

ALASKA LEGISLATURE COMMITTEE FILES 1993-1994 8672

8455 SENATE STATE AFFAIRS

P.O. BOX 55109
NORTH POLE, ALASKA
99705



TOP OF THE WORLD
PHONE: 907-488-2281
AT YOUR SERVICE

TO: The Honorable Governor Walter J. Hickel
(via fax #465-3454)

FROM: Lute Cunningham, Mayor, City of North Pole

DATE: June 18, 1992

SUBJECT: SB 337 - Early Retirement Program

The City of North Pole has been unable to participate in previous R.I.P. proposals because of a lack of employees which fit the criteria. At this time, however, the City has several employees which would become eligible. Substantial cost savings would be realized through SB 337 implementation by the City.

I would urge your consideration and support of SB 337.

cc: Senator Duncan, via fax #465-4748



CITY OF HOMER

CITY HALL

491 EAST PIONEER AVENUE

HOMER, AK 99603-7624

TELEPHONE (907) 235-8121

TELECOPIER (907) 235-3140

19 June 1992

FAXED 907/463-3454

Governor Walter Hickel
PO Box 110001
Juneau, AK 99811-0001

RE: EARLY RETIREMENT PROGRAM

Dear Governor Hickel:

We just received notice that there is a possibility that SB 337 is in jeopardy, we wish to make it known that the City of Homer SUPPORTS SB 337. This is a program which has much promise with the City of Homer. We request that you enact this bill. Thank you for your consideration.

Sincerely,

CITY OF HOMER

Patti J. Whalin
Interim City Manager

PJW/tw



KETCHIKAN GATEWAY BOROUGH
SCHOOL DISTRICT

June 19, 1992

Office of the Governor
Walter J. Hickel, Governor
Third Floor, State Capitol
P. O. Box A
Juneau, Alaska 99811

Dear Governor Hickel,

As we discussed earlier, the Early Retirement Incentive Bill goes a long way in helping us maintain a quality educational program while at the same time allowing an efficient operating budget. I understand two basic concerns have surfaced:

- A. There is no real savings realized, and
- B. Causes a "Brain Drain" - that is the more experienced and knowledgeable will leave the organization.

I can not speak for all agencies, but a real savings is realized by this school district when we reduce our staff to a more efficient level and/or replace retirees with less experienced staff. As for the "Brain Drain" theory - yes, we will lose some fine faculty members, but they are ready to retire. The upside is we have an opportunity to bring the young and all their enthusiasm to the classroom.

It is my understanding that each agency has the choice of whether or not to participate. It would seem that if an agency felt there would be no advantage to such a program, they simply would choose not to participate.

I would encourage you to sign this bill into action so that we may move forward in our plans for next school year. Thank you for your support of this issue.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dick Cleverger".

Richard E. Cleverger
Superintendent of Schools

FAX MESSAGE
June 23, 1992

Senator Jim Duncan
Capitol Building
Juneau, Alaska

465-4748 (fax)

Dear Senator Duncan, *Jim,*

I am under the impression that Governor Mickel is in total support of the 1992 Retirement Incentive Program Legislation. If that is the case, I am requesting information from your office as to what I might be able to do to convince the Governor that signing this legislation is in the best interest of Alaskans.

As a member of the Alaska Public Employee Retirement Board, and as an elected official of the City of Fairbanks, I have a unique perspective as to the advantages of the RIP on our communities and state. The fiscal impact on the retirement funds and the government payrolls has been positive, and this years RIP is critical to the efforts of downsizing government and public employee moral.

I am prepared to contact the Governor's office immediately but thought a message of concern and support, with the request for advice would be an appropriate first step.

Thanks for all your help on behalf of public employees and the local governments within the state.

Sincerely,

Mike Andrews

Mike Andrews
PERS Vice-Chair
Fairbanks City Council

CC: Div. of Retirement/Benefits
P. Wellington, PERS Chair



Alaska State Legislature

SENATOR JIM DUNCAN

COMMITTEES:
VICE CHAIR --
FINANCE
VICE CHAIR --
STATE AFFAIRS
RULES
BUDGET & AUDIT
ETHICS REFORM

MEMORANDUM

Date: January 12, 1993

To: Senator Loren Leman, Chair
Senate State Affairs Committee

From: Senator Jim Duncan

Subject: SB 1, relating to retirement incentive programs for the public employees' retirement system and the teachers' retirement system and certain persons under the judicial retirement system.

Please schedule SB 1, establishing the Retirement Incentive Program for a hearing in the Senate State Affairs Committee as soon as possible. The basic configuration of the Retirement Incentive Program as proposed in SB 1 is substantially similar to previous offerings of the program.

The basic provisions of the program remain unchanged. It will again offer a three year retirement credit to qualified individuals to be applied in the following order;

1. to meet the age or service required for eligibility for normal retirement;
2. to meet the age required for early retirement;
3. to reduce the actuarial adjustment required for early retirement; and
4. as years of credited service for calculating retirement benefits.

To qualify, an employee must be within 3 years of early or normal retirement. The increased benefit will vary depending on each individual's length of service and their age. The personal services savings required by the program will again be calculated over a five year period.

The employee is required to pay what they would have paid into the retirement system if they had continued to work for an additional three years. The employer's cost will be the difference between the employee's contribution and the full actuarial cost of the three year incentive. The State's actuaries calculate the full cost for each individual eligible for the

program. This means that all cost incurred because the individual retires three years earlier is fully paid into the respective retirement system. Recent annual reports on both PERS and TRS report that the systems have been adequately compensated for RIP incurred costs.

The window periods in SB 1 are as follows;

Employee Type	Application Period	First Day Employee Can Retire	Employee Must Retire on or Before
Teachers	6/30/93-12/31/93	7/1/93	8/1/94
University	6/30/93-12/31/93	7/1/93	8/1/94
State	7/31/93-10/31/93	8/1/93	7/1/94
Municipal	12/31/93-6/30/94	1/1/94	2/1/95

A November 1991 Legislative Audit reported a total savings of almost \$23 million was achieved by public employers through the use of the 1989-90 Retirement Incentive Program. The State of Alaska saved over \$6 million, with the largest savings accruing to the Department of Transportation and Public Facilities. The University saved \$4.3 million and school districts throughout the state saved almost \$9 million. The total number of participants was 1,571. This compares to 2,327 participants in the 1986-87 Retirement Incentive Program and a savings estimated at \$73 million.

I appreciate your support for the reenactment of the Retirement Incentive Program, SB 1.

Attachments



Alaska State Legislature

SENATOR JIM DUNCAN

COMMITTEES:
VICE CHAIR —
FINANCE
VICE CHAIR —
STATE AFFAIRS
RULES
BUDGET & AUDIT
ETHICS REFORM

January 12, 1993

Provided by Senator Jim Duncan

FACT SHEET ON SB 1, 1993-94 RETIREMENT INCENTIVE

I introduced SB 1, establishing the 1993-94 Retirement Incentive Program for public employees on January 4, 1993.

Background: SB 1 includes all the same provisions as SB 337 which was vetoed by the Governor in June, 1992 except the section for which the governor ostensibly vetoed the bill. The "objectionable provision" was added by the House Finance Committee and would have allowed the Commissioner of Administration to implement the program in times of economic crises without requiring legislation.

Economic Benefits: In addition to the required personal services cost savings, the economic benefits of the Retirement Incentive Program are very compelling; first, personal services savings are realized in operating budgets; second, a high percentage of the new retirees remain in their communities and continue contributing their resources to our economy; and third, the employee with less seniority who is not laid off or is newly hired continues to receive a paycheck and also contributes to Alaska's economy.

Statistics provided by the Department of Administration show that increased percentages of retirees are remaining in Alaska since the first Retirement

Incentive Program in 1986. For example, retirees in the Public Employees' Retirement System remaining in Alaska rose from 60 percent in 1982 to 69 percent in 1986 and reached 71 percent in 1991. Teachers Retirement System retirees remaining in Alaska was at 49 percent in 1982, rose to 54 percent in 1986, and reached 66 percent in 1991. Retention of these retirees and their income is beneficial to Alaska's economy.

The Incentive: The basic configuration of the Retirement Incentive Program remains substantially similar to previous offerings of the program. Individuals will be provided with a three year retirement credit to be applied in the following order;

1. to meet the age or service required for eligibility for normal retirement;
2. to meet the age required for early retirement;
3. to reduce the actuarial adjustment required for early retirement; and
4. as years of credited service for calculating retirement benefits.

The Retirement Incentive Program requires that the employer's

**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	<u>217</u>	<u>22,305,400</u>
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	<u>145</u>	<u>4,317,800</u>
Totals	1,764	\$ 22,984,800

DIVISION OF LEGAL SERVICES

**LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA**

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

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

January 14, 1993

SUBJECT: Sectional analysis of SB 1 (Retirement Incentive Program)

TO: Senator Jim Duncan
Attention: Roxanne Stewart

FROM: Teresa B. Cramer *TBC*
Legislative Counsel

You have requested a sectional analysis of the above described bill.

As a preliminary matter, note that a sectional analysis or summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Because this bill sets up a time-limited program which is repealed July 1, 1995, it is not placed into the codified statutes. If the bill is enacted, it will be published in the Session Laws and also in the Temporary and Special Acts volume of the Alaska Statutes.

Section 1 states the legislative purpose in adopting a retirement incentive program for public employers and employees.

Section 2 establishes the general requirements for a retirement incentive program. Subsection (a) permits employers to designate organizational units of employees eligible to participate. Subsection (b) sets out criteria for the organization units. Subsection (c) limits which employees are eligible to participate to those who will be qualified to retire after receipt of the retirement incentive.

Subsection (d) sets out requirements for the employer's plan and requires the employer to agree to reimburse the retirement system for the extra costs incurred by the system as a result of participation by the employer's employees.

Subsection (e) sets out the formula for computing how much each member of the Teachers' Retirement System (TRS) who participates in the plan owes in order to

receive the three-year credit. It is based on the annual contribution rate of 8.65% for members of TRS set out in AS 14.25.050. Subsection (f) sets out the formula for computing how much each member of the Public Employees' Retirement System (PERS) who participates in the plan owes in order to receive the three-year credit. It is based on the annual contribution rates of 7.5% for peace officers who are members of PERS and 6.75% for other members of PERS set out in AS 39.35.160.

