

1183

SSA

SB 25

~~1183~~

1979-1980

SENATE STATE AFFAIRS COMMITTEE

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SENATE STATE AFFAIRS COMMITTEE

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SB

25

Introduced: 1/16/79
Referred: State Affairs
and Finance

1 IN THE SENATE

BY RAY

2 SENATE BILL NO. 25

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

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

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

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

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

13 * Sec. 2. AS 39.35.680(21) is amended by adding a new subparagraph to read:

14 (D) may include employees of the division of marine
15 transportation excluded under (C)(v) of this paragraph provided
16 that

17 (1) the State of Alaska formally agrees to their
18 inclusion through the process of collective bargaining, and
19 ~~(1)~~ other than military service credit, only ser-
20 vice after January 1, 1980 may be credited under this chapter;

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

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

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

29 (c) The monthly amount of a retirement benefit for a peace officer

1 or fireman is two percent of the average monthly compensation times the
2 years of credited service up through 10 years, plus two and one-half
3 percent of the average monthly compensation times the years of service
4 over 10 years. For all other employees it is two per cent of the aver-
5 age monthly compensation times the years of service. The monthly amount
6 of a retirement benefit for an employee covered by this chapter who is
7 making contributions under AS 39.30.170 shall be increased by three-
8 fourths of one per cent of the average monthly compensation times the
9 years of credited service with the State. An actuarial adjustment must
10 be made for an early retirement benefit.

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

12 (d) The monthly amount of an occupational disability pension is
13 the greater of 40 per cent of the disabled employee's gross monthly com-
14 penetration at the time of termination due to disability or the amount
15 determined in accordance with AS 39.35.370(c) considering the employee's
16 credited service and compensation before termination of employment.

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

18 ARTICLE 4. SUPPLEMENTARY EMPLOYEE BENEFITS ON WITHDRAWAL
19 FROM FEDERAL SOCIAL SECURITY.

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

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

29 (2) for all employees other than those covered under (1) of

1 this subsection, the benefit payable to the beneficiary shall be a lump
2 sum equal to 12 times the employee's basic monthly compensation at the
3 time of death;

4 (b) For purposes of this section, "basic monthly compensation at
5 the time of death" means the employee's basic monthly compensation for
6 the last full month of employment immediately preceding his death or
7 disability leading to his death.

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

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

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

26 (d) For all employees other than those covered in (c) of this
27 section, the monthly disability benefit shall be 60 per cent of the
28 first \$5,000 of the employee's basic monthly earnings at the date of
disability less any disability benefits the employee is entitled to

1 under Social Security or any other disability plan to which the state
2 makes contributions on behalf of that employee. The disability benefit
3 shall be payable only if the disabled employee fulfills the requirements
4 set out in (e) of this section. The last payment shall be for (1) the
5 month in which the death of the disabled employee occurs, or (2) the
6 month the disabled employee reaches normal retirement age, or (3) the
7 month the disabled employee reaches the age of 65, whichever comes
8 first.

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

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

21 Sec. 39.30.170. CONTRIBUTIONS. (a) The amounts which both the
22 state and the employee of the state would have otherwise paid into the
23 federal Social Security System at the rate then in effect had the state
24 continued in the federal Social Security System shall be paid into
25 special employee benefit account in the Department of Administration to
26 be used to provide employee retirement and death and disability benefits
27 for each of the following groups:

28 (i) employees covered under the Alaska Public Employees'
29 Retirement System (AS 39.35), except peace officers and firemen (as

1 defined in AS 39.35.680(27));

2 (2) peace officers and firemen covered under AS 39.35 (PERS);

3 (3) employees covered under the Judicial Retirement System
4 (AS 22.25); ~~AS 22.25~~

5 (4) emergency, temporary or casual workers not covered under
6 AS 39.35 (PERS) or AS 14.25 (TRS);

7 (5) employees of the division of marine transportation en-
8 gaged in operating the state ferry system who are covered by a maritime
9 union contract and are not covered under AS 39.35 (PERS).

10 (b) There shall be determined the cost of providing the survivor
11 and disability benefits provided under AS 39.30.150 and AS 39.30.160
12 expressed as a percentage of payroll for each of the groups set out
13 under (a) of this section, except that all employees covered under AS
14 39.35 (PERS) shall be considered as one group for purposes of this
15 subsection.

16 (c) From the employee benefit accounts established under (a) of
17 this section, the Department of Administration shall deduct:

18 (1) from each benefit account, the amount determined under
19 (b) of this section to pay the cost of providing benefits under sec.
20 150 and 160 of this chapter for each employee in that group;

21 (2) from the account for the group listed in (a)(1) of this
22 section, an additional 7.1 per cent of gross monthly compensation for
23 each employee in that group;

24 (3) from the account for the group listed in (a)(2) of this
25 section, an additional 6.2 per cent of gross monthly compensation for
26 each employee in that group.

27 (d) The balance in each employee benefit account shall, after
28 deduction of the amounts specified in (c) of this section, be allocated
29 on a pro rata basis to those employees for whom contributions under (a)

1 of this section exceeded deductions under (c) of this section and be de-
2 posited in individual deferred compensation accounts in the names of
3 those employees. The director of the division of retirement and bene-
4 fits shall administer the deferred compensation program and shall, by
5 regulation, establish operating procedures for the program which allow
6 for deferment of the state and federal income tax until benefits are
7 receivable in accordance with federal requirements under the Internal
8 Revenue Code.

9 * Sec. 7. If approved by employees of the State of Alaska as set out in
10 sec. 8 of this Act, the state's notice of intention to withdraw from the
11 federal Social Security System shall be allowed to become effective January
12 1, 1980.

13 * Sec. 8. The Department of Administration shall conduct an election by
14 secret ballot by September 25, 1979. The department shall, at least 90 days
15 before the election, prepare a list of all affected state employees, in-
16 cluding permanent, seasonal and temporary employees, who shall be eligible to
17 vote, along with mailing addresses, and make the list available to interested
18 persons or employee representative organizations. The question on the ballot
19 shall read: "Do you favor withdrawal from the Social Security System?" The
20 ballot shall contain a description of the benefits provided for in this Act
21 which would be provided in lieu of further benefits under the Social Security
22 System. No other information concerning the election issue may be distri-
23 buted with or attached to the ballot. A simple majority of those employees
24 voting shall determine the outcome of this issue.

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

78-126
Chairman Cowper stated the next bill to be considered was
HB 946.

HB 946

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

Sherry Shelley, representing APEA and the Confidential Unit, stated both organizations are in favor of the bill, mainly because it provides for an election in the Spring of 1979 where employees can elect whether or not they want to withdraw from the federal social security system. She stated the bill needs two amendments, which are being drafted at the present time. She stated the first amendment relates to the Boatman's Union participation, and the second amendment relates to the actuary figure which they are recommending be reduced to 3/4's of 1%. She stated with that reduction the bill will not cost the state anything. There was discussion on the amendments.

Representative Meekins asked what the rationale for the bill was. Ms. Shelley advised that the APEA is not taking a position on whether or not state employees should opt out of the social security system. She stated they have many members who believe this would be a better way to go, and would like an opportunity to vote on it. She stated the money that is not going into social security would be paid into an enhancement P.E.R.S. program. She stated there are basically four programs. Employees would not get an increased check by withdrawing from social security.

In answer to a question from Representative Duncan, Ms. Shelley stated there are basically four different programs under the bill. She stated the Inland Boatman's Union has a private pension plan, and Public Safety has a different program. She stated that basically the bill set's up four different alternatives for employees. She stated the money previously submitted to social security would go into an insurance program, disability program, and a mandatory deferred compensation program for each temporary employee. There was further discussion on the bill. Ms. Shelley stated the bill provides for an election in the spring of 1979, and should the employees vote to opt out, they would not actually drop out until spring of 1980.

Representative Miller stated there are a substantial number of state employees paying social security that feel a better system could be designed if that same money were taken and put into an enhancement P.E.R.S. system. He stated this bill does not do that; all it does is allow the question to be put before the people who are paying social security. He stated this does not make any difference to the state money-wise. He stated his feeling is that the people who actually pay into the system should make the decision on this.

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Representative Buchholdt asked if those groups who opted out could decide to come back in at a later date. Representative Miller stated he was not sure, but thought that once the decision was made it couldn't be changed. Representative Buchholdt asked if the present employees decided to opt out and future employees wanted back in, could they do that. Representative Miller stated he didn't think so. He stated everyone would have to either go out of the system or stay in. There was discussion. Representative Miller stated this would have to be done by all the groups, not just one group. He stated the State would be paying the same amount of moeny either way.

Representative Rhode asked what this would do to the federal social security program. Representative Miller stated this was a national program and he didn't think it would make any difference if 3,200 employees dropped out. Representative Rhode stated this would be whittling away from the program. Representative Miller stated he didn't think this was their concern. He stated if congress decided this is a threat they might try to "plug the loop-hole" that allows employees to opt out of the s,stem. He stated that right now it is legal to do this.

Representative Duncan stated that people from the Division of Retirement would like to testify on this. He stated he would also like to see copies of the amendments and recommended this bill be held over.

HE 946
HELD OVER

The meeting adjourned at 9:55 a.m.

ADJOURN

Tape HPC 78-125 #1580 to end
78-126 # 001 to 713

5/31/78

Representative Rhode wondered, if this bill went into effect, how long it would be before the State didn't get outside bidders. Representative Meekins stated that right now the difference in terms of higher costs in Alaska is about 20-25%. He stated one thing about bidding is that businesses in Alaska don't have the capital equipment in place to do the work. He stated he believes a cycle could be started where the more the business is used, the more equipment they will be able to purchase, and the more business they will get.

Chairman Cowper stated the language in the bill is unclear to him. Representative Meekins stated they had trouble drafting language to be sure businesses were actually in-state bidders. Representative Freeman asked if this bill would effect municipalities. Representative Meekins answered that it does not require anyone but the state to give preference. There was discussion on the language in the bill. Chairman Cowper stated the problem is with the definition of "Alaska bidder".

Representative Meekins advised that the federal government has this program, as does Hawaii. He stated Hawaii's figure is 15%. He stated several other states have this.

Representative Rhode commented that if this bill becomes law an Alaska bidder might hook-up with an outside business. Chairman Cowper stated this bill also effects construction concerns.

Representative Meekins referred to page 1, line 12, and stated it says an Alaska manufacturer or warehouse would get 25%; an Alaska bidder would get 15%; and there is already a provision that outside bidders that do a substantial amount of business within the state get 5%.

