

ALASKA

LEGISLATURE

COMMITTEE

FILES

1991-1992

8672

7282

HOUSE

STATE

AFFAIRS

H B

5 6 9

(7)

HOUSE COMMITTEE REPORT

Date Referred: March 27, 1992

FURTHER REFERRALS:

Judiciary

Date of Committee Action: 4/6/92

The STATE AFFAIRS Committee considered:

HB 569

HOUSE BILL NO. 569

LONGEVITY BONUS PROGRAM REGULATIONS

"An Act relating to regulations to implement the longevity bonus program."

RECOMMENDATIONS:

be replaced with _____ the same title a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal note Admin _____

zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Eugene G. Kubera</i>	<input checked="" type="checkbox"/>				
<i>Bob [unclear]</i>	<input type="checkbox"/>				
<i>John [unclear]</i>	<input checked="" type="checkbox"/>				
<i>John [unclear]</i>	<input type="checkbox"/>				
<i>Mark Miller</i>	<input checked="" type="checkbox"/>				
<i>Tom [unclear]</i>	<input type="checkbox"/>				

Eugene G. Kubera
CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. HB 569

Revision Date: _____
Title: An act relating to regulations
to implement the Longevity Bonus Program
Sponsor: Rules Committee by Request
Requestor: State Affairs

Department Affected: Administration
BRU: Pioneers' Benefits
Component: Longevity Bonus

COMPONENT

0	0	2	7
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE:	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Dennis L. DeWitt, Director
Division: Pioneers' Benefits

Phone: 465-4400
Date: April 2, 1992

Approved by Commissioner: Nancy Bear Usura
Agency: Administration

Date: _____

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc., & Impacted Agency(ies).

ALASKA STATE LEGISLATURE

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Shirley Craft
Alaska State Senator

MEMORANDUM

To: Representative Gene Kubina, Chair
House State Affairs Committee

From: Senator Shirley Craft *Shirley*

Date: April 2, 1992

Re: HB 569, "An Act relating to regulations to implement the longevity bonus program."

On November 21, 1990, the Department of Administration adopted regulations that would change the longevity bonus payment schedule from prospective to retrospective in nature. (It wasn't a simple issue and had created a \$9.75 million debt to the state.)

On March 13, 1992, the Administrative Regulation Review Committee met to scrutinize emergency regulations adopted by the Department of Administration to correct the problem.

The emergency regulations were the solution to the "duplicate payment" problem created by the previous administration. I was informed that there may be a legal problem with the emergency regulations. An assistant attorney general stated at the hearing, that although they could advise the Division of Pioneer Benefits on what they should do, they could not tell them what to do, because the longevity bonus program is not subject to the Administrative Procedures Act (APA).

The committee has unanimously agreed that there is no reason why this program should not be subject to the APA. The "duplicate payment" problem may have been prevented, if the program had followed the guidelines and procedures required of most programs.

I appreciate your early scheduling of this measure.

SPONSOR STATEMENT

Audit Report



STATE OF ALASKA

SINGLE AUDIT

For the Fiscal Year Ended
June 30, 1990



Audit Control Number:

02-6100-91

Division of Legislative Audit
P.O. Box W, Juneau, Alaska 99811-3300

Personnel. DOA should provide each department with all necessary material and guidelines for proper notification of employees.

Failure to fully implement the Drug-Free Workplace Act could be grounds for suspension of grant payments, termination of grants, and suspension or debarment as a recipient of federal funds.

Agency's Response

Recommendation No. 10

DOA should implement a drug-free workplace awareness program which fully implements Public Law 100-690, Drug-Free Workplace Act of 1988.

We concur. We originally believed that the "Drug Free Workplace Act of 1988 Notice to Employees Covered by the Act" met the requirements of Public Law 100-690. However, upon further review, we realize it does not. We will comply with the Act.

Recommendation No. 11

The Division of Pioneers' Benefits (DPB) should work with DOF to establish the appropriate FY 91 accounts receivable and bad debt expense associated with the new method of issuing longevity bonus payments.

During FY 91, DOA decided to move from a prospective payment of longevity bonus recipients to a retroactive payment system. A December 1990 letter to all longevity bonus recipients identified that recipients "will receive duplicate bonuses for January...and for February...." Given the estimate that 19,500 recipients were in the system for that time period, the duplicate payments would total \$9,750,000.

Under the old system, payments were issued on December 31 for the month of January and on January 31 for the month of February. Under the new system, payments were issued on February 28 for the month of January and on March 31 for the month of February. This can be visualized as follows:

	Old System			Transition Period of New System		New System	
Payment Date:	11/30/90	12/31/90	1/31/91	2/28/91	3/31/91	4/30/91	5/31/91
Residence Month	|	|	|	|	|	|	|
Being Paid	December	January	February	January	February	March	April

This payment schedule was used because DOA did not want to penalize the bonus recipients by withholding checks while the system change occurred. As identified in the December 27, 1990 letter to all recipients, DOA "...will not attempt to collect duplicate payments unless

and until you [bonus recipient] are disqualified or terminated from the program."

As a result, DOA should recognize an FY 91 account receivable in the accounting records. Since collection efforts will not begin until after a recipient is disqualified or terminated from the program, DOA should also record the dollar amount of the receivable estimated to be uncollectible.

Agency's Response

Recommendation No. 11

The Division of Pioneers' Benefits should work with DOF to establish the appropriate FY 91 accounts receivable and bad debt expense associated with the new method of issuing longevity bonus payments.

The Longevity Bonus Program has recorded the debt on an individual basis, and collects on that debt when persons become disqualified from the program. Since the existing computer software is unable to display a debt in the traditional sense, the debt has been coded in the former legislative election district field. The debt of all recipients will be totalled and included as an accounts receivable in the '91 accounting records, with an estimated amount for uncollectible accounts.

Recommendation No. 12

DPB should improve controls over the issuance of longevity bonuses.

Controls over the issuance of longevity bonus checks should be instituted as follows:

- a. Employee tasks should be reassigned in order to prevent and detect errors.

In the DPB, one individual is responsible for approving longevity bonus applications, for the input of that recipient data into the system for payment, and the review of rejected applicant data. These tasks are considered incompatible when assigned to one employee.

Tasks are considered to be incompatible when it is possible for an individual to commit errors in the normal course of their duties without detection by the system. Duties should be assigned so that the duties of one employee automatically provides a cross-check on the work of one or more other employees.

In this instance, combining these tasks for performance by one individual could allow for the undetected creation of fictitious longevity bonus recipients. In order to prevent this or other undetected errors, DPB should separate these duties.

- b. The controls over the recording of longevity bonus warrants should be strengthened.

Once a month, longevity bonus staff send a memo to DOA, Data Processing (DP) identifying the beginning warrant number to be used for that month's issuance of bonus warrants. DP interfaces the longevity bonus information with AKSAS in order to record those expenditures into the state accounting system.

Before this interface process occurs, DPB does not know the total number of warrants that should be processed for that month's recipients. Therefore, they cannot confirm that the total number of warrants issued is correct. That is, authorized by longevity bonus staff or their contractors.

DPB should upgrade their system so that they can ensure that all approved data entered successfully processes into the state accounting system.

- c. Potential fraudulent longevity bonus recipients should be thoroughly investigated.

According to the director of the program, because of the number of bonuses processing through the system, there is not sufficient time to investigate fraud tips thoroughly. This may allow for the fraudulent receipt of longevity bonuses.

The application for a longevity bonus is intended to prove eligibility of applicants. It is required to be signed and notarized. Additionally, two signatures from witnesses who can confirm that the applicant is eligible for the program must be included.

However, there is no post-audit of applications, nor a cross-reference with available databases to identify fraudulent applicants. The possibility of relevant databases should be explored for cross-referencing. For example, the permanent fund dividend database may provide a valuable cross-reference. Additionally, there may exist other databases that contain vital statistics of relevance.

In order to safeguard the State's assets, DPB should ensure that longevity bonus recipients remain eligible for the program through cross-referencing of available pertinent databases and aggressive follow-up on fraud tips.

Overall, these controls should be strengthened to ensure that only eligible recipients are issued longevity bonus checks.

As discussed above, in our opinion, the Alaska Permanent Fund Corporation should not have transferred \$80 million of interest income to the principal of the fund in FY 88 without legislative appropriation.

As discussed in Recommendation No. 13, we believe that the calculations used for the FY 87 lapse of the newly reconstituted National Petroleum Reserve - Alaska Special Revenue Fund were incorrect. As a result the Alaska Permanent Fund received too much of the FY 87 lapse. The corporation staff disagree and have declined to return \$2.7 million to the NPRA fund and \$4.7 million to the General Fund. We acknowledge that there are differing legal opinions on the issue.

- o Significant Fiscal Policy Decisions Without Legislative Involvement - Recommendation No. 11 reports that the Division of Pioneers' Benefits made a change in the manner in which they pay out longevity bonuses. The effect of the change was to duplicate payments for two months, roughly estimated at a total value of \$9.75 million. The division believes that they will simply recover the \$5(X) duplicate payments from each recipient upon their disqualification or termination from the program. ✓

More recently, the administration began highway reconstruction work on the Copper River Highway utilizing a questionable funding source. According to reports, \$250,000 of an FY 91 appropriation to the Department of Transportation and Public Facilities for Northern Region Deferred Maintenance were used to begin the Copper River Highway work. This work plan was not presented to the legislature for consideration.

While some of the above items may not be significant by themselves, and may at first glance appear to be disjointed, the common thread among them is that they all occurred without proper legislative involvement in the decision process.

In our opinion, this trend has been developing over the years and is not attributable to any one administration. However, we do believe that it merits close attention by the legislature to ensure that proper legislative powers are not eroded.

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

240 Main Street, Suite 500
Juneau, Alaska 99801-2101

MEMORANDUM

February 18, 1992

SUBJECT: Longevity Bonus Payments (Work Order No. 7-LS2019)

TO: Senator Shirley Craft

FROM: Tamara Brandt Cook
Director *TBC*

You have supplied me with information that indicates that, while longevity bonus payments in the past have been made at the beginning of the bonus month, the Department of Administration implemented a new payment schedule at the beginning of 1991 under which the payment for a bonus month is made two months later. This lag time is designed to enable the department to verify eligibility, as I understand it. However, to accomplish the transition the department sent duplicate bonus payments for the months of January and February 1991 during March and April, so that each recipient would receive a bonus every month. Then in May the department sent out the payments for March under the new two month lag schedule.

Under 2 AAC 40.175(f) the department will take action to recover duplicate payments when a recipient becomes ineligible, is reinstated, or is terminated from the program. Because of the extra payments made for January and February, the longevity program is short of money and may be seeking a supplemental appropriation. Since the change may affect the appropriation process, you have asked whether the department may make this change without legislative involvement.

The commissioner of administration is charged with administering the longevity bonus program. (AS 47.45.100) There is no provision for legislative involvement in decisions dealing with the administration of the program, and it is unlikely that the legislature could play much of a role in these matters without violating the separation of powers doctrine.

However, there are limitations to what an agency may do by regulation, and no regulation may substantively modify what is clearly provided for by statute. (AS 44.62.030; State v. Alveska Pipeline Serv. Co., 723 P.2d 76 (Alaska 1986)) While regulations relating to the longevity bonus program need not comply with the

Senator Shirley Craft

February 18, 1992

Page 2

Administrative Procedure Act (AS 47.45.160), this general principal still applies. Otherwise, the regulatory authority exercised by the agency will be found by a court to constitute an improper delegation of legislative power.

AS 47.45.010 clearly provides for a monthly bonus payment of \$250. There is no authority in statute for the department to make two payments for the same month. I believe that the department acted outside its authority in doing so.

TBC:pl

92-111.plm

ALASKA LONGEVITY BONUS PROGRAM

Recipients and Cost by Fiscal Year—1973-2000

Fiscal Year	Recipients at Year-end	Annual Increase		Annual Cost	Annual Increase	
		Number	Percent		Amount	Percent
73	4,753			346,100		
74	5,250	497	10.5%	967,500	621,400	179.5%
75	5,463	213	4.1%	3,689,700	2,722,200	281.4%
76	5,553	90	1.6%	6,470,700	2,781,000	75.4%
77	6,228	675	12.2%	8,689,375	2,218,675	34.3%
78	6,671	443	7.1%	9,486,375	797,000	9.2%
79	7,207	536	8.0%	11,814,900	2,328,525	24.5%
80	7,897	690	9.6%	12,804,600	989,700	8.4%
81	8,527	630	8.0%	18,778,600	5,974,000	46.7%
82	9,101	574	6.7%	26,074,500	7,295,900	38.9%
83	9,731	630	6.9%	27,586,750	1,512,250	5.8%
84	10,769	1,038	10.7%	29,254,500	1,667,750	6.0%
85	15,135	4,366	40.5%	43,199,000	13,944,500	47.7%
86	15,763	628	4.1%	44,105,500	906,500	2.1%
87	16,834	1,071	6.8%	47,095,500	2,990,000	6.8%
88	17,675	841	5.0%	50,152,500	3,057,000	6.5%
89	18,439	764	4.3%	53,472,250	3,319,750	6.6%
90	19,490	1,051	5.7%	57,172,700	3,700,450	6.9%
91	20,298	808	4.1%	60,209,600	3,036,900	5.3%
92	21,645	1,347	6.6%	63,571,000	3,361,400	5.6%
93	22,879	1,234	5.7%	67,194,500	3,623,500	5.7%
94	24,137	1,258	5.5%	70,890,250	3,695,750	5.5%
95	25,392	1,255	5.2%	74,576,500	3,686,250	5.2%
96	26,535	1,143	4.5%	77,932,500	3,356,000	4.5%
97	27,570	1,035	3.9%	80,971,750	3,039,250	3.9%
98	28,645	1,075	3.9%	84,129,750	3,158,000	3.9%
99	29,705	1,060	3.7%	87,242,500	3,112,750	3.7%
2000	30,834	1,129	3.8%	90,557,750	3,315,250	3.8%

Rec 11/6/91 As you can see, the cost of providing the longevity bonus program has grown by leaps and bounds, since 1973. The expense to the state to operate the program for this year alone, is approximately \$63 million dollars.

In 1972, this program was exempted from the Administrative Procedures Act (APA). With such a large budget, you would think it appropriate for the program to adhere to the same hearing and review procedures that the majority of programs are required to use.

