

Background

This benefit was recently a component in the gain-sharing trade-off legislation recommended by the Select Committee on Pension Policy (SCPP) to the 2005 legislature (HB 1324). Analysis on this issue was provided in the 2004 Interim Issues Report under the *Rule-of-90* issue paper. In the gain-sharing deliberations during the 2005 interim, the SCPP recommended that a number of the components that had been included in HB 1324, including the Rule-of-90, be forwarded to the 2006 legislature as free-standing legislative proposals.

Currently Plan 2 and Plan 3 members of the Public Employees' Retirement System (PERS), School Employees' Retirement System (SERS), and the Teachers' Retirement System (TRS), must be 65 years of age to be eligible for an unreduced defined retirement benefit.

Committee Activity

Gain-sharing Subgroup meetings:

- July 19, 2005
- August 23, 2005
- September 27, 2005
- October 17, 2005
- November 2, 2005
- November 28, 2005

Presentations:

- August 23, 2005 - Full Committee
- November 15, 2005 - Full Committee
- December 13, 2005 - Executive Committee
- December 13, 2005 - Full Committee

Proposal:

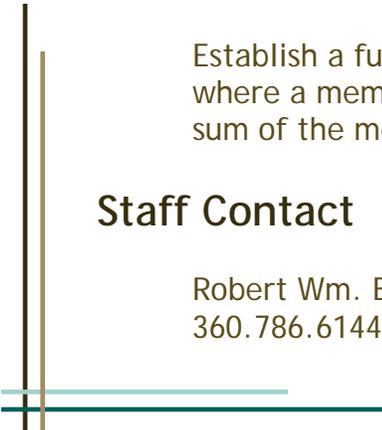
- December 13, 2005

Recommendation to Legislature

Establish a full Rule-of-90 for Plan 2/3 members of PERS, SERS, and TRS where a member is eligible for an unreduced retirement benefit when the sum of the member's age and years of service equals 90.

Staff Contact

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-1016.1/06

ATTY/TYPIST: LL:mos

BRIEF DESCRIPTION: Providing unreduced retirement benefits in the plans 2 and 3 of the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

1 AN ACT Relating to providing unreduced retirement benefits in the
2 plans 2 and 3 of the public employees' retirement system, the teachers'
3 retirement system, and the school employees' retirement system;
4 amending RCW 41.40.630, 41.40.820, 41.32.765, 41.32.875, 41.35.420, and
5 41.35.680; and providing an effective date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 **Sec. 1.** RCW 41.40.630 and 2000 c 247 s 901 are each amended to
8 read as follows:

9 (1) NORMAL RETIREMENT. Any member with at least five service
10 credit years who has attained at least age sixty-five shall be eligible
11 to retire and to receive a retirement allowance computed according to
12 the provisions of RCW 41.40.620.

13 (2) UNREDUCED RETIREMENT. Any member who has completed at least
14 five service credit years and for whom the sum of the number of years
15 of the member's age and the number of years of the member's service
16 credit equals ninety or more shall be eligible to retire and receive a
17 retirement allowance computed according to the provisions of RCW
18 41.40.620.

1 (3) EARLY RETIREMENT. Any member who has completed at least twenty
2 service credit years and has attained age fifty-five shall be eligible
3 to retire and to receive a retirement allowance computed according to
4 the provisions of RCW 41.40.620, except that a member retiring pursuant
5 to this subsection shall have the retirement allowance actuarially
6 reduced to reflect the difference in the number of years between age at
7 retirement and the attainment of age sixty-five.

8 (~~(3)~~) (4) ALTERNATE EARLY RETIREMENT. Any member who has
9 completed at least thirty service credit years and has attained age
10 fifty-five shall be eligible to retire and to receive a retirement
11 allowance computed according to the provisions of RCW 41.40.620, except
12 that a member retiring pursuant to this subsection shall have the
13 retirement allowance reduced by three percent per year to reflect the
14 difference in the number of years between age at retirement and the
15 attainment of age sixty-five.

16 **Sec. 2.** RCW 41.40.820 and 2000 c 247 s 309 are each amended to
17 read as follows:

18 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
19 and who has:

20 (a) Completed ten service credit years; or

21 (b) Completed five service credit years, including twelve service
22 credit months after attaining age fifty-four; or

23 (c) Completed five service credit years by the transfer payment
24 date specified in RCW 41.40.795, under the public employees' retirement
25 system plan 2 and who transferred to plan 3 under RCW 41.40.795;
26 shall be eligible to retire and to receive a retirement allowance
27 computed according to the provisions of RCW 41.40.790.

