Richard A. Winkenwerder, F.S.A.

March 15, 1978

For the

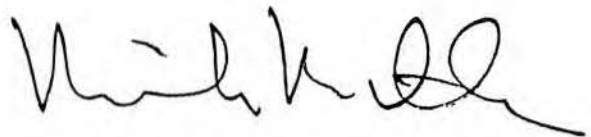
STUDY GROUP ON WITHDRAWAL FROM SOCIAL SECURITY
ALASKA STATE LEGISLATURE

FOREWORD

This report is submitted to the Legislative Council by the Study Group on Social Security Withdrawal pursuant to Legislative Resolve No. 107, S.L.A. 1977. Proposed legislation which embodies the group's recommendations relating to the state's potential withdrawal from the Social Security system will follow.

The study group, with the aid of its consultant, has explored alternatives to the Social Security system which would serve the interests of the state and its employees and which could be financed from contributions which would otherwise go to Social Security. There has been no attempt to duplicate the benefits provided by Social Security but rather, considering other benefits available to state employees, to design an alternative which may be preferable. The study group has not attempted to decide whether or not the state should opt out.

We hope the legislature and others concerned with the question of withdrawal from the Social Security system will find this report useful.



*Mike Miller, Chairman
Study Group on Withdrawal
from Social Security*

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March 15, 1978

Social Security Withdrawal Study Group
Legislative Affairs Agency
Alaska State Legislature
Pouch Y, State Capitol
Juneau, Alaska 99811

Attention: Representative Mike Miller

Dear Members:

At your request and direction, we have reviewed the employee benefit programs of the State of Alaska and the Social Security System to provide you with recommendations for a replacement program for state employees should the State of Alaska withdraw from the Social Security System. The results of our efforts are contained in this report.

We should like to acknowledge the very able assistance of Mr. J. K. Humphreys and would also like to thank Mr. Paul B. Arnoldt for his help in obtaining the necessary data on state employees from which we prepared our cost estimates.

Respectfully submitted,

Richard A. Winkenwerder
Richard A. Winkenwerder, F.S.A.
Consulting Actuary
Vice President
Milliman & Robertson, Inc.

RAW:lkn

STATE OF ALASKA

SECTION I

INTRODUCTION

The purpose of this report is to provide recommendations and guidance to the HCR66 Study Group on Social Security Withdrawal relative to the provisions of a fringe benefit program that would benefit the employees of the State of Alaska as a suitable substitute for the Social Security system if the state should withdraw from the Social Security system.

The Study Group had several meetings to discuss and set forth the basic guidelines that would be considered for the replacement program. The final set of guidelines represented the individual and combined thinking of the entire Study Group. As detailed investigations into the various guidelines proceeded, modifications were made when it became apparent that a particular guideline was unsuitable.

The development of a replacement program was complicated by the fact that all state employees affected by the withdrawal from Social Security (employees of the University of Alaska will not be affected) do not have the same fringe benefit coverages with the state and thus, although all would be losing the same Social Security benefits, different considerations were necessary in recommending a replacement program.

Most state employees may be classified into one of the following categories:

1. Employees participating in the Public Employees' Retirement System of Alaska (PERS). This basically covers, on a mandatory basis, all full-time and part-time employees and, on an optional basis, elected officials. Specifically excluded are state employees of the division of marine transportation engaged in operating the state ferry system while covered by a union or group retirement system to which the state makes contributions, justices and judges, temporary employees and persons covered by the Alaska Teachers' Retirement System.
2. Justices and judges

3. Temporary employees
4. Employees of the division of marine transportation as specified above
5. Employees covered by the Alaska Teachers' Retirement System

This study concerns itself with those employees in the first four categories.

The state has six basic employee fringe benefit programs which were considered in arriving at the replacement program:

1. PERS
2. Retirement and death benefit plan for justices and judges
3. Group health care and life insurance benefits for employees
4. Health care program for retired employees and family members
5. Retiree life insurance
6. Deferred compensation plan for employees

An underlying thesis throughout was the intent of the Study Group to recommend a replacement program that would be financed completely by contributions that otherwise would have been contributed to Social Security. In the final analysis it was recognized that such a commitment might not be possible where improvements to PERS were involved.

There are basically three alternatives for accommodating a replacement for Social Security. One would be to provide for improvements in PERS. Another is to establish a new supplemental plan which will provide for survivor's benefits, lump sum death benefits and disability benefits on either an insured or noninsured basis with this decision to be ultimately made at the time of implementing the program. Finally, a new deferred compensation plan could be established to provide for mandatory deferral of contributions. The details of each of these is discussed in Section III.

SECTION II

GUIDELINES

The Study Group had four meetings with the actuarial consultant. These meetings were devoted to developing the criteria that should be considered in formulating a replacement program for Social Security, in reviewing the results of actuarial calculations based on those criteria and in finalizing the plans.

The early meetings with the Study Group produced nine basic guidelines.

1. GUIDELINE

Recommend improvements in PERS where deemed appropriate and specifically consider:

- a. reducing the service requirement for retirement to 25 or 20 years for employees other than peace officers and firemen
- b. an increase in the current 2% benefit crediting factor
- c. an automatic post-retirement adjustment to account for cost-of-living changes
- d. the disability benefits
 - (i) increase them
 - (ii) examine the appropriateness of differences for occupational and non-occupational causes
 - (iii) consider coordinating them with benefits from other sources
 - (iv) provide a five-year extension in coverage for employees who terminate to help lessen the impact of the loss of Social Security benefits
- e. different improvements for peace officers and firemen if improvements such as (a) above were adopted, to recognize that such a change would not benefit these employees

COMMENT

- a. Merit was seen in applying any improved benefit factor only to service with the state performed after withdrawal from Social Security and alternatively to all service with the state both before and after withdrawal from Social Security. Therefore, study results for the cost of an increased benefit factor on both these bases is provided.
- b. The Study Group directed that the cost of improving the non-occupational death benefit to the same level as the occupational death benefit recommended above in (b) be determined.
- c. It was clarified that if any recommendation involved a reduction of the normal retirement service requirements for employees other than peace officers and firemen to something less than 30 years, an alternate improvement for peace officers and firemen under PERS be determined. This was appropriate because this group already has a service retirement of 20 years. A possible area to improve the plan in this regard would be an additional increase in the benefit crediting factor. Other alternatives such as an increase in either the disability or death benefits would also be considered.
- d. Any automatic post-retirement adjustment based on changes in the consumer price index would be subject to the following criteria:
 - (i) There would be a maximum annual increase such as 3% or 5%.
 - (ii) Increases in the CPI in excess of the maximum would be carried forward to apply in any year when the actual CPI adjustment was less than the maximum specified in the plan.
 - (iii) All plan benefits would be subject to the automatic CPI adjustment.
 - (iv) Although it is recognized that the CPI could decrease in some year there would be at no time any decrease in plan benefits.
- e. It was also suggested that consideration be given to increasing the percentage of compensation being

paid upon an occupational disability by perhaps 10% or 20% of compensation. In addition, the Study Group directed us to determine the cost of increasing the current non-occupational disability benefit to the same level as the the occupational disability benefit.

- f. It was noted that the PERS disability benefits had previously been coordinated with Social Security, workmen's compensation and other employer-paid benefits. Coordination is highly preferable, but since that coordination feature was deleted (coincident with a reduction in PERS benefits), it must be assumed that the elimination must have occurred following considerable study. It therefore seemed inappropriate to pursue recommendations that would require the reinstatement of a coordination feature at this time.

2. GUIDELINE

Recommend improvements in the existing deferred compensation plan

COMMENT

No additional comments.

3. GUIDELINE

Recommend a completely new and separate plan

COMMENT

Any entirely new program would provide for disability, death and survivor's benefits, probably on an insured basis, rather than increasing any PERS benefits. Contributions in excess of those required to provide these benefits would be applied under the deferred compensation plan as increased deferred contributions.

4. GUIDELINE

Review and comment on a proposal for a replacement plan submitted to the Study Group by Mr. Robert G. Gates on August 4, 1977

COMMENT

The proposal submitted by Robert Gates for a replacement program was in essence the recommended plan outlined in (3) above. The proposal is a sound one and, with variations, is the same as we would recommend if PERS improvements were not considered.

5. GUIDELINE

Any replacement plan would be funded by current and future contributions that otherwise would have been contributed by employees and the state to the Social Security system

COMMENT

It was pointed out that any improvements in PERS to be funded by contributions that otherwise would have gone to Social Security could contain no guarantee that the cost of those improvements could always be so funded. Under these circumstances, the logical result would be for the state to absorb any excess cost.

6. GUIDELINE

Any replacement plan will require mandatory employee participation

COMMENT

No additional comments.

7. GUIDELINE

Do not consider improvements in the existing life insurance and health care plans as part of any replacement plan

COMMENT

In spite of the direction not to study improvements in the existing life and health plans, an improvement in the existing life plan is included as one recommendation.

8. GUIDELINE

Any replacement plan will not precisely replace the benefits provided by the Social Security system

COMMENT

It is recommended that only certain Social Security benefits be replaced on an approximate basis. Specifically, these relate to lump sum death, survivor's benefits and disability benefits. The amount of such benefits in each of these cases would not be geared to the amount payable under Social Security but would rather be geared to a level which is deemed appropriate and desirable. In addition, the categories of beneficiaries entitled to these benefits under the replacement plan would be severely restricted over what is allowable under Social Security. For example, such categories of beneficiaries such as divorced wives, spouses of retirees, disabled widows, surviving divorced wives of deceased workers, grandchildren and dependent parents who are also eligible for benefits under Social Security are not being considered under the replacement program. In general, it was felt that coverage for these kinds of beneficiaries was not deemed appropriate nor in the best interest of the state.

9. GUIDELINE

Determine the cost to extend coverage in PERS to employees of the division of marine transportation engaged in operating the state ferry system

COMMENT

The Study Group felt that it would be inappropriate to determine the cost under PERS for employees of the division of marine transportation under all of the options and alternatives being considered. They felt that being provided with the cost of coverage under PERS as it stands now for only state service after incorporation into the program, and also where all state service both before and after incorporation into the program is considered would be adequate for the immediate purposes.

We then completed investigations and certain studies based on the provisions of the guidelines. In the process of implementing the guidelines and determining their appropriateness, a number of questions were raised that required answering. In some cases the results indicated that a modification of a guideline was desirable; in other cases it indicated that a clarification of a guideline was necessary before arriving at more specific recommendations. Detailed discussions were held over the nine basic guidelines of the Study Group which resulted in the following comments:

Because not all state employees participate in PERS and because the PERS benefits are not identical for those that do, it is appropriate that the supplemental plan, although perhaps being structured basically the same for all employees, have different levels and types of benefits. The final recommendations will clarify the extent to which each of the employee groups would be participating in the supplemental plan.

We indicated that the final report would contain a specific recommendation for paying for Social Security hospital insurance benefits and supplementary medical insurance benefits (Medicare) at time of retirement for any employee not otherwise eligible for such benefits. It seemed appropriate also that some comments be included in the report relative to the general adequacy of retirement, disability, survivor's and death benefits from all sources. It was felt that such comments would better enable the Study Group to determine the particular importance of any PERS improvement or benefits arising from some supplemental plan.

SECTION III
RESULTS AND RECOMMENDATIONS

This Section includes the results of our calculations, our recommendations for the design of replacement plans and our recommendations and comments relative to the other areas as requested by the Study Group and outlined in Section II. We recommend three alternative plans for consideration, each of which would utilize all contributions otherwise diverted to Social Security.

An underlying consideration in our recommendations for PERS improvements and the death and disability benefits in a new supplementary plan, was that retirement, death and disability benefits be at a reasonable level and that the cost of PERS improvements and the supplementary plan not exceed 75% of the contributions available from Social Security on a long-term basis.

BASIC RECOMMENDATIONS

PLAN A

PERS EMPLOYEES

1. Increase the benefit crediting factor in PERS for employees other than peace officers and firemen to 2-1/2% per year of state employment after withdrawal from Social Security (currently 2%).

Cost - see item 2.

2. Increase the benefit crediting factor in PERS for peace officers and firemen to 2-1/2% per year for the first 10 years of state employment after withdrawal from Social Security and to 3% per year thereafter (currently 2% and 2-1/2%).

Cost - 2.4% of compensation for 1 and 2.

3. Increase the occupational death and disability benefits in PERS for payments prior to retirement date to the larger of 40% of compensation and the accrued PERS benefit (currently 40% of compensation).

Cost - 0.0% of compensation.

4. Increase the non-occupational disability benefit in PERS to 60% of compensation for payments prior to retirement and to the projected accrued benefit, including years while disabled, after the normal retirement date (currently accrued benefit).

Cost - 0.5% of compensation.

5. Increase the non-occupational death benefit in PERS to provide a lump sum death benefit after one year of \$5,000 plus \$500 per year of service and, for death after 5 years, the option of receiving the full accrued benefit. The above benefits would be in addition to the employee's own accumulated contributions (currently \$1,000 plus \$100 per year and option of 50% joint and survivor benefit).

Cost - 0.4% of compensation.

The total cost for PERS improvements would be 3.3% of compensation.

6. Balance of Social Security contribution not required for PERS improvements will be directed to a new mandatory deferred compensation plan.

JUSTICES AND JUDGES

1. Provide for monthly disability income under a new supplementary plan equal to 60% of the first \$5,000 of basic monthly compensation. The benefit would be offset by benefits payable from the pension system, Social Security, and workmen's compensation and would be payable until the earlier of age 65 and the date the employee would have qualified for a pension benefit.

Cost - 0.5% of compensation.

2. Provide for a lump sum death benefit under a new supplementary plan equal to annual compensation.

Cost - 0.5% of compensation.

The total cost of new plan equals 1.0% of compensation.

3. Balance of Social Security contribution not required for new plan will be directed to a new mandatory deferred compensation plan.

TEMPORARY EMPLOYEES

1. Provide for monthly disability income under a new supplementary plan equal to \$100 per week payable until age 65.

Cost - 0.3% of compensation.

2. Provide for a lump sum death benefit under a new supplementary plan equal to \$15,000.

Cost - 0.2% of compensation.

