

Judges' Benefit Multiplier

Background

Since June 30, 1988, judges employed by Washington State - Supreme Court, Court of Appeals, and Superior Court judges - are members of the Public Employees' Retirement System (PERS). They also receive an additional retirement benefit called the Judicial Retirement Account (JRA). The JRA is a Defined Contribution (DC) account into which members and the state each contribute 2.5 percent of pay. Upon retirement, state employed judges receive their PERS benefits plus distributions from their JRA accounts.

Committee Activity

Presentations:

- September 27, 2005 - Full Committee
- October 18, 2005 - Executive Committee
- November 15, 2005 - Executive Committee
- December 13, 2005 - Full Committee

Proposal:

- December 13, 2005 - Full Committee

Recommendation to Legislature

PERS 1 and PERS 2 judges will be allowed to accrue a 3.5 percent annual benefit multiplier, and earn a maximum retirement benefit equal to 75 percent of average final compensation in lieu of member and employer contributions to the JRA. Amounts formerly contributed to the JRA, plus additional member contributions will be redirected to the PERS 1 and PERS 2 defined benefits.

PERS 3 judges will be allowed to accrue a 1.6 percent annual benefit multiplier, and earn a maximum retirement benefit equal to 37.5 percent of average final compensation in lieu of employer contributions to the JRA. Amounts formerly contributed by the employer to the JRA, will be redirected to the PERS 3 defined benefit. PERS 3 judges are required to contribute a minimum of 7.5 percent of pay to their existing PERS 3 defined contribution accounts.

Judges who do not participate in the JRA will be required to pay the full cost of the benefit increase. Employers who do not contribute to the JRA will have the option to contribute an additional 2.5 percent of pay in support of the enhanced benefits.

Staff Contact

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Select Committee on Pension Policy

Judges' Benefit Multiplier

(December 20, 2005)

Issue

Judges employed by Washington State after June 30, 1998, – Supreme Court, Court of Appeals, and Superior Court judges – are members of the Public Employees' Retirement System (PERS). They also receive an additional retirement benefit called the Judges Retirement Account (JRA). This is a Defined Contribution (DC) account into which members and the state each contribute 2.5 percent of pay. Upon retirement, state employed judges receive their PERS benefits plus distributions from their JRA accounts.

Proposal

The Superior Court Judges Association has asked the SCPP to review the current benefit formula. The Association is proposing to raise the benefit formula to 3.5 percent per year to a maximum benefit of 75 percent of pay. The Judges Association also proposes that the benefit improvement be in lieu of the current JRA benefit received by Superior Court judges, thereby financing the benefit within existing resources. The Superior Court judges are the only judges making this request.

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Members Impacted

This proposal would effect all members of PERS serving as Superior Court judges.

According to the Administrative Office of the Courts, there are nine Supreme Court judges, 22 Court of Appeals judges, 179 Superior Court judges, 110 District Court judges, and 120 Municipal Court judges in Washington State.

Current Situation

Since July 1, 1988, newly elected or appointed judges have become members of the PERS Plan 2. Since March 1, 2002, newly elected or appointed judges have had the choice to enter either PERS 2 or PERS 3.

A Plan 2 member is eligible for an unreduced retirement benefit at age 65 with at least five years of service; the member's benefit would be 2 percent of their Average Final Compensation (AFC) times their years of service.

A Plan 3 member would be eligible for an unreduced retirement benefit at age 65 with at least ten years of service (or five years if twelve months of service credit is earned after age 54); their benefit would be 1 percent of their AFC times their years of service plus the accumulations in their individual defined contribution account.

There is no cap on a PERS 2/3 Defined Benefit (DB).

In addition to a PERS benefit, state-employed judges are also eligible for a supplemental benefit from the JRA — a Defined Contribution (DC) plan. The supplemental retirement benefit was created when the earlier Judicial Retirement System was closed (June 30, 1988). This benefit was established under Chapter 109, Laws of 1988, and is found in Chapter 2.14 RCW (see Appendix A). The JRA is available to judges serving on the Supreme Court, Court of Appeals, and Superior Court.

To fund the JRA benefit, members and their employer (the state) each contribute 2.5 percent of pay. Those contributions are deposited into member accounts in the “Judicial Retirement Principal Account” within the State Treasury. Under the direction of the Administrator of the Courts, this account may be deposited in select depository institutions, used to purchase life insurance or fixed or variable annuities, or as is done currently, invested by the State Investment Board.

Upon retirement, member judges are eligible for their PERS benefits, plus a JRA distribution. That distribution may be in the form of a lump-sum or other payment option as adopted by the Administrator for the Courts.

Plan History

Prior to the current PERS – JRA combination, judges were served by the Judges’ Retirement Plan (1937 - 1971) and the Judicial Retirement System (1971 - 1988). Both plans offered a maximum benefit of 75 percent of final average salary that could be accrued after about 21½ years of service. The actual accrual rates differed for members with shorter service, but worked out almost the same for those who served long enough to accrue the maximum benefit (see Figure 1).

Figure 1
Service Retirement Formulas in the Judges and Judicial Retirement Plans

Judges	For members with 12 to 18 years of service: $50\% \text{ of FAS} \times (\text{Years of service} \div 18)$ For members with more than 18 years of service: $50\% \text{ of FAS} + (1/18\text{th of salary for each year over 18})$ to a maximum of 75% of FAS
Judicial	For members with more than 10 but less than 15 years of service: $3\% \text{ of FAS per year of service}$ For members with 15 or more years of service: $3.5\% \text{ of FAS per year of service to a maximum of 75\% of FAS}$

These plans were unusual in that they were funded on a pay-as-you-go basis. This made them inordinately expensive as there was no investment earnings to help defray the cost of the plans. While members' contributions were 7.5 percent of pay in the Judicial Plan and 6.5 percent of pay in the Judges Plan, the state contributions averaged over 40 percent of pay.

Based on recommendations of the Joint Committee on Pension Policy (JCPP), the Judicial Retirement System was closed to new members on June 30, 1988. New Superior Court, Court of Appeals, and Supreme Court judges would become members of PERS 2 and also contribute to the JRA. Because new judges became members of a cost-sharing, pre-funded plan, this lowered their cost and that of the state to about 7.5 percent of pay each, for a total of 15 percent of pay.

Member Characteristics

Based on current data, the average Superior Court judge became a member of PERS at around 40 years of age. That would be considered a mid-career hire for an average PERS member. Their entry date isn't necessarily when they became judges; they may have served in other PERS eligible capacities before their judges service. Superior Court judges are also highly paid relative to the PERS membership at large. Their salaries are set by the "Washington Citizens Commission on Salaries for Elected Officials" (WCCSEO). Superior Court judges annual salaries were set at \$124,411 for fiscal year 2004, \$128,143 for fiscal year 2005, and will increase to \$131,988 in 2006.

Figure 2
Superior Court Judges Membership Demographics 9/30/03

	PERS 1	PERS 2	PERS 3
Active Members	51	102	7
Average Age	58.2	53.4	53.3
Average Years of Service	19.2	11.9	10.4

Retirement Benefit Example

An example of the defined retirement benefit earned by a Superior Court judge would be similar to that earned by a PERS 2 member in a typical civil service position – 2 percent per year of service times AFC. The difference in the retirement benefit rests in the DC accumulations in the JRA. Figure 3 shows an estimated accumulation in such an account and, if annuitized, what that

would represent as a defined benefit. This example assumes an entry age of 40 and retirement at age 65 after 25 years of service. While many judges serve beyond age 65, this is when the member is first eligible for an unreduced defined benefit. This example assumes that PERS and judicial service are the same; members with the same PERS service but with less judicial service would accumulate less in their JRA.

