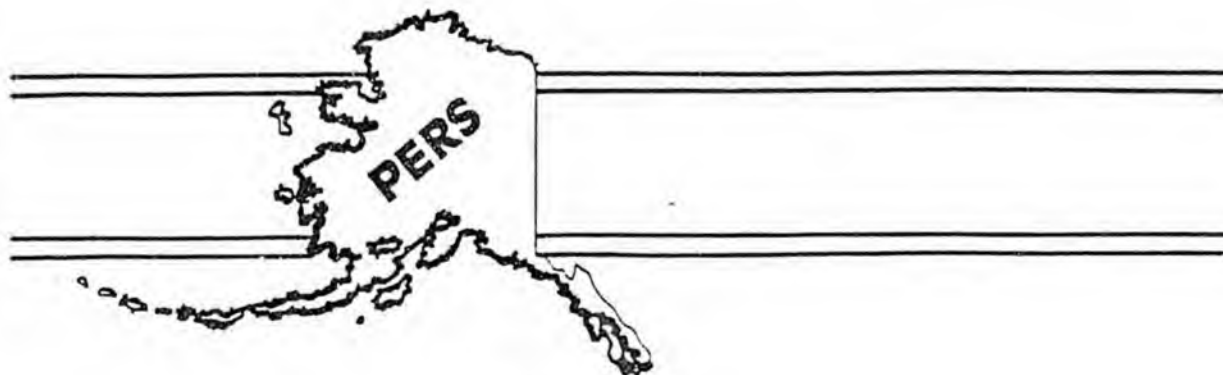


ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672

7427 SENATE HEALTH EDUCATION & SOCIAL SERVICES



**State of Alaska
Public Employees' Retirement System**

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

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Highlights

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

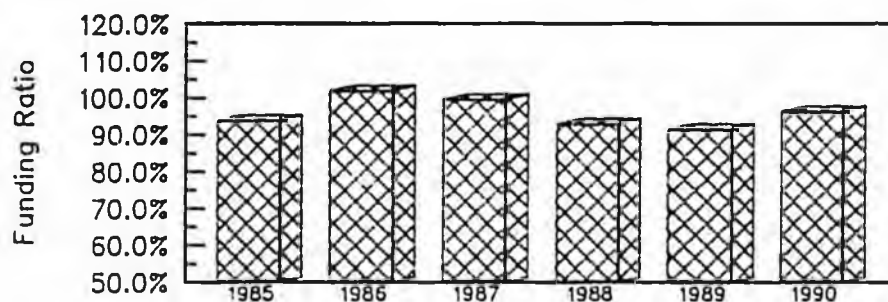
- (1) present the results of a valuation of the Alaska Public Employees' Retirement System as of June 30, 1990;
- (2) review experience under the plan for the year ended June 30, 1990;
- (3) determine the appropriate contribution rates for the State and for each political subdivision in the system;
- (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*	\$ 2,348,423	\$ 2,677,486
(b) Accrued Liability*	2,563,268	2,753,518
(c) Funding Ratio, (a) / (b)	91.6%	97.2%



* In thousands.

Employer Contribution Rates
for Fiscal Year:

	<u>1992</u>	<u>1993</u>
(a) Consolidated Rate	12.00%	12.83%
(b) Average Past Service Rate	2.20%	.75%
(c) Average Total Contribution Rate	14.20%	13.58%

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 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/JWJ/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 increased from 91.6% to 97.2%, a 5.6% increase. The average employer contribution rate has decreased from 14.20% of payroll to 13.58%, a reduction of 0.62%. The reasons for the change in the funded status and contribution rate are explained below.

1. Retiree Medical Insurance

During the year ended June 30, 1990, the System experienced an actuarial gain of \$96,813,000 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 0.95% of payroll. The effect on the consolidated rate was a reduction of 0.47%, resulting in a reduction in the average total employer contribution rate due to medical benefits of 1.42% 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 9.94% and the rate based on valuation assets was 11.87%. The resulting actuarial gain was \$68,112,000 which had the effect of reducing the average employer contribution rate by 0.67%.

3. Salary Increases

Salary increases during the year were less than anticipated in the valuation assumptions. Salary experience resulted in an actuarial gain of \$6,991,000 which generated a reduction in the average employer contribution rate of 0.07% of payroll.

4. Employee Data

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased 3.7%, from 28,044 at June 30, 1989 to 29,086 at June 30, 1990. The average age of active participants increased from 40.17 to 40.37 and average credited service increased from 6.66 to 6.82 years.

The number of retirees and beneficiaries increased 5.7%, from 6,967 to 7,365, and their average age increased from 63.28 to 63.62. There was an 18.6% increase in the number of vested terminated participants from 2,314 to 2,745. Their average age reduced slightly from 42.97 to 42.96.

The overall effect of these participant data changes was an actuarial loss of \$7,216,000, resulting in an increase in the past service contribution rate of 0.07% of payroll. These demographic changes also had the effect of increasing the consolidated rate by 0.61%, resulting in an increase in the average total employer contribution rate of 0.68% of payroll.

Retirement Incentive Program

The second Retirement Incentive Program has been available to University of Alaska participants since July 1, 1989 and to other participants since October 1, 1989. The number of new retirees increased from 370 at June 30, 1989 to 495 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 average employer contribution rate:

(1) Last year's average employer contribution rate	14.20%
(2) Decrease in past service rate due to retiree medical insurance	(0.95%)
(3) Decrease in consolidated rate due to retiree medical insurance	(0.47%)
(4) Decrease due to investment performance	(0.67%)
(5) Decrease due to salary increases	(0.07%)
(6) Increase in past service rate due to demographic experience	0.07%
(7) Increase in consolidated rate due to demographic experience	0.61%
(8) Impact of all other factors	0.86%
(9) Average employer contribution rate this year	13.58%

In summary, the System enjoyed a good year with substantial actuarial gains arising from favorable investment performance and the reduction in medical premiums. These two factors were largely responsible for the increase in the System's funded status to 97.2% of accrued liabilities.

A REPORT ON THE
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM

May 16, 1986 - October 1, 1987

Audit Control Number

02-1327-89-S

Commissioner, Department of
Administration

Deputy Commissioners, Department
of Administration

John M. Andrews

Charles E. Taylor
James J. Fox

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
PO. BOX W
JUNEAU, ALASKA 99811-3300

February 8, 1989

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska
Statutes, the attached report is submitted for your review.

A REPORT ON THE
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM

May 16, 1986 - October 1, 1987

Audit Control Number

02-1327-89-S

As stated in the Report Objectives, Scope, and Methodology
Section, the Audit primarily involved determining the
estimated cost savings to the State of Alaska as a result of
state employees enrolled in the Public Employees' Retirement
System and participating in the Retirement Incentive Program
as enacted by Chapter 26, SLA 1986. This audit was con-
ducted in accordance with generally accepted governmental
performance auditing standards.



Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

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REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with the provisions of Title 24 of the Alaska Statutes, a review was conducted to determine the estimated cost savings resulting from State of Alaska employees participating in the Retirement Incentive Program (RIP). The objectives, scope, and methodology of our review were as follows:

Objectives

Chapter 26, SLA 1986 created a retirement incentive program for members of the Public Employees' Retirement System and Teachers' Retirement System. The stated purpose of this legislation, effective May 16, 1986 was:

Since it is necessary for state agencies and may be necessary for other employers who participate in the state retirement systems to reduce their personal services costs because of declining state revenue, a program encouraging employees to retire voluntarily may reduce the hardship of layoffs. This program is intended to realize sufficient economies to offset the cost of administration and benefits to the state agencies and other employers resulting from the award of retirement credits and to result in a net reduction in personal services costs to the state or other employer during a period of declining revenue.

The objective of our review was to determine the amount of cost savings as a result of state employees participating in RIP. The scope of our review and methodology used to meet this objective follows.

Scope and Methodology

All executive branch employees (excluding the University of Alaska) enrolled in the Public Employees' Retirement System, participating in RIP between May 16, 1986 to October 1, 1987, and having position control numbers (PCNs) were reviewed.

In order to calculate the estimated cost savings in personal service costs as a result of employees participating in RIP, we obtained a listing of retirees from the Department of Administration, Division of Retirement and Benefits. The listing, dated November 9, 1987 provided us with the retiring employee's name, social security number, and employer's RIP cost by department.

Limitations

In addition to the methodology used to determine the cost savings of the RIP program, the following are some limitations we identified.

1. Our computation of savings only shows the savings in the position that retired. It doesn't take into account the savings from other positions affected within the State if the position was filled by another state employee.
2. Some positions were reclassified after the employee was retired. Consequently, the cost savings/loss comparison may be skewed for these positions.
3. Our comparison excludes employees in which the PCN had more than one employee participate in RIP. In those instances, only the first employee to participate in RIP and the current occupant were presented on the schedule.
4. The calculation of savings/loss was only determined for annual salaries; employee benefits are not included. In addition, the effect of employee merit increases during the year was excluded.
5. The net cost of RIP represents the employer's cost excluding administrative charges for those positions we analyzed.
6. Some executive branch employees took mandatory and voluntary pay cuts prior to retiring while the current occupant's salary in that position reflects the reinstated salary. We did not adjust our schedule for these differences.

ORGANIZATION AND FUNCTION

Chapter 26, SLA 1986 became effective on May 16, 1986 and created a retirement incentive program for members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The program provided for vested members of each retirement system, who were eligible to retire within three years, a credit of three years. The aim of the program was to reduce personal service costs and to minimize the number of involuntary layoffs.

The Office of the Governor, Office of Management and Budget (OMB), Division of Budget Review issued detailed guidelines on June 11, 1986 to state agencies to follow in implementing the Retirement Incentive Program (RIP). Employees wishing to participate in the program had to meet three requirement levels in order to qualify for RIP.

1. Personal Eligibility - Basic requirements of age, length of service, and status with regard to PERS or TRS had to be met.
2. Designated Organizational Units - The individual had to be employed in a position falling within an agency assigned job classification, and authorized in and paid from a designated organizational unit. Savings then had to be shown to occur within job classifications within designated organizational units before any individual could retire under the program. Agencies were given complete freedom to select job classifications and organization units of the greatest or least detail.
3. Certification of Savings - Agencies were required to forward evidence of cost savings to OMB based on the job classifications and organizational units participating in RIP. Once OMB certified the savings, funds could be encumbered to pay for the cost of RIP.

In calculating the savings, OMB required agencies to include all those individuals meeting personal eligibility requirements and who wished to participate in the program. Within a job classification and designated organizational unit either all those individuals must have been able to participate or none could. In other words, an organizational unit could not be designated unless all those who met basic requirements and wanted to participate were included in the calculation of savings.

CORRECTION

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

REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

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In order to calculate the estimated cost savings in personal service costs as a result of employees participating in RIP, we obtained a listing of retirees from the Department of Administration, Division of Retirement and Benefits. The listing, dated November 9, 1987 provided us with the retiring employee's name, social security number, and employer's RIP cost by department.

A computer match of social security numbers with the State's payroll history file was done in order to identify the PCN from which the employee retired. The match also provided us with the monthly salary or hourly rate the employee was paid. To derive at an annual salary, monthly employees' salaries were multiplied by 12 months, if budgeted for 12 months, and hourly employees' salaries were multiplied by 1,950 hours, if budgeted for 12 months. The match of social security number to PCN showed that some employees did not have a PCN such as retirees from the Permanent Fund Corporation and marine employees. These were excluded from our analysis.

The new listing of PCNs generated above was matched with the State's payroll history file for the period August 1988 through December 1988. If a match occurred, we determined the annual salary of the current occupant based on the monthly/hourly rate. In addition, we matched the PCN with the FY 89 PACS (Position Accounting Control System) file that is maintained by the Office of the Governor, Office of Management and Budget. This match provided us with the number of months a position was budgeted.

In order to show a more accurate comparison of annual salary savings, we adjusted the annual salary for the retired employee and the current employee if the number of months budgeted was less than twelve. The salary of employees retiring from PCNs that remain vacant or was unbudgeted in the FY 89 PACS file is considered as a savings because there are no current costs associated with the vacated PCN. Furthermore, our review did not indicate that employees retired from positions currently vacant had been replaced with a new position which is currently filled.

Next, we compared the retired employees' salaries to the current occupants' salaries by position to determine if the participation in RIP resulted in a "savings" or "loss." "Savings" is defined as the current occupant's salary being less than the retired employee's salary. "Loss" is defined as the current occupant's salary being greater than the retired employee's salary.

In the final analysis, total savings/loss by department was multiplied by three years because the State had three years to pay for the employer's share of the RIP cost, although the benefit could affect more than three years. The employer's net cost of RIP by department which excludes the cost for positions not included in the comparison was compared with the department's three-year savings/loss in order to arrive at a net savings/loss.

Limitations

In addition to the methodology used to determine the cost savings of the RIP program, the following are some limitations we identified.

1. Our computation of savings only shows the savings in the position that retired. It doesn't take into account the savings from other positions affected within the State if the position was filled by another state employee.
2. Some positions were reclassified after the employee was retired. Consequently, the cost savings/loss comparison may be skewed for these positions.
3. Our comparison excludes employees in which the PCN had more than one employee participate in RIP. In those instances, only the first employee to participate in RIP and the current occupant were presented on the schedule.
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ORGANIZATION AND FUNCTION

Chapter 26, SLA 1986 became effective on May 16, 1986 and created a retirement incentive program for members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The program provided for vested members of each retirement system, who were eligible to retire within three years, a credit of three years. The aim of the program was to reduce personal service costs and to minimize the number of involuntary layoffs.

The Office of the Governor, Office of Management and Budget (OMB), Division of Budget Review issued detailed guidelines on June 11, 1986 to state agencies to follow in implementing the Retirement Incentive Program (RIP). Employees wishing to participate in the program had to meet three requirement levels in order to qualify for RIP.

1. Personal Eligibility - Basic requirements of age, length of service, and status with regard to PERS or TRS had to be met.
2. Designated Organizational Units - The individual had to be employed in a position falling within an agency assigned job classification, and authorized in and paid from a designated organizational unit. Savings then had to be shown to occur within job classifications within designated organizational units before any individual could retire under the program. Agencies were given complete freedom to select job classifications and organization units of the greatest or least detail.
3. Certification of Savings - Agencies were required to forward evidence of cost savings to OMB based on the job classifications and organizational units participating in RIP. Once OMB certified the savings, funds could be encumbered to pay for the cost of RIP.

