ALASKA LEGISLATURE COMMITTEE FILES 1993-1994 8672

8106 HOUSE STATE AFFAIRS

371

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)

Employer	Number of Retirees	Estimated Savings or (Costs) (Note 1)
State of Alaska (Note 2)	739	$ 6,033,100
University of Alaska *(Note 3)*	145	4,317,300
Anchorage School District *(Note 4)*	306	2,684,900
Kenai Peninsula Borough Schools *(Note 5)*	72	1,988,800
Fairbanks North Star Borough Schools *(Note 6)*	85	1,554,100
City of Fairbanks *(Note 7)*	22	776,700
North Slope Borough School District *(Note 8)*	42	517,500
Matanuska-Susitna Borough Schools *(Note 9)*	42	487,800
North Slope Borough *(Note 10)*	12	469,600
Ketchikan Gateway Borough Schools	23	443,000
Lower Kuskokwim Schools *(Note 11)*	25	324,000
Matanuska-Susitna Borough *(Note 12)*	9	310,900
Sitka School District	17	229,700
Kenai Peninsula Borough *(Note 13)*	6	224,900
Juneau Borough Schools	28	217,700
Dillingham City Schools	3	213,600
City and Borough of Juneau	19	199,600
Hoonah City Schools	2	151,200
Haines Borough School District	2	150,700
Bering Strait Schools *(Note 11)*	17	149,800
Wrangell City Schools	9	124,500
City of Hoonah *(Note 14)*	2	118,000
Southwest Region Schools *(Note 11)*	9	112,500
Delta/Greely Schools *(Note 11)*	7	107,500
City of Homer	5	102,100
Valdez City Schools	3	84,100
City of Kodiak *(Note 15)*	6	77,500
Kuspuk Schools *(Note 11)*	7	64,700
Chatham Schools	6	64,600
Southeast Island Schools	1	63,000
Sitka Community Hospital	3	60,100
City of Wrangell	9	58,900
Kodiak Island Borough	1	55,300
Yukon/Koyukuk Schools	2	$ 53,000
Fairbanks North Star Borough *(Note 16)*	2	49,700
City of Palmer	3	46,600
Cordova City Schools	2	45,400
Kodiak Island Borough Schools	1	43,700
Alaska State Housing Authority	1	42,700
Lower Yukon School District	5	38,600
Unalaska City School District *(Note 11)*	3	37,300
Iditarod Area Schools *(Note 11)*	5	34,000
Cordova Community Hospital	3	31,400
Alaska Gateway Schools	2	27,900
City of Kenai	3	27,700
National Education Association	1	21,600
City of Haines	1	17,300
Bartlett Memorial Hospital	2	16,300
Nenana City Schools *(Note 11)*	1	15,400
Skagway City School *(Note 11)*	1	15,400
Bristol Bay Borough Schools *(Note 17)*	1	14,600
Nome City Schools	5	12,900
Southeast Regional Resource Center	2	12,300
Ketchikan Gateway Borough	1	11,300
City of Ketchikan *(Note 18)*	1	5,400
City of Kotzebue	1	3,000
City of Valdez	2	2,600
City of Seward	2	800
Craig City Schools	1	(12,800)
Bristol Bay Borough	1	(14,400)
Yakutat City School District	1	(16,900)
Kake City Schools	1	(29,700)
Yupiit School District	2	(30,600)
City and Borough of Sitka	7	(31,300)
Seward General Hospital	2	(44,800)
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 benefited 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	$ 6,033,100	$ 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	20	2,594,500	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
Ketchikan Gateway 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.

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.

4. <u>RIP participant's position is cut</u>. 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*.

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.

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.

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.

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.

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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*

Anotner 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.

Audito discussion - The 1989 RIP program was designed to maximize "local control." The decisio n 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

I 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.

(Intentionally left blank)

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:

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

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.

Testimony Before House State Affairs Committee
January 28, 1993

Mr. Chairman and Committee members, my name is Barry Haight. I am a firefighter for the City of Fairbanks and, as a volunteer lobbyist, I represent a group of Fairbanks public safety employees who wish to take early retirement and support HB 36.

We believe the Retirement Incentive Program is an effective management tool to cut costs and reduce government in times of declining revenues.

The City of Fairbanks and its employees have participated in two previous programs and it has worked very well. Each time considerable money was saved and a number of layoffs were avoided. According to Division of Legislative Audit figures, Fairbanks saved over 3/4 of a million dollars in the 1989 Retirement Incentive Program.

The City has already agreed with its firefighters to participate in any future early retirements. Other cost saving measures have also been agreed to, such as stretching out pay step increases from Recruit to Journey level from three to five years.

For the City of Fairbanks and its employees, this legislation is proposed at a crucial time. Passage of this bill will save money, as in the past, and will allow the City to accelerate restructuring of the Fire Department. Legislators may be interested to kn[illegible]he most intense interest in early retirement is shown by employees who are not yet eligible for normal retirement.

One of the most attractive elements of this legislation is that it is voluntary and does not impose a legislative mandate on any one. Passage of HB 36 allows those PERS employers who would save money to do so and allows employees to retire rather than they, or someone else lose their job.

Please pass HB 36 favorably from your Committee.

Alaska State Legislature

Official Business

P.O. Box V
State Capitol
Juneau, Alaska 99811

February 4, 1993

MEMORANDUM

To: Rep. Vezey, Chair
State Affairs Committee

Rep. Kott, Member
Rep. Sanders, Member
Rep. Olberg, Member
Rep. G. Davis, Member
Rep. B. Davis, Member
Rep. Ulmer, Member

From: Rep. Mackie
Rep. Hudson
Co-sponsors of HB 36,
Retirement Incentive Program

This memorandum is in response to the February 1 list of questions received from Chairman Vezey regarding HB 36. While some of the questions elicit a broader discussion, we have tried to be brief, to the point, and informative in our answers. Several of the questions require the expertise of program and fund managers to fully answer.

Question 1A. Why does the State of Alaska and its political subdivisions (i.e. the "employers") have employees that it can not afford to keep?

Answer 1A. There are two basic situations that present employers with labor cost difficulties. The first case is when increased labor costs (labor contract wage agreements, health insurance) for an existing staff out pace expected funding. The second case is when there is a funding reduction for the employer's operation where again the personal services costs of an existing staff exceed operational funds. Either situation or a combination of both face State of Alaska agencies and political subdivisions.

Last year's unallocated general fund reductions in agency budgets put many program managers in exactly the latter position. The proposed 25% reduction in municipal revenue sharing before this legislature will have a similar effect on local government managers.

Question 1B. What statutes if any address these problems?

Answer 1B. AS 14.20.175(b)(4) addresses non-retention of tenured teachers when there is a decrease in school attendance. More pertinent is collective bargaining agreements which often address lay off schedules, usually on some basis of seniority (last in, first out). Furthermore, lay off schedules typically are insensitive to an individual office's staffing requirements.

Question 1C. What other factors contribute to this problem?

Answer 1C. There are a number of factors that can add to the fiscal pressure on an agency or subdivision. For example:

1. Reduction of federal funding in a federal-state match program where federal stipulations for operating the program are not commensurately reduced.