There was further discussion on the language of the bill. Representative Duncan recommended redefining "Alaska Bidder" and adding a stipulation that the business had to be established in the state for a certain number of years. Representative Meekins stated they could redo the bill to have it not apply to construction. He stated he is really concerned only with the small businesses in the state. There was further discussion. Representative Meekins stated he would come back to the Committee with a better defined, more constricted definition of who is eligible.

HB 512
HELD OVER

Chairman Cowper stated the next bill to be considered was HB 946.

HB 946

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

Mr. Paul Arnold, Director, Division of Retirement and Benefits, presented a fiscal note on HB 946. He advised that Administration's position on the bill is clearly opposed. He stated they are opposed to the concept of withdrawing from social security. He advised that if the state were to take action and not have to depend on any counter-action by the federal government this would have more latitude. But, he stated, they are seeing that the long term approach of social security is to include as many people as possible in that system. He stated social security wants total coverage of all eligible employees. Mr. Arnold stated they also felt that one-third of funding for social security is going to come from federal general revenues. He stated that if that comes to pass those who are not paying into social security are going to want to get back into social security.

Mr. Arnold advised that if the State withdraws from social security, under current law they are barred from ever participating in social security again. He stated if the State does opt out and set up an alternative package, at a future date they would be paying for social security from general revenue funds. He stated that would add to the costs.

Mr. Arnold stated there are many benefits within social security that cannot be replaced. He stated there are several benefits that the state couldn't provide -- one is "portability". He advised the benefits of the social security system are tax free, there is no other pension plan that is not taxed. He stated social security indexes in total any cost of living increase. He stated that neither P.E.R.S. or T.R.S. can provide this, because it is too costly. He stated social security also provides a tremendous amount of survivor/disability benefits that would not be available under other programs.

Mr. Arnold stated the actual bill has inequities built into it. He stated it defines contributions as 7.7% taken from the pool to fund employees. He stated it does not take into account if benefits cost more or less. He stated another problem with the bill is that it receives the same contributions that are going into social security, with an addition of \$4 million, for the first year. He stated that since the contributions are coming in up to a ceiling of \$17,700, the problem is that everyone who makes over \$17,700 will have their P.E.R.S. benefits calculated on their salaries which in some cases are much higher than that. He stated someone would be subsidizing these benefits. He stated the higher the income, the more the employee will be drawing out.

Chairman Cowper asked what would happen to people who work for the state for 4 or 5 years and then leave. Mr. Arnold advised that if they had been with the state for less than

6/1/78

five years, under P.E.R.S. they would only be eligible for a refund. He stated under this bill they wouldn't have any of these funds. He stated the only portion that would be refundable would be the portion going into the deferred comp program.

Chairman Cowper commented that to him it defies logic that Congress will allow withdrawals from social security to continue.

Representative Duncan stated he can understand some problems Mr. Arnold is saying might happen. He stated the bill allows the employees who are the ones contributing to the system to make the decision of whether or not they want to withdraw. He stated he thinks the information being given to this Committee should be given to the employees. He asked if the Administration is opposed to allowing employees to vote on this issue. Mr. Arnold stated Administration is opposed to withdrawing from the social security system. Representative Duncan stated that is not the issue in this bill. He stated the bill gives the employees the right to vote. Mr. Arnold stated the bill states his division shall remain impartial during an election. He stated he doesn't know what that means that he can't speak out at all? Mr. Arnold stated he thinks if the employees are given an opportunity to vote they have to be totally informed.

Representative Duncan asked if Administration is opposed to allowing employees the right to make the decision. Mr. Arnold stated if this is the case there is probably not a legislator here who should be here -- every issue should be resolved to the employees. He stated he didn't know what the administration's position was on whether or not a vote should be taken. Representative Duncan stated he thought he should get that answer from the Governor.

Representative Duncan commented the fiscal note is based on passage of the Act. He stated it has \$1 million in costs in 1979 and the bill doesn't even take effect until 1980. Mr. Arnold stated this is in error. Representative Miller stated this fiscal note prompts him to consider circulating among actuary's and getting a re-ainer. He stated Administration sat in on every meeting concerning this and never once questioned the assumptions made on the bill. He stated that now after the actuary they hired came in with their statement, Administration has the William Mercer Co. coming in and raising the price up 6%. He stated he would like to have the actuary report to the Legislature rather than Administration. Chairman Cowper suggested addressing this through the Legislative Review Board on Retirement and Benefits.

The meeting adjourned at 10:15 a.m.

Tape HFC 78-126 0713 to 1598

HB 946
HELD OVER

ADJOURN

6/1/78

HOUSE FINANCE COMMITTEE

June 2, 1978

9:25 a.m.

All members of the Committee were in attendance except Representative Gruening. Present to testify were: Pat Murphy, APEA; and Paul Arnold, Division of Retirement and Benefits.

PRESENT

Chairman Cowper recalled the meeting to order and brought HB 946 up for consideration.

HB 946

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

Mr. Pat Murphy, APEA, advised that in 1975 then Commissioner of Administration Andy Warwick put in a letter of intent to opt out state employees from social security. He advised at that time they circulated a letter to employees asking if they wanted to opt out. He advised that letter of intent would have expired in 1977. He stated since the Legislature was not ready to deal with the issue last year they put it into a Committee to study through HCR 126. He advised they studied the issue for six months. The result of that is the present bill, HB 946.

Mr. Murphy advised the important language, as far as they are concerned, is in section 8 which provides that the Department of Administration shall conduct an election, asking employees if they want to opt out. He stated opting out is a very complex issue. He stated all this bill does is give public employees an opportunity to decide whether or not they want to opt out. He stated APEA is not taking a position on whether or not they should opt out. They will provide the information to their membership.

Mr. Murphy stated the other important item in this bill is how much it is going to cost. He stated as far as they are concerned it is not going to cost anything. He stated the Committee was given money to fund the services of an actuary. According to his calculated costs it would not exceed the present and projected contributions of state employees. Mr. Murphy advised that after this report was made, the State's actuary came in with a report that has a cost figure of \$4.3 million. Mr. Murphy stated he has been dealing with this issue for the past three or four months and he is not qualified to say whose figures are right. However, he stated he didn't think it was relevant because they are willing to move the benefit factor down to 2.75% which should absorb the costs.

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Mr. Murphy stated they are not asking for a free ride. They are saying reduce the benefits to 2.75% and let their members vote on whether or not they want to opt out. He stated the only cost he sees would be on page 2 of the fiscal note, items 4 & 5, which are costs for the election -- \$5,000 data processing, \$1500 for postage, and \$200 for printing ballots.

Representative Rhode asked if the employees involved in this could have an election without the bill. Mr. Murphy stated the reason for the election being put in the bill is the fact that they could conduct an election, but the Governor would not necessarily live with the results of that election. He stated by being in the bill, this would have the force of law.

Representative Schaeffer asked what the results of the election they conducted earlier were. Mr. Murphy stated they had about 1,000 responses and they were for an opt out. He stated that was two years ago, and information provided was probably biased towards opting out. He advised that from their point of view, next time they will provide unbiased information to their membership.

Representative Buchholdt asked what steps will be taken to be sure the election is unbiased. Mr. Murphy stated because there will be two parties involved -- Administration and the Unions -- with some in favor and some opposed, he thinks the information will be fairly disseminated. He stated he thinks fair information will be put out on both sides of the question.

There was brief discussion on opting out. Representative Freeman asked if Marine Transportation was in favor of the bill. Mr. Murphy stated the IBU at this time favors a vote of their membership, and he thinks they even favor opting out.

Mr. Paul Arnold, Division of Retirement and Benefits, stated one of the things the social security study group addressed was the issue of the advisability of withdrawing from social security. He stated he did oppose those provisions of the bill. Mr. Arnold stated there are inequities in the bill. He stated he would like to make it clear that he is not attempting to "sand-bag" the bill or use the actuary to accomplish this. He stated the only difference between the two actuarial figures was in the methods that were developed. He stated it was about a 6% difference in the total cost. There was brief discussion on the actuary.

Representative Duncan asked if, on page two of the bill, they changed the figure to "3/4's of 1%" if they could assume there will be no cost to the state. Mr. Arnold stated he is not sure. He stated he didn't know what impact this would have as far as reducing the cost. He stated he thinks it would be better if they eliminated the fixed amount.

6/2/78

Representative Meekins asked if he had found out what Administration's position on the bill was. Mr. Arnold stated they are opposed to withdrawing from social security. Regarding having employees vote, he stated he had not had an opportunity to discuss this with the Governor's Office.

Representative Duncan moved to amend the bill on page two to change "1%" to "3/4%". There being no objection, it was so ordered.

Representative Duncan moved to report out a finance committee substitute for HB 946 incorporating the above change. There being no objection, it was so ordered.

Representative Duncan stated this would eliminate everything in the fiscal note except those items relating to the cost of the election -- \$6,700 in contractual. He will provide a new fiscal note.

The meeting adjourned at 10:00 a.m.

CSHB 946
REPORTED
OUT

FISCAL
NOTE
REVISED

ADJOURN

Tape HFC 78-130 0618 to 1164

6/2/78

78-125 # 1580 - END
 126 # 001 - 1598
 130 # 618 - 1164



Sherry Kelley currently in private retirement system. IDU

as you 3% - ~~74%~~ ^{reduce to 74%} $2\frac{3}{4}$ %
 to take care of admin. cost

These 2 students now in SB. 25-

Old And city employees have opted out,

ROB

Teacher's union sec. 5.5.



Arnold - opposed to concept of withdrawal
 2 things: change will come about to some mod. cost.



no one wants to pay fed. cost if not in system

future employees will want to avoid "we didn't vote for that"

Let the asking question "Should we opt out?"

May 19, 1978

Legislative Board of Retirement Benefits analysis and recommendations
on:

House Bill No. 946

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

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

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

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

SUMMARY OF HOUSE BILL NO. 946

Retirement system affected: PERS

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

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

The alternate package of benefits for affected state employees includes:

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

MEMORANDUM

TO: Jay Hogan
Director
Legislative Finance Division

DATE: May 25, 1978

FILE NO.

TELEPHONE NO. 465-4460

FROM: *Paul B. Arnoldt*
Paul B. Arnoldt
Director
Division of Retirement & Benefits
Department of Administration

SUBJECT: Social Security Withdrawal

We are pleased to announce a presentation by Mr. A. Haeworth Robertson, former Chief Actuary of the U.S. Social Security Administration, on the advantages of the State's withdrawal from Social Security. Mr. Robertson will speak and entertain a general discussion from 12 p.m. - 1 p.m., May 30, in Court Room A, Juneau Court and Office Building. All interested employees are invited to attend.