28 (2) UNREDUCED RETIREMENT. Any member who has completed the number
29 of service credit years required in subsection (1) of this section and
30 for whom the sum of the number of years of the member's age and the
31 number of years of the member's service credit equals ninety or more
32 shall be eligible to retire and receive a retirement allowance computed
33 according to the provisions of RCW 41.40.790.

34 (3) EARLY RETIREMENT. Any member who has attained at least age
35 fifty-five and has completed at least ten years of service shall be
36 eligible to retire and to receive a retirement allowance computed
37 according to the provisions of RCW 41.40.790, except that a member

1 retiring pursuant to this subsection shall have the retirement
2 allowance actuarially reduced to reflect the difference in the number
3 of years between age at retirement and the attainment of age sixty-
4 five.

5 ~~((+3))~~ (4) ALTERNATE EARLY RETIREMENT. Any member who has
6 completed at least thirty service credit years and has attained age
7 fifty-five shall be eligible to retire and to receive a retirement
8 allowance computed according to the provisions of RCW 41.40.790, except
9 that a member retiring pursuant to this subsection shall have the
10 retirement allowance reduced by three percent per year to reflect the
11 difference in the number of years between age at retirement and the
12 attainment of age sixty-five.

13 **Sec. 3.** RCW 41.32.765 and 2000 c 247 s 902 are each amended to
14 read as follows:

15 (1) NORMAL RETIREMENT. Any member with at least five service
16 credit years of service who has attained at least age sixty-five shall
17 be eligible to retire and to receive a retirement allowance computed
18 according to the provisions of RCW 41.32.760.

19 (2) UNREDUCED RETIREMENT. Any member who has completed at least
20 five service credit years and for whom the sum of the number of years
21 of the member's age and the number of years of the member's service
22 credit equals ninety or more shall be eligible to retire and receive a
23 retirement allowance computed according to the provisions of RCW
24 41.32.760.

25 (3) EARLY RETIREMENT. Any member who has completed at least twenty
26 service credit years of service who has attained at least age fifty-
27 five shall be eligible to retire and to receive a retirement allowance
28 computed according to the provisions of RCW 41.32.760, except that a
29 member retiring pursuant to this subsection shall have the retirement
30 allowance actuarially reduced to reflect the difference in the number
31 of years between age at retirement and the attainment of age sixty-
32 five.

33 ~~((+3))~~ (4) ALTERNATE EARLY RETIREMENT. Any member who has
34 completed at least thirty service credit years and has attained age
35 fifty-five shall be eligible to retire and to receive a retirement
36 allowance computed according to the provisions of RCW 41.32.760, except
37 that a member retiring pursuant to this subsection shall have the

1 retirement allowance reduced by three percent per year to reflect the
2 difference in the number of years between age at retirement and the
3 attainment of age sixty-five.

4 **Sec. 4.** RCW 41.32.875 and 2000 c 247 s 903 are each amended to
5 read as follows:

6 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
7 and who has:

8 (a) Completed ten service credit years; or

9 (b) Completed five service credit years, including twelve service
10 credit months after attaining age fifty-four; or

11 (c) Completed five service credit years by July 1, 1996, under plan
12 2 and who transferred to plan 3 under RCW 41.32.817;

13 shall be eligible to retire and to receive a retirement allowance
14 computed according to the provisions of RCW 41.32.840.

15 (2) UNREDUCED RETIREMENT. Any member who has completed the number
16 of service credit years required in subsection (1) of this section and
17 for whom the sum of the number of years of the member's age and the
18 number of years of the member's service credit equals ninety or more
19 shall be eligible to retire and receive a retirement allowance computed
20 according to the provisions of RCW 41.32.840.

21 (3) EARLY RETIREMENT. Any member who has attained at least age
22 fifty-five and has completed at least ten years of service shall be
23 eligible to retire and to receive a retirement allowance computed
24 according to the provisions of RCW 41.32.840, except that a member
25 retiring pursuant to this subsection shall have the retirement
26 allowance actuarially reduced to reflect the difference in the number
27 of years between age at retirement and the attainment of age sixty-
28 five.