In calculating the savings, OMB required agencies to include all those individuals meeting personal eligibility requirements and who wished to participate in the program. Within a job classification and designated organizational unit either all those individuals must have been able to participate or none could. In other words, an organizational unit could not be designated unless all those who met basic requirements and wanted to participate were included in the calculation of savings.

Savings could be achieved in one of four ways. A position held by a person retiring under the program could be filled by someone at a lower step or range within its existing job class; the position could be reclassified downward; or the position could be held vacant. In addition, agencies could consider a savings for a position held vacant even though it was not last filled by someone retiring under the program.

Because payment of the participant costs to the Division of Retirement and Benefits must have been made within three years of the end of the fiscal year in which he or she retired, agencies could calculate savings stemming from lower range, lower step, and vacancy over four full years rather than three, beginning with the fiscal year in which the retirement took place. According to OMB, the generous rounding was due to the fact that the State would benefit financially long after the three year payment period ended.

AUDITOR'S CONCLUSIONS

Comparing the salaries of employees participating in the Retirement Incentive Program (RIP) with the salaries of replacement employees and positions remaining vacant shows the State benefited in a reduction of personal service costs. Taking into consideration the employer's cost to credit the retired employees with three years of service produces an estimated net savings of \$14,449,000 over three years. (See Schedule of RIP Cost Savings/(Loss) on page 9 of this report.)

Except for the Department of Corrections and the Department of Community and Regional Affairs, all executive branch agencies we reviewed showed a net savings to the State. For the most part this exception was due to OMB allowing agencies to calculate their savings over a four-year time period whereas our calculations were based over a three-year period. (See Report Objectives, Scope, and Methodology section of this report.) In addition, provisions were made by OMB that agencies could demonstrate savings by keeping open a vacated position even though the employee did not retire through the RIP program. We did not identify these positions or follow that methodology for calculating savings.

Net cost savings by state agency were mainly generated by the replacement of employees whose salary was based on longevity with employees paid at lower rates, the reclassification of positions to lower pay ranges, and leaving positions vacant. Positions employees retired from and currently occupied by an employee resulted in lower annual salaries for all agencies, except for the Office of the Governor. Current salaries in the Governor's Office were greater by \$1,000 in those positions where employees retired. We believe this variance is due to the retiring employee's salary reflecting a 10 percent pay cut while the current occupant's salary is after the pay cuts were restored.

Review of some individual significant variances in pay between the retired employee's salary and the current employee's salary indicated the variances were mainly caused by position reclassifications. We did not determine the justification for these position reclassifications.

STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM (RIP)
SCHEDULE OF RIP COST SAVINGS/(LOSS)
May 16, 1986 to October 1, 1987

Description	Number of Positions	Salary of RIP Recipere	Current Occupant's Salary of Position Vacated	Difference Savings (Loss)	Savings (Loss) Over Three-Year Period	Net Cost of RIP	Three-Year Net RIP Savings (Loss)
<u>Office of the Governor</u>							
Positions Matched with FY 89 Payroll File	3	\$ 121,368	\$ 122,412	\$ (1,044)	\$	\$	\$
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	2	83,568	-0-	83,568			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>2</u>	<u>83,568</u>	<u>-0-</u>	<u>83,568</u>			
<u>Total Office of the Governor</u>	<u>5</u>	<u>204,936</u>	<u>122,412</u>	<u>82,524</u>	<u>247,572</u>	<u>106,746</u>	<u>140,826</u>
<u>Department of Administration</u>							
Positions Matched with FY 89 Payroll File	78	2,757,338	2,426,751	330,587			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	17	757,569	-0-	757,569			
Budgeted in PACS File but Currently Unfilled	3	63,028	-0-	63,028			
Budgeted in PACS File with Zero Months Budgeted	1	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>21</u>	<u>820,597</u>	<u>-0-</u>	<u>820,597</u>			
<u>Total Department of Administration</u>	<u>99</u>	<u>3,577,935</u>	<u>2,426,751</u>	<u>1,151,184</u>	<u>3,453,552</u>	<u>2,194,937</u>	<u>1,258,615</u>
<u>Department of Law</u>							
Positions Matched with FY 89 Payroll File	9	359,364	347,508	11,856			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	2	109,224	-0-	109,224			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>2</u>	<u>109,224</u>	<u>-0-</u>	<u>109,224</u>			
<u>Total Department of Law</u>	<u>11</u>	<u>468,588</u>	<u>347,508</u>	<u>121,080</u>	<u>363,240</u>	<u>277,016</u>	<u>86,224</u>
<u>Department of Revenue</u>							
Positions Matched with FY 89 Payroll File	14	504,180	438,504	65,676			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	2	84,168	-0-	84,168			
Budgeted in PACS File but Currently Unfilled	5	147,648	-0-	147,648			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>7</u>	<u>231,816</u>	<u>-0-</u>	<u>231,816</u>			
<u>Total Department of Revenue</u>	<u>21</u>	<u>735,996</u>	<u>438,504</u>	<u>297,492</u>	<u>892,476</u>	<u>431,635</u>	<u>460,841</u>
<u>Department of Education</u>							
Positions Matched with FY 89 Payroll File	16	716,604	592,860	123,744			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	12	382,971	-0-	382,971			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>12</u>	<u>382,971</u>	<u>-0-</u>	<u>382,971</u>			
<u>Total Department of Education</u>	<u>28</u>	<u>1,099,575</u>	<u>592,860</u>	<u>506,715</u>	<u>1,520,145</u>	<u>558,184</u>	<u>961,961</u>
<u>Department of Health and Social Services</u>							
Positions Matched with FY 89 Payroll File	133	5,153,660	4,493,323	660,337			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	9	377,954	-0-	377,954			
Budgeted in PACS File but Currently Unfilled	8	314,086	-0-	314,086			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>17</u>	<u>692,040</u>	<u>-0-</u>	<u>692,040</u>			
<u>Total Department of Health and Social Services</u>	<u>150</u>	<u>5,845,700</u>	<u>4,493,323</u>	<u>1,352,377</u>	<u>4,057,131</u>	<u>1,198,783</u>	<u>958,136</u>

STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM (RIP)
SCHEDULE OF RIP COST SAVINGS/(LOSS)
May 16, 1986 to October 1, 1987

Description	Number of Positions	Salary of RIP Retiree	Current Occupant's Salary of Position Vacated	Difference - Savings (Loss)	Savings (Loss) Over Three-Year Period	Net Cost of RIP	Three-Year Net RIP Savings (Loss)
Department of Labor							
Positions Matched with FY 89 Payroll File	42	\$ 1,771,523	\$1,597,985	\$ 173,538	\$	\$	\$
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	2	66,678	-0-	66,678			
Budgeted in PACS File but Currently Unfilled	9	326,116	-0-	326,116			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	11	392,794	-0-	392,794			
Total Department of Labor	53	2,164,317	1,597,985	566,332	1,698,996	1,116,175	582,821
Department of Commerce and Economic Development							
Positions Matched with FY 89 Payroll File	19	851,652	724,308	127,344			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	9	410,784	-0-	410,784			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	9	410,784	-0-	410,784			
Total Department of Commerce and Economic Development	28	1,262,436	724,308	538,128	1,614,384	646,136	968,248
Department of Military and Veterans' Affairs							
Positions Matched with FY 89 Payroll File	3	176,016	162,372	13,644			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	1	77,268	-0-	77,268			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	1	77,268	-0-	77,268			
Total Department of Military and Veterans' Affairs	4	253,284	162,372	90,912	272,736	230,541	42,195
Department of Natural Resources							
Positions Matched with FY 89 Payroll File	37	1,338,597	1,241,732	96,865			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	20	908,676	-0-	908,676			
Budgeted in PACS File but Currently Unfilled	7	222,802	-0-	222,802			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	27	1,131,478	-0-	1,131,478			
Total Department of Natural Resources	64	2,470,075	1,241,732	1,228,343	3,685,029	1,400,676	2,284,553
Department of Fish and Game							
Positions Matched with FY 89 Payroll File	47	2,107,741	1,780,873	326,868			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	14	710,953	-0-	710,953			
Budgeted in PACS File but Currently Unfilled	12	505,591	-0-	505,591			
Budgeted in PACS File with Zero Months Budgeted	4	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	30	1,216,544	-0-	1,216,544			
Total Department of Fish and Game	77	3,324,285	1,780,873	1,543,412	4,630,236	2,686,220	1,944,016
Department of Public Safety							
Positions Matched with FY 89 Payroll File	64	3,022,535	2,745,096	277,439			
Positions Not Matched with FY 89 Payroll File:							
Not Budgeted in FY 89 PACS File	34	1,802,508	-0-	1,802,508			
Budgeted in PACS File but Currently Unfilled	3	126,427	-0-	126,427			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
Total Positions Not Matched with FY 89 Payroll File	37	1,928,935	-0-	1,928,935			
Total Department of Public Safety	101	4,951,470	2,745,096	2,206,374	6,619,122	4,309,418	2,409,704

STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
PENSION INCENTIVE PROGRAM (RIP)
SCHEDULE OF RIP COST SAVINGS/(LOSS)
May 16, 1986 to October 1, 1987

Description	Number of Positions	Salary of RIP Retiree	Current Occupant's Salary of Position Vacated	Difference - Savings (Loss)	Savings (Loss) Over Three-Year Period	Net Cost of RIP	Three-Year Net RIP Savings (Loss)
<u>Department of Environmental Conservation</u>							
Positions Matched with FY 89 Payroll File	10	\$ 435,636	\$ 381,884	\$ 53,752	\$	\$	\$
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	1	38,712	-0-	38,712			
Budgeted in PACS File but Currently Unfilled	1	43,248	-0-	43,248			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>2</u>	<u>81,960</u>	<u>-0-</u>	<u>81,960</u>			
<u>Total Department of Environmental Conservation</u>	<u>12</u>	<u>517,596</u>	<u>381,884</u>	<u>135,712</u>	<u>407,136</u>	<u>241,087</u>	<u>166,049</u>
<u>Department of Corrections</u>							
Positions Matched with FY 89 Payroll File	36	1,482,921	1,292,028	190,893			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	1	45,744	-0-	45,744			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>1</u>	<u>45,744</u>	<u>-0-</u>	<u>45,744</u>			
<u>Total Department of Corrections</u>	<u>37</u>	<u>1,528,665</u>	<u>1,292,028</u>	<u>236,637</u>	<u>709,911</u>	<u>988,194</u>	<u>(278,283)</u>
<u>Department of Community and Regional Affairs</u>							
Positions Matched with FY 89 Payroll File	6	287,112	269,256	17,856			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	1	37,356	-0-	37,356			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>1</u>	<u>37,356</u>	<u>-0-</u>	<u>37,356</u>			
<u>Total Department of Community and Regional Affairs</u>	<u>7</u>	<u>324,468</u>	<u>269,256</u>	<u>55,212</u>	<u>165,636</u>	<u>174,106</u>	<u>(8,470)</u>
<u>Department of Transportation and Public Facilities</u>							
Positions Matched with FY 89 Payroll File	214	9,061,536	8,230,545	830,991			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	31	1,484,571	-0-	1,484,571			
Budgeted in PACS File but Currently Unfilled	35	1,516,269	-0-	1,516,269			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>66</u>	<u>3,000,840</u>	<u>-0-</u>	<u>3,000,840</u>			
<u>Total Department of Transportation and Public Facilities</u>	<u>280</u>	<u>12,062,376</u>	<u>8,230,545</u>	<u>3,831,831</u>	<u>11,495,493</u>	<u>8,924,809</u>	<u>2,570,684</u>
<u>Total RIP Program</u>	<u>977</u>	<u>540,791,702</u>	<u>526,847,437</u>	<u>139,944,265</u>	<u>541,832,795</u>	<u>527,384,275</u>	<u>516,448,520</u>

See the Report Objectives, Scope, and Methodology section of this report for the methodology used to prepare this schedule and the limitations of this schedule.

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RETIREMENT INCENTIVE PROGRAM
 STATUS REPORT
 February 27, 1989

Employer	Eligible By Age/Svc	Designated By Empl.	Retired
Governor's Office	30	5	5
Administration	229	174	101
Law	41	18	11
Revenue	55	29	23
Education - PERS	72	71	28
Education - TRS	38	36	19
Health & Social Svc.	335	304	150
Labor	147	138	54
Commerce	88	55	28
Military Affairs	29	6	4
Natural Resources	160	139	65
Fish & Game	160	143	78
Public Safety	193	182	101
Environmental Consv.	36	34	12
Corrections	154	139	38
Comm. & Regional Aff.	21	18	7
Transportation	854	809	355
Ombudsman	1	0	0
Legislative Affairs	53	20	13
Legislative Finance	2	0	0
Legislative Audit	5	3	3
Court System	98	0	0
Total State PERS	2762	2287	1076
Total State TRS	38	36	19
University of Ak - PERS	325	319	107
University of Ak - TRS	372	349	95
Geophysical Inst - PERS	27	27	7
Geophysical Inst - TRS	38	35	8
Total University - PERS	352	346	114
Total University - TRS	410	384	103
Total Poly - Subs PERS	2661	1272	412
Total Schl Dists TRS	1773	1668	603
Grand Total PERS	5775	3905	1602
Grand Total TRS	2221	2088	725
Overall Total	7996	5993	2327

DIVISION OF RETIREMENT AND BENEFITS
 RETIREMENT INCENTIVE PROGRAM (RIP)
 SUMMARY RESULTS OF POLITICAL SUBDIVISION SURVEY
 March 14, 1989

EMPLOYER	NUMBER RETIRED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs (\$1000's)	RIP COST (\$1000's)	SAVINGS o (COST) FOR 5 YRS (\$1000's)
S.E. Resource center	3	0	800.0	0.0	83.0	717.
Unalaska City School District	1	1	322.5	165.8	34.1	122.
Copper River School District	11	10	2,854.7	1,904.9	279.3	670..
Galena City School District	1	1	264.6	198.0	60.0	6.0
Petersburg Public Schools	2	2	437.5	338.6	55.1	43.8
Yukon Koyukuk School District	5	4	2,006.5	1,414.4	177.0	414.6
Alaska Gateway School District	4	4	1,055.5	745.0	180.8	129.7
Bristol Bay School District	1	1	273.8	186.7	50.3	36.8
Kodiak Island School District	17	16	4,487.7	3,380.0	579.9	527.8
Delta/Greely School District	2	2	700.9	644.0	96.4	(- 39.6)
Yukon Flats School District	5	4	Not Provided	Not Provided	128.5	Not Provided
L. Kuskokwim School District	31	26	7,535.6	4,637.6	677.2	2,220.8
North Slope School District	28	23	7,643.0	5,600.5	727.0	1,315.5
Dillingham City Schools	6	2	1,231.7	180.0	277.8	773.9
Craig City School District	1	1	277.2	210.1	21.8	45.0