2. Increased federal regulatory requirements, e.g. EPA versus municipal water/sewer operations, air pollution abatement.

3. Increased service required to the public, e.g. new longevity bonus applicants.

Question 1D. Is it in the State's best interest to replace highly paid employees with lower paid employees?

Answer 1D. It depends on an individual agency's responsibilities, work effort, and the longevity of their particular employee mix. Losing a senior petroleum geologist in the middle of a critical state leasing plan may not be in the State's overall fiscal interest, for example. However, HB 36 does not mandate the employer to offer the incentive just to realize a particular personnel services savings.

Question 1E. Will employers make the decision to offer a retirement incentive based upon fiscal pressures or on the basis of what is best for the State?

Answer 1E. We believe that employers will offer the retirement incentive to maintain the level and quality of service for which they are statutorially responsible. Enactment of HB 36 provides managers a tool which, if appropriate, may be used to relieve fiscal pressures detrimental to an agency's ability to carry out its responsibilities.

Question 2A & B. How many people would retire under the R.I.P. program who would not otherwise be eligible to retire? Please provide your answer broken down by the respective retirement system. Would any persons not currently eligible to retire be able to retire under the R.I.P.?

Answer 2A & B. Any calculation as to how many employees would actually take advantage of the retirement incentive is speculative at best. It requires an estimate of how many employees will elect to terminate their services for the benefit, of how many employers will offer the benefit, and the applicability of the cost saving means test. Historically, the second RIP program in 1989-90 had fewer participants than the 1986-87 program, 1,764 and 2,327 respectively.

Last year it was estimated that the pool of potential RIP participants numbered approximately 10,600. Of this total, 2,400 were in the TRS system and 8,200 were in the PERS system. By government service, the break down was 4,050 State employees, 950 university employees, and 5,600 municipal and school district employees. As discussed earlier, the percentage that would actually receive the incentive benefit necessarily depends on the election of the employees, the offer of the agencies, and the cost saving test validation.

Question 2 C. What is the incentive to retire?

Answer 2 C. Up to three years credited service to meet age requirements for retirement eligibility and/or higher benefits.

Question 3. Will implementation of the RIP result in any employer incurring an increase in overhead cost not directly related to the subject employees?

Answer 3. By definition, an employer may offer the incentive only if a net savings will accrue. Any additional overhead costs due to an agency's special situation restricts the employer's ability to use the program.

Question 4 A. Why is the employer required to make the full actuarially determined contribution amount over 3 years while the employer is supposed to calculate savings over a 5 year period?

Answer 4 A. To allow a larger number of potential participants. Since the employer must pay the additional contribution to the retirement fund for the up to 3 year credit (as does the employee), the 5 year period allows more time to offset this and other administrative costs and show a net savings. The lesser the time period for this calculation, the more stringent the net savings test. In effect, there is a correlation between the time period and the employer's replacement options.

Question 4 B. Who will administer the formula determination? What legislative or public oversight will there be?

Answer 4 B. For the State, it will be the agency employers with OMB having final validation approval. For local government bodies,

it will also be their employers.

Public oversight is achieved by an annual OMB report on the program's effectiveness and continued scrutiny by the legislature with its budget authority. Similarly, public oversight on the local government level is served through the elected bodies and their corresponding budget responsibilities. We expect that the legislative budget and audit agency will be serving in a watchdog role.

Question 5. What was the effect of the two previous early retirement programs on the unfunded portion of the retirement funds?

Answer 5. Testimony by the Division of Retirement and Benefits and several audit reports are that there is no discernable effect. Indeed, the provision that participating employers contribute an actuarially adjusted amount to make the retirement funds whole is precisely the method commonly used to insure against detrimental effects.

Question 6. Assuming it is desirable to have senior or highly paid employees retire, what other incentives could the State offer?

Answer 6. Pay bonus, perhaps. But it also would probably have to be structured on some longevity of service and pay range basis.

We hope these answers will be helpful to the committee in the consideration of HB 36.

ALASKA STATE AFL-CIO

2501 Commercial Drive · Anchorage, Alaska 99501 · 907-258-6284 · Fax 274-0570

MANO FREY
Executive President

BRUCE LUDWIG
Secretary / Treasurer

February 2, 1993

Honorable Al Vezey
State Capitol, Room 102
Juneau, AK 99801-1182

RE: Retirement Incentive Program HB-36 & HB 42

Dear Representative Vezey,

The Alaska State AFL-CIO supports passage of the RIP Bill (HB-36 or HB-42). The last time this state experienced a significant reduction in revenue (1986) we experienced a recession, mainly due to layoffs and the withdrawal of money in the Alaskan economy. As a result we had high unemployment, many smaller marginal businesses closed and even the larger business suffered setbacks. As revenues shrink, we need to lessen the impact of cuts on our economy. We believe the RIP is an important step in that direction.

The RIP encourages the more experienced employees to retire. This allows employers to fill those jobs with cheaper employees. The retirees continue to spend their retirement in the community and we keep more people working and off unemployment.

We encourage favorable consideration and passage of HB-36 or HB-42. The Alaska economy and it's citizens deserve it.

Very truly yours,

BB Ludwig for

Mano Frey
Executive President

2101 Duke Drive
Anchorage, Alaska 99508
January 24, 1993

Representative Al Vezey
House of Representatives
State Capitol, Juneau, AK 99801-1182

Senate Bills #1 and #10, and House Bill #36 have been sponsored by Senators Duncan, Kerttula, and Representative Mackie. We are writing to urge you to support passage of the retirement incentive programs contained in this legislation.

Senator Duncan's statistics indicate that the program will save the state, school districts, universities, and municipalities significant amounts of money. In fact, he indicates that nearly $100 million has been saved since 1986 with the previous programs. In the economic climate of our state and country, programs that provide savings must be given strong consideration.

In the Anchorage School District alone, there are a number of older teachers and principals at the top of the pay scale who might take advantage of the Retirement Incentive Program if offered again. This would allow the hiring of younger educators at significantly reduced salaries. It would also provide for an infusion of new ideas and energies much needed in today's world of education.

Educators taking advantage of the incentive program would take with them experience and knowledge. However, a tremendous pool of more energetic, enthusiastic educators having from ten to twenty plus years of
experience would still remain to provide motivated, capable leadership.

As you know, the education of today's youth is significantly different than it was twenty years ago, or even five years ago. It is much more demanding and difficult, requiring vast amounts of energy and enthusiasm.
Those educators remaining, should the retirement incentive be implemented, would have the commitment needed to accept the changes required in building a better educational system. They would more capably provide the leadership necessary to produce a better educated child.

Once again, we encourage you to support the reimplementation of the Retirement Incentive Program. Cost savings and the infusion of "new blood" are excellent reasons to do so. Thank you for your consideration of our request.

