ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672
1050 HOUSE STATE AFFAIRS

334

1% of final compensation for each year of creditable service over 25 but not over 30 (75% maximum) once the funded level exceeds 104%.

The law also provides for the establishment in PFRS of a benefit enhancement fund to which will be credited an amount of excess valuation assets for the valuation period beginning with the valuation report which indicates a funded level of 104%. The amount of excess valuation assets credited to the benefit enhancement fund will not exceed the present value of the expected additional normal and accrued liability contributions attributable to the increase in the PFRS special retirement benefits payable on behalf of the active PFRS members. No additional excess valuation assets will be credited to the benefit enhancement fund after the maximum amount is attained. The normal and accrued liability contributions for this increase in PFRS benefits for active employees will be paid from the benefit enhancement fund. If fund assets are insufficient to pay those contributions for a valuation period, the retirement system will pay the amount not covered by assets from the benefit enhancement fund.

New York. Chapter 167, Laws of 2003, allows retiring members to elect a lump-sum benefit payment in lieu of a maximum service retirement pension that would total $2,400 per year or less. Previously, only members who would have a maximum pension of $1,000 per year or less had this option. Enables certain current service retirees, as well as certain beneficiaries currently receiving a lifetime benefit (other than a Tier 3 or 4 accidental death benefit), to "cash out" their benefit entitlements if their annual benefit is no more than $2,400 per year.

North Dakota. SB 2057 creates a partial lump sum distribution option (PLSO) for members of the Teachers' Fund for Retirement eligible for an unreduced retirement annuity to provide a lump sum cash payment in exchange for a permanent monthly benefit reduction.

- Member makes a one time election at retirement to receive a lump sum payment equal to 12 times the amount of the Single Life Annuity payable at the same time the monthly retirement annuity begins.
- The monthly retirement option selected is actuarially reduced to reflect the partial lump sum payment.
- This option is not available to members who select the level income option, members receiving disability benefits, or to beneficiaries of deceased members.

Oklahoma. SB Bill 643 allows for most members of the Oklahoma Public Employees Retirement System (OPERS) to make an election to increase or "step-up" the computation factor for all future service from 2% to 21/2%, effective January 1, 2004. The step-up election is irrevocable and is binding for all future employment under OPERS, even if there has been a break in service. This step-up election is available for all state, county and local government employees, except for elected officials and specified public safety categories of employees. After January 1, 2004, the election can be made at any time and will be effective the first day of the month following the election. Those making the election will also pay a higher or stepped-up contribution rate, currently an additional 2.91%.

HB 1440 provides a partial lump sum option for Teachers Retirement System members, permitting a payment equal to 12, 24 or 36 months' benefit with a commensurately reduced lifetime benefit. Only members with 30 or more years of credited service are eligible for the option.

Oregon. HB 2001, 2003 and 3020 provide that Tier One regular member accounts may not be credited earnings in coming years until the deficit reserve account has been eliminated. Accounts may not be credited with a level of earnings that would create a new deficit reserve. Tier One regular accounts may be credited in excess of the assumed rate only after the deficit reserve account has been eliminated and the Tier One assumed rate reserve account is fully funded in each of three previous calendar years.

The limit on earnings crediting does not apply to any Tier One member who retires before April 1, 2004 or to judges (who are judge members on June 30, 2003). Only earnings on Tier One regular accounts may be used to eliminate the deficit account. The measures also eliminated the five-year limitation on a deficit reserve account.

Each Tier One member will have a minimum account balance guarantee if they retire on or after April 1, 2004. At the time of retirement, the regular account may be no less than what it would have been if it had been credited with the assumed interest rate (currently 8%) in every year the account existed. PERS must make an adjustment to the member's regular account if the account balance does not meet this test.

HB2003, 2020 and 3020 provided that Tier One and Tier Two members may not contribute or transfer funds to the Variable Annuity Account after January 1, 2004. Those accounts will continue to gain or lose interest earnings on existing balances.

Also starting January 1, 2004, the six percent employee contribution for Tier One and Tier Two members may not be made to a member's PERS account. Active members must instead make payments equaling six percent of their salary to the individual account program (IAP) portion of the Oregon Public Service Retirement Plan (set up for new hires per HB 2020). Each member will have a separate account that will be credited with earnings and losses over the lifetime of the account.

[Tier One, closed in 1996, provides member accounts to which member and employer contributions were credited. They were credited with interest earnings, in recent years guaranteed at 8 percent annually. When a member retired, the member's benefit calculation was based on accumulated contributions in member and employer accounts plus earnings and alternatively as a benefit based salary and years of service. The member received a benefit based on the higher result. In the recent past, the 8 percent earnings guarantee so far exceeded actual investment earnings as to create a very large accrued actuarial deficit that exhausted the deficit reserve (accumulated from investment earnings in excess of guarantees) and created a negative reserve. This legislation is part of an effort to bring the plan back into balance. It is currently challenged in the courts -- 10/03.]

Defined Benefit Plan - New

Oregon. HB 2020 established a successor retirement plan, the Oregon Public Service Retirement Plan (OPSRP). The new plan consists of a defined benefit program (the pension program) and a defined contribution portion (the individual account program (IAP). OPSRP will be governed by the PERS Board and administered by the PERS agency. The Oregon Investment Council will make investments on behalf of the plan.

New public employees hired on or after August 29, 2003, become part of OPSRP. Tier One or Tier Two PERS members who have a six-month service break will become a member of OPSRP when rehired for any subsequent employment. Beginning January 1, 2004, all current PERS member contributions will go into the Individual Account Program (IAP) portion of OPSRP (see "Employee Contributions" section, above).

The pension portion of the OPSRP provides a life pension funded by employer contributions. The formula for the life pension and retirement age varies for general service and police and fire members.

	Pension Calculation	Retirement Age
General service	1.5 percent × final average salary × years of service	65 or 58 with 30 years of retirement credit.
Police and fire	1.8 percent × final average salary × years of service	60 or 53 with 25 years of retirement credit

OPSRP members are required to contribute six percent of their salary to the individual account program (IAP). Each member will have a separate account that will be credited with earnings and losses over the lifetime of the account. At retirement, the amount in a member's IAP will be distributed to the member in a single lump sum or an employee may opt to receive installment payments over 5, 10, 15, or 20 years.

Employers are allowed to agree to pay the six percent contribution ("pick up"). An employer picking up the employee contribution must do so until December 31, 2005. The employer must continue picking up the contribution after this time, unless the employer notifies the PERS Board in writing of a change in the employer's policy.

Wisconsin. 2003 Wisconsin Act 33, Section 181 ff (the budget act), authorizes the issuance of $1.35 billion in revenue obligation or appropriation obligation bonds, $750 million of which would be to pay all or part of the state's unfunded prior service pension liability, and the remaining $600 million of which would cover the state's unfunded liability for its accumulated sick leave conversion credit program. Revenue obligation bonds would be funded by the state's excise taxes on alcoholic beverages, cigarettes and other tobacco products. Appropriation obligations are payable from annual general revenue appropriations and are not considered debts of the state. Both kinds of issue would be considered moral obligations of the state.

Defined Contribution Plans For Broad Categories of Employees

Oregon. See "Defined Benefit Plans -- New."

Virginia. HB 1986 provides that the Commonwealth, the Board of Trustees of the Virginia Retirement System ("VRS"), the employees of VRS, and the Investment Advisory Committee of VRS shall not incur any liability for losses suffered by deferred compensation and defined contribution retirement plans administered by VRS.

Deferred Retirement Option Plans

Oklahoma. SB Bill 668 and HB 1464 created a "Back" DROP for members of the three statewide public safety retirement plans. The "Back" DROP allows the members who have worked for more than 20 years to decide retroactively to have service in excess of 20 years (up to a total of five years) to be treated as though the member had entered a DROP plan upon completing 20 years of service. A member, however, cannot receive credit to the DROP account any years prior to when the member reached his normal retirement date. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP. The systems' actuary has advised that that the fiscal impact of the "Back" DROP is negligible.

Disability

Alaska. HB 254 allows a disabled peace officer or fire fighter to elect the higher of their disability benefit or their normal retirement benefit upon reaching normal retirement age. Currently, they are automatically converted to a normal retirement benefit, which often has the effect of reducing their pension benefit.

North Carolina. HB 397 rewrote definitions of disability for the short- and long-term disability plans to change the definition of short-term disability from "no longer able to perform his usual occupation" to "unable to perform the duties of the participant's job or any other available jobs with the State..." and the definition of long-term disability from "mentally or physically incapacitated for the further performance of duty" to "unable to perform any occupation for which the beneficiary or participant is reasonably qualified for by training or experience ...."

Oklahoma. SB 643 provides that an member of the Public Employees Retirement System (OPERS) who has retired under early retirement provisions, and who becomes qualified for a disability benefit under OPERS plan provisions with a disability date on or after July 1, 1999 can apply to receive disability benefits in lieu of the early retirement benefits

Utah. Chapter 241, Laws of 2003, requires that all public safety employees covered by the Utah State Retirement System be provided with long-term disability insurance.

Virginia. HB 1622 clarifies that state disability benefits are not to be offset by certain benefits received by a participating employee for service in the U.S. armed forces.

Early Retirement Incentives

Connecticut. F 03-2 establishes an early retirement incentive program for active full-and part-time state employees who retire directly from state employment between March 1 and June 1, 2003. The incentive allows an eligible employee to add up to three years to his age or service credit. The credit must be applied first to the employee's actual age to reach age 55, with any remainder added to his service. Additional credit for hazardous duty members must be applied to their service. (Hazardous duty members may retire after 20 years' hazardous duty service regardless of age.) Credit must be applied in one-month units.

Provisions include an age requirement of 52; 10 or 20 years of actual service depending on service category; eligibility for laid-off employees who would have been eligible had they not been laid off; and restrictions on return to work. The legislation also contained restrictions on replacing employees who take early retirement.

An employee who was laid off or whose position was abolished between November 1, 2002, and May 31, 2003, who would otherwise have been eligible for the Early Retirement Incentive Program, shall be eligible to receive the benefits of the plan beginning March 1, 2003, if such employee is at least fifty-two years of age. Any such employee who retires shall not be rehired. If such employee has received payment for accrued vacation and sick leave, such employee shall not be required to repay such amount in order to be eligible for ERIP.

PA 03-232 authorizes local boards of education to provide an early retirement incentive plan for teachers by buying up to five years of credited service per teacher, paying the Teachers Retirement Board the full actuarial value of the increased benefits for each participant. The purchase may be made in annual installments over a period not to exceed three times the additional number of years purchased.

California. AB 593, Chapter 1023, instructs the governor to issue an executive order giving state departments and agencies the option of participating in the "golden handshake" program, which credits retiring workers with two extra years of service, but does not add to age credits. Eligible workers would be able to retire with the extra two years of service credit from December 3, 2002 through February 1, 2003.

[The governor's executive order directs agencies to designate eligible employees' by job classification and organizational units only if savings generated by their early retirements would offset any cost to the state, and agency participation must be approved by the Department of Finance. A new report on October 14, 2003, reported that very few agencies had made use of the option in AB 593 on the ground that the program would not save money.]

AB 457 was vetoed by Governor Davis in October 2003. It would have allowed the state government and local governments and schools to offer workers an incentive to retire early, including two years of service credit and two years of age credit for free.

Indiana. The Indiana State Personnel Department administered a program of early retirement incentives in late 2002 and early 2003, not reported in the 2002 version of this report.

Eligibility requirements were state employment on November 1, 2002; age of at least 50 on the proposed date of retirement; 10 years of service credit in the public employees' or state teachers' retirement plan; at least one full year of state employment; and eligibility for retirement on the proposed retirement date when the incentive service credit made available under this plan was included. An employee had to indicate a decision to take advantage of the plan between 11/1/2002 and 2/28/2003 and retire by June 14, 2003. Employees who had previously submitted an intention to retire during the window were eligible for the incentive.

Employees who were eligible to purchase additional service credit under existing law could do so in order to augment the benefit calculation.

The incentives consisted of one additional year of service credit for each five years of creditable service, prorated for additional incentive credit for service over ten years that did not add to a five year segment. The additional incentive credit would increase retirement benefits. In addition, employees received $300 in cash for each year of credited service (including the additional incentive credit added under this program) paid in three equal payments from July 1, 2003 through July 1, 2004.

Maine. Pursuant to Chapter 451, P.L 2003, Part M, the Department of Administrative & Financial Services offered a payment of $3,000 in cash to state employees qualified to retire who did so on September 1 or October 1, 2003. Employees had to meet normal retirement age qualifications and age requirements, if any, imposed by the plan to which they belonged. The $3,000 could be pro-rated for eligible part-time and seasonal employees. Employees who had given notice of their intention to retire before the incentive was announced were eligible for the incentive. The incentive did not alter retirement benefits or requirements other than by providing the cash payment.

Vacated positions cannot be filled before April 1, 2004, and participating employees cannot be re-employed by the state before July 1, 2004, on penalty of having to repay the incentive.

