**ALASKA MUNICIPAL LEAGUE**

**2014**

**PERS/CASH INFUSION TALKING POINTS**

The Alaska Municipal League strongly supports a $3 billion deposit into the Retirement Trust Funds from the Constitutional Budget Reserve, as laid out in the Governor’s FY 2015 budget.

* The combined unfunded liability of Alaska’s Public Employee’s Retirement System (PERS) and the Teacher’s Retirement System (TRS) is $11.8 billion as of June 30, 2012.
* Sixty-two percent (62%) of the annual State Assistance is directly for the State’s own unfunded liability
* Only 38% of annual State Assistance is for municipalities.
* The State’s unfunded pension liability is one of Alaska’s biggest budget drivers, as annual State Assistance payments are expected to exceed $1 billion per year by 2016, if some sort of cash infusion does not occur directly into the retirement trust funds.
* Caps annual State Assistance payments at $500 million per year.
* Predictable, sustainable, affordable annual payments for State and municipalities.
* Increases funded status of PERS and TRS by 10% immediately.
* Allows future interest earnings to offset future contribution requirements.
* Reduces pressure on local government budgets by introducing stability.
* Assists Retirement Trust Funds with liquidity, by ensuring continued State Assistance.
* Strengthens State and local credit ratings by reducing unfunded liability and demonstrating a responsible and realistic plan for resolving the unfunded liability over a reasonable period of time.
* Due to the large capital contribution of $3 billion into the trust, the State of Alaska will not need to make the annual required contribution of $600 million from the Operating budget. This enables funding capacity for other programs and projects.
* Addresses this major financial problem now when reserves are available, rather than pushing to future generations of Alaskans who have fewer resources to tackle the problem.
* If money is deposited into the Trust Funds rather than a Reserve account, it helps reduce the total unfunded liability. Any money deposited into a Reserve account, can be re-appropriated and will not provide credit to the State or local governments toward the unfunded liability.
* Actuarial accounting practices do not credit the system for “reserve” fund deposits, so it will do little to improve the financial health of the retirement fund.
* The Governor’s proposed $500 million cap necessarily extends the amortization of the unfunded liability **resulting in local governments and school districts having to pay the 22% (PERS) and the 12.56% (TRS) employer contribution rate for five more years** than they otherwise would and significantly shifting costs from the state to its municipalities.
* The proposal will require the municipalities to assume a greater financial portion of the unfunded liability by approximately $1.5 billion, by extending the amortization payoff from 2031 to 2036.
* New municipal requirements under GASB 68 requires allocation of a portion of the unfunded liability among municipalities. The cash infusion of $3 billion would be reflected on municipal balance sheets as a reduction in unfunded liability, thereby strengthening the balance sheets of the State and local governments, whereas a deposit into a Reserve Fund would not reduce the pro-rata share of liabilities.
* Under the Governor’s plan, municipalities will bear a larger share of financial responsibility for the unfunded liability.
* **The additional cost to municipalities is approximately $1.33 billion over that five-year period.**

**TERMINATION COSTS**

* AML strongly supports an elimination of the requirement to pay termination costs and termination study costs for terminated employees that participated in the defined benefit retirement program.
* AML supports HB 152 which repeals termination studies and costs. Termination costs can be a significant cost to municipalities, yet are insignificant relative to a $12 billion unfunded liability.
* In light of tight state funding into the future, it is critical that municipalities have flexibility to manage staff and programs without fear of the negative financial impact of termination costs.
* This bill eliminates the requirement for municipalities to pay termination costs and termination study costs for certain employees. This bill also aims to address the future financial stability of municipal PERS employers.
* The current termination studies law is making it difficult for employers to manage the delivery of services, discriminates against small municipalities, even though their impact on the system is minimal, and is nearly impossible to implement in an equitable manner. It also fails to recognize that organizational and personnel structure differ between municipalities.
* System-wide salaries have increased by $325 million or 18.6% over the salary base “floor” established in 2008. As a result, contributions toward the unfunded liability have not been compromised; rather, they have increased at a rate greater than the actuarial-assumed growth rate of 4%.

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