Sincerely,

William P. and Phyllis L. Breeden

ALASKA ASSOCIATION OF ELEMENTARY SCHOOL PRINCIPALS
ALASKA ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS
ALASKA ASSOCIATION OF SCHOOL ADMINISTRATORS

• ALASKA COUNCIL OF SCHOOL ADMINISTRATORS •
326 Fourth St., Suite 404 Juneau, AK 99801-1101 (907) 586-9702 FAX (907) 586-5879

Position Paper

House Bill # 36
"An Act relating to retirement incentive programs"

The Alaska Council of School Administrators is in support of House Bill No. 36, "Relating to retirement incentive programs for the Public Employees'.

We are concerned that any adjustment to the retirement system does not weaken the financial structure of the fund. We value the long term commitment the fund must carry for those retiring under the TRS system. As this legislation is proposed, this concern is addressed.

Because of the amount of the local contribution required by the school district, we believe this retirement incentive program must be offered as a local option. As this legisiation is proposed, this concern is addressed.

Because of the continued concerns for budget reductions, the state's long term revenue outlook, and the success of previous incentive programs, we feel the implementation of a retirement incentive program would again proved the necessary stimulus for those eligible to retire under this program to do so, and in the long term, produce a significant saving to the state and local school district.

1986-87 R.I.P. Savings - Sources February 1989 Legislative Audit, and Retirement and Benefits Statistics

	# Participants	Savings
State	1,095	$ 14,448,520
School Districts	603	31,182,600
Political Subdivisions	412	4,756,800
University of Alaska	217	22,305,400
Totals	2,327	$ 72,693,320

1989-90 R.I.P. Savings - Source - 1991 Legislative Audit

	# Participants	Savings
State	739	$ 6,033,100
School Districts	748	10,016,000
Political Subdivisions	132	2,617,900
University of Alaska	145	4,317,800
Totals	1,764	$ 22,984,800

86-87

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 Affars	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 or (COST) FOR 5 YRS ($1000's)
S.E. Resource center	3	0	800.0	0.0	83.0	717.0
Unalaska City School District	1	1	322.5	165.8	34.1	122.6
Copper River School District	11	10	2,854.7	1,904.9	279.3	670.5
Galena City School District	1	1	264.6	198.0	60.0	6.6
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	45.2

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

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)
Wrangell Public School	2	2	455.5	330.6	43.7	81.3
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	31,182.6

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	2,358.6	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	3,163.3	14,016.6
					TOTAL SAVINGS	22,305.4

Office of the Governor
Office of Management and Budget
February 1, 1993

Position Paper
Retirement Incentive Program Legislation

(SB 1, SB 10, HB 36, HB 42, HB 57)

Several bills have been introduced in the Legislature which would establish another retirement incentive program (RIP) for Alaska state and local government employees. These bills are: SB 1, SB 10, HB 36, HB 42, and HB 57.

The Hickel Administration does not support any of these retirement incentive bills under current circumstances. A similar retirement incentive bill, SB 337, was passed during the 1992 legislative session, and was vetoed by Governor Hickel. The chief reason cited in the Governor's veto message was that the bill would have made the retirement incentive program a permanent feature of the PERS and TRS systems.

This "permanent RIP" provision was the most serious flaw in SB 337 and in itself was sufficient to justify veto of the bill; however, members of the Administration had other concerns about the legislation which have been evaluated in detail since that time. These concerns are serious enough to prevent the Administration from supporting the current RIP bills, even though the "permanent RIP" provision is not included in any of the current bills.

The most important of these concerns are:

1. A third retirement incentive program is unlikely to be cost-effective unless large numbers of layoffs are necessary and most positions are eliminated;

2. Regularly repeated retirement incentive programs — such as one every three or four years — undermine the fundamental purpose of these programs by encouraging employees to delay, rather than accelerate, their retirements in order to take advantage of the next likely incentive program; and,

3. The state should not be encouraging its most experienced, knowledgeable employees to leave state service unless severe fiscal conditions allow no other alternative. The primary purpose of the state's already generous retirement system is to retain experienced employees. In the 1989 RIP, 23 percent of the participants were under age 50, and several retired at age 40.

Cost-Effectiveness of a Third RIP

The Administration's position is that another retirement incentive program is unlikely to save the state money unless large numbers of layoffs are required, and most of the positions are eliminated. The vast majority of retirement incentive programs which have been offered by governments and corporations across the country were established because large layoffs were imminent, and the incentive programs offered a means to reduce the number of layoffs necessary.

In contrast, the most recent RIP offered by the State of Alaska was not established because large layoffs were anticipated. In fact, only three of the 753 state positions affected by the program were expected to be eliminated. Nevertheless, the program was supposed to result in savings to the state by filling the vacated positions with employees at lower salaries. In 1990, the Office of Management and Budget (OMB) projected that the 1989 RIP would result in net savings to the state of over $6 million.

However, this projection did not account for the fact that many of the participants in the RIP would have retired in the near future even if the program had not been available. This issue has been acknowledged by OMB, the Division of Legislative Audit, and others in the past, with a general consensus that the savings estimates were inflated somewhat by omitting the effect of normal retirements. However, the magnitude of this savings inflation was not recognized until OMB recently began quantifying the effect of normal retirements on the projected RIP savings.

The details of these calculations will be included in a separate report to the legislature, but the end result is that when historical retirement rates are incorporated into the estimates of RIP savings, the total savings for the program during the 3-5 year measurement period drop from over $6 million to less than zero.

The primary reason for this dramatic difference is that because only three of 753 positions were expected to be eliminated, the net savings from the RIP were small — averaging about $8,000 per participant — compared to the cost of the RIP to the state to fund the additional retirement benefits — which averaged about $23,000 per employee. According to the state's actuarial data, about 48 percent of the RIP participants would have been expected to retire normally without the RIP. When the relatively small savings per employee are adjusted to reflect these normal retirement statistics, the overall savings originally projected for the program during the measurement period are eliminated.

Advocates for another retirement incentive program may point out that some potential savings under the RIP were not calculated in the original savings estimates. This is true, but these factors are relatively minor in comparison and do not change the basic conclusion supported by OMB's most recent analysis: that successful retirement incentive programs are successful because most, if not all, of the affected positions are eliminated,

and that a RIP which relies primarily on filling positions at lower salaries is likely to be marginal at best and may well result in a net cost to the employer.

Repeating the Retirement Incentive Program Over and Over

Retirement incentive programs were offered by the state and many local governments and school districts in 1986 and 1989, and would have been available again in 1992 if the Governor had not vetoed SB 337. The Administration's position is that retirement incentive programs simply cannot be effective if they are repeated on a regular basis. According to a national retirement consulting firm, very few, if any governments or corporations have offered retirement incentive programs three times in only nine or ten years.

The basic purpose of these programs is to encourage employees to retire earlier than they otherwise would. Yet if employees believe that another RIP may be offered in two or three years, they have a strong incentive to delay their retirements to take advantage of the financial benefits of the next RIP. This effect is difficult to quantify, but it is clear that at some point regularly repeated RIPs simply become an enhancement of an already generous retirement system, with little or no savings to the employer.