[On October 16, 2003, the Department reported that 68 state employees had taken advantage of the incentive program. According to the *Portland Press Herald* on July 31, 2003, about 760 state employees met the criteria for the program, and the goals of the program were to provide salary savings to finance merit increases for other state employees and to open senior positions to allow promotions for less senior employees.]

Michigan. HB 4605 (Substitute H-3 as passed) in 2002 created an early retirement incentive for legislative and governor's office employees and certain other unclassified state employees, effective in the month of December 2002, with a proposed retirement date no later than February 1, 2003. Qualifications included age and length of credited service that total at least 70 as of 12/31/02 with no minimum age requirement. For members of the Michigan State Retirement System defined benefit plan, the benefit calculation multiplier would be increased from 1.5 percent to 1.75 percent. Members of the defined contribution plan would receive a defined benefit calculated at 0.25 percent of final average compensation. The bill would also pay for accumulated sick leave in month installments over five years, as taxable compensation. It was thought that about 100 employees were eligible for the early retirement package. [This legislation was not included in the 2002 enactments report.]

Missouri. SB 248 Provides a medical incentive of 5 years of health care insurance at the active employee rate for those who are eligible to retire between February 1, 2002 and January 1, 2004. Members must retire by September 1, 2003. The Department of Transportation, Conservation, Highway Patrol, state colleges and universities may elect to provide the same medical incentive.

Replacement of positions vacated due to this incentive is limited to 25% with the exception of critical or seasonal positions or positions entirely federally funded. These exceptions will be determined by the office of administration. State colleges and universities are exempt from the 25% restriction.

Affected retirement plans are required to report by 04/01/04 on the workforce, payroll and fiscal effects of this incentive. The Office of Administration will report to the Governor by

04/01/04 on the budgetary effects of this incentive.

New Jersey. Chapters 127, 128, 129 and 130, P.L. 2003, authorize early retirement incentive programs for various local governments and educational institutions, with the authorization effective for one year, at the discretion of the employer government. Incentives include enhanced pension and health benefits. The cost of the enhanced benefits will be funded by the public agency or instrumentality that elects to participate through employer contributions to be paid over 15 years.

Texas. HB 3208 provides for a lump-sum payment of 25 percent of a retiree's previous twelve-months salary for persons eligible to retire on or after August 1, 2003 and before September 1, 2005, upon retirement. To be eligible for the lump-sum payment, a person must retire as soon as eligible for retirement.

Governance

Hawaii. Act 134 requires the Employee Retirement (ERS) system to pay retirees 41/2 percent interest if their pensions are not finalized within six months effective January 1, 2004. ERS shall assess departments $10 per month for delays in retirement information. Unused sick leave and vacation pay must be provided within 90 days of retirement. Requests for other information must be answered within 30 days.

Louisiana. HB 1684 reestablished the Commission on Public Retirement, which expired in August, 1990. The commission's responsibility is to review the administration, benefits, investments and funding of the public retirement systems in Louisiana. It will make recommendations and annual reports to the Joint Legislative Retirement Committee on those issues. It will also review the efficiency and accountability of the various systems, differences in benefits within individual systems, issuance of bonds, and the need for retirement legislation. It will include legislators, the state treasurer, actuaries, attorneys with experience in public pension design and management and the president of the public affairs research council.

Maryland. Senate Bill 721 changes the composition and governance of the Board of Trustees of the State Retirement and Pension System. For the policy context of these changes, see the Maryland General Assembly's 90 Day Report, a summary of legislation action. -- Part C, State Government -- Pensions and Retirement.

Changes include:

- removing the Secretary of State Police as a trustee starting on July 1, 2003, and the State Superintendent of Schools as a trustee starting on July 1, 2004, and filling these vacancies with two members of the public appointed by the Governor to serve as investment experts;
- removing one of the two State Police trustees and filling this vacancy with a member of the public appointed by the Governor to serve as an investment expert;
- adding experience requirements for the investment expert trustees and for expert members of the board's investment committee;
- requiring appointed or elected trustees to attend at least 80 percent of the board's monthly

meetings, not including excused absences, or face removal from the board;
- providing that the board is not responsible for considering benefit enhancements or reviewing the benefit structures for any of the several systems, except for the purpose of making technical corrections;
- requiring all trustees to receive at least eight hours of investment and fiduciary training each year;
- requiring the Department of Budget and Management to conduct, or hire an outside independent third party to conduct, a peer benefits study every four years;
- requiring that with regard to the two trustees representing the Employees' Retirement System (ERS) and the Employees' Pension System (EPS), one must be an active member of either the ERS or EPS, while the second trustee must be a retiree of either the ERS or the EPS; and
- requiring that with regard to the two trustees representing the Teachers' Retirement System (TRS) and the Teachers' Pension System (TPS), one must be an active member of either the TRS or TPS, while the second trustee must be a retiree of either the TRS or the TPS.

Oregon. HB 2005 and 3020 changed the Public Employee Retirement System (PERS) Board to a five member board beginning September 1, 2003, and the governor now appoints the board chair. Starting October 1, 2007, one of the five PERS Board members will also serve on the Oregon Investment Council.

HB 2003, 2004 and 3020 provide that, beginning January 1, 2005, the PERS Board must adopt actuarial equivalency factor tables, including factors for mortality, every two calendar years for the purpose of calculating retirement payments. For all members retiring between July 1, 2003, to January 1, 2005, PERS is required to use the updated actuarial equivalency factor tables adopted by the PERS Board on September 10, 2002.

Updated actuarial equivalency factors will be used to calculate all retirements after July 1, 2003 (except for certain judge members). PERS will perform two calculations to determine the member's retirement allowance. One calculation will use a member's account balance, final average salary, years of service, and the actuarial equivalency factors in effect on their effective retirement date. The calculation will be adjusted for the retirement option selected by the member. The second calculation, called a "look-back", will be made using the member's account balance, final average salary, years of service, and the actuarial equivalency factors in effect on June 30, 2003. The member will receive the higher of these two calculations.

The PERS Board is also required to conduct a study regarding the life expectancy of police and firefighter members of the system. If the board finds a substantially shorter life expectancy, the board is directed to use separate actuarial equivalency factor tables for those members starting January 1, 2005.

Oklahoma. HB 1067 repealed the Pension Commission's requirement to review retirement-related legislation.

Texas. H.B. 2240 adopted the prudent investor rule as the standard for governance of investment of pension system assets (Title 9, Section 117.001 ff).

Washington. Chapter 295, Laws of 2003, replaces the Joint Committee on Pension Policy with a 20-member Joint Select Committee on Pension Policy comprising eight legislators, stakeholder representatives, employer representatives and the directors of the Department of Retirement Systems and the Office of Financial Management. The Select Committee will study pension issues, the retirement systems' funding status, and actuarial assumptions. Based on its findings, the committee will make recommendations to the Legislature.

Chapter 92, Laws of 2003, implements Initiative 790 which created the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) Board in November 2002. Initiative 790 provides that the LEOFF 2 Board chooses the economic assumptions, actuarial methods, and sets the contribution rates for LEOFF 2 employees, employers, and the state based on consultation with an enrolled actuary retained by the Board. The legislation was required to reconcile existing law with the new board. Chapter 93, Laws of 2003, repealed a section of Initiative 790 that provided that investment gains above the actuarially assumed rate of return would be used exclusively to fund additional benefits.

Guarantee of Benefits

Connecticut. PA 03-232 prohibits the state from passing any law that diminishes specific retirement benefits (1) in effect on October 1, 2003, for active members vested in the Teachers Retirement System as of that date or (2) for members not yet vested on October 1, 2003, in effect on the date they either vest or accumulate 10 years of credited service, whichever occurs later. It also extends the ban to diminishing any enhancements in the specified benefits enacted after October 1, 2003.

The prohibition applies to statutory TRS retirement provisions concerning credited service; retirement and survivors' benefits eligibility; benefit formulas, payment schedules, and cost of living allowances; death and survivors' benefits; and disability benefits. It does not apply to retired teachers' health coverage and health coverage contributions or to annual state contributions to the Teachers' Retirement Fund.

Health Coverage

California. SB 1464, Chapter 896, increases the minimum employer contribution for agencies contracting with the California Public Employees Retirement system for health benefits from $16 per month per member up to $97 for the 2008 calendar year. The amount would be $32.20 per month in 2004 and increase incrementally thereafter until 2008. After 2008, the minimum employer contribution would be adjusted annually to reflect changes in the medical care component of the Consumer Price Index.

Connecticut. PA 03-232 increased the contributions that active teachers and the state will make toward to cost of health insurance for retired teachers. Retired teachers who are not eligible for Medicare continue to be covered by their last employing board of education and the Teachers' Retirement Board subsidizes their coverage. This legislation increases the active teachers' contribution from 1 percent to 1.25 percent of salary and increases the state contribution from 25 percent to one-third of the cost of the state's basic health plan as of 7/1/2004. As of 7/1/2005, the retirees' copayment will be increased from 25 percent ot one-third of the basic plan premium.

Kentucky. HB 430 provides that employees hired July 1, 2003 or after will be required to earn at least 120 months of service credit before they will be eligible for insurance benefits at retirement. The percentage of the monthly insurance contribution paid for employees hired after July 1, 2003 is 0-119 months., none; 120-179 months, 50%; 180-239 months, 75%; and 240 months or more, 100%. The 120 month service requirement will be waived if the employee is disabled in the line of duty or killed in the line of duty. The provisions of the bill also allow the General Assembly to alter the level of insurance benefits for employees hired after July 1, 2003. Retired members and members with existing service credit in a Kentucky state retirement plan are unaffected by this legislation.

New Hampshire. RSA 21:I-30 changed retiree health insurance coverage for new hires. Those hired on or after July 1, 2003, must have 20 years of State service to be eligible at age 60 for retiree health insurance. Otherwise, the eligibility requirements for those employees hired prior to July 1, 2003 continues to be as follows: Group I must have at least 10 years of service at age 60 **or** 30 years of service at any age; Group II must have at least 20 years of service at age 45 **or** at age 60 with no minimum service required.

Chapter 124, Laws of 2003: Prior service purchases will no longer be applied as time toward eligibility for the medical insurance subsidy. They will continue to count to increase the level of the member's pension. This applies to:

- Previously withdrawn service.
- Probationary, temporary and non-permanent service.
- Modifications - service prior to your employer joining New Hampshire Retirement System.

New Jersey. Chapter 172, P.L. 2003, provides that a part-time state employee or a part-time faculty member, including part-time lecturers and adjunct faculty members, at a public institution of higher education, who is enrolled in a state-administered retirement system, will be entitled to participate in the State Health Benefits Program (SHBP) and may purchase health benefits coverage in the State managed care plan under the SHBP for the employee or faculty member, and the dependents of the employee or faculty member.

Chapter 142, P.L. 2003, provides health care benefits coverage through the SHBP to members of the New Jersey National Guard, and their dependents, during the period when the member is called to state active duty by the Governor for at least 30 days within a 35 consecutive day period.

Chapter 119, P.L. 2003, provided that state employees hired after July 1, 2003 will not be able to enroll in SHBP option of traditional plan --a fee for service plan, the only non-managed care plan in SHBP).

Chapter 3, P.L. 2003, expanded the group of employers that are allowed to waive health coverage for an employer-offered monetary incentive.

Oklahoma. SB 669 requires non-state agency employers who participate in the Public Employees Retirement System (OPERS) who offer health insurance to their active employees, to offer that same coverage to their retired and vested employees on or before January 1, 2004. If the member terminates employment and elects this coverage within 30 days, OPERS will pay $105 each month after retirement towards the health insurance premium. Any former who terminated employment between 1/1/02 and 12/31/03 has a one-time opportunity to make an election to join the insurance plan, and OPERS will begin the $105 insurance premium supplement if the retiree is receiving monthly benefits from OPERS.

Texas. SB 1369, SB 1370 and HB 3459 strengthened funding and tightened eligibility for the Teachers Retirement System health program: TRS-Care. The state contribution was doubled to 1 percent of salary, the active member levy to 0.5 percent of salary, and the school district contribution to amounts between 0.25 percent and 0.75 percent of salary, on a scale that increases with time. [Previously, school districts did not contribute to health care costs.] In the future, the state will pay a maximum of 55 percent of program costs and retirees will pay at least 30 percent. The annual supplemental compensation for full-time non-professional employees to use toward health care was reduced from $1000 to $500; professional employees are ineligible for the supplement. Eligibility for TRS membership will occur after 90 days employment in 2004-2005 biennium, but members may purchase service credit for these 90 days at a cost yet to be determined.

Effective 9/1/04, eligibility for TRS-Care will be tightened. A member must have 10 years of actual Texas public school service, though purchased military service credit (up to five years) counts toward the 10 years. Purchased out-of-state service does not count. In addition, members must be 65 or older or must meet a Rule of 80 (age plus years of actual Texas service). Members as of 8/31/03 are grandfathered.