The total cost of new plan equals 0.5% of compensation.

3. Balance of Social Security contribution not required for new plan will be directed to a new mandatory deferred compensation plan.

MARINE EMPLOYEES

1. Provide for monthly disability income under a new supplementary plan equal to 60% of the first \$5,000 of basic monthly compensation. The benefit would be offset by benefits payable from any pension plan, Social Security and workmen's compensation and would be payable until the earlier of age 65 and the date the employee would have qualified for a pension benefit.

Cost - 1.4% of compensation.

2. Provide for a lump sum death benefit under a new supplementary plan equal to annual compensation.

Cost - 0.9% of compensation.

3. Provide for a monthly survivor's benefit under a new supplementary plan for an employee who dies equal to 2.5% of compensation for each year of service. No benefit shall be payable if death occurred due to non-occupational cause prior to the completion of five years of service.

Cost - 1.2% of compensation.

The total cost of new plan equals 3.5% of compensation.

4. Balance of Social Security contribution not required for new plan will be directed to a new mandatory deferred compensation plan.

PLAN B

PERS EMPLOYEES

1. Improve PERS according to items 1, 2 and 3 of Plan A.
Cost - 2.4% of compensation.
2. Provide for monthly disability income under a new supplementary plan equal to 60% of the first \$5,000 of basic monthly compensation. The benefit would be offset by benefits payable from PERS, Social Security and workmen's compensation and would be payable until the earlier of age 65 and the date the employee would have qualified for a pension benefit.
Cost - 0.7% of compensation.
3. Provide for a lump sum death benefit under a new supplementary plan equal to annual compensation.
Cost - 0.5% of compensation.

The total cost of PERS improvements and new plan equals 3.6% of compensation.

4. Balance of Social Security contribution not required for PERS improvements and the new plan will be directed to a new mandatory deferred compensation plan.

JUSTICES AND JUDGES, TEMPORARY EMPLOYEES AND MARINE EMPLOYEES

1. All benefits and costs will be as described for Plan A.

PLAN C

PERS EMPLOYEES

1. There will be no PERS modifications.
2. All benefits and costs will be as described according to items 2, 3 and 4 of Plan B.

The total cost of new plan equals 1.2% of compensation.

JUSTICES AND JUDGES, TEMPORARY EMPLOYEES AND MARINE EMPLOYEES

1. All benefits and costs will be as described for Plan A.

We completed calculations to determine the cost of the various improvements to PERS that had been discussed with the Study Group, in addition to those included above as recommendations. The costs for all PERS improvements are shown in Table 1 and are expressed as a percentage of the total compensation of state employees covered under PERS. A brief summary of the costs and benefits for the new supplementary plan for each of the four employee groups is provided in Table 2.

Some discussion of the costs in Table 1 is appropriate. In some cases two percentages are shown for a single improvement. This is consistent with the method used for presenting costs in the annual actuarial valuations prepared for the system. One percentage is a future service percentage applicable to the compensation of plan participants in each future year. The other is a past service percentage which represents the current year percent of compensation necessary to amortize the additional past service liability created as a result of the proposed amendment with level dollar payments over a period of 35 years. Thus, for the past service portion, the percentage will likely decrease slightly each year as the covered payroll increases.

Until such time as the past service portion is amortized (35 years), the total annual cost for a given improvement is equal to the sum of the past and future service percentages multiplied by the total compensation of PERS participants. After that time, the cost is equal to only the future service percent of total participant compensation.

STATE OF ALASKA
COST OF PERS IMPROVEMENTS

Table 1

	<u>PAST SERVICE COST</u>	<u>FUTURE SERVICE COST</u>	<u>TOTAL COST</u>
FUTURE SOCIAL SECURITY CONTRIBUTIONS	-%	10.2%	10.2%
CURRENT PERS COST	2.4	10.7	13.1
PERS IMPROVEMENTS:			
(1) 1/2% benefit factor			
a. Applies only to state service after January 1, 1978	-	2.4	2.4
b. Applies to state service before and after January 1, 1978	1.0	2.4	3.4
(2) 25 year service retirement	0.2	0.7	0.9
(3) 20 year service retirement	0.8	2.2	3.0
(4) 1% Cost-of-Living adjustment			
a. If an unfunded liability is created	0.4	1.4	1.8
b. If costs are funded entirely over service after January 1, 1978	-	2.8	2.8
(5) Larger of 40% compensation or accrued benefit for occupational death or disability	-	0.0	0.0
(6) \$5,000 plus \$500/year lump sum death benefit or monthly accrued benefit if elected	-	0.4	0.4
(7) Non-occupational disability of larger of 40% compensation or accrued benefit	-	0.4	0.4
(8) Non-occupational death of larger of 40% compensation or accrued benefit	-	0.8	0.8
(9) Non-occupational disability of 60% of compensation	-	0.5	0.5

Note: A "-" indicates no cost whereas "0.0" indicates some cost, although minimal.
All past service costs are funded over 35 years.
All costs are expressed as a percentage of the total compensation of PERS participants.

Note that the first line of Table 1 shows the level percent of future participant compensation that would be equivalent to future Social Security contributions. For this purpose, the recent Social Security amendments were recognized. We used the legislated contribution rates and taxable wage bases and the six subsequent year wage base estimates prepared by the Social Security Administration. We then assumed an annual 5% increase in the taxable wage base beyond that point. We valued the future compensation of plan participants using the PERS actuarial assumptions in Appendix a.

Social Security

<u>Year</u>	<u>Contribution Rate</u>	<u>Taxable Wage Base</u>
1977	5.85%	\$16,500*
1978	6.05	17,700
1979	6.13	22,900
1980	6.13	29,700
1981	6.65	31,800**
1982	6.70	33,900
1983	6.70	36,000
1984	6.70	38,100
1985	7.05	40,200
1986	7.15	42,600
1987	7.15	44,730***
1988	7.15	46,967
1989	7.15	49,315
1990 & later	7.65	51,781

The contribution rate is applicable to both employees and employers.

* The wage bases for years 1977 through 1980 are legislated.

** The wage bases for years 1981 and later are subject to automatic adjustment. The figures shown for years 1981 through 1986 are estimates prepared by the Social Security Administration.

*** All future years subject to automatic adjustment by law. An annual increase of 5% was assumed.

These calculations showed that the total future Social Security contributions are equivalent to 10.2% of total future participants' compensation. Note that this is total compensation and not just that portion subject to the

Social Security taxable wage base. Thus, the percentage would be larger than 10.2% if the contributions were related to the taxable wage base. We also prepared two alternative calculations to see the effects of different sets of assumptions. In one of these we assumed that the tax rate stabilized at 6-1/2% commencing in 1981. This produced an equivalent rate of 9.8%. Another was to replace the 5% growth factor for compensation and the taxable wage base by 10%. This produced a level percentage of 9.6%.

In analyzing the costs of the various PERS improvements, it should be noted that since the contribution rate to Social Security increases for 13 years and since the taxable wage base, although increasing at a rate in excess of 5% per year, is less than earnings for many people, the estimated contributions that would have been made to Social Security will be less than 10.2% of compensation until about 1981 and more than that thereafter. For example, the estimated 1978 Social Security contributions will be 8.3% of compensation rather than 10.2%.

PER IMPROVEMENTS

These may be summarized below:

1. One consideration was to provide an additional 1/2% of salary as a benefit under the program. Specifically, this would increase the existing 2% accrual factor for non-peace officers and firemen to 2-1/2% and would increase the benefit accrual factor for peace officers and firemen from the existing 2% for the first 10 years and 2-1/2% for years thereafter up to 2-1/2% for the first 10 years and 3% for years thereafter. This is achievable for an estimated cost of approximately 25% of the Social Security contributions.
2. Another consideration was the reduction in the service requirement for non-peace officers and firemen from 30 years to 25 years and also from 30 years to 20 years. The reduction to 20 years would require approximately 30% of the Social Security contributions and the reduction to 25 years approximately 10% of the Social Security contributions.
3. An automatic post-retirement pension adjustment was proposed whereby on an annual basis any former employee or beneficiary receiving a monthly benefit would have that monthly benefit adjusted on an annual basis to account for changes in the Consumer Price Index. This improvement would apply only to persons becoming retired

after the effective date of the change. As indicated earlier this benefit is extremely expensive and, for example, an automatic 1% annual increase would require 20% to 30% of the Social Security contributions. Therefore, if an automatic adjustment were provided with a maximum annual increase of just 3%, it would take over half of the contributions otherwise payable to Social Security.

4. The improvement in the occupational death and occupational disability benefits to pay the accrued benefit prior to retirement if larger than 40% of compensation has an insignificant cost attached to it. The change is desirable since a person who now becomes non-occupationally disabled with over 20 years of service would receive a larger benefit than an occupationally disabled person.
5. The improvement in the non-occupational death benefit for both the lump sum and survivor's benefits to those outlined in Section II, namely an increase in the lump sum death benefit to a flat \$5,000 plus \$500 per year of coverage and an increase in the survivor's benefit for any employee who died after having 5 years of service to the full accrued benefit, would require approximately 4% of the Social Security contributions.
6. The cost of improving the non-occupational death and non-occupational disability benefits to the same as the occupational death and disability benefits, namely a benefit equal to 40% of compensation or the existing accrued benefit, would require approximately 12% of the Social Security contributions.
7. Finally, an increase in the non-occupational disability benefit to 60% of compensation would require about 5% of the Social Security contributions.

It is apparent from these studies that any of the suggested PERS improvements could be made. It should be noted that if change (2) above were adopted, our recommendation would be that since such a change would have no effect at all on peace officers and firemen, their retirement benefit be enhanced by an equivalent amount. Therefore, if a decision were made to go to 20-year retirement, it would be our recommendation that the peace officers and firemen's benefit credit be enhanced by a full 1% for state service after withdrawal as opposed to the 1/2% discussed above. If the decision were made to go to the 25-year retirement, our recommendation would be that their benefits be enhanced by 3/4% rather than 1/2%.

NEW SUPPLEMENTAL PLAN

Our next step was to design an entirely new plan to provide lump sum death, survivor and disability benefits as an alternative in the event improvements under PERS in these benefit areas was not deemed advisable. We focused on two key benefits: the disability benefit and the survivor benefit. The lump-sum death benefit available under Social Security is negligible and would be effectively replaced under our suggestions.

The Social Security Administration is in a unique position to administer its benefits, having full knowledge of the employment and earnings status of all persons. The system has evolved to where it administers an extremely complex benefit structure. It is not practical to replace the exact benefits of Social Security. For that matter, with respect to these two benefits, there is even considerable difficulty in integrating with Social Security (especially for the survivorship benefit).

We attempted to develop a benefit structure that would be relatively easy to maintain and also provide reasonable equity to all covered persons. A brief summary of costs and benefits is provided in Table 2.

The costs we developed will change over time, depending on the future hiring patterns of the state. The costs would remain approximately as stated if the state employees formed, in effect, an unchanging group with respect to all characteristics (in particular, if the "vesting" of Social Security remains the same for individuals). If there is an increasing concentration of individuals who have no Social Security coverage, the disability cost would be expected to rise because of the declining influence of Social Security offsets. Further, there will be rapidly declining Social Security disability benefits for existing employees. We have indicated costs for the long-term disability assuming no Social Security offsets to illustrate the worst possible situation.

We have gone further than simply replacing the disability benefit. The reason for this is that most large employers now provide a substantial long-term disability benefit. Typical characteristics are replacement of 60% of income to age 65 following a six month disability wait. Eligibility is often at date of employment. The existing program for Alaska employees is weak in total provision for disability, with one exception. Disability payments from all sources in the event of occupational disability appear to be highly redundant and although benefits will be lost from Social

Security, replacement was not deemed appropriate. Some problems in this area might well be anticipated in the future. However, non-occupational disabilities are only moderately provided for. Only individuals with a considerable length of service receive a substantial total disability benefit considering both Social Security and the retirement system together.

We recommend that the state institute an adequate long-term disability program. The long-term disability benefit is assumed to be integrated with all sources, including disability benefits under the PERS system, Workmen's Compensation and Social Security.

For the survivorship benefit, it appeared impractical to develop an umbrella-like structure as with the long-term disability. Also, adoption of a formula such as 40% or 50% continuance of pay leads to benefits and costs well in excess of those typically provided and required.

We suggest the replacement of the survivor benefit be independent of any vested Social Security benefits for employees. At a minimum we suggest a one times salary lump-sum death benefit for all employees (\$15,000 flat for temporaries). Probably more desirable, would be a two times salary benefit for all employees (\$15,000 flat for temporaries). Assuming \$25,000 annual salary, a death benefit of \$50,000 would provide income of about \$700 a month for 8 years. In addition, beneficiaries of the employee would receive any survivorship benefit available under PERS and Social Security. Benefits, in total, would likely be superior to those resulting from the combination of existing PERS and Social Security benefits. A lump-sum benefit is easy to administer and avoids the severe problems associated with keeping track of the status of the survivors (remarriage or spouse earnings following death of the employee).