Please post notice of this presentation throughout your office in the Juneau area. The issue of social security withdrawal is a complex one and one that should be of interest to all employees. As you may be aware, there is currently legislation pending which would authorize state employees to vote on withdrawal and which proposes alternate benefits to social security. Mr. Robertson's appearance will present a rare opportunity for employees to gather information from perhaps the most knowledgeable individual on the Social Security System today.

Mr. Robertson is currently with the actuarial firm of William M. Mercer, Inc., with offices in Washington, D.C. He became Chief Actuary of the U.S. Social Security Administration in 1975. While he was in that position he was awarded the Commissioner's Citation (the Social Security Administration's highest honor award) and the Arthur J. Altmeyer Award (conferred by the Department of Health, Education and Welfare) for superior performance in planning and directing the actuarial activities of the Social Security Administration, and in recognition of his especial efforts in interpreting the status of Social Security financing for public organization and individuals.

He holds a master's degree in actuarial science from the University of Michigan, has performed actuarial work for the U.S. Air Force; for ten years was a consulting actuary in various consulting firms dealing with private and public pension plans; devoted four years to organizing, operating and serving as president of a life insurance company; and for six years was an international consultant on social insurance programs which included assignments in Switzerland, Barbados, Ghana, Lebanon and the Philippines.

Jay Hogan

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May 25, 1978

Mr. Robertson is a Fellow of the Society of Actuaries, a Fellow of the Conference of Actuaries in Public Practice, a member of the American Academy of Actuaries, an Associate of the United Kingdom's Institute of Actuaries, and an Enrolled Actuary.

If you require any further information, or if I can be of service to you in any way, please do not hesitate to contact me.

PBA/BAC/mc

THE FOLLOWING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

Social Security Rollback Must Wait

WASHINGTON (AP) — President Carter says cuts in "unnecessary" Social Security benefits must precede any rollback in the steep payroll tax increases enacted to save the retirement fund from bankruptcy.

In his upcoming budget, Carter proposes eliminating \$600 million in Social Security benefits in '80, it was learned Wednesday.

The president's proposal comes at a time of increasing congressional support for a rollback of the tax increases.

SOCIAL SECURITY DEDUCTIONS. Many Americans will have Social Security deductions taken from their paychecks for a longer period in 1979 than in 1978. Assuming a worker is paid weekly every Friday, here is how long he or she will pay Social Security taxes in 1979, compared with 1978:

Annual Earnings	1978		1979	
	Number of Weeks	Last Social Security Payment	Number of Weeks	Last Social Security Payment
\$17,700 or less	52	Dec. 29	52	Dec. 28
20,000	47	Nov. 24	52	Dec. 28
22,900	41	Oct. 13	52	Dec. 28
25,000	37	Sept. 15	48	Nov. 30
30,000	31	Aug. 4	40	Oct. 5
35,000	27	July 7	35	Aug. 31
40,000	24	June 16	30	July 27
50,000	19	May 12	24	June 15

CB-RADIO RULES. Those who found a citizens'-band radio under the Christmas tree this year may want to get a copy of the Federal Communications Commission's new booklet, "Citizens Band Radio Service Rules." The booklet explains federal broadcast regulations for CB's in plain English. It explains how to get a license and what to do to get on the air. It even includes a CB-problem checklist to help make repairs. The booklet is available for \$1.25 from the Consumer Information Center, Dept. 109F, Pueblo, Colo. 81009.

CHAIN LETTERS. A new illegal chain-letter scheme apparently is sweeping the country, the Postal Service warns. The chain, called the "Circle of Gold," usually requires participants to buy two copies of the letter for \$100--\$50 for the bearer of the letters and another \$50 to the first person at the top of a 12-name list. The Postal Service cautions that chain-letter schemes involving the mailing of money are against federal law. Besides, it notes, people who buy chain letters rarely get their money back.

WINTER DOG WALKING. The Humane Society of the United States issues this seasonal warning for dog owners: A pet spending most of its time indoors probably never has developed a thick undercoat. Spending long periods outdoors in frigid weather could be dangerous to its health.

SOLAR-ENERGY FIT FALLS. If you've been thinking about installing solar-energy equipment to take advantage of new tax breaks, be careful, warns a report just published by a congressional subcommittee. Some solar-energy systems, especially those in residences, have been plagued by "a significant number of design, manufacturing and installation problems," the subcommittee said. Other energy-conservation steps that may be more cost-effective also should be considered, the subcommittee added. These include installation of insulation, storm windows or doors, caulking or weatherstripping and automatic-setback thermostats.

March 17, 1978

ANALYSIS OF ALTERNATIVES TO THE SOCIAL SECURITY
FOR PERS AID TEMPORARY EMPLOYEES OF THE STATE OF ALASKA

In November 1977 the State of Alaska notified the Social Security Administration of its intent to terminate participation in the Social Security System. Such termination is effective two years from the date that the notice of intent was filed. State employees in the following categories will be affected by the withdrawal from Social Security:

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.

As all of the state employees affected by the withdrawal from Social Security do not have the same fringe benefits, it is necessary to establish a separate and distinct plan for each of the above listed groups of employees. There are basically three plan combinations that are feasible to accommodate a replacement for Social Security. There are up to three basic components involved in each of these three replacement plans. The components are PERS, the existing deferred compensation plan and a new 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. The three alternate plans are comprised of these basic components as follows:

1. Plan A - PERS plus the deferred compensation plan
2. Plan B - PERS plus the deferred compensation plan plus the new plan
3. Plan C - The deferred compensation plan plus the new plan

The alternatives available for each of the four considered groups of employees are:

1. PERS employees - Plans A, B and C
2. Justices and judges - Plan C
3. Temporary employees - Plan C
4. Marine Transportation division employees - Plan C

Obviously, if either all or a portion of the temporary employees or employees of the division of marine transportation were at a future time included under PERS, their Plan C would be modified to the extent they would be sharing in any benefits under PERS that were deemed otherwise attributable to replacement for Social Security coverage.

Under Plan A there would be improvements in the retirement, survivor's, lump sum death and disability benefits under PERS to recognize the loss of Social Security benefits, it being felt that those increases in the existing PERS benefits would raise those overall benefits to a satisfactory level. Social Security contributions in excess of the amount necessary to fund the increased cost would go to the deferred compensation plan.

Under Plan B the PERS improvements for these benefits would be more modest with additional survivor's disability and lump sum death benefits being established under a new plan. Excess Social Security contributions would go again to the deferred compensation plan.

Finally, under Plan C there would be no PERS improvements. Thus, Plan C is identical to Plan B, except that more funds are diverted to the deferred compensation plan.

The Social Security Withdrawal Study Group which is made up of representatives from all the organizations representing state employees recommended Plan B for PERS employees and Plan C for temporary employees. Under Plan B for PERS employees the following benefits are available for selection:

<u>BENEFITS</u>	<u>COST</u>
1. Increase the benefit crediting factor for employees other than peace officers and firemen to 2-1/2% per year of state employment after withdrawal from Social Security (currently 2%) and increase the benefit crediting factor 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%).	Future Service Only 2.4 Future Service and Past Service 3.2

- | | | | |
|----|--|--|------------|
| 2. | Increase the occupational death and disability benefits for payments prior to retirement date to the larger of 40% of compensation and the accrued PERS benefit (currently 40% of compensation.) | (already included in PERS program) | 0.0 |
| 3. | 25 year service retirement | Future Service Only
Future Service and Past Service | 0.7
0.9 |
| 4. | 20 year service retirement | Future Service Only
Future Service and Past Service | 2.2
2.8 |
| 5. | Add non-occupational disability benefits of larger of 40% compensation or accrued benefit | | 0.4 |
| 6. | (Note: At a minimum it is suggested 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 (re-marriage or spouse earnings following death of the employee).) | | |

PERS Employees

One X Salary Benefit	.5
Two X Salary Benefit	1.0

Temporary Employees

Lump Sum Benefit \$15,000	..21
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All other monies received for temporary employee as a result of social security withdrawal will be placed in a mandatory deferred compensation program.

7. In addition, it is recommended that the cost of all improvements to PERS, plus the cost of any new plan, not exceed 75% of the contributions available from Social Security on a long term basis. Funds placed in deferred compensation plan.

(NOTE: This report does not deal with selection of benefits or plans with selection of benefits or plans for employees under the Judiciary System or Marine Group.)

Currently employees and the State each contribute 6.05% (12.1%) of income on a taxable wage base of \$17,000.00 to social security. The total monies (12.1 of \$17,000.00 base) contributed to social security currently equal 8.9% of the total state payroll. Calculations from the Milliman and Robertson, Inc. Report indicate total Social Security contributions in future to be equivalent to 10.2% of total state payroll. It is now necessary to select a percentage between 8.9% and 10.2% on which to base the benefit package for PERS employees. Assuming 8.9% is selected a typical benefit package from the benefits listed above would be as follows:

A.	1/2% benefit factor increase (Item 1)	Future Service Only	2.4
B.	20 year retirement (Item 3)	Future Service and Past Service	2.8
C.	Non-occupational disability at 40% compensation (Item 5)		0.4
D.	Two Salary Benefit (Item 6)		1.0
E.	25% contributed to deferred compensation plan to provide margin of error (Item 7)		2.3
		TOTAL	<u>8.9</u>

Areas for Discussion

1. There are several ways in which the employee contributions to the plan 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, of course, will receive tax-free any benefits resulting from those contributions. An alternative would be to have all contributions made through 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 legislation introduced should indicate in what manner the contribution will be handled.
2. Keeping in mind that Social Security Law can change at anytime, it has been suggested to the new PERS plan developed from Social Security withdrawal to Social Security contributions rates in the future. Thus if in the future either employer or employee contribution rates increased in Social Security, likewise there would be an increase in the new PERS plan for both employees and the employer (State of Alaska). State employees would not gain any increased employer contribution, if

the new PERS plan is not tied to Social Security contribution rates. However, many legislators have indicated that if an attempt is made to tie the new PERS plan to social security contribution rates in the future, the legislation opting out of Social Security will have much difficulty passing. It might be wise to select a percentage of total payroll between 8.9% and 10.2% (explained above) as the mandatory contribution rate for a set number of years.

SOCIAL SECURITY TAKES BIGGER CHUNK OF PAYCHECKS WITH MORE INCREASES DUE

The new Social Security financing bill will substantially raise the payroll taxes of everyone paying into the system—employees and employers alike.

The taxes, designed to shore up the shaky Social Security system, will not take effect until next year. But employees already have seen a slight increase this year under an older law, and deductions will escalate rapidly starting in 1979.

The increases are intended to boost Social Security revenues to avoid a fiscal crisis the disability fund faces next year and the exhaustion of the old age and survivors' trust fund in 1983. The new tax structure also is supposed to eliminate the system's fiscal deficits for 75 more years.