29 ~~((+3))~~ (4) ALTERNATE EARLY RETIREMENT. Any member who has
30 completed at least thirty service credit years and has attained age
31 fifty-five shall be eligible to retire and to receive a retirement
32 allowance computed according to the provisions of RCW 41.32.840, except
33 that a member retiring pursuant to this subsection shall have the
34 retirement allowance reduced by three percent per year to reflect the
35 difference in the number of years between age at retirement and the
36 attainment of age sixty-five.

1 **Sec. 5.** RCW 41.35.420 and 2000 c 247 s 905 are each amended to
2 read as follows:

3 (1) NORMAL RETIREMENT. Any member with at least five service
4 credit years who has attained at least age sixty-five shall be eligible
5 to retire and to receive a retirement allowance computed according to
6 the provisions of RCW 41.35.400.

7 (2) UNREDUCED RETIREMENT. Any member who has completed at least
8 five service credit years and for whom the sum of the number of years
9 of the member's age and the number of years of the member's service
10 credit equals ninety or more shall be eligible to retire and receive a
11 retirement allowance computed according to the provisions of RCW
12 41.35.400.

13 (3) EARLY RETIREMENT. Any member who has completed at least twenty
14 service credit years and has attained age fifty-five shall be eligible
15 to retire and to receive a retirement allowance computed according to
16 the provisions of RCW 41.35.400, except that a member retiring pursuant
17 to this subsection shall have the retirement allowance actuarially
18 reduced to reflect the difference in the number of years between age at
19 retirement and the attainment of age sixty-five.

20 (~~(3)~~) (4) ALTERNATE EARLY RETIREMENT. Any member who has
21 completed at least thirty service credit years and has attained age
22 fifty-five shall be eligible to retire and to receive a retirement
23 allowance computed according to the provisions of RCW 41.35.400, except
24 that a member retiring pursuant to this subsection shall have the
25 retirement allowance reduced by three percent per year to reflect the
26 difference in the number of years between age at retirement and the
27 attainment of age sixty-five.

28 **Sec. 6.** RCW 41.35.680 and 2000 c 247 s 906 are each amended to
29 read as follows:

30 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
31 and who has:

32 (a) Completed ten service credit years; or

33 (b) Completed five service credit years, including twelve service
34 credit months after attaining age fifty-four; or

35 (c) Completed five service credit years by September 1, 2000, under
36 the public employees' retirement system plan 2 and who transferred to
37 plan 3 under RCW 41.35.510;

1 shall be eligible to retire and to receive a retirement allowance
2 computed according to the provisions of RCW 41.35.620.

3 (2) UNREDUCED RETIREMENT. Any member who has completed the number
4 of service credit years required in subsection (1) of this section and
5 for whom the sum of the number of years of the member's age and the
6 number of years of the member's service credit equals ninety or more
7 shall be eligible to retire and receive a retirement allowance computed
8 according to the provisions of RCW 41.35.620.

9 (3) EARLY RETIREMENT. Any member who has attained at least age
10 fifty-five and has completed at least ten years of service shall be
11 eligible to retire and to receive a retirement allowance computed
12 according to the provisions of RCW 41.35.620, except that a member
13 retiring pursuant to this subsection shall have the retirement
14 allowance actuarially reduced to reflect the difference in the number
15 of years between age at retirement and the attainment of age sixty-
16 five.

17 ~~((+3))~~ (4) ALTERNATE EARLY RETIREMENT. Any member who has
18 completed at least thirty service credit years and has attained age
19 fifty-five shall be eligible to retire and to receive a retirement
20 allowance computed according to the provisions of RCW 41.35.620, except
21 that a member retiring pursuant to this subsection shall have the
22 retirement allowance reduced by three percent per year to reflect the
23 difference in the number of years between age at retirement and the
24 attainment of age sixty-five.

25 NEW SECTION. **Sec. 7.** This act takes effect July 1, 2006.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/8/05	Z-0954.1/Z-1016.1

SUMMARY OF BILL:

This bill impacts the Plans 2 and 3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS) and the School Employees' Retirement System (SERS) by offering unreduced retirement to any vested member for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more ("rule of 90").

Effective Date: July 1, 2006

CURRENT SITUATION:

Currently, in the PERS, TRS and SERS Plans 2/3, a member is eligible for either normal, early or alternate early retirement. The early retirement provisions involve reduced benefits. Normal retirement is a full benefit.