Subsection (g) provides that the retirement incentive is a credit of three years, to be used either to meet retirement eligibility requirements or, if those are met, to increase the amount of credited service a participant is entitled to when computing benefits. Subsection (h) limits the kinds of credited service that employees retiring under the retirement incentive plan may use when determining whether they are eligible to retire. Note that the subsection does not limit the kinds of credited service that may be considered when computing the employee's benefits.

Subsection (i) permits employees to assume part of the employer's liability in order to become eligible to participate in a retirement incentive plan.

Section 3 authorizes the state to adopt a retirement incentive plan for its employees, to begin July 31, 1993, and ending October 31, 1993. Subsections (b) and (c) limit which employees may participate. Subsection (d) requires that participants be appointed to retirement on or before July 1, 1994.

Section 4 authorizes political subdivisions and public organizations which participate in PERS to adopt a retirement incentive plan for their employees, to begin December 31, 1993, and ending June 30, 1994. Subsection (b) requires that participants be appointed to retirement on or before February 1, 1995.

Section 5 authorizes the University of Alaska to adopt a retirement incentive plan for its employees, to begin June 30, 1993, and ending December 31, 1993. Subsection (b) requires that participants be appointed to retirement on or before August 1, 1994. Subsection (c) addresses participants in the Optional University Retirement Program.

Section 6 authorizes employers in TRS other than the state or the University of Alaska, which are covered in sections 3 and 5 above, to adopt a retirement incentive plan for their employees, to begin June 30, 1993, and ending December 31, 1993. Subsection (b) requires that participants be appointed to retirement on or before August 1, 1994.

Section 7 permits state employee participants to receive credit, for purposes of determining whether the participant satisfies the years of service requirements for retirement under TRS or PERS, for certain employment with political subdivisions or public organizations who did not participate in PERS or TRS at the time of the

employment. The employment may not be counted when the amount of the participant's benefits are calculated.

Section 8 permits the administrative director of the Alaska Court System who is a member of the Judicial Retirement System (JRS) to participate in a retirement incentive program. The section sets out provisions comparable to those that apply to members of the other retirement systems.

Section 9 permits the Department of Administration to take certain actions if employers who are participating in the retirement incentive program become delinquent in the payments they owe the system for the increased benefits paid to their retirees under the program.

Section 10 establishes an indebtedness owed by participants in the retirement incentive program who, after retirement, are reemployed in a position that is covered by PERS, TRS, or JRS.

Subsection (b) prohibits participants from working for a state department or agency for three years after the participant retired. There is an exception for work for the University of Alaska and for employment with the legislature during the session if the employment is on an hourly basis and if the employee is not entitled to retirement, health, or leave benefits. Subsection (c) permits the Board of Regents, in the case of the University of Alaska, and the commissioner of administration, in the case of other employers, to permit employers to enter into personal services contracts with participants during the three-year waiting period if the employer establishes that there is a compelling reason for hiring the participant because of the participant's specialized or extensive experience. Note that while subsections (b) and (c) permit state agencies to hire certain participants, neither subsection excuses the participant from paying the penalty established under subsection (a).

Section 11 directs state agencies to file with the Office of Management and Budget reports showing the expected effect of the program on the agency's personal services cost and operation. Subsection (b) directs OMB to document the net reduction in personal services costs for each agency in the governor's annual budget request. Subsection (c) directs OMB to report to the legislature on the retirement incentive program.

Section 12 states that employees do not have a vested or contractual right to benefits under a retirement incentive program until an agreement is executed with the administrator of the retirement system. The legislature reserves the right to make changes to the program.

Section 13 makes the definitions in TRS and PERS, as appropriate, applicable to the bill.

Senator Jim Duncan

January 14, 1993

Page 4

Section 14 repeals sections 2 - 8 of the Act, which establish and authorize the retirement incentive programs, on July 1, 1995.

Section 15 is an immediate effective date clause.

If I may be of further assistance, please advise.

TC:pl

93-023.plm



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 Loren Leman, Chairman
Senate State Affairs Committee
Alaska State Legislature
Juneau, AK 99811

RE: Retirement Incentive Program, SB-1 & SB-10

Dear Senator Leman,

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.

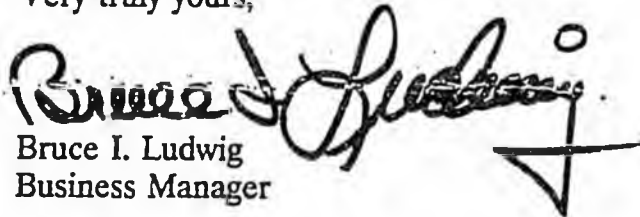
Anchorage Field Office
1689 C Street, Suite 204, Anchorage, Alaska 99501
Telephone (907) 274-1688, (800) 478-9992, Fax 277-4588

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

February 1, 1993
Honorable Loren Lemay
Page 2

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,

A handwritten signature in cursive script, appearing to read "Bruce I. Ludwig". The signature is written in dark ink and is positioned above the typed name and title. To the right of the signature, there is a large, stylized handwritten mark that resembles a downward-pointing arrow or a checkmark.

Bruce I. Ludwig
Business Manager

BIL/ljh



Official Business

Alaska State Legislature

SENATE STATE AFFAIRS COMMITTEE

State Capitol
Juneau, AK 99801-1182

MEMORANDUM

TO: Senate Secretary

FROM: Senator Loren Leman, Chairman
Senate State Affairs Committee

DATE: February 25, 1993

SUBJECT: Committee Schedule

A handwritten signature in cursive script that reads "Loren Leman".

State Affairs	Butrovich Room
March 1	Monday 9:00 AM
	- NO MEETING SCHEDULED -
March 3	Wednesday 9:00 AM
	SB 33, Local Emergency Planning Committees and Emergency Response Organizations
	SB 80, Boards/Commissions/Councils
	SB129, State Chief Procurement Officer
March 5	Friday 9:00 AM
	***** Confirmation Hearing ***** State Commission for Human Rights
	- Augusta Sayoko D. Mimoto Greenheart - Robyn F. States
	Bills Previously Heard

Senate State Affairs Committee
February 25, 1993
Page 2

March 8

Monday 9:00 AM

- NO MEETING SCHEDULED -

March 10

Wednesday 9:00 AM

SB 6, Relating to an Annuity Program
*** Teleconference on Above Bill ***

SB128, Relating to Legislative Audits

March 12

Friday 9:00 AM

SB 1, Retirement Incentive Program

SB11, Anti-Stalking Law

February 26, 1993

State Affairs Committee
Alaska State Senate
Juneau, AK

Dear Committee Members:

I am writing to address Senate Bill 1, the Retirement Incentive Bill and request your endorsement of the concept of the bill and pass it on to the floor for action ASAP. The scheduled tele-conference time prohibits my attendance to testify in person as I am in the class-room at this time.

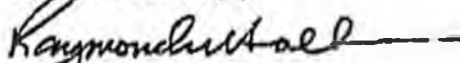
An article in the February 24 issue of Ketchikan Daily News addressed the reduction in spending for Education throughout the state. It seems that every year Education becomes less of a priority with the State legislature. Local districts are faced with increased costs which are not off-set by increased funding, rather a reduction in funding which puts a strain on budgets.

The Retirement Incentive Program provides school districts with a way to save money without having to lay-off teachers. With the RIP in force the district can allow senior teachers, those at the top of pay-scales, to retire early and the savings, significant in most cases, can then be used to hire new teachers at the bottom of the pay scale.

Our district in Ketchikan supported that last two RIP programs and received significant savings through the program. I feel that the RIP before you will also provide a savings for our district and those throughout the State. It is the most humane way to address decreased funding and possibility of reducing staff.

I encourage you to positively endorse this bill and pass it through the legislature quickly. Districts need to know as soon as possible of those teachers accepting the RIP so that they can begin the hiring for next year.

Respectfully,


Raymond M. Holt
PO Box 5338
Ketchikan, AK 99901

A M E N D M E N T

1

OFFERED IN THE SENATE

TO: SB 1

Page 1, lines 1 - 3:

Delete "the public employees' retirement system, the teachers' retirement system, and certain persons under the judicial retirement system"

Insert "for certain employees of school districts and regional educational attendance areas"

Page 1, lines 5 - 6:

Delete "state agencies and other employers who participate in the state retirement systems"

Insert "school districts and regional educational attendance areas"

Page 1, line 11:

Delete "state agencies and other employers"

Insert "school districts and regional educational attendance areas"

Page 1, lines 12 - 13:

Delete "the state or other public"

Insert "those"

Page 1, line 14:

Delete "An employer"

Insert "A school district or regional educational attendance area"

Page 2, line 1:

Delete "3 - 6"

Insert "3 and 4"

Page 2, lines 14 - 16:

Delete "For state employees other than university employees, the administrator may approve a designated organizational unit only if the office of management and budget certifies that the unit's participation in the plan meets the requirements of (b) of this section."

Page 3, line 28:

Delete "Except as provided in sec. 7 of this Act, in"

Insert "In"

Page 4, line 9, through page 5, line 1:

Delete all material.

Renumber the following bill sections accordingly.

Page 5, line 2:

Delete "OTHER"

Insert "EDUCATIONAL INSTITUTION"

Page 5, line 4:

Delete "political subdivision of the state or a public organization"

Insert "school district or regional educational attendance area"

Page 5, lines 14 - 28:

Delete all material.

Renumber the following bill sections accordingly.

Page 5, line 29:

Delete "OTHER"

Insert "EDUCATION INSTITUTION"

Page 5, line 30:

Delete "An"

Insert "A school district or regional educational attendance area that is an"

Page 5, line 31:

Delete "who is not otherwise covered by secs. 3 or 5 of this Act"

Page 6, line 9, through page 8, line 3:

Delete all material.

Renumber the following bill sections accordingly.

Page 8, line 15:

Delete "or sec. 8(e)"

Page 8, line 20:

Delete "or sec. 8(d) and (f)"

Page 9, lines 9 - 29:

Delete all material.

Renumber the following bill sections accordingly.