Loss of Experienced Employees

The main purpose of the state's retirement system is to encourage experienced, knowledgeable state employees to remain in state service, thereby reducing the costs and loss of productivity associated with rapid turnover in the state work force. Retirement incentive programs are designed to increase turnover and reduce the number of long-term employees. Some advocates of these programs believe that they mainly eliminate the "dead wood" of less productive employees; others opposed to the programs feel they result in a "brain drain" of good employees that leaves agencies less productive.

As noted above, 23 percent of the participants in the 1989 RIP were under age 50, and several retired at age 40. The Administration's view is that the state is not well-served by encouraging experienced, capable employees to leave state service early, and that a program which has this effect should only be implemented if the need for large layoffs leaves no other alternative.

APEA/AFT

ALASKA PUBLIC EMPLOYEES ASSOCIATION/AFT(AFL-CIO)

State Headquarters/Juneau Field Office
211 Fourth Street, Suite 306, Juneau, Alaska 99801
Telephone (907) 586-2334, (800) 478-9991, Fax 463-4980

February 1, 1993

Honorable Al Vezey, Chairman
House State Affairs Committee
Alaska State Legislature
Juneau, AK 99811

RE: Retirement Incentive Program, HB-36 & HB-42

Dear Representative Vezey,

The Alaska Public Employees Association/Alaska Federation of Teachers represents public employees at every level of government and throughout the state geographically. We represent state, municipal, borough, university and school district employees. Every one of the public employers we work with are facing the task of providing the same level of services at substantially less cost due to shrinking revenues. The Retirement Incentive Program (RIP), is an important tool for these entities to assist them in reaching this goal.

The RIP encourages senior employees, who are in the higher steps of salary and leave schedules to retire. Their retirement allows new employees to enter the system at entry level steps of those schedules, generating a significant savings. Without a RIP, these same public employers would be forced to lay people off, which reduces services to Alaskans and removes spendable income from Alaska's economy.

Passage of the RIP bill will allow the same level of services, at reduced costs, while maintaining employment. It also introduces new money in the Alaska economy by using the PERS and TRS money that is invested outside Alaska to be spent by the new retirees in the State.

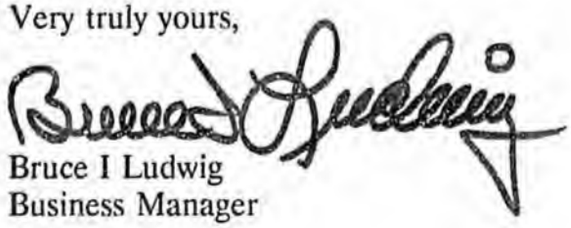
The two previous RIP's saved public employers millions and millions of dollars. Other states and private companies have adopted similar measures as a way of reducing costs. California, as I recall, granted five years credit in their RIP.

Anchorage Field Office
1689 C Street, Suite 204, Anchorage, Alaska 99501
Telephone (907) 274-1688, (800) 478-9992, Fax 277-4588

Fairbanks Field Office
825 College Road, Fairbanks, Alaska 99701
Telephone (907) 456-5412, (800) 478-9993, Fax 456-7478

At a time when all public entities in the State are faced with cutting services or raising taxes, the RIP offers a humane, sensible, cost-effective tool to these entities to mitigate the effect of shrinking resources. We encourage your committee to pass a RIP bill out with Do-Pass Recommendations.

Very truly yours,



Bruce I Ludwig
Business Manager

BIL/ljh

Office of the Governor
Office of Management and Budget
February 1, 1993

Position Paper
Retirement Incentive Program Legislation

(SB 1, SB 10, HB 36, HB 42, HB 57)

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The most important of these concerns are:

1. A third retirement incentive program is unlikely to be cost-effective unless large numbers of layoffs are necessary and most positions are eliminated;

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3. The state should not be encouraging its most experienced, knowledgeable employees to leave state service unless severe fiscal conditions allow no other alternative. The primary purpose of the state's already generous retirement system is to retain experienced employees. In the 1989 RIP, 23 percent of the participants were under age 50, and several retired at age 40.

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However, this projection did not account for the fact that many of the participants in the RIP would have retired in the near future even if the program had not been available. This issue has been acknowledged by OMB, the Division of Legislative Audit, and others in the past, with a general consensus that the savings estimates were inflated somewhat by omitting the effect of normal retirements. However, the magnitude of this savings inflation was not recognized until OMB recently began quantifying the effect of normal retirements on the projected RIP savings.

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KPMG Peat Marwick

Sent To You By
Legislative Research Agency

Rep. AL Vezey
HB 36
2/3/93

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Financial Statements
and Supplemental Schedules

June 30, 1992 and 1991

(With Independent Auditors' Report Thereon)

KPMG Peat Marwick

Certified Public Accountants

601 West Fifth Avenue
Suite 700
Anchorage, AK 99501-2258

Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska Judicial Retirement System:

We have audited the accompanying statement of net assets available for plan benefits of the State of Alaska Judicial Retirement System as of June 30, 1992, and the related statement of changes in net assets available for plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the State of Alaska Judicial Retirement System as of June 30, 1991 were audited by other auditors whose report thereon dated September 14, 1991 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1992 financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Judicial Retirement System as of June 30, 1992, and the related statement of changes in net assets available for plan benefits for the year then ended in conformity with generally accepted accounting principles.

Our audit for the year ended June 30, 1992 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 for the year ended June 30, 1992, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole for the year ended June 30, 1992.

KPMG Peat Marwick

Division of Retirement and Benefits
State of Alaska Judicial Retirement System
2

The report of the other auditors referred to above, dated September 14, 1991, stated that they applied certain limited procedures to the supplementary information for the years ended June 30, 1991 and prior, included in Schedules 1 and 2. However, they did not audit this information and expressed no opinion on it.

KPMG Peat Marwick

September 17, 1992

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Statements of Net Assets Available for Plan Benefits

June 30, 1992 and 1991

	1992	1991
Assets:		
Investments, at fair value:		
United States Government debt	$ 10,027,248	8,349,836
Federal agency debt	1,048,750	-
Corporate bonds, notes and debentures	14,404,750	8,903,046
Domestic equity pool	9,492,080	8,533,245
Total investments	34,972,828	25,786,127
Receivables:		
Contributions	116,441	175,717
Accrued interest and dividends	662,048	475,979
Total receivables	778,489	651,696
Cash and cash equivalents	1,167,460	5,623,333
Total assets	36,918,777	32,061,156
Liabilities:		
Accrued expenses	1,139	18,817
Due to General Fund	39,471	74,284
Total liabilities	40,610	93,101
Net assets available for plan benefits	$ 36,878,167	31,968,055

See accompanying notes to financial statements.

