

## ADMINISTRATIVE ANALYSIS







STATE OF WASHINGTON

DEPARTMENT OF RETIREMENT SYSTEMS

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DATE: November 28, 2016  
TO: Select Committee on Pension Policy  
FROM: Department of Retirement Systems  
SUBJECT: LEOFF 1/TRS 1 Merger Study - Administrative Impacts of SB 6668

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The Select Committee on Pension Policy (SCPP) was tasked by the legislature to create a report on the potential impacts of SB 6668, *Merging the assets, liabilities, and membership of the law enforcement officers' and firefighters' retirement system plan 1 with the teachers' retirement system plan 1 and establishing a funding policy for the merged plan*. The SCPP requested that the Department of Retirement Systems (DRS) report to the SCPP on the administrative impacts of SB 6668.

During the 2016 legislative session DRS completed a Fiscal Note which addressed the administrative impacts of SB 6668. DRS is submitting this Fiscal Note to the SCPP to be included in its report to the legislature.

There was one administrative issue raised by the SCPP that was not addressed in the DRS Fiscal Note. This question relates to the potential impact of SB 6668 on the financial reporting requirements of Governmental Accounting Standards Board<sup>i</sup> Statement 68 (GASB 68).

GASB 68 establishes accounting and financial reporting requirements for government employers that prepare financial statements compliant with Generally Accepted Accounting Principles<sup>ii</sup> (GAAP). GASB 68 requires that cost-sharing governments report a net pension liability (or asset), pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. Pension liabilities or assets result from the difference between contributions required and contributions made.

In response to GASB's adoption of Statement 68, DRS has followed authoritative guidance from the American Institute of Certified Public Accountants<sup>iii</sup>. DRS does not prepare employer financial statements. It does, however, publish a Comprehensive Annual Financial Report (CAFR) that includes financial reporting for pension plans that are administered by DRS. DRS also publishes a Participating Employer Financial Information (PEFI) report that includes employer allocation percentages and additional information needed by employers to meet the requirements of GASB 68.

To respond to SCPP's inquiry regarding GASB 68, DRS reviewed its existing procedures and reached out to our employer partners regarding impacts of employer financial reporting should TRS 1 and LEOFF 1 merge into one plan (TRS 1). DRS has concluded that if LEOFF 1 is merged with TRS 1, DRS would continue to allocate employer proportionate shares of the TRS 1 net pension liability based on employer contribution transmittals processed by DRS during the fiscal year. Continuing this approach would have the following impacts under a LEOFF 1 merger with TRS 1:

- Local governments who are LEOFF 1 employers (mainly cities and counties) would no longer have a LEOFF 1 asset to report in their financial statements. LEOFF 1 employers would not be required to include TRS 1 liabilities in their statements.
- Local governments who are TRS 1 employers (mostly school districts) would continue to include a liability for TRS 1 in their financial reporting. However, the liability would be reduced because of the merged LEOFF 1 asset.
- The state would no longer have a LEOFF 1 asset to report in its financial statement. The TRS 1 liability reported by the state would be reduced, but the reduction would be relatively small because there are fewer state government TRS 1 employers.

We hope this information is of assistance to you. If you have questions, please contact me directly.

Sincerely,



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Enclosure

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<sup>i</sup> GASB – Governmental Accounting Standards Board: Established in 1984, the GASB is the independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles

<sup>ii</sup> GAAP - Generally Accepted Accounting Principles are the generally accepted accounting principles adopted by the U.S. Securities and Exchange Commission.

<sup>iii</sup> AICPA - The American Institute of CPAs is the world's largest member association representing the accounting profession. AICPA sets ethical standards for the profession and U.S. auditing standards for private companies, nonprofit organizations, federal, state and local governments.

## Individual State Agency Fiscal Note

<b>Bill Number:</b> 6668 SB	<b>Title:</b> LEOFF 1 & TRS 1 merge	<b>Agency:</b> 124-Department of Retirement Systems
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**Part I: Estimates**

**No Fiscal Impact**

**Estimated Cash Receipts to:**

NONE

**Estimated Expenditures from:**

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	0.3	0.2	0.3	0.0	0.0
<b>Account</b>					
Department of Retirement Systems	93,572	67,448	161,020	0	0
Expense Account-State 600-1					
<b>Total \$</b>	93,572	67,448	161,020	0	0

**Estimated Capital Budget Impact:**

NONE

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Steve Jones	Phone: (360)786-7440	Date: 02/24/2016
Agency Preparation: Mike Ricchio	Phone: 360-664-7227	Date: 02/29/2016
Agency Approval: Marcie Frost	Phone: 360-664-7312	Date: 02/29/2016
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/29/2016

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

This bill merges the assets, liabilities, and membership of Plan 1 of the Law Enforcement Officers' and Firefighters' (LEOFF) Retirement System with Plan 1 of the Teachers' Retirement System (TRS), and establishes a funding policy for the merged plan. It also provides a one-time, lump-sum defined benefit payment of \$5,000 to all retired LEOFF Plan 1 members, payable on January 3, 2017. Active or "term-vested" members will receive the lump-sum benefit payment, with interest, on their retirement date. The bill takes effect on September 1, 2016.

### II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

No impact.