Longevity Bonus Program 1991 Payment Schedule



Bonuses paid after February 1, 1991, are for the second prior month rather than for the month in advance. This means that many of you received duplicate bonuses for January (one payment about January 1 and a second about March 1) and for February (one payment about February 1 and a second about April 1). These duplicate payments were necessary to avoid interruption of bonuses during the transition to the new payment system. We will not attempt to collect duplicate payments unless and until you are disqualified or terminated from the program. Bonuses are mailed as follows.

<u>Mailing Date</u>	<u>For the Month of</u>
January 1, 1991	January 1991
February 1, 1991	February 1991
March 1, 1991	January 1991
April 1, 1991	February 1991
May 1, 1991	March 1991
June 1, 1991	April 1991
July 1, 1991	May 1991
August 1, 1991	June 1991
September 1, 1991	July 1991
October 1, 1991	August 1991
November 1, 1991	September 1991
December 1, 1991	October 1991

The form attached to the bonus payment asks questions which will confirm that you qualify for a bonus payment. After answering all the questions on the form and returning it by the 15th of the month, if you are qualified you will receive your bonus payment and a new validation form, which is mailed the first day of the following month. The process is repeated each month.

If you have questions about the payment system, you may call or write to us.

Longevity Bonus Program
P.O. Box 110211
Juneau, AK 99811-0211
Telephone: 465-4416



Bringing lifetimes of experience and leadership to serve all generations.

ALASKA STATE LEGISLATIVE COMMITTEE

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Capital City Task Force
Mr. Joe Alter
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Juneau AK 99802
907. 586-6680

February 20, 1992

Honorable Ben Grussendorf
Speaker of the House of Representatives
P.O. Box V (MS3100)
Juneau, Alaska 99811

Dear Speaker Grussendorf:

The Alaska State Legislative Committee of the American Association of Retired Persons respectfully requests that the Administration and Legislature solve the problems created by the duplicate payments to recipients of the longevity bonus program.

These payments were made in January and February 1991, during the implementation of regulations changing the payments under this program from a prospective basis to a retrospective basis.

The State Legislative Committee urges the resolution of this problem be both uniform and equitable. This request is stimulated by complaints of recoument being activated only at the death of a recipient and the resulting shock of an unforeseen debt levied against the estate. The unexpectedness of this action causes undue stress during a grieving period. A more sensitive handling of the problem is requested by the State Legislative Committee.

Thank you for your attention to this matter. Our Committee would welcome the opportunity to comment upon future regulations in regard to this issue.

Sincerely,

C. Keith Campbell, Chair
Alaska State Legislative Committee

cc: Members of Alaska House of Representatives
Jean H. Nalibow, Area 10 Director
Myriam Marquez, Area 10
Legislative Representative

longbp.ltr

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

DEPARTMENT OF ADMINISTRATION
DIVISION OF PIONEERS' BENEFITS
Longevity Bonus Program

P.O. BOX CL
JUNEAU, ALASKA 99811-0211
PHONE: (907) 465-4416
TOLL FREE: 1-800-478-2160
FAX: (907) 465-4108

February 7, 1992

Senator Shirley Craft
Alaska State Legislature
State Capitol
Juneau, Alaska 99801 - 1182

RE: "Duplicate" Payments - Longevity Bonus Program

Dear Senator Craft:

Thank you for meeting with me to discuss the issue of "duplicate" payments for the Longevity Bonus Program. In December 1990, the administrative regulations were revised to change the Longevity Bonus Program payment system from being prospective in nature to retrospective in nature. Rather than delay payments for two months during the transition, "duplicate" payments were issued for the months of January and February, 1991. The actual switch occurred during the first four months of 1991 as shown below:

<u>Payment Mailing Date</u>	<u>For the Month of</u>
January 1, 1991	January 1991
February 1, 1991	February 1991
March 1, 1991	January 1991
April 1, 1991	February 1991
May 1, 1991	March 1991
etc.	etc.

The administrative regulation is being scrutinized with the assistance of the Department of Law. Also, enforcement of the collection efforts have been suspended during the review process.

According to accounting officials, the change results in a debt to the Longevity Bonus system for those receiving "duplicate" payments for January and/or February 1991 in the amount of \$250 for each "duplicate" payment. Most recipients received both "duplicate" payments for those months and therefore have a debt coded in the computer in the amount of \$500 (about \$10,000,000 for all recipients).

Per current administrative regulations (see 2 AAC 40.175), the debt is collected at the time a recipient becomes disqualified (e.g. enters a nursing home) or terminates from the program (death, moves from Alaska). You can well imagine the feelings recipients

Page - 2 -

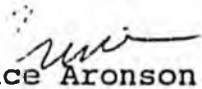
RE: "Duplicate" Payments - Longevity Bonus Program

and their families experience when this regulation is applied. As mentioned during our meeting, this particular administrative regulation is under active review by the department.

Thank you for the opportunity to discuss the Longevity Bonus Program, and if you have further questions or comments, please contact us.

Thanks!

Sincerely,


Bruce Aronson
Administrator

3/6/92

LONGEVITY BONUS PROGRAM

Proposed Emergency Regulation Change

PURPOSE

Resolve the confusion surrounding the transition from prospective payment and retrospective payment systems by eliminating the erroneous assumption of "duplicate payments."

DISCUSSION

When the program changed from paying prospectively to paying retrospectively a transition was necessary to ensure that payments to current recipients would not be interrupted. This should have been handled as a transition issue for the program, not as a debt to recipients.

The current regulation, 2 AAC 40.175 (f), establishes a debt for "duplicate payments" under the Longevity Bonus. Duplicate payments, however, were not made to any recipient. The program dated two checks for January 1991 and February 1991. The checks were delivered to recipients during a four month period from January through April of 1991. This was done for accounting and payment processing purposes and in an attempt to make program administration changes transparent to current recipients.

The result has been confusion on the part of most recipients and the creation and posting of a debt due from recipients for "duplicate payments" pursuant to 2 AAC 40.175 (f). The fact is that no recipient received more than one payment in any one month. Thus there is no reality to a notion of duplicate payment nor should there be a debt.

The solution to the problem is to terminate payments to those eligible before December 1, 1990 (old recipients) at the time of disqualification. Those who became eligible on or after December 1, 1990 (new recipients) would continue to be eligible through the last full month of eligibility as provided in the current

regulations. The practical effect of this approach is that old recipients will not be eligible to keep any bonus payments issued after they lose eligibility.

Examples for recipients eligible before December 1 , 1990

1. A person dies on January 10. The person would keep the payment received in January. We would turn off the payment scheduled for February. No collection efforts would be required.
2. A person dies on January 29. A payment is issued in the month of February. We will ask that the payment be returned. We would not attempt to collect the January payment.

The proposed emergency regulations will not affect recipients who became eligible for the Longevity Bonus Program on or after December 1, 1992.

The attached proposed emergency regulations accomplish this objective.

b:\proemreg

NOTICE OF ADOPTION OF EMERGENCY REGULATIONS

Notice is given that, under the authority of AS 47.45.100(1) the Department of Administration adopted, amended and repealed, as emergency regulations, provisions in 2 AAC 40.075 and 2 AAC 40.175 relating to Longevity Bonus payments.

The amendments change the regulations by:

Eliminating transition language which require the administrator to recover certain payments and clarifying eligibility to receive bonus payments at the time of disqualification.

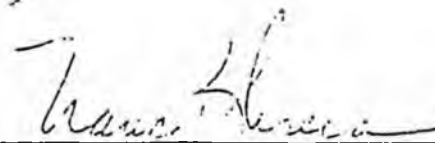
The emergency regulations took effect March 6, 1992.

Copies of the regulations may be obtained by writing to the Division of Pioneers' Benefits, P.O. Box 110211, Juneau, Alaska 99811.

Notice is also given that the Department of Administration intends to make the regulations permanent, and any person interested may send written statements relevant to the action proposed to Division of Pioneers' Benefits, P.O. Box 110211, Juneau, Alaska 99811, to be received no later than April 15, 1992.

Date: _____

3-9-92



Nancy Bear Usera
Commissioner of Administration

FINDING OF EMERGENCY

The Department of Administration finds that an emergency exists and that the attached regulations adopting, amending and repealing provisions in 2 AAC 40.075 and 2 AAC 40.175 are necessary for the immediate preservation of the public peace, health, safety, or general welfare. The facts constituting the emergency are as follows:

1. The current regulations are confusing to Longevity Bonus program recipients.
2. The current regulations were promulgated with an erroneous interpretation of accounting principles.
3. The regulations have created a current debt against approximately 20,000 Alaskans who have not received any overpayment from the State of Alaska.
4. The inappropriate debt recorded against Longevity Bonus recipients can adversely affect their credit rating.
5. Adoption of these regulations will allow the Longevity Bonus Program to remove the debt that has been posted against Longevity bonus recipients and clear any concern with credit ratings.
6. Delay in adoption will cause initiation of collection procedures for a debt which should not exist.

ADOPTION ORDER

Under authority of AS 47.45.100(1), the amendments to the regulations are therefore adopted as emergency regulations and are effective March 6, 1992.

This action is not expected to require an increased appropriation.

Date: 3/1/92
Juneau, Alaska



Nancy Bear Usera, Commissioner

FILING CERTIFICATION

I _____, Lieutenant Governor for the State of Alaska, certify that on _____, 1992, at _____ .m., I filed the attached regulations, which were voluntarily submitted to me for publication.

Lieutenant Governor

Effective _____:
Register _____:

2 AAC 40.075 (b)(2) and (c) are amended to read:

(2) the recipient has notified the administrator that he or she has discontinued residency in Alaska and the payment is for a month for which a [THE] recipient is qualified to receive [FOR] a bonus payment.

(c) Unless other reimbursement is received by the administrator, bonus payments will be withheld as repayment for bonuses that were issued to a recipient for a period in which the recipient was not entitled to receive a bonus payment. (Eff. 12/1/90, Register 117; am / / , Register).

Authority: AS 47.45.100(1)

2 AAC 40.175(f) is repealed and reenacted to read:

(f) A recipient who was eligible for and received a bonus before December 1, 1990 is not eligible to receive bonus payments after the month of disqualification under 2 AAC 40.110 or termination under 2 AAC 40.140 (a), (b), (c)(2), and (c)(3), regardless of the month for which the payment is being made.

2 AAC 40.175 is amended by adding new subsections (g) and (h) to read:

(g) A recipient who was eligible under 2 AAC 40.010(b) before December 1, 1990 who terminates eligibility under 2 AAC 40.140(c)(1) will continue to receive payments without interruption.

(h) A recipient who was eligible for the program before December 1, 1990 whose eligibility for bonus payments is discontinued under 2 AAC 40.110(b) or (c), or who is terminated under 2 AAC 40.140 may be reinstated under 2 AAC 40.130 but will be treated as a new recipient who was not eligible for the program before December 1, 1990. Bonus payments will commence pursuant to 2 AAC 40.065. (Eff. 12/1/90, Register 117; am / / , Register).

Authority: AS 47.45.020(1)



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: April 6, 1992

PLACE: Capitol Room 102

SUBJECT OF MEETING:
 *HB 421-Relating to Disclosure by Certain Fiscal Officers
 HB 460-Relating to Advisory Vote/Statewide Health Care
 *HB 569-Relating to Longevity Bonus Program Regulations
 HJR 63-Relating to Support Military at Fort Richardson
 SB 135-Relating to Personnel Board/Personnel Officers
 SR 409-Relating to Search and Rescue Expenses

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
Barbara Bitney	Sen. Craft	State Capitol - RM. 125	99801		465-3834	(Y) N	HB 569
Rod Mourant	REVIEWER				465-2300	(Y) N	HB 421
MARY LOU MEINERS	AARP	805 Hoed. Bell	99801		586-2568	(N) (N)	HB 569
Mike McMullen	DOA	Box 110201 Juneau, AK	99811		465-4450	(Y) N	SB 135
Denny DEWITT	Div. of Pioneers' Benefit	Box 110211 Juneau AK	99811		465-4460	Y N	HB 569
Gordon Evans	HIAA/Self	318 4th St.	99801		586-3210	(Y) N	HB 460
Randy Welker	Leg. Audit	PO Box W	99811		3830	(Y) N	HB 569
Joe Alter	AARP	Box 20304	99802		586-6680	Y N	HB 569
Hayden Rao						Y N	
						Y N	
						Y N	

H B

5 8 7

Alaska State Legislature



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Fax: (907) 463-3351

Legislative Research Agency

May 22, 1991

MEMORANDUM

TO: Representative Ron Carson

FROM: Carol R. Vandor *CV*
Legislative Analyst

RE: State Employee Benefit Plans
Research Request 90.347

You asked about other states' benefit plans for state employees. This memorandum examines the benefits received by state workers in Alaska and ten other states (California, Connecticut, Hawaii, Iowa, Minnesota, Montana, New Hampshire, Oregon, Rhode Island, and Wisconsin).

The information in this memorandum was obtained from administrators in each state's division of retirement and division of labor relations. It reflects the benefit plans in effect for members of the Alaska General Government Bargaining Unit and the benefit plans of employees in other states who are members of a similar unit.¹ The data presented pertains to full-time employees who were first hired during fiscal year 1991.

The salary schedule in Alaska is determined through a collective bargaining agreement. This is an agreement between an employer and a labor union, which regulates wages, hours, and other terms and conditions of employment.² For purposes of this comparative study, I have chosen ten states that also bargain collectively over wages and other terms and conditions of employment.

Of the 11 states surveyed, employee benefit plans in Alaska are comparable or better, with the exception of formal leave policies for the care of a child or other family member, life insurance coverage, and the availability of child care on state property.

¹The information about Alaska applies to approximately 8,000 employees, or approximately 42 percent of the total state workforce; however, many of the benefits enjoyed by these employees are also enjoyed by employees not covered by a bargaining unit.

²According to the American Federation of State, County, and Municipal Employees, 22 states bargain collectively over wages and other terms and conditions of employment.

Table 1, attached, summarizes state merit and longevity systems. Tables 2 through 5, respectively, provide information on state employee retirement plans, leave policies, health insurance coverage and costs, other insurance coverage, and other benefits. Following is a description of these benefits.