STATE OF ALASKA
OCCUPATIONAL AND NON-OCCUPATIONAL DISABILITY
AND DEATH BENEFITS

<u>LONG TERM DISABILITY</u>	<u>EMPLOYEES COVERED UNDER PERS</u>	<u>EMPLOYEES OF JUDICIAL SYSTEM</u>	<u>MARINE EMPLOYERS</u>	<u>TEMPORARY STATE EMPLOYEES</u>
Eligibility	A regular employee becomes eligible for coverage on the first day of employment	A regular employee becomes eligible for coverage on the first day of employment	A regular employee becomes eligible for coverage on the first day of employment	A regular employee becomes eligible for coverage on the first day of employment
Definition of Disability	Disability means the complete inability of the employee to engage in his regular occupation during the first 12 months of disability, and thereafter the complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.	Disability means the complete inability of the employee to engage in his regular occupation during the first 12 months of disability, and thereafter the complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.	Disability means the complete inability of the employee to engage in his regular occupation during the first 12 months of disability, and thereafter the complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.	Disability means the complete inability of the employee to engage in his regular occupation during the first 12 months of disability, and thereafter the complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.
Benefits Payable	The total amount of monthly benefit shall be 60% of the first \$5,000 of the employee's basic monthly earnings at the date of disability reduced by the Deductible Amount.	The total amount of monthly benefit shall be 60% of the first \$5,000 of the employee's basic monthly earnings at the date of disability reduced by the Deductible Amount.	The total amount of monthly benefit shall be 60% of the first \$5,000 of the employee's basic monthly earnings at the date of disability reduced by the Deductible Amount.	The total amount of benefit shall be \$100 per week.
Deductible Amount (Coordination of Benefits)	Any disability benefits the employee is entitled to under the Social Security and PERS systems.	Any disability benefits the employee is entitled to under the Social Security and Pension systems.	Any disability benefits the employee is entitled to under the Social Security system.	None
Maximum Benefit Period	Disability Benefits are payable to the earlier of the date of attainment of age 65 or the date of eligibility for normal retirement benefits.	Disability Benefits are payable to the earlier of the date of attainment of age 65 or the date of eligibility for normal retirement benefits.	Disability Benefits are payable to the earlier of the date of attainment of age 65 or the date of eligibility for normal retirement benefits.	Disability Benefits are payable to the date of attainment of age 65.
Elimination Period	Disability Benefits are not payable during the first six months of disability.	Disability Benefits are not payable during the first six months of disability.	Disability Benefits are not payable during the first six months of disability.	Disability Benefits are not payable during the first six months of disability.
Estimated Cost as Percentage of Covered Payroll	.39%	.34%	.85%	.27%
Estimated Cost as Percentage of Covered Payroll, Without Coordination with Social Security System	.72%	.49%	1.40%	.27%

<u>SURVIVOR INCOME</u>	<u>EMPLOYEES COVERED UNDER PERS</u>	<u>EMPLOYEES OF JUDICIAL SYSTEM</u>	<u>MARINE EMPLOYEES</u>	<u>TEMPORARY STATE EMPLOYEES</u>
Eligibility	A regular employee becomes eligible for coverage on the first day of employment.	A regular employee becomes eligible for coverage on the first day of employment.	A regular employee becomes eligible for coverage on the first day of employment.	A regular employee becomes eligible for coverage on the first day of employment.
Lump Sum Benefit	The amount payable to the beneficiary shall be equal to twelve times the employee's basic monthly earnings immediately prior to his death.	The amount payable to the beneficiary shall be equal to twelve times the employee's basic monthly earnings immediately prior to his death.	The amount payable to the beneficiary shall be equal to twelve times the employee's basic monthly earnings immediately prior to his death.	\$15,000
Monthly Income Benefit	None	None	The amount shall be equal to 2.5% of the basic monthly earnings for each year of service accrued. No benefit shall be payable if death occurred due to non-occupational cause prior to the completion of five years of employment.	None
Estimated Cost as Percentage of Covered Payroll	.47%	.51%	2.15%*	.21%
Estimated Cost as Percentage of Covered Payroll by Doubling Lump Sum Benefit	.94%	1.02%	3.06%	N/A

* .91% for lump sum benefit, 1.24% for monthly income benefit.

OTHER RECOMMENDATIONS

DEFERRED COMPENSATION PLAN

The existing deferred compensation plan provides for optional deferrals of compensation by permanent employees and appointed and elected officials who have completed six consecutive months of employment. A new deferred compensation plan should be established to provide for the deferral of the excess of Social Security contributions not required for PERS improvements and the new supplementary plan.

Many of its features would be similar to the existing plan but changes would also be required. For example, the new plan would provide for mandatory participation for the excess amounts by all state employees and should not provide for any hardship withdrawals. It would also provide for a separate Medicare account (discussion follows). It is recognized that there may be some difficulty in administering such a plan for temporary employees, but the possibility is not ruled out.

FUTURE INCREASES IN SOCIAL SECURITY CONTRIBUTIONS

We recommend that future increases in Social Security contributions be automatically diverted to the new deferred compensation plan until sufficient time has elapsed to judge the accuracy of the cost estimates for the PERS improvements. Only when that judgment can be made should additional improvements to PERS be considered.

MEDICARE

Any employee who is eligible for a Social Security benefit, who is at least age 65, and disabled beneficiaries are automatically covered under the health insurance portion of Social Security (Part A of Medicare). In addition, he may, if he desires, pay the premium for the supplementary medical insurance (Part B of Medicare). It is felt that the bulk of the existing employees and a large percentage of future employees of the state would qualify for some Social Security benefits. Such qualification would automatically cover these employees under the health insurance portion of the Social Security system. The existing retiree health care plan of the State of Alaska automatically reduces the benefits payable from that plan for benefits receivable from Medicare. This adjustment is made on the assumption that all employees

eligible for the health insurance portion of Medicare are covered. This is deemed to be a desirable feature, and, therefore, it is important in the future that all employees be covered under Part A of Medicare.

For employees who are not otherwise eligible for Social Security benefits, a premium may be paid to provide that coverage. That premium is currently \$54 a month when eligible and is scheduled to increase in the future. It would be desirable to establish a means whereby sufficient funds would be available at age 65 for the employee to pay that Part A premium. We feel that that can be reasonably achieved through the new deferred compensation plan. Therefore, under Plans A, B or C, a portion of the contributions being deferred on a mandatory basis for employees would, on a bookkeeping basis, be diverted to a separate accumulation account for the purpose of creating a fund to pay the Part A premium at age 65.

The deferred compensation plan would provide for the continued maintenance of that account until the employee reaches age 65 (or earlier becomes eligible for Part A coverage as a result of disability under Social Security). At that time money would be withdrawn from that special account and either paid directly by the state to the Social Security system to pay the annual Medicare premium for such individual, or in lieu of that, a special payment may be made directly to the individual permitting him to make the Medicare premium payment if so desired. No attempt would be made to accumulate the exact amount needed to pay those premiums for the balance of the employee's lifetime. There would, however, be a determination made, based on the employee's age and anticipated retirement date, of the portion of his mandatory deferred compensation contributions that should be set aside in the reserve Medicare account. Rough calculations indicate that a contribution of \$20 - \$25 per month for 20 years will provide all or a good portion of the funds to pay the premiums.

EMPLOYEE CONTRIBUTIONS TO PERS

The treatment of additional employee contributions under PERS was discussed in some detail with the Study Group. It was pointed out that if the cost of any PERS improvements exceeded the amount of money that the state otherwise would have contributed to Social Security, the additional cost of those PERS improvements must, of course, be provided by the employees out of their Social Security contributions. The question was whether to provide for a refund feature on those contributions. It was noted that the entire improvements being considered would arise solely as a result of a withdrawal

from Social Security coverage. Since employee contributions to the Social Security system are not allocated to his behalf and since he is at no time entitled to any refund on those contributions, a similar treatment in any PERS improvements requiring employee contributions would be appropriate. Therefore, at our recommendation, the Study Group concluded that any employee contributions required to be contributed to an improved PERS system, regardless of whether those contributions arose from pre-tax or after-tax dollars, be provided on a no-refund basis. This would enable larger benefits to be provided under the PERS plan dollar-for-dollar than otherwise would be the case because an additional benefit, namely the refund benefit, would not be provided.

FIVE YEAR DISABILITY EXTENSION

Concern was expressed for continued disability coverage during the five years after employees leave the employ of the state. This concern results because in order for an employee to be eligible for disability benefits under Social Security, he must, in addition to satisfying other requirements, have earned Social Security credits in at least five of his last ten years at the point of disability. Regardless of an employee's status under Social Security at the time that he left employment with the state, if he did go to another employer which was covered by Social Security, he would have regained his disability insurance status in no more than another five years. Therefore, the suggestion was to provide a means whereby some disability coverage may be continued under a state sponsored plan for a period not to exceed five years following the employee's termination of employment.

Such a plan simply is not desirable. Some of the considerations are:

1. Such a plan would probably have to be self-insured, as it is doubtful that a carrier would accept the coverage.
2. The benefit would logically be a flat dollar benefit or based on compensation at time of termination, as opposed to being a percent of compensation at time of disability which is typical.
3. The benefit should be fully coordinated with other disability benefits payable to the employee to reduce costs and anti-selection. However, the administrative burden could be significant. How do you confirm disability for a former employee? How do you confirm the amount and source of the coordinated benefits for a former employee?

4. Such a plan could be made voluntary, but that would increase selection; and if only a few employees elected it, it could have no sound financial management. If made mandatory, it would increase the cost.
5. The employee may be covered by his new employer under a disability plan and not need the coverage.
6. Termination of employment is generally at the employee's option or forced because of inadequate performance. In either case, what obligation does the state have for continuing benefits?

We would recommend against consideration of this coverage.

MARINE TRANSPORTATION DIVISION EMPLOYEES

Costs were prepared to determine the level required to include employees in the division of marine transportation in PERS. Two sets of calculations were prepared, one to only count state service for benefit crediting purposes from the date of inclusion onward and the second to include not only that service but also all prior state service for purposes of benefit credits. The all service calculation of the future service rate for this group of employees was 9.6% of compensation and the 35-year past service rate 4.0% of compensation for a grand total of 13.6% of compensation. This compares with 13.1% for the current PERS participants. For the future service only plan, the future service rate was 7.9% of compensation with no additional past service rate.

These percentages indicate that the cost of PERS for these employees is slightly more than it is for existing PERS participants but the additional level of cost is not such that their inclusion in PERS would be prohibitive. If it should be concluded that certain improvements in PERS are desirable, the additional costs to bring in this group of employees on the improved basis could, of course, be estimated by the increases for the existing group. The Study Group directed us not to proceed with additional calculations for this group of employees. If it should be decided at some time to include this group in PERS, it would simply mean that contributions otherwise being diverted to the remaining portions of the replacement program would be reduced.

SECTION IV

DISCUSSION

Some of the results presented in Section III and other aspects of this study require discussion. This section will cover the following items:

1. A discussion of the level of death and disability benefits.
2. A discussion of the level of retirement benefits that can be expected from the current and proposed plans and their reasonableness.
3. The margin which we feel should be maintained between the estimated long-term additional costs of PERS and the estimated long-term costs of the Social Security system.
4. A discussion of the impact of future changes of one or more actuarial assumptions on the costs presented in Section III.
5. An analysis of the existing health care and life insurance benefits for employees and retired employees and family members.
6. A brief discussion of future costs of the Social Security system.
7. A discussion of the ways in which employee contributions being paid to Social Security may be paid to the retirement program.

Each of the above items will be discussed in detail below following the same numbering system:

1. DEATH AND DISABILITY BENEFITS

The Study Group desired to see the impact upon PERS costs of increasing the level of both non-occupational death and disability benefits to the levels of those for occupational benefits. The results of those studies were presented in Section III where it was shown that the cost would be 1.2% of covered compensation. There are varying philosophies about the desirability of

maintaining different levels of benefits for occupational and non-occupational death and disability benefits. In a recent report prepared for another state on its PERS disability program, it was shown that out of 16 plans studied one-half had the same level of benefits for both occupational and non-occupational disability benefits for peace officers and firemen whereas that percentage increased to over 70% for other employees.

Although there is a rationale for both approaches, there is considerable justification for having disability benefits for both occupational and non-occupational causes the same. The same philosophy can, of course, carry over into death benefits. We believe the suggestion of the Study Group to examine the desirability of increasing the level of non-occupational death and disability benefits to that of occupational benefits should not be taken lightly. As a minimum, an additional layer of benefits for both death and disability on the occupational and non-occupational bases would be appropriate if a supplemental program is not adopted.

Another item requiring some discussion is the coordination of disability benefits with those payable from other sources such as Workmen's Compensation, Social Security and other employer sponsored benefits. As indicated earlier the disability benefits of PERS were coordinated with these other programs but such a provision was deleted. In conjunction with the deletion of that coordination provision the benefit levels were reduced. It was not deemed appropriate at this time to study plans that would include coordination, although the concept of coordination is a highly valid one and should not be dismissed lightly.

2. LEVEL OF RETIREMENT BENEFITS

The potential level of benefits being paid from PERS was reviewed to examine the appropriateness of increasing the benefit crediting factor by some additional amount.

Studies have been completed periodically to determine the required level of benefits to maintain the same standard of living after retirement as before. Those studies, when measuring the adequacy of benefits commencing at age 65, will typically show that for a lower-paid employee, benefits from all sources should be in the vicinity of 65% to 75% of pay at time of retirement, whereas for higher-paid employees that percentage can conceivably go as low as 40% or 45%. For plans which

permit retirement prior to age 65 such as Alaska PERS, those percentages should be increased in order to create the same level of adequacy.

We considered retirements after either 20 years or 30 years of credited service. For other than peace officers and firemen, the PERS benefit after 20 years of service is 40% of the retiree's pay whereas for 30 years it is 60%. Although PERS does not have a 20 year retirement provision for non-peace officers and firemen, such an employee who was age 55 could retire. All the percentages mentioned are accurate as related to an employee's highest three-year average compensation, but would be somewhat less when related to compensation at retirement date. Similar figures for peace officers and firemen would be 45% and 70%. These figures would seem to indicate that for 20-year employees, whether peace officer, fireman, or other, an enhancement in the benefit crediting factor would seem desirable and, for example, a 1/2% increment would add another 10% to the replacement percentage. When one then considers the employees' voluntary savings, residual Social Security and any sums under the deferred compensation plan these percentages do not appear unreasonable.

However, an enhancement in the benefit crediting factor for the 30-year employee does not present the same picture. The enhancement for the non-peace officer and fireman of 1/2% would raise the PERS benefit to 75% of pay at time of retirement. For the peace officers and firemen that percentage would be raised to 85%. These percentages when combined with residual Social Security and employee savings provide benefits at and beyond the upper level of the adequacy scale. Nevertheless, an enhancement of 1/2% could be considered as not unreasonable when one considers the impact of inflation, the higher replacement levels considered necessary at younger retirement ages and the percentage of total retirees with 30 years of service.