Other legislation broadened or adjusted health benefits under TRS-Care: HB 1735, HB 3257, SB 1117, and SB 1173.

Investments

Louisiana. Act 788 of 2003 requires that 10 percent of trades of listed equity and fixed income in separately managed account shall be directed to broker-dealers who maintain offices in Louisiana, and another 10 percent by broker-dealers who are incorporated and domiciled in Louisiana. Sunsets on June 30, 2005. Retirement Systems must do a cost study. The Louisiana Public Employee Retirement System must present a policy to both House and Senate Retirement Committees on or before December 31, 2003, in which the system will propose how it intends to invest in small and emerging businesses, venture capital, and in-state money management firms which either have been incorporated and domiciled in the state for at least 2 years.

Legislators' Retirement Plans

Illinois. Act 93-494 revises the legislators' retirement plan to eliminate benefit increases for legislators whose total public service (including legislative service) exceeds 20 years. The revised program is effective for people elected to the legislature hereafter. It repeals a provision that increased legislators' pensions by 3 percent for each year of public service above 20 years. It leaves a 3 percent per year post-retirement COLA intact. [Illinois elected officials' retirement benefits were the subject of media criticism in early 2003.]

Indiana. P.L. 126-2003 directs the trustees of the public employees' retirement system

(PERS) to conduct a pilot program concerning the defined contribution portion of the legislators' retirement system. The program would implement a member's investment selection by the next business day after PERS received it; allocate contributions to an account not later than the last day of the quarter in which they are received; use the market value of an account five days previous to a member's distribution or annuitization as the amount to be credited to it upon retirement, disability, death or withdrawal; and pay state contributions in quarterly allocations equal to 20 percent of the member's salary for the quarter at issue. PERS is to report findings before November 1, 2005, and if the findings are favorable, recommend legislation to implement the program for all funds for which PERS is responsible.

Kansas. HB 2014 affects legislators who are unclassified employees of the Board of Regents or a state university. Existing law provides that, beginning with the 2001 Legislative Session, a Regents' employee elected to the Legislature may choose to have the Board of Regents make contributions to the Regents' retirement plan on the employee's behalf while the employee holds elected office. This bill allows any employee who made use of that provision to have retroactive contributions made to the Regents retirement plan for legislative service before January 8, 2001.

Second, the bill allows legislators, who have retired from a KPERS participating employer and who are no longer eligible for membership as an active KPERS employee, to participate in the deferred compensation plan for specified state officials and legislative employees. The bill excludes death and disability coverage for the retired legislators who elect the defined contribution plan.

Third, any legislator who voluntarily chooses not to participate in KPERS may elect membership in the KPERS administered death and disability plan.

Missouri. Former general assembly members vested under the Missouri State Employees Plan "closed" plan appointed or employed as a state officer or employee mid-term are provided an election to transfer remaining legislative service equal to a pro rata portion of the biennial assembly actually served. Members continue to be prohibited from accumulating service simultaneously in more than one state retirement system. MSEP 2000 segregates all state service.

New Mexico. Chapter 86, Laws of 2003, revised the voluntary legislative retirement plan, which also applies to a lieutenant governor.

The previous plan, now identified as Plan 1A, required a legislator or the lieutenant governor to contribute $100 for each year of service. Benefits were provided at age 65 with 5 years of service (or 64/8, or 63/11, or 60/12, or any age with 14 years of service). The annual benefit was $250 x years of credited service. Plan 1B was enacted to allow the option of paying $100 additional for each year of credited service after 1959 and receiving an annual benefit of $500 x years of credited service. Interest is charged against annual contributions that are not made prior to December 31 of each year. Plan 1B is available only to those whose term ended on or before 12/1/02. Enrollment must be completed by 12/31/03. Retroactive purchase of service credit years must be exercised by 12/31/03.

Plan 2 is available to current and future officeholders, who must choose to enroll within 180 days of taking office. It requires an annual contribution of $500 per year of service. Current legislators may enhance years of service credit earned under Plan 1 to the Plan 2 level by making additional contributions by 12/31/04; the deadline for electing the enhancement is 12/31/03. The Plan 2 benefit equals 11 percent of the IRS per diem rate in effect on December 31st of the year a legislator retires x (60) x (the years of credited service). For a member who retires in 2003, the annual benefit would be $957 x years of credited service. The legislation provides for an annual 3 percent COLA. Retirement benefits are available at age 65 with five years of service or at any age with 10 years of service.

Oregon. HB 2020 provides that within 30 days of being elected or appointed to the Legislative Assembly, a person must decide whether to: 1) become a member of the Oregon Public Service Retirement Plan (OPSRP, newly created in 2003); 2) become a legislator member of the state deferred compensation plan; or 3) decline to become a member of either the OPSRP or state deferred compensation plan. Legislators are allowed to roll over their regular Public Employee Retirement System (PERS) accounts to the OPSRP or the state deferred compensation plan if they choose those options. The Legislative Assembly is required to make a six percent of salary contribution on behalf of legislators opting to become a member of the OPSRP or the state deferred compensation plan.

Legislators who serve on August 29, 2003, may elect to stay in the current PERS system, so long as they continuously serve in the Legislative Assembly. However, upon re-election to office, service performed after August 29, 2003 will be subject to a reduced retirement calculation (1.67 percent ×

Independent Auditor's Report

Members of the Legislative Budget
and Audit Committee:

We have audited the accompanying Final Summary Schedules of the 1996 Retirement Incentive Program, Office of the Governor, Office of Management and Budget, for the Department of Administration, Information Technology Group, and the University of Alaska, dated January 15, 2001 according to the terms of the 1996 Retirement Incentive Program legislation and underlying policies and procedures. These schedules are the responsibility of the Office of the Governor, the Department of Administration, and the University of Alaska. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform audits to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the summary schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as the overall financial schedule presentation. We believe our audit provides a reasonable basis for our opinion.

As described in the Notes to the Final Summary Schedules, the Office of Management and Budget (OMB) adopted policies, procedures, and assumptions to be used for this program. This presentation was not intended to be in accordance with generally accepted accounting principles.

One of the more significant policies was that it required agencies to show a net savings for each retiring employee without inclusion of any vacancy savings. These are the personal services costs "saved" by not immediately filling a vacated position.

As described in the Notes to the Final Summary Schedules, OMB interpreted the legislation to require agencies to update their summary schedules to show actual savings to date and forecasts for the remaining years. Thus, the January 15, 2001 schedule was to show actual savings amounts for FY 97 through FY 00 and estimated amounts for FY 01 through FY 03.

Also described in the Notes to the Final Summary Schedules, OMB required agencies to reduce an individual's estimated savings by the expected position costs of the replacement employee.

Because of departures from the policies and procedures established by OMB, the savings presented for the University of Alaska Retirement Incentive Program in its January 15, 2001 Final Summary Schedule were materially overstated. This was primarily due to the misstatement of replacement employee costs. However, the amount of the savings overstatement is not reasonably determinable.

Because of departures from the policies and procedures established by OMB, the amount reported as net savings for the Information Technology Group Retirement Incentive Program was overstated by $423,000 (35%). This was primarily due to the inclusion of vacancy savings in the schedule. These amounts were included even though OMB instructed state agencies to include only the savings from deleted or downgraded positions in justifying an individual employee's qualifying retirement. In the text that accompanied the January 15, 2001 Final Summary Schedule, the OMB erroneously stated that vacancy savings had been excluded.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the Final Summary Schedules referred to above do not present fairly, in conformity with the Retirement Incentive Program legislation and the underlying policies and procedures, the results of the University of Alaska and Information Technology Group's 1996 Retirement Incentive Programs.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 20012on our tests of compliance with certain provisions of laws and policies and on our consideration of the State of Alaska's internal control over financial reporting.

Pat Davidson, CPA
Legislative Auditor

November 15, 2002

Independent Auditor's Report on Compliance and on Internal Control
Over Financial Reporting of the Final Summary Schedules Performed
In Accordance with *Government Auditing Standards*

Members of the Legislative Budget
and Audit Committee:

We have audited the Final Summary Schedules of the 1996 Retirement Incentive Program, Office of the Governor, Office of Management and Budget, for the Department of Administration, Information Technology Group, and the University of Alaska, dated January 15, 2001, according to the terms of the 1996 Retirement Incentive Program legislation and underlying policies and procedures. We have issued our report on the schedules dated November 15, 2002. The report contains an adverse opinion because the amounts reported are materially overstated. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the schedules referred to in the preceding paragraph are free of material misstatement, we performed tests of the agencies' compliance with certain provisions of laws, regulations and policies, noncompliance with which could have a direct and material effect on the determination of amounts reported in the schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the Report Conclusions section of this report.

Internal Control Reporting

In planning and performing our audit, we considered the agencies' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedules identified above and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agencies ability to record, process, summarize and report financial data consistent with the assertions of management in the Final Summary Schedules. Reportable conditions are described in the Report Conclusions section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material, in relation to the Final Summary Schedules being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions discussed in the Report Conclusions section of this report are material weaknesses.

This report is intended for the information of the State's management and members of the Alaska Legislature. However, this report is a matter of public record and its distribution is not limited.

Pat Davidson, CPA
Legislative Auditor

November 15, 2002

Office of the Governor
Office of Management and Budget
1996 Retirement Incentive Program
Final Summary Schedules
for
Department of Administration
Information Technology Group (ITG)
and
University of Alaska (UA)
January 15, 2001

		ITG	UA
Number of Employees Retired under RIP		14	377
Number of Positions Deleted		3	279
Number of Positions Reclassified		2	Not Available
Net Savings by Fiscal Year:			
FY 97	Actual	$ - 0 -	$ - 0 -
FY 98	Actual	432,000	2,466,000
FY 99	Actual	423,000	4,236,000
FY 00	Actual	261,000	5,971,000
FY 01	Estimated	80,000	3,479,000
FY 02	Estimated	4,000	1,627,000
FY 03	Estimated	1,000	- 0 -
		$1,201,000	$17,779,000

Dollar amounts are rounded to the nearest thousand.

The amounts shown in the schedule for ITG were appropriately combined with other Department of Administration divisions and reported in total for the department in its January 15, 2001 Final Summary Schedule.

The accompanying notes are an integral part of these financial schedules.

(Intentionally left blank)

Office of Governor
Office of Management and Budget
1996 Retirement Incentive Program
Notes to the Final Summary Schedules
for
Department of Administration
Information Technology Group
and
University of Alaska
January 15, 2001

The purpose of the Retirement Incentive Program[6] (RIP) was to provide an incentive for employees to retire earlier so their positions could be deleted, downgraded through reorganization of operations, or filled with less expensive employees. The program was to provide agencies with a management tool to help meet budget pressures by reducing personal service costs and to help avoid layoffs that would otherwise be necessary due to budget cuts. It was to enable the agencies to be more efficient and cost-effective by eliminating certain nonessential positions and producing a net reduction in personnel costs.

The State of Alaska's most recent RIP began June 1996 and ended January 2000. Under this program, agencies were authorized to adopt RIP plans at any time beginning June 1996 and continuing through June 1999 with the requirement that participating employees retire no later than January 2000. Under this retirement program, the Office of the Governor, Office of Management and Budget (OMB), was required to report the costs and savings attributable to this program to the legislature. In order to gather this data in a consistent and meaningful manner, OMB adopted the following policies, procedures, and assumptions:

- The total salary and benefit costs of each RIP participant were compared over a three-year period to the expected position costs of the replacement employee, unless the position was deleted.

- The replacement employee's salary was assumed to start at the second pay step of the related salary range, rather than the initial step.

- Vacancy savings[7] were not included because such savings were deemed to be a normal part of employee turnover and, if included, these savings would have overstated the savings from RIP.

- Net savings were calculated by deducting the employer RIP costs, which were the amounts paid into the retirement system for the additional costs related to RIP, and a small administrative fee from the position savings.
- The calculations assumed that none of the employees who retired under RIP would have retired at that time if RIP was not available.

---
[6] Chapter 4, FSSLA 1996.
[7] These are the personal services costs "saved" by not immediately filling a vacated position.

- The calculations did not include the long-term savings that should result from replacing employees in the Tier I and Tier II retirement categories with Tier III employees.[8]

- The calculations did not include the "ripple effects" of additional savings from vacancies created by promotions and transfers into RIP positions vacated by the retirees.

- Agencies, including the University of Alaska, were to update the calculations each year with actual savings achieved to-date and with revised estimates for the remaining years. The January 15, 2001 final summary schedule was to include actual savings for FY 97 through FY 00 and estimates for FY 01 and FY 03.

The assumptions in the above list were necessary, as a practical matter, to allow the RIP to occur. It cannot be known if this employee or that one might have elected to retire, absent RIP. To the extent that some of these employees were going to retire anyway, these calculations overstated the savings. However, as noted above, the calculations did not include the Tier III replacements or the "ripple effects" of replacements. Excluding these understated the savings. However, it would have been similarly impractical to calculate them.