RETIREMENT INCENTIVE PROGRAM (RIP)
SUMMARY RESULTS OF POLITICAL SUBDIVISION SURVEY
PAGE 2

EMPLOYER	NUMBER RETIREED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs (\$1000's)	RIP COST (\$1000's)	SAVINGS or (COST) FOR 5 YRS (\$1000's)
Wrangell Public School	2	2	455.5	330.6	43.7	81.2
Valdez City Schools	10	3	2,519.1	604.4	284.4	1,630.3
Adak Region School District	3	3	817.1	611.6	111.4	94.1
Fairbanks School District	71	71	17,998.0	13,592.1	1,826.8	2,579.1
Haines School District	5	1	1,529.6	384.8	131.3	1,013.5
Cordova Public Schools	1	1	185.3	112.4	19.3	53.6
Juneau School District	42	40	3,750.0	1,449.0	1,010.6	1,290.4
Lake and Penin. School District	2	2	675.0	600.0	53.6	21.4
Kenai Pen. School District	67	67	16,285.6	11,767.7	1,586.3	2,931.6
Southwest Regional School	4	4	666.5	527.7	91.0	47.8
Anchorage School District	373	368	81,249.1	59,225.1	8,580.7	13,473.2
Nenana City School District	7	7	1,611.1	1,209.2	173.7	228.2
Northwest Arct Bor Sch Dist	31	30	5,562.6	4,046.3	763.2	753.0
TOTAL SAVINGS					31,132.6	

Schools

RETIREMENT INCENTIVE PROGRAM (RIP)
SUMMARY RESULTS OF POLITICAL SUBDIVISION SURVEY
PAGE 3

EMPLOYER	NUMBER RETIRED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs) (\$1000's)	RIP COST (\$1000's)	SAVINGS or (COST) FOR 5 YRS (\$1000's)
City of Skagway	1	1	18.8	Not Provided	Not Provided	0.0
City of Wrangell	1	0	220.0	0.0	33.5	186.5
City of Palmer	4	3	1,024.1	715.3	101.0	207.8
City of Soldotna	2	1	482.8	212.7	47.8	222.3
City of Ketchikan	11	8	4,093.0	2,358.5	519.5	1,214.9
Kenai Peninsula Borough	14	7	3,234.0	2,270.4	324.2	639.4
City/Borough Juneau	13	9	3,574.1	2,134.8	298.9	1,140.4
City of Valdez	7	4	2,676.3	1,241.1	289.6	1,145.5
TOTAL SAVINGS						4,756.8
University PERS	113	76	26,052.1	15,308.0	2,455.3	8,288.8
University TRS	103	70	39,972.6	22,792.7	3,153.3	14,016.6
TOTAL SAVINGS						22,305.4

Audit Report

DEPARTMENT OF ADMINISTRATION
1989 RETIREMENT INCENTIVE PROGRAM
ESTIMATED SAVINGS REALIZED AND
COSTS INCURRED BY PARTICIPATING
EMPLOYERS

November 22, 1991



Audit Control Number:

02-4404-91

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

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DIVISION OF LEGISLATIVE AUDIT

The Legislative Budget and Audit Committee is a permanent interim committee of the Alaska Legislature. The bipartisan committee is made up of five senators and five representatives, with one alternate from each legislative chamber. The chairmanship of the committee alternates between the two chambers every legislature.

The committee is responsible for providing the legislature with audits of state government agencies. The programs and activities of state government now cost more than \$4 billion a year. As legislators and administrators try increasingly to allocate state revenues effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by the Division of Legislative Audit helps provide that information.

As a guide to all their work, the Division of Legislative Audit complies with generally accepted auditing standards established by the American Institute of Certified Public Accountants and with government auditing standards established by the U.S. General Accounting Office.

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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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November 27, 1991

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A Report on the 1989
Retirement Incentive Program
Estimated Savings Realized and Costs Incurred
By Participating Employers

November 22, 1991

Audit Control Number

02-4404-91

The audit reports on the estimated savings realized, and in some instances the costs incurred, by the public employers who participated in the 1989 Retirement Incentive Program (RIP). Estimated savings and costs are included for the State of Alaska, the University of Alaska, 35 school districts, 21 political subdivisions, and 7 other participating employers.

The audit was conducted in accordance with generally accepted government auditing standards. The schedule on page 8 summarizes the savings and costs for the 65 employers participating in the program. As shown on that schedule, we estimate the net statewide savings to be \$22.9 million. In our view, as discussed in the Report Conclusions and Auditor Comments section of the report, the program achieved both aspects of its established intent. A further statement of our audit approach is included in the Objectives, Scope, and Methodology section of this report.

Handwritten signature of Randy S. Welker in cursive.

Randy S. Welker, CPA
Legislative Auditor

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, we conducted a review of the 1989 Retirement Incentive Program (RIP).

Objectives

Chapter 89, SLA 1989, as amended by Chapter 18, SLA 1990 implemented a retirement incentive program for all public employers whose employees are covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS). The primary objective of our review was to develop reasonable estimates of the savings realized or the costs incurred by the 65 employers which elected to participate in the program. A second objective of the review was to determine if RIP achieved the intent of the program as established by the legislature.

Scope

All employers who participated in either or both the 1989 PERS and TRS retirement incentive programs were contacted on-site or by mail. Our review included all RIP participants who had actually retired as of September 15, 1991 from either the State of Alaska, University of Alaska, or one of the other participating school districts, political subdivisions, or other public employer organizations. The Division of Retirement and Benefits (DRB) estimated that approximately an additional 100 individuals retired under the program between our fieldwork cut-off date of September 15, and October 31, 1991, the last possible date that RIP participants could actually retire. With the exception of three participants that we included in the course of our on-site reviews in local communities, the savings/costs associated with these individuals are not included in this report.

Methodology

Savings and costs contained in this report were developed from our review and analysis of the following information and documentation:

1. Records of RIP participants maintained by the Department of Administration, DRB.
2. Files pertaining to State of Alaska participants maintained by the Office of Management and Budget (OMB), and the personnel or administrative services sections for various state executive branch departments and agencies.

3. Instructions issued by OMB to executive branch departments and agencies regarding the assumptions, procedure, and method to be used to determine participant eligibility and calculate individual savings.
4. OMB's report of RIP savings for state agencies summarized by agency position control number.
5. Summaries prepared by participating public employers (26 school districts, 20 political subdivisions, and 7 other participating organizations) responding to our survey.
6. Summarized and detailed information prepared by the Alaska Court System and the University of Alaska regarding their RIP participants.

Based on our analysis of the information and documentation we adjusted estimates of the savings and costs for participating RIP employers. The adjustments were made, to the extent that it was practicable to calculate and quantify the costs involved, to more accurately estimate the savings realized or costs incurred by each participating employer.

ORGANIZATION AND FUNCTION

The Department of Administration, Division of Retirement and Benefits (DRB) is responsible for administering the retirement and benefit programs for public employees. The two largest retirement systems administered by DRB are the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

In June 1989, Chapter 89, SLA 1989 (amended by Chapter 18, SLA 1990) reestablished an earlier retirement incentive program for employees participating in either PERS or TRS. The program, known as the Retirement Incentive Program (RIP), was established to reduce personal services costs to the State and other public employers who elected to participate in the program.

To be eligible for RIP, employees had to meet both the basic criteria established in the enabling statute in addition to any special criteria that their employer wanted to attach. The basic criteria required that the employee be vested in their retirement system. Further, after including the retirement incentive of three extra years of credited service they would have to have been eligible to meet the age or service eligibility requirements for normal retirement or early retirement.

Individuals covered by PERS must be at least 55 years old and have 5 years of service for normal retirement compared to TRS requirements of 55 and 8 years respectively. For early retirement, both PERS and TRS requires that individuals be 50 with either 5 (PERS) or 8 (TRS) years of service. For state employees additional eligibility criteria were developed by the Office of Management and Budget. These additional criteria are discussed further in the Background Information section of this report.

As of September 15, 1991, almost 1800 individuals had participated in the 1989 RIP. Additional funds were provided to administer RIP. DRB and the Division of Finance were authorized to hire temporary and part-time employees to process the increased number of retirement applications. Operational funding was provided through the assessment of administrative fees charged all participating employers. This funding allowed DRB to hire nine temporary positions in FY 89 and thirteen temporary positions in FY 90 and FY 91 to administer the program. The Division of Finance also received funding for two part-time positions in FY 90 and FY 91 to perform verifications of salary and years of service.

Factors typically involved in the calculation of RIP savings are illustrated by the following example:

An individual otherwise eligible for participating in RIP has an annual salary of \$40,000. The individual has fixed benefit costs of \$2,000 and other benefit costs that represent 10% of his salary. It is assumed that the employee would receive salary increases of 5% a year over the next two years, if he continued working. The employer contribution costs required to provide the three additional years of service under RIP is \$20,000. The projected costs of the RIP participant would be calculated as follows:

	Salary	Fixed Benefits	Other Benefits	Total Projected Costs
Year 1	\$40,000	\$2,000	\$4,000	\$ 46,000
Year 2 (Year 1 salary + 5%)	42,000	2,000	4,200	48,200
Year 3 (Year 2 salary + 5%)	44,100	2,000	4,410	50,510
Projected Salary and Benefit Costs of RIP Participant				\$144,710

If the replacement for the RIP participant is paid \$32,000 with the same assumptions, then the projected salary and benefit costs would be calculated as below:

	Salary	Fixed Benefit	Other Benefits	Total Projected Costs
Year 1	\$32,000	\$2,000	\$3,200	\$ 37,200
Year 2 (Year 1 salary + 5%)	33,600	2,000	3,360	38,960
Year 3 (Year 2 salary + 5%)	35,280	2,000	3,528	40,808
Projected Salary and Benefit Costs of the replacement employee				\$116,968

The difference of \$27,742 in the projected costs (\$144,710 - \$116,968) represents gross savings attributable to RIP. This total is reduced further by the \$20,000 employer's contribution costs and the \$140 administrative fee charged by the Division of Retirement Benefits.

In this situation, the net RIP savings are estimated as \$7,602. This savings is generated from the incremental difference between the projected salary and benefits of the RIP participant and the replacement (\$27,742), reduced by cost to the employer of providing the retirement incentive of the incentive (\$20,000 the employer must pay), and the administrative fee paid to the Division of Retirement and Benefits (\$140). If the RIP participant's position had been eliminated, the estimated savings to the employer would have jumped to \$124,568 (\$144,710 - \$20,000 - \$140).

Example of how RIP Savings are estimated

BACKGROUND INFORMATION

The aim of the Retirement Incentive Program (RIP) was to allow participating public employers, most notably the State of Alaska, to reduce personal service costs while reducing the number of employees who would have to be laid off involuntarily. The program was made available to public employees covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS).

OMB issued strict rules on savings which limited participation and maximized savings

After the passage of Chapter 89, SLA 1989 the Office of the Governor, Office of Management and Budget (OMB) issued detailed guidelines for state agencies to follow in implementing RIP. Under these OMB guidelines, employees wishing to participate in RIP had to meet two basic requirements in order to qualify:

1. Personal Eligibility - Basic requirements of age, length of service, and vested status in PERS or TRS had to be met.
2. Savings had to be demonstrated for each individual - Unlike the previous 1986 RIP program, OMB designated each individual as an "organizational unit." This meant that the savings in salary and benefits projected over a three year period between the RIP retiree and their replacement had to exceed the State's employer costs (see inset on opposite page) in order for the employee to participate.

OMB chose to define each employee as an organizational unit in order to maximize the cost savings, as required by the legislation. OMB felt that netting the savings generated by one employee's participation against the costs of another who did not generate a savings did not fully meet the legislative intent regarding savings. Other program implementation guidelines issued by OMB addressed what savings could be included in determining eligibility for state employees. For example:

1. Savings through the elimination of a position could be included - It was permissible to include savings realized for a RIP participant from the elimination of their position.
2. Savings from reclassification of positions could not be considered - OMB precluded agencies from including savings projected from reclassifying RIP participant positions to a lower pay scale. OMB felt that since savings determined program eligibility that such a rule was necessary. The rule avoided situations such as having to decide between two potential RIP participants in the same job class where only one position could be justified for reclassification.

3. Vacancy savings could not be considered - Savings generated from leaving a RIP participant's position open temporarily could not be considered in determining program eligibility. OMB felt that vacancy savings were temporary, generated by delay in refilling a position.
4. "Domino-effect" savings could not be considered - OMB did not allow any savings to be included that were realized through the replacement of a lower paid employee down the chain of an organization. As an example, assume the RIP participant retired from a range 20 position, and was replaced by an individual from a range 18 position, who in turn was replaced by a previous range 16 worker. The only savings that could be considered would be the difference in salary and benefits of the outgoing retiree and their replacement. Savings generated from the salary and benefit differences for both the old range 18 and the new one, plus the old range 16 and new entry level staff member, were not allowed to be included.
5. Savings from differences in leave accrual rates could not be counted - Neither sick leave nor leave accrual differences were allowed to be recognized as a source of savings for RIP participants, except to the extent these factors were reflected in benefit differential calculations.

Since demonstrated savings were necessary for program eligibility, and the OMB rules were rather narrow about what savings could be counted, many employees who met all other criteria were not eligible to participate. In many cases, a long term employee, working in a position that was going to continue after their retirement, could not generate enough projected savings over a three-year period for the State to recapture its associated RIP employer contribution costs for the individual.

1990 legislation amended RIP program and provided for more participation

Chapter 18, SLA 1990 amended RIP in such a way as to increase the number of people who were eligible to participate. Under the legislation, employers could calculate savings over a five year period rather than three. It also allowed an employee to pay part of the State's employer costs if no savings were generated from their participation in RIP.

The legislation and the accompanying revised guidelines issued by OMB permitted an additional 192 state employees to participate in the program. Of these employees 78 still could not demonstrate a projected savings, even over a five-year period. However, as allowed by the amended legislation these individuals paid a total \$750,000 of the State's employer costs in order to participate.