MERIT AND LONGEVITY SYSTEMS

Table 1 summarizes the merit increase and longevity increment policies of all states. Of the 50 states, 35 states grant routine salary increases and are therefore considered to have a step plan; 15 states award salary increases under a true merit plan. Twenty-two states have collective bargaining. Of these 22 states, 19 grant routine salary increases and are therefore considered to have a step plan; three states award salary increases under a true merit plan.

Most states are required by their constitution or statutes to have a system of personnel administration based on the merit principle. A merit principle requires employment, retention, and promotion of administrative personnel to be based on qualification and performance rather than political patronage. Merit pay plans are a component of a merit system. However, because many states grant merit increases routinely to employees for satisfactory performance rather than selectively to a few employees for superior performance, the increase is granted merely under a step increase plan rather than awarded under a true merit increase plan. This is the case in Alaska even though Alaska's plan is commonly referred to as a merit increase plan. Of the 11 states surveyed, all but Wisconsin award salary increases under a step plan.

There are six steps under Alaska's merit increase plan (Step A through Step F) and four steps under the longevity plan (Step J through Step M). Merit increases and longevity increments have two requirements which must be satisfied in order to be granted to an employee: meeting a standard of performance and length of service at a certain level. Of the 11 states, three have both a merit and a longevity plan (Alaska, Hawaii, and Montana), and seven have a merit plan only; Wisconsin awards salary increases under a true merit plan.

RETIREMENT BENEFITS

Table 2 summarizes retirement systems. It provides information about requirements for retirement eligibility and formulas for computing retirement benefits under state retirement systems. It also indicates whether employees participate in the Social Security system and whether their state retirement benefit is integrated with Social Security.

State Pension Plans

Participation in a state retirement system is mandatory in all 50 states. Of the 11 states surveyed, all but California, Connecticut, Hawaii, and Wisconsin report that their pension plan requires a contribution from an employee.³ The employee contribution ranges from 3.7 percent in Iowa to 7.75 percent in Rhode Island; Alaska has the second highest contribution rate with 6.75 percent. The employer contributes a higher percentage of salary than does the employee in all states; this contribution ranges from 2.3 percent in New Hampshire to 13.36 percent in Alaska.⁴

Prior to 1987, 20 of the 50 states had a mandatory retirement age of 70; however, this limitation has been removed. The Federal Age Discrimination in Employment Act took effect on January 1, 1987. The law prohibits discrimination in hiring, pay, and promotions against anyone 40 or older other than elected officials or political appointees "on the policy-making level." The federal law does allow for mandatory retirement of law enforcement personnel, fire fighters, and other job categories where age is a bona fide qualification.

The number of years of service required before an employee is fully vested in a retirement system varies among the eleven states. Vesting is immediate in Wisconsin; it is obtained in three years in Minnesota; four years in Iowa; five years in Alaska, Montana, and Oregon; and in ten⁵ years in California, Connecticut, Hawaii, New Hampshire, and Rhode Island.

Most states require that an employee reach a certain age before becoming eligible to retire with a full benefit. Four states, including Alaska, report this age is 60.⁶ The remaining states report age 58, 62, or 65.⁷ The age requirement may be reduced if an employee has a specified number of years of service. In four states (Alaska, Montana, Oregon, and Rhode Island) an employee with a specified number of years of service (30 in Alaska) is eligible to retire with a full benefit, regardless of age.

³California has two pension plans. The 1st Tier Plan requires a contribution from an employee; the 2nd Tier Plan does not.

⁴Connecticut does not have a per employee percentage rate.

⁵In California, vesting is obtained in five years in the 1st Tier Plan and in ten years in the 2nd Tier Plan.

⁶In Alaska, employees first hired prior to July 1, 1986 are eligible to retire with a full benefit at age 55 with five years of service.

⁷In California, normal retirement age is 60 in the 1st Tier Plan and 65 in the 2nd Tier Plan.

The benefit formula used to determine an employee's retirement benefit contains three variables: average final compensation (AFC); percentage multiplier; and years of service. The AFC in all states except Minnesota is the average of three highest or three highest consecutive years of service. The AFC in Minnesota is the average of the five highest consecutive years of service. In most states the percentage multiplier remains constant for all years of service, ranging from 1.25 percent in Hawaii to 1.79 percent in Montana. In Alaska, Minnesota, and Rhode Island the percentage multiplier increases with years of service. For example, in Alaska it is 2.0 percent for the first ten years of service, 2.25 percent for the second ten years of service, and 2.5 percent for years of service over 20.

All states except Wisconsin provide some form of a cost-of-living adjustment (COLA) for retired state workers. Three states (Minnesota, Montana, and New Hampshire) report that such increases are determined solely on an ad hoc basis; that is, there is no established or automatic mechanism that triggers an adjustment in benefits. Connecticut reports that adjustments are made based on changes in the consumer price index (CPI).⁸ In states where the COLA is based on the CPI, there is usually a limit on the percent of any single increase. Iowa retirees may receive a COLA through a legislative dividend (ad hoc bonus). Hawaii has a fixed automatic adjustment of two and one-half percent, and Rhode Island has a fixed automatic adjustment of three percent. The remaining states provide COLAs through a combination of ad hoc and automatic adjustments. In Alaska, benefit recipients will receive an automatic, annual post retirement pension adjustment (PRPA) when the cost of living rises.⁹ Retirees who reside in Alaska receive an additional ten percent of base benefit, or \$50.00, whichever is more.

All states offer a deferred compensation program which allows an employee to set aside a portion of his income tax-free until withdrawn.

⁸In California, the COLA in the 1st Tier Plan is based on the CPI, and in the 2nd Tier Plan it is fixed at three percent.

⁹Members first hired before July 1, 1986 are still eligible to receive ad hoc PRPAs. Ad hoc PRPAs may only be granted if the cost of living rises and the financial condition of the fund permits. When an ad hoc PRPA is granted, benefit recipients who are eligible for both that PRPA and the automatic PRPA will receive whichever PRPA is larger.

Social Security Pension Plan

Of the 11 states, Alaska is the only one in which employees do not participate in the Social Security system.¹⁰ Employees in states with Social Security have Social Security pension benefits in addition to their state pension benefits.¹¹ Connecticut, Minnesota, and New Hampshire report that the two systems are integrated. The remaining states report that retirement benefits are totally independent of Social Security benefits.¹²

Employees in Alaska discontinued contributions to Social Security in 1980. The Supplemental Benefits System (SBS) was implemented at that time. Employees contribute 6.13 percent of their base wage and the state matches the contribution. Employees hired after March 1, 1986 must pay an additional 1.45 percent of base wage for the Medicare portion of the Social Security tax.¹³

LEAVE POLICIES

Table 3 shows the number of hours per work week, the number of paid holidays per year, and the variety of traditional benefits, including annual leave, sick leave, and leave for child and family care.

Of the 11 states, only in three (Alaska, Connecticut, and New Hampshire) do employees work less than 40 hours per week. Employees in Alaska and New Hampshire work 37.5 hours per week and employees in Connecticut work 35 hours per week.

The number of paid holidays, excluding holidays awarded on an election day, averages 11.8 days per year. Employees in Alaska receive 11 plus two floating holidays (Lincoln's Birthday and an employee's birthday) for a total of 13 holidays per year. A floating holiday may be treated in two ways: it may be added to an employee's leave bank or it may be taken on a day other than the actual holiday.

¹⁰There are seven states that do not participate in the Social Security system: Alaska, Colorado, Louisiana, Maine, Massachusetts, Nevada, and Ohio.

¹¹In California, some employees in the 1st Tier Plan do not participate in the Social Security system.

¹²In California, employees in the 1st Tier Plan may or may not have integrated benefits depending on which option they have chosen.

¹³For calendar year 1991, employees will contribute a maximum of \$3,273.42 to SBS which is 6.13 percent of \$53,400. The Medicare portion of the Social Security tax is paid on the first \$125,000 in wages for a maximum of \$1,812.50.

Annual and Sick Leave

State employees earn time off for vacations and illness based on their status (full-time, part-time) and their accumulated years of employment. Annual and sick leave accrual varies significantly among the states. Annual leave accrual during the first year of employment ranges from ten days per year in California, Rhode Island, and Wisconsin to 21 days per year in Hawaii. Employees in Alaska accrue 15 days of annual leave per year during the first year. After ten years of employment, annual leave accrual ranges from 15 days per year in Connecticut to 30 days in Alaska.

Sick leave accrual ranges from 12 days per year in California, Montana, and Oregon to 21 days per year in Hawaii. Employees in Alaska accrue 15 days of sick leave per year. The amount of annual sick leave accrual does not increase with years of service, except in Minnesota.

Child and Family Care Leave

Of the 11 states, only two (Montana and New Hampshire) have no formal leave policy for child care. Employees who take time off to care for children or other family members generally use sick leave or annual leave. When their leave bank is depleted they go on leave without pay. In most states additional leave may be granted upon approval. An employee who returns to work within the allotted time is guaranteed the same job or one comparable with no less than equal compensation.

Alaska and Iowa have maternity and paternity leave policies. In Alaska, a natural mother is allowed nine weeks of leave. A new father may use leave which has been approved for parental purposes incident to childbirth. An employee, male or female, in a child adoption proceeding is given priority consideration in the granting of leave to attend to the activities involved in adoptive proceedings.

The remaining states (California, Connecticut, Hawaii, Minnesota, Oregon, Rhode Island, and Wisconsin) have either a parental leave or family leave policy. Parental leave allows women and men time to care for a newborn or newly adopted child; in some instances it may include care for a seriously ill child. Family leave allows women and men time to care for a new child or seriously ill child, spouse, or parent. The amount of leave allowed in these states ranges from 12 weeks in Oregon to 52 weeks in California, Hawaii, Rhode Island, and Wisconsin.

HEALTH INSURANCE COVERAGE AND COSTS

Table 4A shows the types of health insurance coverage available to state employees and the cost for each type of coverage.

The wide variety of health insurance programs available to state employees makes it difficult to develop meaningful data. Comparisons among states can be made on a simple dollar-for-dollar basis. However, the question of the adequacy or superiority of any state's health coverage is too complicated to undertake in a survey of this type. Therefore, a decision was made to report on the amount of money expended by each state for the basic coverage levels, employee only and family coverage.

Only Alaska, Rhode Island, and Wisconsin report that an employee pays nothing for employee only and family coverage which includes dental, vision, and audio care as well as medical care. New Hampshire provides medical and dental coverage for an employee and family at no cost to the employee.

Three states (Connecticut, Iowa, and Montana) report that the state pays the entire premium for employee only coverage, but an employee must contribute for family coverage.

Dental coverage is provided or is available in all states. Vision and audio care is provided or is available in all states except Iowa, Montana, and New Hampshire.

OTHER INSURANCE

Table 4B shows other types of insurance provided to state employees in addition to health insurance. The most common of these is life insurance. In some states the amount of insurance is based on an employee's annual salary or a combination of salary and age. In other states the level of insurance is fixed at the same amount for all employees (Alaska, Iowa, Montana, and New Hampshire).

All states except California and Hawaii provide accidental death and dismemberment (AD&D) insurance to their employees. This coverage is usually tied to life insurance coverage.

Worker's compensation protection is provided to state employees, as is unemployment compensation insurance. Beginning in 1978, this protection was mandated by the federal government in all 50 states.

Alaska, Hawaii, Iowa, Montana, Oregon, Rhode Island, and Wisconsin provide liability insurance protection for tort acts committed by state employees during the performance of their official duties.

OTHER BENEFITS

Table 5 presents information on a variety of other benefits provided by these states.

Representative Larson
May 22, 1991
Page 8

Seven states (California, Connecticut, Minnesota, New Hampshire, Oregon, Rhode Island, and Wisconsin) report that some child care is available on state property either free or at a cost to an employee.

Uniforms, or an allowance for uniforms, is provided to employees in all states. Only California reports that tools and equipment are not provided.

All states except California and Hawaii provide free parking to employees at the work-site; however, this benefit is usually dependent upon the availability of space.

All states except Connecticut, Hawaii, New Hampshire, and Rhode Island, report that moving expenses are paid by the state when an employee is required to relocate. States that reimburse moving expenses generally have either a maximum fixed rate per mile or a maximum dollar amount which they will pay.

All states report that employees have access to a grievance procedure to resolve differences, and that the final step in the procedure is binding arbitration.

All states report that the rest period provided for employees during the work day is considered as paid time. Only Wisconsin reports that the lunch period is considered paid time.

Employees who are required to perform jury duty receive their salary as compensation in all states.

Hazardous duty pay is provided in all states except Iowa, Montana, and Rhode Island, but usually only in very select occupations.

Four states (Alaska, Hawaii, New Hampshire, and Oregon) have a legal trust fund available to employees for legal assistance.

Only Montana reports that reimbursement for tuition and/or books for educational training is usually not provided. In most states, in order to receive reimbursement for such training, pre-approval is required.

I hope this information is useful. If I may be of further assistance, please contact this office.

Attachments

TABLE 1
SUMMARY OF ALL STATE MERIT AND LONGEVITY SYSTEMS

STATE	Merit Plan	Step Plan	Number of Steps	Number of Longevity Stops	STATE	Merit Plan	Step Plan	Number of Steps	Number of Longevity Stops
Alabama		X	18		Montana*		X	13	13
Alaska*		X	6	4	Nebraska*	X			
Arizona	X			4	Nevada		X	15	
Arkansas		X	4		New Hampshire*		X	5	
California*		X	5		New Jersey*		X	9	
Colorado		X	7		New Mexico	X			
Connecticut*		X	7		New York*		X	5	3
Delaware	X				North Carolina		X	12	
Florida*	X				North Dakota	X			
Georgia		X	8	4	Ohio*		X	6	
Hawaii*		X	**	**	Oklahoma		X	13	
Idaho		X	13	13	Oregon*		X	6	
Illinois*		X	7		Pennsylvania*		X	8	
Indiana	X				Rhode Island*		X	5	
Iowa*		X	6		South Carolina	X			
Kansas		X	6	6	South Dakota	X			
Kentucky	X				Tennessee		X	10	
Louisiana	X				Texas		X	8	
Maine*		X	7		Utah	X			
Maryland		X	6		Vermont*		X	15	
Massachusetts*		X	5	4	Virginia		X	8	
Michigan*		X	9	7	Washington		X	11	
Minnesota*		X	10		West Virginia		X	12	
Mississippi	X				Wisconsin*	X			
Missouri		X	15		Wyoming	X			
					TOTAL	15	35		

* States with collective bargaining.