[8] Public Employees' Retirement System has reduced the benefits, and hence the costs, for those employees hired after June 1986. Employees hired after June 1986, but before July 1996, are referred to as Tier II employees, while those hired July 1996 or after are referred to as Tier III employees. Benefit costs for Tier III employees are less than for Tier I or Tier II employees and benefits costs for Tier II employees are less than for Tier I employees. These differences are due to changes enacted by the legislature.

December 27, 2002

Pat Davidson, Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson:

This letter is in response to the preliminary audit on the retirement incentive program (Audit #02-30001-03). As you know, this program ended under the prior Administration. I have reviewed the preliminary audit, as well as the response to the Legislative Audit management letter on this issue that was prepared by the former OMB director, and have no additional comments.

Sincerely,

Cheryl Frasca
Director

December 2, 2002

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.

OFFICE OF THE GOVERNOR
OFFICE OF MANAGEMENT AND BUDGET

1996 RETIREMENT INCENTIVE PROGRAM
FOR
DEPARTMENT OF ADMINISTRATION
INFORMATION TECHNOLOGY GROUP
AND
UNIVERSITY OF ALASKA

January 15, 2001

Audit Control Number

02-30001-03

The purpose of our audit was primarily to determine whether the Office of the Governor, Office of Management and Budget, Department of Administration, Information Technology Group, and the University of Alaska, fairly stated the 1996 Retirement Incentive Program, Final Summary Schedules dated January 15, 2001, in accordance with the program legislation and the underlying policies and procedures.

The audit was conducted in accordance with generally accepted government auditing standards. Fieldwork procedures utilized in the course of developing the findings and discussion presented in this report are discussed in the Objectives, Scope, and Methodology section. Audit results are found in the Report Conclusions, Independent Auditor's Report, and Final Summary Schedules.

Pat Davidson, CPA
Legislative Auditor

TABLE OF CONTENTS

	Page
Objectives, Scope, and Methodology	1
Organization and Function	3
Report Conclusions	5
Independent Auditor's Report	7
Independent Auditor's Report on Compliance and on Internal Control	9
Final Summary Schedules	11
Notes to the Final Summary Schedules	13
Agency Responses:	
Office of the Governor, Office of Management and Budget, dated December 27, 2002	15
Office of the Governor, Office of Management and Budget, dated November 29, 2002	17
Department of Administration	19
University of Alaska	21
Legislative Audit's Additional Comments	23

OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with a Legislative Budget and Audit Committee special request and Title 24 of the Alaska Statutes, we conducted an audit of the 1996 Retirement Incentive Program (RIP) Final Summary Schedules dated January 15, 2001, issued by the Office of the Governor (OG), Office of Management and Budget (OMB), for the Department of Administration (DOA), Information Technology Group (ITG), and the University of Alaska (UA). The objectives, scope, and methodology of our review were as follows.

Objectives

The objectives of the audit were to:

- Determine if the net savings reported as of January 15, 2001, by OMB to the legislature, presents fairly the results of the retirement incentive programs utilized by ITG and UA, in conformity with the retirement incentive program legislation and the underlying policies and procedures.

- Determine whether OMB, ITG and UA complied with the applicable laws, regulations, and mandated procedures in its use of RIP. Specifically, we were asked to review changes, reclassifications, and inequities in the eligibility determination process.

Scope and Methodology

Employees were deemed to be eligible if the calculations showed a net savings. Approximately one-half of those eligible, and offered RIP, did not wish to retire.

	UA	ITG
Eligible for RIP	784	27
Declined	(407)	(13)
RIP Participants	377	14

We reviewed the files for all 14 ITG participants.

We reviewed 42 of the 377 UA participant files. Although our sample was judgment based, it was not spread across the entire population. That is, for sampling purposes, our universe was reduced from 377 to 230. This was due to a 1997 payroll conversion that made the tracking of pre-1998 RIP participants much more difficult. Therefore, we had a scope limitation for these pre-1998 participants due to practicality.

This scope limitation had no impact on our audit of the net savings reported by UA, because our sample of 42 participants indicated the reported amounts were likely to be overstated and so we had already given the statement an adverse opinion. These practical considerations did, however, represent an audit limitation of our compliance review of this program.

Our review included the following:

- Records of RIP participants maintained by the Department of Administration, Division of Retirement and Benefits.

- Files pertaining to the participants maintained by the personnel and administrative services sections of DOA and UA.

- Information on the participants obtained from the State of Alaska and UA automated payroll systems.

- Instructions issued by OMB regarding the assumptions, procedures, and methods to be used in determining participant eligibility and calculation of individual net savings.

- Instructions issued by OMB regarding the annual reporting of net savings by agencies who offered a RIP.

- Annual reports to the legislature issued by OMB beginning January 1998 and ending with the final report in January 2001.

- Detailed schedules of individual participant's net savings from OMB supporting the summary data reported in the annual reports for DOA and UA.

- Discussions with management and staff of DOA, ITG and Division of Administrative Services, OMB, and UA.

- Results of an audit performed by DOA, Division of Retirement and Benefits, on UA's payroll system and reporting procedures relevant to PERS, TRS, and the Social Security Administration.

- Legislative committee minutes pertaining to the 1996 RIP.

ORGANIZATION AND FUNCTION

In 1996 the Legislature authorized[1] a retirement incentive program (RIP) for State employees and the employees of various local governments. The introduction to the legislation was as follows:

> *The State of Alaska and many local governments are facing the need to restructure their operations and their work forces in order to reduce expenditures and to balance budgets. Retirement incentives are management tools that have been used extensively by the private sector, the federal government, and other state and local governments across the country. . . . This Act will enable these entities to be more efficient and cost-effective by eliminating certain nonessential positions and producing a net reduction in personnel costs.*

Under the legislation, an employer who adopted a plan under RIP could designate categories of employees eligible to participate in that plan.

> *An employer need not extend the incentive plan to all employees who would otherwise be eligible, but may choose to extend the plan only to employees*
>
> *(1) in specific budget or administrative components of the employer;*
> *(2) in specific job classifications;*
> *(3) in specific geographic locations; or*
> *(4) on the basis of any combination of factors under (1) - (3).*

An employee was eligible to participate in a retirement incentive plan only if the employee was a vested member of the public employees' retirement system or the teachers' retirement system and, with the additional RIP credit of three years service, would be qualified to retire under one of those systems. In addition, accumulated savings to the employer in personal services costs had to exceed the total cost to the employer spread over the three years from the employee's retirement date. This period was referred to as the "three-year savings period."

Each State agency had to submit a detailed plan to the Office of the Governor, Office of Management and Budget (OMB), describing the effect on the agency's personal services costs and operations. This plan, along with its financial information, had to be approved by OMB before it could be approved by the commissioner of administration.

---

[1] Chapter 4, FSSLA 1996.

The head of OMB testified in legislative hearings[2] that

> *[My] office intends to very tightly scrutinize the proposals because [these agencies] need the cost savings. They cannot afford to be inaccurate on projections . . . . [My] office will review proposals both from a budget analyst side and from a policy and organizational side to be sure both are achievable.*

OMB was required to report RIP information annually to the legislature, beginning January 1998 and ending January 2001. These reports were to include, among other things, the number of positions affected by the RIP and a schedule showing actual savings for years past and projected amounts for the remainder of the three-year period.

[2] House State Affairs Standing Committee minutes, April 1, 1995.

REPORT CONCLUSIONS

The Office of the Governor, Office of Management and Budget (OMB), overstated the 1996 Retirement Incentive Program (RIP) savings for the Department of Administration (DOA), Information Technology Group (ITG), by $423,000 and the University of Alaska (UA) by a significant but indeterminable amount. These overstatements were due to the erroneous inclusion of vacancy savings and exclusion of rehires. In other respects, OMB, DOA, and UA generally complied with the laws and rules governing this program. Our findings are outlined below.

Department of Administration, Information Technology Group:

Adverse opinion on financial schedule

As discussed in the Independent Auditor's Report, the $1,201,000 in Retirement Incentive Program savings reported by the Office of the Governor, Office of Management and Budget, on its Final Summary Schedule for ITG were overstated by approximately $423,000, or 35% of the reported amount. Given the magnitude of this misstatement, we issued an adverse opinion on this schedule.

Savings overstated primarily by inclusion of vacancy savings

OMB's misstatement of ITG savings was made up of several errors, with an erroneous inclusion of vacancy savings representing $326,000 of the $423,000.

As discussed in the Notes to the Final Summary Schedules, OMB was responsible for adopting the program's policies and procedures. OMB specifically prohibited the inclusion of vacancy savings, but it did allow the savings from position eliminations to be counted. That is, OMB decided that temporary vacancies were a normal result of employee turnover and should not be considered part of RIP savings. However, long-term position eliminations were to be counted as RIP savings.

ITG had estimated a net savings from RIP of $875,000. However, when the staff of DOA, Division of Administrative Services, compiled the data to be submitted to OMB, it estimated $1,201,000. The $326,000 increase was largely due to inclusion of vacancy savings from positions remaining vacant rather than being filled. DOA's Administrative Services erred by including vacancy savings and OMB erred by failing to remove them. In its January 15, 2001 report to the legislature, OMB erroneously stated that vacancy savings had been excluded.

University of Alaska:

Adverse opinion on financial schedule

As discussed in the Independent Auditor's Report, the $17.8 million in RIP savings reported by OMB on its Final Summary Schedule for UA were significantly overstated. Although the amount of the overstatement was not determinable, we nevertheless concluded that, given its probable magnitude, an adverse opinion on this schedule was appropriate.

Savings overstated by ignoring rehires

UA rehired approximately 140 RIP participants[3] after they retired. OMB instructed agencies to include the cost of replacement employees in the calculations. Had UA included the cost of these rehires, the savings presented would have been substantially less. However, how much less was not reasonably determinable by audit procedures, either by full examination or through sampling.[4] Typically, there was a savings because these RIP participants only worked part-time or part of the year up to 49% of their previous salary and UA only paid into Social Security. That is, UA was no longer responsible for their health insurance and retirement costs.

Laws and other program rules broken in only a few instances

Except for the rehire rule discussed above, UA generally complied with the laws and rules governing this program. However, we noted a few deviations in our sample, such as the following:

- A term employee working on a capital project was allowed to retire under this program. This position would have terminated at the end of the project. Applying this methodology, this employee did not qualify[5] for retirement. There was a $30,000 net cost to the State, not a savings.

- A position was "deleted" in one department and used to justify a RIP retirement. However, the position was merely transferred to another department.

- A position was downgraded and a low step within the salary range was selected in order to show a RIP savings. However, the replacement came in at a much higher step. UA recognized the error, but determined that it was too late to correct it.

---

[3] This count was obtained from a review done by the Department of Administration, Division of Retirement and Benefits.

[4] Full examination of the entire population of RIP retirees, or even only those who were rehired, would have been a long and expensive process at this late date. A sampling approach would also not have been a very efficient approach due to the population's high standard deviation, thus requiring a large sample size. Further, based upon our internal control review and our initial sample, we believe our Independent Auditor's Report would still have been adverse, regardless of how much audit work was done in this area.

[5] Section 22(b)(3), Chapter 4, FSSLA 1996.