Each employer could set their own eligibility requirements for RIP participation

Under Chapter 89 SLA 1989 the governing body of each political subdivision employer could choose if they wanted to participate in RIP. Outside of the general years of service and age criteria for the two retirement systems involved, each participating employer was permitted to develop their own rules and criteria for participation. Likewise, the University of Alaska was also permitted to establish its own rules and guidelines regarding RIP participation for its employees. Other participating employers who were not school districts or political subdivisions such as the National Education Association of Alaska and the Southeast Regional Resource Center were also allowed to develop additional internal criteria.

Most employers had more lenient organizational unit and other criteria than the State

With one notable exception (see inset at right), none of the employers that we interviewed during the review imposed as strict of requirements on program participation as did the State of Alaska. Once participation in the program was approved by the organization's governing body, most felt that it was only fair to allow every employee who met the basic eligibility criteria to participate.

As reflected on schedule 3 on page 10, three of the 19 school districts which had both PERS and TRS RIP participants, projected a net cost (over a three year period) for PERS retirees. Each of these districts could have defined their "organizational unit" more strictly (i.e. on an individual basis or allow only TRS members to participate) to increase projected savings.

However, each of these three employers defined the school district as a whole as the organizational unit, thus allowing everyone meeting the basic criteria to participate.

**CITY OF KETCHIKAN HAD
STRICTEST RIP RULES, BUT MAY
STILL NOT REALIZE FULL SAVINGS**

The City of Ketchikan had the strictest RIP participation criteria of any participating employer we interviewed. The city council voted to allow employees to participate only if they agreed to pay the city's share of costs involved in providing the retirement incentive.

Largely as a result of this requirement, only one individual elected to participate in the program. Under these terms, RIP should have not cost the city anything except for a relatively small administrative fee.

However, the savings for the city as shown on the table on the following page, does not reflect these savings. The \$5,400 of estimated savings reflects the fact that the City of Ketchikan did pay the employer costs for the RIP participant, but as of the date of this report has not received repayment from the retiree. We conservatively reduced our estimate of savings because the legal enforceability of the city's claim for repayment is currently disputed by the RIP participant.

Schedule 1 - Estimated Savings or (Costs) by Employer (Notes to Schedule on page 25 of report)

<u>Employer</u>	<u>Number of Retirees</u>	<u>Estimated Savings or (Costs) (Note 1)</u>	<u>Employer</u>	<u>Number of Retirees</u>	<u>Estimated Savings or (Costs)</u>
State of Alaska (Note 2)	739	\$ 6,033,100	Yukon/Koyukuk Schools	2	\$ 53,000
University of Alaska (Note 3)	145	4,317,800	Fairbanks North Star Borough (Note 16)	2	49,700
Anchorage School District (Note 4)	306	2,684,900	City of Palmer	3	46,600
Kenai Peninsula Borough Schools (Note 5)	72	1,988,800	Cordova City Schools	2	45,400
Fairbanks North Star Borough Schools (Note 6)	65	1,534,100	Kodiak Island Borough Schools	4	43,700
City of Fairbanks (Note 7)	22	776,700	Alaska State Housing Authority	4	42,700
North Slope Borough School District (Note 8)	42	517,500	Lower Yukon School District	5	38,600
Matanuska-Susitna Borough Schools (Note 9)	42	487,800	Unalaska City School District (Note 11)	3	37,500
North Slope Borough (Note 10)	12	469,600	Iditarod Area Schools (Note 11)	5	34,000
Ketchikan Gateway Borough Schools	23	443,000	Cordova Community Hospital	3	31,400
Lower Kuskokwim Schools (Note 11)	25	324,000	Alaska Gateway Schools	2	27,900
Matanuska-Susitna Borough (Note 12)	9	310,900	City of Kenai	3	27,700
Sitka School District	17	229,700	National Education Association	1	21,600
Kenai Peninsula Borough (Note 13)	6	224,900	City of Haines	1	27,300
Juneau Borough Schools	28	217,700	Bartlett Memorial Hospital	2	16,300
Dillingham City Schools	3	213,600	Nenana City Schools (Note 11)	1	15,400
City and Borough of Juneau	19	199,600	Skagway City School (Note 11)	1	15,400
Hoonah City Schools	2	151,200	Bristol Bay Borough Schools (Note 17)	1	14,600
Haines Borough School District	2	150,700	Nome City Schools	5	12,900
Bering Strait Schools (Note 11)	17	149,800	Southeast Regional Resource Center	2	12,300
Wrangell City Schools	9	124,500	Ketchikan Gateway Borough	1	11,300
City of Hoonah (Note 14)	2	116,000	City of Ketchikan (Note 18)	1	5,400
Southwest Region Schools (Note 11)	9	112,500	City of Kotzebue	1	3,000
Delta/Greely Schools (Note 11)	7	107,500	City of Valdez	2	2,600
City of Homer	5	102,100	City of Seward	2	800
Valdez City Schools	3	84,100	Craig City Schools	1	(12,600)
City of Kodiak (Note 15)	6	77,500	Bristol Bay Borough	1	(14,400)
Kuspuk Schools (Note 11)	7	64,700	Yakutat City School District	1	(16,900)
Chatham Schools	6	64,600	Kake City Schools	1	(29,700)
Southeast Island Schools	4	63,000	Yupik School District	2	(30,600)
Sitka Community Hospital	3	60,100	City and Borough of Sitka	7	(31,300)
City of Wrangell	9	58,900	Seward General Hospital	2	(44,800)
Kodiak Island Borough	4	55,300	Total	1,764	\$22,984,800

REPORT CONCLUSIONS

As summarized by the schedule on the opposite page, the estimated savings for the 1989 Retirement Incentive Program (RIP) totalled \$22.9 million. The savings were generated mostly by the incremental difference in the salary and benefit costs between the typically higher paid RIP participant and their lower paid replacement rather than realized from an extensive elimination of positions left vacant.

The top five employers, with a total estimated savings of more than \$16.5 million accounted for 72% of the statewide total. The State of Alaska and the Anchorage School District had about the same average savings per participant. Both were among the highest three employers in savings essentially because of the large number of employees each had participating. Only one of ASD's 306 RIP participant positions was subsequently eliminated, whereas the State only benefitted from three eliminated positions in its RIP savings calculations.

University savings came from elimination of positions and high salary differentials

The University of Alaska's average savings of almost \$30,000 for each RIP participant was the highest of any employer. The University benefitted from both the elimination of some positions, and from having the highest incremental difference in salary and benefits of any employer. Tenured full professors retiring under RIP typically had salary and benefit costs of more than \$90,000. By comparison, their replacements, if any, were most often instructors or assistant professors who had salary and benefit costs in the range of \$40,000 to \$50,000. As shown on Schedule 3 on the next page, the University averaged savings of more than \$35,000 for each RIP participant covered by the Teachers' Retirement System.

For some employers savings were small or non-existent

Eleven of the sixty-five employers who elected to participate in the program had estimated savings of less than \$6,000. Seven of those eleven projected that they lost money from their participation in RIP. In these instances, replacement employees were paid at or near what the terminating employee received, generating little or no savings. Meanwhile, the employer still had the cost of their retirement contribution payments for the RIP participant's three credited years.

Five of these seven employers were school districts with a total of six participants. These districts are generally smaller in size and have trouble recruiting teachers. They have no or few positions to eliminate and must maintain even entry position salaries at a level necessary to attract teachers to their remote locales. Essentially, in these districts the RIP program is treated as part of a teacher's or administrator's total compensation. This was acknowledged by Craig City Schools which reported that their RIP participation was made part of a "departure" agreement between the local board and the outgoing superintendent.

Schedule 2 - Savings/Costs by Department

Department	Number of Retirees	Estimated Savings/Cost
Transportation and Public Facilities	197	1,616,200
Health and Social Services	77	561,600
Fish and Game	56	502,000
Education	41	467,500
Public Safety	54	422,800
Labor	51	393,700
Corrections	62	334,000
Commerce and Economic Development	21	332,500
Legislature	6	282,000
Administration	51	214,900
Natural Resources	31	206,000
Alaska Court System	19	190,300
Office of the Governor	15	159,800
Revenue	15	103,300
Environmental Conservation	16	87,700
Law	13	79,200
Military and Veterans Affairs	9	47,700
Community and Regional Affairs	5	31,900
Total	739	\$6,033,100

	TRS			PERS			TOTAL		
	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant
State of Alaska	18	\$ 276,900	\$15,383	721	\$5,756,200	\$7,984	739	\$ 6,833,100	\$ 8,164
University of Alaska	72	2,577,100	35,793	73	1,740,700	23,845	145	4,317,800	29,778
Anchorage School District	204	2,894,500	14,189	102	(209,600)	(2,055)	306	2,684,900	8,774
Kenai Peninsula Borough Schools	58	1,810,500	31,216	14	178,300	12,736	72	1,988,800	27,622
Fairbanks North Star Borough Schools	58	734,400	12,662	27	819,700	30,359	85	1,554,100	18,284
North Slope Borough School District	24	308,600	12,858	18	208,900	11,606	42	517,500	12,321
Matanuska-Susitna Borough Schools	26	287,700	11,065	16	200,100	12,506	42	487,800	11,614
Kenai Peninsula Borough Schools	19	427,000	22,474	4	16,000	4,000	23	443,000	19,261
Lower Kuskokwim Schools	18	276,500	15,361	7	47,600	6,800	25	324,100	12,964
Juneau Borough Schools	27	196,700	7,285	1	21,000	21,000	28	217,700	7,775
Bering Strait Schools	4	61,400	15,350	13	88,400	6,800	17	149,800	8,812
Wrangell City Schools	5	35,600	7,120	4	88,900	22,225	9	124,500	13,833
Southwest Region Schools	6	92,200	15,367	3	20,400	6,800	9	112,600	12,511
Kuspuk Schools	2	30,700	15,350	5	34,000	6,800	7	64,700	9,243
Chatham Schools	5	64,700	12,940	1	(100)	(100)	6	64,600	10,767
Southeast Island Schools	3	49,600	16,533	1	13,300	13,300	4	62,900	15,725
Kodiak Island Borough Schools	2	39,900	19,950	2	3,800	1,900	4	43,700	10,925
Lower Yukon School District	3	66,400	22,133	2	(27,700)	(13,850)	5	38,700	7,740
Unalaska City School District	2	30,700	15,350	1	6,800	6,800	3	37,500	12,500
Total	556	\$10,261,100	\$18,455	1,015	\$9,006,700	\$8,874	1,571	\$19,267,800	\$12,265

Schedule 3 - Savings for Employers with Both TRS and PERS Retirees

The costs incurred by the City and Borough of Sitka (CBS) were attributed to a situation where the costs of replacement employees were higher than anticipated. It was reported to us that the Borough Assembly made the decision to participate in RIP based on projections of salary and benefits for replacement employees that subsequently proved to be inaccurate. When replacement employees were actually paid near or even above the outgoing RIP participant's salary then all projected savings were eliminated, turning the savings program into a cost for CBS.

1989 RIP legislative intent had two aspects

RIP's implementing legislation stated that the program was

intended to realize sufficient economies to offset the cost of administration and benefits to state agencies and other employers resulting from the award of retirement credits and to result in a net reduction in personal services costs to the state or other employers during a period of declining revenues.

This intent has two specific parts. The program was to pay for itself (*realize sufficient economies to offset the cost ...*) and was to provide for savings in personal services costs to the state (*a net reduction in ...*).

Overall, 1989 RIP did pay for itself

As discussed previously, most of the savings realized under the 1989 RIP were of an incremental nature. The assumptions, methodologies, and approach that we used to estimate savings could not practically consider all the variables that could have an affect on the actual savings realized. And as mentioned, seven of the employers appear not to have realized savings to offset the costs of their participation.

Despite these considerations, we are confident that the program achieved the first aspect of its established intent. In our view, on balance, the program *realized sufficient economies to offset the cost of administration and benefits* provided as an early retirement incentive. The incremental savings accumulated by the state agencies and other participating employers from RIP did, when considered for the organizations as a whole, exceed the cost to the employer for providing the additional three years of service.

RIP did generate a net reduction in personal service costs but budget impact is uncertain

We are also confident that state agencies realized a *net reduction in personal services costs*, or savings, through RIP. For the RIP participant positions (also known as PCNs for position control number in budgetary terms), where replacements were hired in at lower pay, there was a net reduction. State agencies spent, and will prospectively spend less for those specific PCNs in the first, second, and third years than they would have, had the RIP retiree remained as the incumbent.

Doubts are often expressed about the savings generated by RIP because they rarely, if at all, are reflected in state agency budget requests. Further, the incremental nature of most of the 1989 RIP savings contribute further to this lack of visibility in agency budgets. When savings are generated through the elimination of positions left vacant by RIP participants, then the budgetary impact is more clearly reflected in the fewer number of positions in the agencies' budget requests.

However, when savings are primarily due to the incremental difference between RIP participants' personal service costs and those of their replacements, identifying savings for legislative consideration is more difficult and subtle. Such savings get lost in a blend of budgetary incremental adjustments such as those generated by new union contracts, new positions for new programs, new positions for old programs, adjustments for vacancy and turnover, etc.

Accordingly, we believe the savings shown for the various state agencies in Schedule 2 on page 10 were realistic, and for the most part, have been or will be realized. However, we cannot reasonably estimate how much of these savings were reflected in agency budget requests or remained in year-end balances that lapsed back to the general fund, although we believe that, to some degree, both of these happen.

Savings and program recommendations discussed further in Auditor Comments

In the following Auditor Comments section we offer examples of how state agencies may be using RIP-generated savings, and discuss how the university is using savings for what they term "budget reallocation" and "budget reduction" purposes. We also suggest that the legislature provide for improved monitoring of RIP-generated savings, when considering any future RIPs.

AUDITOR COMMENTS

As concluded in the previous section, we are confident that RIP generated a *net reduction in personal services costs* (as intended by its authorizing legislation). However, existence of these savings is met with some skepticism, because they do not appear to be reflected in state agency operating budgets. Often, agencies take advantage of the flexibility afforded from the reduction of personal services costs to reallocate and use the savings without legislative budgetary oversight. To the skeptics, and from a conservative budgetary viewpoint, to the extent this occurs, such reallocations do not represent savings, nor do they result in a *net reduction in personal services costs*.

Four examples illustrate how RIP "savings" may have been used besides budget reduction

For example, consider the *net reduction in personal service costs* that may or may not be involved in the following situations:

1. RIP savings are used to hire temporary staff. With the RIP savings that an agency generates in its personal services budget, management decides to hire temporary workers to carry out a special project. The work was important, necessary to the agency's functioning, but until the flexibility provided by the RIP, the agency never had the available funding to accomplish the task.