3. MARGIN

Earlier we recommended that the combined cost of additional improvements to PERS and a supplemental plan not exceed 75% of the anticipated future cost of the Social Security system. We feel it desirable to recognize the need for such a margin and to recognize the fact that if that margin should prove itself to be more than sufficient in the future, additional improvements to PERS could be adopted if desirable. It is important to

keep in mind that although a substantial margin is being maintained, it does not mean that employees are not getting their fair value out of contributions that otherwise would have gone to Social Security since such excess monies are being deposited in the balance of the approved programs for their benefit.

The contributions to PERS to fund for the increased benefits will vary from year to year because of plan experience relative to salary changes, investment earnings, rates of death, termination, disability, rates of consumer price index, etc. Therefore, contributions to any supplemental program (or to improvements in the deferred compensation plan) will necessarily vary from year to year, depending upon the surplus remaining after the PERS improvements are funded for the year, but the full amount of Social Security contributions will be utilized.

A further discussion of the merits of the margin and the specific impact of Social Security will be discussed somewhat later in this same section.

4. EFFECTS OF ACTUARIAL ASSUMPTIONS

It should be recognized that all of the costs presented in Section III are based, among other things, upon the actuarial assumptions currently being used by the state actuary. There undoubtedly will be changes in one or more of those assumptions at times in the future. Specifically, the PERS Board on October 20, 1977 elected to alter the amortization period for any unfunded liabilities from 35 years to 30 years effective July 1, 1978. In addition, they elected to increase the interest assumption from 5% to 6%, to increase the salary scale assumption modestly for ages prior to 39 and to adopt the new 1971 Group Annuity Mortality table all effective for costing during fiscal year 1978. This is simply an indication and a recognition that actuarial assumptions will change from time to time.

The specific impact of any one assumption's change on the cost presented in Section III is not being included as a part of this report. It should, however, be recognized that in terms of the specific changes that have been adopted to be effective during 1978, the following comments are valid.

A reduction in the amortization period of the unfunded liability from 35 to 30 years will effectively increase

the annual cost of that amortization by about 7% of the current amortization cost. An increase in the interest assumption from 5% to 6% will reduce the overall funding cost of the program by something in the vicinity of 20% to 25%. The increase in the salary scale will increase the cost of the program by something less than this. The combination of these three specific changes that have been adopted have the effect to reduce costs.

This means that any package of benefits that might be adopted for PERS improvement will, all other things being equal, cost somewhat less than those numbers presented in Section III. We do not feel, however, that recognition of this should cause the benefits in PERS to be improved beyond those that have been recommended. The result is that the margin created may be larger than anticipated and further it will simply divert more monies into the alternate programs than otherwise might have been the case.

5. EXISTING HEALTH CARE AND LIFE INSURANCE PLANS

There follows a brief comprehensive discussion of the existing health care and life insurance benefits for employees, retirees and their family members. The Study Group did not request any specific costs of any specific improved benefits, but analysis and overall review of these programs was deemed to be helpful and desirable as a part of the Social Security review.

GROUP LIFE INSURANCE

The \$2,000 benefit is a burial benefit. In order for an employee to accrue any immediate, significant group life coverage, he must purchase (at 100% cost to himself) the optional group life plan. This is a weaker benefit than is typical. Group life benefits are, of course, not taxable as income but are included in the estate of the deceased. We would be inclined to suggest at least a one-time salary group life benefit paid for by the state and, in addition, an optional plan which is subsidized at least to some extent, say, at least 25%.

DISABILITY INSURANCE

There is no disability plan for the employees other than PERS. However, all of the replacement programs which we have recommended provide either for an enhancement of the PERS disability benefit or the addition of a long-term disability plan outside of PERS.

MEDICAL AND DENTAL

Our overall reaction is that the program is very good. We personally prefer comprehensive medical plans that require the employee to take care of small bills. This plan has a small deductible of \$50 and coinsurance grades from 20% to 0% in such a way that the employee would not be out-of-pocket for a major expense for more than \$1,000. Maternity is covered as any other medical expense which is very good coverage. There is good outpatient mental coverage. The dental benefit is an incentive program related to a schedule benefit. The scheduled benefit is about two years old and appears to be 20% or so below current fee levels. It would probably be desirable to update the schedule. The basic structure of paying 50% in the prosthetic area is necessary in order to control utilization and cost level for such a plan. There are vision and audio benefits under the plan; these are not included in many plans today.

In spite of all the good features of this plan, we note that many people today, especially governmental groups, have come under coverage that provides first dollar benefits in the outpatient physician areas. Adoption of such a plan which involves service benefits would cost more than just the extra dollars that would be expected to be paid on account of the increasing utilization that accompanies removal of financial disincentives. We wouldn't recommend a change in the format of the plan, but it might be desirable to get some reading from the employees about their reaction to the plan.

6. FUTURE COST OF SOCIAL SECURITY

There are some specific aspects of the basic concept of the overall program that are important and should be discussed. It should, of course, be kept in mind that the whole purpose of the study was to find additional benefits or types of benefits that could be provided for state employees in lieu of continued coverage under the Social Security system. It was indicated earlier that the best estimate at this time as to the future costs of the Social Security program based on the current law for both employees and the state combined was 10.2% of the compensation of state employees. It should be pointed out that this percentage is the average over the future lifetime of existing employees and is not the level that would be expected at each given year.

The Social Security law provides for increasing contribution rates and taxable wage bases. We estimated the level of Social Security contributions (combined employee and employer) that otherwise would be contributed to the Social Security system for the years 1978, 1979 and 1987 and have in each case expressed these as a percentage of the anticipated salaries paid to employees at those points in time.

Social Security Contributions
As a Percent of Compensation

<u>Year</u>	<u>Percent</u>
1978	8.3%
1979	9.6
1987	12.8

This illustration shows how the contributions to Social Security are expected to increase as a percentage of pay. If the margin of 25% for the cost of all improvements is used, there will be adequate contributions to fund these new benefits.

It must be kept in mind that the Social Security Law can, of course, be changed at any time. Obviously, any change in the contribution rates or taxable wage base or philosophies on employee and employer funding will directly impact the contributions otherwise diverted to Social Security. It is entirely possible that the long-term estimated 10.2% figure could be dramatically off on either the high or low side and it would be perhaps reasonable to assume that it might be on the high side. Therefore, if significant changes are made to PERS and if the future contributions to Social Security are reduced this will only serve to reduce the margin and could effectively create a situation where the additional plan changes could not be funded by these anticipated contributions.

It would seem desirable to prepare separate cost calculations in each future fiscal year, one pertaining to the existing PERS system as it stands and the second to any improved system so that each year there can be a direct match-up of contributions diverted from Social Security and the additional funding costs for the new program. It would seem desirable and, in fact, mandatory that any legislation improving the PERS benefits not only state the anticipated funding source, but also clearly indicate that if in any year the contributions otherwise to be diverted to Social Security are not sufficient to

maintain the funding adequacy of the amended portion of PERS, that such additional funds be made up by the state or some other pre-specified source. If this is not done, it is entirely possible the amendments to PERS will not be able to be maintained and that the program will not be the viable program that it had been anticipated to be.

7. EMPLOYEE CONTRIBUTIONS

There are several ways in which the employee contributions could be handled. For example, if employee contributions are simply withheld from an employee's paycheck much as they are now for Social Security, the employee will pay tax on those contributions at the time the paycheck is received but will receive tax-free any benefits resulting from those contributions. An alternative would be to have all contributions made through mandatory salary reduction agreements (contributions will be mandatory anyway) thus relieving the employee of the tax impact at the current time on such contributions. It does, however, mean that when an employee ultimately receives benefits from the plan, he will be taxed on benefits produced by those contributions. A third alternative is simply to have a mandatory across-the-board salary reduction and have all contributions made to the replacement program by the state.

The latter alternative is administratively the easiest, but may be difficult to implement. On balance, the second alternative is probably preferable.

ACTUARIAL ASSUMPTIONS

All valuations in this report are based on the Attained Age Normal Cost Method. The unfunded accrued benefit liability is amortized over 35 years.

All actuarial assumptions are those used by the state's actuary on completion, annual actuarial valuations and are summarized below:

1. Investment Rate

5% per annum compounded annually.

2. Rate of Salary Increase

5% per annum compounded annually.

3. Rate of Mortality

1951 Group Annuity Mortality Table.

4. Disability

a. Rate of Disability

80% of disabilities are assumed to be occupational for peace officers and firemen. 20% are assumed to be occupational for other employees. Sample rates of disability age shown below:

<u>Age</u>	<u>Annual Rate</u>
20	.070%
30	.084
40	.115
50	.240
60	.843

b. Rate of Mortality after Disability

1944 Railroad Retirement Board experience rates.

5. Turnover

The rates used are based on the actual experience of PERS participants. Sample rates of turnover are shown below:

<u>Age</u>	<u>Annual</u>	<u>Rate Female</u>
20	32.74%	37.53%
30	14.08	26.52
40	11.85	17.25
50	10.21	11.50
60	10.47	12.77

6. Retirement Age

- a. Later of age 55 and 20 years of service for peace officers and firemen.
- b. Later of age 55 and 30 years of service for other participants.

7. Contribution Refunds

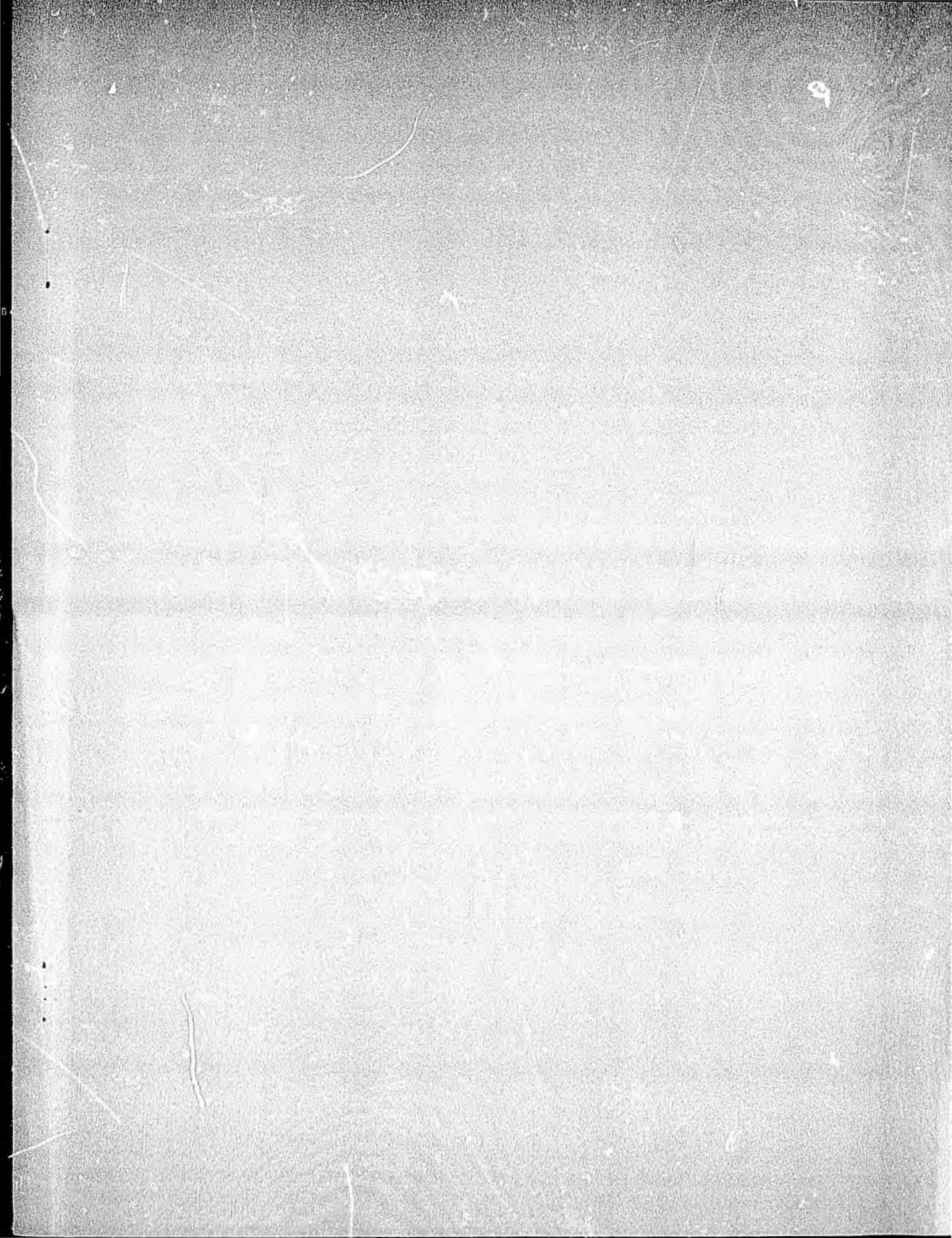
90% of terminating participants will withdraw their own contributions and forfeit their vested interest. The remaining 10% will leave their contributions and receive a deferred vested benefit.

8. Expenses

No margin for expenses was provided.

9. Assets

Book value.



Should Public Systems Withdraw from Social Security?

"Social Security does have financial problems, but these are readily solvable by a combination of actions, and beneficiaries need have no worries about getting their checks."

by Robert J. Myers

The cry of crisis about Social Security continues to be heard. In the past few years, great concern has been expressed about its financial problems. These are indeed serious, but not at all to the extent of rightly proclaiming bankruptcy. Now, widespread publicity is given to the withdrawal from Social Security of a number of state and local governments. Is this a case of a run on the bank by those with inside information and ability to act quickly? Or is it mistaken or uninformed action by only a small minority?

First, let us lay to rest the charge that Social Security is bankrupt in the usual sense of the word. This would imply that it will shortly have to suspend payments to its 33 million beneficiaries. Social Security does have financial problems, but these are readily solvable by a combination of actions, and beneficiaries need have no worries about getting their checks.

A small amount of additional financing is necessary over the short range. An increase in both the employer and employee tax of as little as one-half per cent is essential, and this should not cause any financial hardship on the part of covered persons. Similar action has been taken a number of times in the past. A similar, further increase may be needed

in the early 1980's, depending upon what other changes are made (as will be discussed next).