The original Social Security funding law required an increase this year of two-tenths of one per cent on a slightly expanded wage base. The rate already has changed from 5.85 per cent of the first \$16,500 to 6.05 per cent of the first \$17,700. For a \$10,000 a year worker, the tax increased \$20 per year. The maximum tax jumped from \$965 to \$1,071. But starting in 1979, the changes will come more rapidly.

Passed at the close of the first session of Congress, the new funding bill almost doubles the previously scheduled increases in payroll taxes through 1987. For some workers the actual annual deduction will almost triple over the next 10 years.

By 1987, lower-paid employees will be paying 15-20 percent higher payroll taxes. Those earning more than \$20,000 will pay about 85 per cent more than they do now. There will be a dramatic rise in the taxable wage base from the current \$17,700 to \$42,600.

There is some good news for retirees, though. Under the older of the two financing laws, retired persons younger than 72 could earn only \$3,000 a year without losing any of their Social Security benefits. That changed. This year, retirees age 65-71 may earn up to \$4,000 with no penalty—above the limit they lose one dollar of pension for every two dollars earned. There is no outside income limit for persons age 72 and older.

Beginning in 1982, there will be no earning limit for those age 70 and older, and no penalty for outside income of \$6,000 for other retirees over age 65.

Here's how the new law affects three specific wage earners:

* \$10,000 wage earner in 1977 paid a maximum tax of \$585 . . . by 1987 the payroll deduction will reach \$715.

* \$15,000 wage earner paid a maximum tax of \$877.50 last year . . . by 1987 the payroll deduction will reach \$1,072.50.

* \$20,000 wage earner paid a maximum tax of \$965 . . . by 1987, the payroll deduction will reach \$1,430.

The new schedule of Social Security deductions is more fully detailed in the accompanying chart.

One foreseeable effect of the S. S. increases, besides the erosion of earnings for public employees, is the difficulty of improving employee benefits or winning new ones. The state must match the increased contributions imposed on employees on a dollar-for-dollar basis. It is safe to assume that public employers will try to hold down costs in other areas to compensate for this added cost.

James F. Marshall, executive director of the Assembly of Governmental Employees, of which the SCSEA is an affiliate, warns that some states may try to cut the cost of the new legislation by pushing for integration of their public employees' retirement system with Social Security. Although this would reduce contributions by both employee and employer, it also would mean a reduction in the size of retirement checks.

If the Social Security program proves too expensive, other ways to trim costs may include stripping away Medicare, disability and survivor benefits and handling them separately to hold down Social Security taxes.

Some of the expense of new taxes this year is balanced by President Carter's State of the Union proposal for a general tax cut which should be slightly larger than the increased payroll deductions for most employees.

S.S. NEW DEDUCTIONS

Salary	Current rate	New law
\$10,000		
1979	\$605	\$613
1982	630	670
1985	630	705
1987	645	715
\$20,000		
1979	\$1,143	\$1,226
1982	1,260	1,340
1985	1,260	1,410
1987	1,290	1,430
\$30,000		
1979	\$1,143	\$1,404
1982	1,474	2,010
1985	1,758	2,115
1987	1,935	2,145
\$40,000		
1979	\$1,143	\$1,404
1982	1,474	2,131
1985	1,758	2,676
1987	2,012	2,660

\$42,600 or more — \$3,046

CHANGES IN THE SOCIAL SECURITY LAW

The maximum amount of earnings that counts for social security increased on January 1, 1978 to \$17,700 up from the previous year's taxable wage base of \$16,500, according to the Social Security Administration. Because of changes in the law designed to keep benefits in line with living costs, it is no longer possible to predict with accuracy what the dollar amounts of benefits are likely to be in the future years. The law is structured, however, so that you can be sure that the "real" value of your benefits (your buying power) will be at least as great as it is now.

Under the tax schedule now written into law, the 1978 combined Social Security and Medicare tax is 6.05 percent of the first \$17,700 of earnings. (\$1,070.85 at the most) (8.1 percent or \$1,433.70 at the most, for self-employed). The employer contributes the same amount toward an employee's coverage.

Maximum earnings subject to tax will be set by law through 1981 (see table below). After that, they will be raised whenever cash benefits are increased, under the automatic adjustment provisions of the law, because of increases in the cost of living. How much the tax base will rise after 1981 cannot be known now, as it depends on the increase in average wages of employees covered by Social Security each year. Tax rates after 1981 will be, for employer and employee, 6.7 percent each from 1982 through 1984, 7.05 percent in 1985, 7.15 percent from 1986 through 1989, and 7.65 percent from 1990 on; for the self-employed, 9.35 percent from 1982 through 1984, 9.9 percent in 1985, 10 percent from 1986 through 1989, and 10.75 percent from 1990 on.

EMPLOYER & EMPLOYEE (EACH)

Year	Maximum Earnings Base	OASDI Tax Rate	Health Plan Tax Rate	Total Tax Rate	Annual Maximum Tax
1978	\$17,700	5.05	1.00	6.05	\$1,070.85
1979	22,900	5.08	1.05	6.13	1,403.77
1980	25,900	5.08	1.05	6.13	1,587.67
1981	29,700	5.35	1.30	6.65	1,975.05

SELF-EMPLOYED

1978	\$17,700	7.10	1.00	8.10	\$1,433.70
1979	22,900	7.05	1.05	8.10	1,854.90
1980	25,900	7.05	1.05	8.10	2,097.90
1981	29,700	8.00	1.30	9.30	2,762.10

The monthly Social Security check you will get after you retire fully insured depends on your average earnings

in "covered employment during the period used to figure your benefits. In the first 5 months of 1978, an employee and his wife can expect to receive a joint monthly benefit check of around \$690 — provided they both start drawing benefits at age 65 and the employee's earnings have been equal to or over the maximum taxable earnings base each year that is used to figure benefits.

You can retire before you reach 65, but this will result in a reduced monthly benefit. The earliest age at which you can retire is 62. If you retire on your 62nd birthday and apply for benefits immediately, you can get 80 percent of the monthly amount you would be entitled to if you waited until 65. For each month you wait to apply after reaching 62, your benefits checks are slightly higher. Note that if you choose to take benefits in a reduced amount before you reach 65, you will continue to get a reduced benefit even after you reach 65. Dependents of the insured may be entitled to benefits of the following categories:

Wife or husband at least 62 years of age (a non-dependent husband will have his benefit reduced by the amount of any pension he receives for public employment not covered by Social Security).

Wife at any age if she is caring for a child under 18 or disabled — who is entitled to Social Security.

Unmarried children under 18 (or 22 if fulltime students).

An unmarried child who becomes disabled before reaching 22 and has remained so since, or whose disability recurs within seven years of the termination of his earlier entitlement to benefits.

Grandchildren who live with insured, if their parents are dead or disabled.

A divorced wife if she (a) is at least 62 and (b) was married to insured for 20 years or more (10 years, starting January 1979).

Medicare for the aged or disabled is discussed on the reverse. For additional discussion see Payroll Compensation at 353-151. Copies of "Your New Social Security and Medicare Fact Sheet" can be ordered by writing to: BNA Books, The Bureau of National Affairs, Inc., 9401 Decoverly Hall Rd., Rockville, Maryland 20850. Copies are 30c each for 20-29 copies, 25c for 100-499, 20c for 500-999 copies, and 19c each for 1,000 to 2,499.

Social Security's Dominance

With more than half of U.S. households paying more in social security taxes than federal income taxes, complaints about the nation's tax structure are mounting. Critics point out that social security's transformation into the dominant tax for the majority of U.S. families is steadily turning the nation's "progressive" tax system into a "regressive" structure in which lower-income taxpayers are bearing a proportionally heavier tax burden than upper-income individuals.

Two factors have combined to produce this shift in the nation's tax burden: congressional reliance on higher payroll taxes, rather than income taxes, to finance increased social security benefits; and the continuing erosion of the income tax base by various corporate and individual tax breaks, which currently are estimated to cost the Treasury Department \$112.7 billion in yearly revenues. Thus, in 1950, 79.7 percent of the federal government's revenues were derived from income taxes and only 20.3 percent from social security; today, however, income taxes account for 59.3 percent of the revenues, while social security payroll taxes have climbed to 40.7 percent. Moreover, with the recent trend toward cutting income taxes to offset higher social security taxes the shift is accelerating. For example, President Carter's proposed \$25 billion tax cut is designed, in part, to help offset the hefty social security tax increase that went into effect on January 1. Also, Mr. Carter has indicated that more tax cuts may be in the works to ease the sharp payroll tax hikes scheduled for future years under the social security reform bill signed into law in December.

Tax Rulings

Traveling Expenses . . .

An employee's contention that his traveling expenses, including the costs of meals and lodgings, during a year's employment in another state were tax deductible is upheld by the U.S. Tax Court.

Due to a depressed job market in his home town of Cleveland, Ohio, a union electrician, who normally secured work through an area hiring hall, was obligated to work for a year at a Michigan jobsite. Although the worker periodically returned to his family home in Ohio, where he looked for a job and even investigated

other lines of work, a lack of work in the area forced him to keep returning to the Michigan jobsite. In filing his federal income tax returns, the employee claimed that his Michigan employment was temporary and that his expenses there were deductible as "traveling expenses" that had been incurred "away from home" in the pursuit of a trade or business.

Rejecting the Internal Revenue Service's argument that the employee's home was Michigan since it was his principal place of employment, the court stresses that the worker had "strong social and familial ties" to Cleveland and had "no intention" of working away from there "except on a temporary basis." "It would not have been reasonable" for the employee to "relocate himself and his family in Michigan," the court says, concluding that the worker was entitled to the deduction. (*Saunders v. Comr.*, USTC No. 1236-75, Dec. 12, 1977)

. . . Apprenticeship Committee

A collectively bargained, jointly administered apprenticeship committee formed to upgrade area work standards through educational and training programs qualifies for an exemption from federal income tax, the Internal Revenue Service holds.