Figure 3
Superior Court Judge
Plan 2 Member Retiring in 2004

Age	65
Years of Service	25
Benefit Ratio (2% × Years of Service)	50%
Average Final Compensation (monthly)	\$9,502
Base Benefit	\$4,751
JRA Accumulations	\$276,928
Annuitized Accumulation (monthly)	\$2,084
Total Monthly Benefit	\$6,835
% of Average Final Compensation	71.9%
Equivalent DB Accrual Rate per Year	2.88%

In Figure 3, the member's DB is 50 percent of AFC – 2 percent times 25 years of service. With an AFC of \$9,502, the base benefit, prior to payment options, is \$4,751. Added to the DB is the annuitized JRA accumulations. The estimated accumulations are based on contributions of 5 percent of salary compounded at 8 percent interest (the actuarially assumed rate of return) for 25 years. Judges salaries are assumed to increase at a 3.5 percent annual rate - a bit less than the 4.5 percent assumption for PERS members overall. When added to the DB, the annuitized JRA accumulations increase the total monthly benefit to \$6,835. That represents 71.9 percent of the member's AFC and a benefit accrual rate equivalent to 2.88 percent per year of service. It should be noted that a lower/higher long-term rate-of-return on the JRA account would result in lesser/greater, accumulations than in the above example.

Assets invested over the long-term are less sensitive to any single down market period. One risk in a DC design, as is the JRA, is the possibility of poor investment performance in the short term. Judges who accepted late-career appointments, say after age 50, would be more at risk of a “bear market” impeding their JRA accumulations.

Other States

Among the comparative states used in this analysis, judges’ retirement benefits are distinct from regular plan members. The principal consistencies among the comparative states’ judges’ retirement plans is that they tend to be DB plans and have relatively high benefit accrual rates – Ohio’s plan is a DB plan, with a DC option. Beyond that, there are significant differences in benefit multipliers, AFC periods, and maximum benefits.

Figure 4
Select Judges Retirement Plan Provisions

	Benefit Multiplier	AFC Period	Maximum Benefit
CalPERS (Judges II)	3.75%	12 months	75%
Colorado PERA	2.5%	3 years	100%
Florida FRS	3.33%	5 fiscal years	100%
Idaho	5%, yrs 1-10 2.5%, yrs 10+	Current Annual	75%
Iowa	3.0%	3 years	60%
Minnesota¹	3.2%	5 years	76.8%
Missouri	2.5%, 3.33%, 4.17%	Current Salary	50%
Ohio²	2.2% up to 30 yrs	3 highest yrs	100%
Oregon	A: 2.8125% yrs 1-16 1.67% yrs 16+	36 months	A: 65%
A: Regular	B: 3.75% yrs 1-16 2.0% yrs 16+		B: 75%
B: With Pro Tempore service			
Wisconsin	2000 - 2.0% Prior to 2000 - 2.165%	3 highest years	70% or more

¹ After 24 years, members contribute to the Unclassified Employees Retirement Plan.

² Ohio judges (elected officials) may purchase service credit for two times the annual employee contribution rate.

The benefit multiplier among the comparative states varies from 2.5 percent in Colorado to 4.17 percent in Missouri (see Figure 4). But those multipliers must be viewed in concert with the other elements of the plans, particularly the maximum benefit and participation in Social Security. For instance, Ohio and Colorado members do not participate in Social Security. Missouri’s high multiplier is only for those who are appointed at later ages and allows them to accrue a benefit equal to 50 percent of their final salary at age 62 after 12 years of service. Missouri’s plan allows a member to receive a maximum benefit of 50 percent of final salary, the lowest of the comparative states. As a result, judges retirement policy in Missouri is considerably different than the policy in Colorado where judges are encouraged to serve longer and retire at later ages.

The AFC period among the plans varies widely as well. Idaho and Missouri use the current salary in the benefit formula and California uses the most recent 12 month salary. Minnesota and Florida use a five-year average. But, again, these design elements should be considered in light of the maximum benefit allowed under these plans. Minnesota and Florida allow members to accrue a benefit at a higher percent of AFC than Idaho, Missouri, or California.

Based on the comparative states, there is little consistency in the retirement plan design and policy for judges. Some plans encourage long service – some short. Some have high multipliers – some low. Some use the current salary to calculate benefits – some use up to five years of salary. The combination of PERS and JRA benefits appears to place Washington State in the middle of the pack in terms of retirement benefits for judges.

Policy

Retirement policy regarding judges employed by the state is inferred in statute. That policy is based on the principal that judicial service warrants a greater retirement benefit than the standard PERS allowance; this is accomplished through the JRA. This policy drove the benefit design in the earlier “Judges” and “Judicial” retirement systems. The accumulation dynamics of a DC account are such that, while not stated, longer membership is advantageous and thus encouraged.

There may also be Bakenhus (contractual rights) issues with any benefit proposal that is not optional. It is possible that a mandatory change in benefits of this nature could harm some individuals. Those whose Judges Retirement Account (JRA) performed well during their judicial service could see their total benefits diminished by a mandatory change.

Additionally, any significant change in benefits for judges may result in a shift in the choices made by future members. Currently there are a number of judges who chose to join PERS 3. It is uncertain whether they would have made that choice if they could have earned a 3.5 percent per year accrual in PERS 2. If the committee wants to forward a proposal to increase the PERS 2 defined benefit multiplier for judges, it may be worthwhile to include a window for PERS 3 judges to move to PERS 2.

Policy Questions

Is a combination DB/DC the best retirement plan design for mid-career hires?
What about late-career hires?

In light of the higher compensation received by judges, is it necessary to have a higher multiplier in order for their retirement benefit to be adequate?

Are there recruitment issues that would be resolved by modifying judges retirement benefits?

Benefit Questions

Does the committee want to include the Supreme Court and Court of Appeals judges in this proposal, as they also receive the JRA?

Does the committee want to include PERS District and Municipal Court judges in any proposal, even though they do not currently receive the JRA?

Does the committee want to establish an option for members to purchase past service at the higher multiplier?

If the committee decided to change the plan design for Superior Court judges so as to consolidate the existing DB and DC elements into a DB design, would it want this consolidation of benefits to be of equivalent value to the existing PERS and JRA plans, or would it want to increase the benefits?

Would the committee want to make any benefit proposal optional?

Would the committee want to provide PERS 3 Judges a choice to transfer to PERS 2?

Options

1. Eliminate the Judges Supplemental Retirement Account and create a Superior Court judges benefit that allows PERS 1 and PERS 2 members to accrue a 3.5 percent per year DB to a maximum of 75 percent of AFC and Plan 3 members to accrue a 1.75 percent per year DB to a maximum of 37.5 percent of AFC. Plan 3 members would still be required to contribute 2.5 percent of pay they had formerly

contributed to their JRA to either their PERS 3 member account (instead of a 5 percent minimum contribution it would be a 7.5 percent minimum contribution) or a DC account.

Fiscal Impact: The 2003 normal cost (not including gain-sharing) of the PERS 2/3 employer rate and the PERS 2 member rate is 4.35 percent of pay each. The PERS 1 member contribution rate is 6.0 percent of pay. Those rates support the PERS DB accruals. For the DB to accrue at 3.5 percent per year instead of 2.0 percent per year, the cost would increase on a near proportionate basis. Redirecting the 2.50 percent JRA contribution would make up most of the cost, but the plan would require additional contributions from both the employer and members. This would have a General Fund State cost of \$200,000 in 2006-07 and a 25 year cost of \$9.1 million.

Alternate Fiscal Impact: If the member judges were to pay the entire cost of the benefit increase, their contribution rates would be the original, normal cost plus the JRA contribution plus the entire difference. That would be 1.44 percent for PERS 2 members; (0.72 percent for the member and employer) the average increase in a judge's annual retirement contributions would be \$1,792 (2004 salary). This would require no new employer contributions.

2. Eliminate the Judges Supplemental Retirement Account and create a Superior Court judges benefit that allows members to accrue a DB equal to the combined value of the existing PERS and JRA benefits to a maximum of 75 percent of AFC for Plan 2 members and 37.5 percent of AFC for Plan 3 members. This would be an estimated accrual rate of 3.15 percent per year of service for Plan 2 members and 1.575 percent for Plan 3 members. Plan 3 members would still be required to contribute 2.5 percent of pay they had formerly contributed to their JRA to either their PERS 3 member account (instead of a 5 percent minimum contribution it would be a 7.5 percent minimum contribution) or a DC account.

Fiscal Impact: The 2003 normal cost (not including gain-sharing) of the PERS 2/3 employer rate and the PERS 2 employee rate is 4.35 percent of pay each. The PERS 1 member contribution rate is 6.0 percent of pay. Those rates support the PERS 2/3 DB accruals. The 2.50 percent JRA contribution would be added to the normal cost contribution rates to pay for the equivalent increase in the DB accrual. This would require no new member or employer contributions.