In the Plans 2, normal retirement is available to those who have earned at least five years of service credit and who have attained age 65. This bill would add another category of retirement that involves a full or "unreduced" benefit. It would apply to any vested member for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more ("rule of 90").

In the Plans 3, normal retirement is currently available to any member who is at least age 65 and who has completed ten service credit years, or who has completed five service years including twelve service credit months after attaining age 54. This bill would provide an unreduced retirement benefit to any vested Plan 3 member who satisfies the rule of 90.

MEMBERS IMPACTED:

	PERS 2	PERS 3	TRS 2	TRS 3	SERS 2	SERS 3
Number of Affected - Active	83,165	15,023	5,184	38,873	11,988	16,629
Total Active Members	118,572	19,855	7,470	49,302	20,424	29,430

For a member impacted by this bill, the increase in benefits would be the removal of benefit reduction for early retirement without the Rule of 90. For example, a member retiring at age 60 with 30 years of service would be entitled to an unreduced benefit instead of a benefit with a 15% reduction.

This bill would also increase the number of retirees eligible for subsidized medical benefits from the Public Employees' Benefit Board (PEBB).

The table below shows the number of new non-medicare eligible retirees by year we expect under this bill:

New Retirements Under Rule of 90 by Year						
<i>Not Eligible for Medicare</i>						
	2006	2007	2008	2009	2010	2011
TRS	30	46	81	123	190	286
PERS	86	125	193	299	426	560
SERS	32	41	62	88	113	143
Total	148	212	336	510	729	989

Note: 50% of PERS retirements are from State agencies.

ASSUMPTIONS:

We assumed that there would be an increase in retirement rates due to the rule of 90. The additional rates or "kickers" are provided at the end of this fiscal note.

FISCAL IMPACT:

Description:

The liabilities and rates do not include the value of future gain-sharing benefits. Chapter 370, Laws of 2005 delayed recognition of the cost of future gain-sharing benefits until the 2007-2009 biennium.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 2/3	\$ 15,280	\$ 815	\$ 16,095
(The Value of the Total Commitment to all Current Members)	TRS 2/3	\$ 5,256	\$ 386	\$ 5,642
	SERS 2/3	\$ 2,126	\$ 83	\$ 2,209
Unfunded Actuarial Accrued Liability	PERS 1	\$ 2,563	\$ (24)	\$ 2,539
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	\$ 1,415	\$ (23)	\$ 1,392
Unfunded Liability (PBO)	PERS 2/3	\$ (2,927)	\$ 446	\$ (2,481)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 2/3	\$ (1,427)	\$ 194	\$ (1,233)
	SERS 2/3	\$ (439)	\$ 49	\$ (390)

Increase in Contribution Rates: (Effective 9/1/06)	PERS	TRS	SERS
Current Members			
Employee (Plan 2 only)	0.73%	1.00%	0.57%
Employer State	0.73%	1.00%	0.57%
New Entrants*			
Employee (Plan 2 only)	0.27%	N/A	N/A
Employer State	0.27%	0.53%	0.22%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS	TRS	SERS	Total
2006-2007				
State:				
General Fund	\$7.1	\$24.3	\$2.6	\$34.0
Non-General Fund	<u>\$14.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$14.0</u>
Total State	\$21.1	\$24.3	\$2.6	\$48.0
Local Government	\$19.2	\$13.4	\$3.9	\$36.5
Total Employer	\$40.3	\$37.7	\$6.5	\$84.5
Total Employee	\$31.2	\$4.2	\$2.2	\$37.6
2007-2009				
State:				
General Fund	\$17.3	\$52.4	\$6.0	\$75.7
Non-General Fund	<u>\$34.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$34.0</u>
Total State	\$51.3	\$52.4	\$6.0	\$109.7
Local Government	\$46.7	\$26.2	\$9.0	\$81.9
Total Employer	\$98.0	\$78.6	\$15.0	\$191.6
Total Employee	\$76.2	\$8.4	\$4.9	\$89.5
2006-2031				
State:				
General Fund	\$267.8	\$924.2	\$90.4	\$1,282.4
Non-General Fund	<u>\$524.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$524.0</u>
Total State	\$791.8	\$924.2	\$90.4	\$1,806.4
Local Government	\$719.7	\$464.1	\$135.7	\$1,319.5
Total Employer	\$1,511.5	\$1,388.3	\$226.1	\$3,125.9
Total Employee	\$1,002.8	\$56.6	\$34.5	\$1,093.9