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 113300, Juneau, Alaska 99811-3300

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

Employer	Number of Retirees	Estimated Savings or (Costs) (Note 1)
State of Alaska (Note 2)	739	$ 6,033,100
University of Alaska *(Note 3)*	145	4,317,800
Anchorage School District *(Note 4)*	306	2,684,900
Kenai Peninsula Borough Schools *(Note 5)*	72	1,988,800
Fairbanks North Star Borough Schools *(Note 6)*	85	1,554,100
City of Fairbanks *(Note 7)*	22	776,700
North Slope Borough School District *(Note 8)*	42	517,500
Matanuska-Susitna Borough Schools *(Note 9)*	42	487,800
North Slope Borough *(Note 10)*	12	469,600
Ketchikan Gateway Borough Schools	23	443,000
Lower Kuskokwim Schools *(Note 11)*	25	324,000
Matanuska-Susitna Borough *(Note 12)*	9	310,900
Sitka School District	17	229,700
Kenai Peninsula Borough *(Note 13)*	6	224,900
Juneau Borough Schools	28	217,700
llingham City Schools	3	213,600
City and Borough of Juneau	19	199,600
Hoonah City Schools	2	151,200
Haines Borough School District	2	150,700
Bering Strait Schools *(Note 11)*	17	149,800
Wrangell City Schools	9	124,500
City of Hoonah *(Note 14)*	2	118,000
Southwest Region Schools *(Note 11)*	9	112,500
Delta/Greely Schools *(Note 11)*	7	107,500
City of Homer	5	102,100
Valdez City Schools	3	84,100
City of Kodiak *(Note 15)*	6	77,500
Kuspuk Schools *(Note 11)*	7	64,700
Chatham Schools	6	64,600
Southeast Island Schools	4	63,000
Sitka Community Hospital	3	60,100
City of Wrangell	9	58,900
Kodiak Island Borough	4	55,300

Employer	Number of Retirees	Estimated Savings or (Costs)
Yukon/Koyukuk Schools	2	$ 53,000
Fairbanks North Star Borough *(Note 16)*	2	49,700
City of Palmer	3	46,600
Cordova City Schools	2	45,400
Kodiak Island Borough Schools	4	43,700
Alaska State Housing Authority	4	42,700
Lower Yukon School District	5	38,600
Unalaska City School District *(Note 11)*	3	37,500
Iditarod Area Schools *(Note 11)*	5	34,000
Cordova Community Hospital	3	31,400
Alaska Gateway Schools	2	27,900
City of Kenai	3	27,700
National Education Association	1	21,600
City of Haines	1	17,300
Bartlett Memorial Hospital	2	16,300
Nenana City Schools *(Note 11)*	1	15,400
Skagway City School *(Note 11)*	1	15,400
Bristol Bay Borough Schools *(Note 17)*	1	14,600
Nome City Schools	5	12,900
Southeast Regional Resource Center	2	12,300
Ketchikan Gateway Borough	1	11,300
City of Ketchikan *(Note 18)*	1	5,400
City of Kotzebue	1	3,000
City of Valdez	2	2,600
City of Seward	2	800
Craig City Schools	1	(12,800)
Bristol Bay Borough	1	(14,400)
Yakutat City School District	1	(16,900)
Kake City Schools	1	(29,700)
Yupiit School District	2	(30,600)
City and Borough of Sitka	7	(31,300)
Seward General Hospital	2	(44,800)
Total	1,764	$22,984,800

REPORT CONCLUSIONS

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

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

University savings came from elimination of positions and high salary differentials

The University of Alaska's average savings of almost $30,000 for each RIP participant was the highest of any employer. The University 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	159,600
Revenue	15	103,300
Environmental Conservation	16	87,700
Law	13	79,200
Military and Veterans Affairs	9	47,700
Community and Regional Affairs	5	31,900
Total	739	$6,033,100

	TRS			*PERS*			*TOTAL*		
	Number of Retirees	*Estimated Savings/Cost*	*Average Savings Per Participant*	*Number of Retirees*	*Estimated Savings/Cost*	*Average Savings Per Participant*	*Number of Retirees*	*Estimated Savings/Cost*	*Average Savings Per Participant*
State of Alaska	18	$ 276,900	$15,383	721	$5,756,200	$7,984	739	$ 6,033,100	$ 8,164
University of Alaska	72	2,577,100	35,793	73	1,740,700	23,845	145	4,317,800	29,778
Anchorage School District	204	2,894,500	14,189	102	(209,600)	(2,055)	306	2,684,900	8,774
Kenai Peninsula Borough Schools	58	1,810,500	31,216	14	178,300	12,736	72	1,988,800	27,622
Fairbanks North Star Borough Schools	58	734,400	12,662	27	819,700	30,359	85	1,554,100	18,284
North Slope Borough School District	24	308,600	12,858	18	208,900	11,606	42	517,500	12,321
Matanuska-Susitna Borough Schools	26	287,700	11,065	16	200,100	12,506	42	487,800	11,614
Ketchikan Gateway Borough Schools	19	427,000	22,474	4	16,000	4,000	23	443,000	19,261
Lower Kuskokwim Schools	18	276,500	15,361	7	47,600	6,800	25	324,100	12,964
Juneau Borough Schools	27	196,700	7,285	1	21,000	21,000	28	217,700	7,775
Bering Strait Schools	4	61,400	15,350	13	88,400	6,800	17	149,800	8,812
Wrangell City Schools	5	35,600	7,120	4	88,900	22,225	9	124,500	13,833
Southwest Region Schools	6	92,200	15,367	3	20,400	6,800	9	112,600	12,511
Kuspuk Schools	2	30,700	15,350	5	34,000	6,800	7	64,700	9,243
Chatham Schools	5	64,700	12,940	1	(100)	(100)	6	64,600	10,767
Southeast Island Schools	3	49,600	16,533	1	13,300	13,300	4	62,900	15,725
Kodiak Island Borough Schools	2	39,900	19,950	2	3,800	1,900	4	43,700	10,925
Lower Yukon School District	3	66,400	22,133	2	(27,700)	(13,850)	5	38,700	7,740
nalaska City School District	2	30,700	15,350	1	6,800	6,800	3	37,500	12,500
Total	556	$10,261,100	$18,455	1,015	$9,006,700	$8,874	1,571	$19,267,800	$12,265

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

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

1989 RIP legislative intent had two aspects

RIP's implementing legislation stated that the program was

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

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

Overall, 1989 RIP did pay for itself

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

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

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

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

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

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

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

Savings and program recommendations discussed further in Auditor Comments

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

BUDGET-CUTTING STRATEGIES FOR CASH-STRAPPED STATES

AMERICAN LEGISLATIVE EXCHANGE COUNCIL

ALEC

CCi

CENTER FOR CIVIC INNOVATION
AT THE MANHATTAN INSTITUTE

AMERICAN LEGISLATIVE EXCHANGE COUNCIL

Executive Director
Duane Parde

Director of Tax & Fiscal Policy
Chris Atkins

ALEC is the nation's largest bipartisan, individual membership organization of state legislators, with nearly 2,400 members across the nation. ALEC is governed by a 21-member Board of Directors of state legislators, which is advised by a 21-member Private Enterprise Board representing major corporate and foundation sponsors. ALEC's mission is to discuss, develop and disseminate public policies which expand free-markets, promote economic growth, limit government and preserve individual liberty.

American Legislative Exchange Council
910 17th Street, N.W., Fifth Floor
Washington, D.C. 20006
(202) 466-3800
(202) 466-3801 fax
www.alec.org

THE MANHATTAN INSTITUTE FOR POLICY RESEARCH

Executive Director of Center for Civic Innovation
Henry Olsen

Author-Senior Fellow
William D. Eggers

The Manhattan Institute is a think tank whose mission is to develop and disseminate new ideas that foster greater economic choice and individual responsibility.

The Manhattan Institute Center for Civic Innovation's (CCI) purpose is to improve the quality of life in cities by shaping public policy and enriching public discourse on urban issues.

The Manhattan Institute is a 501(C)(3) nonprofit organization. Contributions are tax-deductible to the fullest extent of the law. EIN #13-2912529

The Manhattan Institute
52 Vanderbilt Avenue, 2nd Floor
New York, N.Y. 10017
(212) 599-7000
(212) 599-3494 fax
www.manhattan-institute.org

Order # 0215

Show Me the Money

Budget-Cutting Strategies for Cash-Strapped States

By William D. Eggers
Senior Fellow, Manhattan Institute for Policy Research &
Director, Deloitte Research

It's the most dire situation we've seen in over 20 years. Governors are dealing with unprecedented fiscal pressure. Even as the economy turns around, the state budget forecast will remain stormy since revenue growth lags the recovery by at least 12 to 18 months.[1]

–Raymond C. Scheppach, Executive Director, National Governors Association

I. INTRODUCTION

The 2002 mid-term elections produced nearly two dozen new governors—the largest turnover in years. They didn't have long to celebrate their victories because their first day at work will coincide with one of the worst state fiscal crises in decades. By the time they take office, the cumulative 2003 state budget shortfall will likely be over $50 billion.[2] The causes of the deficits are clear: the recession, September 11, spiraling Medicaid costs, and profligate spending in the mid- and late 1990s.[3] Add them all up, and you have the budgetary equivalent of a perfect storm.

If this gives you a strong sense of déjà vu, do not be surprised. We have been through all this before, the last time only a decade ago, during the previous recession. Unfortunately, memories are short. Many states failed to learn one of the most important lessons from previous boom-bust cycles: spending must be contained during growth periods in order to avoid fiscal imbalances when the economy goes south, as it always does eventually.

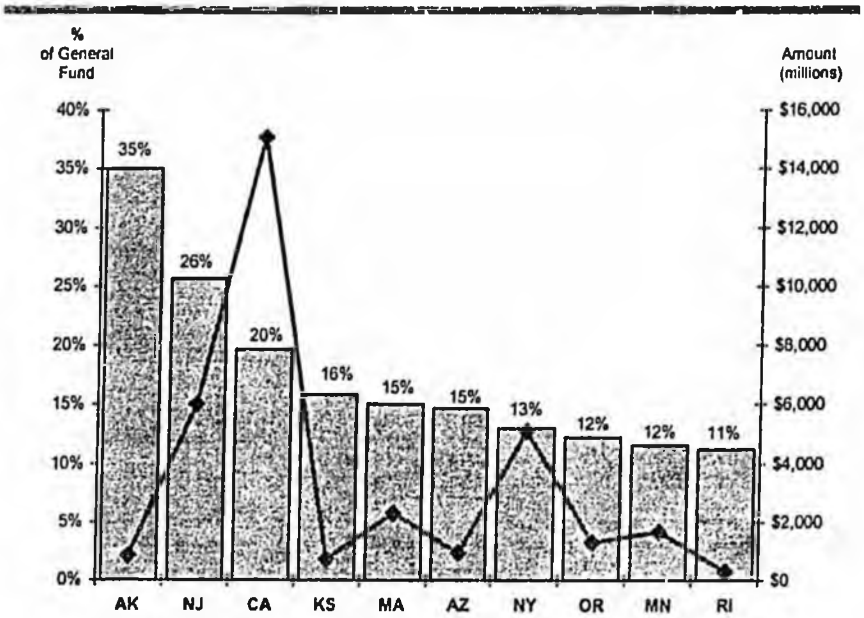
Faced with constitutional requirements to balance their budgets, the governors and state legislators from Honolulu, Hawaii, to Augusta, Maine, are scrambling to find a way out of their budget jams. Making their task eminently more difficult is the way in which many governors and state legislatures looked the fiscal year 2002 $49 billion collective deficit square in the face—and punted. The full panoply of accounting gimmicks, rainy day fund raids, sin tax hikes and other short-term measures—enough to make Jeffrey Fastow blush—were employed in a desperate attempt to whistle past the electoral graveyard.

As hard as it is to fathom, budget problems in fiscal year 2003 will be even worse than they were in fiscal year 2002.

The National Association of State Budget Officers (NASBO) and the National Governors Association predict difficult times in the next 12 months—at least. "It's worse than anybody expected," said Scott Pattison, NASBO's executive director. "We already knew that [this fiscal year] was going to be bad, but now it's going to be terrible."[4]

Every one of the myriad campaign promises made by this year's group of new governors will have to take a back seat to closing the budget gaps. Just ask Virginia first-year governor Mark Warner whose governing agenda has been entirely eclipsed by his state's worst fiscal crisis in 40 years. He closed a massive initial $3.8 billion budget gap through a mixture of mild spending cuts, some accounting sleight of hand, and by deferring a planned car tax cut. But, thanks to dismal revenue growth, in October 2002 Warner was forced to announce another $855 million in spending cuts. These included lay offs of over 1800 state employees; 15 percent budget cuts in 63 state agencies;

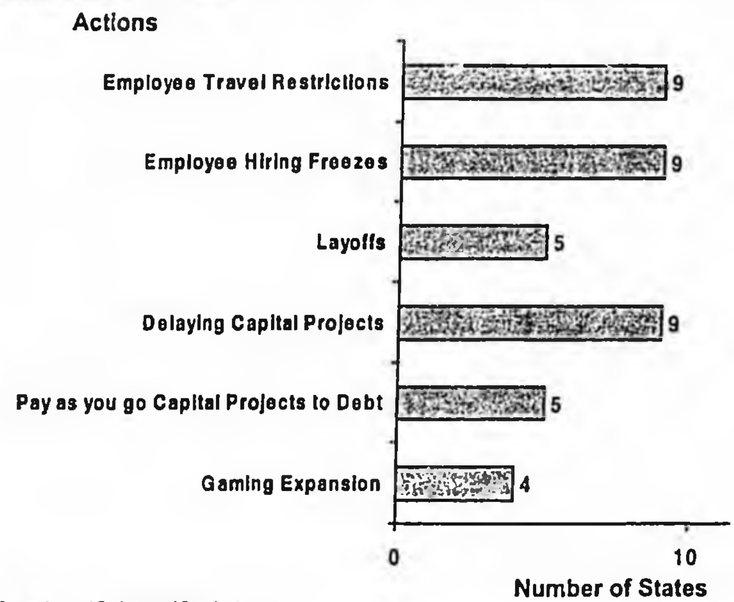
States with the largest relative budget gaps FY 2003



Source: National Conference of State Legislatures

The bottom line: some states made serious spending cuts, but most didn't do much to reduce the medium- and long-term costs of operating government. This objective can be accomplished by reducing the size and scope of government in strategic and imaginative ways, whether by reorganizing or redesigning departments and programs. Absent large tax increases, such steps are now unavoidable.