3. Include all judges in any benefit proposal, including District and Municipal Court judges. As District and Municipal Court judges do not pay into the JRA, they and their employers do not have that existing revenue source to off-set part of the cost of any benefit increase. (Note: Cost estimates for District and Municipal Court judges were based on the Superior Court Judges demographic profile. More complete information will result in different costs.)

Fiscal Impacts:

To fund a defined benefit with a 3.5 percent per year accrual, District and Municipal Court judges and their employers would each need to contribute an additional 3.22 percent of pay. The combined employer cost for Superior Court, District Court, and Municipal Court judges would be \$1.3 million in 2006-07 (\$0.2 million GFS and \$1.1 million local) and a 25 year cost of \$68.3 million (\$9.1 million GFS and \$59.2 million local).

To fund a defined benefit with a 3.15 percent per year accrual, District and Municipal Court judges and their employers would each need to contribute an additional 2.50 percent of pay. The Local Government employer cost would be \$900,000 in 2006-07 (\$0 GFS) and a 25 year cost of \$46.0 million (\$0 GFS).

4. Create an optional system of benefits allowing judges to accrue a 3.5 percent per year benefit multiplier and a maximum retirement benefit of 75 percent of average final compensation. Allow State employed judges to opt out of the Judges Supplemental Retirement Account and allow members to pay additional contributions in support of these benefits. State Employers would be allowed to contribute, in addition to their regular contributions, an additional 2.5 percent of pay. Plan 3 members would be allowed to transfer to Plan 2 to participate in these benefits. Local judges would be allowed to opt into these benefit provisions and their employers would be allowed to contribute up to an additional and optional 2.5 percent of pay.

Fiscal Impact: State employers will pay the Plan 1/Plan 2 contribution rate as established in the funding chapter, plus an additional 2.5 percent of pay -- this amount will likely be redirected from the JRA contributions they formerly made. State employed Plan 2 judge members will contribute 250 percent of the overall Plan 2 member contribution rate less 2.5 percent of pay. Plan 1 judges will pay the statutory contribution (6 percent) plus an additional 3.76

percent of pay. Local employers will pay the PERS employer contribution rate as established in the funding chapter, plus an optional 2.5 percent of pay if they so choose. Local judges would be responsible for the remaining cost of the benefits. This would require no new employer contributions, though local employers would have the option to contribute up to, but not exceeding, an additional 2.5 percent of pay. Because the possible employer contributions are optional, this option would have no fiscal impact – if local employers choose to make additional contributions, this option would have a fiscal impact.

5. Keep the existing JRA benefit and retain the existing multiplier.

Fiscal Impact: This would require no new member or employer contributions.

Stakeholder Input

Letter from Leonard Costello, Immediate Past President, Superior Court Judges Association (see Attachments).

Letter from Michael J. Trickey, President, Superior Court Judges Association (see Attachment).

Proposal from the Superior Court Judges Association (see Attachments).

Executive Committee Recommendation

At the November 15th meeting, the Executive Committee of the SSCP moved to forward the Option 4 proposal to the full committee for a public hearing and possible executive session.

Committee Recommendation

At the December 13th meeting, the SSCP forwarded the proposal to the legislature contingent on the PERS 3 to PERS 2 transfer language be stricken, and alternative language included to enhance PERS 3 judges' defined benefit annual accrual.

PERS 1 and PERS 2 judges will be allowed to accrue a 3.5 percent annual benefit multiplier, and earn a maximum retirement benefit equal to 75 percent of average final compensation in lieu of member and employer contributions to the JRA. Amounts formerly contributed to the JRA plan, plus additional member contributions, will be redirected to the PERS 1 and PERS 2 defined benefits.

PERS 3 judges will be allowed to accrue a 1.6 percent annual benefit multiplier, and earn a maximum retirement benefit equal to 37.5 percent of average final compensation in lieu of employer contributions to the JRA. Amounts formerly contributed by the employer to the JRA plan, will be redirected to the PERS 3 defined benefit. PERS 3 judges are required to redirect their JRA contributions to their existing PERS 3 defined contribution accounts.

Judges who do not participate in the JRA will be required to pay the full cost of the benefit increase. Employers who do not contribute to the JRA will have the option to contribute an additional 2.5 percent of pay in support of the enhanced judges benefits.

Bill Draft

Attached

Fiscal Note

Attached

1 AN ACT Relating to public retirement benefits for justices and
2 judges; amending RCW 41.45.060; adding a new section to chapter 2.14
3 RCW; adding new sections to chapter 41.40 RCW; adding new sections to
4 chapter 41.32 RCW; adding new sections to chapter 41.45 RCW; and
5 providing an effective date.

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

7 NEW SECTION. **Sec. 1.** A new section is added to chapter 2.14 RCW
8 to read as follows:

9 Beginning January 1, 2007, through December 31, 2007, any member of
10 the public employees' retirement system eligible to participate in the
11 judicial retirement account plan under this chapter may make a one-time
12 irrevocable election, filed in writing with the member's employer, the
13 department of retirement systems, and the administrative office of the
14 courts, to discontinue future contributions to the judicial retirement
15 account plan in lieu of prospective contribution and benefit provisions
16 under this act.

17 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.40 RCW
18 to read as follows:

1 (1) Beginning January 1, 2007, any newly elected or appointed
2 supreme court justice, court of appeals judge, or superior court judge
3 shall not participate in the judicial retirement account plan under
4 chapter 2.14 RCW and shall be subject to the benefit and contribution
5 provisions under this act.

6 (2) Beginning January 1, 2007, any newly elected or appointed
7 supreme court justice, court of appeals judge, or superior court judge,
8 who has not previously established membership in this system, shall
9 become a member of plan 2 and shall be subject to the benefit and
10 contribution provisions under this act.

11 NEW SECTION. **Sec. 3.** A new section is added to chapter 41.32 RCW
12 to read as follows:

13 Beginning January 1, 2007, any newly elected or appointed supreme
14 court justice, court of appeals judge, or superior court judge, who is
15 a member of plan 1, shall not participate in the judicial retirement
16 account plan under chapter 2.14 RCW in lieu of prospective contribution
17 and benefit provisions under this act.

18 NEW SECTION. **Sec. 4.** A new section is added to chapter 41.40 RCW
19 to read as follows:

20 (1) Beginning January 1, 2007, any newly elected or appointed
21 district court judge or municipal court judge, who is not eligible for
22 membership under chapter 41.28 RCW, shall be subject to the benefit and
23 contribution provisions under this act.

24 (2) Beginning January 1, 2007, any newly elected or appointed
25 district court judge, or municipal court judge, who has not previously
26 established membership in this system, and who is not eligible for
27 membership under chapter 41.28 RCW, shall become a member of plan 2 and
28 shall be subject to the benefit and contribution provisions under this
29 act.

30 NEW SECTION. **Sec. 5.** A new section is added to chapter 41.40 RCW
31 to read as follows:

32 (1) Between January 1, 2007, and December 31, 2007, a member of
33 plan 1 or plan 2 employed as a supreme court justice, court of appeals
34 judge, or superior court judge may make a one-time irrevocable
35 election, filed in writing with the member's employer, the department,

1 and the administrative office of the courts, to accrue an additional
2 benefit equal to one and one-half percent of average final compensation
3 for each year of future service credit from the date of the election in
4 lieu of future employee and employer contributions to the judicial
5 retirement account plan under chapter 2.14 RCW.

6 (2)(a) A member who chooses to make the election under subsection
7 (1) of this section may apply to the department to increase the
8 member's benefit multiplier by an additional one and one-half percent
9 per year of service for the period in which the member served as a
10 justice or judge prior to the election. The member shall pay, for the
11 applicable period of service, the actuarially equivalent value of the
12 increase in the member's benefit resulting from the increase in the
13 benefit multiplier as determined by the director. This payment must be
14 made prior to retirement.