Page 10, line 5:

Delete "2 - 13"

Insert "2 - 8"

Page 10, line 7:

Delete "2 - 13"

Insert "2 - 8"

Page 10, line 9:

Delete" 2 - 8"

Insert "2 - 4"

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. SB 1

Revision Date: _____
Title: 'An Act relating to retirement incentive programs for the public employees . . . effective date.'
Sponsor: Senator Duncan
Requestor: Senate State Affairs

Department Affected: Administration
BRU: Finance
Component: Finance
COMPONENT SERIAL NO. 59

EXPENDITURES/REVENUES:

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	70.9	7.8	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	70.9	7.8	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	70.9	7.8	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	70.9	7.8	0	0	0	0

FULL-TIME	0	0	0	0	0	0
PART-TIME	4	4	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY93) impact: None

ANALYSIS: (Attach a separate page if necessary.)
See Attached

Prepared by: Don Wanie, Director *200 11/21/93*
Division: Finance

Phone: 465-2240
Date: _____

Approved by Commissioner: Nancy Bear Usura
Agency: Administration *NW*

Date: 1/25/93

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For more information call the Governor's Legislative Office

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. SB 1

ANALYSIS: (continued)

The Division of Finance is responsible for verification of employment history and processing of termination pay for all State employees. This includes verifying the length of employment, accounting for all leave without pay during the entire employment with the State, and determining salaries for the three highest years. In addition, final and terminal leave pay must be processed in accordance with contractual agreements.

With implementation of a Retirement Incentive Program (RIP), the workload for these functions would be significantly increased and additional support will be required by the Division of Finance to meet processing deadlines. Approximately 500 employees took advantage of the previous RIP. It is anticipated that a comparable number of employees would participate if a RIP was implemented in the next year. Based on past experience, this would require four additional positions, including one Accountant I and three Accounting Technicians I, for a period of six months. Estimated cost for these positions would be:

		<u>FY 94</u>	<u>FY 95</u>
Accountant I (1)	Range 14A	17.9	3.6
Accounting Technician I (3)	Range 12A	<u>53.0</u>	<u>4.2</u>
		70.9	7.8

Approximate 1000 24 hrs work
500 20 hrs work
at 1 day

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. SB 1

Revision Date: _____ Dept. Affected: Administration
 Title: An Act relating to retirement incentive programs for Public Employees' and Teachers Retirement Systems and certain persons under IRS BRU: Retirement and Benefits
 Component: Retirement and Benefits
 Sponsor: Duncan
 Requestor: (S) State Affairs COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	701.7	630.3	273.9	273.9	273.9	273.9
TRAVEL	6.0	6.0	2.0	2.0	2.0	2.0
CONTRACTUAL	25.3	24.9	10.9	10.9	10.9	10.9
SUPPLIES	4.8	4.0	1.5	1.5	1.5	1.5
EQUIPMENT	109.0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	846.8	665.2	288.3	288.3	288.3	288.3

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	846.8	665.2	288.3	288.3	288.3	288.3
TOTAL	846.8	665.2	288.3	288.3	288.3	288.3

POSITIONS

FULL-TIME	6	6	6	6	6	6
PART-TIME	0	0	0	0	0	0
TEMPORARY	12	11	0	0	0	0

Estimate of current year (FY93) impact: \$ _____ We anticipate the need for a Legislative Revised Program to increase our FY93 authorization, thus allowing the division to hire the FY94 staff prior to July 1, 1993. The FY93 hiring would be needed so that we can properly train the RIP staff prior to the opening of the window periods. These costs would be paid for by participating employers.

ANALYSIS: (attach a separate page if necessary.) The actuarial costs to participating employers due to this program are to be paid up front and no additional costs to the systems are anticipated. See attached detailed analysis.

Prepared By: Robert F. Stalnaker *Robert F. Stalnaker* Phone: 46-4470
 Division: Retirement and Benefits Date: January 14, 1993

Approved by Commissioner: Nancy Bear Usara *Nancy Bear Usara* Date: 1/25/93
 Agency: Department of Administration

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Senate Bill 1
Analysis of Fiscal Implications to the Retirement Fund
Prepared by Division of Retirement and Benefits
Department of Administration
January 14, 1993

Analysis: This bill would place a temporary retirement incentive provision in statute for the Public Employees' (PERS) and Teachers' (TRS) Retirement Systems. Active PERS and TRS members could retire on an accelerated basis with an increased benefit under the following conditions: as early as age 47, if vested; with 17 years of service as a qualified peace officer, fire fighter or teacher; or with 27 years of credited service in the PERS. Before qualifying for an accelerated benefit, however, the member must pay a lump sum indebtedness payment or take an actuarial reduction from their life time benefit for the indebtedness amount.

We estimate that five permanent full-time positions will be needed in Juneau and one in Anchorage to administer the increased demand for information and services resulting from adding potentially over 4000 new retirees to the PERS and TRS, resulting from prior RIPs and projected for this one. In addition, we estimate that twelve long-term non-permanent employees will also be needed for varying lengths of time over the next two fiscal years. Personnel will handle increased counseling, address and beneficiary changes, account maintenance and other services.

We estimate that we will need to increase our normal number of counseling trips by 5 trips over the next two fiscal years to assure that members understand the options and requirements of the program.

Senate Bill 1
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The total estimated administrative cost to the division by fiscal year is as follows:

	<u>FY 94</u>	<u>FY 95</u>	<u>FY 96</u>
PERSONAL SERVICES			
FY 94			
2 Retirement Specialist I/II	102.6		
8 Retirement Technician I/II	336.0		
1 Accountant I	45.3		
3 Accounting Clerk III (12 months)	113.4		
2 Clerk II (12 months)	58.2		
1 Retirement Technician I (6 months)	21.0		
1 Accounting Clerk III (8 months)	<u>25.2</u>		
Total FY 94 Personal Services Cost.....	\$701.7		
FY 95			
2 Retirement Specialist I/II	102.6		
5 Retirement Technician I/II	210.0		
4 Retirement Technician I/II (9 months)	126.0		
1 Accountant I	45.3		
2 Accounting Clerk III (12 months)	75.6		
1 Accounting Clerk III (4 months)	12.6		
2 Clerk II (12 months)	<u>58.2</u>		
Total FY 95 Personal Services Cost.....		\$630.30	
FY 96			
2 Retirement Specialist I/II	102.6		
3 Retirement Technician I/II	126.0		
1 Accountant I	<u>45.3</u>		
Personal Services Cost (FY 96 and beyond).....			\$273.9
TRAVEL			
Traveling to various locations throughout the state to counsel prospective retirees and give seminars			
	6.0	6.0	2.0
CONTRACTUAL			
Computer services for additional PCs, CRT use	16.1	15.7	7.2
Telephone service for: 6 permanent phones	1.2	1.2	1.2
Telephone service for: 11 leased phones	5.5	5.5	0.0
Long distance call expense base on previous RIP	2.5	2.5	2.5
Total Contractual Costs.....	25.3	24.9	10.9

Senate Bill 1
 Analysis of Fiscal Implications to the Retirement Fund
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		<u>FY 94</u>	<u>FY 95</u>	<u>FY 96</u>
SUPPLIES				
Office supplies		4.8	4.0	1.5
EQUIPMENT				
6 Work stations	18.0			
6 Chairs	2.4			
10 Personal computers	55.0			
Other office equipment (calculators, etc.)	5.0			
6 Phones (1100/instrument)	6.6			
5 Microfiche viewers	4.0			
1 Computer Output Printer	<u>18.0</u>			
Total Equipment Cost		<u>109.0</u>	<u>0.0</u>	<u>0.0</u>
TOTAL Operations Cost		<u>\$846.8</u>	<u>\$665.2</u>	<u>\$288.3</u>

The retirement technicians, retirement specialists, accountant and accounting clerks need constant access to the PERS and TRS computer files. We do not have excess terminals, microfiche viewers or calculators. Our equipment request will satisfy our equipment needs for the duration of the program. We propose the purchase of personal computers to be used as terminals because they will be compatible with the division's Local Area Network.

We are also proposing the purchase of an additional computer output printer. The previous RIPs put great demand on our existing two printers, and we were always in a state of backlog. Our current day-to-day printer needs maximize the capacity of our existing printers. After comparing the cost of leasing a printer for two years, coupled with our existing needs, purchasing a new printer would be more cost effective.

All administrative costs of the program will be paid in advance by participating employers as required by the bill.

The Other Funds are comprised of PERS at \$453.2, TRS at \$370.8 and SBS at \$22.8 for FY 94.

A M E N D M E N T

2

OFFERED IN THE SENATE

TO: SB 1

Page 1, lines 1 - 3:

Delete "the public employees' retirement system, the teachers' retirement system, and certain persons under the judicial retirement system"

Insert "for certain municipal employees and certain employees of school districts and regional educational attendance areas"

Page 1, lines 5 - 6:

Delete "state agencies and other employers who participate in the state retirement systems"

Insert "municipalities and school districts and regional educational attendance areas"

Page 1, line 11:

Delete "state agencies and other employers"

Insert "municipalities and school districts and regional educational attendance areas"

Page 1, lines 12 - 13:

Delete "the state or other public"

Insert "those"

Page 2, line 1:

Delete "3 - 6"

Insert "3 and 4"

Page 2, lines 14 - 16:

Delete "For state employees other than university employees, the administrator may

approve a designated organizational unit only if the office of management and budget certifies that the unit's participation in the plan meets the requirements of (b) of this section."

Page 3, line 28:

Delete "Except as provided in sec. 7 of this Act, in"
Insert "In"

Page 4, line 9, through page 5, line 1:

Delete all material.

Renumber the following bill sections accordingly.

Page 5, line 2:

Delete "OTHER"
Insert "CERTAIN"

Page 5, line 4:

Delete "or a public organization"

Page 5, lines 14 - 28:

Delete all material.

Renumber the following bill sections accordingly.

Page 5, line 29:

Delete "OTHER"
Insert "CERTAIN"

Page 5, line 30:

Delete "An"
Insert "A school district or regional educational attendance area that is an"

Page 5, line 31:

Delete "who is not otherwise covered by secs. 3 or 5 of this Act"

Page 6, line 9, through page 8, line 3:

Delete all material.

Renumber the following bill sections accordingly.

Page 8, line 15:

Delete "or sec. 8(e)"

Page 8, line 20:

Delete "or sec. 8(d) and (f)"

Page 9, lines 9 - 29:

Delete all material.

Renumber the following bill sections accordingly.

Page 10, line 5:

Delete "2 - 13"

Insert "2 - 8"

Page 10, line 7:

Delete "2 - 13"

Insert "2 - 8"

Page 10, line 9:

Delete "2 - 8"

Insert "2 - 4"

A M E N D M E N T

4

OFFERED IN THE SENATE
TO: SB 1

BY SENATOR DUNCAN

Page 5, line 7:

Delete "section"

Insert "subsection"

Page 5, line 10, after "under":

Insert "(a) of"

Page 5, after line 13:

Insert a new subsection to read:

"(c) In addition to the authorization contained in (a) of this section, a municipality that has elected to participate in the public employees' retirement system under AS 39.35.550 - 39.35.650 is authorized to adopt a retirement incentive plan for its employees under sec. 2 of this Act. A plan adopted under this subsection must permit designated employees to apply to the retirement incentive program under sec. 2 of this Act only from June 1, 1993, through no later than July 31, 1993. Under a plan adopted under this subsection, the administrator may not accept the application of an employee unless the employee will be appointed to retirement on or before August 31, 1993. The employer may set an earlier date by which employees of the employer must be appointed to retirement in order to participate."

