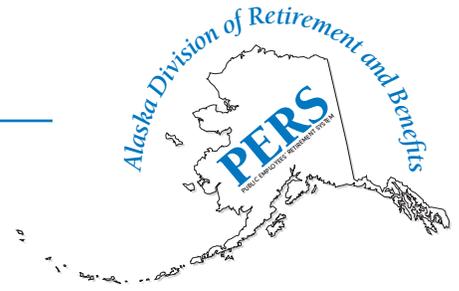


# Termination Studies

This flyer is intended to provide general information to employers regarding terminating groups, departments or job classes from participation in the Public Employees' Retirement System (PERS) and when a termination study is required. Alaska Statutes governing termination studies are 39.35.615-625.



## Determining If A Study Is Needed

AS 39.35.615 allows an employer to amend its participation agreement with the PERS to add or delete covered groups. When an employer excludes a department, group or other classification of employees, a termination study is required unless the department, group or other classification has requested to be removed, such as union employees requesting to participate in a union retirement plan instead of PERS. The Division of Retirement and Benefits (Division) will request information from the employer in order to clarify which category the exclusion comprises. This information can include organizational charts, department rosters, job classifications, employee union membership or minutes of meetings of the governing body.

The basis for the termination study is a determination if a covered employee's rights to benefits or retirement behavior will change due to the employer's actions. Excluding departments, groups or other classifications of employees from participation automatically vests both defined benefit and defined contribution employees in a right to retirement benefits that have not yet been funded. It will also cause the employee to draw retirement benefits at the earliest available retirement date rather than the system average of 2 years after retirement eligibility. The funding of the retirement benefit is based on the average expected retirement date; drawing retirement earlier than expected creates a shortfall in employer funding of the benefit.

If the employees being excluded comprise a department, group or classification, a termination study will be required. Some examples:

- **Reduction in force, no termination study.** The City of X is reducing maintenance workers from 5 to 4.

The job classification of maintenance worker still exists with 4 remaining members so the job classification has not been excluded. The City of X has a Maintenance Department, and there are 4 remaining members in the Department so the Department has not been excluded. All maintenance workers are in the same union, and there are still remaining members in the union so a group has not been excluded. No termination is required.

- **Reduction in force, termination study required.** The City of Y is eliminating its Maintenance Department and contracting with an independent contractor to perform this work. The Maintenance Department employees are being removed from PERS participation involuntarily and a termination study is now required.
- **Reduction in force, termination study required.** The City of Z has a Maintenance Department that includes custodial, equipment and fleet maintenance. The City of Z determines to contract with an independent contractor for custodial services. All custodians for The City of Z will no longer be employed. The custodians represent a unique job classification with the City of Z so a termination study is now required.
- **Reduction in force, termination study required.** The City of Z in the above example determines to employ as many laid off custodians as it can by filling vacancies in other Departments. A termination study is still required, however, employees that remain in the employ of City Z will be not be included in the study as their vesting rights and retirement behavior will not change.
- **Sale of an entity.** City A determines to sell its hospital to a private company. All hospital employees will retain employment with the new company. A termination study will be required as City A has removed a

department of its organization from participation in the PERS. The employees remain employed, but are now ineligible to continue in the PERS.

- **Removal of a one-of position.** City B determines to remove its Fire Chief from PERS participation. The Fire Chief position is the only Fire Chief position the City has and represents a job classification. A termination study is required.

Once it is determined a termination study is needed, the Division will refer the member to the plan actuary for the necessary calculations. Under AS 39.35.625, employers requesting a termination study are responsible for payment to the plan actuary to calculate the termination costs. When the study is completed, a copy is sent to both the Division and the employer.

If the employer chooses to continue with excluding a department, group or classification, the employer works with the Division Regional Counselor to amend the participation agreement. The Division is available to review draft amendments and resolutions prior to adoption by the governing body to ensure acceptance by the Division. Once the amendments are received and accepted by the Division, the affected employees are notified in writing by the Division of their rights under AS 39.35.615 and the requirement to determine, within 60 days after the date of determination, whether to refund contributions or accept the vested benefit. Termination costs for employees who elect a refund are voided. For the remaining termination cost, the employer may set up a mutually agreed upon payment plan with the Division to pay the final costs to terminate coverage.

## Salary Floor Effects

Employers need to be aware that while a termination study may not be needed when staff reductions are made, total salaries reported to the system may fall below the 2008 established salary floor. Employers are required to make contributions to the PERS based on actual salary or the salary floor amount, whichever is greater.

## Continuing Contributions Required

When a termination of a department, group or classification has occurred, AS 39.35.625 requires employers to pay continuing contributions to the plan each payroll period until the past service liability of the plan is extinguished. The contributions will be the greater of the total base salaries paid:

- 1) During the payroll period to employees in positions for which coverage has been terminated;
- 2) At the time of termination to employees in positions for which coverage has been terminate; or
- 3) During the corresponding payroll period for the fiscal year ending June 30, 2008, to employees in positions for which coverage has been terminated.

Salaries used to calculate continuing contributions become part of the total employer salary base paid to the plan when determining salary floor affects.

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*The information contained in this flyer is a summary description of benefits policies or procedures for the Public Employees' Retirement System. The Division of Retirement and Benefits has made every effort to ensure, but does not guarantee, that the information provided is accurate and up to date. Where this flyer conflicts with the relevant statutes, the statutes control.* (2015)

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