15 (b) Subject to rules adopted by the department, a member applying
16 to increase the member's benefit multiplier under this section may pay
17 all or part of the cost with a lump sum payment, eligible rollover,
18 direct rollover, or trustee-to-trustee transfer from an eligible
19 retirement plan. The department shall adopt rules to ensure that all
20 lump sum payments, rollovers, and transfers comply with the
21 requirements of the internal revenue code and regulations adopted by
22 the internal revenue service. The rules adopted by the department may
23 condition the acceptance of a rollover or transfer from another plan on
24 the receipt of information necessary to enable the department to
25 determine the eligibility of any transferred funds for tax-free
26 rollover treatment or other treatment under federal income tax law.

27 NEW SECTION. **Sec. 6.** A new section is added to chapter 41.40 RCW
28 to read as follows:

29 (1) Between January 1, 2007, and December 31, 2007, a member of
30 plan 1 or plan 2 employed as a district court judge or municipal court
31 judge may make a one-time irrevocable election, filed in writing with
32 the member's employer and the department, to accrue an additional
33 benefit equal to one and one-half percent of average final compensation
34 for each year of future service credit from the date of the election.

35 (2)(a) A member who chooses to make the election under subsection
36 (1) of this section may apply to the department to increase the
37 member's benefit multiplier by one and one-half percent per year of

1 service for the period in which the member served as a judge prior to
2 the election. The member shall pay, for the applicable period of
3 service, the actuarially equivalent value of the increase in the
4 member's benefit resulting from the increase in the benefit multiplier
5 as determined by the director. This payment must be made prior to
6 retirement.

7 (b) Subject to rules adopted by the department, a member applying
8 to increase the member's benefit multiplier under this section may pay
9 all or part of the cost with a lump sum payment, eligible rollover,
10 direct rollover, or trustee-to-trustee transfer from an eligible
11 retirement plan. The department shall adopt rules to ensure that all
12 lump sum payments, rollovers, and transfers comply with the
13 requirements of the internal revenue code and regulations adopted by
14 the internal revenue service. The rules adopted by the department may
15 condition the acceptance of a rollover or transfer from another plan on
16 the receipt of information necessary to enable the department to
17 determine the eligibility of any transferred funds for tax-free
18 rollover treatment or other treatment under federal income tax law.

19 NEW SECTION. **Sec. 7.** A new section is added to chapter 41.32 RCW
20 to read as follows:

21 (1) Between January 1, 2007, and December 31, 2007, a member of
22 plan 1 employed as a supreme court justice, court of appeals judge, or
23 superior court judge may make a one-time irrevocable election, filed in
24 writing with the member's employer, the department, and the
25 administrative office of the courts, to accrue an additional benefit
26 equal to one and one-half percent of average final compensation for
27 each year of future service credit from the date of the election.

28 (2)(a) A member who chooses to make the election under subsection
29 (1) of this section may apply to the department to increase the
30 member's benefit multiplier by one and one-half percent per year of
31 service for the period in which the member served as a justice or judge
32 prior to the election. The member shall pay, for the applicable period
33 of service, the actuarially equivalent value of the increase in the
34 member's benefit resulting from the increase in the benefit multiplier
35 as determined by the director. This payment must be made prior to
36 retirement.

1 (b) Subject to rules adopted by the department, a member applying
2 to increase the member's benefit multiplier under this section may pay
3 all or part of the cost with a lump sum payment, eligible rollover,
4 direct rollover, or trustee-to-trustee transfer from an eligible
5 retirement plan. The department shall adopt rules to ensure that all
6 lump sum payments, rollovers, and transfers comply with the
7 requirements of the internal revenue code and regulations adopted by
8 the internal revenue service. The rules adopted by the department may
9 condition the acceptance of a rollover or transfer from another plan on
10 the receipt of information necessary to enable the department to
11 determine the eligibility of any transferred funds for tax-free
12 rollover treatment or other treatment under federal income tax law.

13 NEW SECTION. **Sec. 8.** A new section is added to chapter 41.40 RCW
14 to read as follows:

15 (1) Between January 1, 2007, and December 31, 2007, a member of
16 plan 3 employed as a supreme court justice, court of appeals judge, or
17 superior court judge may make a one-time irrevocable election, filed in
18 writing with the member's employer, the department, and the
19 administrative office of the courts, to accrue an additional plan 3
20 defined benefit equal to six-tenths percent of average final
21 compensation for each year of future service credit from the date of
22 the election in lieu of future employer contributions to the judicial
23 retirement account plan under chapter 2.14 RCW.

24 (2)(a) A member who chooses to make the election under subsection
25 (1) of this section may apply to the department to increase the
26 member's benefit multiplier by six-tenths percent per year of service
27 for the period in which the member served as a justice or judge prior
28 to the election. The member shall pay, for the applicable period of
29 service, the actuarially equivalent value of the increase in the
30 member's benefit resulting from the increase in the benefit multiplier
31 as determined by the director. This payment must be made prior to
32 retirement.

33 (b) Subject to rules adopted by the department, a member applying
34 to increase the member's benefit multiplier under this section may pay
35 all or part of the cost with a lump sum payment, eligible rollover,
36 direct rollover, or trustee-to-trustee transfer from an eligible
37 retirement plan. The department shall adopt rules to ensure that all

1 lump sum payments, rollovers, and transfers comply with the
2 requirements of the internal revenue code and regulations adopted by
3 the internal revenue service. The rules adopted by the department may
4 condition the acceptance of a rollover or transfer from another plan on
5 the receipt of information necessary to enable the department to
6 determine the eligibility of any transferred funds for tax-free
7 rollover treatment or other treatment under federal income tax law.

8 (3) A member who chooses to make the election under subsection (1)
9 of this section shall contribute a minimum of seven and one-half
10 percent of pay to the member's defined contribution account.

11 NEW SECTION. **Sec. 9.** A new section is added to chapter 41.40 RCW
12 to read as follows:

13 (1) Between January 1, 2007, and December 31, 2007, a member of
14 plan 3 employed as a district court judge or municipal court judge may
15 make a one-time irrevocable election, filed in writing with the
16 member's employer and the department, to accrue an additional plan 3
17 defined benefit equal to six-tenths percent of average final
18 compensation for each year of future service credit from the date of
19 the election.

20 (2)(a) A member who chooses to make the election under subsection
21 (1) of this section may apply to the department to increase the
22 member's benefit multiplier by six-tenths percent per year of service
23 for the period in which the member served as a judge prior to the
24 election. The member shall pay, for the applicable period of service,
25 the actuarially equivalent value of the increase in the member's
26 benefit resulting from the increase in the benefit multiplier as
27 determined by the director. This payment must be made prior to
28 retirement.

29 (b) Subject to rules adopted by the department, a member applying
30 to increase the member's benefit multiplier under this section may pay
31 all or part of the cost with a lump sum payment, eligible rollover,
32 direct rollover, or trustee-to-trustee transfer from an eligible
33 retirement plan. The department shall adopt rules to ensure that all
34 lump sum payments, rollovers, and transfers comply with the
35 requirements of the internal revenue code and regulations adopted by
36 the internal revenue service. The rules adopted by the department may
37 condition the acceptance of a rollover or transfer from another plan on

1 the receipt of information necessary to enable the department to
2 determine the eligibility of any transferred funds for tax-free
3 rollover treatment or other treatment under federal income tax law.

4 (3) A member who chooses to make the election under subsection (1)
5 of this section shall contribute a minimum of seven and one-half
6 percent of pay to the member's defined contribution account.

7 NEW SECTION. **Sec. 10.** A new section is added to chapter 41.40 RCW
8 under the subchapter heading "plan 1" to read as follows:

9 (1) In lieu of the retirement allowance provided under RCW
10 41.40.185, the retirement allowance payable for service as a supreme
11 court justice, court of appeals judge, or superior court judge, for a
12 member who elects to participate under section 5(1) of this act, shall
13 be equal to three and one-half percent of average final compensation
14 for each year of service earned after the date of the election. The
15 total retirement benefit accrued or purchased under this act in
16 combination with benefits accrued during periods served prior to the
17 election shall not exceed seventy-five percent of average final
18 compensation.