Closing FY 2003 Budget Gaps (continued)
States Actions (FY 2003)



Source: National Conference of State Legislatures

III. TEN STRATEGIES FOR CUTTING BUDGET DEFICITS

The strategies outlined in this study include short-, medium-, and long-term plans for reducing the cost of government. Some of the short-term measures are imperfect and impolitic and will do little to fix long-term budget imbalances. In many states, however, the severity of the current fiscal situation makes stopgap measures unavoidable.

It is important to remember that no matter how successful state governments are in employing short-term measures to close deficits, the seeds of fiscal crisis will remain. Only by fundamentally restructuring government will state policy makers be able to contain spending growth and return accountability to state finance. The following ten strategies will help states do both.

1 Go Where the Money Is: Reduce Workforce Costs

One of the most effective short-term cost reduction measures is reducing workforce costs. The reason is simple: state employees' salaries and benefits account for a significant portion of states' costs. Most states will find it almost impossible to balance their budgets without impacting state employees. Fortunately, the innovative use of Web-enabled technology can help to ease the impact of workforce reductions on customer service, while an aging workforce will allow some workforce reduction without massive layoffs.

Recommendations

- *Cap Employment:* Agencies hate full-time equivalent (FTE) employment caps because they restrict their ability to hire new employees. Nevertheless, FTE caps are a proven way to trim workforce costs.[9]
- *Freeze State Hiring:* A number of states, including Illinois and Massachusetts, froze state hiring recently.[10] Although appealingly simple, this approach leaves little room for agencies to adjust their organization to function with a smaller workforce; the budgetary impact is also harder to estimate than with an FTE cap.
- *Reduce the number of government positions:* The most direct way to reduce the size of the state workforce is simply to eliminate government positions outright. In Florida, Governor Jeb Bush has set a goal of reducing the state workforce by 5 percent a year for five years. Through a combination of outsourcing and streamlining, Bush has already cut thousands of permanent and temporary positions from the state payroll. In Missouri, Governor Bob Holden targeted 688 jobs for elimination in his 2002 budget.[11]
- *Eliminate phantom positions:* When agencies and higher education institutions receive funding for a certain employment level, invariably a percentage of the positions are never filled. Eliminating these positions is a relatively painless way to extract workforce savings from agency budgets. Many of the positions eliminated in Florida fell into this category.[12]
- *Provide incentives for early retirement:* Offering early retirement incentives, such as allowing employees to retire early with full benefits and a severance package, typically results in a large exodus of state workers, thereby reducing the workforce without layoffs. For maximum

savings, each agency's funding should be cut by the same amount as the total salaries of retiring employees. The budget bill adopted by the Wisconsin State Senate in 2002 contains such an early retirement package.[13] Unfortunately, early retirement packages also carry some potential disadvantages. First, if the severance packages are too generous, they negate potential cost savings. Second, the best and most qualified employees tend to be the first to take the packages, which can hurt program management.

- *Renegotiate labor contracts:* State employee unions sometimes can be persuaded to make contractual concessions during severe budget crises rather than face the prospect of unavoidable layoffs. When former Philadelphia Mayor and now Pennsylvania Governor-elect Edward Rendell first assumed office in 1992, he faced a $208 million budget shortfall, at the time, the city's worst fiscal crisis since the Great Depression. To reduce costs, he proposed numerous work rule changes and cutbacks in the very generous compensation packages—such as 41 paid vacation days a year—enjoyed by city employees. After holding firm after the unions walked out of their jobs, Rendell was able to extract $353 million in concessions from the unions over four years.[14] Most attempts to renegotiate contracts, however, are not this successful. Outgoing Illinois Governor Ryan failed in his attempt to renegotiate union contracts with state employee unions in 2001.[15]

- *Reduce retirement costs:* Some analysts question the fairness of asking current state employees to bear all the pain of budget cuts. Most states provide generous pension and health benefits for retired state employees, many of whom embark on lucrative second careers. In the spirit of shared sacrifice, states can realize savings by temporarily freezing cost-of-living adjustments (COLAs) for retirees or requiring them to pay a larger share of their health care insurance premiums, as outgoing Governor Lincoln Almond has proposed in Rhode Island.

2 Spread the Pain: Impose Broad-Based Spending Cuts

Across-the-board spending cuts are not the best way to reduce the size and cost of government. They provide little guidance about what services government should deliver or how they should be delivered. Moreover, cutbacks are usually restored as soon as tax revenues begin flowing back into government coffers, meaning long-term cost reductions are not achieved.[16] But for governments needing to quickly identify budget savings—with no time to implement a more strategic process of "rightsizing" and restructuring—across-the-board spending cuts are often a necessary weapon in the budget-balancing arsenal.

Recommendations

- *Make across-the-board budget reductions:* The simplest way to address a budget deficit is to impose across-the-board cuts on all state agency budgets. When not micromanaged, across-the-board cuts allow agencies more flexibility to determine which expenses are essential and which are not. The main problem with this approach is that it penalizes the leanest and most efficient agencies, since they have less fat to cut. Dozens of states enacted across-the-board cuts this year and last, including Iowa, New Jersey, Oklahoma, and Virginia.

- *Freeze spending to prior year's level:* Another simple way to cut spending is to fund agencies at the previous year's level.

- *Freeze COLAs:* Freezing COLAs received by entitlement recipients can save costs in the short term without removing people from program rolls. The freeze can be reversed once the budget picture improves. The only governor to propose a measure of this type in 2002 is John Engler of Michigan, whose budget includes a freeze on Medicaid COLAs.[17]

3 Modernize Government: Reform Entitlement Programs

States have no chance to solve their long-term budget problems without getting a handle on the rising cost of entitlements. Next to the recession, the runaway cost of Medicaid—the biggest budget cost driver in most states—is the biggest cause of the current state fiscal crisis. Medicaid now accounts for one-fifth of total state expenditures, second only to education.

For the past two years, Medicaid spending has been growing at a rate of 11.7 percent per year, almost double the 6.4 percent increase in state spending projected for the next fiscal year. The ten-year projections from the Centers for Medicaid and Medicare Services show double-digit cost increases far into the future.[18] States are experimenting with a variety of approaches to reduce Medicaid costs: cutting mental health care; tightening eligibility requirements; reducing payments to providers; lowering drug costs through generic drugs and drug rebates; and reducing coverage for acupuncture, podiatry, dental care, home health care, and chiropractic care. Some of these proposals make sense. Some will even save money. But none of them are likely to have more than a marginal impact on the long-term problem of rising Medicaid costs.

The real problem, as noted in an American Legislative Exchange Council (ALEC) Medicaid study by Richard Teske, lies in Medicaid's defined benefits structure, which fixes

State of Alaska
Retirement Incentive Program
Status Report

Office of Management and Budget
January 14, 2000

Introduction

The Retirement Incentive Program (RIP) statute (Sec. 32(b), ch. 4, FSSLA 1996) calls for the Office of Management and Budget to submit annual status reports on the program to the Legislature. The report requirements include the following:

> The report must include information on the designated employee categories under the incentive program, the cost to the state, the cost to the employee, the annual budgeted amount by state agency for the incentives, the number of positions deleted or left vacant, and the projected or actual net savings over the three-year period, and recommendations to the Legislature for changes in appropriations that reflect the cost and cost savings resulting from the retirement incentive program.

Overview of the Program

The purpose of the Retirement Incentive Program is to provide an incentive for employees to retire earlier so their positions can be deleted, downgraded through reorganization of operations, or filled with less expensive employees. The program provides agencies with a management tool to help meet budget pressures by reducing personal services costs. It is also intended to help avoid layoffs that would otherwise be necessary due to budget cuts or the impact of absorbing unfunded inflation and population increases.

This program was designed with significant differences at the state government level from the last RIP in 1989-90. The prior program was offered on a statewide basis, and virtually all employees meeting the age and service requirements were authorized to participate in the program. The current program was designed using a more targeted approach similar to most private sector retirement incentive programs. Each department tailors its use of the program to meet its own budget and staffing requirements. In addition, a greater emphasis has been placed on deleting and reclassifying positions as part of streamlining state government operations wherever possible.

Under the current program, agencies were authorized to adopt RIP plans at any time beginning June 30, 1996 and continuing through June 30, 1999. Participating employees were required to retire no later than January 1, 2000. RIP plans have been adopted by every state department, the University, the Court System and the Legislature.

Summary Program Results

The results of the program from its inception on June 30, 1996 through January 1, 2000 are summarized in the attached table. On a statewide basis, 2,649 positions have been approved for participation in the RIP; 1,273 employees have applied for the program; and 1,270 have retired as of January 1, 2000.

A total of 358 positions have been deleted under the program, with an additional 158 positions reclassified at a lower salary level. In addition, 16 positions were required to be held open for at least three months after becoming vacant, in order to determine whether agency operations could be reorganized to do without the vacated positions.

The estimated statewide net savings from the employees who have actually retired so far total:

- FY1997: $0.5 million;
- FY1998: $6.8 million;
- FY1999: $10.4 million;
- FY 2000: $12.8 million;
- FY 2001: $7.0 million;
- FY 2002: $3.7 million; and
- FY 2003: $0.3 million.

- The total estimated savings for FY1997 – FY 2003 is $41.4 million. These figures include both general funds and other funds.

The reason that the net savings for certain departments and years shown on the table are negative is that some RIP windows occurred late in the fiscal year. Therefore, the savings for those years were smaller than the one-third share of the employer RIP cost owed for those years. These negative savings are offset by additional savings in subsequent fiscal years, when RIP savings continue but the employer RIP cost has been fully paid in the prior years.

Except for the first year, when $1.5 million was cut from the budget specifically anticipating RIP, the RIP savings have helped state agencies absorb budget reductions and cost increases, and avoid some layoffs that would have been necessary in the absence of the RIP.

The estimated net savings shown in the table were calculated using the following procedures and assumptions. Under the RIP statute, savings are required to be calculated over a three-year period. The total salary and benefits costs of each RIP participant were compared over a three-year period to the expected position costs of the replacement employee (unless the position was deleted).

The savings were calculated assuming that the position was filled immediately at a B step. We did not include vacancy savings because such savings are a normal part of employee turnover and would therefore overstate savings from the RIP. To calculate net savings, the employer RIP cost (the amount paid into the retirement system for the additional RIP cost) and the administrative fee were deducted from the position cost savings.

One important caveat concerning these savings projections is that the projections assume that none of the employees who retired under the RIP would have retired at that time if the RIP were not available. Some RIP participants were eligible for normal or early retirement without the RIP and some of them probably would have retired even if the RIP were not available. This assumption tends to overstate RIP savings, because some of the savings attributed to the RIP would have happened without the program. However, this assumption is necessary because there is no way to know how many and which employees would have retired normally without the RIP.

On the other hand, these savings projections do not include the long-term savings that will result from replacing employees in the Tier I and Tier II retirement categories with Tier III employees, who have lower benefit costs. The projections also do not include the "ripple effects" of additional savings from vacancies created by promotions and transfers into RIP vacancies.

Additional Information

The RIP statute also calls for the following information to be included in this report:

Designated Employee Categories: The designated employee categories varied by agency. In some cases RIP participation was offered on a division-wide basis; in other cases particular job classes were selected for participation based on the budget and staffing needs of the department. More information on specific RIP plans is available from each agency or OMB.

Cost to the Employee: Most employees are required to pay an amount equal to 20.25 percent of their annual salary to the retirement system for the additional cost of their RIP benefits. Peace officers and fire fighters pay 22.5 percent.

Budgeted Amount for Incentives: No funds were budgeted to pay for agency RIP costs. Agencies have paid for these costs from savings generated by the RIP or other cost-cutting measures.

Recommendations to Legislature for Appropriation Changes: None at this time.

December 27, 2002

Pat Davidson, Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

Dear Ms. Davidson:

This letter is in response to the preliminary audit on the retirement incentive program (Audit #02-30001-03). As you know, this program ended under the prior Administration. I have reviewed the preliminary audit, as well as the response to the Legislative Audit management letter on this issue that was prepared by the former OMB director, and have no additional comments.

Sincerely,

Cheryl Frasca
Director

State of Alaska
Retirement Incentive Program
Status Report

Office of Management and Budget
January 14, 2000

Introduction

The Retirement Incentive Program (RIP) statute (Sec. 32(b), ch. 4, FSSLA 1996) calls for the Office of Management and Budget to submit annual status reports on the program to the Legislature. The report requirements include the following:

> The report must include information on the designated employee categories under the incentive program, the cost to the state, the cost to the employee, the annual budgeted amount by state agency for the incentives, the number of positions deleted or left vacant, and the projected or actual net savings over the three-year period, and recommendations to the Legislature for changes in appropriations that reflect the cost and cost savings resulting from the retirement incentive program.

Overview of the Program

The purpose of the Retirement Incentive Program is to provide an incentive for employees to retire earlier so their positions can be deleted, downgraded through reorganization of operations, or filled with less expensive employees. The program provides agencies with a management tool to help meet budget pressures by reducing personal services costs. It is also intended to help avoid layoffs that would otherwise be necessary due to budget cuts or the impact of absorbing unfunded inflation and population increases.