** Number of steps and longevity varies by unit.

Source: American Federation of State, County and Municipal Employees.

Prepared by the Legislative Research Agency, May 1991 (90.347A)

TABLE 2
RETIREMENT BENEFITS
(See Notes to Table 2 for Clarification and Exceptions)

STATE	Contribution		Full Vesting	Age for Normal Retirement	Any Age W/years	Average Final Compensation	Benefits Formula	COLA	Soc. Sec.	Integrated	Def. Comp.
	State	Empl.									
ALASKA	13.36%	6.75%	5 Yrs	60 Yrs	30 Yrs	3 Highest Consecutive Years	AFC X 2.0% X 10 Yrs AFC X 2.25% X Next 10 Yrs AFC X 2.5% X Yrs Over 20	CPI	No	No	Yes
CALIFORNIA											
1st Tier	12.878%	5.00%	5 Yrs	60 Yrs	No	Highest Consecutive	(AFC-\$133.33 per month) X 2.0% X Yrs	CPI	Yes	Yes	Yes
1st Tier	12.78%	6.00%	5 Yrs	60 Yrs	No	36 Months	AFC X 2.0% X Yrs	CPI	No	No	Yes
2nd Tier	6.3/5%	-0-%	10 Yrs	65 Yrs	No		AFC X 1.25% X Yrs	3.0%	Yes	No	Yes
CONNECTICUT	See Notes	-0-%	10 Yrs	60 w/25 yrs or 62 w/10 yrs	No	3 Highest Years	AFC X 1.33% X yrs plus AFC in Excuse of Breakpoint X 0.5% X yrs	CPI	Yes	Yes	Yes
HAWAII	7.8%	-0-%	10 Yrs	62 or 55 w/30 yrs	No	3 Highest Years	AFC X 1.25% X Yrs	2.5%	Yes	No	Yes
IOWA	5.75%	3.7%	4 Yrs	65 or 62 w/ 30 yrs	No	3 Highest Years	AFC X 52% X Yrs of Service/30	Leg Dvd	Yes	No	Yes
MINNESOTA	4.24%	4.16%	3 Yrs	65 Yrs	No	5 Highest Consecutive Years	AFC X 1.0% X 1-10 Yrs Plus AFC X 1.5% X 11+ Yrs	Ad Hoc	Yes	Yes	Yes
MONTANA	6.417%	6.3%	5 Yrs	60 Yrs	30 Yrs	Highest Consecutive 36 Months	Monthly AFC X 1.79% X Yrs	Ad Hoc	Yes	No	Yes
NEW HAMPSHIRE	2.3%	5.0%	10 Yrs	60 Yrs	No	3 Highest Years	AFC X 1.66% X Yrs	Ad Hoc	Yes	Yes	Yes
OREGON	10.22%	6.0%	5 Yrs	58 Yrs	30 Yrs	3 Highest Years	AFC X 1.67% X Yrs	CPI	Yes	No	Yes
RHODE ISLAND	11.6%	7.75%	10 Yrs	60 Yrs	28 Yrs	3 Highest Consecutive Years	AFC X 1.7% X 1-10 Yrs Plus AFC X 1.9% X 11-20 Yrs Plus AFC X 3.0% X 21-34 Yrs Plus AFC X 2.0% X 35+ Yrs	3.0%	Yes	No	Yes
WISCONSIN	6.0%	-0-%	Immediate	65 or 57 with 30 Yrs	No	3 Highest Years	AFC X 1.6% X Yrs	No	Yes	No	Yes

NOTES TO TABLE 2 RETIREMENT BENEFITS

ALASKA -- Benefit recipients will receive an automatic, annual post retirement pension adjustment (PRPA) when the cost of living rises. Retirees who reside in Alaska receive ten percent of base benefit, or \$50.00, whichever is more, in addition to the post retirement pension adjustment.

CALIFORNIA -- New employees are enrolled in the 2nd tier plan. During the first year of employment they have the option of remaining in the 2nd tier plan or enrolling in the 1st tier plan. Employees in the 1st tier plan contribute five percent of salary less the first \$513 or six percent of salary less the first \$317, depending on whether they choose to participate in Social Security. Normal retirement age under the 1st tier plan is age 60; however, employees age 50 and above may retire with an actuarially reduced benefit. The formula is: AFC X benefit factor X years. The benefit factor at age 50 is 1.092; it increases to a maximum of 2.418 at age 63. On July 1, 1991, the AFC changes to 12 highest consecutive months. The COLA in the 1st tier plan is capped at 2.0 percent.

CONNECTICUT -- The state contribution rate is not calculated per employee. The breakpoint in the benefit formula rises each year. In 1991 it is \$18,100; in 2000 it will be \$30,600. This retirement plan covers all employees hired after June 30, 1984. Other employees are members of another plan.

HAWAII -- The noncontributory plan is in effect for all employees hired after January 1, 1985. Other employees have the option of remaining in the contributory plan or joining the noncontributory plan. Employees in the contributory plan are vested in five years, are eligible for normal retirement at age 55, and receive a higher benefit formula. The employee contribution rate and the state contribution rate is currently 7.8 percent.

MINNESOTA -- An employee may retire with normal benefits at age 55 and above if years of service and age add up to 90: referred to as "Rule of 90". For example, an employee would need 35 years of service to retire at age 55.

OREGON -- An employee does not contribute to the retirement system the first six months of employment. A year of service is credited when a contribution is made during the year; therefore, it is possible to vest with three years and two months of service. In addition to the COLA adjustment based on the CPI (maximum of 2.0 percent), retirees receive an ad hoc adjustment biennially in odd numbered years.

RHODE ISLAND -- The maximum benefit is 80 percent of AFC.

Prepared by the Legislative Research Agency, May 1991 (90.347B)

TABLE 3
LEAVE BENEFITS
(See Notes to Table 3 for Clarification and Exceptions)

STATE	Hours in Week	Annual Leave (Days earned per year)			Sick Leave (Days earned per year)			Paid Holidays	Maternity Leave	Paternity Leave	Other
		1st Yr.	5th Yr.	10th Yr.	1st Yr.	5th Yr.	10th Yr.				
ALASKA	37.5	15	24	30	15	15	15	11 Plus 2 Floating	9 Wks	Yes	Adoption
CALIFORNIA	40	10	15	18	12	12	12	12 Plus 1 Floating			Parental Leave State 52 Weeks Allowed
CONNECTICUT	35	12	15	15	15	15	15	12			Family Leave State 24 Weeks Allowed
HAWAII	40	21	21	21	21	21	21	13 Plus 2 in Elec Yr			Parental Leave State 52 Weeks Allowed
IOWA	40	12	15	20	18	18	18	9 Plus 2 Floating	4 Wks	4 Wks	No
MINNESOTA	40	13	16.25	22.75	13	16.25	22.75	10 Plus 1 Floating			Parental Leave State 6 months Allowed
MONTANA	40	15	15	18	12	12	12	11 Plus 1 in Elec Yr	No	No	No
NEW HAMPSHIRE	37.5	12	15	18	15	15	15	9 Plus 3 Floating	No	No	No
OREGON	40	12	15	18	12	12	12	11			Parental Leave State 12 Weeks Allowed
RHODE ISLAND	40	10	15	18	15	15	15	10 Plus 1 in Elec Yr			Parental Leave State 52 Weeks Allowed
WISCONSIN	40	10	15	17	13	13	13	9.5 Plus 3 Floating			Family Leave State 52 Weeks Allowed

**NOTES TO TABLE 3
LEAVE BENEFITS**

CALIFORNIA – Employees may opt to drop their sick leave accrual. If they discontinue sick leave accrual they will receive an additional six days per year of annual leave. Leave for adoption is six months; however, an additional six months may be requested.

MONTANA – In the absence of a formal leave policy, employees may request time off for the care of a child or a family member.

NEW HAMPSHIRE – In the absence of a formal leave policy, female employees may request six weeks to care for a newborn child.

WISCONSIN – Employees receive the afternoon of Good Friday as a holiday.

Prepared by the Legislative Research Agency, May 1991 (90.347C).

TABLE 4 A
HEALTH INSURANCE (Monthly Premiums)
(See Notes to Table 4 A for Clarification and Exceptions)

STATE	Medical Insurance				Dental Insurance				Vision Care				Audio Care			
	Employee Only		Family Coverage		Employee Only		Family Coverage		Employee Only		Family Coverage		Employee Only		Family Coverage	
	State	Empl.	State	Empl.	State	Empl.	State	Empl.	State	Empl.	State	Empl.	State	Empl.	State	Empl.
ALASKA	\$392.28	\$-0-	\$392.28	\$-0-	----Included with Medical----				----Included with Medical----				----Included with Medical----			
CALIFORNIA	\$157.00	Varies	\$367.00	Varies	\$24.22	\$-0-	\$63.80	\$-0-	\$9.50	\$-0-	\$9.50	\$-0-	----Included with Medical----			
CONNECTICUT	\$199.53	\$-0-	\$423.66	\$96.06	\$12.66	\$-0-	\$30.89	\$7.81	----Included with Medical----				----Included with Medical----			
HAWAII	\$62.68	\$41.80	\$192.94	\$128.82	\$7.54	\$5.02	\$15.06	\$10.06	\$2.30	\$1.54	\$4.56	\$3.04	----Included with Medical----			
IOWA	\$164.64	\$-0-	\$271.91	\$111.11	\$10.28	\$-0-	\$10.28	\$17.20	----None----				----None----			
MINNESOTA (average)	\$124.43	\$5.61	\$156.15	\$22.02	\$14.35	\$0.44	\$13.70	\$14.21	----Included with Medical----				----Included with Medical----			
MONTANA	\$150.00	\$-0-	\$150.00	\$71.30	----Included with Medical----				----None----				----None----			
NEW HAMPSHIRE	\$175.87	\$-0-	\$487.86	\$-0-	\$15.13	\$-0-	\$46.76	\$-0-	----None----				----None----			
OREGON BUBB SEBB (example)	\$261.00 \$209.00	Varies Varies	\$261.00 \$297.00	Varies Varies	----Available Under Options----				----Available Under Options----				----Available Under Options----			
RHODE ISLAND (average)	\$290.00	\$-0-	\$395.00	\$-0-	----Included with Medical----				----Included with Medical----				----Included with Medical----			
WISCONSIN (example)	\$140.16	\$-0-	\$347.22	\$-0-	----Included with Medical----				----Included with Medical----				----Included with Medical----			

NOTES TO TABLE 4A HEALTH INSURANCE

CALIFORNIA -- An employee has 25 options under the medical plan. The state will pay the maximums noted on the table; additional premiums must be paid by the employee. The \$63.80 paid monthly by the state for dental coverage is for employees plus two or more persons. The premium for dental coverage for employee plus one person is \$43.67 per month and is paid by the state.

HAWAII -- The \$15.06 paid by the state per month for dental coverage is for employee and spouse. The state will pay an additional \$7.24 per child per month. There is no additional charge to the employee.

MINNESOTA -- The amounts shown represent the average monthly cost for full-time employees. The actual monthly cost varies from county to county and from the type of health plan chosen by an employee.

NEW HAMPSHIRE -- The monthly premium paid by the state for medical coverage for employee and one person is \$351.77 and for dental coverage for employee and one person is \$28.42.

OREGON -- There are two health insurance plans in Oregon: Bargaining Unit Benefits Board (BUBB) and State Employee Benefits Board (SEBB). Both plans include optional dental, vision, and audio coverage. Approximately 17,000 employees are covered under BUBB. The state pays each employee \$261.00 per month which they may use to purchase the type of coverage they choose. Approximately 25,000 employees are covered under SEBB. Under SEBB, rates are tiered and they vary from contract to contract. Under one contract, the state pays \$209 per month for employee only; \$238 per month for employee and child; \$260 per month for employee and spouse; and \$297 per month for employee and family. SEBB has more options from which to choose than does BUBB.

RHODE ISLAND -- Rhode Island is self-insured. There is no dollar amount available per employee. The state budgets approximately \$3,500 per year per employee for employee only coverage and between \$4,500 and \$5,000 per year per employee for employee and family coverage. The figures presented in the table are monthly averages.

WISCONSIN -- There are 30 HMOs and a state standard plan which is self-insured. The rates on the table reflect the HMO plan which provides coverage for the largest number of participants.

Prepared by the Legislative Research Agency, May 1991 (91-347D1)

**TABLE 4 B
OTHER INSURANCE**

<u>STATE</u>	<u>Liability Ins.</u>	<u>Workers Comp</u>	<u>Unempl. Comp.</u>	<u>AD&D</u>	<u>Life Insurance</u>	
					<u>Maximum \$ Coverage</u>	<u>Fixed Amount</u>
ALASKA	Yes	Yes	Yes	Yes	\$2,000	Yes
CALIFORNIA	No	Yes	Yes	No	\$5,000 plus 1/2 Salary	No
CONNECTICUT	No	Yes	Yes	No	50,000	No
HAWAII	Yes	Yes	Yes	No	24,000	No
IOWA	Yes	Yes	Yes	Yes	10,000	Yes
MINNESOTA	No	Yes	Yes	Yes	No Limit	No
MONTANA	Yes	Yes	Yes	Yes	10,000	yes
NEW HAMPSHIRE	No	Yes	Yes	Yes	10,000	Yes
OREGON	Yes	Yes	Yes	Yes	500,000	No
RHODE ISLAND	Yes	Yes	Yes	Yes	Salary	No
WISCONSIN	Yes	Yes	Yes	Yes	Salary	No

Prepared by the Legislative Research Agency, May 1991 (90-347D2)

TABLE 5
OTHER BENEFITS
(See Notes to Table 5 for Clarification and Exceptions)

<u>STATE</u>	<u>On-site ChildCare</u>	<u>Uniforms Provided</u>	<u>Tools/ Equipment Provided</u>	<u>Free Parking</u>	<u>Moving Expenses</u>	<u>Grievance Proc. # Steps</u>	<u>Binding</u>	<u>Paid Rest</u>	<u>Paid Lunch</u>	<u>JuryDuty Paid</u>	<u>Hazard Pay</u>	<u>Legal Trust</u>	<u>Educ'l Trng</u>
ALASKA	No	Yes	Yes	Yes	Yes	5	Yes	Yes	No	Yes	Yes	Yes	Yes
CALIFORNIA	Yes	Allowance	No	No	Yes	4	Yes	Yes	No	Yes	Yes	No	Yes
CONNECTICUT	Yes	Yes	Yes	Yes	No	4	Yes	Yes	No	Yes	Yes	No	Yes
HAWAII	No	Yes	Yes	No	No	4	Yes	Yes	No	Yes	Yes	Yes	Yes
IOWA	No	Yes	Yes	Yes	Yes	4	Yes	Yes	No	Yes	No	No	Yes
MINNESOTA	Yes	Allowance	Yes	Yes	Yes	4	Yes	Yes	No	Yes	Yes	No	Yes
MONTANA	No	Yes	Yes	Yes	Yes	4	Yes	Yes	No	Yes	No	No	No
NEW HAMPSHIRE	Yes	Yes	Yes	Yes	No	4	Yes	Yes	No	Yes	Yes	Yes	Yes
OREGON	Yes	Yes	Yes	Yes	Yes	4	Yes	Yes	No	Yes	Yes	Yes	Yes
RHODE ISLAND	Yes	Yes	Yes	Yes	No	4	Yes	Yes	No	Yes	No	No	Yes
WISCONSIN	Yes	Yes	Yes	Yes	Yes	4	Yes	Yes	Yes	Yes	Yes	No	Yes

NOTES TO TABLE 5 OTHER BENEFITS

CALIFORNIA -- Some departments have child care available on state property. Employees receive an allowance for uniforms. Only expenses for books are reimbursed.