SENATE BILL NO. 1
IN THE LEGISLATURE OF THE STATE OF ALASKA
EIGHTEENTH LEGISLATURE - FIRST SESSION

BY SENATOR DUNCAN

Introduced:
Referred:



A BILL

FOR AN ACT ENTITLED

1 "An Act relating to retirement incentive programs for the public employees'
2 retirement system, the teachers' retirement system, and certain persons under the
3 judicial retirement system; and providing for an effective date."

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

5 * Section 1. PURPOSE. Since it may be necessary for state agencies and other employers
6 who participate in the state retirement systems to reduce their personal services costs because
7 of declining state revenue, reimplementation of the retirement incentive programs established
8 by ch. 26, SLA 1986, as amended by ch. 76, SLA 1988, and ch. 89, SLA 1989, as amended
9 by ch. 18, SLA 1990, encouraging employees to retire voluntarily, will reduce the hardship
10 of layoffs. This program is intended to realize sufficient economies to offset the cost of
11 administration and benefits to state agencies and other employers resulting from the award of
12 retirement credits and to result in a net reduction in personal services costs to the state or
13 other public employers during a period of declining revenue.

14 * Sec. 2. RETIREMENT INCENTIVE PROGRAM. (a) An employer may adopt a

1 retirement incentive plan under secs. 3 - 6 of this Act, as appropriate, to designate organiza-
2 tional units of employees eligible to participate in the retirement incentive program.

3 (b) The organizational units of a plan must be selected so that implementation of the *four*
4 plan results in maximum savings to the employer in personal services costs within five years
5 after the commencement of the plan. A plan that results in savings in personal services costs
6 in any amount that is in excess of all costs to the employer qualifies under this section. The
7 designation may include only representatives from job classifications whose inclusion
8 contributes to the overall cost savings.

9 (c) A member is eligible to participate in the retirement incentive program only if the
10 member is vested, is employed in a position in a designated organizational unit, and will be
11 qualified to retire under AS 14.25.110 or AS 39.35.370 after receipt of the retirement
12 incentive. To participate, a member shall apply on a form provided by the administrator.

13 (d) A participating employer shall prepare and file the retirement incentive plan with
14 the administrator. For state employees other than university employees, the administrator may
15 approve a designated organizational unit only if the office of management and budget certifies
16 that the unit's participation in the plan meets the requirements of (b) of this section. The
17 administrator shall approve the plan if it meets the requirements of this section. The plan must

18 (1) identify organizational units and employees eligible to participate in the
19 program;

20 (2) include a reimbursement agreement that

21 (A) requires the employer, for each employee who is retired under the
22 plan, to reimburse the system within three years after the end of the fiscal year in
23 which the employee is appointed to retirement in an amount equal to

24 (i) the actuarial equivalent of the difference between the benefits
25 the participant receives after the addition of the retirement incentive under this
26 section and the amount the participant would have received without the
27 incentive, less the total of the amount the participant has paid on the
28 indebtedness determined under (e) or (f) of this section and the amount paid
29 under (i) of this section, if any; and

30 (ii) an appropriate share of the administrative costs of the
31 program; and

1 (B) provides that contributions from the employer under this section
2 take priority over other obligations of the employer to the maximum extent permitted
3 by law.

4 (e) A member of the teachers' retirement system who participates in the retirement
5 incentive program is indebted to the system. The amount of indebtedness is equal to 25.95
6 percent of the member's actual compensation for the school year, or the calculated school year
7 compensation for a member who works less than the entire school year, for the school year
8 in which the member terminates employment to participate in the program. An outstanding
9 indebtedness at the time a participant is appointed to retirement will require an actuarial
10 adjustment to the benefits payable.

11 (f) A member of the public employees' retirement system who participates in the
12 retirement incentive program is indebted to the system. The amount of indebtedness is equal
13 to 22-1/2 percent for a peace officer or fire fighter, and 20-1/4 percent for other members, of
14 the member's actual annual compensation, or the calculated annual compensation for a
15 member who works fewer than 12 months, for the year in which the member terminates
16 employment to participate in the program. An outstanding indebtedness at the time a
17 participant is appointed to retirement will require an actuarial adjustment to the benefits
18 payable.

19 (g) A participant in the retirement incentive program receives a credit of three years.
20 The three years must be applied in the following order until exhausted:

21 (1) to meet the age or service required for eligibility for normal retirement
22 under AS 14.25.110 or AS 39.35.370, as appropriate;

23 (2) to meet the age required for early retirement under AS 14.25.110 or
24 AS 39.35.370, as appropriate;

25 (3) to reduce the actuarial adjustment required for early retirement under
26 AS 14.25.110 or AS 39.35.370, as appropriate;

27 (4) as years of credited service for calculating retirement benefits.

28 (h) Except as provided in sec. 7 of this Act, in the determination of whether a member
29 will qualify to retire under this section, credited service may include only,

30 (1) for members of the teachers' retirement system, service credit for
31 employment rendered to an employer, territorial service under AS 14.25.105, outside service

1 and military service under AS 14.25.060, and Alaska BIA service under AS 14.25.107;

2 (2) for members of the public employees' retirement system, service credit for
3 employment rendered to an employer.

4 (i) In order to establish eligibility for participation under (b) of this section, and in
5 addition to the employee indebtedness under (e) or (f) of this section, an employee may elect
6 to assume a portion of the employer liability calculated under (d) of this section. An
7 outstanding indebtedness at the time the employee is appointed to retirement will require an
8 actuarial adjustment to the employee's benefits.

9 * Sec. 3. AUTHORIZATION FOR STATE EMPLOYEE RETIREMENT INCENTIVE.

10 (a) A state agency is authorized to adopt a retirement incentive plan for its employees. A
11 plan adopted under this section must permit a designated employee to apply to the retirement
12 incentive program under sec. 2 of this Act only from July 31, 1993, through no later than
13 October 31, 1993.

14 (b) The plan may not permit an employee who is the commissioner, a deputy
15 commissioner, or assistant commissioner of a state department to participate.

16 (c) A plan adopted under this section may only permit participation by an employee
17 who is otherwise qualified and who

18 (1) has been continuously employed by the state since November 1, 1992;

19 (2) is a permanent seasonal employee continuously employed by the state in
20 the permanent seasonal position during all of the time since November 1, 1992, in which the
21 position normally was filled;

22 (3) has a job sharing agreement with a state agency in which two or more
23 employees share a single position identified by a single position control number and in which
24 the employee choosing to participate was continuously employed by the agency during all of
25 the time since November 1, 1992, in which the employee normally worked under the job
26 sharing agreement; or

27 (4) meets a combination of the requirements of this subsection.

28 (d) Under a plan adopted under this section, the administrator may not accept the
29 application of an employee unless the employee will be appointed to retirement on or before
30 July 1, 1994.

31 (e) In this section, "state agency" does not include the University of Alaska or an

1 entity covered by sec. 4 of this Act.

2 * Sec. 4. AUTHORIZATION FOR RETIREMENT INCENTIVE FOR OTHER
3 EMPLOYEES IN THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM. (a) The
4 governing body of a political subdivision of the state or a public organization that has elected
5 to participate in the public employees' retirement system under AS 39.35.550 - 39.35.650 is
6 authorized to adopt a retirement incentive plan for its employees under sec. 2 of this Act. A
7 plan adopted under this section must permit designated employees to apply to the retirement
8 incentive program under sec. 2 of this Act only from December 31, 1993, through no later
9 than June 30, 1994.

10 (b) Under a plan adopted under this section, the administrator may not accept the
11 application of an employee unless the employee will be appointed to retirement on or before
12 February 1, 1995. The employer may set an earlier date by which employees of the employer
13 must be appointed to retirement in order to participate.

14 * Sec. 5. AUTHORIZATION FOR RETIREMENT INCENTIVE FOR EMPLOYEES OF
15 THE UNIVERSITY OF ALASKA. (a) The Board of Regents of the University of Alaska
16 is authorized to adopt a retirement incentive plan for its employees. A plan adopted under this
17 section must permit designated employees to apply to the retirement incentive program under
18 sec. 2 of this Act only from June 30, 1993, through no later than December 31, 1993.

19 (b) Under a plan adopted under this section, the administrator may not accept the
20 application of an employee unless the employee will be appointed to retirement on or before
21 August 1, 1994. The Board of Regents may set an earlier date by which employees of the
22 university must be appointed to retirement in order to participate.

23 (c) Notwithstanding the exclusion of members of the optional university retirement
24 program from participation in the teachers' retirement system under AS 14.25.040(a),
25 14.25.220(40), and AS 14.40, or in the public employees' retirement system under AS 14.40,
26 AS 39.35.120, and 39.35.680(21), a participant in the optional university retirement program
27 who is vested in one of those retirement systems may participate in the retirement incentive
28 program if the individual meets the other qualifications of this Act.

29 * Sec. 6. AUTHORIZATION FOR RETIREMENT INCENTIVE FOR OTHER
30 EMPLOYEES IN THE TEACHERS' RETIREMENT SYSTEM. (a) An employer under the
31 teachers' retirement system who is not otherwise covered by secs. 3 or 5 of this Act is

1 authorized to adopt a retirement incentive plan for its employees under sec. 2 of this Act. A
2 plan adopted under this section must permit designated employees to apply to the retirement
3 incentive program under sec. 2 of this Act only from June 30, 1993, through no later than
4 December 31, 1993.

5 (b) Under a plan adopted under this section, the administrator may not accept the
6 application of an employee unless the employee will be appointed to retirement on or before
7 August 1, 1994. The employer may set an earlier date by which employees of the employer
8 must be appointed to retirement in order to participate.

9 * Sec. 7. POLITICAL SUBDIVISION OR PUBLIC ORGANIZATION EMPLOYMENT.