Although RIP generated the savings used to hire the staff and pay the overtime, agency management has decided how those savings were used. In this instance, RIP generated a savings, but from a budgetary aspect, none would be reflected in a *net reduction in personal services costs*.

2. RIP savings are transferred to contractual budget category. With the savings generated by RIP an agency transfers authorizations from the personal services to the contractual services budget category. With this increased funding, the agency contracts for some or all of the services that had previously been performed by the RIP retiree.

Again, in this example RIP has provided savings. Through the use of a budgetary mechanism, even a *net reduction in personal services costs* has been achieved. However, as in the first example, it is agency management that is deciding how to reallocate RIP savings, and from a budget reduction viewpoint, no savings are realized despite the personal services cost reduction.

3. RIP savings allotted to other programs. One difficulty that both we and officials at the University of Alaska had with estimating RIP savings was the treatment of "budget reallocation" savings. University officials reported that RIP provided administrators

increased flexibility and was used in part, to reconfigure the instructional staff at various campuses in response to student demand (see inset at right).

For example, if an accounting professor retired under RIP, that position itself may be left vacant but the savings generated may be used for a myriad of other activities.

Again, RIP has generated savings, and to some extent, a *net reduction in personal services costs* was probably generated, but all was done outside the influence of legislative budget review. From the budgetary aspect, no savings were realized, because none were reflected in the university's budget request.

4. RIP participant's position is cut. When RIP generates savings through elimination of a position, without a budgetary monitoring system, even these more discrete savings can be temporary. For example, an agency eliminates a position from the budget left vacant by a RIP retiree. The agency has decided to either to absorb the RIP participant's workload with existing staff, discontinue the services provided by the retiree, or perhaps, as mentioned above, "contract-out" the tasks. Now, from a budgetary perspective, RIP savings are more readily realized, since agency budget requests are reduced to reflect the eliminated position.

However, two years later, perhaps under a different administration, management requests and obtains funding for a "new" position. The new position is needed to perform all or most of the tasks that were previously done by the RIP retiree. If funded, the legislature is reallocating, probably unknowingly, a portion of RIP's *net reduction in personal services costs*.

UNIVERSITY REALLOCATION INDICATES HOW RIP SAVINGS ARE USED

One university campus wrote us describing what they did with more than \$170,000 in savings (projected over a three-year period) generated by one retiring professor.

The position vacated by the [RIP participant] was an associate professor of Business Administration at the Sitka campus. The position was not filled in order to save money that could be reallocated for use in meeting the changing needs of the campus' constituency. Reallocation of funds saved by not filling this position made it possible to increase business program offerings in the consortium arrangement with Sheldon Jackson College, partially fund a faculty position in Computer Information Systems, add courses outside of the faculty member's expertise and eliminate courses no longer pertinent. The work of the position was accomplished through the hire of temporary faculty for teaching, and non-teaching duties were reassigned to another employee.

All assumptions and projections of savings made by the university were reasonable and supportable, but in light of the narrative above, it is debatable about whether the projections could be considered "savings." Since we wanted to be conservative in developing our estimates of savings, we classified this particular situation as a "budget reallocation." In erring on the side of conservatism, we defined budget reallocations as not being savings.

Because we knew more about the circumstances surrounding University retirees, we actually were more conservative in refining their cost estimates than we could be with state government retirees. We have limited insight into how State of Alaska savings may have been similarly reallocated.

Legislature was concerned about RIP accountability

The legislature was concerned about the accountability of RIP savings. The program's implementing legislation required the Office of Management and Budget (OMB) to submit annual reports on RIP and its impact each January 15 from 1991 through 1994. The report was required to provide the

information necessary for the legislature to evaluate the effectiveness of the program in achieving its objectives. The report should include information on the designated organizational units under the retirement incentive plans including the cost of the retirement incentive program per participant, the cost to the state, the cost to the employee, the annual budgeted amount by agency for the retirement incentive, and the projected or actual savings over the three-year period.

The 1991 report, did contain the information specified in the legislation, and we used the report as a basis for developing the costs and savings included in this report. However, the costs and data specified and submitted does not provide necessary information regarding how the projected savings were utilized or how they affected the subsequent FY 92 budget.

Either OMB or Legislative Finance should monitor future RIPs

In addition to the report information required by the 1989 RIP legislation, the legislature should consider directing either OMB or the Division of Legislative Finance to specifically monitor RIP-generated savings. The legislature should direct one of these agencies to account for savings generated by vacant positions and the incremental differences in salary and benefits for various state agency budget request units.

By breaking down and analyzing the budgetary impact of RIP retirees, these budget review agencies could develop an adjustment factor to be used in budget construction and review. Such a factor, similar to the adjustments currently made for personnel vacancy and turnover, could be used to reduce agency personal services budget requests. Such a factor would reflect the amortization of projected RIP savings over the same time period as that provided by additional credited service.

Further, any new positions that may be included in each agency's annual budget request should be scrutinized in the context of the duties and services formerly provided by RIP participants. In addition, OMB or the Division of Legislative Finance should review the use of temporary employees and agency overtime to determine if any significant increases could be attributable to RIP.

Improved monitoring would provide enhanced legislative oversight of savings

By implementing such an upfront, monitoring and control procedure, the legislature could provide greater assurance that RIP-generated savings are being used to reduce personal service costs. Further, such a procedure more clearly identifies the amount and impact of program savings. Legislative oversight of how the savings generated from RIP are used would be improved, and such ongoing monitoring would allow the legislature a decision-making role in how savings are to be reallocated.

1990 measure reduced emphasis on savings

In 1990 the legislature amended the 1989 RIP to allow employees to "make up the difference" if the State could not project a savings for their position. This amendment had the effect of eliminating any possibility for the State to realize a *net reduction in personal services costs* for those employees.

Otherwise eligible employees, for whom no savings could be projected over a five-year period, could now participate in RIP by paying off the State's projected costs. Accordingly, under the legislation the State just "broke even" on 78 additional participants, realizing no *net reduction in personal services costs* for those individuals.

From legislative committee minutes of the testimony and discussion of the amending legislation, the primary concern appeared to be one of equity. From testimony and discussion it seems the intent of the legislature was to allow all state employees that met the basic eligibility criteria an opportunity to participate in the program, regardless of the savings that might be generated from their particular situation.

UNIVERSITY ALSO USE RIP SAVINGS TO RESPOND TO BUDGET REDUCTIONS

University officials also reported that they used the large savings generated by RIP participants to meet across-the-board budget reductions.

In FY 90, because of cutbacks in general fund appropriations, the university directed all departments to cut their budget by 2.5%.

For the School of Fisheries and Ocean Science (SFOS), this represented a cut of more than \$100,000. An SFOS support engineer retired under RIP and was not replaced. Three year savings generated by the retirement were estimated to be more than \$190,000.

SFOS used a third of the three-year savings generated by their RIP participant (approximately \$64,000) to partially offset the impact of the across-the-board reduction. Such use of RIP-generated savings clearly meets both the mandate for RIP to generate a net reduction in personal services costs and satisfies the conservative budgetary perspective that all savings must necessarily involve a budget reduction.

RIP reduces personal services costs, central issue is who decides how savings are used

In summary, concerns about savings generated by RIP are often misdirected. RIP, if structured appropriately, does generate personal service cost savings. Skepticism of the program is not so much attributable to an absence of any real savings, but rather exists because the current budget review process does not adequately track and reflect economies generated. Only if there are major lay-offs and budget cutbacks, do savings generated by RIP become readily apparent in state agencies' budget requests.

This lack of a developed budget control process, limits the legislature in performing its oversight role. Decision making is transferred to agency administrators. They get to decide how to reallocate or use RIP savings, with no specific legislative inquiry or direction.

EMPLOYER COMMENTS AND DISCUSSION

The opening section of the 1989 legislation that implemented RIP stated that

since it may be necessary for state agencies and other employers who participate in the state retirement systems to reduce their personal services costs because of declining state revenue, reimplementation of the [1986] retirement incentive program encouraging employees to retire voluntarily, will reduce the hardship of layoffs.

However, as it turned out, concerns about layoffs and declining revenues proved, for most employers, not to be a critical factor.

Stable fiscal conditions and prior RIP may have reduced need for staff cut savings

As summarized in the Report Conclusions section, most savings generated by the 1989 RIP were due to the incremental difference in the personnel costs of retiring workers and their replacements. A comparatively small part of the savings on a statewide basis were due to the reduction in public employment. We surmise that savings generated by the elimination of positions were minimal because of two factors:

1. The fiscal situation was better. The fiscal situation faced by the State of Alaska, most local governments, and school districts proved not to be as adverse as had been anticipated when the merits of the 1989 RIP were being debated. As a result, there was not as much pressure or need to eliminate positions in order to meet demanding budget cutbacks.
2. The impact of the earlier RIP. If local governments and school districts had an excessive number of positions, their management likely took full advantage of the earlier 1986 RIP to reduce the number of employees. That RIP was implemented at a time when both the fiscal situation and prospects at all levels of government were more problematic. With the advent of the 1989 RIP, local governments and school districts were in a situation where all or most retirees necessarily had to be replaced.

Three employers criticize RIP as causing "brain drain" and being a costly alternative

Three of the participating employers surveyed in the course of our review expressed two common complaints regarding RIP. One is the concern over the loss of experience, sometimes referred to as "brain drain." Another employer-expressed concern was that RIP is sometimes used "as an easy way out," and that other, less costly alternatives to reducing personnel costs were not being considered.

One respondent wrote that his local assembly was

not thrilled with RIP. This notable lack of enthusiasm was due to the potential loss of long term employees -- the real loss to the organization of those years of experience

Another local personnel officer observed that snow removal in his community had been adversely affected by the loss of experienced snowplow operators. Increased property damage to mailboxes, taking more time to clear streets and improper maintenance of equipment were all "hidden" costs of losing experienced employees to RIP.

Another local government participant responded that

Any net savings identified in this study is an imaginary figure. There exist other alternatives to personnel cost reduction not being [considered]. My belief is that the most favorable outcome of a RIP is that it may be used as a tool to encourage selected employees to terminate employment when the government is unable or unwilling to achieve this result through intelligent and sound personnel management. It's an easy way out.

Auditor discussion - The loss of experience and "brain drain" are concerns that have been expressed during legislative deliberations and consideration of RIP. In some situations, as discussed next in this section, the participating employer often welcomes the increased flexibility and new ideas brought in by new employees. But for some areas of service, such as operating heavy equipment, the loss of experience can be more telling.

The second criticism, we think neglects one of the other stated aspects and purposes of RIP. RIP was designed in part to mitigate the social hardship of layoffs. The legislature felt it was good public policy to have people in the community receiving retirement payments rather than having a like number receiving unemployment checks. Given these additional program aims, RIP cannot be judged strictly on a cost-benefit basis.

In our view, the legislature recognized that under RIP, it would cost money to reduce staff compared to achieving the same goal through lay-offs at little or no additional cost, but with greater negative social impact. The 1989 RIP, as it turned out, was implemented at a time when across-the-board layoffs and cutbacks proved not to be a widespread necessity. In these circumstances, the costliness of the program become more evident, and its social benefits were obscured.

RIP provides increased administrative flexibility

Early retirement incentive programs have other benefits beyond costs savings. These programs can be used to achieve important non-financial goals such as increased managerial flexibility in restructuring operating procedures, in making promotions, and an increased ability to maintain a balance in the age and composition of the workforce (something that might not occur with seniority-based lay-offs).

The 1989 RIP did produce other benefits beyond the estimated cost savings. One school district in responding to our survey commented that

RIP allows us more flexibility. We give our teachers tenure, RIP allowed us flexibility in our staffing. Also now a district can establish new directions for programs that was nearly impossible to pursue with long-entrenched faculty.

Both the Anchorage School District (ASD) and the university reported that RIP provided administrators with increased staffing flexibility. Both the university and ASD grant tenure to their professors and teachers, respectively. One benefit of RIP was that it allowed the two organizations to replace tenured faculty with entry level instructors and teachers without tenure. As a result, it was easier to reassign and transfer instructors without having to consider the limitations and restrictions that are involved with the prerogatives of tenured staff.

Fairbanks school board feels that repeated RIPs disrupts recruitment

In a September 1990 resolution (see inset on next page), the Fairbanks North Star Borough School Board expressed its concern over the need for, and the impact of, repeated RIPs. In adopting a resolution opposed to the creation of another RIP program the board felt that while the program assisted schools in responding to fiscal emergencies, that its repeated use when there was no crisis is disruptive to normal teacher turnover and harmful to recruitment.

As reflected by the resolution the board felt that teachers develop expectations that another RIP will eventually be offered. This expectation encourages employees who might normally retire to postpone doing so until the next RIP. The number of retirees then accumulate and when a RIP is offered, all leave the district collectively, causing havoc in teacher recruiting and a major loss of experienced personnel all at once.

Auditor discussion - The 1989 RIP program was designed to maximize "local control." The decision whether to participate is made at the local level, as is establishing the criteria for which employees may retire. To some extent, this local option flexibility has led to what some may consider are abuses of RIP. Rather than using the program to lessen the impact of layoffs and realize savings, some employers used RIP as a means to provide additional

**FNSBSD BOARD OPPOSES IMPLEMENTATION OF RIP
WHEN NO FISCAL EMERGENCY EXISTS, CONCERNED
ABOUT EFFECT OF TEACHER EXPECTATIONS**

1 September 1990 the Fairbanks school board adopted the following resolution opposing any new retirement incentive program.

WHEREAS, the State of Alaska passed an Early Retirement Incentive Plan in 1986 to help school districts and other public agencies realize significant personnel cost reductions in response to a statewide fiscal emergency; and

WHEREAS, the State of Alaska passed another Early Retirement Incentive Plan in 1989, although there was not a fiscal emergency; and,

WHEREAS, this is creating the expectation that there will be another Retirement Incentive Plan program offered again in several years; and,

WHEREAS, this expectation works counter to the program's intent of encouraging people to retire, because of instead of the normal attrition rate, employees who might normally retire will postpone doing so until such time as another Retirement Incentive Program is offered; and,

WHEREAS, our district also has serious concerns about a teacher work shortage and fears it will become more and more difficult to replace our valuable and experienced work force; and,

WHEREAS, our district does not wish to lose our experienced employees, but has decided it would not be fair to deny them access to a Retirement Incentive Plan once it is passed into law;

NOW, THEREFORE, BE IT RESOLVED that the Fairbanks North Star Borough Board of Education requests the Legislature and the Governor not enact any future legislation authorizing early retirement.

compensation and consideration. Under our reading of the 1989 legislation, such use of the program is permissible. RIP is a "take-it-or-leave-it" program in which employers can structure their participation in the program in any manner they wish within the broad confines of the program eligibility requirements.