CONNECTICUT -- Some units have pilot programs for child care. Funds are limited for tuition reimbursement.

HAWAII -- The legal trust fund is for civil suits only.

IOWA -- Reimbursement for educational training is limited to fund availability.

MINNESOTA -- There is one pilot program for child care on state property. Some facilities are available at full cost to an employee for child care. Employees receive an allowance for uniforms. Expenses for educational advancement and training may be partially reimbursed.

NEW HAMPSHIRE -- New Hampshire is implementing a pilot program for child care on state property.

OREGON -- There are three pilot programs for child care on state property. Parking is available free if it is a term of the lease agreement of the facility. Private and public parking is available at a cost. Funding for educational advancement and training varies from contract to contract.

RHODE ISLAND -- Child care centers are located on state property; however, there is a cost to an employee. There is a fund for reimbursement of educational advancement and training expenses.

WISCONSIN -- Start-up funds are available for child care on state property. Tuition costs are reimbursed if training is a condition of employment. If not, the state may reimburse all or a portion of the expenses. The legal trust fund may be used only for work-related assistance.

Prepared by the Legislative Research Agency, May 1991 (90.347E)

HOUSE COMMITTEE REPORT

(7)

Date Referred: April 28, 1992

FURTHER REFERRALS:

Finance

Date of Committee Action: 5/6/92

The STATE AFFAIRS Committee considered:

HB 587

HOUSE BILL NO. 587

EMPLOYEE CONTRIBUTIONS FOR RETIREMENT

"An Act relating to employer and employee contributions to state retirement systems; and providing for an effective date."

RECOMMENDATIONS: the same title
 be replaced with CS HB 587 (STA) a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact ADMIN

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
		<i>Eugene G. Kubera</i> ^{KUBERA}		<input checked="" type="checkbox"/>	
		<i>T. Choquette</i> ^{CHOQUETTE}		<input checked="" type="checkbox"/>	
		<i>Jerry Baker</i> ^{BAKER}		<input checked="" type="checkbox"/>	
		<i>Mark Gruenberg</i> ^{GRUENBERG}		<input checked="" type="checkbox"/>	

Eugene G. Kubera
 CHAIRMAN'S SIGNATURE

CS FOR HOUSE BILL NO. 587 (STATE AFFAIRS)
 IN THE LEGISLATURE OF THE STATE OF ALASKA
 SEVENTEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE STATE AFFAIRS COMMITTEE

Offered:
 Referred:

Sponsor(s): HOUSE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to employer and employee contributions to state retirement systems; and
 2 providing for an effective date."

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

4 * Section 1. FINDINGS AND PURPOSE. (a) The legislature finds that

5 (1) the cost of providing benefits for employees in public retirement systems and their
 6 dependents has risen dramatically over the years;

7 (2) the state is anticipating times of restricted revenue in the near future and it is
 8 important to reduce the expenses to public employers; and

9 (3) currently employees contribute substantially less to support the state retirement
 10 systems than employers contribute.

11 (b) The purpose of this legislation is to require participants in state retirement systems to share
 12 equally with their employers in the cost of supporting the system.

13 * Sec. 2. AS 14.25.050(a) is amended to read:

14 (a) Each [BEGINNING JANUARY 1, 1991, EACH] teacher who first joined the

1 system before July 1, 1993, shall contribute to the system an amount equal to 8.65 percent of
2 the teacher's base salary accrued from July 1 to the following June 30. Members who first
3 joined the system on or after July 1, 1993, shall contribute to the system an amount
4 determined by multiplying the member's base salary accrued from July 1 to the following
5 June 30 by the member's contribution rate determined under AS 14.25.070(c). The
6 employer shall deduct the contribution from the teacher's salary at the end of each payroll period.
7 The contributions shall be deducted from employee compensation before the computation of
8 applicable federal taxes and shall be treated as employer contributions under 26 U.S.C. 414(h)(2).

9 * Sec. 3. AS 14.25.060(d) is amended to read:

10 (d) If a member first joined the system on or after July 1, 1990, and before July 1,
11 1993, and has military service or Alaska BIA service, the member's indebtedness shall be
12 determined under (a) of this section except that the percentage multiplier is 8.65 percent. If a
13 member first joined the system on or after July 1, 1993, the percentage multiplier is the
14 contribution rate determined under AS 14.25.070(c).

15 * Sec. 4. AS 14.25.070 is amended to read:

16 Sec. 14.25.070. CONTRIBUTIONS BY EMPLOYER. For teachers who first joined
17 the system before July 1, 1993, an [AN] employer shall contribute to the system an amount
18 equal to the percentage, as certified by the administrator, of the sum total of the base salaries of
19 all those teachers that is required in addition to [TEACHER] contributions from those teachers
20 to provide the benefits of this chapter times the sum total of the base salaries paid to those
21 teachers by the employer.

22 * Sec. 5. AS 14.25.070 is amended by adding new subsections to read:

23 (b) For members who first joined the system on or after July 1, 1993, an employer shall
24 contribute to the system an amount equal to the employer's contribution rate determined under
25 this subsection multiplied by the amount necessary to provide the benefits for those members
26 under this chapter, as certified by the administrator plus the employer surcharge. The employer's
27 contribution rate is determined by dividing the total base salaries paid to members who first
28 joined the system on or after July 1, 1993, and who were employed by the employer during the
29 year by the total base salaries paid by all the employers participating in the system during the
30 year to those members and dividing that amount by two.

31 (c) For members who first joined the system on or after July 1, 1993, the member's

1 contribution rate is computed by dividing the amount of the employer's contribution for those
2 members required under (b) of this section by the total of the base salaries paid by the employer
3 to all those members during the year.

4 * Sec. 6. AS 22.25.011 is amended to read:

5 Sec. 22.25.011. CONTRIBUTIONS. Each justice and judge appointed after July 1, 1978,
6 and before July 1, 1993, shall contribute seven percent of the base annual salary received by
7 the justice or judge to the judicial retirement system. Each justice or judge appointed on or
8 after July 1, 1993, shall contribute an amount determined by multiplying the member's
9 salary by the member's contribution rate computed under AS 22.25.046(b). Contributions
10 shall be made for all creditable service under this chapter up to a maximum of 15 years. This
11 contribution is made in the form of a deduction from compensation, and is made even if the
12 compensation paid in cash to the justice or judge is reduced below the minimum prescribed by
13 law. Each justice and judge is considered to consent to the deduction from compensation.
14 Payment of compensation less the deduction constitutes a full discharge of all claims and
15 demands for the services rendered by the justice or judge during the period covered by the
16 payment, except as to the benefits provided for under this chapter. The contributions shall be
17 credited to the judicial retirement fund established in accordance with AS 22.25.048.

18 * Sec. 7. AS 22.25.046(b) is amended to read:

19 (b) The court svstem contribution rates [RATE] shall be the percentages [A
20 PERCENTAGE] which, when applied to the covered compensation of all active members of the
21 judicial retirement system, will generate sufficient money to support, along with contributions
22 from members, the benefits of the judicial retirement system. For justices and judges
23 appointed on or after July 1, 1993, the member's contribution rate shall be sufficient to
24 raise an amount equal to one-half the amount needed to support benefits for those justices
25 and judges. The member's contribution rate for those justices and judges shall be
26 determined by dividing the amount needed to be raised from those members by the sum
27 of the salaries paid to those members.

28 * Sec. 8. AS 39.35.160(a) is amended to read:

29 (a) Each [BEGINNING JANUARY 1, 1987, EACH] peace officer or fire fighter who
30 first joined the svstem before July 1, 1993, shall contribute to the system an amount equal to
31 seven and one-half percent of the peace officer's or fire fighter's compensation. Each

1 [BEGINNING JANUARY 1, 1987, EACH] other employee who first joined the system before
2 July 1, 1993, shall contribute to the system an amount equal to six and three-quarters percent of
3 the employee's compensation. For peace officers and fire fighters or other employees who
4 first joined the system on or after July 1, 1993, the amount of the contribution shall be
5 determined using the appropriate employee contribution rate determined under
6 AS 39.35.250(d) instead of the percentage stated above. The contributions shall be deducted
7 by the employer at the end of each payroll period. The contributions shall be deducted from
8 employee compensation before computation of applicable federal taxes, and the contributions
9 shall be treated as employer contributions under 26 U.S.C. 414(h)(2).

10 * Sec. 9. AS 39.35.250 is amended by adding a new subsection to read:

11 (d) The sum of the contributions from the employees of an employer who first joined the
12 system on or after July 1, 1993, during a year shall equal the amount of the employer
13 contribution attributable to those employees paid during that time. For peace officers and fire
14 fighters who first joined the system on or after July 1, 1993, the peace officer and fire fighter
15 contribution rate is equal to the amount of the employer contribution for those peace officers and
16 fire fighters divided by the sum of the salaries that the employer paid to those peace officers and
17 fire fighters during the year. For other employees who first joined the system on or after July 1,
18 1993, the contribution rate for those employees is equal to the amount of the employer
19 contribution for those employees divided by the sum of all salaries that the employer paid to
20 those employees during the year.

21 * Sec. 10. AS 39.35.340(b) is amended to read:

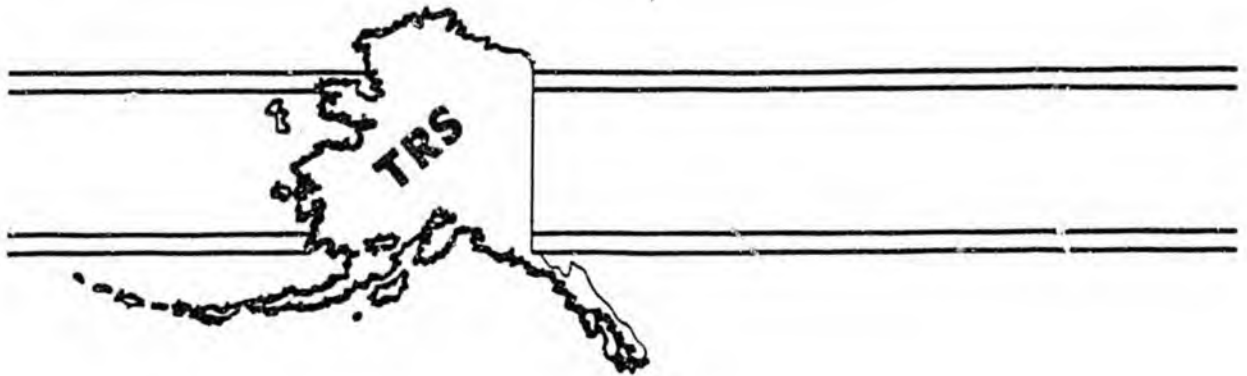
22 (b) In order to obtain credited service under this section, an employee shall make an
23 election to do so and shall verify the period of military service. When eligibility for credited
24 service for military service has been established, an indebtedness shall be determined as follows:
25 (1) the employee's actual compensation, or the calculated annual compensation for those
26 employees working less than 12 months, during the calendar year 1976 or the year in which an
27 employee first becomes vested under this chapter, whichever is later, multiplied by (2) the
28 number of years of military service credited under this section, and this product multiplied by
29 (3) six percent for members who are first eligible to claim this military service before January 1,
30 1987, or eight and one-half percent for members who are first eligible to claim this military
31 service on or after January 1, 1987, and who first joined the system before July 1, 1993, or

1 the appropriate employee contribution rate determined under AS 39.35.250(d) for employees
2 who first joined the system on or after July 1, 1993. Interest as prescribed by regulation
3 accrues on this indebtedness beginning on July 1, 1977, or one year following the date a person
4 first becomes vested, whichever is later. Any outstanding indebtedness that exists at the time a
5 person is appointed to retirement will necessitate an actuarial adjustment to the benefits payable
6 based upon that military service.

7 * Sec. 11. AS 39.35.360(i) is amended to read:

8 (i) An employee who completes three years of credited service with an employer, for
9 which the employee makes contributions required by this chapter, is entitled to credited service
10 on a year-for-year basis for service credited in the Civil Service Retirement System, rendered as
11 an employee of an Alaska Bureau of Indian Affairs (BIA) school, other than service as a teacher.
12 Retroactive credited service under this section must be claimed before the employee retires. When
13 eligibility for retroactive credited service under this section has been established, an indebtedness
14 of the employee to the system shall be determined as follows: (1) the employee's actual annual
15 compensation, or the calculated annual compensation for an employee who works fewer than 12
16 months, for the most recent calendar year in which service is rendered to an employer before the
17 calendar year in which the employee first becomes eligible to claim service under this subsection,
18 multiplied by (2) the number of years of service in Alaska BIA schools that is credited under this
19 subsection, and this product multiplied by (3) six percent for employees first eligible to claim this
20 service before January 1, 1987, or eight and one-half percent for employees first eligible to claim
21 this service on or after January 1, 1987, and who first joined the system before July 1, 1993,
22 or the appropriate employee contribution rate determined under AS 39.35.250(d) for
23 employees who first joined the system on or after July 1, 1993. Interest as prescribed by
24 regulation accrues on the indebtedness beginning on the date the employee may first claim the
25 retroactive credited service. Any outstanding indebtedness that exists at the time the employee
26 retires requires an actuarial adjustment to the benefits that are based on retroactive credited
27 service under this section. Service may not be claimed under this subsection and benefits may
28 not be paid for service claimed under this subsection if the employee has, at any point in time,
29 enough service credit in the Civil Service Retirement System to be eligible for a retirement
30 benefit under that system.