### II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

#### ADMINISTRATIVE ASSUMPTIONS

- Approximately 7,500 current retirees/survivors will receive the one-time \$5,000 payment on January 3, 2017. Persons assigned a portion of a retiree's benefit will not receive a payment.
- There are approximately 120 non-retired LEOFF 1 members who will have the \$5,000 credited to their member account and, upon retirement, will receive the payment plus interest.
- No changes are needed to the agency's integrated mainframe systems, other than creating a separate code to hold and distribute the \$5,000 payment. The associated accounts will be set with a special circumstances flag. Interest will accrue on the active/inactive accounts at a rate that is consistent with LEOFF Plan 1.
- Any active/inactive member that does not meet the criteria to receive the \$5,000 payment will have the payment plus interest removed from their account manually by a Retirement Specialist.
- The \$5,000 payment will be paid by the same method that the retiree currently receives their monthly benefit by, using current IRS withholding.
- The \$5,000 payment cannot be rolled into purchasing an annuity from DRS.
- This \$5,000 payment is an additional no-basis retirement benefit payment.
- All impacted LEOFF retirees/survivors will receive separate 1099's for payments made under the LEOFF plan for the period prior to and after the merging of the plans. (Each retirement system has a different tax identification number.)
- Any 1099 corrections prior to September 1, 2016, will always use the prior LEOFF 1 tax identification number.
- If a LEOFF 1 member dies after the effective date of this legislation (September 1, 2016) and before the payment date (January 3, 2017), the payment will be made to the beneficiaries of the member.
- Online account access (OAA) will display the \$5,000 payment when an eligible member is applying for retirement, and will show it under "benefit summary" for retirees/survivors.
- The LEOFF 1 fund will remain open until all warrants have cleared, the cash balance is zero and all transactions are finalized.

The assumptions above were used in developing the following workload impacts and cost estimates.

## BENEFITS/CUSTOMER SERVICE

Retirement Specialists (RSs) will support modifications of DRS' automated systems, help update member communication materials, update internal procedures, update internal reference materials, and provide training on the changes to existing procedures.

Retirement Specialist 3 – 92 hours (salaries/benefits) = \$3,259

## FISCAL SERVICES

Teams within Fiscal Services will need to develop business requirements and perform user acceptance testing with the Department of Enterprise Services. They will need to test AFRS interface updates and enter AFRS coding updates, updates to cash processes, reclamations/returns, and cash-flow activities, and updates to reconciliation processes. Time will also be required to perform disbursement and tax (1099) testing, as well as processing returned warrants/EFTs until all LEOFF 1 transactions have cleared.

Contracted programming, testing and verification – 40 hours @ \$95 per hour = \$3,800

Management Analyst 5 - 120 hours (FY 17 salaries/benefits) = \$5,643

Fiscal Analyst 5 - 380 hours (FY 17 salaries/benefits) = \$16,015

Total Estimated Fiscal Support Costs = \$25,458

## MEMBER COMMUNICATIONS

The Communications Team will develop an informational letter for 7,500 affected LEOFF Plan 1 retirees regarding the lump-sum benefit. They will also review agency publications and online materials, and make appropriate adjustments.

Communications Consultant 5 – 40 hours (salaries/benefits) = \$1,880

Envelopes, printing and postage = \$1,696

Total Estimated Member Communications Costs = \$3,576

## PLAN QUALIFICATION

DRS will request a determination letter from the Internal Revenue Service (IRS) for the plan qualification status from a merger of LEOFF 1 and TRS 1. Special tax counsel familiar with IRS plan qualification issues would be contracted, through the state's Attorney General's Office, for this effort. This process of obtaining a determination is estimated to take approximately six months.

Project Management – 220 hours (salaries/benefits) = \$11,898

One-time cost for tax counsel to lead plan determination effort = \$50,000

Total Estimated Plan Qualification Costs = \$61,898

## AUTOMATED SYSTEMS

Modifications will be required to our Member Information System to updated fund codes, update the Annual Tax Reporting processing and process the \$5,000 payments to members, retirees and survivors. Modifications will be required to our Online Account Access to display the \$5,000 payment information to retirees and survivors. Analysis of our AFRS interfaces will be required. Business requirements will be created and User Acceptance Testing will be performed to support these changes.

Contracted Programmer - 482 hours @ \$95 per hour = \$45,790  
 Info Tech Specialist 4 – 320 hours (salaries/benefits) = \$15,039  
 WaTech cost\* of \$500 per week for 12 weeks = \$ 6,000

Total Estimated Automated Systems Costs = \$66,829

\*cost for mainframe computer processing time and resources at WaTech

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL: \$161,020

**Part III: Expenditure Detail**

**III. A - Expenditures by Object Or Purpose**

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	0.3	0.2	0.3		
A-Salaries and Wages	24,113	15,965	40,078		
B-Employee Benefits	7,963	5,693	13,656		
C-Professional Service Contracts	50,000		50,000		
E-Goods and Other Services	11,496	45,790	57,286		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
<b>Total:</b>	\$93,572	\$67,448	\$161,020	\$0	\$0

**III. B - Detail:** List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2016	FY 2017	2015-17	2017-19	2019-21
Communications Consultant 5	73,644	0.0		0.0		
Fiscal Analyst 5	64,620		0.2	0.1		
Info Tech Specialist 4	73,644	0.2		0.1		
Management Analyst 5	73,140		0.1	0.0		
Project Manager	86,004	0.1		0.1		
Retirement Specialist 3	53,424	0.0		0.0		
<b>Total FTE's</b>	424,476	0.3	0.2	0.3		0.0

**Part IV: Capital Budget Impact**

No impact.

**Part V: New Rule Making Required**

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

New rules may be required to clarify portions of the merger.