10 Notwithstanding other provisions of law, a vested member who is a state employee and is
11 participating in the retirement incentive program may receive credit for employment with a
12 political subdivision or public organization before the political subdivision or organization
13 became an employer under the system for purposes of determining the years of service
14 requirements for retirement under AS 14.25.110 or AS 39.35.370, as appropriate. The
15 member may not receive credit for those years under this subsection for purposes of
16 determining benefits. In order for a state employee to receive credit under this subsection, the
17 employee's participation in the program must contribute to the overall cost savings of the
18 agency.

19 * Sec. 8. PROVISION AND AUTHORIZATION FOR ADMINISTRATIVE DIRECTOR

20 OF COURT. (a) The chief justice of the state supreme court may adopt a retirement
21 incentive plan for an administrative director of the Alaska Court System who is a member of
22 the judicial retirement system under AS 22.25.012 if participation in the plan will result in
23 savings to the court system in personal services costs within five years after the
24 commencement of the plan. The administrative director may participate only if the
25 administrative director is vested in the judicial retirement system and will be qualified to retire
26 under AS 22.25.010 after receipt of the retirement incentive. To participate, the administrative
27 director shall apply on a form provided by the administrator of the public employees'
28 retirement system.

29 (b) The court system shall include in the retirement incentive plan a reimbursement
30 agreement that requires the court system, for each administrative director of the Alaska Court
31 System who is retired under the plan, to reimburse the judicial retirement system within three

1 years after the end of the fiscal year in which the administrative director is appointed to
2 retirement in an amount equal to

3 (1) the actuarial equivalent of the difference between the benefits the
4 administrative director receives after the addition of the retirement incentive under this section
5 and the amount the participant would have received without the incentive, less the total of the
6 amount the participant has paid on the indebtedness determined under (d) of this section and
7 the amount paid under (f) of this section, if any; and

8 (2) an appropriate share of the administrative costs of the program.

9 (c) A retirement incentive plan adopted under this section must provide that
10 contributions from the court system under (b) of this section take priority over other
11 obligations of the court system to the maximum extent permitted by law.

12 (d) An administrative director of the Alaska Court System who participates in the
13 retirement incentive program is indebted to the system. The amount of indebtedness is equal
14 to 21 percent of the director's actual annual compensation, or the calculated annual
15 compensation for a member who works fewer than 12 months, for the year in which the
16 director terminates employment to participate in the program. An outstanding indebtedness
17 at the time the administrative director is appointed to retirement will require an actuarial
18 adjustment to the benefits payable.

19 (e) Notwithstanding sec. 2(g) of this Act, an administrative director of the Alaska
20 Court System who participates in the retirement incentive program receives a credit of three
21 years which may only be used to meet the age requirements for normal or early retirement
22 under AS 22.25.010(d).

23 (f) In order to establish eligibility for participation under (a) of this section, and in
24 addition to the employee indebtedness under (d) of this section, an administrative director may
25 elect to assume a portion of the employer liability calculated under (b) of this section. An
26 outstanding indebtedness at the time the employee is appointed to retirement will require an
27 actuarial adjustment to the employee's benefits.

28 (g) The chief justice of the Alaska Court System is authorized to adopt a retirement
29 incentive plan for the administrative director of the court system. A plan adopted under this
30 subsection must permit an administrative director to apply to the retirement incentive program
31 only from December 31, 1993, through June 30, 1994. The administrator of the public

1 employees' retirement system may not accept the application of the administrative director of
2 the Alaska Court System unless the administrative director will be appointed to retirement on
3 or before February 1, 1995.

4 * Sec. 9. RECOVERY OF EMPLOYER DELINQUENCIES. To recover a delinquency
5 owed by an employer other than the state under an agreement entered under sec. 2(d)(2) of
6 this Act, the Department of Administration may

7 (1) bring an action against the employer; or

8 (2) direct that the amount of the delinquency or a lesser amount be withheld
9 from any money payable to the employer by a state department or agency and that the amount
10 withheld be credited to the delinquency.

11 * Sec. 10. REEMPLOYMENT INDEBTEDNESS. (a) If a participant in the retirement
12 incentive program is reemployed after appointment to retirement under the program as a
13 member of the public employees' retirement system under AS 39.35, the teachers' retirement
14 system under AS 14.25, or the judicial retirement system under AS 22.25, the participant loses
15 the incentive credit received under sec. 2(g) or sec. 8(e) of this Act and is indebted to the
16 system. The amount of the indebtedness is equal to 110 percent of the amount the participant
17 received as a result of participation in the program to which the participant was not otherwise
18 entitled, including the cost of health insurance. The participant is entitled to a credit to be
19 applied against the reemployment indebtedness in the amount the participant has paid under
20 sec. 2(e), (f), and (i) or sec. 8(d) and (f) of this Act. Interest accrues on the indebtedness at
21 the rate established by regulation from the date of reemployment until the member is
22 appointed to retirement and accepts an actuarial adjustment to the member's future benefits
23 or until the amount is paid in full.

24 (b) Except as provided in this subsection, for three years after the date on which an
25 employee who participated in the program retired, the participant may not be employed by or
26 enter into a contract for personal services with a state department or agency. This subsection
27 does not prohibit

28 (1) the University of Alaska, during the three years immediately following the
29 employee's retirement, from entering into a personal services contract for the performance of
30 teaching or research duties with an employee who has participated in the program; or

31 (2) a participant in the program from accepting employment with the

1 legislature during the legislative session if the employment is on an hourly basis and if the
2 employment does not entitle the employee to receive retirement, health, or leave benefits.

3 (c) Notwithstanding the prohibition in (b) of this section, an employer may enter into
4 a personal services contract with an employee who has participated in the program if the
5 employer establishes to the satisfaction of the Board of Regents for the University of Alaska
6 or the commissioner of administration for all other employers that the employer has a
7 compelling reason to do so because of the employee's specialized or extensive experience that
8 relates to a particular program or project of the employer.

9 * Sec. 11. OFFICE OF MANAGEMENT AND BUDGET. (a) When designating an
10 organizational unit for participation in the retirement incentive program, the executive head
11 of a state agency shall describe in detail the expected effect of the program on the agency's
12 personal services cost and operation. This report shall be filed with the office of management
13 and budget. For each employee who will receive credit for employment under sec. 7 of this
14 Act, the agency head shall establish to the satisfaction of the office that the proposed
15 participation contributes to the overall agency cost savings. The agency shall report as
16 required by the office of management and budget on the cost of each member's participation
17 and the effect on the agency's personal services cost and operation.

18 (b) The office of management and budget shall develop and implement a method to
19 document in the governor's annual budget request the net reduction in personal services costs
20 for each agency that adopts a retirement incentive plan.

21 (c) The office of management and budget shall submit to the legislature annual reports
22 on the retirement incentive program beginning on January 15, 1995, and continuing through
23 January 15, 1997, and shall submit a final report on January 15, 1998. Each report must
24 provide the information necessary for the legislature to evaluate the effectiveness of the
25 program in achieving its objectives. The report must include information on the designated
26 organizational units under the retirement incentive plans including the cost of the retirement
27 incentive program per participant, the cost to the state, the cost to the employee, the annual
28 budgeted amount by agency for the retirement incentive, and the projected or actual net
29 savings over the five-year period.

30 * Sec. 12. PROGRAM CHANGES. An employee does not have a vested or contractual
31 right to a benefit under this Act until an agreement is executed with the administrator that

1 permits the benefits to be offered to an organizational unit of which the employee is a
2 member. The legislature reserves the right to change any aspect of the incentive program as
3 it relates to members of organizational units for which participation agreements are executed
4 by the administrator after the effective date of the changes.

5 * Sec. 13. DEFINITIONS. The definitions set out in AS 14.25.220 apply to secs. 2 - 13
6 of this Act for members of the teachers' retirement system. The definitions set out in
7 AS 39.35.680 apply to secs. 2 - 13 of this Act for members of the public employees'
8 retirement system.

9 * Sec. 14. Sections 2 - 8 of this Act are repealed July 1, 1995.

10 * Sec. 15. This Act takes effect immediately under AS 01.10.070(c).



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

Senate Bill #1

"An Act relating to retirement incentive programs"

The Alaska Council of School Administrators is in support of Senate Bill No. 1, "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 legislation is proposed, this concern is addressed.

We also believe that any retirement incentive program be on an as need basis rather than becoming a part of statute. By the absence of any such language, our concerns in this area are addressed as well.

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 provide 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.

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.

1.14.93

Hickel still opposes early retirement plans

The Associated Press

JUNEAU — Public employees hoping to retire early in the coming year may not get their wish. The Hickel administration plans to oppose any early-retirement legislation.

So far three bills have been filed to create a retirement-incentive program for state employees, teachers and many municipal workers.

But Gov. Wally Hickel opposes them, spokesman John Manly said.

The aide who helped persuade Hickel to veto a similar bill last year has not changed his mind. Budget director Shelby Stastny said the proposals do not make any fiscal sense.

Jim Duncan, D-Juneau and Senate minority leader, has filed an updated version of the bill that Hickel vetoed. He said he hopes to overcome the opposition.

"We're still pushing real hard for it," he said. "It's a management tool that should be available."

Duncan and other supporters say early retirement programs save government agencies money by replacing higher-paid, veteran workers with lower-paid rookies. They also say the programs prevent layoffs by shrinking the work force.

Opponents say the programs save little money because most early retirees plan to leave soon anyway. They also say the programs create a brain drain by en-

couraging knowledgeable and experienced workers to leave.

Both sides have cited audits examining past programs, based on bills Duncan sponsored that passed in 1986 and 1989. Duncan said the audits show government agencies saved about \$96 million. Stastny said research shows bureaucrats found other ways to spend that money, so little was really saved.

Duncan's Senate Bill 1 allows government workers to retire three years earlier than under normal rules. Workers and employers would make extra payments into their pension program to make up for the lost paycheck deductions and employer contributions.

Workers would have to retire between next July 1 and Feb. 1, 1995.

Duncan's new bill deletes a provision that would give the state administration the power to initiate a new early retirement program whenever it is deemed justified. Hickel cited that provision as his reason for vetoing last year's bill.