19 (2) In lieu of the retirement allowance provided under RCW
20 41.40.185, the retirement allowance payable for service as a supreme
21 court justice, court of appeals judge, or superior court judge, for
22 those justices or judges newly elected or appointed after the effective
23 date of this act, shall be equal to three and one-half percent of
24 average final compensation for each year of service after the effective
25 date of this act. The total retirement benefits accrued under this act
26 in combination with benefits accrued during periods served prior to the
27 effective date of this act shall not exceed seventy-five percent of
28 average final compensation.

29 NEW SECTION. **Sec. 11.** A new section is added to chapter 41.32 RCW
30 under the subchapter heading "plan 1" to read as follows:

31 (1) In lieu of the retirement allowance provided under RCW
32 41.32.498, the retirement allowance payable for service as a supreme
33 court justice, court of appeals judge, or superior court judge, for
34 those justices or judges who elected to participate under section 7(1)
35 of this act, shall be equal to three and one-half percent of average
36 final compensation for each year of service earned after the date of

1 the election. The total retirement benefit accrued or purchased under
2 this act in combination with benefits accrued during periods served
3 prior to the election shall not exceed seventy-five percent of average
4 final compensation.

5 (2) In lieu of the retirement allowance provided under RCW
6 41.32.498, the retirement allowance payable for service as a supreme
7 court justice, court of appeals judge, or superior court judge, for
8 those justices or judges newly elected or appointed after the effective
9 date of this act, shall be equal to three and one-half percent of
10 average final compensation for each year of service after the effective
11 date of this act. The total retirement benefits accrued under this act
12 in combination with benefits accrued during periods served prior to the
13 effective date of this act shall not exceed seventy-five percent of
14 average final compensation.

15 NEW SECTION. **Sec. 12.** A new section is added to chapter 41.40 RCW
16 under the subchapter heading "plan 1" to read as follows:

17 (1) In lieu of the retirement allowance provided under RCW
18 41.40.185, the retirement allowance payable for service as a district
19 court judge or municipal court judge, for those judges who elected to
20 participate under section 6(1) of this act, shall be equal to three and
21 one-half percent of average final compensation for each year of service
22 earned after the election. The total retirement benefit accrued or
23 purchased under this act in combination with benefits accrued during
24 periods served prior to the election shall not exceed seventy-five
25 percent of average final compensation.

26 (2) In lieu of the retirement allowance provided under RCW
27 41.40.185, the retirement allowance payable for service as a district
28 court judge, or municipal court judge, for those judges newly elected
29 or appointed after the effective date of this act, and who are not
30 eligible for membership under chapter 41.28 RCW, shall be equal to
31 three and one-half percent of average final compensation for each year
32 of service after the effective date of this act. The total retirement
33 benefits accrued under this act in combination with benefits accrued
34 during periods served prior to the effective date of this act shall not
35 exceed seventy-five percent of average final compensation.

1 NEW SECTION. **Sec. 13.** A new section is added to chapter 41.40 RCW
2 under the subchapter heading "plan 2" to read as follows:

3 (1) In lieu of the retirement allowance provided under RCW
4 41.40.620, the retirement allowance payable for service as a supreme
5 court justice, court of appeals judge, or superior court judge, for
6 those justices or judges who elected to participate under section 5(1)
7 of this act, shall be equal to three and one-half percent of average
8 final compensation for each year of service earned after the election.
9 The total retirement benefit accrued or purchased under this act in
10 combination with benefits accrued during periods served prior to the
11 election shall not exceed seventy-five percent of average final
12 compensation.

13 (2) In lieu of the retirement allowance provided under RCW
14 41.40.620, the retirement allowance payable for service as a supreme
15 court justice, court of appeals judge, or superior court judge, for
16 those justices or judges newly elected or appointed after the effective
17 date of this act, shall be equal to three and one-half percent of
18 average final compensation for each year of service after the effective
19 date of this act. The total retirement benefits accrued under this act
20 in combination with benefits accrued during periods served prior to the
21 effective date of this act shall not exceed seventy-five percent of
22 average final compensation.

23 NEW SECTION. **Sec. 14.** A new section is added to chapter 41.40 RCW
24 under the subchapter heading "plan 2" to read as follows:

25 (1) In lieu of the retirement allowance provided under RCW
26 41.40.620, the retirement allowance payable for service as a district
27 court judge or municipal court judge for those judges who elected to
28 participate under section 6(1) of this act shall be equal to three and
29 one-half percent of the average final compensation for each year of
30 such service earned after the election. The total retirement benefit
31 accrued or purchased under this act in combination with benefits
32 accrued during periods served prior to the election shall not exceed
33 seventy-five percent of average final compensation.

34 (2) In lieu of the retirement allowance provided under RCW
35 41.40.620, the retirement allowance payable for service as a district
36 court judge, or municipal court judge, for those judges newly elected
37 or appointed after the effective date of this act, and who are not

1 eligible for membership under chapter 41.28 RCW, shall be equal to
2 three and one-half percent of average final compensation for each year
3 of service after the effective date of this act. The total retirement
4 benefits accrued under this act in combination with benefits accrued
5 during periods served prior to the effective date of this act shall not
6 exceed seventy-five percent of average final compensation.

7 NEW SECTION. **Sec. 15.** A new section is added to chapter 41.40 RCW
8 under the subchapter heading "plan 3" to read as follows:

9 In lieu of the retirement allowance provided under RCW 41.40.790,
10 the retirement allowance payable for service as a supreme court
11 justice, court of appeals judge, or superior court judge, for those
12 justices or judges who elected to participate under section 8(1) of
13 this act, shall be equal to one and six-tenths percent of average final
14 compensation for each year of service earned after the election. The
15 total retirement benefit accrued or purchased under this act in
16 combination with benefits accrued during periods served prior to the
17 election shall not exceed thirty-seven and one-half percent of average
18 final compensation.

19 NEW SECTION. **Sec. 16.** A new section is added to chapter 41.40 RCW
20 under the subchapter heading "plan 3" to read as follows:

21 In lieu of the retirement allowance provided under RCW 41.40.790,
22 the retirement allowance payable for service as a district court judge
23 or municipal court judge, for those judges who elected to participate
24 under section 9(1) of this act, shall be equal to one and six-tenths
25 percent of average final compensation for each year of service earned
26 after the election. The total retirement benefit accrued or purchased
27 under this act in combination with benefits accrued during periods
28 served prior to the election shall not exceed thirty-seven and one-half
29 percent of average final compensation.

30 NEW SECTION. **Sec. 17.** A new section is added to chapter 41.45 RCW
31 to read as follows:

32 (1) The required employer contribution rate in support of public
33 employees' retirement system members employed as supreme court
34 justices, court of appeals judges, and superior court judges who elect
35 to participate under section 5(1) or 8(1) of this act, or who are newly

1 elected or appointed after the effective date of this act, shall
2 consist of the public employees' retirement system employer
3 contribution rate established under this chapter plus two and one-half
4 percent of pay.

5 (2) The required contribution rate for members of the public
6 employees' retirement system plan 2 employed as supreme court justices,
7 court of appeals judges, and superior court judges who elect to
8 participate under section 5(1) or 8(1) of this act, or who are newly
9 elected or appointed after the effective date of this act, shall be two
10 hundred fifty percent of the member contribution rate for the public
11 employees' retirement system plan 2 established under this chapter less
12 two and one-half percent of pay.

13 (3) The required contribution rate for members of the public
14 employees' retirement system plan 1 employed as supreme court justices,
15 court of appeals judges, and superior court judges who elect to
16 participate under section 5(1) of this act, or who are newly elected or
17 appointed after the effective date of this act, shall be the
18 contribution rate established under RCW 41.40.330 plus three and
19 seventy-six one-hundredths percent of pay.

20 NEW SECTION. **Sec. 18.** A new section is added to chapter 41.45 RCW
21 to read as follows:

22 (1) The required employer contribution rate in support of teachers'
23 retirement system members employed as supreme court justices, court of
24 appeals judges, and superior court judges who elect to participate
25 under section 7(1) of this act, or who are newly elected or appointed
26 after the effective date of this act, shall consist of the following:

- 27 (a) The teachers' retirement system employer contribution rate
28 established under this chapter; plus
- 29 (b) An optional amount that shall not exceed two and one-half
30 percent of pay.

