

Optional Membership and Distributions

Background

The age 70½ issue was originally thought to involve compliance to federal rules mandating distribution of retirement allowances at age 70½. When it was discovered that those rules applied to private plans, the state provisions were repealed. This issue has now evolved from one in which older members may receive retirement benefits without separating from employment, to a post-retirement employment issue where members must separate from employment before being eligible for the benefit. This would establish a new age-based policy in the post-retirement employment arena.

The optional membership issue is one in which inconsistencies for elective members already exist in the provisions of the various systems and plans. This proposal would remove much of that inconsistency and standardize the optional membership of elected officials in a manner similar to existing TRS 1 and LEOFF 2 provisions.

Committee Activity

Presentations:

- August 23, 2005 - Full Committee
- September 27, 2005 - Executive Committee
- October 18, 2005 - Executive Committee
- November 15, 2005 - Full Committee
- December 13, 2005 - Executive Committee

Proposal:

- November 15, 2005 - Full Committee
- December 13, 2005 - Full Committee

Recommendation to Legislature

Allow members of PERS, SERS, and TRS who have attained age 70½ to retire and return to work without restriction. Allow members of TRS Plans 2 and 3, SERS, and PERS holding state elective office the option, at the beginning of each term of office, to continue active membership or to retire and begin receiving their retirement allowance.

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Select Committee on Pension Policy

Optional Membership and Distributions

(December 19, 2005)

Proposal

Allow members of PERS, SERS, and TRS who have attained age 70½ to retire and return to work without restriction. Such individuals would continue to draw a salary, but would cease active membership in their plans and would no longer accumulate service credit. The provision would not apply to state elected officials unless they leave elected office or are reelected after the effective date of the act.

Also allow members of TRS Plans 2 and 3, SERS, and PERS holding state elective office the option, at the beginning of each term of office, to continue active membership or to retire and begin receiving their retirement allowance

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Members Impacted

This proposal would impact all PERS, SERS, and TRS members who desire to work beyond age 70½ and all members of PERS, SERS, and TRS 2/3 who hold state elective office.

As of the 2004 valuation there were 541 vested members of PERS, SERS, and TRS who were still working at age 70½.

At last count there were 153 state elective officials who were plan members without other public employment.

Current Situation

After separating from employment for one month, PERS and SERS retirees may return to work for up to 867 hours in a calendar year before their benefit is suspended. PERS 1 retirees who separated for three months may return to work for up to 1,500 hours in a calendar year before their benefit is suspended.

After separating from employment for one month, TRS 1 retirees may return to work for up to 1,500 hours in a school year before their benefit is suspended. After separating from employment for one month, TRS 2/3 retirees may return to work for up to 867 hours in a school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receiving their retirement benefits, regardless of age. TRS 1 is the exception in permitting state elected officials who are TRS 1 members, if otherwise eligible, to begin receiving their retirement benefit while serving in state elective office. The LEOFF 1 plan also allows retired members to work for any non-LEOFF employer without a reduction of their benefits.

History

During the 2002 Interim, the Joint Committee on Pension Policy (JCPP) forwarded companion bills SB 5093 and HB 1209 to the 2003 legislature. These bills would have allowed members of PERS, SERS, and TRS Plans 1, 2, and 3 who have attained age 70½ and meet the vesting requirements of their plan to apply for retirement benefits without requiring that they separate from service. Such retirees would not be allowed to continue to make contributions and earn service credit. The bill passed in the Senate, but did not receive a hearing in the House.

The JCPP also forwarded companion bills HB 1201 and SB 5095 to the 2003 legislature. This legislation would have allowed PERS, SERS, TRS 2/3, or LEOFF 2 members holding state elective office the option, at the beginning of

each term of office, of continuing active membership or retiring and beginning their retirement allowance. SB 5095 passed the Senate. HB 1201 did not receive a hearing in the House.

In the 2004 interim the Select Committee on Pension Policy was briefed on the issues and recommended sponsoring legislation for the 2005 session. The resulting legislation, HB 1318, had a total employer cost of \$4.6 million in 2005-07, \$5.5 million in 2007-09, and \$82.8 million through 2030. The bill received a hearing, but did not move from the House Appropriations Committee.

During the 2004 interim the LEOFF 2 retirement board recommended legislation affecting post-LEOFF 2 employment. The bill provides a member who is otherwise “estopped” from membership in another Washington public retirement system with the option to join membership in another Washington retirement system. The bill also provides retirees who become employed in eligible non-LEOFF positions with a choice to either receive their LEOFF pension or enter membership in another plan and suspend receipt of their LEOFF pension until their employment in the other system ends. The 2005 legislature passed the legislation and it was codified as Chapter 372, Laws of 2005.