31 * Sec. 12. This Act takes effect July 1, 1993.



**State of Alaska
Teachers' Retirement System**

**Actuarial Valuation Report
as of June 30, 1990**

Highlights

This report has been prepared by William M. Mercer, Incorporated to:

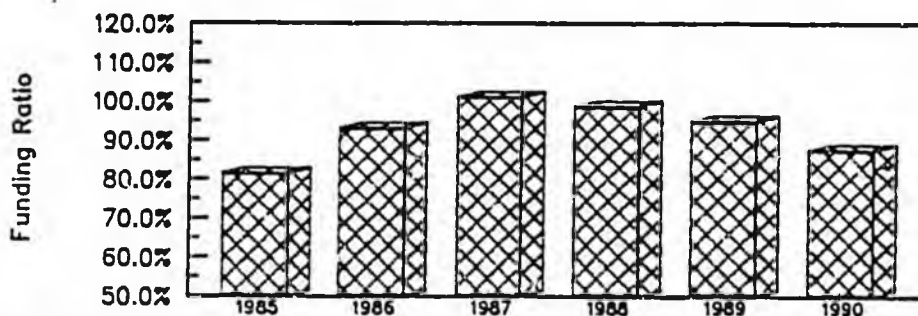
- (1) present the results of a valuation of the Alaska Teachers' Retirement System as of June 30, 1990;
- (2) review experience under the plan for the year ended June 30, 1990;
- (3) determine the appropriate contribution rate for the State and each school district in the System;
- (4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 1989-90 plan year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principle results are as follows:

	<u>1989</u>	<u>1990</u>
Funding Status as of June 30:		
(a) Valuation Assets*	\$ 1,480,389	\$ 1,662,242
(b) Accrued Liability*	1,557,643	1,895,030
(c) Funding Ratio, (a) / (b)	95.0%	87.7%



* In thousands.

Employer Contribution Rates
for Fiscal Year:

	<u>1992</u>	<u>1993</u>
(a) Normal Cost Rate	13.26%	14.07%
(b) Past Service Rate	1.90%	5.58%
(c) Total Contribution Rate	15.16%	19.65%
(d) Three-year Average Rate	11.87%	15.69%

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by the audited report from Coopers & Lybrand, to determine a sound value for the plan liabilities. We believe that this value, and the method suggested for funding it, are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,

Brian R. McGee, FSA
Principal

Peter L. Godfrey, FIA, ASA
Consulting Actuary

BRM/PLG/jls

April 11, 1991

Analysis of the Valuation

As shown in the Highlights section of this report, the funding ratio as of June 30, 1990 has decreased from 95.0% to 87.7%, a 7.3% decrease. The total employer contribution rate has increased from 15.16% of payroll to 19.65%, an increase of 4.49%. The three-year average rate has also increased from 11.87% to 15.69%, a 3.82% increase. The reasons for the change in the funded status and contribution rate are explained below.

I. Chapter 97, 1990 SLA

Chapter 97, 1990 SLA passed the Alaska State Legislature last year and was signed into law by Governor Cowper. The bill changed many of the TRS benefit provisions, some of which increase and some decrease the contribution requirements to the System and the funded status of TRS. Some of the major changes include:

- a. Automatic PRPA's will be granted to all current and future retirees.
- b. The benefit formula multiplier was increased for future service over 20 years.
- c. Employee contribution rates were increased by 1.65%, and are now being made on a tax-deferred basis.
- d. Members with 12 years of combined part-time and full-time service are vested.
- e. Normal retirement age for new employees was raised to age 60.
- f. COLA benefits for new employees will be delayed to age 65, unless disabled.
- g. Post-retirement medical benefits for new employees will be reduced.

You will note that items a through d above are effective in FY91 for all employees while items e, f and g, all cost saving items, are applicable only to employees first hired after June 30, 1990. The ultimate cost to the System should be close to the current level. The pattern of costs, however, will be higher in early years when few people are covered by the cost saving features. Contribution rates will then reduce over time as new employees enter the System.

Chapter 97, 1990 SLA caused an increase in the total employer contribution rate of 6.76% and an increase in accrued liability of about \$266,783,000.

2. Retiree Medical Insurance

During the year ended June 30, 1990, the System experienced an actuarial gain of \$57,386,000 due to the reduction in retiree medical premiums.

Because, in recent years, the adverse retiree medical premium experience was a major reason for the rapidly increasing employer contribution rate and the deteriorating funding ratio, it is certainly welcome news to be able to comment on a stabilization in retiree medical premiums.

The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS.

<u>Fiscal Year</u>	<u>Monthly Premium Per Retiree For Health Coverage</u>	<u>Annual Percentage Increase</u>	<u>Average Annual Increase Since 1978</u>
1977	\$ 34.75	--	--
1978	57.64	66%	--
1979	69.10	20%	20%
1980	64.70	- 6%	6%
1981	96.34	49%	19%
1982	96.34	0%	14%
1983	115.61	20%	15%
1984	156.07	35%	18%
1985	191.85	24%	19%
1986	168.25	-12%	14%
1987	165.00	- 2%	12%
1988	140.25	-15%	9%
1989	211.22	51%	13%
1990	252.83	20%	13%
1991	243.98	- 4%	12%
1992	243.98	--	11%

As you can see from the above table, the monthly retiree medical premium reduced to \$243.98 during the year from \$252.83, a decrease of 3.50%. The premium for the 1992 fiscal year remained unchanged.

As noted in last year's valuation report, the State has seen a dramatic shift to post-65 rates which have increased considerably faster than pre-65 rates. However, both rates reduced by 3.50% in FY91 and have remained unchanged for FY92, resulting in the first actuarial gain from medical benefits for the System since the June 30, 1987 valuation of the System.

The effect on the past service contribution rate of this reduction in retiree medical premiums was a reduction of 1.38% of payroll. The effect on the normal cost rate was a reduction of 0.90%, resulting in a reduction in the total employer contribution rate due to medical benefits of 2.28% of payroll.

2. Investment Performance

The System once again experienced actuarial gains arising from the investment performance of the Trust assets. Although the return as measured by market values was lower this year than last year, the effect of the five-year smoothing was to increase the return as measured by valuation assets from last year. The approximate rate of return based on market values was 10.03% and the rate based on valuation assets was 11.92%. The resulting actuarial gain was \$43,235,000 which had the effect of reducing the total employer contribution rate by 1.04%.

3. Salary Increases

Salary increases during the year were less than anticipated in the valuation assumptions. Salary experience resulted in an actuarial gain of \$20,599,000 which generated a reduction in the total employer contribution rate of .49% of payroll.

4. Employee Data

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased .7%, from 8,527 at June 30, 1989 to 8,586 at June 30, 1990. The average age of active participants increased from 41.82 to 42.21 and average credited service increased from 10.61 to 10.62 years.

The number of retirees and beneficiaries increased 2.8%, from 3,098 to 3,184, and their average age increased from 61.85 to 62.45. There was a 60.6% increase in the number of vested terminated participants from 508 to 816. Their average age increased from 45.11 to 46.75.

The overall effect of these participant data changes was an actuarial loss of \$16,505,000, resulting in an increase in the past service contribution rate of 0.40% of payroll. These demographic changes also had the effect of increasing the normal cost rate by .70%, resulting in an increase in the average total employer contribution rate of 1.10% of payroll.

Retirement Incentive Program

The second Retirement Incentive Program has been available to participants since July 1, 1989. The number of new retirees increased from 187 at June 30, 1989 to 199 at June 30, 1990. Although the full effect of the R.I.P. may not be seen until next year's valuation, the R.I.P. was responsible in part for the increase in the number of new retirees.

As with the first R.I.P., the cost is being borne by employers based on the actuarial value of the extra benefits, calculated individually for each employee electing to retire under the program. This cost is being paid over a three-year period. If the assumptions underlying the calculated cost of the R.I.P. are met, the total cost to the System will be equal to the employers' payments.

Summary

The following table summarizes the sources of change in the total employer contribution rate:

(1) Last year's total employer contribution rate (before smoothing) . . .	15.16%
(2) Increase in total employer contribution rate due to Chapter 97, 1990 SLA	6.76%
(3) Decrease in past service rate due to retiree medical insurance	(1.38%)
(4) Decrease in normal cost rate due to retiree medical insurance	(0.90%)
(5) Decrease due to investment performance	(1.04%)
(6) Decrease due to salary increases	(0.49%)
(7) Increase in past service rate due to demographic experience	0.40%
(8) Increase in normal cost rate due to demographic experience	0.70%
(9) Impact of all other factors	0.44%
(10) Total employer contribution rate this year (before smoothing)	19.65%

In summary, the System enjoyed a good year with substantial actuarial gains arising from favorable investment performance and the reduction in medical premiums. The effect of Chapter 97, 1990 SLA, however, caused a substantial increase in current contribution rates and a decrease in the funded status to 87.7%.

FISCAL NOTE

BILL NO. HB 587

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act relating to employer and employee contributions to state retirement systems...

Department Affected: Administration
BRU: Retirement and Benefits

Sponsor: House Finance Committee
Requestor: House State Affairs Committee

Component: Retirement and Benefits

COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	58.8	58.8	58.8	58.8	58.8	58.8
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	276.8	0	0	0	0	0
SUPPLIES	1.0	1.0	1.0	1.0	1.0	1.0
EQUIPMENT	13.6	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	355.2	64.8	64.8	64.8	64.8	64.8

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
FUND SOURCE:						

FUNDING: (Thousands of dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	355.2	64.8	64.8	64.8	64.8	64.8
TOTAL	355.2	64.8	64.8	64.8	64.8	64.8

POSITIONS

FULL-TIME:	1	1	1	1	1	1
PART-TIME:	0	0	0	0	0	0
TEMPORARY:	0	0	0	0	0	0

Estimate of current year impact:

ANALYSIS: (attach a separate page if necessary.)

Prepared By: Garv Bader *Garv M. Bader*
Division: Retirement and Benefits

Phone: 465-4470
Date: May 5, 1992

Approved by Commissioner: Nancy Bear Usara *Nancy Bear Usara*
Agency: Department of Administration

Date: 5/5/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

Rev 11/91

Page 1 of 3

House Bill 587
 Analysis of Fiscal Implications to the Retirement Fund
 Prepared by Division of Retirement & Benefits
 Department of Administration
 May 5, 1992

Analysis: Passage of this bill would require major enhancements to the state's retirement systems. The current system edits would have to be changed to accept multiple employee and employer contribution rates. The systems would also need a full time accountant III to provide auditing services for the systems. These audits are necessary to assure that employers are complying with the revised provisions and to supply additional in-field employer training

The total estimated administrative cost to the division by fiscal year is as follows:

	<u>FY 93</u>
PERSONAL SERVICES	
1 Accountant III (Auditor)	58.8
 TRAVEL	
Traveling to various locations throughout the state to perform audits of employer compliance ..	5.0
 CONTRACTUAL	
Contractual costs for Automated system enhancements	274.0
Computer services for additional PC's	2.5
Additional telephone costs (1 add phones)	.1
Telephone service for 1 phone	<u>.2</u>
FY 93 contractual costs.....	276.8

House Bill 587
Analysis of Fiscal Implications to the Retirement Fund
Prepared by Division of Retirement & Benefits
Department of Administration
May 5, 1992

FY 93

SUPPLIES

Office supplies, calculators cost 1.0

EQUIPMENT

1 Work stations 4.6
1 Chairs .3
1 PCs and other office equipment 6.0
Other office equipment
(Dictaphone, calculators, etc.) 1.0
1 File cabinets .3
1 Phones (600/instrument) .6
5 Microfiche viewers .8

Total Equipment cost 13.6

TOTAL Operations Cost \$355.2

FISCAL NOTE

BILL NO. HB 587

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: _____
Title: "An Act relating to employer and employee contributions to state retirement systems..."
Sponsor: House Finance Committee
Requestor: House State Affairs

Department Affected: ALL STATE
BRU: ALL STATE
Component: ALL STATE
COMPONENT SERIAL NO. _____

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	[1,416.5]	[4,270.0]	[7,123.5]	[9,977.0]	[12,830.5]	[15,684.0]
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	[1,416.5]	[4,270.0]	[7,123.5]	[9,970.0]	[12,830.5]	[15,684.0]

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND	[1,416.5]	[4,270.0]	[7,123.5]	[9,970.0]	[12,830.5]	[15,684.0]
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE	0	0	0	0	0	0
TOTAL	[1,416.5]	[4,270.0]	[7,123.5]	[9,970.0]	[12,830.5]	[15,684.0]

POSITIONS

FULL-TIME:	0	0	0	0	0	0
PART-TIME:	0	0	0	0	0	0
TEMPORARY:	0	0	0	0	0	0

Estimate of current year impact: Zero

ANALYSIS: (attach a separate page if necessary.) This bill will also decrease personal services cost to political subdivisions by approximately \$1,091.5 in FY 93 and \$3,274.6 in FY 94 and the savings increasing each year thereafter. The attached sheet discusses the fiscal implications of this bill to the State's Retirement Systems.

Prepared By: Garv Bader *Garv M. Bader* 5/5/92
Division: Retirement and Benefits

Phone: 465-4470
Date: May 5, 1992

Approved by Commissioner: Nancy Bear Usual *Nancy Bear Usual*
Agency: Department of Administration *10/11*

Date: 5/5/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).

House Bill 587
 Analysis of Fiscal Implications to the Retirement Fund
 Prepared by Division of Retirement & Benefits
 Department of Administration
 May 5, 1992

Analysis: The savings represented by this bill would result solely from the employees first hired after July 1, 1992 paying 1/2 of the total state retirement systems' contribution rates. We are advised by our systems' actuary that this type of funding method will likely lead to higher system costs in the future. Since this will be creating an additional tier in the state retirement systems, impact on the systems' assumptions will not be known until actual experience is analyzed.