31 (2) The required contribution rate for members of the teachers'
32 retirement system plan 1 employed as supreme court justices, court of
33 appeals judges, and superior court judges who elect to participate
34 under section 7(1) of this act, or who are newly elected or appointed
35 after the effective date of this act, shall be the deductions
36 established under RCW 41.50.235 plus six and twenty-six one-hundredths

1 percent of pay less any optional employer contribution made under
2 subsection (1)(b) of this section.

3 NEW SECTION. **Sec. 19.** A new section is added to chapter 41.45 RCW
4 to read as follows:

5 (1) The required employer contribution rate in support of public
6 employees' retirement system members employed as district court judges
7 and municipal court judges who elect to participate under section 6(1)
8 or 9(1) of this act, or who are newly elected or appointed after the
9 effective date of this act, shall consist of the following:

10 (a) The public employees' retirement system employer contribution
11 rate established under this chapter; plus

12 (b) An optional amount that shall not exceed two and one-half
13 percent of pay.

14 (2) The required contribution rate for members of the public
15 employees' retirement system plan 2 employed as district court judges
16 or municipal court judges who elect to participate under section 6(1)
17 or 9(1) of this act, or who are newly elected or appointed after the
18 effective date of this act, shall be two hundred fifty percent of the
19 member contribution rate for the public employees' retirement system
20 plan 2 established under this chapter less any optional employer
21 contribution made under subsection (1)(b) of this section.

22 (3) The required contribution rate for members of the public
23 employees' retirement system plan 1 employed as district court judges
24 or municipal court judges who elect to participate under section 5(1)
25 of this act, or who are newly elected or appointed after the effective
26 date of this act, shall be the contribution rate established under RCW
27 41.40.330 plus six and twenty-six one-hundredths percent of pay less
28 any optional employer contribution made under subsection (1)(b) of this
29 section.

30 **Sec. 20.** RCW 41.45.060 and 2005 c 370 s 2 are each amended to read
31 as follows:

32 (1) The state actuary shall provide actuarial valuation results
33 based on the economic assumptions and asset value smoothing technique
34 included in RCW 41.45.035 or adopted by the council under RCW 41.45.030
35 or 41.45.035.

1 (2) Not later than September 30, 2002, and every two years
2 thereafter, consistent with the economic assumptions and asset value
3 smoothing technique included in RCW 41.45.035 or adopted under RCW
4 41.45.030 or 41.45.035, the council shall adopt and may make changes
5 to:

6 (a) A basic state contribution rate for the law enforcement
7 officers' and fire fighters' retirement system plan 1;

8 (b) Basic employer contribution rates for the public employees'
9 retirement system, the teachers' retirement system, and the Washington
10 state patrol retirement system to be used in the ensuing biennial
11 period; and

12 (c) A basic employer contribution rate for the school employees'
13 retirement system and the public safety employees' retirement system
14 for funding both those systems and the public employees' retirement
15 system plan 1.

16 The optional employer contribution rates under sections 18(1)(b)
17 and 19(1)(b) of this act, for public employees' retirement system
18 members and teachers' retirement system members who participate under
19 this act, shall not be subject to adoption by the council.

20 The contribution rates adopted by the council shall be subject to
21 revision by the legislature.

22 (3) The employer and state contribution rates adopted by the
23 council shall be the level percentages of pay that are needed:

24 (a) To fully amortize the total costs of the public employees'
25 retirement system plan 1, the teachers' retirement system plan 1, and
26 the law enforcement officers' and fire fighters' retirement system plan
27 1 not later than June 30, 2024; and

28 (b) To fully fund the public employees' retirement system plans 2
29 and 3, the teachers' retirement system plans 2 and 3, the public safety
30 employees' retirement system plan 2, and the school employees'
31 retirement system plans 2 and 3 in accordance with RCW 41.45.061,
32 41.45.067, and this section.

33 (4) The aggregate actuarial cost method shall be used to calculate
34 a combined plan 2 and 3 employer contribution rate and a Washington
35 state patrol retirement system contribution rate.

36 (5) The council shall immediately notify the directors of the
37 office of financial management and department of retirement systems of

1 the state and employer contribution rates adopted. The rates shall be
2 effective for the ensuing biennial period, subject to any legislative
3 modifications.

4 (6) The director shall collect those rates adopted by the council.
5 The rates established in RCW 41.45.062, or by the council, shall be
6 subject to revision by the legislature.

7 NEW SECTION. **Sec. 21.** This act takes effect January 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/21/05	Z-1030.1/Z-1031.1

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System (PERS) and the Judicial Retirement Account Plan (JRA).

The bill allows Supreme Court Justices, Court of Appeals Judges, and Superior Court Judges the option to cease participation in the JRA Plan and establish a prospective 3.5% per year benefit multiplier within PERS 1 and PERS 2 with a maximum retirement allowance of 75% of average final compensation. Plan 3 justices and judges would also have the option to cease participation in the JRA Plan and establish a prospective 1.6% per year multiplier within PERS 3 with a maximum retirement allowance of 37.5% of average final compensation.

It also allows District Court and Municipal Court judges the option to establish a prospective 3.5% per year benefit multiplier within PERS 1 and PERS 2 with a maximum retirement allowance of 75% of average final compensation. Plan 3 District and Municipal judges would also have the option to establish a prospective 1.6% per year multiplier within PERS 3 with a maximum retirement allowance of 37.5% of average final compensation.

Plan 2 members would be responsible for all required contributions above the existing employer contributions which support the 2% multiplier.

As an employer, the State would be responsible for the existing employer contributions, plus an additional 2.5% of pay. Former contributions to the JRA would be redirected to support these benefits.

Local employers would be responsible for the existing employer contributions with an option to contribute an additional amount up to, but not exceeding, 2.5% of pay.

PERS 1 and PERS 2 members would also be allowed to purchase the 3.5% benefit multiplier for their past service as judges, and Plan 3 members would be allowed to purchase the 1.6% benefit multiplier for their past service as judges, using lump-sum payments, eligible rollover, direct rollover, or trustee-to-trustee transfers from eligible retirement plans.

Newly elected or appointed Supreme Court Justices, Court of Appeals Judges, Superior Court Judges, District Court Judges, and Municipal Court Judges would become members of PERS 2 and be eligible for the 3.5% per year benefit multiplier and a maximum retirement benefit of 75% of average final compensation. Newly elected judges with prior PERS service would also participate in these provisions.

Effective Date: January 1, 2007

CURRENT SITUATION:

Since July 1, 1988, newly elected or appointed judges have become members of PERS Plan 2. Since March 1, 2002, newly elected or appointed judges have had the choice to enter either PERS 2 or PERS 3.

In addition to a PERS benefit, state-employed judges (Supreme Court Justices, Court of Appeals Judges, and Superior Court Judges) are also eligible for a supplemental benefit from the Judicial Retirement Account Plan (JRA) — a defined contribution (DC) plan. To fund the JRA benefit, members and their employer (the state) each contribute 2.5 percent of pay. Upon retirement, member judges are eligible for their PERS benefits, plus a JRA distribution. That distribution may be in the form of a lump-sum or other payment options as adopted by the Administrator for the Courts.

MEMBERS IMPACTED:

We estimate that 210 Superior Court Judges, Court of Appeals Judges, and Supreme Court Justices; and 230 District and Municipal Court judges, out of the total 156,256 active members of PERS would be affected by this bill.

Increasing the benefit accrual formula from 2.0% to 3.5% in PERS 1 and PERS 2 represents a 75% increase in accrued benefits for every year of service earned under the new formula. We estimate that for a typical member impacted by this bill, the maximum increase in annual benefits would be between \$30,000 and \$48,000 a year.

Increasing the benefit accrual formula from 1.0% to 1.6% in PERS 3 represents a 60% increase in accrued benefits for every year of service earned under the new formula. We estimate that for a typical member impacted by this bill, the maximum increase in annual benefits would be between \$12,000 and \$20,000 a year.

ASSUMPTIONS:

We assumed that all judges have the same demographic, salary, and plan membership profile, and cost, as the Superior Court Judges. We assumed that all eligible judges will elect to receive the enhanced benefits. We assumed the increase in benefit formula will not change retirement behavior. In determining required member and state contributions, we assumed all JRA contributions are redirected to the pension trust fund to fund the benefit improvements. We further assumed that employers of judges who are not participating in the JRA will not opt to make additional contributions on behalf of their employees to fund this benefit.