Under a contract between a union and an employers' association, IRS notes, the nonprofit apprenticeship committee selects and trains apprentices in order to "ensure that local standards on the quality of work conform with national codes for the industry." Federal law, IRS continues, provides for the tax-exempt status of "labor organizations" set up to better their members' conditions, improve the grade of their products, or develop a higher degree of efficiency in their occupations. Since the apprenticeship committee was involved in "improving the grade of the industry's product" and "developing a higher degree of occupational efficiency," IRS concludes, it "is exempt from federal income tax." (*Rev. Ruling 78-42*, Jan. 30, 1978)

UI: IUR Drops, EB Halted

Regular extended unemployment insurance benefits (EB) were discontinued in 41 states on January 28, because the national insured unemployment rate (IUR) dropped below 4.5 percent, the Labor Department announces. The IUR drop to 4.42 percent for the 13-week period ending January 7 ended the authoriza-

(Continued on page 7)

THE PRECEDING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

Page 3, lines 26 thru line 15, page 4) RE: 39.30.160 Disability Benefit

This section is in conflict with 39.35.410(d) (Page 2 line 12-17)

To be fair to both parties affected (Police + Fire) + (all other Employees) a compromise of 60% for a disability as defined in this section is reasonable. Even though most Police + Fire Personnel are facing debilitating injuries on a regular basis as compared with other employees, the frequency of occurrence to all employees seems similar.

(Page 4, lines 21-27) Contributions:

The first 7 lines are fairly clear, both the State + the employee continue paying at the current (includes future) equal rate of the S.S. System. This in effect does not cost the State or the employee any different had we not chosen to get out of the S.S. system. The confusion comes on page 5 where specific percentages are set for different groups. The language identifies the States share paid to the system. If this percentage is allowed to remain static + does not move with the Federal System it would be out of balance in a few years.

There is no question in my mind that withdrawal from Social Security is the best way to go. Properly written this Bill when passed, will provide Alaskans with the retirement incentive to remain in Alaska. It will also provide retirees with the necessary funds to keep them out of the "Poverty Bracket" present Social Security recipients are in.

Sincerely,

Robert A. Penman

7730 Honeysuckle

Anchorage, Alaska

99502

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

GENERAL OVERVIEW

FOR THIS GENERAL OVERVIEW
 * WHEN STATED "SAME AS SB 25" ^{HB} ~~NECESSARILY~~ ^{NOT} ~~BE~~
 SB 25 ^{HB} ~~46~~ ~~MAY~~ ~~NOT~~ ~~BE~~
 EXACTLY THE SAME. REFER TO COMPREHENSIVE DRAFTS. But it generally speaks to same issue.

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
1.	Requires social security contribution.	Requires same or contribution in <u>lieu</u> of social security.	* Same as SB 25
2.	Defines members. Lists those included and those excluded..	Adds to include marine transportation ferry system employees now excluded with stipulation of collective bargaining.	Adds to include marine transportation employees. Deletes exclusion of M.T.
3.	Defines "normal retirement"	Amends to include members in alternative system. 25 & out.	Same as SB 25
4.	Defines retirement for peace officers and firemen. Determines retirement for all other PERS members.	Increases retirement benefits for PERS members in alternate system.	Same as SB 25
5.	Determines occupational disability pension for firemen & peace officers. Determines same for all other members.	Determines occupational disability pensions for all members.	Same as SB 25
6.	<u>NEW SECTION - 4 parts</u> AS 39.30.150	Determines survivor benefits for occupational and non-occupational death. Defines basic monthly compensation under alternate system.	Same as SB 25
	.160	Determines disability benefits for each group under alternative system. Defines "disability". Requires proof of disability.	Same as SB 25
	.165	Defines "Basic Monthly Compensation"	Same as SB 25

SB 25 -SOCIAL SECURTY WITHDRAWAL

Comparative summary of existing
statutes, SB 25 and HB 946 based
on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
	.170	Determines contributions in <u>lieu</u> of social security for each group. Provides for deductions for defer- red compensation. Sets up accounts.	Same as SB 25
7.	NEW	Provides intention to withdraw from social security by 1/1/80 if ap- proved by employees.	Same
8.	NEW	Provides for election	Same
9.	NEW	Provides for effective dates	Same

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
1. AS 39.35.160(b)	Each employee shall pay the appropriate social security contribution.	Amends by <u>adding</u> that each employee shall pay the appropriate social security contribution <u>or</u> a contribution in <u>lieu</u> of a social security contribution.	<u>SAME AS SB 25</u>

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing
statutes, SB 25 and HB 946 based
on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
2. AS 39.35.680(21)	<p>(A) Defines member or employee as one eligible to participate in PERS and</p> <p>(B) includes:</p> <ul style="list-style-type: none"> i. active member ii. inactive member iii. vested member iv. deferred vested member v. non-deferred vested member vi. disabled member vii. retired member <p>(C) does <u>not</u> include:</p> <ul style="list-style-type: none"> i. former members ii. persons on contract or fee basis iii. casual, emergency or temporary workers iv. persons in Alaska Teachers Retirement System v. Marine Transportation ferry system employees who are covered by union or group retirement system to which state makes contributions. vi. supreme court justices 	<p>Adds new sub-paragraph(D) to <u>include</u> marine transportation employees who are now excluded under (C)(v) from PERS <u>if</u> the state agrees to their inclusion through collective bargaining <u>and</u> specifying that other than military service credit, only service after 1/1/80 may be credited.</p>	<p><u>Includes</u>, under (B) marine transportation employees who are now excluded under (C)(v), and specifies that other than military service credit, only service after 1/1'90 may be credited. Deletes (C)(v) which <u>excludes</u> Marine Transportation ferry system employees.</p>

SB 25 -SOCIAL SECUIRTY WITHDRAWAL

Comparative summary of existing
statutes, SB 25 and HB 946 based
on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
3. AS 39.35.680(25)	Defines "Normal retirement" as retirement for a member who is at least 55 and has a minimum of 5 years credited service, or who is any age and has 30 years or more credited service, or a peace officer or fireman who is any age and has 20 years or more of credited service.	Amends to include under the definition of "normal retirement" members who are making contributions under the <u>new</u> system in lieu of social security and are of any age & have 25 years or more of credited service.	SAME AS SB 25.

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.

EXISTING STATUTES

SB 25

HB 946

4. AS 39.35.370(c)

Determines the amount of retirement pension for peace officers and firemen. For every other PERS member and retired member the monthly amount is 2% of his average monthly compensation times years of credited service.

Amends statute by adding an increase in the monthly amount of retirement benefit for a PERS employee who is paying into the alternate system (in lieu of social security) by $\frac{3}{4}$ of 1% of the average monthly compensation times the years of credited service making the total = $2\frac{3}{4}\%$ of the average monthly compensation times years of credited service.

SAME AS SB 25

was not
included
in the bill
because
it was
not
the
same
as
the
bill

SB 25 -SOCIAL SECURITRY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
5. AS.39.35.410(d)	<p>Determines monthly amount of occupational disability ^{pension} for a peace officer or fireman. For other employees it is determined in accordance with sec. 370(c) of this chapter (see sec. 4 of this summary), considering compensation before termination of employment and <u>either credited service that would have been accumulated</u> if employment had continued until his 55th birthday <u>or</u> actual credited service before disability, whichever is <u>greater</u>, except the determined amount shall be reduced by assuming that a joint & survivor option of 75% became immediately effective upon retirement, with the employee's spouse as contingent beneficiary. If no spouse exists at retirement the pension shall not be reduced.</p>	<p>This section is amended to <u>read</u> that the amount of an occupational disability pension is the <u>greater</u> of 40% of the employee's gross monthly compensation, <u>or</u> the amount determined in sec. 370(c) of this chapter, considering the employees credited service and compensation before termination of employment.</p>	<u>SAME AS SB 25</u>


SB 25
SECTION NO.

6. AS 39.30 is amended by adding new sections to the existing statutes.
ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.150 - SURVIVOR BENEFITS

SB 25

HB 946

- a) State shall provide for survivor's benefits for occupational and non-occupational death effective as of employee's first day of employment or 1/1/80 whichever is later, to employees making contributions under AS 39.30.170 (alt. system)
- 1) for casual, emergency & temporary employees not covered by PERS or TRS, benefits payable to beneficiary shall be a lump sum of \$15,000.
 - 2) for all employees other than those above, benefits payable shall be a lump sum equal to 12 times the employee's basic monthly compensation at time of death.
- b) Defines "Basic Monthly Compensation at Time of Death" as employee basic monthly compensation for the last full month of employment immediately preceding death or disability leading to death.
- a) Same as SB 25
- 1) for employees covered by Judicial Retirement Ssystem or PERS, benefits payable to beneficiary shall be a lump sum equal to 12 times employee's basic monthly compensation at time of death.
 - 2) Same as a)1 sec.39.30.150 SB 25.
- b) Same as SB 25
- 

SB 25
SECTION NO.

6. AS 39.30 is amended by adding new sections to the existing statutes.

ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.160 - DISABILITY BENEFITS

SB 25

HB 946

- a) Requires state to provide an occupational and non-occupational disability benefit program covering each state employee making contributions under AS 39.30.170 (alternative system) Coverage to begin on 1st day of employment or 1/1/80, whichever is later. Disability payments are not payable during the first six months of disability.
- b) Defines "disability" as complete inability to engage in regular occupation during first 12 months of disability & thereafter complete inability to engage in any employment or occupation for which he is reasonably fitted by reason of education, training or experience.
- c) For a casual, temporary or emergency employee not covered by PERS or TRS, the benefit is \$100 per week payable only if the employee fulfills the requirements of (e) of this section. The last payment shall be for the week in which 1) death occurs, or 2) he reaches age of 65, whichever occurs first.
- d) For all employees other than those covered by (c) the monthly disability benefit shall be 60% of the first \$5,000 of the employees basic monthly earnings at the date of disability less any benefits the employee is entitled to under social security or any other disability plan to which the state contributes on his behalf. Disability benefits payable only if the employee fulfills the requirements of (e) below. The last payment shall be for 1) the month of his death, or 2) the month he reaches normal retirement age, or 3) the month he reaches 65, whichever comes first.

SAME AS SB 25
(Entire section)
dealing with DISABILITY
BENEFITS

SB 25
SECTION NO.

6. AS 39.30 is amended by adding new sections to the existing statutes.
ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.160 - DISABILITY BENEFITS (Continued from last page)

SB 25

HB 946

e) An employee receiving these benefits must provide satisfactory proof of continuing disability to the Director of the Division of Retirement & Benefits one year after employee is appointed to disability benefits and once each year thereafter until benefits cease. If employee provides satisfactory proof of permanent disability, the requirement of further proof of continuing disability may be waived.

SAME AS SB 25

SB 25
SECTION NO.

6. AS 39.30 is amended by adding new sections to the existing statutes.

ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.165 - BASIC MONTHLY COMPENSATION

SB 25

HB 946

Defines "basic monthly compensation" as the amount earned by the employee during the month, including normal overtime; however, unusual or seasonal overtime or work of a seasonal nature may be adjusted to reflect a 12-month average.

SAME AS SB 25

SB 25
SECTION NO.