Another problem, applicable only over the long range, is that the present method of computing benefits initially is technically faulty under likely future economic conditions. It will almost surely result in benefits that will, for cohorts attaining age 65 in the long-run future, be excessively large (even more than take-home pay eventually). Thus, if the procedure is not changed, far higher tax rates would be required than now scheduled. The technical change referred to as "decoupling" or "uncoupling" is needed, and it would eliminate about half to two-thirds of the currently estimated long-range deficit depending upon whether it is done so that the relative benefit level is at the current situation or at that prevailing before benefits were over-liberalized in 1970-72.

The new crisis being "discovered" by some is that a number of state and local governments have pulled out of Social Security insofar as their own employees are concerned. Actually, the number of exits before 1977 were relatively few, involving only groups, with 52,206 employees actually withdrawn. As of the end of 1976, an additional 325 groups, with 505,726 employees (of whom about 400,000 were with respect to New York City) had given notice of intention to withdraw, to be effective after two years following such notice. In the latter case, governments could change their minds during the two-year notice period and not withdraw.

What really drew attention to this matter was the announcement in March 1976 by New York City, with its thou-

sands of employees, that it would withdraw. However, in January 1977, New York City announced that it would not withdraw and would rescind its notice to do so. Alaska, with 13,000 employees, had similarly given notice, but after completion of a study, has apparently decided not to withdraw. Others who have actually opted out or served notice consist of relatively small political units, mostly in California, Louisiana and Texas.

The law provides that, after electing coverage, political units must remain in for at least five years, and then give advance notice of two years before withdrawal becomes effective. Private employers, other than nonprofit charitable, educational, and religious organizations, have no such voluntary coverage features. Such nonprofit organizations have a similar option, except that they must remain in for eight years and then have a two-year advance notice. Once that withdrawal has occurred, the entity cannot re-enter Social Security.

Majorities of state and local employees who were under an existing retirement system had to vote in favor when Social Security coverage was obtained. However, somewhat anomalously, only the employing entity makes the decision about withdrawing.

This special treatment was given to state and local governments solely on constitutional grounds--namely, that the Federal government cannot tax them without their permission. Yet, it would have been possible constitutionally for their employees to have been taxed compulsorily for Social Security, just as for Federal income tax. The lenient withdrawal privilege was probably

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Social Security is not a magical machine that produces benefits at substantially less cost than any other mechanism. But neither is it a high-cost, low-benefits system.

granted in the belief that it would rarely be used—and then only for emergencies—rather than to take financial advantage of the Social Security system.

Some governments have withdrawn because they believed Social Security to be a poor buy. Although there are instances where a political entity could provide far better benefit protection for its employees elsewhere by utilizing the money spent for Social Security taxes, these are the exceptions rather than the rule. Such a situation could occur for a group with a very young age distribution, especially if it were composed largely of married women, who would generally expect to draw Social Security benefits from their husbands' earnings record in any event.

Many of the assertions about Social Security being a bad buy for a particular group are based on perfunctory or erroneous analyses. A number of elements operating in different directions are present in such comparisons, because no private plan will be anywhere near identical with the Social Security provisions. For example, in one particular plan, it was asserted that a big improvement would be made in changing from a benefit of 55 per cent of final salary plus Social Security to 80 per cent of salary. Probably for most people, certainly those in the lower and middle salary levels, 55 per cent plus Social Security would be well in excess of 80 per cent.

Social Security: Not a bad buy

A major error committed by those who recommend that state and local governments withdraw is the failure to take into account a number of the features of Social Security, such as the disability and survivor benefits. Also often ignored is the very significant effect of the provisions for automatic adjustment of benefits with rising prices. Pension costs in a private plan that provides fixed or level annuities over the years after retirement are shown to be relatively low these days, as compared with what they would be under more stable economic conditions, because of the high investment returns of eight to nine per cent that can readily be obtained. However, such interest rates are at that level because of inflation. Under these conditions, Social Security benefits will not be level, uniform amounts over the future, but rather will rise steadily.

Accordingly, for comparability purposes, any private arrangements being considered in replacement of Social Security should be priced out on the basis of pensions increasing automatically at a rate of five to six per cent a year, rather than on the basis of level amounts. If this is done, the amount of pension that can be bought for the equivalent of the Social Security taxes will be much less and thus will compare less favorably with Social Security than would otherwise have been thought.

Under certain circumstances, a government can unfairly and unethically manipulate its coverage so as to take advantage of the Social Security system. It might do this, for example, by staying in for exactly 10 years, so that the vast majority of its employees will be permanently fully insured for all retirement and survivor benefits and also for the Hospital Insurance benefits under Medicare.

Let us look at several illustrations of how individuals fare when they are covered by Social Security for all their potential working careers. Let us see what windfalls, or alternatively what losses, develop when an entity withdraws from Social Security. Such comparisons are fraught with dangers and difficulties because a very considerable difference can occur depending upon the assumptions made. For example, the interest rate selected can make a vast difference; the use of a high interest rate will make Social Security look like a bad buy, and *vice versa*.

The following calculations have been made under rather simplified assumptions, which are believed to be reasonable, fair and consistent. The situation is examined as of age 65, and no account is taken of past disability and survivor benefit protection. Nor is account taken that, in many cases, death of an insured worker will produce only a very small lump-sum death payment.

The first case is that of a man who attains age 65 in early 1976 and who was first covered in 1951, when he had a salary of \$3,000, which increased at a rate of five per cent per year (becoming \$9,675 for 1975). Further, we will take two instances—initially, where he is covered for the entire period, 1951-75; secondly, where he is covered for only the first 10 years, 1951-60. In the latter case, the combined employer-employee contributions saved, accumulated at 6 per cent

interest, amounted to \$14,277 as of the beginning of 1976. The benefit payable to the retired worker alone as of the middle of 1976 was \$361 per month for the full-coverage case and \$181 per month for the partial-coverage case (or, by coincidence, exactly half as much). In both instances, the person qualifies for Hospital Insurance benefits.

The accumulated "excess contributions" for the partial-coverage would have been a losing proposition, since the Social Security benefit was \$180 lower. (The "purchase" factor is based on population life tables and a three per cent interest rate, so as to allow for the effect of the automatic-adjustment-of-benefits feature of Social Security.) If the individual had an eligible spouse, the "excess" Social Security benefit for full coverage would be larger, and the "purchasable" benefit for full coverage would be larger, and the "purchasable benefit for excess contributions" smaller, so that the "loss" for withdrawing would have been even more.

But what about those now in Social Security at the younger ages or entering in the future? Here, the question of proper assumptions is much more difficult. Involved are future trends of wages and prices. Even more important, is the fact that the Social Security system is not now properly constituted as to benefit-computation procedures, as discussed previously. Also, even if that situation is remedied (as it must be), the financing now scheduled is not sufficient.

Accordingly, in order to produce rational results, we must assume *static* economic conditions in the future, since this is the only way that the present benefit formula makes sense. Also, let us assume that the average combined employer-employee tax rate for the future for Social Security (including Hospital Insurance) will be 16 per cent. Let us take the case of a man now aged 25, with a salary of \$10,000 per year (remaining level in the future). Again, let us take two instances—one where there is full coverage, from age 25 to 65, and the other where coverage is terminated after 10 years.

Many hurt by termination

The accumulated "excess contributions" as of age 65 (using a three per cent rate, because of the assumption of static economic conditions) would

ount to \$77,262. In turn, this would "purchase" a single-life annuity of \$632 per month. The benefit payable to the retired worker alone at age 65 would be \$474 for the full-coverage case, as against \$216 for the partial-coverage case. Again, the latter receives about 50 per cent as large a benefit, even though he has had only about 25 per cent of the coverage. In this instance, it would be "profitable" for the individual to withdraw, because the "purchasable benefit" (\$632) is well in excess of the reduction in benefits because of partial coverage (\$258).

If the individual had an eligible spouse, the situation would not be advantageous for withdrawal, but only to a small extent. The "purchasable benefit" from the "excess contributions" for the husband and wife combined is \$353 per month, or somewhat lower than the reduction in benefits of \$387 because of partial coverage. The married-couple case is *not* typical for the long-run cases, because in the future many wives will qualify for Social Security benefits on their own earning records and thus will not receive full benefits (or any benefits) from their husbands' earnings records.

For many (but by no means all) employees, the money "saved" with respect to future Social Security taxes will buy more benefits than the decrease in Social Security benefits resulting from the terminated coverage. At the same time, many other employees will be hurt by the termination—such as short-service workers, who will thereby have a gap in their Social Security coverage besides having acquired no benefits from the governmental plan.

Employees who are near retirement age when termination occurs will have a reduction in their Social Security benefits that will be far greater in actuarial value than the taxes that would have been applicable. For example, consider a male employee who was age 60 when the coverage terminated at the end of 1974 and who had had maximum covered earnings since 1956, when his governmental employer first elected coverage. When he attained age 62 in January 1976, his Social Security benefit for himself and his wife (of the same age) was \$387 per month, whereas if coverage had not been terminated, it would have been \$419.50. The additional value of the Social Security employer-employee taxes for 1975 if coverage had not terminated would have been \$1,650. The actuarial value of the reduction in benefits would have been \$5,300 (making allowance for the automatic-adjustment feature by using a 3 per cent interest rate), or \$3,650 more than the taxes.

Is withdrawal desirable?

Even though in some cases a government entity can, on the average, profit—or else its employees can, on the

average, get more benefits—by opting out of Social Security, there is considerable question as to whether this is desirable.

Generally, any gain so involved will be relatively small, and it may not be worth the extra effort and administrative expenses to take such action. This is especially so considering that the administrative expenses under such a large group operation as Social Security will necessarily be less than under a small, separate plan. Moreover, some employees will be disadvantaged.

Furthermore, if the gain from withdrawing arises from taking advantage of the Social Security system

(due to its generous treatment of short-service workers), there is considerable question as to whether this is morally and ethically proper, even though legal.

Another possible disadvantage of a state or local government withdrawing from Social Security is in the event that a government subsidy is injected into Social Security. If a government subsidy to Social Security should be initiated, those not under the program would be paying part of its cost, but would not be getting any return from it. Thus, the only hope of "breaking even" on the taxes paid to provide such a subsidy is to be covered under Social Security!

New York City apparently decided to

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If it is not possible to have compulsory coverage, the best procedure is to require that, once coverage has been elected, withdrawal should not be allowed.

withdraw *solely* on the basis of the immediate cash-flow savings, and not because it believed that Social Security was a bad buy or was in dangerous financial condition. It was seeking all ways that it could to reduce expenditures, and this seemed to be an attractive short-term way.

State and local employment

Finally, let us discuss what should be done about optional coverage for state and local government employees. As a broad, general principle, I am strongly in favor of complete compulsory coverage of both state and local employees and non-profit employees. I have the same view with regard to federal employees who are under the Civil Service Retirement system. It is an essential characteristic and requirement of a democratic national social insurance system that all employment in the country should be covered thereunder.

This approach is desirable from the standpoint of all parties concerned—the workers, the employers, and the nation as a whole. Social Security is not a magical machine that produces benefits at substantially less cost than any other mechanism. But neither is it a high-cost, low-benefits system. There can really be no better situation than a good Social Security system supplemented by a well-

coordinated private pension plan.

My first choice as to coverage conditions for state and local government employees is completely compulsory coverage. There would have to be opportunity for some delay, so as to permit downward adjustment of existing plans, so that the combined benefit level (and the resulting costs) would not be excessive. Naturally, the new plan, combined with Social Security, should not be less liberal than the old plan.

The constitutional problem of taxing the state and local governments could be solved in any of several ways. One approach is to tax the employees at the self-employed rate if the employer does not agree to pay the employer tax. Another approach is to tax the employees at the full combined employer-employee rate under such circumstances. Admittedly, this would be very strong medicine and is unlikely to be feasible of adoption. Still another approach would be to credit the employees with only half of the taxed earnings if the employer does not agree to pay the employer tax.

At the very least, there should be compulsory coverage of all present employees who are not under an existing retirement plan and of all new employees entering in the future, regardless of whether covered under a retirement plan.

The anti-selection problem associated with the Social Security coverage of state and local employees will get worse and worse as time passes. This is because of the current-cost financing basis of Social Security, as against the actuarially-funded nature of supplementary pension plans. As the Social Security tax rates rise, there will be increasing financial advantages to withdraw and substitute a private plan. Accordingly, in the interest of all parties concerned, prompt resolution of this problem by Congress is essential.

If it is not possible to have compulsory coverage, the best procedure is to require that, once coverage has been elected, withdrawal should not be allowed.

Yet another approach would be on the benefits side, so as to prevent or ameliorate the windfalls that employees may get when coverage is terminated. One way would be to compute (1) the Social Security benefit based on actual service with the organization that withdrew and (2) such benefit based on such service plus all service with the organization after the termination date and up to age 62 (or prior death or disability) at the prevailing salary rate then. Then, the "earned benefit" would be computed as: item (2), times the ratio of (3) the total covered wages with the organization before withdrawal to (4) such total wages plus the presumed ones for service after termination. The "windfall benefit" (the excess of item (1) over the "earned benefit") would be deducted from the computed total benefit based on all covered employment.

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THE NATION'S HEADQUARTERS FOR PENSION AND INSURANCE PERSONNEL

Robert J. Myers, professor of actuarial science at Temple University, was chief actuary of the Social Security Administration from 1947 to 1970. He is a Fellow and Past President of the Society of Actuaries and a member and Past President of the American Academy of Actuaries.