To demonstrate the reduced employer contributions, we are proposing the following assumptions:

- * The systems will experience an average 5% turnover in the first year and 10% each year for the next 5 years.
- * The savings is estimated to grow by 10% per year
- * The State PERS payroll is estimated to be \$590,569,567 for FY 93 and remain stable each year thereafter.
- * The State TRS Payroll is estimated to be \$5,521,141 for FY 93 and remain stable each year thereafter.
- * The University of Alaska PERS payroll is estimated to be \$76,601,822 for FY 93 and remain stable each year thereafter.
- * The University of Alaska TRS payroll is estimated to be \$53,635,573 for FY 93 and remain stable each year thereafter.
- * The State Judicial Retirement System payroll is estimated to be \$ 363,611 for FY 93 and remain stable each year thereafter.
- * The FY 93 employee and employer contribution rates are as follows:

	EMPLOYEE	EMPLOYER	TOTAL SYSTEM	587 EE/ER Share
*PERS	6.75%	14.92%	21.67%	10.84%
*TRS	8.65%	12.00%	20.65%	10.33%
*JRS	7.00%	39.46%	46.46%	23.23%
*Poly Sub	6.75%	13.58%	20.33%	10.17%
*School Dist				
TRS	8.65%	12.00%	20.65%	10.33%

The State estimated FY93 savings of \$1,416,500 and FY 94 savings of \$4,270,000 is calculated as follows:

	FY 93	FY 94
Estimated FY93 State PERS new employee salaries (NES)(\$590,569,567 times 5%)	\$29,528,500	
The decrease in the employer contribution rate (14.92% - 10.84%)	<u>4.08%</u>	
Total FY 93 State PERS savings.....	\$1,204,800	
Estimated FY94 State PERS NES (\$590,569,567 times 10%)		\$59,569,600
PLUS prior years NES		<u>29,528,500</u>
Total FY 94 NES.....		\$89,098,100
The decrease in the employer contribution rate (14.92% - 10.84%)		<u>4.08%</u>
Total FY 94 State PERS savings.....		\$3,635,200

House Bill 587
 Analysis of Fiscal Implications to the Retirement Fund
 Prepared by Division of Retirement & Benefits
 Department of Administration
 May 5, 1992

Estimated FY93 U of A PERS NES (\$76,601,822 times 5%)	\$3,830,100	
The decrease in the employer contribution rate (14.92% - 10.84%)	<u>4.08%</u>	
Total FY 93 U of A PERS savings.....		\$ 156,300
Estimated FY94 U of A PERS NES (\$76,601,822 times 10%)	\$7,660,200	
PLUS prior years NES	<u>3,830,100</u>	
Total FY 94 NES.....		\$11,490,300
The decrease in the employer contribution rate (14.92% - 10.84%)	<u>4.08%</u>	
Total FY 94 U of A PERS savings.....		\$ 468,800
Estimated FY93 State TRS NES (\$5,521,141 times 5%)	\$ 276,100	
The decrease in the employer contribution rate (12.00% - 10.33%)	<u>1.77%</u>	
Total FY 93 State TRS savings.....		4,900
Estimated FY94 State TRS NES (\$5,521,141 times 10%)	\$ 552,100	
PLUS prior years NES	<u>276,100</u>	
Total FY 94 NES.....		\$ 828,200
The decrease in the employer contribution rate (12.00% - 10.33%)	<u>1.77%</u>	
Total FY 94 State TRS savings.....		14,700
Estimated FY93 U of A TRS NES (\$53,635,573 times 5%)	\$2,681,800	
The decrease in the employer contribution rate (12.00% - 10.33%)	<u>1.77%</u>	
Total FY 93 U of A TRS savings.....		47,500
Estimated FY94 U of A TRS NES (\$53,635,573 times 10%)	\$ 5,363,600	
PLUS prior years NES	<u>2,681,800</u>	
Total FY 94 NES.....		\$ 8,045,400
The decrease in the employer contribution rate (12.00% - 10.33%)	<u>1.77%</u>	
Total FY 94 U of A TRS savings.....		142,400

House Bill 587
 Analysis of Fiscal Implications to the Retirement Fund
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 Department of Administration
 May 5, 1992

Estimated FY93 Court System JRS NES			
(\$363,611 times 5%)	\$	18,200	
The decrease in the employer			
contribution rate (39.46% - 23.23%)		<u>16.23%</u>	
Total FY 93 Court System JRS savings.....	\$	3,000	
Estimated FY94 Court System JRS NES			
(\$363,611 times 10%)	\$	36,400	
PLUS prior years NES		<u>18,200</u>	
Total FY 94 NES.....	\$	54,600	
The decrease in the employer			
contribution rate (39.46% - 23.23%)		<u>16.23%</u>	
Total FY 94 Court System JRS savings.....			<u>\$ 8,900</u>
TOTAL STATE SAVINGS...		<u>\$1,416,500</u>	<u>\$4,270,000</u>

In addition to the State's savings above, political subdivision and school district costs would decrease by \$1,091,500 in FY93 based on political subdivision FY93 estimated PERS salaries of \$434,744,043 and school district FY93 estimated TRS salaries of \$395,831,981. The political subdivision and school district salaries are estimated to remain stable each year thereafter.

Estimated FY93 Poly Sub PERS NES			
(\$434,744,043 times 5%)		\$21,737,200	
The decrease in the employer			
contribution rate (13.58% - 10.17%)		<u>3.41%</u>	
Total FY 93 Poly Sub PERS savings.....	\$	741,200	
Estimated FY94 Poly Sub PERS NES			
(\$434,744,043 times 10%)	\$	43,474,400	
PLUS prior years NES		<u>21,737,200</u>	
Total FY 94 NES.....	\$	65,211,600	
The decrease in the employer			
contribution rate (13.58% - 10.17%)		<u>3.41%</u>	
Total FY 94 Poly Sub PERS savings.....			\$2,223,700

House Bill 587
 Analysis of Fiscal Implications to the Retirement Fund
 Prepared by Division of Retirement & Benefits
 Department of Administration
 May 5, 1992

Estimated FY93 School Dist. TRS NES		
(\$395,831,981 times 5%)	\$19,791,600	
The decrease in the employer contribution rate (12.00% - 10.33%)	<u>1.77%</u>	
Total FY 93 School Dist. TRS savings.....		350,300
Estimated FY94 School Dist. TRS NES		
(\$395,831,981 times 10%)	\$39,583,200	
PLUS prior years NES	<u>19,791,600</u>	
Total FY 94 NES.....	\$59,374,800	
The decrease in the employer contribution rate (12.00% - 10.33%)	<u>1.77%</u>	
Total FY 94 School Dist. TRS savings.....		\$1,050,900
TOTAL POLITICAL SUBDIVISION SAVINGS.....	<u>\$1,091,500</u>	<u>\$3,274,600</u>

Passage of this bill may reduce the funding ratio of the state retirement systems and increase unfunded liabilities.



February 14, 1992

The Honorable Ron Larson
Alaska State Legislature
Post Office Box V (MS 3100)
Juneau, Alaska 99811

RE: Amendment to AML's 1992 Municipal Platform

Dear Representative Larson:

At a recent meeting, the Alaska Municipal League Board of Directors voted to modify the League's position on two 1992 legislative priority items: Education Foundation Formula Funding and the proposed capital matching grant program. I am writing to you to let you know about these important changes to items on the League's priority list. As you know, additional details on the League's priority items are included in the 1992 Municipal Platform, which you received in January.

- With reference to funding for the Education Foundation Formula, the Board adopted a position in support of full and early funding of the formula at an increased instructional unit value of \$63,000.

The Board also adopted, as part of this priority item, support of legislative or administrative action to address the severe financial burden placed on school districts by major increases in the required employer contribution to the Teachers' Retirement System. These unanticipated increases, the estimated cost of which is over \$16 million for FY 93, will, if not funded separately, reduce the value of each instructional unit by over \$1,500. The League supports either modifications in the actuarial system used to calculate required contributions or an appropriation, independent of the Foundation Formula, of the amount necessary to cover the increased employer contribution.

- As an additional amendment needed for the League's support of the proposed community capital matching grant program, the Board added a stipulation that the program would be in effect only in years in which the funding was at least \$61.6 million. If the funding for the program were not at this level, the program would not be in effect. This amount, which is based on the Governor's proposal of a \$60 million funding level with a \$25,000 minimum entitlement, is the amount necessary to allow each municipality to receive a minimum entitlement of \$50,000, without reducing the grants to larger municipalities.

As I know you appreciate, the development of policy positions within a large, representative organization is an ongoing process. On behalf of the League and its members, I will continue to keep you informed about additions to or changes in AML's legislative priority list for 1992. For additional information on these issues and the other priorities of the League for the 1992 session, please refer to the Municipal Platform or give me a call at 586-1325.

Sincerely,

Scott A. Burgess
Executive Director



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: May 4, 1992

PLACE: Capitol Room 102

SUBJECT OF MEETING:
 HB 198 - Relating to Legis. Sessions to be in Mat-Su Borough
 HB 301 - Relating to Regular Legis. Sessions
 HB 587 - Relating to Employee Contributions for Retire.
 HB 588 - Relating to Protect Merit Principle of Employ.

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
<i>Gene</i> <i>Gene Kubina</i>		<i>Box 11300</i>			<i>4970</i>	<input checked="" type="radio"/> Y <input type="radio"/> N	<i>HB 588</i>
Mike McMullen	DOA	<i>Box 110201 Juneau AK</i>	99811		<i>465- 2430</i>	<input checked="" type="radio"/> Y <input type="radio"/> N	<i>HB 588</i>
Kathleen Strabig	LAW	<i>Box 110300</i>	99811		<i>3600</i>	<input checked="" type="radio"/> Y <input type="radio"/> N	<i>HB 588</i>
Peggy Weaver	ASEH	<i>691 W. Willoughby Ave Juneau</i>	99801		<i>463- 4909</i>	<input checked="" type="radio"/> Y <input type="radio"/> N	<i>HB 588</i>
GARY BADER	DOA	RETIREMENT & BENI			<i>465 4470</i>	<input checked="" type="radio"/> Y <input type="radio"/> N	<i>HB 587</i>
Matthew Fishel	Rep. Carney					<input type="radio"/> Y <input checked="" type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	
						<input type="radio"/> Y <input type="radio"/> N	



House State Affairs Committee

Representative Gene Kubina, Chair

SUBJECT OF MEETING:

DATE: 5/6

PLACE:

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
BRUCE LUDWIG	APZ/ART			6-2331		<input checked="" type="radio"/> Y	<input type="radio"/> N	587 588
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	

H B

5 8 8

HOUSE COMMITTEE REPORT

5-6-92
Judiciary

(7)
 Date Referred: April 29, 1992

FURTHER REFERRALS:

Date of Committee Action: 5/6/92

The STATE AFFAIRS Committee considered:

HB 588

HOUSE BILL NO. 588

PROTECT MERIT PRINCIPLE OF EMPLOYMENT

"An Act establishing a procedure for the review of the reorganization of agencies in the executive branch of state government for violations of the merit principle of employment and providing remedies for violations of the merit principle."

- RECOMMENDATIONS: [] the same title
 be replaced with _____ [] a new title
- [] have attached amendments(s)
- [] do pass
- [] do not pass
- [] no recommendations
- [X] individual recommendations
- [] additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____
 x indeterminate
 [] fiscal impact Admin
 [] zero fiscal note _____

APPROVES PREVIOUS: (Dept/Date) _____
 [] fiscal note(s) _____
 [] zero fiscal note(s) _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>[Signature]</i>		<i>Eugene A. Kubera</i>		X	
<i>[Signature]</i>		<i>David McSicil / Chouvette</i>			X
<i>[Signature]</i>		<i>Gary Baker</i>			

Eugene A. Kubera
 CHAIRMAN'S SIGNATURE
Eugene A. Kubera

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. HB 588

Revision Date: _____

Department Affected: Administration

Title: Review reorganizations for violation of merit principles.

BRU: Personnel/OEEO

Sponsor: House Finance Committee

Component: Personnel/OEEO

Requestor: House State Affairs

COMPONENT SERIAL NO.

0	0	5	6
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES
TRAVEL
CONTRACTUAL
SUPPLIES
EQUIPMENT
LAND & STRUCTURES
GRANTS, CLAIMS
MISCELLANEOUS
TOTAL OPERATING

CAPITAL
---------	---	---	---	---	---	---

REVENUE FUND SOURCE:
----------------------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

GENERAL FUND	.	.	.	.	.	.
FEDERAL FUNDS	.	.	.	.	.	.
OTHER FUND SOURCE:	.	.	.	.	.	.
TOTAL	.	.	.	.	.	.

POSITIONS:

FULL-TIME	.	.	.	.	.	.
PART-TIME	.	.	.	.	.	.
TEMPORARY	.	.	.	.	.	.

Estimate of current year impact: \$0

ANALYSIS: (Attach a separate page if necessary.)
The fiscal impact of HB 588 is indeterminate. See attached.

Prepared by: R. H. King
Division: Personnel/OEEO

Phone: 465-4430
Date: _____

Approved by Commissioner: Nancy Bear Usura
Agency: Administration

Date: 5/5/92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc., & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. HB 588

HB 588 would allow employees or former employees to complain to the Personnel Board that a reorganization in the Executive Branch violates the merit principle. This bill is based on the recent Investigative Report of the Ombudsman of the recent reorganization of the Division of Family and Youth Services. This bill would require investigations by the Personnel Board very similar to the one conducted by the Ombudsman. It is apparent from reading the Investigative Report that considerable time and resources of at least two people were involved.

This recent investigation is the only model for estimating the costs for the Personnel Board should this bill become law. However, there are considerable unknowns. To our knowledge, this reorganization is the only one in which a violation of the merit principle was a nontrivial charge. What volume of complaints can be expected? Will more complaints be filed with the Personnel Board than have been raised by employees' collective bargaining representative, or to the Ombudsman, or to the Attorney General (violation of the Personnel Act is a misdemeanor under Alaska Statute 39.25.)? Will complaints increase with the inevitable downsizing that will be required by falling revenue? Or was this a unique occurrence that will not be repeated for another 30 years? Will this Ombudsman's Investigative Report be a sufficient deterrent for five or ten years?