6. AS 39.30 is amended by adding new sections to the existing statutes.
ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURITY

Sec. 39.30.170 - CONTRIBUTIONS

SB 25

HB 946

- a) Amounts usually paid by the state and employee into social security shall be paid into a special employee benefit account in the Dept. of Administration to be used for retirement, death and disability benefits for:
1. PERS members except peace officers and firemen.
 2. Peace officers & firemen covered under PERS
 3. Judicial Retirement System members
 4. emergency, temporary or casual workers not covered by PERS or TRS
 5. Marine transportation state ferry employees who are covered by a maritime union contract but not in PERS
- b) Cost of providing survivor and disability benefits outlined in this article shall be determined and expressed as a percentage of payroll for all of the above groups except all employees covered by PERS shall be considered as one group. (a.1.& 2.)
- c) From employee benefits accounts (a) the Department of Administration shall deduct:
1. the amount determined under (b) to pay for cost of providing benefits under sections 150 & 160 for each employee in that group.
- (a) Amounts usually paid into social security to be paid into special employee benefit account in the Dept. of Administration for employee retirement, death and disability benefits.
- b) The cost of providing survivor and disability benefits under sections 150 & 160 shall be expressed as a percentage of payroll for each of the following
1. PERS members
 2. Judicial Retirement System members
 3. Emergency, temporary or casual workers not covered by PERS or TRS
- c) From the amount contributed by the employee and the state the Dept. of Administration shall deduct:
1. for each employee the amount determined under (b) to pay for benefits under sections 150 and 160.
 2. for PERS members except peace officers and firemen, an additional 7.1% of gross monthly compensation.
 3. for peace officers & firemen covered under PERS an additional 6.2% of gross monthly compensation.

6. AS 39.30 is amended by adding new sections to the existing statutes.
ARTICLE 4 - SUPPLEMENTAL EMPLOYEE BENEFITS ON WITHDRAWAL FROM SOC. SECURIT

Sec. 39.30.170 - CONTRIBUTIONS (Continued)

SB 25

HB 946

- (c) 2. from the account for group in (a)
(1) an additional 7.1% of gross monthly compensation for each employee in that group.
3. from the account for group in (a)
(2) an additional 6.2% of gross monthly compensation for each employee in that group.
- (d) The balance in each employee benefit account shall, after specified deductions in (c) be allocated on a pro rata basis to those employees for whom contributions under (a) exceed deductions under (c), and be deposited in individual deferred compensation accounts. The director of the division of retirement and benefits shall administer this program and establish operating procedures which allow for deferment of state and federal income tax until benefits are receivable in accordance with federal regulations under the Internal Revenue Code.
- (d) The balance of contributions made into special employee benefit account shall, after deductions specified in (b) of this section, be deposited in an individual deferred compensation account. Director of the division of retirement and benefits shall administer this program and establish operating procedures which allow for deferment of state and federal income tax until benefits are receivable in accordance with federal regulations under the Internal Revenue Code.

SB 25 - SOCIAL SECURITY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946	
7.	Intention to withdraw from Social Security System & providing for an effective date.	None	If approved by employees of the State of Alaska as set out in sec. 8 (see next page) the state's notice of intention to withdraw from the federal Social Security System shall become effective January 1, 1980.	<u>SAME AS SB 25</u>

SB 25 -SOCIAL SECURITTY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
8. Election	None	<p>Provides for the Dept. of Admin. to conduct a secret ballot election by <u>9/25/79</u>. The Dept. shall prepare a list of <u>all</u> affected employees and their addresses at least 90 days before the election and make the list available to interested parties. The question on the ballot shall read "Do you favor withdrawal from the Social Security System?" The ballot shall contain a description of the benefits under the alternative system in lieu of social security benefits. No other information concerning this issue will be distributed or attached to the ballot. A simple majority of those employees voting shall determine the outcome of the issue.</p>	<p>SAME AS SB 25 <u>except</u> this bill provides for a secret ballot election between <u>February 1 and April 1, 1979</u>.</p>

SB 25 -SOCIAL SECURTY WITHDRAWAL

Comparative summary of existing statutes, SB 25 and HB 946 based on the 9 sections of SB 25

SB 25

SECTION NO.	EXISTING STATUTES	SB 25	HB 946
9.	Effective dates	None	Sections 1-7 of this bill will take effect on 1/1/80 if approved by a majority of the voters under sec. 8. Sec. 8 takes effect immediately if this bill is passed.
			<u>SAME AS SB 25</u>

Introduced: 1/16/79
Referred: State Affairs
and Finance

1 IN THE SENATE

BY RAY

2 SENATE BILL NO. 25

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

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

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

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

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

13 * Sec. 2. AS 39.35.680(21) is amended by adding a new subparagraph to read:

14 (D) may include employees of the division of marine
15 transportation excluded under (C)(v) of this paragraph provided
16 that

17 (1) the State of Alaska formally agrees to their
18 inclusion through the process of collective bargaining, and

19 (ii) other than military service credit, only ser-
20 vice after January 1, 1980 may be credited under this chapter;

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

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

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

29 (c) The monthly amount of a retirement benefit for a peace officer

1 or fireman is two percent of the average monthly compensation times the
2 years of credited service up through 10 years. plus two and one-half
3 percent of the average monthly compensation times the years of service
4 over 10 years. For all other employees it is two per cent of the aver-
5 age monthly compensation times the years of service. The monthly amount
6 of a retirement benefit for an employee covered by this chapter who is
7 making contributions under AS 39.30.170 shall be increased by three-
8 fourths of one per cent of the average monthly compensation times the
9 years of credited service with the State. An actuarial adjustment must
10 be made for an early retirement benefit.

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

12 (d) The monthly amount of an occupational disability pension is
13 the greater of 40 per cent of the disabled employee's gross monthly com-
14 penetration at the time of termination due to disability or the amount
15 determined in accordance with AS 39.35.370(c) considering the employee's
16 credited service and compensation before termination of employment.

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

18 ARTICLE 4. SUPPLEMENTARY EMPLOYEE BENEFITS ON WITHDRAWAL
19 FROM FEDERAL SOCIAL SECURITY.

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

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

29 (2) for all employees other than those covered under (1) of

1 this subsection, the benefit payable to the beneficiary shall be a lump
2 sum equal to 12 times the employee's basic monthly compensation at the
3 time of death;

4 (b) For purposes of this section "basic monthly compensation at
5 the time of death" means the employee's basic monthly compensation for
6 the last full month of employment immediately preceding his death or
7 disability leading to his death.

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

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

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

26 (d) For all employees other than those covered in (c) of this
27 section, the monthly disability benefit shall be 60 per cent of the
28 first \$5,000 of the employee's basic monthly earnings at the date of
29 disability less any disability benefits the employee is entitled to

1 under Social Security or any other disability plan to which the state
2 makes contributions on behalf of that employee. The disability benefit
3 shall be payable only if the disabled employee fulfills the requirements
4 set out in (c) of this section. The last payment shall be for (1) the
5 month in which the death of the disabled employee occurs, or (2) the
6 month the disabled employee reaches normal retirement age, or (3) the
7 month the disabled employee reaches the age of 65, whichever comes
8 first.

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

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

21 Sec. 39.30.170. CONTRIBUTIONS. (a) The amounts which both the
22 state and the employee of the state would have otherwise paid into the
23 federal Social Security System at the rate then in effect had the state
24 continued in the federal Social Security System shall be paid into
25 special employee benefit account in the Department of Administration to
26 be used to provide employee retirement and death and disability benefits
27 for each of the following groups:

28 (1) employees covered under the Alaska Public Employees'
29 Retirement System (AS 39.35), except peace officers and firemen (as

1 defined in AS 39.35.680(27));

2 (2) peace officers and firemen covered under AS 39.35 (PERS);

3 (3) employees covered under the Judicial Retirement System
4 (AS 22.25);

5 (4) emergency, temporary or casual workers not covered under
6 AS 39.35 (PERS) or AS 14.25 (TRS);

7 (5) employees of the division of marine transportation en-
8 gaged in operating the state ferry system who are covered by a maritime
9 union contract and are not covered under AS 39.35 (PERS).

10 (b) There shall be determined the cost of providing the survivor
11 and disability benefits provided under AS 39.30.150 and AS 39.30.160
12 expressed as a percentage of payroll for each of the groups set out
13 under (a) of this section, except that all employees covered under AS
14 39.35 (PERS) shall be considered as one group for purposes of this
15 subsection.

16 (c) From the employee benefit accounts established under (a) of
17 this section, the Department of Administration shall deduct:

18 (1) from each benefit account, the amount determined under
19 (b) of this section to pay the cost of providing benefits under secs.
20 150 and 160 of this chapter for each employee in that group;

21 (2) from the account for the group listed in (a)(1) of this
22 section, an additional 7.1 per cent of gross monthly compensation for
23 each employee in that group;

24 (3) from the account for the group listed in (a)(2) of this
25 section, an additional 6.2 per cent of gross monthly compensation for
26 each employee in that group.

27 (d) The balance in each employee benefit account shall, after
28 deduction of the amounts specified in (c) of this section, be allocated
29 on a pro rata basis to those employees for whom contributions under (a)

1 of this section exceeded deductions under (c) of this section and be de-
2 posited in individual deferred compensation accounts in the names of
3 those employees. The director of the division of retirement and bene-
4 fits shall administer the deferred compensation program and shall, by
5 regulation, establish operating procedures for the program which allow
6 for deferment of the state and federal income tax until benefits are
7 receivable in accordance with federal requirements under the Internal
8 Revenue Code.

9 * Sec. 7. If approved by employees of the State of Alaska as set out in
10 sec. 8 of this Act, the state's notice of intention to withdraw from the
11 federal Social Security System shall be allowed to become effective January
12 1, 1980.

13 * Sec. 8. The Department of Administration shall conduct an election by
14 secret ballot by September 25, 1979. The department shall, at least 90 days
15 before the election, prepare a list of all affected state employees, in-
16 cluding permanent, seasonal and temporary employees, who shall be eligible to
17 vote, along with mailing addresses, and make the list available to interested
18 persons or employee representative organizations. The question on the ballot
19 shall read: "Do you favor withdrawal from the Social Security System?" The
20 ballot shall contain a description of the benefits provided for in this Act
21 which would be provided in lieu of further benefits under the Social Security
22 System. No other information concerning the election issue may be distri-
23 buted with or attached to the ballot. A simple majority of those employees
24 voting shall determine the outcome of this issue.

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

THE FOLLOWING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.



Alaska State Legislature

JUNEAU ALASKA

SB 25

Relates to withdrawal from federal social security system by state employees. Amends AS 39.30 by addition of new article entitled "Supplemental Employee Benefits on withdrawal from federal social security". allowing state employees to pay into a special employee benefit account in the Dept. of Administration for retirement, death and disability benefits in lieu of a social security contribution. Provides act effective January 1, 1980, if approved by a majority of affected state employees. Sec. 8 provides for election by state employees on 9/25/79 - effective immediately.