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

May 16, 1986 - October 1, 1987

Audit Control Number

02-1327-89-S

Commissioner, Department of
Administration

John M. Andrews

Deputy Commissioners, Department
of Administration

Charles E. Taylor
James J. Fox

STATE OF ALASKA

THE LEGISLATURE
BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

February 8, 1989

Members of the Legislative Budget
and Audit Committee:

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

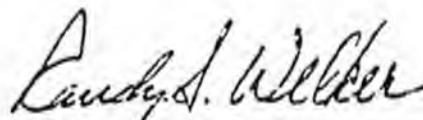
A REPORT ON THE
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM

May 16, 1986 - October 1, 1987

Audit Control Number

02-1327-89-S

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



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

TABLE OF CONTENTS

	<u>Page</u>
Report Objectives, Scope, and Methodology	1
Organization and Function	5
Auditor's Conclusion.	7
Schedule of RIP Cost Savings/(Loss)	9

REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

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

Objectives

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

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

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

Scope and Methodology

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

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

Limitations

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

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

ORGANIZATION AND FUNCTION

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

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

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

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

AUDITOR'S CONCLUSIONS

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

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

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

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

STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT INCENTIVE PROGRAM (RIP)
SCHEDULE OF RIP COST SAVINGS/(LOSS)
May 15, 1986 to October 1, 1987

Description	Number of Positions	Salary of RIP Retiree	Current Occupant's Salary of Position Vacated	Difference - Savings (Loss)	Savings (Loss) Over Three-Year Period	Net Cost of RIP	Three-Year Net RIP Savings (Loss)
<u>Office of the Governor</u>							
Positions Matched with FY 89 Payroll File	3	\$ 121,368	\$ 122,412	\$ (1,044)	\$	\$	\$
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	2	83,568	-0-	83,568			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>2</u>	<u>83,568</u>	<u>-0-</u>	<u>83,568</u>			
<u>Total Office of the Governor</u>	<u>5</u>	<u>204,936</u>	<u>122,412</u>	<u>82,524</u>	<u>267,572</u>	<u>106,746</u>	<u>140,826</u>
<u>Department of Administration</u>							
Positions Matched with FY 89 Payroll File	78	2,757,338	2,426,751	330,587			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	17	757,569	-0-	757,569			
Budgeted in PACS File but Currently Unfilled	3	63,028	-0-	63,028			
Budgeted in PACS File with Zero Months Budgeted	1	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>21</u>	<u>820,597</u>	<u>-0-</u>	<u>820,597</u>			
<u>Total Department of Administration</u>	<u>99</u>	<u>3,577,935</u>	<u>2,426,751</u>	<u>1,151,184</u>	<u>3,453,552</u>	<u>2,194,937</u>	<u>1,258,615</u>
<u>Department of Law</u>							
Positions Matched with FY 89 Payroll File	9	359,364	347,508	11,856			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	2	109,224	-0-	109,224			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>2</u>	<u>109,224</u>	<u>-0-</u>	<u>109,224</u>			
<u>Total Department of Law</u>	<u>11</u>	<u>468,588</u>	<u>347,508</u>	<u>121,080</u>	<u>363,240</u>	<u>277,016</u>	<u>86,224</u>
<u>Department of Revenue</u>							
Positions Matched with FY 89 Payroll File	14	504,180	438,504	65,676			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	2	84,168	-0-	84,168			
Budgeted in PACS File but Currently Unfilled	5	147,648	-0-	147,648			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>7</u>	<u>231,816</u>	<u>-0-</u>	<u>231,816</u>			
<u>Total Department of Revenue</u>	<u>21</u>	<u>735,996</u>	<u>438,504</u>	<u>297,492</u>	<u>892,476</u>	<u>431,635</u>	<u>460,841</u>
<u>Department of Education</u>							
Positions Matched with FY 89 Payroll File	16	716,604	592,860	123,744			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	12	382,971	-0-	382,971			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>12</u>	<u>382,971</u>	<u>-0-</u>	<u>382,971</u>			
<u>Total Department of Education</u>	<u>28</u>	<u>1,099,575</u>	<u>592,860</u>	<u>506,715</u>	<u>1,520,145</u>	<u>558,184</u>	<u>961,961</u>
<u>Department of Health and Social Services</u>							
Positions Matched with FY 89 Payroll File	133	5,153,460	4,493,323	660,137			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	9	377,954	-0-	377,954			
Budgeted in PACS File but Currently Unfilled	8	314,086	-0-	314,086			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>17</u>	<u>692,040</u>	<u>-0-</u>	<u>692,040</u>			
<u>Total Department of Health and Social Services</u>	<u>150</u>	<u>5,845,700</u>	<u>4,493,323</u>	<u>1,352,377</u>	<u>4,057,131</u>	<u>1,198,795</u>	<u>918,336</u>

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

Description	Number of Positions	Salary of RIP Retirees	Current Occupant's Salary of Position Vacated	Difference - Savings (Loss)	Savings (Loss) Over Three-Year Period	Net Cost of RIP	Three-Year Net RIP Savings (Loss)
<u>Department of Environmental Conservation</u>							
Positions Matched with FY 89 Payroll File	20	\$ 435,636	\$ 381,884	\$ 53,752	\$	\$	\$
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	1	38,712	-0-	38,712			
Budgeted in PACS File but Currently Unfilled	1	43,248	-0-	43,248			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>2</u>	<u>81,960</u>	<u>-0-</u>	<u>81,960</u>			
<u>Total Department of Environmental Conservation</u>	<u>12</u>	<u>517,596</u>	<u>381,884</u>	<u>135,712</u>	<u>407,136</u>	<u>241,087</u>	<u>166,049</u>
<u>Department of Corrections</u>							
Positions Matched with FY 89 Payroll File	36	1,482,921	1,292,028	190,893			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	1	45,744	-0-	45,744			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>1</u>	<u>45,744</u>	<u>-0-</u>	<u>45,744</u>			
<u>Total Department of Corrections</u>	<u>37</u>	<u>1,528,665</u>	<u>1,292,028</u>	<u>236,637</u>	<u>709,911</u>	<u>989,194</u>	<u>(278,283)</u>
<u>Department of Community and Regional Affairs</u>							
Positions Matched with FY 89 Payroll File	5	287,112	269,256	17,856			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	1	37,356	-0-	37,356			
Budgeted in PACS File but Currently Unfilled	0	-0-	-0-	-0-			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>1</u>	<u>37,356</u>	<u>-0-</u>	<u>37,356</u>			
<u>Total Department of Community and Regional Affairs</u>	<u>7</u>	<u>324,468</u>	<u>269,256</u>	<u>55,212</u>	<u>165,636</u>	<u>174,106</u>	<u>(8,470)</u>
<u>Department of Transportation and Public Facilities</u>							
Positions Matched with FY 89 Payroll File	214	9,061,536	8,230,543	830,993			
<u>Positions Not Matched with FY 89 Payroll File:</u>							
Not Budgeted in FY 89 PACS File	31	1,484,571	-0-	1,484,571			
Budgeted in PACS File but Currently Unfilled	35	1,516,269	-0-	1,516,269			
Budgeted in PACS File with Zero Months Budgeted	0	-0-	-0-	-0-			
<u>Total Positions Not Matched with FY 89 Payroll File</u>	<u>66</u>	<u>3,000,840</u>	<u>-0-</u>	<u>3,000,840</u>			
<u>Total Department of Transportation and Public Facilities</u>	<u>280</u>	<u>12,062,376</u>	<u>8,230,543</u>	<u>3,831,833</u>	<u>11,495,493</u>	<u>8,924,609</u>	<u>2,570,884</u>
<u>Total RIP Program</u>	<u>977</u>	<u>240,791,292</u>	<u>225,247,637</u>	<u>15,543,655</u>	<u>61,832,795</u>	<u>327,384,275</u>	<u>514,248,520</u>

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

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 Consrv.	36	34	12
Corrections	154	139	38
Comm. & Regional Aff.	21	18	7
Transportation	854	809	355
Ombudsman	1	0	0
Legislative Affairs	53	20	13
Legislative Finance	2	0	0
Legislative Audit	5	3	3
Court System	98	0	0
Total State PERS	2762	2287	1076
Total State TRS	38	36	19
University of Ak - PERS	325	319	107
University of Ak - TRS	372	349	95
Geophysical Inst - PERS	27	27	7
Geophysical Inst - TRS	38	35	8
Total University - PERS	352	346	114
Total University - TRS	410	384	103
Total Poly - Subs PERS	2661	1272	412
Total Schl Dists TRS	1773	1668	603
Grand Total PERS	5775	3905	1602
Grand Total TRS	2221	2088	725
Overall Total	7996	5993	2327

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

EMPLOYER	NUMBER RETIRED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs (\$1000's)	RIP COST (\$1000's)	SAVINGS OF (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 RETIREED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs (\$1000's)	RIP COST (\$1000's)	SAVINGS or (COST) FOR 5 YRS (\$1000's)
Wrangell Public School	2	2	455.5	330.6	43.7	81.2
Valdez City Schools	10	3	2,519.1	604.4	284.4	1,630.3
Adak Region School District	3	3	817.1	611.6	111.4	94.1
Fairbanks School District	71	71	17,998.0	13,592.1	1,826.8	2,579.1
Haines School District	5	1	1,529.6	384.8	131.3	1,013.5
Cordova Public Schools	1	1	185.3	112.4	19.3	53.6
Juneau School District	42	40	3,750.0	1,449.0	1,010.6	1,290.4
Lake and Penin. School District	2	2	675.0	600.0	53.6	21.4
Kenai Pen. School District	67	67	16,285.6	11,767.7	1,586.3	2,931.6
Southwest Regional School	4	4	666.5	527.7	91.0	47.8
Anchorage School District	373	368	81,249.2	59,225.1	8,580.7	13,473.2
Wenana 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						31,182.5

Schools

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

EMPLOYER	NUMBER RETIREED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs (\$1000's)	RIP COST (\$1000's)	SAVINGS or (COST) FOR 5 YRS (\$1000's)
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	1,145.6
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

Introduction

This report describes 17 state early retirement incentive programs in effect in 1991 and 1992. States have adopted such programs in an effort to cut state employment levels as painlessly as possible. This introduction describes the mechanics of such programs. The table of state-by-state descriptions is followed by an assessment of the effectiveness of such programs in reaching their stated goals.

State retirement plans typically calculate retirees' benefits by a formula that takes final salary and years of service into account: more years of service and higher earnings produce higher retirement benefits. Typically, states also require employees to meet some criteria of age and years of service to be eligible for retirement benefits at all. Vermont's state employees, for example, are eligible for retirement benefits when they are 62 years old if they have a minimum of 10 years of credited service; California's comparable requirements are five years of service and the age of 60.(1)

Early retirement incentives relax some of the usual retirement criteria to allow employees an earlier retirement than would otherwise be possible, or they offer an improvement in benefits to induce retirement among people who are already eligible but who would otherwise postpone their retirement in order to earn higher benefits. These improved benefits are usually available only for a brief time—three months or so.