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers' Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Fiscal Budget Determinations were based on 2004 data. This excludes the cost of future gain-sharing.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

Rule of 90						
Kicker Added to Retirement Probability						
	PERS Male	PERS Female	SERS Male	SERS Female	TRS Male	TRS Female
Age						
55	0.35	0.29	0.30	0.30	0.30	0.30
56	0.35	0.29	0.30	0.30	0.30	0.30
57	0.35	0.29	0.30	0.30	0.30	0.30
58	0.29	0.22	0.30	0.30	0.30	0.30
59	0.29	0.22	0.30	0.30	0.30	0.30
60	0.29	0.22	0.30	0.30	0.30	0.30
61	0.29	0.22	0.25	0.30	0.30	0.30
62	0.29	0.16	0.25	0.20	0.30	0.20
63	0.11	0.16	0.25	0.20	0.25	0.20
64	0.11	0.16	0.25	0.20	0.25	0.20

The kicker (additional retirement rate) is added to the retirement probability at the age when a member is first eligible for the Rule of 90. For each year after the year first eligible, 25% of the kicker is added.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2006 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Benefit improvement rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

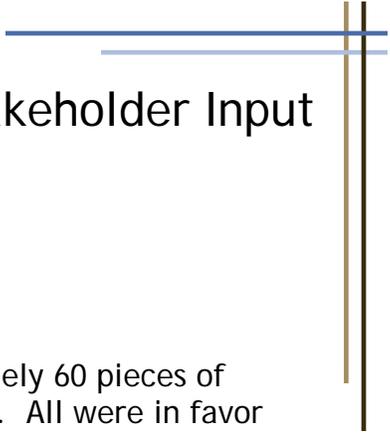
Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

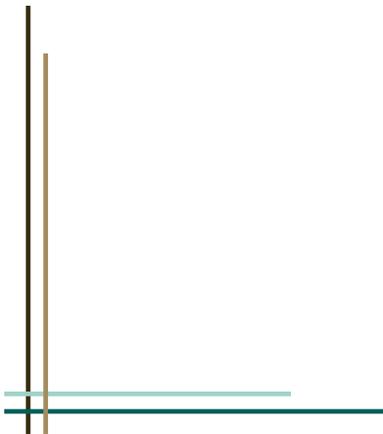
Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.



Note to Rule-of-90 Stakeholder Input

The Select Committee on Pension Policy received approximately 60 pieces of correspondence from plan members regarding the Rule-of-90. All were in favor of establishing such a provision. The following letter is an example of that correspondence. The remaining pieces are on file in the Office of the State Actuary.



Burkhart, Kelly

Subject: FW: teacher retirement

-----Original Message-----

From: tareybs@comcast.net [mailto:tareybs@comcast.net]

Sent: Wednesday, December 07, 2005 6:33 PM

To: Fromhold, Rep. Bill

Subject: NC: teacher retirement

HOUSE INTERNET E-MAIL DELIVERY SERVICE

TO: Representative Bill Fromhold

FROM:

Jeff Reyburn (Non-Constituent from District 6)

n. 15706 Timberglen Ct

Spokane, WA 99208

E-MAIL: tareybs@comcast.net

PHONE: 509 467-1127

SUBJECT: teacher retirement

MESSAGE:

Dear Representative Fromhold:

I am a public school teacher here in Spokane (Lewis and Clark H. S.) I am almost halfway through my 36th year of teaching. Having moved to Washington in 1985, I am a member of the TRS plan three retirement. I know you must be aware that there are three separate and very unequal plans for the state's teachers. I am asking that you look into the possibility of adopting some form of a rule of 90, whereby teachers enrolled in plan 3 with a combined total of 90 years of age/service could retire without penalty and draw their defined benefit.

Although I am still a very effective teacher, I am getting weary. I am also expensive compared to a teacher beginning his career. Educational changes, innovation, technology, and test culture have taken their toll on me, and I am sure a younger teacher would be more tractable and less of a pain in the ass for the educational establishment. Whether I chose to retire early or not, at least I would have an option. I see where the state has unexpected revenues and feel that this could be an opportune time to invest it in us.

I see that the Select Committee on Pension Policy is scheduled to meet on Dec. 13. I appreciate any consideration that you can give this plan.

Thank you, Jeff Reyburn

n. 15706 Timberglen Ct.