While the above questions make it impossible to estimate a cost for this bill, the department does not want to fall into the trap of having no appropriation committed to the costs and thus having the Personnel Board turn down complaints because "the resources of the board are insufficient for adequate investigation" (proposed AS 39.25.310, page 2, line 14 of the bill). We look forward discussions during the hearing process of an appropriate way to project and fund the costs.



State of Alaska
ombudsman

Duncan C. Fowler

May 4, 1992

Representative Gene Kubina, Chairman
House State Affairs Committee
State Capitol
Juneau, Alaska 99801-1182

RE: HB 588

Dear Representative Kubina,

The genesis of this bill was a recently completed ombudsman investigation of a reorganization of the Division of Family and Youth Services (DFYS). I appreciate the support of the House Finance Committee and Representative Ulmer by introducing this measure. I know we are in the last few weeks of this legislature. But, I believe HB 588 speaks to an important aspect of our responsibility to provide nonpartisan government services to all Alaskans.

My investigation of DFYS looked at an allegation that the agency had based its reorganization on incorrect information. Part of that review found the agency director had circumvented the principles of the merit system during the restructuring. This proposal provides an appeal mechanism for covered state employees when reorganizations are undertaken in contravention of our constitutionally mandated merit system.

This measure *does not prohibit nor constrain an agency from reorganizing* to improve its internal efficiency or to meet budget constraints. That ability is defined in AS 44.17.070 "Reorganization by Department Heads". HB 588 does require that personnel decisions made during a reorganization effort be made in compliance with our state merit principals as established in Article XII, Section 6 of the Alaska Constitution. It specifically does not deal with employees in the exempt or partially exempt service. New administrations must have the freedom to appoint individuals with certain skills and philosophies to form and implement its new policy directions and agendas.

All of us expect to see the number of state employees dramatically shrink over the next few years. This measure helps insure future personnel reductions occur in concert with the merit principles as stated in our constitution and defined in AS 39.25.010. Our investigation showed how easy it is to use a reorganization effort to target specific merit employees and cause their positions to be removed. Unfortunately reasons for removal can well be for non-merit reasons as there is no standard appeal or review available to those affected. Racial, political, sexual and religious biases could be the criteria for an administrator with a hidden agenda. This measure provides an appeal and review to occur by the state personnel board. It gives the board the ability to take corrective action if necessary.

Reply to:

P.O. Box 102638
Anchorage, AK 99510-2638
(907) 277-8848
(800) 478-2624

P.O. Box WO
Juneau, AK 99811-3000
(907) 465-4970
(800) 478-4970

P.O. Box 74358
Fairbanks, AK 99707-4358
(907) 452-4001
(800) 478-3257

*From Duncan
May be a duplicate!*

Alaska State Legislature

HOUSE OF REPRESENTATIVES



REPRESENTATIVE FRAN ULMER

MEMORANDUM

May 4, 1992

TO: Rep. *Gene Kubina*, Chair
House State Affairs Committee

FROM: Rep. *Fran Ulmer*

RE: HB 588, Violations of the merit principle in public employment

HB 588, relating to violations of the merit principle of employment, was introduced as a result of an audit performed by the State Ombudsman of the Division of Family and Youth Services. The audit concluded that a recent reorganization of DFYS was a politically motivated maneuver designed to subvert the merit system and to remove certain classified employees from their positions. The audit documents the manner in which plans were carefully laid to fire specified employees without regard to the merit of their performance on the job. In the pursuit of this goal, agency personnel deliberately misled the legislature regarding the purpose of the reorganization, the benefits to be derived, and the cost.

The stated purpose of the DFYS reorganization was to reduce unnecessary mid-management positions, save \$600,000, and use the savings to fund additional line workers who would deliver direct services to clients. The net result was purported to be an increased ability of the state to protect at-risk children and adults. In reality, the result of the reorganization was an annual increase in costs of \$361,343, a decrease in line workers, and 1100 fewer child abuse investigations performed each year.

HB 588 establishes the authority of the Personnel Board to investigate whether the merit principle has been violated by reorganization of a state agency. If a preliminary investigation indicates that a violation has probably occurred, the Board is authorized to try to eliminate the violation by conciliation. The preliminary report must include recommendations for correction of the violation. The Board may order appropriate corrective action. During an investigation, the Board may also issue a stay of implementation of the reorganization.

The merit principle of employment serves two purposes: (1) it ensures that public employment is based on effective performance of approved responsibilities; and (2) encourages the agency to evaluate agency/employee performance based on merit alone. It is impossible to separate the effective functioning of the agency from the employment of qualified, experienced personnel. The reorganization of DFYS resulted in the intentional elimination of competent

employees. The result is a serious loss of service in an agency providing some of the most critical public protection services in the state.

It is doubly onerous that the agency persisted in the reorganization despite the many inquiries and criticisms leveled at agency management by professionals and other knowledgeable persons in the field, including legislators, prior to its implementation. HB 588 will help prevent the same abuses from occurring in the future by providing the Personnel Board with the power to order corrective action and to implement a stay of implementation. If these powers had been in place last year, the reorganization of DFYS could have been required to meet closer scrutiny prior to implementation.

CORRECTION

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



State of Alaska
ombudsman

Duncan C. Fowler

*From Duncan
may be a duplicate!*

May 4, 1992

Representative Gene Kubina, Chairman
House State Affairs Committee
State Capitol
Juneau, Alaska 99801-1182

Reply to:

- P.O. Box 132636
Anchorage, AK 99510-2636
(907) 277-8848
(800) 478-2624
- P.O. Box WC
Juneau, AK 99811-3000
(907) 465-4970
(800) 478-4970
- P.O. Box 74358
Fairbanks, AK 99707-4358
(907) 452-4001
(800) 478-3257

RE: HB 588

Dear Representative Kubina,

The genesis of this bill was a recently completed ombudsman investigation of a reorganization of the Division of Family and Youth Services (DFYS). I appreciate the support of the House Finance Committee and Representative Ulmer by introducing this measure. I know we are in the last few weeks of this legislature. But, I believe HB 588 speaks to an important aspect of our responsibility to provide nonpartisan government services to all Alaskans.

My investigation of DFYS looked at an allegation that the agency had based its reorganization on incorrect information. Part of that review found the agency director had circumvented the principles of the merit system during the restructuring. This proposal provides an appeal mechanism for covered state employees when reorganizations are undertaken in contravention of our constitutionally mandated merit system.

This measure *does not prohibit nor constrain an agency from reorganizing* to improve its internal efficiency or to meet budget constraints. That ability is defined in AS 44.17.070 "Reorganization by Department Heads". HB 588 does require that personnel decisions made during a reorganization effort be made in compliance with our state merit principals as established in Article XII, Section 6 of the Alaska Constitution. It specifically does not deal with employees in the exempt or partially exempt service. New administrations must have the freedom to appoint individuals with certain skills and philosophies to form and implement its new policy directions and agendas.

All of us expect to see the number of state employees dramatically shrink over the next few years. This measure helps insure future personnel reductions occur in concert with the merit principles as stated in our constitution and defined in AS 39.25.010. Our investigation showed how easy it is to use a reorganization effort to target specific merit employees and cause their positions to be removed. Unfortunately reasons for removal can well be for non-merit reasons as there is no standard appeal or review available to those affected. Racial, political, sexual and religious biases could be the criteria for an administrator with a hidden agenda. This measure provides an appeal and review to occur by the state personnel board. It gives the board the ability to take corrective action if necessary.

A quote from our DFYS investigation illustrates this concern clearly:

One of the basic tenets of the merit system is that classified employees shall be hired, evaluated, retained or promoted on the basis of their competency and job performance rather than their political associations or personal connections. Perceived manipulation of merit system principals for political ends has a chilling effect on the functioning of government agencies wherever and whenever it occurs. In an agency such as DFYS the potential harmful effects are simply too great for prudent managers to allow political considerations to become preeminent.

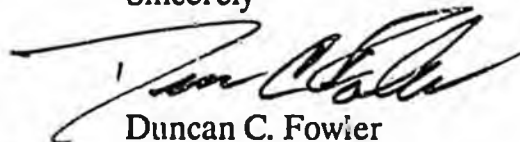
DFYS staff are required to make complex decisions in emotionally charged circumstances on a daily basis. If staff must be concerned that their decisions and actions can cause them to become targets of political reprisal the effect can be paralyzing. When classified managers are affected, subordinate staff may become afraid to act or may base critical casework decisions on an evaluation of political expediency rather than on the risk to a vulnerable client or the community.

In the DFYS reorganization effort, merit principals were not simply ignored but actively circumvented and subverted. The "targeted down-sizing" which occurred in DFYS has been highly visible and demoralizing within that agency and has been carefully watched by others.

As reduced revenues necessitate legitimate "down-sizing" in this agency or others, adequate mechanisms must be developed to ensure this reduction process is not used as a means of political restructuring. Protections are needed to ensure the "down-sizing" process does not become a means of eliminating divergent political perspectives to achieve political uniformity among government employees. If unchecked, such actions can be demoralizing to government employees and seriously compromise government services to citizens.

I would urge the committees favorable consideration of this measure. There is no fiscal impact on my office. Copies of the Division of Family and Youth Services investigation were sent to each legislators' office. I was pleased that the agency in this case has agreed to implement my recommendation to review personnel actions that were taken during their last reorganization. If additional copies of this investigation are needed please let me know. I would be happy to answer any questions about this measure or the Office of the Ombudsman.

Sincerely



Duncan C. Fowler
Ombudsman

Alaska State Legislature

HOUSE OF REPRESENTATIVES



REPRESENTATIVE FRAN ULMER

MEMORANDUM

May 4, 1992

TO: Rep. *Gene Kubina*, Chair
House State Affairs Committee

FROM: Rep. *Fran Ulmer*

RE: HB 588, *Violations of the merit principle in public employment*

HB 588, relating to violations of the merit principle of employment, was introduced as a result of an audit performed by the State Ombudsman of the Division of Family and Youth Services. The audit concluded that a recent reorganization of DFYS was a politically motivated maneuver designed to subvert the merit system and to remove certain classified employees from their positions. The audit documents the manner in which plans were carefully laid to fire specified employees without regard to the merit of their performance on the job. In the pursuit of this goal, agency personnel deliberately misled the legislature regarding the purpose of the reorganization, the benefits to be derived, and the cost.

The stated purpose of the DFYS reorganization was to reduce unnecessary mid-management positions, save \$600,000, and use the savings to fund additional line workers who would deliver direct services to clients. The net result was purported to be an increased ability of the state to protect at-risk children and adults. In reality, the result of the reorganization was an annual increase in costs of \$361,343, a decrease in line workers, and 1100 fewer child abuse investigations performed each year.

HB 588 establishes the authority of the Personnel Board to investigate whether the merit principle has been violated by reorganization of a state agency. If a preliminary investigation indicates that a violation has probably occurred the Board is authorized to try to eliminate the violation by conciliation. The preliminary report must include recommendations for correction of the violation. The Board may order appropriate corrective action. During an investigation, the Board may also issue a stay of implementation of the reorganization.

The merit principle of employment serves two purposes: (1) it ensures that public employment is based on effective performance of approved responsibilities; and (2) encourages the agency to evaluate agency/employee performance based on merit alone. It is impossible to separate the effective functioning of the agency from the employment of qualified, experienced personnel. The reorganization of DFYS resulted in the intentional elimination of competent

employees. The result is a serious loss of service in an agency providing some of the most critical public protection services in the state.

It is doubly onerous that the agency persisted in the reorganization despite the many inquiries and criticisms leveled at agency management by professionals and other knowledgeable persons in the field, including legislators, prior to its implementation. HB 588 will help prevent the same abuses from occurring in the future by providing the Personnel Board with the power to order corrective action and to implement a stay of implementation. If these powers had been in place last year, the reorganization of DFYS could have been required to meet closer scrutiny prior to implementation.

HB 588 - Violations of the Merit Principle of Employment

Sectional Analysis

Section 1.

Sec. 39.25.300. Jurisdiction of the Personnel Board: Establishes the jurisdiction of the Personnel Board to investigate whether the merit principle has been violated by a state agency reorganization.

Sec. 39.25.310. Investigation of Complaints: Requires a complaint to be filed within one year of a reorganization or knowledge of a violation; requires a hearing officer to conduct an investigation unless

- a) complaint is outside the jurisdiction of AS 39.25.300-500;
- b) complainant does not have sufficient personal interest;
- c) complainant has not alleged sufficient facts to proceed;
- d) complaint is trivial or made in bad faith;
- e) board does not have adequate resources to investigate.

Sec. 39.35.320. Notice to Complainant: Hearing officer shall inform the complainant whether the board will investigate the complaint.

Sec. 39.25.330. Notice to Others: With some exceptions, if an investigation is undertaken, the hearing officer shall notify the agency and other employees affected by the reorganization.

Sec. 39.25.340. Investigation Procedures: The hearing officer shall investigate the complaint informally and, if the allegations are supported by substantial evidence, try to eliminate the merit principle violation by conference, conciliation and persuasion. Authorizes a hearing officer to make inquiries, inspect the premises of an agency, hold closed hearings, and have access to agency records, including confidential records. The hearing officer and the board shall maintain confidentiality regarding all matters and identities of complainants or witnesses.

Sec. 39.25.350. Stay of Personnel Actions: After a complaint is accepted for investigation, the board may issue a 30-day stay of implementation of all or part of the reorganization. The board may issue additional stays; an agency may petition the board for amendments to a stay.

Sec. 39.25.360. Subpoena Powers: The board may subpoena witnesses and records. The board may not subpoena records of active criminal investigations that reveal the identity of confidential police informants. If a person refuses to comply with a subpoena, the court may compel obedience.

Sec. 39.25.370. Procedure After Investigation: After the investigation, the hearing officer shall make a preliminary report as to whether the reorganization violated the merit principle of employment. If the principle has been violated, the report must include recommendations for correction of the violation. The board may adopt, amend or reject the findings of fact and the recommendations of the report. The report and recommendations become final 30 days after the report is issued unless the board acts on the report, or the complainant or the agency requests a hearing. The board shall hold the hearing at a place where the violation allegedly occurred; testimony shall be taken under oath. If the board determines that a violation