The 17 plans described below show a wide assortment of possible incentives. Arizona's plan is the simplest: a 5 percent improvement in benefits for people who retired during the "window" of opportunity.

Connecticut is more typical. The state's regular plan allows state employees to retire with full benefits at age 65 with 10 years of service. Retirement is possible at an earlier age, but benefits are proportionately reduced according to the person's age. Under the early retirement incentive, employees were offered three years of extra credit that they could apply either to their years of service or their age. It allowed full benefits at age 50 with 25 years of service. Thus, someone who was 50 and had 22 years of service could use the three-year credit to become eligible for retirement. Someone who was 65 with more than enough years of service could use the credit to improve benefits.

Illinois used another variation—allowing employees to purchase retirement credit. For a single payment equal to 50 percent of an employee's average contribution for the five previous years, employees over the age of 50 could buy five years' worth of service credit and five years' credit on the age requirement. The early retirement window allowed anyone aged 50 with three years of service to retire.

NCSL Survey

In October of 1992 the NCSL Fiscal Affairs Program surveyed 17 states that implemented early retirement programs in FY 1992 or FY 1993. The purpose of the survey was to gather information on the nature of the programs, the incentives offered early retirees, the percentage of employees that participated, the amount of salary savings to the states, and whether there was a reduction in the size of the state workforce.

Highlights of the Survey Results

The highlights of the survey include the following:

- Pennsylvania had the greatest number of eligible employees for a retirement program—14,000.
- Virginia reported the highest participation rate of any of the programs—60 percent.
- Connecticut reported the largest savings in salaries—\$120 million.
- Wyoming was the only state reporting no end date for its early retirement program.

**States That Enacted Early Retirement
Windows for Public Employees in FY 1992 or FY 1993**

Arizona

Period of eligibility	July 1, 1992, to October 31, 1992
Benefits	Allowed anyone who retired during the window to receive a 5 percent increase in benefits. The retirees also had their cost of living allowance (COLA) moved up a year if they chose to retire during the first 90 days of the program. Together with a 3 percent hold-harmless increase for taxes on benefits, the increase could total as much as 8 percent.
Eligible personnel	State employees
Number of employees eligible	600
Participation	Estimate not available.
Salary savings	Estimate not available.
Net employee reduction	Estimate not available.

California

Period of eligibility	June 8, 1992, to August 6, 1992
Benefits	Allowed any vested employee aged 50 and over to retire and receive credit of an additional two years of service. Three state university systems offered similar benefit program.
Eligible personnel	State employees and university personnel
Number of employees eligible	Estimate not available.
Participation	885 employees from 39 state agencies participated. The California State University System reported that 1,500 employees took advantage of its program.
Salary savings	Estimate not available.
Net employee reduction	The program was aimed primarily at producing lower-salaried replacements in state agencies.
Special provisions	Each state agency had to determine whether it would participate in the program.

Connecticut

Period of eligibility	Not available
Benefits	Allowed eligible employees to add three years either to their age or to their service in order to have a combination of 50 years of age and 25 years of service.
Eligible personnel	State employees
Number of employees eligible	8,000
Participation	30 percent
Salary savings	\$120 million (replacement costs were not figured into the savings).
Net employee reduction	Estimate not available.

Delaware

Period of eligibility	Not available
Benefits	Eligible employees were those with at least 15 years of service and 50 years of age. The program added 5 years to the length of service. Those with 25 years of service could have their first three months of pension payments doubled up to 100 percent of their salary. Early retirees also were protected from a reduction in pension benefits due to early retirement.
Eligible personnel	State and school district employees
Number of employees eligible	4,800
Participation	52 percent
Salary savings	\$10 million
Net employee reduction	Originally projected at 500 state employees.

District of Columbia

Date of eligibility	August 1, 1991, to December 31, 1991
Benefits	Allowed anyone 50 years of age with at least 20 years of service to retire. Also included was anyone of any age who had 25 years of service. Retirees received either three months' or six months' pay in a lump sum payment, depending on their pay grade. The program also included a penalty of 2 percent of the annuity for each year a retiree was under age 55.
Eligible personnel	District employees
Number of employees eligible	3,000
Participation	33 percent
Salary savings	\$29 million
Net employee reduction	1,300
Special provision	The District had to operate under the rules of the U.S. Civil Service Retirement System.

Illinois

Period of eligibility	November 1, 1991, to December 31, 1991
Benefits	Allowed any state employee who was at least age 50 to purchase or make a contribution equal to one-half of their regular pension contribution rate for five years. The purchase allowed a service credit of five years and an age increase of five years.
Eligible personnel	State employees
Number of employees eligible	14,000
Participation	33 percent
Salary savings	\$83 million
Net employee reduction	Estimate not available.

Iowa

Period of eligibility	May 15, 1992, to January 15, 1993
Benefits	Allows anyone at least 55 years old with 20 years of service to retire. If an employee stays on the health and medical program, the state will continue to pay the employer portion until age 65.
Eligible personnel	State employees
Number of employees eligible	618
Participation	One-third to one-half of eligible employees expect to take advantage of the program.
Salary savings	\$2.8 million in FY 1993; \$5.2 million in FY 1994
Net employee reduction	The state anticipates half the positions to be filled after the retirements.

Maine

Period of eligibility	July 1, 1991, to June 30, 1992
Benefits	Allowed employees aged 60 to retire, but offered retirees the incentive of continuing to work for the state at 80 percent of their previous salary for up to three years. The retirement system would not reduce the retirees' benefits if they continued working; the state was also exempted from making the employer's pension contribution and health and life insurance payments.
Eligible personnel	State employees
Number of employees eligible	400-500
Participation	190 employees
Salary savings	\$1.5 million
Net employee reduction	Not applicable

Massachusetts

Period of eligibility	May 1, 1992, to June 30, 1992
Benefits	Allowed any state employee to be eligible if age 55 with 10 years of service. Employees were allowed to add five years to their age or their service or combine both in order to receive greater benefits. The formula, on average, provided benefits to the retirees as if they had worked an additional three years.
Eligible personnel	State employees except higher education and judiciary employees
Number of employees eligible	13,000
Participation	28 percent
Salary savings	Estimate not available.
Net employee reduction	The target number was 5,000. The legislature enacted a 15 percent cap on position replacements, and so far the state has refilled 3 percent of the vacated positions.
Special provision	Program participants capped at 7,000

Michigan

Periods of eligibility	October 1, 1991, to April 1, 1992; June 1, 1992, to July 15, 1992
Benefits	Allowed anyone whose age and year of service added up to 70 to retire. No other incentives or service credit were offered.
Eligible personnel	State employees
Number of employees eligible	11,000
Participation	20 percent to 30 percent
Salary savings	Estimate not available.
Net employee reduction	Estimate not available.

Minnesota

Periods of eligibility	July 1, 1991, to October 1, 1991; July 1, 1992, to October 1, 1992
Benefits	Any state employee with 25 years of service and at least 55 years of age but not 65 was eligible for the early retirement windows offered in FY 1992 and FY 1993. School teachers were not eligible for the program in 1991 but had the option of applying in 1992. The programs were identical in both years. The incentive offered the early retirees was that the state would extend their employee health and dental insurance coverage until age 65.
Personnel eligible	State employees, local government and school district employees
Number of employees eligible	1,100 (state employees only)
Participation	24 percent in FY 1992; 16 percent in FY 1993 (state employees only)
Salary savings	Estimate not available.
Net employee reduction	Estimate not available.

New Jersey

Period of eligibility	April 1, 1991, to September 1, 1991
Benefits	The state offered two types of early retirement programs. One program allowed anyone 60 years of age with 20 to 24 years of service to retire. The incentive was that the employer would continue to extend medical insurance coverage until age 65. The second program allowed employees at least 50 years of age with 25 years of credit to retire. The incentive offered the second group was an additional five years of service credit.
Eligible personnel	State employees
Number of employees eligible	5,600
Participation	52 percent
Salary savings	\$119 million
Net employee reduction	Target number was 2,200. The number of employees that took early retirement represents 3.8 percent of the state workforce. The governor's office has estimated that only 34 positions have been refilled.

New York

Period of eligibility	June 10, 1991, to July 10, 1991; August 1, 1991, to August 30, 1991
Benefits	Not available
Eligible personnel	Employees of school districts, state-operated universities and contract universities, and the state education department. All eligible employees were members of the Teachers Retirement System.
Number of employees eligible	Estimate not available.
Participation	Estimate not available.
Salary savings	Local governments expect to save \$115 million.
Net employee reduction	Estimate not available.

Pennsylvania

Period of eligibility	February 1, 1991, to December 31, 1991
Benefits	Allowed anyone at least 55 years old with no less than 10 years of service with the state to retire. The incentive was a 10 percent addition to the length of service.
Eligible personnel	State employees
Number of employees eligible	16,404
Participation	40 percent
Salary savings	\$41 million
Net employee reduction	The intent was to reduce the number of state employees. There was a 70 percent replacement rate for the vacated positions when a 50 percent replacement rate was originally calculated.

Virginia

Period of eligibility	July 1, 1991, to September 1, 1991
Benefits	Allowed anyone at least 50 with 25 years of service to retire. The program offered qualified employees five years of service credit, no retirement benefit penalty for early retirement, and \$100 per month in Social Security supplemental payments until age 65.
Eligible personnel	State employees
Number of employees eligible	5,300
Participation	60.3 percent
Salary savings	\$14.0 million
Net employee reduction	2,000

Washington

Period of eligibility	June 15, 1992, to August 31, 1992
Benefits	Allowed employees to retire with full benefits after 25 years of service compared to the regular 30 years. Employees could retire at age 55 with at least five years of service instead of 60 years and five years of service. Also, employees could retire at age 50 with 20 years of service, compared to the normal requirement of at least 55 years of age and 25 years of service. All of the temporary changes were made with the guarantee that the retiree would not have an actuarial reduction or reduction in pension benefits. Under normal circumstances employees would be penalized if they retired before reaching the regular retirement age or years of service.
Eligible personnel	State employees and school teachers
Number of employees eligible	3,960 teachers and 4,600 state employees
Participation	21 percent
Salary savings	\$17.5 million
Net employee reduction	One purpose of the program was to replace K-12 teachers at a lower level of pay. Another aspect was that state agency budgets had already been cut and the program offered a way to reduce the number of full-time personnel.
Special provision	Prohibited any rehiring of the early retirees.