AGREEMENT

The FEDERAL SECURITY ADMINISTRATOR of the United States (herein called the "Administrator"), and the TERRITORY OF ALASKA (herein called the "Territory," represented by the Auditor of Alaska), by virtue of the authority conferred upon them by law, agree to extend, in conformity with Section 218 of the Social Security Act, as amended, the insurance system established by Title II of the Social Security Act to services performed by individuals as employees of the Territory and as employees of those political subdivisions of the Territory listed in the Appendix attached hereto and made a part hereof, except services expressly excluded from this agreement, according to the following terms and conditions:

A. DEFINITIONS

For purposes of this agreement-

1. The term "political subdivision" includes an instrumentality of (a) the Territory, (b) one or more political subdivisions of the Territory, or (c) the Territory and one or more of its political subdivisions.
2. The term "Employee" means an employee as defined in Section 210(k) of the Social Security Act and shall include an officer of the Territory or of a political subdivision thereof.
3. The term "retirement system" means a pension, annuity, retirement, or similar fund or system established by the Territory or by a political subdivision thereof.
4. The term "coverage group" means a coverage group as defined in Section 218(b)(5) of the Social Security Act.

B. SERVICES COVERED

This agreement includes all services performed by individuals as employees of the Territory and as employees of those political subdivisions listed in the Appendix attached hereto, other than services expressly excluded therein, and except the following:

1. Any service performed by employees as members of any coverage group on the date this agreement,

or a modification thereof, applicable to such coverage group, is executed;

2. Service performed by an employee who is employed to relieve him from unemployment;

3. Service performed in a hospital, home or other institution by a patient or inmate thereof;

4. Covered transportation service (as defined in Section 210(1)) of the Social Security Act; and

5. Service (other than agricultural labor or service performed by a student) which is excluded from employment by any provision of Section 210(a) of the Social Security Act, other than paragraph (8) of such section.

C. CONTRIBUTIONS BY THE TERRITORY

The Territory will pay to the Secretary of the Treasury, at such time or times as the Administrator may by regulation prescribe, amounts equivalent to the sum of the taxes which would be imposed by Sections 1400 and 1410 of the Internal Revenue Code if the services of employees covered by this agreement constituted employment as defined in Section 1426 of such code.

D. COMPLIANCE WITH REGULATIONS

The Territory will comply with such regulations as the Administrator may prescribe to carry out the purposes of Section 218 of the Social Security Act.

E. MODIFICATION

This agreement will be modified at the request of the Territory to include political subdivisions or coverage groups, or both, in addition to those political subdivisions listed in the Appendix attached hereto, or to include additional services not now included in this agreement, such modifications to be consistent with the provisions of Section 218 of the Social Security Act.

F. TERMINATION BY THE TERRITORY

The Territory, upon giving at least two years' advance notice in writing to the Administrator, may terminate this agreement, either in its

entirety or with respect to any coverage group, effective at the end of a calendar quarter specified in the notice; provided, however, that this agreement may be terminated in its entirety only if it has been in effect, from the effective date specified in Paragraph J hereof, for not less than five years prior to receipt of such notice, and provided further that this agreement may be terminated with respect to any coverage group only if it has been in effect with respect to such coverage group for not less than five years prior to receipt of such notice.

G. TERMINATION BY THE ADMINISTRATOR

If the Administrator, after reasonable notice and opportunity for hearing to the Territory, finds that the Territory has failed or is no longer legally able to comply substantially with any provision of this agreement or of Section 218 of the Social Security Act, he shall notify the Territory by giving notice in writing to the Auditor of Alaska at Juneau, Alaska, that this agreement will be either terminated in its entirety or will be terminated with respect to any one or more coverage groups, at such time designated in such notice (but not later than two years from the date thereof) as he deems appropriate, unless, prior to such termination date, he finds that there no longer is any such failure or that the cause for such legal inability has been removed. If, under Paragraphs G or F hereof, this agreement is terminated with respect to any coverage group, such termination shall be effective also with respect to any additional services in such coverage group included in this agreement pursuant to any modification thereof under Paragraph E.

H. ADJUSTMENT AND REFUNDS

If more or less than the correct amount due under Paragraph C of this agreement is paid with respect to any payment of remuneration, proper adjustments with respect to the amounts so due shall be made, without interest, upon such conditions, in such manner, and at such times as the Administrator by regulation may prescribe. If an overpayment cannot be adjusted hereunder, refund shall be made in accordance with Section 213 (h)(3) of the Social Security Act.

I. INTEREST ON DELINQUENT PAYMENTS

Paragraph I of this agreement, if the Territory does not make, at the time or times due, the payments provided for under this agreement, there shall be added, as part of the amounts due, interest at the rate of six per centum per annua from the date due until paid; and the Administrator in his discretion, may without prejudice to other available methods of collection, deduct such amounts plus interest from any amounts, now or hereafter provided, which he may certify to the Secretary of the Treasury for payment to the Territory under any provision of the Social Security Act. Amounts so deducted shall be deemed to have been paid to the Territory under such provision of the Social Security Act.

2. In providing in Paragraph J of this agreement for retroactive coverage, in accordance with Section 218(f) of the Social Security Act, amounts due from the Territory under Paragraph C of this agreement, for the first and second calendar quarters of the calendar year 1951, shall not be deemed to be delinquent and subject to interest if paid to the Secretary of the Treasury not more than 90 days after date of execution of this agreement.

J. EFFECTIVE DATE

This agreement shall be effective as of January 1, 1951.

This agreement is entered into this 26th day of September, 1951, by A. J. Pittman, Commissioner for Social Security, pursuant to Section 218 of the Social Security Act, acting herein by virtue of authority vested in him by Oscar R. Ewing, Federal Security Administrator, in Federal Security Agency Order No. 9 dated March 8, 1951; and the Territory of Alaska, acting herein through Neil F. Moore, Auditor of Alaska, by virtue of the authority granted by Chapter 95, Session Laws of Alaska 1951, Twentieth Regular Session of the Legislature of the Territory of Alaska.

Approved:

Ernest Gruening
Governor of Alaska

FEDERAL SECURITY ADMINISTRATOR
By A. J. Pittman
Commissioner for Social Security
TERRITORY OF ALASKA
By Neil F. Moore
Auditor of Alaska

APPENDIX

1. Territory of Alaska

- A. Territorial employees and officers who were employees on the effective date of the agreement, except that employees terminated by death, or otherwise, during the interval between the effective date of this retroactive agreement (January 1, 1951) and the date this agreement is signed by the Commissioner cannot be included.
- B. Excluded services: None
- C. Authorized Agent: Neil F. Moore
 - 1. Title: Auditor of Alaska
 - 2. Address: Juneau, Alaska
- D. Effective date of coverage: January 1, 1951
- E. Approximate number of employees covered: 500

S.S. W/D Meeting
Jan. 24

<u>Name</u>	<u>Representing</u>
Go. Clark	IBU
Jan. [unclear]	Local 171
Cherie Shelley	APEA
[unclear]	APCA
Paul B. Arnold	Division of Retirement & Benefits
Neil [unclear]	
John D. Glass	PSEA ⁴⁸⁵ 4313 12.00
Wayne L. Powers	Confidential
P.O.T. personnel	L 2500
	Summers Bldg.

Cherie Shelley

S.S. Withdrawal

4/20/78

<u>Name</u>	<u>Representing</u>
Michael J. Murray Jr	APEA
Cheryl Shelley	APEA
Pat Murphy	APEA
F Cook	CEA
GREG O'CLARAY	SIU - IBU
Bruce Cummings	Division of Retirement Benefits
Ken Humphreys	Legislative Affairs

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

BY AND BETWEEN
THE STATE OF ALASKA
AND
ALASKA PUBLIC SERVICE EMPLOYEES, LOCAL NO. 71
COVERING
LABOR, TRADES, AND CRAFTS UNIT EMPLOYEES

PREAMBLE

This Agreement is made and entered into this 22 April 1977, by and between the State of Alaska, hereinafter referred to as the "Employer," and Alaska Public Service Employees, Local No. 71, hereinafter referred to as the "Union."

The Union shall be the only collective bargaining representative recognized by the Employer under the terms of this Agreement.

WITNESSETH, That

Whereas, it is the intent and purpose of the parties to set forth herein the entire Agreement covering hours of work, rates of pay and conditions of employment between the parties; and

WHEREAS, the Employer and the Union jointly agree to perform faithfully the obligations imposed by this Agreement;

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein, it is hereby agreed as follows:

BY AND BETWEEN
THE STATE OF ALASKA
AND
ALASKA PUBLIC SERVICE EMPLOYEES, LOCAL NO. 71
COVERING
LABOR, TRADES, AND CRAFTS UNIT EMPLOYEES

PREAMBLE

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The Union shall be the only collective bargaining representative recognized by the Employer under the terms of this Agreement.

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WHEREAS, the Employer and the Union jointly agree to perform faithfully the obligations imposed by this Agreement;

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ARTICLE I

PURPOSE

It is the objective of the parties that the obligation of the Employer for the successful conduct of its business and the fulfillment of its responsibilities to the employees covered by this Agreement be carried on without interference arising from differences between the parties.

The Union, representing the employees of the Employer, and the Employer desire to establish and maintain, through harmonious cooperation, a standard of conditions and procedures to provide for orderly collective bargaining relations, prompt and equitable disposition of grievances, and fair wages, hours and working conditions for the employees covered by this Agreement.

ARTICLE II

RECOGNITION

The Employer recognizes, during the term of this Agreement, the Union as the sole and exclusive collective bargaining representative for all employees working in the classifications in the Labor, Trades and Crafts Unit and as the representative of all such employees in interpreting this Agreement and adjusting disputes.

ARTICLE III

UNION ACTIVITIES

The Employer agrees that it will not in any manner, directly or indirectly, attempt to interfere between any of its employees and the Union; it will not in any manner restrain or attempt to restrain any employee from belonging to the Union or from taking an active part in Union affairs; and that it will not discriminate against any employee because of his Union membership or lawful Union activity.

ARTICLE IV

PREFERENTIAL HIRING FACILITIES

1. The Union agrees to maintain preferential hiring facilities for the purpose of soliciting qualified workmen in order to fill all requisitions. The Employer agrees to use such services and will call upon the Union to furnish all the qualified workmen required in the classifications herein from among the most qualified.

2. The parties to this Agreement shall create a joint hiring committee, within thirty (30) days of the signing of this contract, composed of not more than two (2) Employer representatives, and not more than two (2) Union representatives to supervise and control the operation of the job referral system herein. The joint hiring committee is empowered:

a. To establish any and all rules and regulations from time to time that it deems advisable for the operation of the job-referral plan.

b. To hear and determine any and all disputes or grievances arising out of work registrations, work referrals and the preparation of the referral-registration lists. Any applicant or registrant shall have a right of appeal of any dispute or grievance arising out of and relating to the operation or functioning of the job referral plan to the joint hiring committee.

The joint hiring committee shall provide in the rules and regulations of the job referral plan for an appeal to an impartial umpire whenever the joint hiring committee reaches a deadlock over a dispute. The impartial umpire shall be designated by mutual agreement of the parties, and if they shall be unable to agree upon the impartial umpire, he shall be selected in the manner provided under the disputes provision of this Agreement. The authority of the impartial umpire shall be limited to interpreting and applying the rules and regulations of the joint hiring committee.

All decisions of the joint hiring committee or the impartial umpire shall be final, binding and conclusive on all parties including applicants.

If any questions arise as to the qualifications and competency of an applicant for registration as to special skills or ability, the joint hiring committee shall make the determination. Such determination shall be fair and impartial without regard to the applicant's membership or nonmembership in the Union.

3. Selection of applicants for referral to jobs shall be nondiscriminatory, and shall not be based on nor affected by race, creed, color, age, sex, national origin or political affiliation or activity. The Union agrees that it will not discriminate against non-Union workmen in referring workmen to the Employer, and the Employer agrees that he will not discriminate against Union workmen in selecting job applicants referred to him by the Union.

4. The parties recognize the primary importance to employ citizens of Alaska. Both the Union and the Employer shall give first preference to qualified residents of Alaska. Also, preference shall be given to qualified residents in the immediate area of the job call.

5. The Employer retains the right to reject any job applicant, but the applicant and the Union shall be entitled to the reason for such rejection.

6. In the event the Union is unable to supply the Employer with qualified workmen within forty-eight (48) hours (Saturdays, Sundays and holidays excluded) when called upon by the Employer, the Employer may procure workmen from other sources; provided, however, that in such instances the Employer shall promptly furnish the Union with the names of such workmen, their classification and date of hiring. In any emergency resulting from an act of God or natural disaster, the Employer may temporarily procure workmen from any source.

7. It is further agreed that all workmen employed by the Employer who are not already members shall become members of the Union on or before the thirty-first (31st) calendar day following the beginning of employment or the effective date of this Agreement, whichever is later, and all employees shall maintain membership in the Union as a condition of employment during the life of this Agreement. All requests by the Union for the dismissal of any employee for failure to comply with this provision shall be in writing.

8. Within a five (5) day period after reporting to work each new employee within the bargaining unit shall be informed as to the identity of the Union steward, chief job steward or a Union representative by the supervisor in the activity to which such employee will be regularly assigned. Each employee transferred from a section or shift shall likewise be informed.

ARTICLE V

UNION RESPONSIBILITY

1. The Union assumes all obligations and responsibility for the continued membership of its members and the Union shall retain the right to discipline its members. No workman shall be discriminated against for the upholding of Union principles, and any employee who works under the instructions of the Union, provided such instructions are in compliance with the Agreement, or who serves on a committee shall not lose his position or be discriminated against for this reason.

2. The Union agrees that this Agreement is binding on each and every member of this bargaining unit and that its members, individually or collectively, accept full responsibility for carrying out all the provisions of this Agreement.

3. It is the responsibility of the Employer to manage the work force. It is the responsibility of the parties to promote such practices as will improve the quality of service provided and the working conditions of the members. The Union agrees that it will actively dissuade excessive absenteeism and other practices which may hamper the Employer's operation and that the Union will support the Employer's efforts to eliminate waste and inefficiency, to improve the quality of workmanship and to promote harmonious relations between the Employer and employees.

4. The Union agrees to make every effort to see that the members working under this Agreement obey all reasonable rules, instructions and regulations prescribed by the Employer.