"Speed-up" scenario is a drawback to RIP's goal to save employers money

The "speed-up" scenario has been generally recognized as a drawback to RIP. Providing incentives may speed up the retirement of individuals who would have retired in the near future with or without an added incentive. Under RIP, the employer must pay the added cost of providing the incentive even though the employee would have eventually retired anyway at no extra cost.

Two participants cite impact of the "speed-up" scenario in criticizing estimated savings

Some employers contacted during the course of the review pointed out that the savings estimated using our assumptions and approach tended to inflate totals. In their comments they cited the "speed-up" scenario as contributing to an overstatement of savings. One employer commented that under the formula we suggested be used to calculate savings or costs that

Savings for our school district are based on a "bogus" assumption. What is not considered is when would have these individuals have normally retired if there had been no RIP. It is possible that the individuals would have retired anyway,[without the school district having to pay any additional RIP employer contribution costs.]

Another district commented that *normal retirement would generate far greater savings for each district. The cost for RIP has to be budgeted for, while the "savings" are used for other purposes.*

Auditor discussion - Under the methodology used in this report, participants who would have normally retired would generate a certain amount of savings over the costs involved to provide the three additional years of service. Had they retired without RIP then there would have been no additional employer costs involved, and the district would have realized even more savings, either by eliminating the position or replacing the retiree with a lower paid replacement.

It is likely that some of the almost 1,800 RIP participants would probably have taken normal retirement, involving no additional contribution from their employer. We acknowledge that this normal retirement factor does overstate our savings estimate, but there was no practicable way for us to calculate its effect and adjust our estimates accordingly.

NOTES TO SCHEDULE 1

Note 1 - General Assumptions, Methodology, and Approach to Develop Estimates

Unless otherwise discussed in a specific note, the estimated savings or costs presented in Schedule 1 on page 8 were calculated using the following assumptions, methodology, and approach:

1. Savings and costs totals represent projections over a three year period.
2. For most participants, the calculations of estimated savings or costs reflect the projected costs of salaries and benefits for both the RIP retiree and their replacement. However, some employers used salaries only as a basis for their projections and estimates. In any event, for any one participant's calculation the same basis was used for both the retiree and the replacement employee.
3. In addition to the administrative costs involved with each RIP participant, the estimated savings/costs also reflect any administrative fees paid by the employer for individuals who were eligible for the program but did not participate.

Note 2 - State of Alaska

Savings presented for the State of Alaska represent a combination of projected savings. The total includes both:

1. Three year projected savings for individuals who qualified and participated in the initial RIP program.
2. Net savings projected over a five year period for individuals who participated under the amended RIP program. According to OMB records, 78 of the State of Alaska's 739 participants did not generate any savings, and accordingly do not contribute to the total savings of \$6,033,100. The table below summarizes savings estimates and the number of participants for both the 3-year and 5-year periods

	Participants	Savings
3 YEAR PERIOD	547	\$ 5,131,400
5 YEAR PERIOD	192	901,700
TOTALS	739	\$ 6,033,100

Note 3 - University of Alaska

We reduced the savings for the University of Alaska by more than \$ 4,900,000 from estimates developed by the University. The adjustments were made in an effort to make the totals more comparable with those developed by the State of Alaska for their RIP participants. The university originally calculated RIP savings of \$9,240,700.

A large portion of these savings total was attributable to extended vacancies in the RIP participant positions that were eventually filled. Further, the university noted that some of the "savings" were actually reallocated to other staff and programs rather than being used to offset budget reductions (see inset on page 14 for discussion of the university's budget reallocation process). We based our adjustments on salary, vacancy, and budgetary information provided to us by the university.

Note 4 - Anchorage School District (ASD)

In calculating savings estimates for TRS participants, ASD used the average, district-wide teacher and administrator salaries as a basis for the replacement employees' salary and benefit costs. Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that it would tend to understate the estimated savings.

ASD's estimated savings as listed in the schedule are based on three year projections. The district also projected savings for a five year period. ASD's five-year projected RIP savings breakdown as follows:

<u>Retirement System</u>	<u>Estimated Savings</u>
TRS Participants	\$ 6,578,000
PERS Participants	<u>528,000</u>
Total 5-year savings projections	\$ <u>7,106,000</u>

Both the 3-year savings listed in the schedule on page 8 and the 5-year savings summarized above, have been reduced to reflect almost \$673,000 that the district paid out as retirement incentives. Depending on when participants retired, they were eligible for payments of 2.5% to 5% of their salary and from \$50 to \$100 for each year of service as an incentive to participate in RIP.

Note 5 - Kenai Peninsula Borough Schools (KPBS)

Although KPBS had thirteen fewer participants than the Fairbanks North Star Borough Schools, the district had \$400,000 more in estimated savings. This difference was largely a result of KPBS not replacing some of their RIP participants, whereas Fairbanks filled all the teaching vacancies left by the participating employees.

Note 6 - Fairbanks North Star Borough School District (FNSBSD)

In estimating savings, FNSBSD used the average salary and benefit costs for all newly hired teachers for the first school year following the RIP period. For PERS participants, FNSBSD used the actual salary of the replacement employee as a basis for projecting the savings generated by the RIP participant.

Note 7 - City of Fairbanks

More than \$580,000 of the projected savings were generated from the city not replacing four individuals who participated in RIP. Thirteen of the twenty-two participants were from either the city's police or fire departments. At the time these 13 individuals retired, the city consolidated its police and fire protection functions into a single department of public safety. Many of these 13 retirees were high ranking officers, whose command and management functions were combined and restructured as part of the consolidation process.

This consolidation of command responsibilities made it difficult to determine which retiree was replaced by which promoted officer. Thus, it was not practicable to match these promoted individuals with the outgoing RIP retirees. However, the city is certain that available funding was used to recruit and hire entry level officers into the new public safety agency. Accordingly, they based their estimates of projected savings on the difference in salaries and benefits between the retiring officers and these entry level recruits.

Note 8 - North Slope Borough School District (NSBSD)

In calculating savings estimates for TRS participants, NSBSD used the average, district-wide teacher salary as a basis for the calculating the replacement employees' salary and benefit costs. Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that would tend to understate the estimated savings.

Note 9 - Matanuska-Susitna Borough Schools (MSBS)

In calculating savings estimates for TRS participants, MSBS used the average, district-wide teacher salary as a basis for calculating the replacement employees' salary and benefit costs.

Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that it would tend to understate the estimated savings.

Note 10 - North Slope Borough (NSB)

For all but one of NSB's 12 RIP participants, estimated savings are based on three-year projections. The other individual's savings are estimated over a five-year period.

Note 11 - Calculated Estimates for Nine School Districts not responding to our survey

We developed the estimate of savings for nine school districts which did not respond to our survey. For these districts we calculated savings for their RIP participants using the average participant savings for all districts who did respond to our survey. Savings from districts calculated using this approach totalled to \$860,800 (3% of the total estimated savings statewide) for 75 RIP participants (4%). Districts for which savings were calculated using this approach were:

District	No. of TRS Retirees	Estimated Savings of TRS Retirees @ \$15,359/ea	No. of PERS Retirees	Estimated Savings of PERS Retirees @ \$6,798/ea	Total Calculated Savings for Schools (Rounded)
Lower Kuskokwim Schools	18	\$ 276,462	7	\$ 47,586	\$ 324,000
Bering Strait Schools	4	61,436	13	88,374	149,800
Southwest Region Schools	6	92,154	3	20,394	112,500
Delta/Greely Schools	7	107,513	0	-0-	107,500
Kuspuk Schools	2	30,718	5	33,990	64,700
Unalaska City School District	2	30,718	1	6,798	37,500
Iditarod Area Schools	0	-0-	5	33,990	34,000
Nenana City Schools	1	15,359	0	-0-	15,400
Skagway City School	1	15,359	0	-0-	15,400

Note 12 - Matanuska-Susitna Borough

For all but two of the borough's nine RIP participants, estimated savings are based on three-year projections. The other two individuals' savings are estimated over a five-year period.

Note 13 - Kenai Peninsula Borough

Almost \$200,000 of the borough's \$224,900 in estimated savings is attributable the elimination of one management position.

Note 14 - City of Hoonah

More than \$90,000 of the city's \$118,000 in estimated savings is attributable to the elimination of one position.

Note 15 - City of Kodiak

Estimated savings are based on a combination of three-year and five-year projections. Two of the RIP participants' savings are based on five-year projections.

Note 16 - Fairbanks North Star Borough

One of the individuals' estimated savings are based on a three-year projection while the other is based on a five-year projection.

Note 17 - Bristol Bay School District (BBSD)

The estimated projected savings for BBSD of \$14,600 reflect an additional cost of \$10,144 retirement bonus paid to the RIP participant. The bonus represented 21% of the participant's annual salary.

Note 18 - City of Ketchikan

As related on page 7 of the report, if the City of Ketchikan can collect from its one RIP participant, it will realize a projected estimated savings of \$20,200. However, as of the date of this report, the city has not collected the employer costs that it conditionally paid on behalf of the city's participant.

2/1/92

Hickel endorses early retirement bill

The Associated Press

JUNEAU — The Hickel administration has endorsed legislation to revive the early retirement incentive program for public employees, but only with changes that would limit the number of eligible state workers.

The bill would allow most state and local government employees the chance to retire three years early. The idea is to save money by encouraging the replacement of higher-paid, longtime workers with new, lower-paid workers — or leaving the positions empty.

Two previous retirement programs saved the state and municipalities between \$95 million and \$100 million over several years, according

to state audits.

The latest bill, sponsored by Sen. Jim Duncan, D-Juneau, was recently approved by the Senate State Affairs Committee after changes recommended by Gov. Wally Hickel's office were adopted.

Commissioner Nancy Bear Usera of the Administration Department told the committee the bill could help Hickel reach his goal of shrinking the bureaucracy through attrition.

Usera said early retirement is "an appropriate tool" to save money, although she had concerns about the turnover it creates.

"We, as a general rule,

don't feel like we should be rushing people through state service," she told the committee.

Usera asked lawmakers to shorten the period for participation in the program to make budget planning easier. She said the change would shrink the number of eligible state workers from 4,366 to 3,919.

In the most recent program, about 30 percent of those eligible took early retirement, she said.

Under Duncan's proposal, state employees would have been able to apply for the program between next Dec. 31 and June 30, 1993, and would have had to retire by February 1994.

Usera asked lawmakers

to shrink the application period to between next July 31 and Oct. 31. She asked the retirement deadline to change to July 1993.

Duncan said he would go along with the change if it would improve the bill's chances of passing.

Usera also persuaded the committee to include a provision banning early retirees from taking state employment within a year of leaving government service. The provision exempts University of Alaska employees returning to work on contract.

Senate Bill 337 was referred to the Senate Health, Education and Social Services Committee for further consideration.

S B

3 4 4



Alaska State Legislature

SENATOR JIM DUNCAN

P.O. Box V JUNEAU, ALASKA 99811-3100

(907) 465-4766

COMMITTEES:

VICE CHAIR –
FINANCE
VICE CHAIR –
STATE AFFAIRS
RULES
BUDGET & AUDIT
ETHICS REFORM

DATE: January 15 1992

TO: Senator Arliss Sturgulewski, Chair
Senate Health, Education, & Social Services Committee

FROM: Senator Jim Duncan

SUBJECT: Senate Bill 344, an Act prohibiting a nursing facility that participates in the Medicaid program from charging a rate for a resident that is higher than the rate approved for Medicaid purposes.

Scheduling a hearing for SB 344 at the earliest convenience of the committee would be greatly appreciated.

Senate Bill 344 prohibits the Department of Health and Social Services from paying for services at a nursing facility unless the facility has agreed that the Medicaid rate will apply to all its residents. In the bill, nursing homes which receive payments from Medicaid are also prohibited from charging rates for private patients which are higher than the Medicaid rate of payment. This bill will provide equity in rates charged Medicaid and private patients by nursing homes in Alaska.

There are a small group of private payers in the state of Alaska who are being disadvantaged by this inequity. For their sakes, expedient consideration of this bill would be of great value.

Thank you very much for your consideration.

Attachments

7-LS1724G
Lauterbach
1/27/92

CS FOR SENATE BILL NO. 344 ()

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - SECOND SESSION

BY

Offered:

Referred:

Sponsor(s): SENATOR DUNCAN

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to rates for skilled nursing facilities; and providing for an effective
2 date."

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

4 * Section 1. AS 47.07 is amended by adding a new section to read:

5 Sec. 47.07.067. PAYMENT FOR SKILLED NURSING FACILITIES. (a) Except as
6 provided in (b) of this section, a skilled nursing facility

7 (1) may not require a non-Medicaid resident to pay more for a service than the
8 department would pay on behalf of a Medicaid resident for that service if the facility is receiving
9 payments from the department under this chapter or AS 47.25.120 - 47.25.300; and

10 (2) is not eligible to receive payments under this chapter or AS 47.25.120 -
11 47.25.300 if it requires payment for a service for a non-Medicaid resident that is greater than the
12 payment made by the department under this chapter for a similar service for a Medicaid resident.

13 (b) Notwithstanding (a) of this section, a skilled nursing facility may require a non-
14 Medicaid resident to pay a higher rate for a private room than the department pays for a private

1 room on behalf of a Medicaid patient. A skilled nursing facility may also require payment for
2 special services that are not included in the daily rate determined under AS 47.07.070 if

3 (1) residents eligible for care under this chapter and residents eligible for care
4 under AS 47.25.120 - 47.25.300 are required to pay separately at the same rate for the same
5 services in addition to the daily rate paid by the department;

6 (2) services covered by the payment rate are the same regardless of payment
7 source;

8 (3) special services, if offered, are offered to all residents;

9 (4) residents are free to select or decline special services;

10 (5) the special services do not include services that must be provided by the
11 facility in order to comply with licensure or certification standards and that if not provided would
12 result in a deficiency or violation by the facility; and

13 (6) services beyond those required to comply with licensure or certification
14 standards are not charged separately as a special service if they were included in the payment rate
15 for the previous reporting year.