Fiscal note wont be available for a week. - ADMIN - S & WELL - 2277

Modified and amended version of HB 946 (~~FINANCE COMMITTEE~~)

passed House & which passed in Senate Labor Management.

SB 25 is sponsored by Ray but was submitted by APEA who have related back-up material.

HB - 946



SB - 25

1. HISTORY
2. TESTIMONY & POSITIONS OF INTERESTED PARTIES
3. COMPARISON OF EXISTING STATUTES, SB 25 & HB 946
GEN. OUTLINE / DETAILED COMPARISON
4. DATA ON AFFECTED EMPLOYEES
5. SOCIAL SECURITY & PERS. BENEFITS

To DO: ① GET POSITIONS OF: PAUL ARNOLD - RETIREMENT
GILGOWER -
LOCAL 71 - WHEN AVAILABLE

② COMPARISONS OF SOCIAL SECURITY BENEFITS
& PERS (EXPANDED) BENEFITS

S/B 25.

1/22/78

Desired rate to be set by
Dept. of Admin. - with the
available till next week

Back up on HV ~~94~~ 946

Sponsored by Roy
Submitted by ~~AC/EA~~

SB. 25 - Withdrew from fed. soc. security

SEC. 1 - AS. 39.35.160(b) -

PERS - (APEA, UNF, P.S., LOCAL 71)

Last year - APEA -

LOCAL 71 - 800

OWN
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TRUST
FUND

- IBU - I had Bodens U. in

Public Sch -

Confidential Unit -

fudges - own

Temp. employees - no system

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in Pers.
used
to
so state
would look
diff

What to do w/SS money for disabled
people

946 said -

Now would say IBU can participate in Pers.
& use SS money for that purpose.

SB. 25

HB 946

Sec. 2, 115 39.35.680 (21) amended to read

(21) member or employee - person elig.

(A) to participate in system who is covered by system

(B) includes active, inactive, vested deferred vested, non-vested, disabled retired, employees of m.t. who are covered by maintenance unit contract

Sec. 6, ART. 4

Sec. 39.30.150 SURVIVORS BENEFITS

inc. Temp covered by federal Ret. System (AS 2.2.25) or APEA Ret. System

~~Sec. 39.30.165 (not included in bill) inc. #25~~

Sec. 39.30.170 - Contributions

THE PRECEDING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

Your
social security

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Your social security

Today, social security is the Nation's basic method of providing a continuing income when family earnings are reduced or stop because of retirement, disability, or death.

- ▶ Nine out of 10 workers in the United States are earning protection under social security.
- ▶ Nearly 1 out of every 7 persons in this country receives monthly social security checks.
- ▶ About 23.1 million people 65 and over, nearly all of the Nation's aged population, have health insurance under Medicare. Another 2.6 million disabled people under 65 also have Medicare.

Nearly every family, then, has a stake in social security.

Through the years since social security was enacted in 1935, there have been many changes to improve the protection it gives to workers and their families. At first, social security covered only the worker upon retirement; but in 1939, the law was changed to pay survivors when the worker died, as well as certain dependents when the worker retired.

Social security covered only workers in industry and commerce when the program began. In the 1950's, coverage was extended to include most self-employed persons, most State and local employees, household and farm employees, members of the Armed Forces, and members of the clergy. Today, almost all jobs in the United States are covered by social security.

Disability insurance benefits were first paid for July 1957, giving workers protection against loss of earnings due to total disability.

The social security program was expanded again in 1965 with the enactment of Medicare which assured hospital and medical insurance protection to people 65 and over. Since 1973, Medicare coverage has been available to people under 65 who have been entitled to disability checks for 2 or more consecutive years and to people with permanent kidney failure who need dialysis or kidney transplants.

As a result of legislation enacted in 1972, social security benefits will increase automatically in the future as the cost of living goes up.

Legislation enacted in late 1977 made an important change in the way benefits are calculated, restored the financial soundness of the social security program, and made other changes in the program.

This booklet is about your social security. It tells how you earn protection under social security, the kinds of benefits you and your family can get, how social security is financed, and other information that can help you in planning for the future.

Who gets checks?

Who gets a monthly social security check? The question can be answered in one word. People. All kinds of people. Young people, old people, poor people, rich people. Men, women, and children.

Monthly social security checks may go to workers and their dependents when the worker retires, becomes severely disabled, or dies. Then, there's Medicare, which helps pay the cost of health care for eligible people who are 65 or over or disabled.

Monthly benefits social security pays include:

Retirement checks—When you retire, you can start getting retirement checks as early as 62.

Disability checks—A worker who becomes severely disabled before 65 can get disability checks.

Under social security, you're considered disabled if you have a severe physical or mental condition which:

- ▶ Prevents you from working, and
- ▶ Is expected to last (or has lasted) at least 12 months, or is expected to result in death.

Your checks can start for the 6th full month of your disability. Once checks start, they'll continue as long as you are disabled. If you are severely disabled, you could get benefits even though you manage to work a little.

Survivors checks—If the worker dies, survivors checks can go to certain members of the worker's family. A lump-sum payment also can be made when a worker dies. This payment usually goes to the widow or widower.

Checks for a worker's family

Monthly social security checks also are paid to certain dependents of a worker who has retired, become disabled, or died.

Retirement or disability—Monthly payments can be made to a retired or disabled worker's:

- ▶ Unmarried children under 18 (or 22 if full-time students).
- ▶ Unmarried children 18 or over who were severely disabled before 22 and who continue to be disabled.
- ▶ Wife or husband 62 or over.
- ▶ Wife under 62 if she's caring for worker's child under 18 (or disabled) who's getting a benefit based on the retired or disabled worker's earnings.

Survivors—Monthly payments can be made to a deceased worker's:

- ▶ Unmarried children under 18 (or 22 if full-time students).
- ▶ Unmarried son or daughter 18 or over who was severely disabled before 22 and who continues to be disabled.
- ▶ Widow or widower 60 or older.
- ▶ Widow, widower, or surviving divorced mother if caring for worker's child under 18 (or disabled) who is getting a benefit based on the earnings of the deceased worker.
- ▶ Widow or widower 50 or older who becomes disabled not later than 7 years after worker's death, or within 7 years after mother's or father's benefits end.
- ▶ Dependent parents 62 or older.

Checks also can go to a divorced wife or husband at 62 or over, or a surviving divorced wife at 60, or to a disabled surviving divorced wife 50 or older if the marriage lasted 20 years or more (10 years beginning January 1979). Children may be eligible for social security benefits based on a grandparent's earnings under certain conditions.

Generally, a marriage must have lasted at least 1 year before dependents of a retired or disabled worker can get monthly benefits; survivors can get benefits in most cases if the marriage lasted at least 9 months.

Medicare

The two parts of Medicare—hospital insurance and medical insurance—help protect people 65 and over from the high costs of health care. Also eligible for Medicare are disabled people under 65 who have been entitled to social security disability benefits for 24 or more consecutive months (including adults who are receiving benefits because they have been disabled since childhood). Insured workers and their dependents who need dialysis treatment or a kidney transplant because of permanent kidney failure also have Medicare protection.

The hospital insurance part of Medicare helps pay the cost of inpatient hospital care and certain kinds of follow-up care. The medical insurance part of Medicare helps pay the costs of physicians' services, outpatient hospital services, and for certain other medical items and services not covered by hospital insurance. People who have

medical insurance pay a monthly premium. More than 70 percent of the cost of medical insurance is paid from general revenues of the Federal Government. The basic premium is \$8.20 for the 12-month period beginning July 1978.

If you're eligible for a social security or railroad retirement check either as a worker, dependent, or survivor, you automatically have hospital insurance protection when you're 65.

It's a good idea to apply for your Medicare insurance 3 months before your birthday month. That way your protection will start the month you reach 65. When you apply for hospital insurance, you will be enrolled automatically for the medical insurance part of Medicare unless you tell us you don't want it.

People 65 and over who haven't worked long enough to be eligible for hospital insurance can get this protection by enrolling and paying a monthly premium just as they would for other health insurance. The basic premium is \$63 for the 12-month period beginning July 1978. People who buy Medicare hospital insurance also must enroll in medical insurance.

For more information about Medicare, ask at any social security office for a copy of the leaflet, *A brief explanation of Medicare*.

Building protection

Monthly cash benefits

Before you or your family can get monthly cash benefits, you must have credit for a certain amount of work under social security. The exact amount of work credit depends on your age.

Social security credit is measured in "quarters of coverage." Starting with 1978, employees and self-employed people receive one quarter of coverage for each \$250 of covered annual earnings. For information about how self-employment earnings are covered under social security, ask for a copy of the leaflet, *If you're self-employed...reporting your income for social security*. No more than four quarters of coverage can be credited for a year. The \$250 measure will increase automatically in the future to keep pace with average wages.

Before 1978, an employee generally earned one quarter of coverage if he or she was paid wages of \$50 or more in a calendar quarter. Self-employed people received four quarters of coverage if they had self-employment net profit of \$400 or more.

More than 9 out of 10 jobs in paid employment and self-employment in the United States are covered by social security. Special rules which apply to some occupations are discussed later in this booklet.

If you stop working under social security before you've earned enough credit, you can't get benefits later. But the credit you've already earned will stay on your record and you can add to it if you return to work under social security.

Having enough credit means only that you or your family can get checks. The amount of your check depends on your average earnings over a period of years.

The following tables show how much credit is needed for retirement and survivors benefits. The people in any social security office will be glad to give you more details.

Under a special rule, cash payments can be made to a worker's children and their mother or father even though the worker dies with fewer credits than shown provided he or she has worked under social security $1\frac{1}{2}$ years in the 3 years before death.

Work credit for disability benefits

If you become disabled before you're 24, you need credit for $1\frac{1}{2}$ years of work in the 3 years before you become disabled

If you're between 24 and 31, you must have credit for half the time between your 21st birthday and the time you become disabled.

If you become disabled at 31 or later, you generally need credit for at least 5 years of work out of the 10 years ending when you become disabled. You may need additional credit, depending on your age and the date your disability starts.

The chart for work credits for survivors and disability benefits on the next page shows how much total work credit is needed by workers who become disabled at age 43 or older.

If you are disabled by blindness, you do not have to meet the requirement of recent work but do need credit for $\frac{1}{4}$ year of work for each year since 1950 (or the year you reached 21 if later), up to the year you become blind. A minimum of $1\frac{1}{2}$ years of credit is needed.