Policy Analysis

The age 70½ issue was originally thought to involve compliance to federal rules mandating distribution of retirement allowances at age 70½. When it was discovered that those rules applied to private plans, the state provisions were repealed. This issue has now evolved from one in which older members may receive retirement benefits without separating from employment, to a post-retirement employment issue where members must separate from employment before being eligible for the benefit. This would establish a new age-based policy in the post-retirement employment arena.

The opt-in/opt-out issue is one in which inconsistencies already exist in the provisions of the various systems and plans. This proposal would remove much of that inconsistency, and standardize the optional membership of elected officials in a manner similar to existing TRS 1 and LEOFF 2 provisions. Additionally, this proposal may support attraction and retention of state elected officials.

Executive Committee Recommendation

At the October 18, 2005, SCPP meeting, the executive committee moved to forward HB 1318 from the 2005 session to the full committee to re-endorse the bill for the 2006 session .

Committee Recommendation

At the full committee meeting on November 15, 2005, HB 1318 was forwarded to the full legislature subject to a title change. This required that a new bill be drafted.

Bill Draft

Attached

Fiscal Note (2006 Draft)

Attached

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0924.1/06

ATTY/TYPIST: LL:mos

BRIEF DESCRIPTION: Authorizing optional membership and distributions of retirement allowances for certain members of the teachers', school employees', and public employees' retirement systems.

1 AN ACT Relating to optional membership and distributions of
2 retirement allowances for certain members of the teachers', school
3 employees', and public employees' retirement systems; amending RCW
4 41.32.263 and 41.35.030; reenacting and amending RCW 41.32.010 and
5 41.40.023; adding a new section to chapter 41.32 RCW; adding a new
6 section to chapter 41.35 RCW; and adding a new section to chapter 41.40
7 RCW.

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

9 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW
10 to read as follows:

11 A member who retires on or after attainment of age seventy and one-
12 half and enters employment with an employer at least one month after
13 his or her accrual date may continue to receive pension payments while
14 engaged in such service without restriction. The retiree is no longer
15 an active member and may not make contributions, or receive service
16 credit, for future periods of employment while receiving his or her
17 retirement allowance. This section does not apply to any member who is
18 a state elected official unless that member leaves elected office or is
19 reappointed or reelected after the effective date of this act.

1 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.35 RCW
2 to read as follows:

3 A member who retires on or after attainment of age seventy and one-
4 half and enters employment with an employer at least one month after
5 his or her accrual date may continue to receive pension payments while
6 engaged in such service without restriction. The retiree is no longer
7 an active member and may not make contributions, or receive service
8 credit, for future periods of employment while receiving his or her
9 retirement allowance. This section does not apply to any member who is
10 a state elected official unless that member leaves elected office or is
11 reappointed or reelected after the effective date of this act.

12 NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW
13 to read as follows:

14 A member who retires on or after attainment of age seventy and one-
15 half and enters employment with an employer at least one month after
16 his or her accrual date may continue to receive pension payments while
17 engaged in such service without restriction. The retiree is no longer
18 an active member and may not make contributions, or receive service
19 credit, for future periods of employment while receiving his or her
20 retirement allowance. This section does not apply to any member who is
21 a state elected official unless that member leaves elected office or is
22 reappointed or reelected after the effective date of this act.

23 **Sec. 4.** RCW 41.32.010 and 2005 c 131 s 8 and 2005 c 23 s 1 are
24 each reenacted and amended to read as follows:

25 As used in this chapter, unless a different meaning is plainly
26 required by the context:

27 (1)(a) "Accumulated contributions" for plan 1 members, means the
28 sum of all regular annuity contributions and, except for the purpose of
29 withdrawal at the time of retirement, any amount paid under RCW
30 41.50.165(2) with regular interest thereon.

31 (b) "Accumulated contributions" for plan 2 members, means the sum
32 of all contributions standing to the credit of a member in the member's
33 individual account, including any amount paid under RCW 41.50.165(2),
34 together with the regular interest thereon.

35 (2) "Actuarial equivalent" means a benefit of equal value when

1 computed upon the basis of such mortality tables and regulations as
2 shall be adopted by the director and regular interest.