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Statements of Changes in Net Assets Available for Plan Benefits

Years ended June 30, 1992 and 1991

	1992	1991
Additions:		
Investment income:		
Net appreciation in fair value of investments	$ 1,330,380	506,656
Interest	1,984,621	1,822,521
Dividends	249,854	259,000
Net realized gains on sales	810,664	128,180
Total investment income	4,375,519	2,716,357
Contributions:		
State of Alaska	2,542,598	2,491,202
Employees	250,497	217,516
Total contributions	2,793,095	2,708,718
Total additions	7,168,614	5,425,075
Deductions:		
Benefits paid:		
Retirement	2,054,973	1,879,416
Medical	109,944	114,554
Total benefits paid	2,164,917	1,993,970
Administrative expenses	93,585	66,169
Total deductions	2,258,502	2,060,139
Net increase	4,910,112	3,364,936
Net assets available for plan benefits at beginning of year	31,968,055	28,603,119
Net assets available for plan benefits at end of year	$ 36,878,167	31,968,055

See accompanying notes to financial statements.

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 1992 and 1991

(1) Description

The following brief description of the State of Alaska Judicial Retirement System (Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is the administrator of a defined benefit, single-employer retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible State justices and judges. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

Inclusion in the Plan is a condition of employment for eligible State justices and judges. At June 30, 1991, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated members entitled to future benefits	57
Current employees:	
Vested	36
Nonvested	13
	49
	106

Pension Benefits

Members with five or more paid-up years of credited service are entitled to annual pension benefits beginning at normal retirement age, sixty, or early retirement at age fifty-five. Members who are under age sixty who have twenty or more years of credited service may retire at any age and receive an actuarially reduced benefit.

The normal monthly pension benefit is based on the members' years of service and the current authorized salary for the position from which they retired. The pension benefit is equal to 5% for each year of service up to a maximum of 75% of salary.

Major medical benefits are provided without cost to retired Plan members.

(Continued)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Financial Statements

Death Benefits

Upon the death of a member who has served for at least two years, the surviving spouse is entitled to receive monthly benefits equal to one-half of the monthly retirement pay the member would have been entitled to receive if retired at the time of death. If the member was not retired or would have been entitled to less than 60% of the monthly authorized salary, the spouse is entitled to monthly benefits equal to 30% of the authorized salary. The benefits continue until the surviving spouse dies.

If there is no eligible surviving spouse, the member's surviving dependent children are entitled to receive a benefit equal to 50% of the survivor's benefit. Each child will receive an equal share of the benefit while they are dependent.

Disability Benefits

Members who become disabled are eligible for pension benefits if they have two or more years of service. Disabled members are eligible to receive retirement benefits if they have at least five years of service.

Effect of Plan Termination

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participant benefits. Whether a particular participant accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting.

Valuation of Investments

Investments are carried at market value to reflect their asset values as determined by the last quoted market price at June 30, 1992 and 1991. The investment activity of all common stocks was consolidated October 1, 1987 with the common stocks of other State funds to form a domestic equity pool. The activity and the June 30, 1992 and 1991 balances of this domestic equity

(Continued)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Financial Statements

pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains are allocated monthly to each participating pool on a pro rata ownership basis. All income earned is included in dividend income. At June 30, 1992 and 1991, the Plan's investment in the domestic equity pool is comprised of the following:

	1992	1991
Domestic equities	$ 8,812,473	8,025,300
Interest and dividends receivable	22,228	24,578
Cash and cash equivalents	657,379	483,367
	$ 9,492,080	8,533,245

Cash and cash equivalents at June 30, 1992 and 1991 are comprised of the following:

	1992	1991
Interest-bearing deposits	$ 1,167,460	23,333
Repurchase agreements	-	5,600,000
	$ 1,167,460	5,623,333

Contributions Receivable

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Accrued Interest and Dividends

Accrued interest and dividends represent amounts earned but not yet received as of June 30. These amounts are considered fully collectible and, accordingly, no allowance for uncollectible receivables has been reflected in the financial statements.

(Continued)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Financial Statements

(3) Investments

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1992, the Plan's deposits and investments are categorized as follows:

Deposits

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

Investments

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the State's name:

	Category 1	2	3	Market value and carrying value
Deposits - cash	$ 1,167,460	-	-	1,167,460
Investments:				
United States Government debt	10,027,248	-	-	10,027,248
Federal agency debt	1,048,750	-	-	1,048,750
Corporate bonds, notes and debentures	14,404,750	-	-	14,404,750
Domestic equity pool	9,492,080	-	-	9,492,080
	$ 36,140,288	-	-	36,140,288

(Continued)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Financial Statements

During 1992 and 1991, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated in value as follows:

	1992	1991
United States Government debt	$ 348,889	162,325
Federal agency debt	44,576	-
Corporate bonds, notes and debentures	761,812	3,805
Domestic equity pool	175,103	340,526
	$ 1,330,380	506,656

The cost, market and carrying values of the Plan's investments at June 30, 1992 and 1991 are as follows:

	Cost	Market	Carrying value
1992:			
United States Government debt	$ 9,678,358	10,027,248	10,027,248
Federal agency debt	1,004,174	1,048,750	1,048,750
Corporate bonds, notes and debentures	13,642,937	14,404,750	14,404,750
Domestic equity pool	8,171,917	9,492,080	9,492,080
	$ 32,497,386	34,972,828	34,972,828
1991:			
United States Government debt	8,306,121	8,349,836	8,349,836
Corporate bonds, notes and debentures	8,875,352	8,903,046	8,903,046
Domestic equity pool	7,459,592	8,533,245	8,533,245
	$ 24,641,065	25,786,127	25,786,127

State of Alaska treasury investment policy requires that securities underlying repurchase agreements must have a minimum market value of 102% of the cost of the repurchase agreement.

(Continued)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Financial Statements

The Commissioner of Revenue has the statutory authority to invest the moneys of the Plan. This authority is delegated to investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

(4) Funding Status and Progress

The amount shown below as "pension benefit obligation," which is the actuarial present value of credit projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of member service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 5 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1991 are as follows:

a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.

b. Mortality basis - 1984 Unisex Pension Mortality Table.

c. Discount rate - 9% per annum, compounded annually, net of investment expenses.

d. Health cost inflation - 9% per annum.

e. Salary scale - increase of 6% per annum, compounded annually.

(Continued)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Financial Statements

f. Maximum retirement age - 70 years old.

g. Asset valuation - based upon actual asset data as furnished by the Division of Retirement and Benefits.

h. Turnover and early retirement - annual turnover and early retirement at each age and service is the greatest of the following amounts:

1. 0%.

2. 3% if service is greater than fifteen years.

3. 6% if vested and immediately eligible for full benefits based on retirement provision.

4. 10% if vested and age is greater than sixty-four.

