$1,000 Minimum

Background

This benefit was originally a component in the gain-sharing trade-off proposal 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 *Plan 1 COLA / Gain-sharing Purchasing Power Subgroup Proposal*. 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 expanding eligibility for the PERS 1 and TRS 1 $1,000 alternative minimum, be forwarded to the 2006 legislature as free-standing legislative proposals.

This proposal is an expansion of the $1,000 alternative minimum benefit established under Chapter 85, Laws of 2004. That legislation provided a $1,000 alternative minimum benefit for PERS 1 and TRS 1 members who had at least 25 years of service and had been retired for at least 20 years.

Committee Activity

Presentation:
December 13, 2005 – Full Committee

Proposal:
December 13, 2005 - Full Committee

Recommendation to Legislature

Expand the eligibility for the TRS 1 and PERS 1 $1,000 alternative minimum benefit to include those members with at least 20 years of service and who have been retired at least 25 years, and index the $1,000 alternative minimum benefit to increase 3 percent per year beginning July 1, 2006.

Staff Contact

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-1014.1/06
ATTY/TYPIST:	LL:mos
BRIEF DESCRIPTION:	Establishing a one thousand dollar minimum monthly benefit for certain plan 1 members of the public employees' retirement system and certain plan 1 members of the teachers' retirement system.

AN ACT Relating to a one thousand dollar minimum monthly benefit for plan 1 members of the public employees' retirement system and plan 1 members of the teachers' retirement system; amending RCW 41.32.4851 and 41.40.1984; and providing an effective date.

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

Sec. 1. RCW 41.32.4851 and 2004 c 85 s 1 are each amended to read as follows:

(1) No one who becomes a beneficiary after June 30, 1995, shall receive a monthly retirement allowance of less than twenty-four dollars and twenty-two cents times the number of years of service creditable to the person whose service is the basis of such retirement allowance.

(2) If the retirement allowance payable was adjusted at the time benefit payments to the beneficiary commenced, the minimum allowance provided in this section shall be adjusted in a manner consistent with that adjustment.

(3) Beginning July 1, 1996, the minimum benefit set forth in subsection (1) of this section shall be adjusted annually by the annual increase.

(4) Those receiving a temporary disability benefit under RCW 41.32.540 shall not be eligible for the benefit provided by this section.

(5) Beginning July 1, 2004, the minimum benefit set forth in subsection (1) of this section, prior to adjustments set forth in subsection (2) of this section, for a beneficiary with at least twenty-five years of service and who has been retired at least twenty years shall be one thousand dollars per month. ((~~The minimum benefit in this subsection shall not be adjusted by the annual increase provided in subsection (3) of this section.~~)) On July 1, 2006, and each year thereafter, the minimum benefit in this subsection shall be increased by three percent, rounded to the nearest cent.

(6) Beginning July 1, 2006, the minimum benefit set forth in subsection (1) of this section, prior to adjustments set forth in subsection (2) of this section, for a beneficiary with at least twenty years of service and who has been retired at least twenty-five years shall be one thousand dollars per month. On July 1, 2006, and each year thereafter, the minimum benefit in this subsection shall be increased by three percent, rounded to the nearest cent.

Sec. 2. RCW 41.40.1984 and 2004 c 85 s 2 are each amended to read as follows:

(1) Except as provided in subsections (4) and (5) of this section, no one who becomes a beneficiary after June 30, 1995, shall receive a monthly retirement allowance of less than twenty-four dollars and twenty-two cents times the number of years of service creditable to the person whose service is the basis of such retirement allowance.

(2) Where the retirement allowance payable was adjusted at the time benefit payments to the beneficiary commenced, the minimum allowance provided in this section shall be adjusted in a manner consistent with that adjustment.

(3) Beginning July 1, 1996, the minimum benefit set forth in subsection (1) of this section shall be adjusted annually by the annual increase.

(4) Those receiving a benefit under RCW 41.40.220(1) or under RCW 41.44.170 (3) and (5) shall not be eligible for the benefit provided by this section.

(5) For persons who served as elected officials and whose accumulated employee contributions and credited interest was less than seven hundred fifty dollars at the time of retirement, the minimum benefit under subsection (1) of this section shall be ten dollars per month per each year of creditable service.

(6) Beginning July 1, 2004, the minimum benefit set forth in subsection (1) of this section, prior to adjustments set forth in subsection (2) of this section, for a beneficiary with at least twenty-five years of service and who has been retired at least twenty years shall be one thousand dollars per month. ((~~The minimum benefit in this subsection shall not be adjusted by the annual increase provided in subsection (3) of this section.~~)) On July 1, 2006, and each year thereafter, the minimum benefit in this subsection shall be increased by three percent, rounded to the nearest cent.