3 (3) "Annuity" means the moneys payable per year during life by
4 reason of accumulated contributions of a member.

5 (4) "Member reserve" means the fund in which all of the accumulated
6 contributions of members are held.

7 (5)(a) "Beneficiary" for plan 1 members, means any person in
8 receipt of a retirement allowance or other benefit provided by this
9 chapter.

10 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
11 in receipt of a retirement allowance or other benefit provided by this
12 chapter resulting from service rendered to an employer by another
13 person.

14 (6) "Contract" means any agreement for service and compensation
15 between a member and an employer.

16 (7) "Creditable service" means membership service plus prior
17 service for which credit is allowable. This subsection shall apply
18 only to plan 1 members.

19 (8) "Dependent" means receiving one-half or more of support from a
20 member.

21 (9) "Disability allowance" means monthly payments during
22 disability. This subsection shall apply only to plan 1 members.

23 (10)(a) "Earnable compensation" for plan 1 members, means:

24 (i) All salaries and wages paid by an employer to an employee
25 member of the retirement system for personal services rendered during
26 a fiscal year. In all cases where compensation includes maintenance
27 the employer shall fix the value of that part of the compensation not
28 paid in money.

29 (ii) For an employee member of the retirement system teaching in an
30 extended school year program, two consecutive extended school years, as
31 defined by the employer school district, may be used as the annual
32 period for determining earnable compensation in lieu of the two fiscal
33 years.

34 (iii) "Earnable compensation" for plan 1 members also includes the
35 following actual or imputed payments, which are not paid for personal
36 services:

37 (A) Retroactive payments to an individual by an employer on
38 reinstatement of the employee in a position, or payments by an employer

1 to an individual in lieu of reinstatement in a position which are
2 awarded or granted as the equivalent of the salary or wages which the
3 individual would have earned during a payroll period shall be
4 considered earnable compensation and the individual shall receive the
5 equivalent service credit.

6 (B) If a leave of absence, without pay, is taken by a member for
7 the purpose of serving as a member of the state legislature, and such
8 member has served in the legislature five or more years, the salary
9 which would have been received for the position from which the leave of
10 absence was taken shall be considered as compensation earnable if the
11 employee's contribution thereon is paid by the employee. In addition,
12 where a member has been a member of the state legislature for five or
13 more years, earnable compensation for the member's two highest
14 compensated consecutive years of service shall include a sum not to
15 exceed thirty-six hundred dollars for each of such two consecutive
16 years, regardless of whether or not legislative service was rendered
17 during those two years.

18 (iv) For members employed less than full time under written
19 contract with a school district, or community college district, in an
20 instructional position, for which the member receives service credit of
21 less than one year in all of the years used to determine the earnable
22 compensation used for computing benefits due under RCW 41.32.497,
23 41.32.498, and 41.32.520, the member may elect to have earnable
24 compensation defined as provided in RCW 41.32.345. For the purposes of
25 this subsection, the term "instructional position" means a position in
26 which more than seventy-five percent of the member's time is spent as
27 a classroom instructor (including office hours), a librarian, a
28 psychologist, a social worker, a nurse, a physical therapist, an
29 occupational therapist, a speech language pathologist or audiologist,
30 or a counselor. Earnable compensation shall be so defined only for the
31 purpose of the calculation of retirement benefits and only as necessary
32 to insure that members who receive fractional service credit under RCW
33 41.32.270 receive benefits proportional to those received by members
34 who have received full-time service credit.

35 (v) "Earnable compensation" does not include:

36 (A) Remuneration for unused sick leave authorized under RCW
37 41.04.340, 28A.400.210, or 28A.310.490;

1 (B) Remuneration for unused annual leave in excess of thirty days
2 as authorized by RCW 43.01.044 and 43.01.041.

3 (b) "Earnable compensation" for plan 2 and plan 3 members, means
4 salaries or wages earned by a member during a payroll period for
5 personal services, including overtime payments, and shall include wages
6 and salaries deferred under provisions established pursuant to sections
7 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
8 shall exclude lump sum payments for deferred annual sick leave, unused
9 accumulated vacation, unused accumulated annual leave, or any form of
10 severance pay.

11 "Earnable compensation" for plan 2 and plan 3 members also includes
12 the following actual or imputed payments which, except in the case of
13 (b)(ii)(B) of this subsection, are not paid for personal services:

14 (i) Retroactive payments to an individual by an employer on
15 reinstatement of the employee in a position or payments by an employer
16 to an individual in lieu of reinstatement in a position which are
17 awarded or granted as the equivalent of the salary or wages which the
18 individual would have earned during a payroll period shall be
19 considered earnable compensation, to the extent provided above, and the
20 individual shall receive the equivalent service credit.