This program was designed with significant differences at the state government level from the last RIP in 1989-90. The prior program was offered on a statewide basis, and virtually all employees meeting the age and service requirements were authorized to participate in the program. The current program was designed using a more targeted approach similar to most private sector retirement incentive programs. Each department tailors its use of the program to meet its own budget and staffing requirements. In addition, a greater emphasis has been placed on deleting and reclassifying positions as part of streamlining state government operations wherever possible.

Under the current program, agencies were authorized to adopt RIP plans at any time beginning June 30, 1996 and continuing through June 30, 1999. Participating employees were required to retire no later than January 1, 2000. RIP plans have been adopted by every state department, the University, the Court System and the Legislature.

Summary Program Results

The results of the program from its inception on June 30, 1996 through January 1, 2000 are summarized in the attached table. On a statewide basis, 2,649 positions have been approved for participation in the RIP; 1,273 employees have applied for the program; and 1,270 have retired as of January 1, 2000.

A total of 358 positions have been deleted under the program, with an additional 158 positions reclassified at a lower salary level. In addition, 16 positions were required to be held open for at least three months after becoming vacant, in order to determine whether agency operations could be reorganized to do without the vacated positions.

The estimated statewide net savings from the employees who have actually retired so far total:

- FY1997: $0.5 million;
- FY1998: $6.8 million;
- FY1999: $10.4 million;
- FY 2000: $12.8 million;
- FY 2001: $7.0 million;
- FY 2002: $3.7 million; and
- FY 2003: $0.3 million.

- The total estimated savings for FY1997 – FY 2003 is $41.4 million. These figures include both general funds and other funds.

The reason that the net savings for certain departments and years shown on the table are negative is that some RIP windows occurred late in the fiscal year. Therefore, the savings for those years were smaller than the one-third share of the employer RIP cost owed for those years. These negative savings are offset by additional savings in subsequent fiscal years, when RIP savings continue but the employer RIP cost has been fully paid in the prior years.

Except for the first year, when $1.5 million was cut from the budget specifically anticipating RIP, the RIP savings have helped state agencies absorb budget reductions and cost increases, and avoid some layoffs that would have been necessary in the absence of the RIP.

The estimated net savings shown in the table were calculated using the following procedures and assumptions. Under the RIP statute, savings are required to be calculated over a three-year period. The total salary and benefits costs of each RIP participant were compared over a three-year period to the expected position costs of the replacement employee (unless the position was deleted).

The savings were calculated assuming that the position was filled immediately at a B step. We did not include vacancy savings because such savings are a normal part of employee turnover and would therefore overstate savings from the RIP. To calculate net savings, the employer RIP cost (the amount paid into the retirement system for the additional RIP cost) and the administrative fee were deducted from the position cost savings.

One important caveat concerning these savings projections is that the projections assume that none of the employees who retired under the RIP would have retired at that time if the RIP were not available. Some RIP participants were eligible for normal or early retirement without the RIP and some of them probably would have retired even if the RIP were not available. This assumption tends to overstate RIP savings, because some of the savings attributed to the RIP would have happened without the program. However, this assumption is necessary because there is no way to know how many and which employees would have retired normally without the RIP.

On the other hand, these savings projections do not include the long-term savings that will result from replacing employees in the Tier I and Tier II retirement categories with Tier III employees, who have lower benefit costs. The projections also do not include the "ripple effects" of additional savings from vacancies created by promotions and transfers into RIP vacancies.

Additional Information

The RIP statute also calls for the following information to be included in this report:

Designated Employee Categories: The designated employee categories varied by agency. In some cases RIP participation was offered on a division-wide basis; in other cases particular job classes were selected for participation based on the budget and staffing needs of the department. More information on specific RIP plans is available from each agency or OMB.

Cost to the Employee: Most employees are required to pay an amount equal to 20.25 percent of their annual salary to the retirement system for the additional cost of their RIP benefits. Peace officers and fire fighters pay 22.5 percent.

Budgeted Amount for Incentives: No funds were budgeted to pay for agency RIP costs. Agencies have paid for these costs from savings generated by the RIP or other cost-cutting measures.

Recommendations to Legislature for Appropriation Changes: None at this time.

Subject: HB 329
Date: Wed, 28 Jan 2004 12:18:23 -0900
From: Craig Shelton <craig_shelton@dot.state.ak.us>
To: ginny_austerman@legis.state.ak.us

I support HB 329
Thanks for your work on this item.

Craig Shelton

Subject: **Support for HB 329 Retirement Incentive**
Date: Wed, 28 Jan 2004 13:37:14 -0900
From: "Patrick D. Miller" <patrick_miller@dot.state.ak.us>
Organization: DOT & P.F. Design
To: ginny_austerman@legis.state.ak.us

Dear Ginny,

I would like to be counted as one who supports HB 329 with several amendments. For now please count me as a supporter.

Sincerely,

Patrick Miller,
State of Alaska employee

Subject: RIP
Date: Wed, 28 Jan 2004 11:29:08 -0900
From: Mike Lee <mike_lee@dot.state.ak.us>
To: ginny_austerman@legis.state.ak.us

I support HB 329.

Regards,

Mike Lee

Subject: HB 329
Date: Wed, 28 Jan 2004 11:29:41 -0900
From: Jim Payne <jim_payne@dot.state.ak.us>
To: Ginny Austerman <ginny_austerman@legis.state.ak.us>

I give my full support to this bill. I think that the overall affect of the RIP program improves the State work force and also saves the State money.

October 10, 2003

Dear Representative Bruce Weyhrauch,

I am writing because I would like you to support **House Bill** 329. In these times we need to economize where possible, and it makes sense to retire our more expensive state workers and take on younger talented employees. This would help the economy to retire the higher paid employees to save the state money. Hiring new younger employees, which are paid at a less range and benefits that would help the state financially.

House Bill 329 would create jobs for the younger people of Alaska and keeping them here in our state. If the knowledge of the older employee is a concern, then after retiring they can be rehired at step A and no benefit package costing the state less money until the young employee can be trained to take over.

Thank you so much for your attention to this timely piece of legislation and I would appreciate your support for it when it comes before you.

Sincerely,

Judith L Morris

Judith L. Morris
4941 Klondike Ave.
Anchorage, Alaska 99508-2413

Subject: HB 329
Date: Wed, 28 Jan 2004 10:10:58 -0900
From: doug hummel <doug_hummel@dot.state.ak.us>
To: Ginny Austerman <ginny_austerman@legis.state.ak.us>

Hi Ginny,

I want to let you know that I support HB 329.

Doug

Subject: **HB329 Early Retirement - and University of Alaska Layoffs**
Date: Wed, 28 Jan 2004 10:57:55 -0800 (PST)
From: darryl earnshaw <darryl7734@yahoo.com>
To: Ginny_Austerman@legis.state.ak.us

1/28/03

Re: Early Retirement Incentive Program - HB329

This bill maybe good for those employees that were notified recently at the University of Alaska Fairbanks, Physical Plant that they might or will be laid off as soon as bumping has been figured out.

My husband for one has worked for the University of Alaska for 23 years, he will be 51 in March and hopefully he would qualify via some sub section of this bill for early retirement. This would certainly eliminate alot of personal stress.

Any bill that would help reduce the cost of State government while at the same time treating its employees with decency and respect for their valued years of service would be greatly appreciated.

Sincerely, Ruth Earnshaw, 517 Longspur Loop, Fairbanks, Alaska 99709 - (907) 479-0102

Subject: [Fwd: HB 329]
Date: Tue, 27 Jan 2004 15:40:03 -0900
From: Kenai Legislative Information Office <Kenai_lio@legis.state.ak.us>
To: Ginny Austerman <Ginny_Austerman@legis.state.ak.us>

Ginny, Paul Kubena sent me two message for HB329. Rather than send you 2 forms of written testimony (they both relay the same message) I am forwarding this one and attaching a written testimony form. Hope this works for you.
-Alyson
Kenai LIO
-------- Original Message --------
Subject: HB 329
Date: Tue, 27 Jan 2004 15:18:50 -0900
From: "Paul Kubena" <pkubena@kpbsd.k12.ak.us>
To: Kenai_LIO@legis.state.ak.us

Please vote yes on HB 329

Alaska has long suffered a "Brain Drain" of creative and talented young citizens forced to seek carrers Outside. This migration away has been further enabled from a lack of opportuntiy for the next generation of Alaskans to start fresh new families and careers in the state. By offering
incentive to free up job positions within the state we can capture some of
the very talent and skills we need to "re-invest" in our states future. Vote yes on HB329. It's a win / win situation that is a proactive choice for our states future. Please vote YES for Alaska. Vote Yes for HB 329. Thank You.

Kubena_HB57.doc	:ation/msword) :ssage

Copy for
Thurs!
HB 329

Alaska State Legislature

Please enter into the record my testimony to the ___House State Affairs

____

(committee name)

committee on ______HB329___, dated 012904______________________________.

I'm in favor of passage of HB 329. The state of Alaska has already recognized the "Brain Drain" that our economy is suffering from. Our "Best & Brightest" young citizens are being forced, by economic necessity, to seek careers "Outside". Much of the fresh new talent and creativity Alaska needs for her future is being held in check because a top heavy, salaried, workforce that is close to or beyond retirement age are not leaving to open up job opportunity for the next generation of state employees. The incentive to come here and build the new next generation of families will be greatly enhanced through the opening up of jobs created through retirement of state employees. I see it as a Win / Win scenario. Good for the past and good for the future. Please vote yes on HB 329.

Paul Kubena
44960 Big Eddy Rd.
Soldotna, Alaska

Signed: ____

Testifier

____

Representing (optional)

____

Address

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1-28-04
Bill/Subject

As a teacher for 4 years in the Mat-Su Borough School District, I support a retirement incentive program at this time to help alleviate the funding crisis for quality education.

I further support allowing early retirees to return to work for a 3-year period at entry-level salaries while maintaining retirement benefits. This would mitigate the teacher-shortage situation, and keep schools from losing experienced staff.

Signed: Linda Ramsey
Testifier

Representing (Optional)

P.O. Box 319, Talkeetna, AK 99676
Address
(907) 733-1419
Phone number

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1/29/04
Bill/Subject

Honorable Committee members
Please consider the ______ HB329 for the Retirement Incentive Program. By passing this bill you will be helping to alleviate some of the pressure local districts are now feeling due to the large percent of the budget that is devoted to senior level teachers.
We are all aware of the difference in cost between a veteran teacher and a beginning teacher. Therefore by providing a RIP you may just help one district come a little closer to balancing their budget.

Michael McNamara

Signed: ______________________
Testifier

____
Representing (Optional)

Meadow Lakes Elementary
Address

907-357-9840
Phone number

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
committee name

committee on HB 329, dated 1-29-04.
bill/subject

Much needed bill for
all involved!
Please acknowledge
my support

Signed: James D Erwin
Testifier

POB Wasilla
Representing (Optional)

Address
(907) 376-5021 hm (907) 357-9840 wk

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
committee name

committee on HB 329, dated 1/29/04.
bill/subject

I support this much needed bill.

I think HB 329 is needed for the teachers, administrators, and government workers of Alaska.

Deborah J Buser

Signed: ______________________
Testifier

____
Representing (Optional)

POB 870649 Wasilla AK 99687
Address

(907) 373-1216
Phone No.

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1/09/04
Bill/Subject

This is a well needed bill. please acknowlege my support.

Leslie Heidemann

Signed: Mat-Su Borough School dist
Testifier

Representing (Optional)

Address

907-357-9840
Phone number

371-3704

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs Committee
Committee name

Committee on HB 329 Rip dated 1-28-04
Bill/Subject

Please Support HB329. I urge all members To Support HB 329 for the following Reasons

1. Cost Savings to the STATE
2. Most People in Tier I Can TAke advantage of this Bill
3. Some Jobs would not Be filled
4. If the Job is filled it would Be hired at A much Lower Salary

I Also Think a amendment of Letting the Window of opportunity Be Extended for 3 Years

Signed: Neal Sull—
Testifier

Representing (Optional)

P.O. Box 1005 Willow Alaska 99688
Address

907 495- ~~[illegible]~~ 7330
Phone number

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs Committee
Committee name

Committee on HB 329 dated 1/28/04
Bill/Subject

I am writing to support passage of HB329. It will reduce education costs to districts across the state.

In addition to passing HB329, the ~~state~~ Legislature needs to inflation proof education funding & increase funding to support NCLB legislation.

Signed: Nancy A. Lemon-Scheafele
Testifier

Representing (Optional)

P.O. Box 412 Talkeetna, AK 99676
Address

907-733-6262
Phone number

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs Committee
Committee name

Committee on HB 329 Status date: 5-21-03, dated 1-28-04 (today's date)
Bill/Subject

Re: Teacher Buy Out -
This would be an excellent way to decrease spending in schools in the long run. There are many young teachers waiting to fill positions. By saving money on salaries, more money could be spent on directly helping students (there are more + more students with high needs, technology changes every day, etc.)
Please support the bill to cut future spending.