ARTICLE VI

RECOGNITION OF RIGHTS AND FUNCTIONS OF MANAGEMENT

1. Except as provided in this Agreement, nothing herein limits the Employer in the exercise of the rights of ownership and management. Accordingly, the Employer has, among others, the right: to select its supervisory personnel (supervisors as defined by the Alaska State Labor Relations Agency); to hire new employees, to discipline, suspend or discharge employees for just cause; to decide and determine and designate all occupational classifications it has to offer its employees, to assign duties and responsibilities to employees, to make such rules and regulations as the Employer considers necessary or advisable for the orderly and efficient conduct of its operations and to require employees to observe such rules and regulations; provided, however, the exercising of the aforementioned rights is not inconsistent with the provisions of this Agreement.
2. All of the functions, rights, powers and authority of the Employer not specifically abridged, delegated or modified by this Agreement are recognized by the Union as being retained by the Employer.
3. The Union recognizes that the continuity of certain work is imperative to the public service mission of the Employer, and if a work stoppage should occur, management and all other personnel not covered by this Agreement, including guards, firemen, and other protectors of public safety and health, shall be permitted to perform their respective functions without interference by the Union or its members.

ARTICLE VII

PROTECTION OF RIGHTS

1. PICKET LINE. It shall be a violation of this Agreement and it shall be cause for disciplinary action in the event an employee refuses to go through or work behind any primary picket lines unless such line is sanctioned by the Alaska Public Service Employees Local #71 and the participating International Union (Laborers International Union of North America). The Employer specifically retains all of its rights under AS 23.40.200.
2. STRUCK GOODS. It shall not be a violation of this Agreement and it shall not be cause for discharge or disciplinary action if any employee refuses to perform any service which the Employer undertakes to perform as an ally of any Employer or person whose employees are on strike, and

which service, but for such strike, would be performed by the employees of the Employer or person on strike. Nor shall the exercise of any rights permitted by law be a violation of this Agreement, unless such exercise is precluded by this Agreement.

3. LOST OR DAMAGED PROPERTY. Employees shall not be responsible for lost, stolen or damaged property except in case of proven negligence or deliberate act. This shall include the use of credit cards for any purpose or any other method of giving credit. The Employer shall provide an adequate checking system to protect the Employer and employee.

4. a. From and after the date of acceptance of this Agreement, the parties shall be governed by the following in contracting or subcontracting involving the performance of work of classifications covered by this Agreement, in towns and cities of over 2,500 population, which would directly result in the layoff of permanent or probationary employees covered by this Agreement.

The Employer shall require the contractor or subcontractor to pay the hourly wage rates established in the agreement for all such work plus the additional hourly rate established in Article XIII, Section 8 of the Agreement as "in lieu of" benefits. It is agreed that the above-mentioned "in lieu of" amount may be reduced only by the amount of actual cost of benefits paid by the contractor or subcontractor. To insure compliance with this section, the Employer shall require the contractor or subcontractor to furnish a certification of wages and/or any certified cost of benefits paid upon written request. Such certified information shall be furnished to the Union upon reasonable written showing of suspected non-compliance. In addition, the Employer shall furnish to the Union a copy of each new or renewal contract. If the contractor or subcontractor is found to be out of compliance, the Employer agrees to take all reasonable steps to enforce the requirements of this section, including without limitation, terminating the contract or subcontract if compliance cannot be otherwise obtained.

Prior to the contracting or subcontracting of any work covered by the Agreement which would result in the layoff of permanent or probationary employees, the Employer agrees to conduct a cost efficiency study. Unless such study shows that the work can be performed by the contractor or subcontractor with less cost to the Employer, no probationary/permanent employee shall be laid off and replaced by contracted or subcontracted work.

All work performed on motor vehicles which is typically associated with work done by private service stations (e.g. tires, lights, fan belts, wipers, etc.) shall be free from the requirements of this section. Other vehicle repair and overhaul service work shall be performed in State facilities except in extreme emergencies. All State-owned vehicles shall contain a maintenance/repair instruction packet outlining the foregoing language.

b. LEASING, RENTAL, ETC. All drivers and operators of owned, leased, or rented equipment used in operations covered by this Agreement shall be employees of the Employer or members of a Union consistent with the kind of work to be performed.

5. OVERLOADS. In the event an employee is arrested with an overload, the Employer shall pay all fines upon conviction, and the employee shall be paid for the time spent in service of the Employer, provided the employee has not loaded his cargo contrary to the instructions of his supervisor.

6. REVOCATION OF LICENSES. In the event an employee shall suffer a revocation of his license because of violations of any federal, state, or city law by the Employer, the Employer shall provide suitable and continued employment for such employee, at not less than his hourly rate of pay at the time of revocation of the employee's license for the entire period of revocation of the license, and the employee shall be reinstated to the seniority he held prior to revocation of his license, after his license is restored.

7. The parties agree that there shall be no strikes or lockouts during the life of this Agreement, except as provided in Article IX, section 2, paragraph (c).

ARTICLE VIII

DISCHARGE

1. The Employer retains the right to discharge a permanent employee for just cause such as incompetence, unsatisfactory performance of duties and unexcused absenteeism. The Employer further agrees that the Union Office in the employee's district shall be notified forty-eight (48) hours prior to written notice to the employee of the reason for such discharge. A copy of the notice to the employee will be forwarded to the District Office of the Union. The Employer further agrees that with the exception of drunkenness, dishonesty, gross disobedience or abandonment of duties, all permanent employees shall be given two (2) weeks notice or two (2) weeks pay prior to discharge.

All permanent employees shall give the Employer two (2) weeks notice in writing, except in emergencies, before leaving their employment. The subsequent referral of an employee not meeting this requirement may be refused by the Employer for a ninety (90) day period commencing on the last working day of the employment period for which the required two (2) weeks notice was not received.

2. TERMINATION SLIP. It shall be mandatory that the Employer furnish each employee a termination or layoff slip showing the actual reason for termination.

3. For the purpose of this Agreement, "cause" as related to discharge for cause for employees other than permanent shall mean: incompetence,

unsatisfactory performance of duties, unexcused absenteeism, as well as drunkenness, dishonesty and gross disobedience, it being understood that such rules shall be posted for the benefit of the employees. Discharge slips shall contain the specific reason for discharge. Employees other than permanent discharged or terminated under the provisions of this section shall have appeal rights through Step #3 of the grievance procedure.

4. The Employer retains the right to discipline or suspend an employee for just cause but agrees that the Union Steward or a paid Union representative shall be notified in writing concurrent with written notice to the employee. The Employee further agrees that the Union Steward or representative shall be present, if requested by the employee, during all stages of conduct of hearings determining such matters.

ARTICLE IX

COMPLAINT & GRIEVANCE PROCEDURE

1. COMPLAINTS. A grievance shall be defined as any controversy or dispute arising between the Union or an employee of the bargaining unit and the Employer. Having a desire to create and maintain labor relations harmony, the parties agree that they will promptly attempt to adjust all complaints, disputes, controversies or other grievances arising between them involving questions of interpretation or application of the terms and provisions of this Agreement or other controversy or dispute having occasion to arise between the parties. If differences or disputes of any kind arise between the Union or the employee covered herein and the Employer, the Union or the aggrieved employee, as the case may be, shall use the following procedure as the sole means of settling said difference, dispute or controversy.

STEP ONE: The employee may report in writing to the Steward or designated representative of the Union any grievance that arises between the employee and the Employer. The designated representative will attempt to resolve the matter between the parties on the job immediately.

STEP TWO: Failing to agree at Step One, the grievance shall be referred in writing to the executive head of the department or agency in which the grievant(s) is (are) employed within ten (10) days after receipt of a response. The executive head of that department or agency shall answer the Union representative within ten (10) working days in writing.

STEP THREE: If the grievance cannot be settled as outlined in Step Two, the grievance may be submitted by the Union for settlement to the Commissioner of the Department of Administration within ten (10) calendar days after completion of Step Two. If the grievance has not been settled in writing within twenty (20) working days after receipt by the Commissioner either party may proceed to Step Four of this Article if the nature of the grievance falls within the scope of Step Four. Date of receipt shall constitute date of answer. In the event the matter is settled by written agreement between the Union representative and the Commissioner

of Administration, such written agreement shall have the same force and effect as a decision or award of the arbitrator and be final and binding on each of the parties and they will abide thereby. Should either party fail or refuse to abide by the written agreement, the prevailing party shall be free to take whatever action it deems necessary and such action will not be considered in violation of this Agreement.

STEP FOUR: Arbitration. Any grievance which involves the application or interpretation of the terms of this Agreement or is an appeal from demotion or dismissal of a permanent employee, or an appeal from dismissal of a probationary employee holding permanent status in another classification, which is not settled at Step Three may be submitted to arbitration for settlement. If either party desires to demand arbitration, the request must be received in writing within twenty (20) days of the receipt of the completed Step Three grievance. The parties will meet within ten (10) days to strike names.

Any dispute must be brought to the attention of the Employer through the Union within thirty (30) working days of the effective date of the disputed action or the date the employee is made aware of the action, whichever is later, to receive the attention of the Union and the use of this grievance procedure. A dismissal, demotion or suspension grievance must be brought to the attention of the Employer through the Union within ten (10) days of the effective date of the action or the date the employee is made aware of the action, whichever is later, to receive the assistance of the Union and the use of this grievance procedure.

2. BOARD OF ARBITRATION.

a. Within thirty (30) days of the signing of the Agreement, the Employer and the Union will jointly request from the United States Federal Mediation and Conciliation Service the names of seven (7) qualified arbitrators. Either party may at any time request a new list of arbitrators during the life of this Agreement. Such list shall be effective upon its receipt.

b. In the event that arbitration becomes necessary the arbiter will be selected by the Union and the Employer by alternately striking from the United States Federal Mediation and Conciliation Service list one (1) name at a time until only one (1) name remains on the list. The name of the arbitrator remaining on the list shall be accepted by the parties and arbitration shall commence within fifteen (15) calendar days thereafter, unless otherwise mutually agreed to by both parties.

c. During the process of the above procedure, there shall be no strike or lockout which is in any manner related to this grievance. The parties agree that the decisions or award of the arbitrator shall be final and binding on each of the parties and that they will abide thereby. The authority of the arbitrator shall be limited to questions directly involving the interpretation or application of specific provisions of this Agreement, and no other matter shall be subject to arbitration hereunder. The arbitrator

shall have no authority to add to, subtract from or change any of the terms of this Agreement, to change an existing wage rate or to establish a new wage rate except as provided in Article XIII, Section 2 and Section 4. Should either party fail or refuse to abide by the arbiter's decision, the prevailing party shall be free to take whatever action it deems necessary, and such action will not be considered in violation of this Agreement.

d. The arbitrator shall render his decision within 30 days following the final day of the arbitration hearing unless mutually agreed to by both parties.

Expenses incident to the services of the arbitrator shall be borne entirely as designated by the arbitrator. The arbitrator shall assign such expense to the losing party. If, in the opinion of the arbitrator, neither party can be considered the losing party, then such expenses shall be apportioned as in the arbitrator's judgment is equitable.

ARTICLE X

REPRESENTATIVES

1. The Union shall have representatives who are not employees of the Employer who shall be authorized to speak for the Union in all matters governed by this Agreement and shall be permitted to visit any work area at any time with advance notice to the person in charge.

2. In addition to the above, the Union may, upon written notice to the Employer, authorize Shop Stewards from among the employees of the Employer to carry out the intent and purposes of Articles VIII and IX.

ARTICLE XI

EXAMINATION OF RECORDS

The Union representative shall have the right to examine specific employee's records pertaining to wages, hours and conditions covered by this Agreement. The Employer shall make available original or copies of the original records for the examination by the Union representative, upon eight (8) working hours' written notice from the Union to the state office where the record is available.

ARTICLE XII

CHECKOFF

Whenever an employee coming under the terms of this Agreement executes and delivers to the Union, who will deliver to the Employer, a proper written assignment for the deduction of Union dues and initiation

fees from his wages, and the financial secretary of the Union notifies the Employer that such Union dues are due, the Employer agrees to make such deductions within thirty-one (31) days from the date of the notification to remit to the Union the amount so deducted from each. All employees in the bargaining unit on the Employer's payroll on the effective date of this Agreement who have previously executed a proper written assignment shall continue to have their assigned dues and initiation fees deducted from their wages. Upon receipt of a proper written assignment, the Employer shall deduct from the pay of each new employee in the unit such assigned dues and fees for the period specified so long as he remains in the unit. Such deductions shall commence not later than the pay period following the first full pay period after proper authorization is received by the State.

"Proper written assignment" shall mean an authorization executed by the employee for deductions of dues and fees in an amount as specified by the financial secretary of the Union. The amount of dues and fees to be deducted shall be those amounts as specified to the Director of Personnel and Labor Relations by the Union financial secretary.

The Employer agrees to provide to the Union once each month a list of employees showing the amounts deducted from each. This list will also include all employees and their classifications working under the jurisdiction of this Agreement. No other employee organization shall be accorded payroll deduction privileges with regard to this bargaining unit.

All dues and initiation fee assignments executed by employees shall be effective for as long as such employee is employed by the Employer in classifications coming within the purview of this Agreement. However, assignments may be cancelled by an employee who gives notice in writing to the Employer within the ten (10) day period immediately preceding the first or subsequent anniversary date of this Agreement. The State will continue to deduct the current ten cents (10¢) per hours additional dues until such time as the amount is changed by notification of the Business Manager.

ARTICLE XIII

CLASSIFICATION AND WAGES

1. a. In the event that work done places the employee in one or more of these classifications when so directed by the Employer, then the Employer agrees to pay such employee according to the highest-rated classification worked provided the employee works for a minimum of three hours at a higher-rated wage grade at the direction of the Employer, he shall be paid at the higher wage grade for the entire shift. Temporary performance of a higher rated classification shall not result in a change in classification of a position unless such temporary work is in excess of thirty (30) consecutive days. The higher rated classification shall be filled in accordance with the provisions of Article XXII, Section 3. When an employee is requested to work in a lower wage group due to a temporary fluctuation in work he shall receive his regular rate of pay for all such lower-rated work performed.