Disability assumptions are based upon actual historical occurrence rates of the Plan.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

At June 30, 1991, the unfunded pension benefit obligation was $13,658,157 as follows:

Net assets available for benefits as of June 30, 1991, at market	$ 31,968,055
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated members not yet receiving benefits	29,897,257
Current members:	
Accumulated employee contributions including allocated investment income	1,154,693
Employer-financed, vested	14,013,007
Employer-financed, nonvested	561,255
Total pension benefit obligation as of June 30, 1991	45,626,212
Unfunded pension benefit obligation as of June 30, 1991	$ 13,658,157

(Continued)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Financial Statements

(5) Contributions

Employee Contributions

Plan members appointed after June 30, 1978 contribute 7% of their compensation to the Plan. Contributions are not required after members have made contributions for fifteen years. Present employee accumulated contributions at June 30, 1992 and 1991 were $1,765,737 and $1,154,693, respectively. Employee contributions earn interest at the rate of 4.5% per annum, compounded semiannually. Contributions are collected by the employer and remitted to the Plan. Members appointed before July 1, 1978 are not required to make contributions.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan also uses the level percentage of payroll method to amortize the unfunded liability over a twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following:

	1992		1991	
	Amount	As a percentage of covered payroll	Amount	As a percentage of covered payroll
Employer	$ 2,542,598	50.20%	$ 2,491,202	50.19%
Employee	250,497	4.95	217,516	4.38
	$ 2,793,095	55.15%	$ 2,708,718	54.57%
Normal cost	1,354,277	26.74	1,194,545	24.06
Amortization of unfunded actuarial accrued liability	1,438,818	28.41	1,514,173	30.51
	$ 2,793,095	55.15%	$ 2,708,718	54.57%

The actuarial valuations for 1992 and 1991 were performed as of June 30, 1991 and 1990, respectively.

(Continued)

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Financial Statements

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation discussed in note 4.

(7) Ten-year Historical Trend Information

Ten-year historical trend information (where available) designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type.

Schedule 1

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Required Supplementary Information
Analysis of Funding Progress

(000's omitted)

Year ended June 30	Net assets available	Pension benefit obligation	Percentage funded	Unfunded (assets in excess of) pension benefit obligation	Annual covered payroll (unaudited)	Unfunded (assets in excess of) pension benefit obligation as a percentage of covered payroll
1990	$ 28,603	$ 34,482	83.0%	$ 5,879	$ 4,712	124.7%
1991	31,968	45,626	70.0	13,658	4,363	313.0

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

See accompanying notes to required supplementary information.

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Required Supplementary Information
Revenues by Source and Expense by Type

(000's omitted)

Year ended June 30	Revenues by source: Employee contributions	Employer contributions	Investment income	Unrealized appreciation (depreciation) in market value	Total	Employer contribution as a percentage of annual covered payroll
1991	$ 218	$ 2,491	$ 2,209	$ 507	$ 5,425	50.19%
1992	250	2,543	3,046	1,330	7,169	50.20

	Expense by type: Retirement benefits	Medical benefits	Administrative expenses	Total
1991	$ 1,879	$ 115	$ 66	$ 2,060
1992	2,055	110	94	2,259

Contributions were made in accordance with actuarially determined contribution requirements.

See accompanying notes to required supplementary information.

STATE OF ALASKA
JUDICIAL RETIREMENT SYSTEM

Notes to Required Supplementary Information

Years ended June 30, 1992 and 1991

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements.

KPMG Peat Marwick

Rep. AL Vezey
HB 36
2/3/93

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Financial Statements
and Supplemental Schedules

June 30, 1992 and 1991

(With Independent Auditors' Report Thereon)

KPMG Peat Marwick

Certified Public Accountants

601 West Fifth Avenue
Suite 700
Anchorage, AK 99501-2258

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Teachers' Retirement Board
State of Alaska Teachers' Retirement System:

We have audited the accompanying statement of net assets available for plan benefits of the State of Alaska Teachers' Retirement System as of June 30, 1992, and the related statement of changes in net assets available for plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the State of Alaska Teachers' Retirement System as of June 30, 1991 were audited by other auditors whose report thereon dated September 14, 1991 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1992 financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the State of Alaska Teachers' Retirement System as of June 30, 1992, and the related statement of changes in net assets available for plan benefits for the year then ended in conformity with generally accepted accounting principles.

Our audit for the year ended June 30, 1992 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 for the year ended June 30, 1992, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole for the year ended June 30, 1992.

KPMG Peat Marwick

Division of Retirement and Benefits and
Members of the Alaska Teachers' Retirement Board
State of Alaska Teachers' Retirement System
2

The report of the other auditors referred to above, dated September 14, 1991, stated that they applied certain limited procedures to the supplementary information for the years ended June 30, 1991 and prior, included in Schedules 1 and 2. However, they did not audit this information and expressed no opinion on it.

KPMG Peat Marwick

September 17, 1992

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Statements of Net Assets Available for Plan Benefits

June 30, 1992 and 1991

(000's omitted)

	1992	1991
Assets:		
Investments, at fair value:		
United States Government debt	$ 424,620	420,898
Federal agency debt	22,846	-
Corporate bonds, notes and debentures	493,450	372,433
Domestic equity pool	795,659	715,287
International equity pool	116,680	109,947
Real estate equities	70,478	80,828
Total investments	1,923,733	1,699,393
Loans and mortgages, at fair market value in 1992 and cost in 1991, net of allowance for loan losses of $12,598 in 1992 and $4,574 in 1991	66,053	74,471
Receivables:		
Contributions	12,998	10,075
Retirement incentive program	2,450	9,283
Accrued interest and dividends	19,116	17,203
Total receivables	34,564	36,561
Cash and cash equivalents	12,498	17,200
Total assets	2,036,848	1,827,625
Liabilities:		
Accrued expenses	1,840	2,667
Due to General Fund	3,070	295
Total liabilities	4,910	2,962
Net assets available for plan benefits	$ 2,031,938	1,824,663

See accompanying notes to financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Statements of Changes in Net Assets Available for Plan Benefits

Years ended June 30, 1992 and 1991

(000's omitted)

	1992	1991
Additions:		
Investment income:		
Net (depreciation) appreciation in fair value of investments	$ 54,770	(4,575)
Interest	80,606	79,202
Dividends	29,180	30,226
Net realized gains on sales	56,346	17,499
Total investment income before provision for losses on loans and mortgages	220,902	122,252
Provision for losses on loans and mortgages	(8,024)	597
Net investment income	212,878	122,849
Contributions:		
Employers	55,953	46,056
Employees	44,338	38,687
Retirement incentive program:		
Employers	1,118	11,926
Employees	-	1,372
Total contributions	101,409	98,041
Total additions	314,287	220,890
Deductions:		
Benefits paid:		
Retirement	88,648	84,443
Medical	10,111	10,654
Total benefits paid	98,759	95,097
Refunds to terminated employees	2,641	3,510
Administrative expenses	5,612	3,966
Total deductions	107,012	102,573
Net increase	207,275	118,317
Net assets available for plan benefits at beginning of year	1,824,663	1,706,346
Net assets available for plan benefits at end of year	$ 2,031,938	1,824,663

See accompanying notes to financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 1992 and 1991

(1) Description

The following brief description of the State of Alaska Teachers' Retirement System (Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is the administrator of a defined benefit, cost-sharing, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. At June 30, 1992, the number of participating local government employers was:

School districts	54
Other	8
Total employers	62

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 1991, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	4,189
Current employees:	
Vested	5,069
Nonvested	3,834
	8,903
	13,092

Pension Benefits

Vested employees hired prior to July 1, 1990 are entitled to pension benefits beginning at normal retirement age fifty-five, or early retirement at age fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest years salaries.