(7) Beginning July 1, 2006, the minimum benefit set forth in subsection (1) of this section, prior to adjustments set forth in subsection (2) of this section, for a beneficiary with at least twenty years of service and who has been retired at least twenty-five years shall be one thousand dollars per month. On July 1, 2006, and each year thereafter, the minimum benefit in this subsection shall be increased by three percent, rounded to the nearest cent.

NEW SECTION. **Sec. 3.** This act takes effect July 1, 2006.

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DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/19/05	Z-0959.2/Z-1014.1

SUMMARY OF BILL:

This legislation impacts the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) by:

- Establishing a $1,000 alternative minimum benefit for members with 20 years of service who have been retired 25 years.
- Establishing a 3% annual escalator for both $1,000 alternative minimum benefit provisions.

Effective Date: July 1, 2006

CURRENT SITUATION:

The current $1,000 alternative minimum benefit was established in 2004. PERS 1 and TRS 1 members with 25 years of service who have been retired 20 years are eligible for this benefit. The benefit has no automatic escalator and, as a result, will effectively cease in 2010 when the original minimum benefit, which increases each year by the Annual Increase Amount, will produce a benefit greater than $1,000 for a retired member with 25 years of service.

MEMBERS IMPACTED:

The new eligibility requirements for the $1,000 minimum will impact 561 out 54,465 PERS 1 retirees , and 497 out of 34,624 TRS 1 retirees. Indexing the $1,000 will impact an additional 391 PERS 1 members and 338 TRS 1 members.

A typical member newly eligible for the alternative minimum under this bill will see their monthly benefit in 2006 increase from $821 to $1,030 before voluntary reductions. Due to the new indexing provision, members currently receiving the alternative minimum in 2006 will see their monthly benefit increase from $1,000 to $1,030 before voluntary reductions. Thereafter, the alternative minimum will continue to increase by 3% a year for all members receiving the benefit.

FISCAL IMPACT:

Description:

The benefit improvements in this bill will increase the required employer contribution rate for the PERS and TRS Plan 1 UAAL. Current funding policy requires SERS employers to pay the PERS Plan 1 UAAL contribution rate, therefore, this bill will have a fiscal impact on SERS employers.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 1	$12,818	$11	$12,829
(The Value of the Total Commitment to all Current Members)	TRS 1	$10,360	$3	$10,363
Unfunded Actuarial Accrued Liability	PERS 1	$2,563	$11	$2,574
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	$1,415	$3	$1,418
Unfunded Liability (PBO)	PERS 1	$2,254	$11	$2,265
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 1	$1,192	$3	$1,195

Increase in Contribution Rates: (Effective 09/01/06 unless indicated otherwise)	PERS/ SERS	TRS
Employee	0.00%	0.00%
Employer State	0.01%	0.01%

Fiscal Budget Determinations:

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

Costs (in Millions):	PERS	TRS	SERS	Total
2006-2007				
State:				
General Fund	$0.1	$0.3	$0.1	$0.5
Non-General Fund	$0.2	$0.0	$0.0	$0.2
Total State	**$0.3**	**$0.3**	**$0.1**	**$0.7**
Local Government	$0.3	$0.1	$0.1	$0.5
Total Employer	$0.6	$0.4	$0.2	$1.2
Total Employee	$0.0	$0.0	$0.0	$0.0
2007-2009				
State:				
General Fund	$0.4	$0.6	$0.2	$1.2
Non-General Fund	$0.6	$0.0	$0.0	$0.6
Total State	**$1.0**	**$0.6**	**$0.2**	**$1.8**
Local Government	$0.8	$0.3	$0.2	$1.3
Total Employer	$1.8	$0.9	$0.4	$3.1
Total Employee	$0.0	$0.0	$0.0	$0.0
2006-2031				
State:				
General Fund	$4.9	$8.0	$1.9	$14.8
Non-General Fund	$8.1	$0.0	$0.0	$8.1
Total State	**$13.0**	**$8.0**	**$1.9**	**$22.9**
Local Government	$11.3	$4.0	$2.6	$17.9
Total Employer	$24.3	$12.0	$4.5	$40.8
Total Employee	$0.0	$0.0	$0.0	$0.0

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, 2004 actuarial valuation report of the Teachers' Retirement System and Public Employees' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the Systems 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:

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 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.

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.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

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.

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).

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.

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.

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.