16 (c) A skilled nursing facility that violates (a)(1) of this section is subject to an action by
17 the state or any of its subdivisions or agencies for civil damages. A non-Medicaid resident or
18 the resident's legal representative also has a cause of action for civil damages against a skilled
19 nursing facility that violates (a)(1) of this section. The damages awarded in an action under this
20 subsection shall include three times the excess payments that result from the violation, together
21 with costs and attorney fees awarded under court rules.

22 (d) In this section, "non-Medicaid resident" means a nursing facility resident on whose
23 behalf the facility is not receiving payments under this chapter or AS 47.25.120 - 47.25.300.

24 * Sec. 2. AS 47.07.070(a) is amended to read:

25 (a) The department shall set the prospective rate of payment to a health facility under this
26 chapter and AS 47.25.120 - 47.25.300 based on a fair rate for reasonable costs incurred by the
27 facility for the care of patients eligible for medical assistance under this chapter or
28 AS 47.25.120 - 47.25.300 except that, for a skilled nursing facility, the prospective rate of
29 payment determined under this section shall be based on a fair rate for reasonable costs
30 incurred by the facility for all of its residents. The department may not set a rate until after
31 a public hearing before the Medicaid Rate Advisory Commission except that this hearing

1 requirement is not applicable if a new rate is immediately necessary to afford exceptional relief
2 to a facility as determined under regulations adopted by the department. The department shall
3 by regulation list the factors it considers in making its rate determinations under this section. A
4 rate set under this section does not take effect until it is approved in writing by the commissioner
5 of health and social services or the agency assigned by the commissioner to perform this
6 function. The written determination of a rate set by the department after a hearing must include
7 a statement of the department's findings, a description of the basis of the findings and
8 conclusions, a citation to the regulations supporting the findings and conclusions, and a statement
9 of the decision.

10 * Sec. 3. AS 47.07.070(b) is amended to read:

11 (b) In determining a rate of payment to a health facility under this section, the department
12 shall consider the proportionate share of the facility's financial requirements for patient care for

13 (1) costs of current operations, including salaries and wages, purchased services,
14 supplies, insurance, leases, depreciation, taxes, interest expense, maintenance and other health
15 facility operating expenses; [AND]

16 (2) education, research, and appropriate capital development; and

17 (3) in the case of a skilled nursing facility, costs attributable to bad debt and
18 uncompensated charity care.

19 * Sec. 4. CONFLICTS WITH FEDERAL LAWS. If a provision of this Act is determined by an
20 agency of the federal government to be in conflict with a requirement of the agency with respect to
21 federal participation under AS 47.07 or with respect to the eligibility of a health care provider to take
22 part in other federal programs, the federal requirements supersede the requirements of this Act.
23 However, the department shall seek any federal waiver that may be applicable to the conflicting
24 requirement and shall implement the conflicting provision of this Act if the waiver is granted.

25 * Sec. 5. This Act takes effect January 1, 1993.

STATE OF ALASKA

DEPT. OF HEALTH AND SOCIAL SERVICES

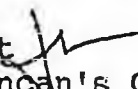
MEDICAID RATE ADVISORY COMMISSION

WALTER J. HICKEL, GOVERNOR

4792-1 BUSINESS PARK BLVD, BLDG F
ANCHORAGE, ALASKA 99503
PHONE: (907) 562-1996
FAX: (907) 563-7309

MEMORANDUM

Date: December 4, 1991 (FAXED)

TO: Roxanne Stewart 
Senator Jim Duncan's Office

FROM: Jack Nielson
Executive Director

SUBJECT: Douglas Gregg/St. Ann's Nursing Home

At your request, Medicaid Rate Advisory Commission (MRAC) staff have prepared the attached summary of issues raised by Mr. Gregg regarding the level of charges and Medicaid payments at St. Ann's Nursing Home.

MRAC staff have not discussed this summary with St. Ann's, and charges information contained in the summary is taken from Mr. Gregg's letters and attachments.

Please let me know if you have questions or comments, or if you feel it would be helpful for a department person to sit down with you or St. Ann's representatives to discuss these things further. The department is available to assist in any way possible in clearing up outstanding questions.

Enclosure

MEDICAID RATE ADVISORY COMMISSION
December 4, 1991
St. ANN'S NURSING HOME

CONDITION: Letters received by Jay Livey, Deputy Commissioner, Department of Health and Social Services (DHSS) from Douglas Gregg, attachments enclosed, indicate that as of St. Ann's Board Action November 21, 1990 (Attachment F), St. Ann's charges all patients \$210 per day plus ancillary charges. Those letters also indicate that the facility writes off Medicaid ancillary charges while private pay patients are required to pay all ancillary charges. Further the letter states that Medicaid does not pay it's share of the facility's costs and consequently cost shifting to private pay patients occurs.

CRITERIA: The department does not have control over what a nursing home charges its patients and therefore the Medicaid Rate Advisory Commission staff is not familiar with St. Ann's charge structure. Based on a review of the Douglas Gregg letters and attachments, our best guess is that the St. Ann's charging structure set by the St. Ann's Board Action November 21, 1990, Attachment F, did charge all patients a per diem rate of \$210 plus a separate charge for ancillary services provided to the individual patients and, as indicated by Attachment B, the Medicaid ancillary charges were then written off. Note that Attachment A, the private pay bill sample, does not write off ancillary charges in comparison to the Medicaid pay bill sample, Attachment B. At approximately the same time the Board Action, Attachment F, charging structure was in effect, the Medicaid all inclusive rates \$207.96, \$209.94 and \$210.62 in effect in 1990 (Attachments C, D and E) generated Medicaid payments in excess of costs related to the care of those Medicaid patients approximating \$464,000.

Attachment Sources:

Private Pay and Medicaid Pay bill samples for St. Ann's Nursing Home provided to Jay Livey, Deputy Commissioner, DHSS with November 1, 1991 letter from Douglas Gregg. Attachments A and B. These attachments assist in illustrating St. Ann's Charging structure.

Decision & Order Letter from Jack Nielson, Executive Director, Medicaid Rate Advisory Commission to Grant Asay, Administrator, St. Ann's Nursing Home. Attachments C, D and E. These documents outline 1990 Medicaid rates by component and include a Medicaid specific ancillary component based on average actual base year ancillary usage by Medicaid patients .

1990 Medicaid rate summary Attachments C, D, and E:

Effective date	1-1 to 6-30	7-1 to 9-30	10-1 to 12-31
Routine	\$127.22	\$128.90	\$128.90
Routine Capital	19.03	19.03	19.03
Ancillaries	43.56	43.56	43.56
1988 YEC adjustment (ancillaries)	18.15	18.15	18.15
OBRA Increment	0.00	0.00	0.98

Total	\$207.96	\$209.64	\$210.62

Total Ancillary Component in 1990 Medicaid rates	\$61.71	\$61.71	\$61.71
-----------------------------------------------------	---------	---------	---------

Private Pay rate schedule by Board Action November 21, 1990 for St. Ann's Nursing Home provided to Jay Livey, Deputy Commissioner, DHSS with November 1, 1991 letter from Douglas Gregg. Attachment F. This schedule outlines specific per diem and ancillary charges used by St. Ann's.

Letter dated October 30, 1991 to Douglas Gregg from Jay Livey, Deputy Commissioner, DHSS. Attachment G. This letter explains the Medicaid rate and the fact that Medicaid reimbursement at the established Medicaid rates exceeded facility costs associated with Medicaid.

CAUSE: The Medicaid Rate Advisory Commission staff has not discussed this analysis with St. Ann's and is not aware of the reasons for St. Ann's charging structure. Our comments are based on a review of the source documents provided with Douglas Gregg's letters.

EFFECT: From the review discussed above, it appears that private pay patients at St. Ann's are charged the same as Medicaid patients, however, because the Medicaid rate is an all inclusive rate with an ancillary component, the Medicaid patient ancillary charges are written off. During our regular year end review of St. Ann's Medicaid costs it was determined that even after the write off of the individual ancillary charges to Medicaid patients, 1990 Medicaid payments to St. Ann's exceeded their cost of providing care to Medicaid patients by \$464,000.

CONCLUSION: It appears from a review of the documents received from Mr. Gregg that indeed his family is paying more for Mrs. Gregg's care than the department is paying for Medicaid pay patients. From information provided to Mr. Gregg by Jay Livey, it is also evident that Medicaid payment rates in 1990 more than covered the cost of providing care to Medicaid patients.

PRIVATE PAY BILL SAMPLE

COPY

SALES INVOICE

Invoice Date: 12/31/90

Invoice # 3171

ST. ANN'S NURSING HOME
415 6TH STREET
JUNEAU, AK 99801

Patient:
Address: JUNEAU, AK 99801
Phone: 907-586-1367

Tax ID:
Billed to: 7-Private

Patient number: /

Revenue Account	Description	Days	Rate	Charges	Subtotal
3610	Skilled routine care	31	210.00	6510.00	
3610	SKILLED ROUTINE CARE		subtotal:		6510.00
4110	MEDICAL SUPPLIES		subtotal:		125.00
4150	DRUGS SOLD		subtotal:		595.90
4510	PHYSICAL THERAPY		subtotal:		800.00
4530	OCCUPATIONAL THERAPY		subtotal:		191.96

TOTAL: 8,222.86

Attachment A

MEDICAID PAY BILL SAMPLE

SALES INVOICE

COPY
Invoice # 2135

Invoice Date: 12/31/90

ST. ANN'S NURSING HOME
415 5TH STREET
JUNEAU, AK 99801Patient:
Address: 415 6TH ST,
JUNEAU, AK. 99803

Phone:

Tax ID:

Billed to: 2-Medicaid

Patient number: /

Revenue Account	Description	Days	Rate	Charges	Subtotal
3610	Skilled routine care	31	210.00	6510.00	
3610	SKILLED ROUTINE CARE		subtotal:		6510.00
4110	MEDICAL SUPPLIES		subtotal:		51.80
4150	DRUGS SOLD		subtotal:		324.90
4510	PHYSICAL THERAPY		subtotal:		493.34
4530	OCCUPATIONAL THERAPY		subtotal:		157.33
4910	OTHER ANCILLARY CHARGES		subtotal:		25.55
5920	Contractural write-off	31	0.62	19.22	
5920	Contractural write-off		subtotal:		19.22
5921	Ancillary write-off				-1052.97

TOTAL: 6,529.22

Attachment B

STEVE COWPER, GOVERNOR

DEPT. OF HEALTH AND SOCIAL SERVICES**MEDICAID RATE COMMISSION**P.O. BOX 240249
3601 "C" STREET, SUITE 592
ANCHORAGE, ALASKA 99524-0249
PHONE: (9 07) 562-1896

December 22, 1989

Grant Asay, Administrator
St. Ann's Nursing Home
415 Sixth Street
Juneau, AK 99801

Dear Mr. Asay:

Your facility's rate for the fiscal period January 1, 1990 through December 31, 1990 was reviewed by the Medicaid Rate Advisory Commission on December 15, 1989.

In accordance with 7 AAC 43.701 your facility's long term care rate for Medical Assistance services is established at \$207.96 consisting of \$127.22 for routine services for the period January 1, 1990 through June 30, 1990, \$19.03 for routine capital, \$43.56 for ancillaries, and an adjustment of \$18.15 in accordance with 7 AAC 43.691 for the period January 1, 1990 through December 31, 1990.

In accordance with 7 AAC 43.685(1) the department anticipates 12,000 long term care patient days for Medical Assistance services for the period January 1, 1990 through December 31, 1990.

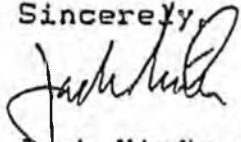
Per 7 AAC 43.703 a party aggrieved by a decision of the Executive Director shall, within 30 days after the date of the mailing of notice of a decision, request reconsideration to the Executive Director or request an administrative appeal to the Commissioner of the Department. If the party chooses the reconsideration request

Attachment C

and is aggrieved by the reconsideration decision the party shall, within 30 days after mailing of the notice of the decision, request an administrative appeal to the Commission of the Department.

If you have any questions or comments please call me.

Sincerely,



Jack Nielson
Executive Director

cc: Donna Herbert
Stephen Rose
Karen Perdue
Randy Super
Eric Hansen

Attachment C (cont)

STATE OF ALASKA

DEPT. OF HEALTH AND SOCIAL SERVICES

MEDICAID RATE COMMISSION

STEVE COWPER, GOVERNOR

P.O. BOX 210249
3601 "C" STREET, SUITE 692
ANCHORAGE, ALASKA 99524-0249
PHONE: (907) 662-1988

June 27, 1990

Gary Asay, Administrator
St. Ann's Nursing Home
415 Sixth Street
Juneau, Alaska 99801

Dear Mr. Asay:

In accordance with 7 AAC 43.685(g) the maximum routine services rate has been calculated for the period July 1, 1990 through December 31, 1990. The maximum routine rate allowable for freestanding facilities is \$130.81.

In accordance with 7 AAC 43.701 your facility's long term care rate for Medical Assistance services for the period July 1, 1990 through December 31, 1990 is established as follows:

Routine	\$128.90
Routine Capital	19.03
Ancillaries	43.56
1988 YEC	18.15

TOTAL RATE	209.64

If you have any questions or comments please call me.

Sincerely,



Jack Nielson
Executive Director

cc: Donna Herbert
Stephen Rose
Karen Perdue
Randy Super
Eric Hansen

Attachment D

STEVE COWPER, GOVERNOR

DEPT. OF HEALTH AND SOCIAL SERVICES

MEDICAID RATE ADVISORY COMMISSION

P.O. BOX 240249
3601 "C" STREET, SUITE 260
ANCHORAGE, ALASKA 99524-0249
PHONE: (907) 582-1996

October 1, 1990

Grant Asay, Administrator
St. Ann's Nursing Home
415 Sixth Street
Juneau, Alaska 99801

Dear Mr. Asay:

In accordance with Emergency Regulation 7 AAC 43.685(o) your facility's OBRA increment has been calculated for the period October 1, 1990 through December 31, 1990.

In accordance with 7 AAC 43.701 you facility's long term care rate for Medical Assistance services for the period October 1, 1990 through December 31, 1990 is established as follows:

Routine	\$128.90
Routine Capital	19.03
Ancillaries	43.56
1988 YEC	18.15
OBRA Increment	.98

TOTAL RATE	<u>\$210.62</u>
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If you have any questions or comments please call me.