FISCAL IMPACT:

Description:

This bill will increase retirement benefits by changing the 2% benefit accrual rate per year of service in PERS 1 and PERS 2 to 3.5% and by changing the 1.0% benefit accrual rate per year of service in PERS 3 to 1.6% for service earned after the effective date of the bill. This bill will also increase contributions to the system by redirecting contributions currently being made to the JRA to the PERS trust funds and requiring judges to pay a higher contribution rate to fully fund the increased benefits. Judges who do not participate in the JRA would need to make an additional contribution of at least 5% to cover the cost of the benefit improvement. Employer contribution rates do not change since members' are fully funding the cost of benefit improvements not covered by redirecting the JRA contributions.

Employer and member contribution rates could change if the employers of District and Municipal Court judges elect to make extra contributions to fund this benefit. In this case, the local government fiscal costs will increase and employee costs will decrease by the same amount.

Provisions allowing PERS 1 and PERS 2 members to purchase the 3.5% benefit multiplier and PERS 3 members to purchase the 1.6% benefit multiplier for past service are assumed to have no fiscal impact since the member is charged the full actuarial cost.

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:

<i>(Dollars in Millions)</i>	System: PERS			
	Current	Increase	Increase	Total
		Superior Court Judges*	District & Municipal Court Judges	
Actuarial Present Value of Projected Benefits				
(The Value of the Total Commitment to all Current Members)				
PERS 1	\$12,818	\$2	\$2	\$12,822
PERS 2/3	\$15,288	\$12	\$14	\$15,314
Unfunded Actuarial Accrued Liability				
(The Portion of the Plan 1 Liability that is Amortized at 2024)				
PERS 1	\$2,563	\$0	\$0	\$2,563
Unfunded Liability (PBO)				
(The Value of the Total Commitment to all Current Members Attributable to Past Service)				
PERS 1	\$2,254	\$0	\$0	\$2,254
PERS 2/3	(\$2,927)	\$0	\$0	(\$2,927)

Increase in Contribution Rates:
(Effective 1/1/2007)

	Superior Court Judges*	District & Municipal Court Judges
Current Members		
Employee (Plan 1)	3.76%	6.26%
Employee (Plan 2)	2.75%	5.25%
Employer State	0.00%	0.00%
New Entrants***		
Employee**	4.19%	6.69%
Employer State	0.00%	0.00%

*Includes Supreme Court Justices and Court of Appeals Judges. Rates do not reflect 2.5 percent member contribution to JRA.

**Projected long-term contribution rates beginning in 2013.

***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 member contribution rates, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS	PERS	Total
	Superior Court Judges	District & Municipal Court Judges	
2006-2007			
State:			
General Fund	\$0.0	\$0.0	\$0.0
Non-General Fund	\$0.0	\$0.0	\$0.0
Total State	\$0.0	\$0.0	\$0.0
Local Government	\$0.0	\$0.0	\$0.0
Total Employer	\$0.0	\$0.0	\$0.0
 Total Employee	 \$0.4	 \$0.9	 \$1.3
2007-2009			
State:			
General Fund	\$0.0	\$0.0	\$0.0
Non-General Fund	\$0.0	\$0.0	\$0.0
Total State	\$0.0	\$0.0	\$0.0
Local Government	\$0.0	\$0.0	\$0.0
Total Employer	\$0.0	\$0.0	\$0.0
 Total Employee	 \$2.4	 \$4.6	 \$7.0

Costs (in Millions):	PERS	PERS	Total
	Superior Court Judges	District & Municipal Court Judges	
2006-2031			
State:			
General Fund	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total State	\$0.0	\$0.0	\$0.0
Local Government	\$0.0	\$0.0	\$0.0
Total Employer	\$0.0	\$0.0	\$0.0
Total Employee	\$60.7	\$107.7	\$168.4

State Actuary's Comments:

We have assumed that local government employers will not opt to make the additional 2.50 percent of pay contribution. If this is not the case, some local government costs would shift from the District and Municipal court judges to their local employer.

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, and assumptions as those used in preparing the September 30, 2003 & 2004 actuarial valuation reports of the Public Employee's Retirement System. Additional data for the current number and salaries of judges was provided by the Office of the Administrator of the Courts and was not audited.
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:
 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.

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.



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205 W Kincaid St. Rm. 202
Mount Vernon, WA 98273-4225
(360) 336-9320

Laura Gene Middaugh, District One Trustee (03-06)
King County Regional Justice Center
401 4th Avenue N Room 2D
Kent, WA 98032-4429
(206) 296-9225 FAX: (206) 205-2585

Jay White, District One Trustee (04-07)
King County Regional Justice Center
401 4th Avenue N Room 2D
Kent, WA 98032-4429
(206) 296-9251 FAX: (206) 205-2585

Ronald E. Culpepper, District Two Trustee (05-08)
Pierce County Superior Court
930 Tacoma Avenue S Room 534
Tacoma, WA 98402-2108
(253) 798-6640 FAX: (253) 798-7214

Linda Krese, District Three Trustee (03-06)
Snohomish County Superior Court
3000 Rockefeller Avenue MS 502
Everett, WA 98201-4046
(425) 388-3954 FAX: (360) 388-3498

Stephen Warning, District Four Trustee (03-06)
Cowlitz County Superior Court
312 SW 1st Avenue
Kelso, WA 98626-1739
(360) 577-3085

Donald W. Schacht, District Five Trustee (05-08)
Walla Walla County Superior Court
315 W Main St.
PO Box 836
Walla Walla, WA 99362-0259
(509) 527-3229 FAX: (509) 527-3214

T. W. Small, District Six Trustee (04-07)
Chelan County Superior Court
401 Washington Street
Wenatchee, WA 98807-0880
(509) 667-6210 FAX: (509) 667-6588

December 1, 2005

RECEIVED

DEC 6 - 2005

Office of
The State Actuary

Honorable Bill Fromhold
239 JLOB
PO Box 40600
Olympia, Washington 98504-0600

Dear Representative Fromhold:

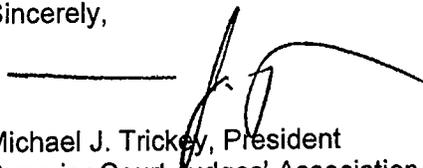
As president of the Superior Court Judges' Association, I am writing to thank you for the Select Committee's efforts in reviewing the judges' proposal to restore the defined benefit multiplier as an element of the judges' pension benefits. We also appreciate the efforts of the state actuary's office and particularly Mr. Smith and Mr. Baker in working with us in outlining the proposal.

The purpose of this proposal is to continue to attract and retain highly qualified judges to the Washington judiciary. Restoring the pre-1988 multiplier of 3.5% for years of judicial service will bring Washington to a comparable level of judicial defined retirement benefits provided for judges in the 50 states. Judges come to the bench at mid or late career, unlike most state employees, and therefore have less time to accumulate years of service before they retire. For example, the average age that a judge takes the superior court bench is 47.

This proposal is cost neutral to the state. The proposed benefit is entirely funded by the judges themselves by redirecting the JRA account contributions currently made by the employee-judge and the employer to the PERS programs and by the employee-judge paying an additional sum.

If you have any questions about the proposal to restore the judges' defined benefit multiplier, please do not hesitate to contact me at (206) 240-1042, Judge Leonard Costello at (360) 337-4464 or our lobbyist, Tom Parker at (206) 200-7898.

Sincerely,


Michael J. Trickey, President
Superior Court Judges' Association

cc: SCJA Board
Judge Deborah Fleck
Tom Parker

scja/presidents correspondence/trickey/retirement proposal ltr 12 05



**WASHINGTON
COURTS**

Superior Court Judges' Association

May 26, 2005

Leonard W. Costello, President-Judge (2004-2005)
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814 Division Street
Port Orchard, WA 98365-4683
(360) 337-7140 FAX: (360) 337-4673

Michael Trickey, President-Elect (2004-2005)
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Seattle, WA 98104-2381
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Kathleen M. O'Connor, Immed. Past President (2004-2005)
Spokane County Superior Court
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Spokane, WA 99260-0350
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Vickie Churchill, Treasurer (2004-2005)
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T. W. Small, District Six Trustee (2004-2007)
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Senator Karen Fraser
Chair, Pension Policy Committee
Olympia, WA

Representative Steve Conway
Vice Chair, Pension Policy Committee
Olympia, WA

Dear Senator Fraser and Representative Conway

On behalf of the superior court judges in Washington State, I respectfully request the Pension Policy Committee review the current benefit formula for judges. Recent independent analysis shows that the benefits of the Washington State Superior Court Judges retirement plan ranks near the bottom of the fifty states. This alarming statistic is in sharp contrast to Washington's judicial reputation as one of the best in the United States.