Signed: [signature]
Testifier

Representing (Optional)

P.O. Box 155, Talkeetna, Alaska 99676
Address

(907) 733-2155
Phone number

Please Fax 376-6180
I Support HB 329

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 RIP dated 1-28-04
Bill/Subject

Please Support HB 329

Signed: Sandra L Bennett
Testifier

Representing (Optional)

Po box 3576 palmer ak
Address

907 376 9292
Phone number

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1-28-04
Bill/Subject

I support the RIP bill HB 329. Please give your support to its passage.

Signed: Laurie Green
Testifier

Representing (Optional)

1260 W Gail dr Wasilla
Address

907 376 9292
Phone number

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1-28-04
Bill/Subject

I support HB 329. Please do all you can to make the Bill go Through.

Signed: Duane C. Marble
Testifier

Duane Marble
Representing (Optional)

P.O. Box 1151, Palmer, Ak 99645
Address

907-745-4156
Phone number

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1-28-04
Bill/Subject

I support the HB 329
This is important for the Mat-Su School Dist.

Signed: Joe Derard
Testifier

Representing (Optional)

260 So Cobb, Palmer, Ak 99645
Address

Phone number

Please Fax 376-6180
I Support HB 329

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 RIP dated
Bill/Subject

I Support HB329. Please do all you can to make this Bill pass.

Signed: Esther Rearre
Testifier

Representing (Optional)

PO Box 1355 Palmo AK 99645
Address

907 745-2237
Phone number

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329, dated 1-28-04
Bill/Subject

Please support HB 329

Mary K. Mayers

Signed: ____________________
Testifier

____
Representing (Optional)

____
Address

____
Phone number

Please Fax 376-6180
I Support HB 329

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 RIP dated
Bill/Subject

I support this bill!

Also, get with funding Education!!
our kids are suffering!!

NCLB has created more burdens on everyone, but no money to support these requirements!!

Signed: Rebecca Handy
Testifier

Representing (Optional)

PO Box 875910-296 Wasilla, AK 99654
Address

907-376-5996
Phone number

Please Fax 376-6180
I Support HB 329

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
Committee name

Committee on HB 329 TIF , dated 1-28-04
Bill/Subject

Please support HB 329

Signed: Marie Rogers
Testifier

Representing (Optional)

po box 1151 Palmer
Address

7456248
Phone number

Subject: **[Fwd:]**
Date: Tue, 03 Feb 2004 11:12:58 -0900
From: Bruce Weyhrauch <Representative_Bruce_Weyhrauch@Legis.state.ak.us>
Organization: Alaska State Legislature
To: Ginny Austerman <Ginny_Austerman@legis.state.ak.us>

can you take care of this.

Bruce

Subject:
Date: Mon, 02 Feb 2004 19:46:30 -0900
From: Annette Nadreau <timna@gci.net>
To: Representative_Bruce_Weyhrauch@legis.state.ak.us

Dear Bruce

My wife and I are your constituents and are writing in concern with HB329. I see where the Rules committee has held some hearings on this bill.

We are both State employees and wish to express my support for this bill.

I just do not see a down side to this legislation. It would give those employees who qualify a chance to leave state government while at the same time save the State money. Some could argue there would be a brain drain. However, I do not see it that way in that a rip has not been offered for several years. It would also offer others outside state government a chance at a good job at entry levels as new positions are filled. (if they are)

I am very interested in following the legislative process on this bill. Can you tell me if any other hearing are currently scheduled for this bill? Also, can you tell if hb329 is currently scheduled for a full rules committee vote or when it will be? What committee is it passed to once it leaves the Rules committee? And finally, I am hearing that most people I talk to about this bill feel that it really does not have the support of the full legislator and do not feel it will pass both houses this year. Can you give me your gut feeling on this? Do you think it will pass out of the full house, senate or both? (I know its very early in the process)

Thank you for your support on this bill.

Tim and Annette Nadreau
4114 victoria ct.
99502

Subject: Re: CS HB 329
Date: Mon, 2 Feb 2004 20:18:55 -0900
From: "Mark Inghram" <minghram@alaska.net>
To: "Ginny Austerman" <Ginny_Austerman@Legis.state.ak.us>

GINNY:

Thanks, I received the FAX today of HB329. I read through it once....more than just a little confusing. First read through certainly left impression of too many caveats leaving way too much discretion to the Department/Division level. I have heard a Director say that it is his intention to allow NO ONE in his Division to participate in a RIP. This is exactly the situation that needs to be avoided, & why the bill needs to be written as to remove discretionary participation to the Department/Division level. Please offer a revision that simplifies the participation rules to allow all who meet a set of standards perscribed by the legislature to elect the RIP. It is the only fair way to do it, and the only way to encourage/allow enough employee participation to save the State sufficient money to make the RIP worthwhile.

Thank you for being responsive. I will write a more formal response as time allows me to fully comprehend the convoluted language in HB329.

MARK

----- Original Message -----
From: Ginny Austerman
To: Mark Inghram
Sent: Monday, February 02, 2004 12:37 PM
Subject: Re: CS HB 329

Mark - I have just sent the fax, it is 13 pages. Ginny

Mark Inghram wrote:

> Thank you Ginny for the email. Our fax number is 907-694-4794. We would appreciate any information you can forward on HB 329, version H. We look forward to receiving your fax.Mary and Mark
>
> ----- Original Message -----
> From: Ginny Austerman
> To: minghram@alaska.net
> Sent: Friday, January 30, 2004 11:19 AM
> Subject: CS HB 329
> Hi Mark:
>
> Rep. Weyhrauch has forwarded you testimony on HB 329 to me for the committee packets and for response.
>
> Version H of the bill is not available on-line as it has not been formally adopted by the House State Affairs Committee, it is only in the discussion stages. If you have a fax number, I can fax the pages to you. It is a 13 page bill.

I would suggest that you contact Rep. Lesil McGuire's office, too, they will always have the information on where and when HB 329 will be heard next. You can also find the information at the State website on BASIS. You just have to key in HB 329 (at the Bill Root prompt) and the status of the bill will come up telling you when and where it is. You can also see the ***current adopted*** bill version there. If you have Adobe Acrobat you can look at the PDF version which is easier to read.

The bill is on the House State Affairs calendar for next Thursday. At this time the bill is listed 2nd on the calendar, but there is no guarantee that is where it will be heard, as the chair can change the order of bills during the meeting. Also, check with your LIO, they should know the schedule for the bill.

Thank you for your testimony.

Ginny Austerman
House State Affairs Committee Aide

Corinne W. McVee
6300 Habicht Court
Anchorage, AK 99504
907-338-0289
907-338-7815 fax
starcats@alaska.com

February 17, 2004

Representative Max Gruenberg
fax 907-465-3766

Dear Max,

Thanks to you and your aide for trying to get me on the agenda this morning at the House State Affairs committee hearing on HB 329. As you know, I called in to testify but had to leave the house in order to get to school, so instead of live testimony I submit my statement in writing. Please distribute this to the other committee members.

I urge the Alaska Legislature to pass HB 329, the retirement incentive bill. Alaskan school districts desperately need to save money to avoid layoffs, program cuts, and increased class sizes. By allowing the most expensive teachers to retire more easily, less expensive teachers can be hired to replace them. I am a 23 year veteran teacher and I cost the Anchorage School District about twice what a new teacher would cost.

Some members of the Legislature may be concerned that a retirement incentive can have a negative effect on schools. The loss of experienced teachers is a problem, but it could be partly solved by allowing only a limited number of teachers per year opt to retire early. Other members may be concerned about the financial impact on the retirement system, but since the incentive offered in this bill is is a three-year buyout, not a Service Recognition Program, the retiree still contributes to the retirement system.

I have seen newer teachers become very discouraged by receiving pink slips due to budget shortfalls. I know several who have left the profession because of it. If this bill will help avoid layoffs, it will be an excellent way to help retain the bright young teachers I know as well as let the older ones exit gracefully. Of course, layoffs are also bad for the economy.

Thanks to you and all the committee members for considering my opinion on this matter. Many thanks for your support of quality education in Alaska.

Sincerely,

Corinne W. McVee

Corinne W. McVee

Alaska State Legislature

Please enter into the record my testimony to the ___House State Affairs Committee

on ______HB329____________________, dated 021704

20 + years of commitment and dedication to this great state and what might these Alaskans receive in recognition of their service? Does it require an explanation? Future Alaskans will be standing on the shoulders of those who came before them. Alaskans have achieved the quality of life they have all come to enjoy and expect due to the efforts of these citizens. Giving governmental agencies the ability and discretion to recognize such citizen contributions in a manner within their budgetary means is indeed a small thing to ask. Allowing the state to give the credit of three (3) additional years to their PERS or TRS accounts will, in and of itself, be incentive and reward for the few who have done so much for the many. It's an opportunity for the "Last Great Place" to salute the contributions of their own.

Paul C. Kubena
44960
Big Eddy Rd.
Soldotna, Alaska
99669

FEB-17-2004 TUE 01:28 PM KENAI LIO FAX NO. 907 283 3075 P. 01

FEB 2 3 2004

Alaska State Legislature

Please enter into the record my testimony to the House State Affairs Committee
Committee name

Committee on HB 329, dated 2-17-04
Bill/Subject

Please consider HB329 as a way to decrease spending statewide. Many layoffs are now predicted. The passing of HB329 would relieve budgets across the state.

Thank you for listening.

Signed: [signature]
Testifier

Representing (Optional)

P.O. Box 155, Talkeetna, Alaska 99676
Address

(907) 733-2155
Phone number

02/16/2004 15:47 7331363 SUVALLEY PAGE 01/01

JAN-28-04 WED 10:04 AM MATSU LIO FAX NO. 8073766180 P. 01

FEB 2 3 2004

Alaska State Legislature

Please enter into the record my testimony to the HOUSE STATE AFFAIRS COMMITTEE
Committee name

Committee on HB 329 R.I.P., dated 2-17-04
Bill/Subject

IF THE EMPLOYEES WHO ARE TOPPED OUT ON THEIR SALARY SCHEDULES ARE GIVEN AN INCENTIVE TO RETIRE, I THINK MANY WILL. IF NEW EMPLOYEES ARE ADDED AT THE BOTTOM OF THE SALARY SCHEDULE, THIS SHOULD RESULT IN SAVINGS OF \$20,000 - \$30,000 PER EMPLOYEE PER YEAR.

Signed: BRUCE C. GUNDERSON Bruce C. G[illegible]
Testifier

Representing (Optional)

HC 89 BOX 621 WILLOW, AK 99688
Address

HM 907-733-2528 WK 907-733-2241
Phone number

HB 329

FEB 0 6 2004

We the undersigned wholeheartedly support this bill:

Mike Hankins
Earnest D. Gentry
Richard R. Threll
Rod Steiner
Kurt B Rogers
David [illegible]
Michael K. Abel
[illegible]
KRHall Kim R. Hall
Suzanne L. Knudsen
John A. Rajek
Eddie L. Berkley IV
Michael C. [illegible]
Gary H. Frost
Edward Cross
Tim Nahrean
Rick [illegible]
[illegible]

[illegible]
Dave Ratz
Craig Fitzgerald
Bennett J. [illegible]
[illegible]
Stewart R. Ewing
[illegible]
[illegible]

Bill file

December 26, 2003

The Honorable Representative Bruce Weyhrauch
State Capitol, Room 102
Juneau, AK 99801-1182

JAN 0 2 2004

Dear Representative Weyhrauch:

I am writing to ask for your support of HB 329, an act relating to retirement incentive programs for public employees. This bill is or will come before a committee that you presently occupy. I will tell you up front that this request is self serving because I am a state employee getting close to the age of retirement and may qualify for early retirement under criteria set forth in the act. More importantly, however, passage of the bill allows for sound fiscal management and is particularly important given the state's ever deepening fiscal crisis. The bill would allow for the early retirement of long time employees who are at the highest steps of their pay ranges to be replaced with newer and younger employees at reduced step levels, thereby decreasing the cost of state government. In some cases, Divisions within state government would choose not to replace certain retiring employees, saving additional state dollars. Passage of the bill would provide another tool to reduce the costs and size of state government and certainly be much more palatable to the public then implementation of a state sales tax, income tax or use of the permanent fund to finance government operations.

Using myself as an example, I am a class one employee in the supervisory unit at a range 19, step M pay rate. That range and step is paid at $2,895.50 per pay period or $5,791.00 per month. My replacement, should the Division I work for choose to replace me, could come in to the position as low as a range 19, step A. That range and step is paid at $2,159.00 per pay period or $4,318.00 per month, a savings of $1,473.00 per month or $17,676.00 per year.

HB 329 has the potential to save significant amounts of money for the state and it is incumbent upon legislators to save money where they can to reduce the state budget deficit. Please support HB 329 as a demonstration of fiscal responsibility and monetary conservatism.

Most Sincerely Yours,

Gary S. Neubauer

Gary S. Neubauer