The benefit related to all years of service earned prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for over twenty years of service subsequent to June 30, 1990 is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990 and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1990 may receive major medical benefits prior to age sixty-five by paying premiums.

Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the employee's spouse is eligible for a spouse pension. If there is no spouse, a survivor's allowance may be payable to the employee's dependent child(ren). The amount of the pension or allowance is determined by the employee's base salary. Employees first hired after June 30, 1982 are not eligible to participate in this provision.

If an active employee dies from occupational or nonoccupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average base salary at the time of death and the credited service that would have accrued had the employee lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

Disability Benefits

If an employee with five or more paid up years of membership service is not eligible for normal retirement benefits and becomes permanently disabled, the employee is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at time of disablement plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled employee receives normal retirement benefits.

Effect of Plan Termination

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting.

Valuation of Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments, other than real estate equities and loans and mortgages, are carried at market value to reflect their asset values as determined by the last quoted market price at June 30, 1992 and 1991.

Real estate equities are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

Loans and mortgages are serviced by the institution from which the loan is purchased.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

At June 30, 1992, loans and mortgages are stated at estimated market value determined by adjusting purchase yields to the current secondary mortgage market conditions established by the Mortgage Guaranty Investment Corporation. At June 30, 1991, loans and mortgages are stated at cost. Due to the immaterial effect on the financial statements as a whole, a prior period adjustment to correct the valuation of loans and mortgages at June 30, 1991 has not been made. Instead, the accumulated unrealized net gains and losses from past years have been recognized at June 30, 1992. The following summarizes the total net unrealized gain at June 30, 1992 (000's omitted):

Net unrealized gain, June 30, 1992	$ 3,454
Net unrealized gain, from prior years	4,104
	$ 7,558

Historically, management of the loans and mortgages portfolio has provided an estimated allowance for loan losses to provide for potential credit losses. Factors considered by management in developing the allowance for loan losses include delinquency levels, historical charge-offs and the aging of the portfolio. During 1992, management elected to offer the loan portfolio for sale, and has recorded the amount above to reflect the portfolio's net realizable value.

Loans and mortgages include approximately $8,303,000 and $11,375,000 for 1992 and 1991, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

The investment activity of all common stocks was consolidated October 1, 1987 with the common stocks of other State funds to form a domestic equity pool. The activity from October 1, 1987 and the June 30, 1992 and 1991 balances of this domestic equity pool are accounted for on a unit-accounting basis. All income and realized and unrealized gains are allocated monthly to each participating pool on a pro rata ownership basis. All income earned is included in dividend income. At June 30, 1992 and 1991, the Plan's investment in the domestic equity pool is comprised of the following (000's omitted):

	1992	1991
Domestic equities	$ 738,692	672,784
Interest and dividends receivable	1,863	2,061
Cash and cash equivalents	55,104	40,442
	$ 795,659	715,287

International equities at June 30, 1992 and 1991 are comprised of the following (000's omitted):

	1992	1991
International equities	$ 106,846	102,830
Cash and cash equivalents	9,834	7,117
	$ 116,680	109,947

Cash and cash equivalents at June 30, 1992 and 1991 are comprised of the following (000's omitted):

	1992	1991
Interest-bearing deposits	$ 8,565	88
Investment maturities in transit	3,928	912
Repurchase agreements	5	16,200
	$ 12,498	17,200

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

Contributions Receivable
Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Accrued Interest and Dividends
Accrued interest and dividends represent amounts earned but not yet received as of June 30. These amounts are considered fully collectible and, accordingly, no allowance for uncollectible receivables has been reflected in the financial statements. Accrued interest on loans and mortgages is not recorded until received.

(3) Investments
To provide an indication of the level of credit risk assumed by the Plan at June 30, 1992, the Plan's deposits and investments are categorized as follows:

Deposits

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

Investments

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

Category 3 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the State's name (000's omitted):

	Category 1	2	3	Market value and carrying value
Deposits - cash	$ 12,498	-	-	12,498
Investments:				
United States Government debt	424,620	-	-	424,620
Federal agency debt	22,846	-	-	22,846
Corporate bonds, notes and debentures	493,450	-	-	493,450
Domestic equity pool	795,659	-	-	795,659
International equity pool	116,680	-	-	116,680
Real estate equities	70,478	-	-	70,478
	$ 1,936,231	-	-	1,936,231

During 1992 and 1991, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (000's omitted):

	1992	1991
United States Government debt	$ 14,294	(1,060)
Federal agency debt	(277)	-
Corporate bonds, notes and debentures	23,492	2,039
Domestic equity pool	20,663	23,702
International equity pool	2,695	(14,801)
Real estate equities	(13,655)	(14,555)
Loans and mortgages	(592)	-
	$ 46,620	(4,675)

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

The cost, market and carrying values of the Plan's investments at June 30, 1992 and 1991 are as follows (000's omitted):

	Cost	Market	Carrying value
1992:			
United States Government debt	$ 371,996	424,620	424,620
Federal agency debt	23,123	22,846	22,846
Corporate bonds, notes and debentures	464,286	493,450	493,450
Domestic equity pool	690,855	795,659	795,659
International equity pool	119,088	116,680	116,680
Real estate equities	89,908	70,478	70,478
Loans and mortgages	58,369	65,927	65,927
	$ 1,817,625	1,989,660	1,989,660
1991:			
United States Government debt	331,487	420,898	420,898
Corporate bonds, notes and debentures	366,760	372,433	372,433
Domestic equity pool	631,146	715,287	715,287
International equity pool	115,049	109,947	109,947
Real estate equities	86,603	80,828	80,828
Loans and mortgages, net of allowance for loan losses of $4,574	74,471	78,367	74,471
	$ 1,655,516	1,777,760	1,773,864

State of Alaska treasury investment policy requires that securities underlying repurchase agreements must have a minimum market value of 102% of the cost of the repurchase agreement.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

The Commissioner of Revenue has the statutory authority to invest the moneys of the Plan. This authority is delegated to investment officers of the Division of Treasury of the Department of Revenue. Alaska Statute provides for the investment in United States treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

(4) Funding Status and Progress

The amount shown below as "pension benefit obligation," which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 5 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1991 are as follows:

a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.

b. Mortality basis - 1984 Unisex Pension Mortality Table set forward one year for male members and set backward four years for female members.

c. Retirement age - retirement rates based on actual experience.

d. Discount rate - 9% per annum, compounded annually, net of investment expenses.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

e. Health cost inflation:

Year	Per annum
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

f. Salary scale - increase of 6.5% for the first five years of employment and 5.5% per year thereafter.

g. Cost of living allowance (domicile in Alaska) - 66% of those receiving benefits will be eligible to receive the cost of living allowance.

h. Contribution refunds - 100% of those employees terminating after age thirty-five who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

i. Asset valuation - five-year average ratio of actuarial and book values of the Plan assets. The actuarial value of the assets equals the market value of the Plan's assets, except that fixed income investments are carried at book value. Valuation assets cannot be outside of the range of book and actuarial values.