Wyoming

Period of eligibility	Began July 1, 1992, and has no end date.
Benefits	Employees needed a combined age and years of service total of 85 to qualify. Anyone retiring before the age of 60 would have no reduction in their retirement benefits.
Eligible personnel	All public employees in the state that belong to the Wyoming Retirement System.
Number of employees eligible	488
Participation	25 percent expected
Salary savings	Estimate not available.
Net employee reduction	No target number.

State Experience with Early Retirement Programs in the 1980s

As the 1992 NCSL survey of state early retirement incentive plans shows, state governments continue to use them to save personnel costs and reduce the number of state employees. Ideally, savings and workforce reductions occur together as eligible employees volunteer for retirement. An additional bonus is that promotional opportunities can open up for other employees, even if not all vacated positions are to be refilled. Cost savings, a cut in the public payroll, improved morale as a result of promotions—what could be better?

Is it too good to be true? Do early retirement incentives live up to expectations, or do they simply shuffle employees and shift costs from current payrolls to retirement funds?

State experience over the past decade indicates that early retirement incentive plans can meet expectations, *IF* the expectations are moderate, and *IF* the plans include controls on replacement hiring and funding to cover the growth in retirement systems' costs. It can be hard to tell if expectations are met because savings can be hard to track. For example, if savings from the budget of an agency that does not replace retirees are used to hire new staff in an overworked agency, does that count as a saving?

The most comprehensive source of information on these issues is a report the Texas Pension Review Board compiled in 1988 on 24 early retirement programs that were in effect between 1984 and 1988. The board asked pension system administrators to evaluate the success of the programs and concluded:

Many states felt that an early retirement incentive program was useful in meeting the initial stated goals of reducing work force, avoiding layoffs, and providing payroll savings. At the same time, most states indicated disappointment in the long-term reduction of employees and costs. It appears that in some cases the costs were considerably more than the savings, with the costs of the incentives wiping out any financial gains. States which showed some cost savings were those whose enabling legislation either placed restrictions on the number of rehires or included provisions for the cost of the program to be borne by the employer with cost savings certified prior to implementation of the retirement incentive program.(2)

In 1991 the National Association of State Budget Officers produced a study that confirms the Texas Pension Review Board's cautious assessment of the success of early retirement programs. On the basis of 25 states' experience from 1985 to 1990, the report concluded

A key element of a successful early retirement plan was to maintain position vacancies for an extended time period, such as three to five years.... If positions were refilled within a couple of years, states that pay retiree health

benefits might see their health benefit costs surge as the state pays benefits for both current and retired employees. Successful plans, in a budgetary sense, require discipline on the hiring side. Without such discipline and without a long-term focus, states could find themselves refilling the majority of positions after funding generous retirement incentives.(3)

Careful planning, monitoring, and evaluation can save a retirement incentive program from such pitfalls. An Alaska program of 1989 shows one way to do it. The goal of the Alaska program was precise: to reduce personnel expenditure costs through voluntary retirement rather than through layoffs.(4)

The incentives and age and service requirements of the program were within the range of most such programs, but one additional requirement may have been unique: No state or local government employee was eligible for the program unless his or her employer could demonstrate that the savings in salary and benefits projected over five years would exceed the state's costs for the retirement. Calculation of the costs had to include:

- * • Salary and benefits for the retiree's replacement, if any.
- * • A payment from the employer to the retirement system to match the full increased cost (on the basis of present value) to the system of the employee's early retirement. The amounts of these contributions were calculated for each individual retiree.
- * • A fee paid the state Division of Retirement and Benefits for processing the claim.

In the program's original form, cost savings had to be demonstrated in a three-year period. That turned out to be so difficult that few employees could retire. Even after the program was amended to permit savings to be demonstrated over five years rather than three, about 40 percent of the people who wanted to retire could not demonstrate the needed savings and under an additional new provision paid the state \$750,000 in contributions to make their retirement possible.

The Alaska auditor concluded that the program had paid for itself and saved participating state and local governments about \$23 million over three years. These rather modest savings result in part from Alaska's explicit counting of all program costs. That this tightly controlled program (with the actuarial cost of each retirement calculated individually) saved so little money suggests how unlikely it is that less carefully designed programs will save any costs at all.

In conclusion, the consensus appears to be that it is difficult to obtain real savings from retirement incentive programs for state employees, and that control of replacements is the key to savings. Explicit accounting for all costs, including future costs to retirement systems, is essential.

-
1. The states' requirements are listed in detail in *1992 Comparative Study of Major Public Employee Retirement Systems*, Blair Testin, editor, (Madison, Wisc. State of Wisconsin Retirement Research Committee, Dec. 1990). The report is available from the Fiscal Affairs Program of the National Conference of State Legislatures.
 2. Texas State Pension Review Board, *Fifth Biennial Report, 1987-198*, (Austin, Texas: 1988), p. 73.
 3. Stacey Sheffrin, "NASBO Reports on States' Experience with Early Retirement," *The Fiscal Letter*, Vol. XIV, No. 2 (March/April 1992).
 4. Division of Legislative Audit, *Department of Administration 1989 Retirement Incentive Program Estimated Savings Realized and Costs Incurred by Participating Employers* (Audit Control Number 02-4404-91, Juneau, Alaska: Alaska State Legislature, Legislative Audit and Budget Committee, November 1991).

Audit Report

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

November 22, 1991



Audit Control Number:

02-4404-91

Division of Legislative Audit

P.O. Box W, Juneau, Alaska 99811-3300

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

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November 27, 1991

Members of the Legislative Budget
and Audit Committee:

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

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

November 22, 1991

Audit Control Number

02-4404-91

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

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

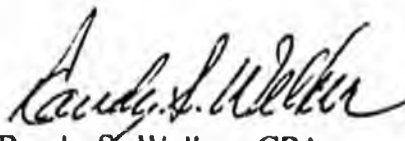

Randy S. Welker, CPA
Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Objectives, Scope, and Methodology	1
Organization and Function	3
Background Information	5
Report Conclusions	9
Auditor Comments	13
Employer Comments and Discussion	19
Notes to Schedule 1 - Savings or Costs by Employer	25

OBJECTIVES, SCOPE, AND METHODOLOGY

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

Objectives

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

Scope

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

Methodology

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

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

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

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

ORGANIZATION AND FUNCTION

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

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

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

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

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

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

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

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

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

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

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

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

Example of how RIP Savings are estimated

BACKGROUND INFORMATION

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

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

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

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

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

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

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

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

1990 legislation amended RIP program and provided for more participation

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

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

Each employer could set their own eligibility requirements for RIP participation

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

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

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

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

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

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

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

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

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

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

<u>Employer</u>	<u>Number of Retirees</u>	<u>Estimated Savings or (Costs) (Note 1)</u>	<u>Employer</u>	<u>Number of Retirees</u>	<u>Estimated Savings or (Costs)</u>
State of Alaska (Note 2)	739	\$ 6,033,100	Yukon/Knyukuk Schools	2	\$ 53,000
University of Alaska (Note 3)	145	4,317,800	Fairbanks North Star Borough (Note 16)	2	49,700
Anchorage School District (Note 4)	306	2,684,900	City of Palmer	3	46,600
Kenai Peninsula Borough Schools (Note 5)	72	1,988,800	Cordova City Schools	2	45,400
Fairbanks North Star Borough Schools (Note 6)	85	1,554,100	Kodiak Island Borough Schools	4	43,700
City of Fairbanks (Note 7)	22	776,700	Alaska State Housing Authority	4	42,700
North Slope Borough School District (Note 8)	42	517,500	Lower Yukon School District	5	38,600
Matanuska-Susitna Borough Schools (Note 9)	42	487,800	Unalaska City School District (Note 11)	3	37,500
North Slope Borough (Note 10)	12	469,600	Iditarod Area Schools (Note 11)	5	34,000
Ketchikan Gateway Borough Schools	23	443,000	Cordova Community Hospital	3	31,400
Lower Kuskokwim Schools (Note 11)	25	324,000	Alaska Gateway Schools	2	27,900
Matanuska-Susitna Borough (Note 12)	9	310,900	City of Kenai	3	27,700
Sitka School District	17	229,700	National Education Association	1	21,600
Kenai Peninsula Borough (Note 13)	6	224,900	City of Haines	1	17,300
Juneau Borough Schools	28	217,700	Bartlett Memorial Hospital	2	16,300
Dillingham City Schools	3	213,600	Nenana City Schools (Note 11)	1	15,400
City and Borough of Juneau	19	199,600	Skagway City School (Note 11)	1	15,400
Hoonah City Schools	2	151,200	Bristol Bay Borough Schools (Note 17)	1	14,600
Haines Borough School District	2	150,700	Nome City Schools	5	12,900
Bering Strait Schools (Note 11)	17	149,800	Southeast Regional Resource Center	2	12,300
Wrangell City Schools	9	124,500	Ketchikan Gateway Borough	1	11,300
City of Hoonah (Note 14)	2	118,000	City of Ketchikan (Note 18)	1	5,400
Southwest Region Schools (Note 11)	9	112,500	City of Kotzebue	1	3,000
Delta/Greely Schools (Note 11)	7	107,500	City of Valdez	2	2,600
City of Homer	5	102,100	City of Seward	2	800
Valdez City Schools	3	84,100	Craig City Schools	1	(12,800)
City of Kodiak (Note 15)	6	77,500	Bristol Bay Borough	1	(14,400)
Kuspuk Schools (Note 11)	7	64,700	Yakutat City School District	1	(16,900)
Chatham Schools	6	64,600	Kake City Schools	1	(29,700)
Southeast Island Schools	4	63,000	Yupit School District	2	(30,600)
Sitka Community Hospital	3	60,100	City and Borough of Sitka	7	(31,300)
City of Wrangell	9	58,900	Seward General Hospital	2	(44,800)
Kodiak Island Borough	4	55,300	Total	1,764	522,984,800

REPORT CONCLUSIONS

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

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

University savings came from elimination of positions and high salary differentials

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

For some employers savings were small or non-existent

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

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

Schedule 2 - Savings/Costs by Department

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

	TRS			PERS			TOTAL		
	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant
State of Alaska	18	\$ 276,900	\$13,383	721	53,756,200	\$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	204	2,894,500	14,189	102	(209,600)	(2,055)	306	2,684,900	8,774
Kenai Peninsula Borough Schools	56	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	619,700	30,359	85	1,554,100	18,284
North Slope Borough School District	24	308,600	12,856	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	7,773
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	68,900	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	\$18,435	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