The superior court judges request the committee consider an improvement to the plan that would increase the current two percent multiplier to three and a half percent for service earned; and set a maximum of 75 percent of pay for the entire benefit. As a possible offset to the increased cost to the state, the judges request the committee explore reducing the state's contribution to the judicial retirement account that is currently set at two and a half percent.

Most of Washington's superior court judges come to the position later in their careers because they want to serve the public good. Our objective in the review is to establish a retirement benefit formula that attracts the best and brightest from the legal community into Washington's judiciary.

Thank you,

Leonard Costello
Immediate Past President

cc: Matt Smith

STATE OF WASHINGTON

1206 Quince Street SE • P.O. Box 41170 • Olympia, WA 98504-1170
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Representative Bill Fromhold
Chair, Pension Policy Committee
Olympia WA

Dear Representative Fromhold,

This letter is in follow up to several questions from members of the executive committee of the Pension Policy Committee last month regarding the requested changes to the Superior Court Judge's pension plan.

First, executive committee members asked whether the district, municipal, appellate and supreme court judges wanted to be included in the proposal forwarded by the superior court judges. At this time, each of the other associations are considering the proposal but have not formally requested to be included. This could change before the legislature meets in January. Therefore, I recommend the proposal move forward making changes only to the Superior Court Judge's plan.

Second, the question was raised about buying back prior years of judicial service. The Superior Court Judges Association requests the proposal allow for the buy back of prior years at the time the judge retires. The proposal would allow for only the buying back of years of service accumulated in PERS **as a judge**.

If you have any further questions regarding this matter, please do not hesitate to contact me. Thank you for considering this important matter

Sincerely,
Leonard Costello

PROPOSED RETIREMENT BENEFIT FORMULA: RESTORING COMPARABILITY TO JUDICIAL RETIREMENT

Purpose

The purpose of this proposal is to attract and retain highly qualified judges to the Washington judiciary. Returning to the pre-1988 multiplier of 3.5% for years of judicial service will bring Washington to a comparable level of judicial defined retirement benefits provided for judges in the 50 states. It is the intent of this proposal that it be cost neutral to the state. This proposal promotes the second goal of the Select Committee on Pension Policy: to recruit and retain a qualified public workforce, and it does so without increasing the long-term employer cost.

Proposed Improvement

If a judge elects this benefit package, this proposal will increase the current 2% multiplier to 3.5% for judicial service earned after the effective date of the legislation, up to a maximum of 75% (average of highest two years for PERS Plan 1; average of highest five consecutive years for PERS Plan 2). The JRA contribution by the employee and the employer will be redirected to the defined benefit package.

Option to Opt In

Current PERS Plan 1 and 2 plan members will have a one-time opportunity to opt to receive this proposed benefit package. Current PERS Plan 3 members will have a one-time opportunity to opt into PERS Plan 2.

New Judges

New judges will be part of the PERS Plan 2 with these judicial benefits after the effective date, unless the judge has been a member of the PERS Plan 1 through prior public employment. In that event, the new judge will continue as a member of the PERS Plan 1 with the 3.5% multiplier up to a maximum of 75% of the average of the highest two years of judicial service.

Applicability

This proposal includes the Superior Court and Court of Appeals judges and the Supreme Court justices. It provides that the District Court judges and elected Municipal Court judges are eligible to participate if approved by their local legislative bodies.

Buy Back Option

Members or their survivors, including terminated and vested members who are not in pay status, will have the option to buy back years of judicial service (including district//municipal court) at the time of retirement or prior to retirement if permissible under current IRS regulations and may use funds in their JRA account for that purpose.

Membership Demographics (as of 9/30/03 for superior court judges; average age at time of appointment or election to superior court is 47)

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>
Number of Active Members	51	102	7
Average age	58.2	53.4	53.3
Average Annual Salary	\$121,996	\$121,965	\$121,983

Impact on PERS Plan 2/3 Contribution Rates (includes employer gain-sharing costs)

	<u>Employee*</u>	<u>Employer</u>
Rate Under 3.5% Prospective Formula	7.57%	7.69%
Rate Under Current Formula (historical avg.)	<u>4.35%</u>	<u>4.44%</u>
Increase Due to Proposed Improvement	3.22%	3.25%
Current JRA Contribution	2.50%	2.50%

*Plan 3 members do not contribute to their defined benefit

Judges opting into this benefit package will pay an additional 1.44% of their salary per month. (The 1.44% is calculated as follows: 3.22% less 2.50% (.722%) x 2 = 1.44%.) To achieve the 3.5% multiplier, judges will pay the additional cost for both the employee and employer to maintain the cost neutral status for the state of this proposal. The judges currently pay 2.25% as a contribution (compared to the historical average of 4.35% above used by the actuary to determine the additional cost of the proposed new benefit). This 2.25% judge-employee contribution is projected to increase to 3.5% on July 1, 2006.

Impact on PERS Plan 1 Contribution Rates

	<u>Employee</u>	<u>Employer</u>
Rate Under Current Formula (fixed in statute)	6.0%	3.38%
Increase Due to Proposed Improvement	3.76%	
Current JRA Contribution	2.50%	2.50%

PERS Plan 1 is not a 50/50 cost sharing Plan as is PERS Plan 2. Judges opting into this benefit package will pay an additional 1.26% of their salary per month after the 5% (2.5% employee contribution and 2.5% employer contribution) to the JRA account is redirected to this benefit.

Current Estimated Cost of Past Service (optional purchase) (assuming 3.5% multiplier is applied to past service)

	<u>Plan 1</u>	<u>Plan 2/3</u>
Total Increase in Liability (present value)	\$8,518,807	\$9,293,296
Average Increase Per Member	\$ 167,035	\$ 85,260
Average Increase Per Year of Service	\$ 8,700	\$ 7,077

Burkhart, Kelly

Subject: FW: Judge's Benefit Multiplier

From: Young, Steve

Sent: Wednesday, December 07, 2005 5:28 PM

To: Office State Actuary, WA

Cc: Wickman, Jeff; Santos, Eva (DOP); Sellars, Mike (DOP); Turner, Brian (DOP); Nielsen, Judd (DOP); Opitz, Wolfgang; Robinson, Gary (DIS)

Subject: [REDACTED]

Please pass this message to Bob Baker:

The Department of Personnel (DOP) was asked of the possibility of changing the benefit multiplier on the judge's existing retirement plan and the most opportune time to make that change if legislatively approved and signed by the Governor. Requirements for the Human Resources Management System (HRMS) were finalized in December 2004. The HRMS application development was completed and configuration frozen in September 2005. Within the next week, the HRMS project will be in the third, and final, integration test cycle. The final decision to move forward with the planned roll-out schedule as previously published will occur on December 27, 2005. A change of retirement plans, essentially the impact of this proposal, would necessitate the creation of a new retirement plan in HRMS. A new retirement plan would require the proper configuration and regression testing prior to the roll-out of the new retirement plan. The judges being paid from HRMS are contained in the Group 1 roll-out on April 1, 2006. With the current configuration frozen, it would take significant amounts of resources and effort to effect the change prior to April 1, 2006, and could subject the HRMS project to further delay. For these reasons, DOP cannot support an implementation date sooner than January 1, 2007. Making the change after the final HRMS application is implemented on July 1, 2006, will result in reduced risk and lower cost. Please feel to contact me if you have any further questions.

Thx,
Steve

Steve Young, P.E.

HRMS Program Director

Chief Information Officer

PO Box 47580

Olympia, WA 98504-7580

Ph. 360.664.1086

Fax 360.438.7530