Sincerely,

Randall Sillopa For
Jack Nielson
Executive Director

cc: D. Herbert
S. Rose
F. Shuler
E. Hansen
J. Livey
R. Super

Attachment E



ST. ANN'S NURSING HOME

415 Sixth Street, Juneau, AK 99801 (907) 586-3853

COPY

PRIVATE PAY RATE SCHEDULE

Board Action November 21, 1990

PATIENT CHARGES

Description	Account #	Amount	Date Revised
1. Routine Charges - ICF	3640	\$210.00/day	4/1/89
SNF	3610	\$210.00/day	4/1/89
2. Isolation Charge	4000	\$80.00/day	1/1/91
3. Laboratory	4210		
a. Blood Draw		\$22.00	11/1/90
b. Urinalysis Draw		\$16.00	11/1/90
c. C & S Draw - Culture		\$25.00	11/1/90
d. Blood Glucose		\$35.00	1/1/91
e. Occult Blood		\$35.00	1/1/91
4. ERG	4290	\$45.00	11/1/90
5. Respiratory	4420	(attached)	1/1/91
6. Physical Therapy	4510	\$80.00/hr	11/1/90
a. Capital K-Pads	4510	\$15.00/hr	1/1/91
7. Occupational therapy	4530	\$85.00/hr	11/1/90
8. Recreational therapy	4570	No charge	11/1/90
9. Other Ancillarys	4910		
a. Transportation		Cab Fare	1/1/91
10. Speech Therapy	4920	\$95.00/hr	11/1/90
11. I.V. Therapy - Set-up	4930	\$30.00	1/1/91
12. Feeding Pump	4940	\$5.00/day	1/1/91

13. PHARMACY X 2090

14. MED. SUPPLIES X 40090

Attachment E

STATE OF ALASKA
 MEDICAID RATE ADVISORY COMMISSION
 COMPARISON OF MEDICAL ASSISTANCE REIMBURSEMENTS TO PROGRAM SHARE OF FACILITY EXPENSES

	1985	1986	1987	1988	1989	1990	CUMULATIVE
	ST. ANN'S	ST. ANN'S	ST. ANN'S	ST. ANN'S	ST. ANN'S	ST. ANN'S	
----- Long Term Care -----							
UTILIZATION (PDs)							
T.F.	14,366	13,686	14,393	13,994	13,884	14,943	85,166
M.A.	13,274	11,944	12,251	11,558	12,766	14,688	76,393
% M.A.	92.48%	87.78%	85.12%	82.59%	91.95%	97.76%	89.68%
COSTS							
Routine T.F.	1,815,849	1,958,051	1,845,689	1,952,665	2,128,433	2,264,035	11,956,842
Routine M.A. %	1,677,882	1,712,551	1,578,941	1,612,921	1,957,842	2,212,866	10,742,583
Program Ancil	237,877	199,429	286,185	451,425	425,143	347,171	1,946,351
Recoveries	(25,237)	(15,565)	(11,639)	(33,998)	(6,297)	(53,958)	(146,686)
M.A. Allowable	1,888,922	1,896,414	1,845,487	2,030,348	2,375,889	2,505,288	12,542,268
AVG PER DIEM	\$145.44	\$150.44	\$156.93	\$168.35	\$185.90	\$209.85	
RATE FY #							
M.A. REIMBURS	1,938,571	1,796,855	1,922,549	1,853,364	2,373,199	3,052,138	12,928,669
M.A. PROFIT (LOSS)	41,649	(99,559)	77,143	(176,984)	(2,689)	546,842	386,481
TOTAL ST. ANN'S	41,649	(99,559)	77,143	(176,984)	(2,689)	546,842	386,481

STATE OF ALASKA
Department Of Health And Social Services
Medicaid Rate Advisory Commission

St. Ann's information from Independent Audited Financials

	1985	1986	1987	1988	1989	1990	Total
Net Income	(21,123)	(46,841)	224,277	(87,647)	82,115	480,628	631,409
Net Cash Provided By Operations	(91,104)	(213,909)	391,885	(40,854)	66,465	544,620	657,103

F.83

HRU

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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

January 10, 1992

SUBJECT: Nursing Home Rates (SSSB 344)

TO: Senator Jim Duncan
ATTN: Roxanne

FROM: Terri Lauterbach 
Legislative Counsel

This memo is a progress report and a request for further instructions about drafting a sponsor substitute for SB 344.

As you directed, I have been in consultation with Jack Nielson since the meeting about nursing home rates on December 30, 1991. Initially, he provided me with the names of states that had all-payor systems for their hospitals. Upon review, these statutes didn't seem particularly helpful. However, Jack later came up with the names of two states that have established "equalized" rates for their nursing homes: Minnesota and North Dakota. These states do, in fact, seem to have the system established that you are seeking to establish in Alaska.

Enclosed is a copy of North Dakota's laws on the subject. ^{1/} Rather than putting them into bill form right now, I thought I'd check with you to see if you had time to review these laws and determine if they are what you want.

The section of the North Dakota law that lays out the main principle you are interested in is "50-24.4-19 (1.)" on page 150 of the attached. However, your bill can probably not be as simple as repeating just this language, without also laying out the rate structure described in the other sections.

^{1/} I have enclosed the North Dakota laws because they are most recently passed (1987, applicable to rate years beginning 1/1/90, I think) and seem to have been based on the earlier Minnesota laws (which are longer and more technical because there have been many one-time rate adjustments added to their laws after initial enactment).

Senator Jim Duncan
January 10, 1992
Page 2

As I recall, there was general agreement at the December meeting between DHSS and the representatives of the nursing homes that Alaska's rate-setting structure should also change if the rates for Medicaid and private payors were to be equalized. To achieve that goal would involve more than a one-section bill. Most probably, it would mean repeal of our current rate-setting section, AS 47.07.070, and enactment of most of what you see in the attached North Dakota laws, with appropriate changes to give the Medicaid Rate Advisory Commission a role in the process. Is this what you want to do?

I am sending this letter and a copy of the North Dakota Laws to Jay Livey as well, per your instructions to work with the department on this matter.

Do you want a bill embodying the enclosed North Dakota law? Or do you wish to wait while the department, the advisory commission, and nursing home representatives review North Dakota's laws for their applicability here? Also, do you wish to limit the bill to skilled nursing facilities, or should it be applicable to board and care homes, ICF/MR's, and other convalescent or residential care institutions?

I hope you find the enclosed information helpful. I understand that Jack Nielson is awaiting the arrival of a HCFA report about "all-payor" systems, which I will forward to you when I get a copy from him. Please let me know if I can be of further assistance at this time.

TML:lmb
92-006.lmb

Enclosure

cc: Jay Livey, Deputy Commissioner
Health and Social Services

NORTH DAKOTA LAWS

CHAPTER 50-24.4 NURSING HOME RATES

Section	Section
50-24.4-01. Definitions.	50-24.4-18. Appeals.
50-24.4-01.1. Nursing home resident payment classifications — Procedures for reconsideration.	50-24.4-19.1. Rates for private rooms — Payments by a third party on behalf of medical assistance recipients.
50-24.4-10. Operating costs after January 1, 1990.	50-24.4-27. Medicare certification.
50-24.4-16. Special rates.	

50-24.4-01. Definitions. For the purposes of this chapter:

1. "Actual allowable historical operating cost per diem" means the per diem operating costs allowed by the department for the most recent reporting year.
2. "Actual resident day" means a billable, countable day as defined by the department.
3. "Department" means the department of human services.
4. "Depreciable equipment" means the standard movable resident care equipment and support service equipment generally used in long-term care facilities.
5. "Direct care costs" means the cost category for allowable nursing and therapy costs.
6. "Final rate" means the rate established after any adjustment by the department, including, but not limited to, adjustments resulting from cost report reviews and audits.
7. "Fringe benefits" means workers' compensation insurance, group health or dental insurance, group life insurance, retirement benefits or plans, and uniform allowances.
8. "General and administrative costs" means all allowable costs for administering the facility, including, but not limited to: salaries of administrators, assistant administrators, accounting personnel, data processing personnel, security personnel, and all clerical personnel; board of directors' fees; business office functions and supplies; travel, except as necessary for training programs for dietitians, nursing personnel and direct resident care related personnel required to maintain licensure, certification, or professional standards requirements; telephone and telegraph; advertising; membership dues and subscriptions; postage; insurance, except as included as a fringe benefit under subsection 6; professional services such as legal, accounting, and data processing services; central or home office costs; management fees; management consultants; employee training, for any top management personnel and for other than di-

- rect resident care related personnel; and business meetings and seminars.
9. "Historical operating costs" means the allowable operating costs incurred by the facility during the reporting year immediately preceding the rate year for which the payment rate becomes effective, after the department has reviewed those costs and determined them to be allowable costs under the medical assistance program, and after the department has applied appropriate limitations such as the limit on administrative costs.
 10. "Indirect care costs" means the cost category for allowable administration, plant, housekeeping, medical records, chaplain, pharmacy, and dietary, exclusive of food costs.
 11. "Nursing home" means a facility, not owned or administered by the state government, described in subsection 3 of section 43-34-01.
 12. "Operating costs" means the day-to-day costs of operating the facility in compliance with licensure and certification standards.
 13. "Other direct care costs" means the cost category for allowable activities, social services, laundry, and food costs.
 14. "Payment rate" means the rate determined under section 50-24.4-06.
 15. "Payroll taxes" means the employer's share of Federal Insurance Contributions Act taxes, governmentally required retirement contributions, and state and federal unemployment compensation taxes.
 16. "Private-paying resident" means a nursing home resident on whose behalf the nursing home is not receiving medical assistance payments and whose payment rate is not established by any other third party, including the veteran's administration or medicare.
 17. "Rate year" means the fiscal year for which a payment rate determined under this chapter is effective, from January first to the next December thirty-first.
 18. "Real estate" means improvements to real property and attached fixtures used directly for resident care.
 19. "Reporting year" means the period from July first to June thirtieth, immediately preceding the rate year, for which the nursing home submits reports required under this chapter.
 20. "Top management personnel" means owners, board members, corporate officers, general, regional, and district managers, administrators, nursing home administrators, and any other person performing functions ordinarily performed by such personnel.

Source: S.L. 1987, ch. 582, § 1; 1991, ch. 29, § 16. 29, S.L. 1991, became effective July 1, 1991, pursuant to N.D. Const., Art. IV, § 13.

Effective Date.

The 1991 enactment of subsections 5, 10, and 13 of this section by section 16 of chapter

Note.

The definitions in this section were renumbered in 1991 upon the enactment of new subsections 5, 10, and 13.

50-24.4-01.1. Nursing home resident payment classifications — Procedures for reconsideration.

1. For purposes of this section "resident's representative" includes the resident's guardian or conservator, a person authorized or required to pay the nursing home expenses of the resident, or any other person designated by the resident in writing.
2. The department shall establish resident payment classifications for the care of residents of nursing homes.

3. The department shall assign nursing home residents to the appropriate payment classification based upon assessments of the residents.
4. The department shall notify each resident, and the nursing home in which the resident resides, of the payment classification established under subsection 3. The notice must inform the resident of the classification that was assigned, the opportunity to review the documentation supporting the classification, the opportunity to obtain clarification from the department, and the opportunity to appeal the classification. The notice of resident classification must be sent by first-class mail. The individual resident notices may be sent to the resident's nursing home for distribution to the resident in which event the nursing home is responsible for the distribution of the notice to the resident and to the resident's representative, if any. This notice must be distributed to the resident and sent first-class mail or hand-delivered to the resident's representative within three working days after the nursing home's receipt of the notice from the department.
5. The resident or the nursing home may appeal the assigned payment classification to the department. The appeal must be submitted in writing to the department within thirty days of the receipt of the notice of resident classification. For appeals submitted by or on behalf of the resident, the time period for submission of the request begins on the date the classification notice is delivered to the resident, or mailed or delivered to the resident's representative, whichever is latest. The appeal must be accompanied by the name of the resident, the name and address of the nursing home in which the resident resides, the reasons for the appeal, the requested classification changes, and documentation supporting the requested classification. The documentation accompanying the appeal is limited to documentation intended to establish that the needs of the resident, at the time of the assessment resulting in the disputed classification, justify a change of classification.
6. Upon written request, the nursing home shall give the resident or the resident's representative a copy of the assessment form and the other documentation that was given to the department to support the assessment findings. The nursing home shall also provide access to and a copy of other information from the resident's record that has been requested by or on behalf of the resident to support a resident's appeal. A copy of any requested material must be provided within three working days of receipt of a written request for the information. Upon request, the nursing home shall assist the resident in preparing an appeal.
7. In addition to the information required in subsection 5, an appeal by a nursing home must be accompanied by the following information: the date the resident payment classification notices were received by the nursing home; the date the classification notices were distributed to the resident or the resident's representative; and a copy of a notice of appeal sent to the resident or to the resident's representative. This notice must tell the resident or the resident's representative that the resident's classification is being appealed, the reason for the appeal, that the resident's rate will change if the appeal is approved by the department and the extent of the change, that copies of the nursing home's appeal and supporting documentation are available for review, and that the resident also has the right to appeal. If the nursing home fails to provide this information with

~~to be in effect~~
~~99-99-11~~

Source: S.L. 1989, ch. 584, § 1.

50-24.4-02. Authority. The department shall establish, by rule, procedures for determining rates for care of residents of nursing homes which qualify as vendors of medical assistance, and for implementing the provisions of this chapter. The procedures must be based on methods and standards which the department finds are adequate to recognize the costs that must be incurred for the care of residents in efficiently and economically operated nursing homes. The department shall identify costs that are recognized for establishing payment rates.

Source: S.L. 1987, ch. 582, § 2.

50-24.4-03. Federal requirements — Supremacy. If any provision of this chapter is determined by the United States government to be in conflict with existing or future requirements of the United States government with respect to federal participation in medical assistance, the federal requirements prevail.

Source: S.L. 1987, ch. 582, § 3.

50-24.4-04. Payment rates. Payment rates paid to any nursing home receiving medical assistance payments must be those rates established pursuant to this chapter and rules adopted under it.

Source: S.L. 1987, ch. 582, § 4.

50-24.4-05. Requirements. No medical assistance payments may be made to any nursing home unless the nursing home is certified to participate in the medical assistance program under title XIX of the federal Social Security Act and has in effect a provider agreement with the department meeting the requirements of state and federal statutes and rules. No medical assistance payments may be made to any nursing home unless the nursing home complies with all requirements of North Dakota law including, but not limited to, this chapter and rules adopted under it that govern participation in the program. This section applies whether the nursing home participates fully in the medical assistance program or is withdrawing from the medical assistance program.

Source: S.L. 1987, ch. 582, § 5.