Work credit for retirement benefits

If you reach 62 in	Years you need
1975	6
1976	6 $\frac{1}{4}$
1977	6 $\frac{1}{2}$
1978	6 $\frac{3}{4}$
1979	7
1981	7 $\frac{1}{2}$
1983	8
1987	9
1991 or later	10

Work credit for survivors and disability benefits

Born after 1929, die or become disabled at	Born before 1930, die or become disabled before 62 in	Years you need
28 or younger		1 $\frac{1}{2}$
30		2
32		2 $\frac{1}{2}$
34		3
36		3 $\frac{1}{2}$
38		4
40		4 $\frac{1}{2}$
42		5
44		5 $\frac{1}{2}$
46	1975	6
48	1977	6 $\frac{1}{2}$
50	1979	7
52	1981	7 $\frac{1}{2}$
54	1983	8
56	1985	8 $\frac{1}{2}$
58	1987	9
60	1989	9 $\frac{1}{2}$
62 or older	1991 or later	10

Special rules apply to some work

Although almost all jobs in the United States are covered by social security, there are special rules which apply to some.

You should check with a social security office about these special rules if you work in or about someone's home doing housecleaning, gardening, or babysitting; if you are a student and also are employed by your school or college; if you own, operate, or work on a farm; if you are a member of a religious order; if you have a job where you get cash tips; or if you are an employee of a State or local government, a non-profit or international organization. Special rules also apply to those who work or are self-employed outside the United States.

Leaflets containing information of special interest to self-employed people, farmers, farm landlords, people who receive cash tips, and others are available at any social security office. State and local government employees should direct their questions to their State Social Security administrator.

What is it worth?

Amount of monthly checks

Up to now, social security checks have usually been based on your average earnings under social security over a period of years, using the actual dollar value of your past earnings. This method will continue to be used for workers who reach 62, become disabled, or die before 1979.

For workers who reach 62, become disabled, or die after 1978 a new method of calculating benefits will go into effect. Under this method, actual earnings for past years will be adjusted to take account of changes in average wages since 1951. These adjusted earnings will be averaged together and a formula will be applied to the average to determine the benefit amount.

The new method is intended to insure that benefits will reflect changes in wage levels over your working lifetime and will have a relatively constant relationship to pre-retirement earnings. So that no one now nearing retirement will be disadvantaged, the law contains a guarantee. Under the guarantee, retirement benefits for workers who reach 62 after 1978 and before 1984 will be figured two ways—under the old method using benefit rates that were in effect as of January 1979 and under the new method. The benefit rate paid will be the higher of the two calculations.

Workers who become disabled after 1978 will have their benefits figured only under the new method starting in 1979 as will the survivors of workers who die after 1978. In addition, social security benefits for people on the rolls will increase automatically in future years as the cost of living rises. Each year, living

costs will be compared with those of the year before. If living costs have increased 3 percent or more, benefits will be increased by the same amount and will be included in checks issued the following July unless Congress has already acted to raise benefits.

While you are working, social security contributions are taken out of your wages. You will pay social security contributions on all wages up to \$17,700 in 1978. After increases to \$22,900 in 1979, \$25,900 in 1980, and \$29,700 in 1981, this amount will increase automatically in future years to keep up with changes in average wage levels as under previous law. This means that a worker paying increased social security contributions can be sure of higher benefits later because benefits will be based on a higher level of earnings.

Social security checks are not subject to Federal income tax.

If you qualify for checks on the record of more than one worker (for example, on your own record and your husband's), you'll get an amount equal to the larger of the two amounts. If, in addition to your social security benefit as a wife, husband, widow, or widower, you receive a pension based on your work in public employment not covered by social security, your benefit as a dependent or survivor will be reduced by the amount of that pension. Under an exception in the law, your governmental pension will not affect your dependent's or survivor's benefit if you become eligible for that pension before December 1982, and, if at the time you apply or become entitled to your social security benefit as a dependent or survivor, you could have qualified for that benefit if the law as in

effect in January 1977 had remained in effect. (At that time, men had to prove they were dependent upon their wives for their support to be eligible for benefits as a dependent or survivor.) Your governmental pension, however, will not affect any social security benefit based on your own work covered by social security.

In addition to monthly benefits, there is a lump-sum payment made at a worker's death. It is \$255.

A word of explanation

Some people think that if they've always earned the maximum amount covered by social security they will get the highest benefit shown on the chart. This isn't so. Although retirement benefits as high as \$502 a month are shown, payments this high can't be paid to a worker retiring at 65 now. The maximum retirement benefit generally payable to a worker who becomes 65 in 1978 is \$489.70 a month (effective June 1978), based on average covered yearly earnings of \$8,257.

The reason the average can be no higher now is that the maximum covered earnings were lower in past years. Those years of lower limits must be counted in with the higher ones of recent years to figure your average covered yearly earnings and this average determines the amount of your check.

The maximum earnings creditable for social security are \$3,600 for 1951-1954; \$4,200 for 1955-1958; \$4,800 for 1959-1965; \$6,600 for 1966-1967; \$7,800 for 1968-1971; \$9,000 for 1972; \$10,800 for 1973; \$13,200 for 1974; \$14,100 for 1975; \$15,300 for 1976; \$16,500 for 1977; \$17,700 for 1978; \$22,900 for 1979; \$25,900 for 1980; and \$29,700 for 1981.

The table shows examples of monthly cash benefits payable, based on several different levels of average yearly earnings.

Reduced benefits

You can retire as early as 62, but your retirement check will be reduced permanently. Payment amounts are also reduced if a wife, husband, widow, or widower starts getting payments before 65.

The amount of reduction depends on the number of months you get checks before you reach 65. If you start your checks early, you'll get about the same value in total benefits over the years, but in smaller installments to take account of the longer period you'll get them.

Estimating your check

Although the *exact* amount of your retirement check can't be figured until you apply for benefits, you can estimate the amount ahead of time. Ask at any social security office for a copy of the leaflet, *Estimating your social security retirement check*.

Bigger checks by additional work

If you return to work after you start getting retirement checks, your added earnings will often result in higher benefits when you again stop working. Social security will automatically refigure your benefit after the additional earnings are credited to your record.

In addition, a worker who doesn't get any benefits before 65 and delays retirement past 65 will get a special credit that can mean a larger benefit. The credit adds to a worker's benefit 1 percent for each year (1/12 of 1 percent for each

Examples of monthly social security payments (effective June 1978)

Average yearly earnings after 1950 covered by social security

Benefits can be paid to a:	\$923 or less	\$3,000	\$4,000	\$5,000	\$6,000	\$8,000	\$10,000*
Retired worker at 65	121.80	251.80	296.20	343.50	388.20	482.60	534.70
Worker under 65 and disabled	121.80	251.80	296.20	343.50	388.20	482.60	534.70
Retired worker at 62	97.50	201.50	237.00	274.80	310.60	386.10	427.80
Wife or husband at 65	60.90	125.90	148.10	171.80	194.10	241.30	267.40
Wife or husband at 62	45.70	94.50	111.10	128.90	145.60	181.00	200.60
Wife under 65 and one child in her care	61.00	133.20	210.00	290.40	324.00	362.00	401.00
Widow or widower at 65 if worker never received reduced benefits	121.80	251.80	296.20	343.50	388.20	482.60	534.70
Widow or widower at 60 if sole survivor	87.10	180.10	211.80	245.70	277.60	345.10	382.40
Widow or widower at 50 and disabled if sole survivor	61.00	126.00	148.20	171.90	194.10	241.40	267.50
Widow or widower with one child in care	182.80	377.80	444.40	515.40	582.40	724.00	802.20
Maximum family payment	182.70	384.90	506.20	633.80	712.10	844.50	935.70

*Maximum earnings covered by social security were lower in past years and must be included in figuring your average earnings. This average determines your payment amount. Because of this, the amount shown in the last column generally won't be payable until future years. The maximum retirement benefit generally payable to a worker who is 65 in 1978 is \$489.70.

month) from age 65 to age 72 for which he or she did not get benefits because of work. The credit will be increased to 3 percent for each year ($\frac{1}{4}$ percent for each month) for workers reaching 65 after 1981. Also, persons who received reduced benefits will be able to get the credit for non-payment months after reaching 65. Starting with June 1978, the worker's credit will also apply to widow's and widower's benefits.

Special minimum benefit

There is a special minimum benefit at retirement for some people who worked under social security over 20 years. This helps people who had low earnings (but still above a specified level) in their working years. The amount of the special minimum depends on the number of years of coverage. For a worker retiring before 1979 at 65 with 30 years of coverage, the special minimum is \$180. Effective January 1979, the special minimum for a worker with 30 or more years of coverage will increase to \$230. Most people who have worked 20 years or more under social security already receive benefits higher than the special minimum.

Years of coverage from 1937 to 1950 are determined by dividing the total wages for those years by \$900, with a maximum of 14 years of coverage counted for that period. After 1950, a year of coverage is any year a person has earnings of at least 25 percent of the maximum covered by social security.

The automatic cost-of-living benefit increases apply to the special minimum benefit amounts starting in 1979.

Why payments stop

If you work after payments start

After you start getting social security checks, they will continue to arrive each month unless your circumstances change and cause payments to stop.

If you go back to work and are under 72, your earnings may affect your social security benefits. You don't have to stop working completely, though, to get social security benefits. You can receive all benefits if your earnings do not exceed the annual exempt amount. The annual amount for 1978 is \$4,000 for people 65 or over and \$3,240 for people under 65.

If your earnings go over the annual amount, we withhold \$1 in benefits for each \$2 of earnings above the limit.

The monthly measure used for 1977 and earlier years to determine whether benefits could be paid for any month a person earned 1/12 or less of the annual exempt amount and did no substantial work in his or her business has been eliminated. A person can use the monthly test only in the first year he or she has a month in which earnings do not exceed 1/12 of the annual amount or does not perform substantial services in self-employment. If such a month occurs in 1978, a benefit can be paid for any month in which you earn \$334 or less (if 65 or older) or \$270 (if under 65) and you don't perform substantial services in self-employment even though your total yearly earnings exceed the annual amount.

For people 65 or over, the annual exempt amount will increase to \$4,500 for 1979; to \$5,000 in 1980; \$5,500 for 1981; and \$6,000 for 1982. After that, the limit will increase automatically as the level of average wages rises. The limit for people under 65 will also continue to increase.

(*Note: Different rules apply to work performed by people getting benefits because they are disabled. For more information, ask for a copy of the leaflet, *If you become disabled*, at any social security office.*)

If you are getting retirement checks, your earnings may affect your dependent's checks as well as your own. If you get checks as a dependent or survivor, your earnings can affect only your own check.