1978

STATE OF ALASKA
LABOR, TRADES AND CRAFTS

	WAGE GRADE	STEP A	STEP B	SERVICE BONUS C	INCREMENTS D	E
I-A	50 ST	12.12	14.74	14.94	15.14	15.24
	1-1/2	18.18	22.11	22.41	22.71	22.86
	2 OT	24.24	29.48	29.88	30.28	30.48
I	51 ST	11.45	13.90	14.10	14.30	14.40
	1-1/2	17.18	20.85	21.15	21.45	21.60
	2 OT	22.90	27.80	28.20	28.60	28.80
II	52 ST	10.77	13.07	13.27	13.47	13.57
	1-1/2	16.16	19.61	19.91	20.21	20.36
	2 OT	21.54	26.14	26.54	26.94	27.14
III	53 ST	9.99	12.24	12.44	12.64	12.74
	1-1/2	14.99	18.36	18.66	18.96	19.11
	2 OT	19.98	24.48	24.88	25.28	25.48
IV	54 ST	9.31	11.41	11.61	11.81	11.91
	1-1/2	13.97	17.12	17.42	17.72	17.87
	2 OT	18.62	22.82	23.22	23.62	23.82
V	55 ST	8.75	10.69	10.89	11.09	11.19
	1-1/2	13.13	16.04	16.34	16.64	16.79
	2 OT	17.50	21.38	21.78	22.18	22.38
VI	56 ST	8.19	9.98	10.18	10.38	10.48
	1-1/2	12.29	14.97	15.27	15.57	15.72
	2 OT	16.38	19.96	20.35	20.76	20.96
VII	57 ST	7.74	9.39	9.59	9.79	9.89
	1-1/2	11.62	14.09	14.39	14.69	14.84
	2 OT	15.43	18.78	19.18	19.58	19.78
VIII	58 ST	7.29	8.78	8.98	9.18	9.28
	1-1/2	10.94	13.17	13.48	13.77	13.92
	2 OT	14.58	17.56	17.96	18.35	18.56
IX	59 ST	6.85	8.32	8.52	8.72	8.82
	1-1/2	10.28	12.48	12.78	13.08	13.23
	2 OT	13.70	16.63	17.04	17.44	17.64
X	60 ST	6.36	7.56	7.76	7.96	8.06
	1-1/2	9.54	11.34	11.64	11.94	12.09
	2 OT	12.72	15.12	15.52	15.92	16.12
XI	61 ST	5.85	6.80	7.00	7.20	7.30
	1-1/2	8.77	10.20	10.50	10.80	10.95
	2 OT	11.70	13.60	14.00	14.41	14.60

b. Effective January 1, 1977, the schedule of wages shall be increased by fifty-five cents (55¢) per hour, less four cents (4¢) per hour for Health and Security contributions (in addition to the eighteen cents (18¢) per hour presently withheld). The hourly rates to be paid shall appear as follows:

	<u>A</u>	<u>B</u>
Wage Group IA	\$11.53	\$14.03
Wage Group I	10.89	13.23
Wage Group II	10.25	12.44
Wage Group III	9.50	11.65
Wage Group IV	8.86	10.86
Wage Group V	8.32	10.17
Wage Group VI	7.79	9.49
Wage Group VII	7.36	8.93
Wage Group VIII	6.93	8.35
Wage Group IX	6.51	7.91
Wage Group X	6.05	7.19

Should the Consumer Price Index for Anchorage rise more than 6% during calendar year 1977, the Employer agrees that the above schedule of hourly rates shall be increased one percent for each full percentage point above six that the Consumer Price Index rises effective February 16, 1978, and shall be retroactive to the beginning of the calendar quarter in which the rise in the Anchorage Consumer Price Index exceeded six percent.

The hourly rates for calendar year 1978 shall be the rates shown above, as adjusted on February 16, 1978, with the addition of 5% prepayment on the cost-of-living effective January 1, 1978.

Should the Consumer Price Index for Anchorage rise more than 6% during calendar year 1978, the Employer agrees that the above schedule of hourly rates, as adjusted effective January 1, 1978, shall be increased one percent for each full percentage point above six that the Consumer Price Index rises effective February 16, 1979, and shall be retroactive to the beginning of the calendar quarter in which the rise in the Anchorage Consumer Price Index exceeded six percent.

The hourly rates for calendar year 1979 shall be the rates shown above, as adjusted on February 16, 1979, with the addition of 4 1/2% prepayment on the cost-of-living effective January 1, 1979.

In all cases of wage increase prescribed in this section, computations will be based on the schedule of wages increased by the wages contributed to the Trust.

The Union reserves the right to adjust the distribution of wages between the schedule of wages and the contribution to Health and Security Trust during the term of this Agreement based on actuarially established facts.

The Job Classifications are as follows:

Wage Group IA

Airport Maintenance Foreman
Engineering Technician VIII
Occupational Safety Compliance Officer
Electrical Inspector

Wage Group I

Highway Maintenance Foreman
Automotive Shop Foreman
Building Maintenance Foreman
Equipment Operator Foreman
Electrician Foreman
Electronic Technician Supervisor
Engineering Technician VII

Wage Group II

Traffic Control Equipment Technician
Highway Maintenance Foreman
Maintenance Mechanic
Electrician
Aircraft Sheet Metal Mechanic
Engineering Technician VI
Safety Consultant
Electronic Technician

Wage Group III

Mechanic Leadman
Equipment Operator
Heavy Duty Mechanic
Driller
Trades Leadman
Cook IV
Engineering Technician V
Materials Lab. Technician III
Partsman II
Plumbing Inspector
Stationary Fireman III
Aircraft Mechanic
Party Chief
Traffic Control Technician

Wage Group IV

Mechanic
Maintenance Man
Equipment Operator
Plumber
Driller
Painter
Carpenter

Stationary Fireman II
Instrumentman
Inspector III
Highway Engineering Technician V
Materials Lab. Technician II
Storekeeper III
Sign Painter

Wage Group V

Maintenance Man
Equipment Operator
Driller
Engineering Technician IV
Inspector II
Highway Engineering Technician IV
Housekeeping Supervisor
Partsman I

Wage Group VI

Equipment Operator
Labor Foreman I
Cook III
Electronic Technician Assistant
Materials Lab. Technician I
Storekeeper II
Head Chainman
Groundsman Supervisor

Wage Group VII

Equipment Serviceman
Equipment Operator
Trades Helper
Cook II
Engineering Technician III
Inspector I
Equipment Dispatcher
Groundsman
Highway Engineering Technician III
Materials Lab. Technician Aide II
Stockhandler
Rear Chainman
Laundry Supervisor

Wage Group VIII

Laborer
Building Custodian
Storekeeper I
Assistant Groundsman
Custodial Worker II
Laundry Worker II
Housekeeping Aide III

Wage Group IX

Cook I
Clothing Clerk
Engineering Technician II
Highway Engineering Technician II
Senior Food Service Worker
Materials Lab. Technician Aide I
Janitor

Wage Group X

Custodial Worker I
Housekeeping Aide I
Laundry Worker I
Food Service Worker

c. New employees will enter the schedule at step A and shall remain in that step for 120 calendar days, at which time the employee shall be placed in step B.

d. Former employees rehired into a job class in which they held permanent/probationary status for a period of six (6) consecutive months within two (2) years immediately preceding their rehire shall be moved from Step A to Step B after thirty (30) calendar days, other provisions of this Agreement notwithstanding.

2. JOB CLASSIFICATION. The specifications of job classifications regarding skills, abilities, experience, work requirements and duties shall be established by the Employer.

a. Following the signing of this Agreement, the parties agree to conduct a study to review all class specifications and job descriptions of the State within the bargaining unit following which the State will establish new classifications where necessary, delete classifications where necessary, establish and adopt new class specifications, and allocate classifications to existing wage groups. In addition, the study shall include a review of the wage group allocations of existing classifications; disputes on the allocation of existing classifications to existing wage groups shall be resolved as provided in subsection b below.

b. The following shall be the procedure for handling disputed actions on classifications covered by this Agreement.

1. The Union shall notify in writing the Commissioner of the Department of Administration of its disagreement with the classification of an individual position or classification covered by this Agreement, with a copy to the Commissioner of the operating department in which the dispute arises. Such notice shall include full details on the significant duties

and responsibility of the disputed position or classification, an analysis showing why the position or classification should be re-allocated and should be supplemented by examples of work when practical and appropriate.

2. The Commissioner of Administration shall investigate the complaint, and the parties will meet within ten (10) days of receipt of the complaint to resolve the issue.

3. If the issue remains unresolved, the parties shall select an arbitrator, as provided in Article IX, section 2 b. The arbitrator shall have no authority to establish a wage rate or classification not contained in the Agreement. The arbitrator shall have authority to provide retroactivity not exceeding thirty (30) days prior to the Union's filing of the complaint with the Employer. The decision of the arbitrator shall be final and binding.

c. It is understood the Employer will have need for employees with special skills and abilities. The Union agrees to refer persons possessing such skills and abilities and to honor all such bona fide requests.

3. SERVICE BONUS. An employee with seven (7) years of continuous probationary/permanent service with the Employer shall be paid an additional twenty cents (20¢) per hour above his base rate of pay, commencing on the first day of the pay period following the fulfillment of the service requirement.

An employee with nine (9) years of continuous probationary/permanent service with the Employer shall be paid an additional forty cents (40¢) per hour above his base rate of pay, commencing on the first day of the pay period following the fulfillment of the service requirement.

An employee with eleven (11) years of continuous probationary/permanent service with the Employer shall be paid an additional fifty cents (50¢) per hour above his base rate of pay, commencing on the first day of the pay period following the fulfillment of the service requirement.

The rates listed above shall not be cumulative, and the additional rate listed for the specified length of continuous service with the Employer shall be the total amount paid for that length of service. No employee who is receiving a service bonus on the effective date of this Agreement shall suffer a reduction of that bonus through the implementation of this section.

4. Where new types of equipment and/or operations, for which rates of pay are not established by this Agreement, are put to use after the effective date of this Agreement, within operations covered by this Agreement, rates governing such operations shall be subject to negotiations between the parties.

Rates agreed upon or awarded shall be effective as determined by the negotiations or arbitrator.

If the parties cannot agree on the proper wage rate, the dispute will be settled as provided in section 2. In these cases only, the arbitrator shall be authorized to establish a new wage and/or classification.

5. SUBSISTENCE. Subsistence shall be calculated as a daily rate according to geographical location and only as a permanent work location at \$2.28 per day times step-due district.

Illustrative Place Names	House Election Districts	Steps Above Pay Plan
Ketchikan-Prince of Wales	1	0
Wrangell-Petersburg	2	1
Sitka	3	1
Juneau	4	0
Icy Strait-Lynn Canal	5	2
Cordova	6(a)	4
Valdez Pipeline Corridor	*6(b)	5
Palmer-Wasilla	7	1
Anchorage	8	0
Seward	9	2
Kenai-Cook Inlet	10	2
Kodiak	11	2
Aleutian Islands	12	7
Bristol Bay	13	7
Bethel	14	8
Yukon-Kuskowim	15(a)	9
Nenena-Cantwell-Healy-Livengood-Manely	15(b)	7
Fairbanks	**16(a)	4
Eagle-Chicken-Circle-40 Mile	16(b)	5
Fort Yukon	***16(c)	9
Barrow-Kobuk	17	9
Nome	18	7
Wade-Hampton	19	8
Outside Alaska		minus 6

The Election Districts used are those designated by the Proclamation of Reapportionment Redistricting of December 7, 1961, and retained for the House of Representatives by proclamation of the Governor September 3, 1965.

*Pipeline Corridor Defined:

Richardson Highway - Valdez to Paxson
 Glenn Highway - Eureka to Slana
 Edgerton Highway - Chitina to the intersection with the Richardson Highway - five miles either side of the above highways between the cities or destinations listed shall be the Pipeline Corridor.

**16(a) South of Arctic Circle

***16(c) North of Arctic Circle

6. PREMIUM PAY

a. 1. For all work performed on the employee's first scheduled day off, one and one-half (1-1/2) times the basic rate of pay shall be allowed.

2. For all work performed on the employee's second scheduled day off, two (2) times the basic rate of pay shall be allowed, provided the employee has worked, been compensated for, or has been excused from working on his last regularly-scheduled work day.

3. All work performed on holidays shall be paid at one and one-half (1-1/2) times the basic rate of pay in addition to holiday pay.

b. SHIFT DIFFERENTIAL. Employees who regularly work a "swing" shift beginning between 11:00 a.m. and 7:59 p.m. shall receive shift differential pay of three and three-quarter percent (3.75%) for all compensable hours.

Employees who regularly work a "graveyard" shift beginning between 8:00 p.m. and 5:59 a.m. shall receive shift differential pay of seven and one-half percent (7.5%) for all compensable hours.

c. Employees who are required to work under dangerous conditions shall receive hazard pay of seven and one-half percent (7.5%) in four-hour increments so worked. Dangerous conditions shall be defined as working at heights more than twenty-five (25) feet above the ground on towers, bridgework, and handling explosives so designated by the Employer, antennas and transportation by helicopter required by the Employer.

7. Each new employee, unless otherwise designated, shall be hired as a probationary employee until the end of the probationary period of sixty (60) days. Upon completion of such period, he shall be considered a permanent employee and shall have seniority from his date of hire. Accrual and use of annual leave, holiday pay, retirement benefits, health and welfare coverage and other conditions of employment shall be subject to other provisions of this contract. Sick leave shall be available as accrued and posted from date of hire.

8. The Employer may request a full or part-time temporary employee. A temporary employee is one so designated for one hundred and twenty (120) calendar days or less. Such time may be extended by mutual agreement. A temporary employee is not entitled to sick and annual leave, health and accident insurance, or pension benefits. In lieu of such entitlements, each temporary employee shall receive one dollar and thirty-two cents (\$1.32) for each compensable hour worked. If the employee is retained in permanent status, the seniority shall be counted from the original date of hire. Temporaries shall be entitled to subsistence only for days worked. Temporaries working four (4) hours or less per day will receive one-half (1/2) subsistence pay for each day so worked. Temporaries shall be covered by the holiday provisions of this Agreement.

Temporary employees filling positions created from federal funds for training programs, e.g. CETA and PEP, shall not be restricted by the one hundred and twenty (120) day limitation, but shall be placed at Step B at that time.