Turnover and disability assumptions are based upon actual historical occurrence rates of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

At June 30, 1991, the unfunded pension benefit obligation was $250.7 million, as follows (in millions):

Net assets available for benefits as of June 30, 1991, at market	$ 1,824.7
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,056.5
Current employees:	
Accumulated employee contributions including allocated investment income	293.1
Employer-financed, vested	598.5
Employer-financed, nonvested	127.3
Total pension benefit obligation as of June 30, 1991	2,075.4
Unfunded pension benefit obligation as of June 30, 1991	$ 250.7

Due to changes in the mortality basis, discount rate, health cost inflation rate and cost of living allowance actuarial assumptions, the pension benefit obligation at June 30, 1991 decreased $68.666 million.

(5) Contributions

Employee Contributions

Prior to January 1, 1991, employees contributed 7% of their base salary as required by statute. Effective January 1, 1991, employees contribute 8.65% of their base salary as required by statute. The employee contributions are deducted before federal tax is withheld. Eligible employees contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan. Present employee accumulated contributions at June 30, 1992 and 1991 were $364,695,000 and $298,447,000, respectively. Employee contributions earn interest at the rate of 4.5% per annum, compounded annually.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan also uses the level percentage of payroll method to amortize the unfunded liability over a twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following (000's omitted):

	1992		1991	
	Contributions	As a percentage of covered payroll	Contributions	As a percentage of covered payroll
Employer	$ 55,953	12.20%	$ 46,056	10.90%
Employee	44,338	9.67	38,687	9.15
	$ 100,291	21.87%	$ 84,743	20.05%
Normal cost	87,724	19.13	81,913	19.38
Amortization of unfunded actuarial accrued liability	12,567	2.74	2,830	.67
	$ 100,291	21.87%	$ 84,743	20.05%

Actuarial valuations for 1992 and 1991 were performed as of June 30, 1991 and 1990, respectively.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

Significant actuarial assumptions used to compute contribution requirements are as of June 30, 1989. Several actuarial assumptions at June 30, 1989 are different from those used to compute the standardized measure of the pension benefit obligation discussed in note 4. The overall effect on the financial status of the Plan due to the revised assumptions is a 2.7% increase in the funding ratio and a 2.51% payroll reduction in the employer contribution rate.

(6) Retirement Incentive Program

Legislation passed in May 1986 established a retirement incentive program (RIP) designed to encourage eligible employees to voluntarily retire in order to reduce personal services costs. The program was available to eligible University of Alaska employees from October 1, 1986 to September 30, 1987, and all other employees until June 30, 1987.

Legislation was passed in June 1989 and amended effective April 1, 1990, establishing a second retirement incentive program. The second program was available to state employees from October 1, 1989 through March 31, 1990, and all other employees from July 1, 1989 through December 31, 1989.

The retirement incentive program receivables represent the reimbursement due from employers participating in the programs and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired. The amount of reimbursement is the actuarial equivalent of the difference between the benefits the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan 21% of their annual compensation for the school year in which they terminated employment to participate in the programs. Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

The effect of the 1986 retirement incentive program on the pension benefit obligation was fully accounted for in the June 30, 1988 actuarial valuation. The effect of the 1989 program on the pension benefit obligation was fully accounted for in the June 30, 1990 and 1991 actuarial valuations as the eligible employees retired.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

(7) Ten-year Historical Trend Information
Ten-year historical trend information (where available) designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type.

Schedule 1

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Required Supplementary Information
Analysis of Funding Progress

(000's omitted)

Year ended June 30	Net assets available	Pension benefit obligation	Percentage funded	Unfunded (assets in excess of) pension benefit obligation	Annual covered payroll (unaudited)	Unfunded (assets in excess of) pension benefit obligation as a percentage of covered payroll
1985	$ 866,333	$ 1,042,551	83.1%	$ 176,218	$ 358,110	49.2%
1986	1,141,[illegible]	1,115,773	102.3	(25,877)	392,136	(6.6)
1987	1,303,[illegible]	1,210,909	107.6	(92,555)	348,606	(26.6)
1988	1,356,5[illegible]	1,347,859	100.6	8,716	361,310	2.4
1989	1,545,877	1,557,643	99.2	11,766	431,445	2.7
1990	1,706,346	1,895,030	90.0	188,684	449,838	41.9
1991	1,824,663	2,075,405	87.9	250,742	422,655	59.3

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

See accompanying notes to required supplementary information.

Schedule 2

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Required Supplementary Information
Revenues by Source and Expense by Type

(000's omitted)

Year ended June 30	Revenues by source: Employee contributions	Employer contributions	Investment income	Unrealized appreciation (depreciation) in market value	Total	Employer contribution as a percentage of annual covered payroll
1983	$ 24,546	$ 54,718	$ 62,846	$ 36,218	$ 178,328	18.6%
1984	27,257	63,316	61,559	(48,194)	103,938	19.4
1985	29,176	68,826	74,171	78,418	250,591	19.2
1986	32,039	69,276	119,173	103,643	324,131	17.7
1987	34,159	58,177	143,692	(15,677)	220,351	16.7
1988	33,104	69,363	100,239	(75,566)	127,140	19.2
1989	31,888	47,348	125,170	65,243	269,649	11.0
1990	35,224	53,670	146,612	12,129	247,635	11.9
1991	40,059	57,982	127,524	(4,675)	220,890	14.1
1992	44,338	57,071	166,132	46,620	314,161	12.4

Year ended June 30	Expense by type: Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	Total
1983	$ 24,053	$ 2,307	$ 2,509	$ 1,606	$ 30,475
1984	27,792	3,257	3,094	1,605	35,748
1985	33,360	4,393	3,126	2,951	43,830
1986	38,476	4,424	3,311	2,603	48,814
1987	46,183	4,613	4,239	3,502	58,537
1988	60,939	5,040	3,798	4,252	74,029
1989	65,328	8,073	2,953	3,993	80,347
1990	71,134	9,713	2,896	3,423	87,166
1991	84,443	10,654	3,510	3,966	102,573
1992	88,648	10,111	2,641	5,612	107,012

Contributions, including contributions under the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

See accompanying notes to required supplementary information.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Required Supplementary Information

Years ended June 30, 1992
1991, 1990, 1989, 1988, 1987, 1986, 1985, 1984 and 1983

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

The Plan's actuarial funding method for the years ended June 30, 1978 through June 30, 1984 was attained age normal. Effective July 1, 1984, the Plan adopted the projected unit credit actuarial funding method.

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

Effective July 1, 1990, the health care cost was changed from a flat 9% to the following graduations:

Year	Per annum
1992	12.5%
1993	11.5
1994	10.5
1995	9.5
1996	8.5
1997 and thereafter	7.5

Turnover, retirement and disability assumptions were revised based on actual experience in 1986 through 1990. The mortality tables were set forward one year for male members and set backward four years for female members; previously, the mortality table had been set back one and one half years for all members. The cost of living allowance was increased from 54% to 66%.

KPMG Peat Marwick

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Financial Statements
and Supplemental Schedules

June 30, 1992 and 1991

(With Independent Auditors' Report Thereon)