21 (ii) In any year in which a member serves in the legislature the
22 member shall have the option of having such member's earnable
23 compensation be the greater of:

24 (A) The earnable compensation the member would have received had
25 such member not served in the legislature; or

26 (B) Such member's actual earnable compensation received for
27 teaching and legislative service combined. Any additional
28 contributions to the retirement system required because compensation
29 earnable under (b)(ii)(A) of this subsection is greater than
30 compensation earnable under (b)(ii)(B) of this subsection shall be paid
31 by the member for both member and employer contributions.

32 (11) "Employer" means the state of Washington, the school district,
33 or any agency of the state of Washington by which the member is paid.

34 (12) "Fiscal year" means a year which begins July 1st and ends June
35 30th of the following year.

36 (13) "Former state fund" means the state retirement fund in
37 operation for teachers under chapter 187, Laws of 1923, as amended.

1 (14) "Local fund" means any of the local retirement funds for
2 teachers operated in any school district in accordance with the
3 provisions of chapter 163, Laws of 1917 as amended.

4 (15) "Member" means any teacher included in the membership of the
5 retirement system who has not been removed from membership under RCW
6 41.32.878 or 41.32.768. Also, any other employee of the public schools
7 who, on July 1, 1947, had not elected to be exempt from membership and
8 who, prior to that date, had by an authorized payroll deduction,
9 contributed to the member reserve.

10 (16) "Membership service" means service rendered subsequent to the
11 first day of eligibility of a person to membership in the retirement
12 system: PROVIDED, That where a member is employed by two or more
13 employers the individual shall receive no more than one service credit
14 month during any calendar month in which multiple service is rendered.
15 The provisions of this subsection shall apply only to plan 1 members.

16 (17) "Pension" means the moneys payable per year during life from
17 the pension reserve.

18 (18) "Pension reserve" is a fund in which shall be accumulated an
19 actuarial reserve adequate to meet present and future pension
20 liabilities of the system and from which all pension obligations are to
21 be paid.

22 (19) "Prior service" means service rendered prior to the first date
23 of eligibility to membership in the retirement system for which credit
24 is allowable. The provisions of this subsection shall apply only to
25 plan 1 members.

26 (20) "Prior service contributions" means contributions made by a
27 member to secure credit for prior service. The provisions of this
28 subsection shall apply only to plan 1 members.

29 (21) "Public school" means any institution or activity operated by
30 the state of Washington or any instrumentality or political subdivision
31 thereof employing teachers, except the University of Washington and
32 Washington State University.

33 (22) "Regular contributions" means the amounts required to be
34 deducted from the compensation of a member and credited to the member's
35 individual account in the member reserve. This subsection shall apply
36 only to plan 1 members.

37 (23) "Regular interest" means such rate as the director may
38 determine.

1 (24)(a) "Retirement allowance" for plan 1 members, means monthly
2 payments based on the sum of annuity and pension, or any optional
3 benefits payable in lieu thereof.

4 (b) "Retirement allowance" for plan 2 and plan 3 members, means
5 monthly payments to a retiree or beneficiary as provided in this
6 chapter.

7 (25) "Retirement system" means the Washington state teachers'
8 retirement system.

9 (26)(a) "Service" for plan 1 members means the time during which a
10 member has been employed by an employer for compensation.

11 (i) If a member is employed by two or more employers the individual
12 shall receive no more than one service credit month during any calendar
13 month in which multiple service is rendered.

14 (ii) As authorized by RCW 28A.400.300, up to forty-five days of
15 sick leave may be creditable as service solely for the purpose of
16 determining eligibility to retire under RCW 41.32.470.

17 (iii) As authorized in RCW 41.32.065, service earned in an out-of-
18 state retirement system that covers teachers in public schools may be
19 applied solely for the purpose of determining eligibility to retire
20 under RCW 41.32.470.

21 (b) "Service" for plan 2 and plan 3 members, means periods of
22 employment by a member for one or more employers for which earnable
23 compensation is earned subject to the following conditions:

24 (i) A member employed in an eligible position or as a substitute
25 shall receive one service credit month for each month of September
26 through August of the following year if he or she earns earnable
27 compensation for eight hundred ten or more hours during that period and
28 is employed during nine of those months, except that a member may not
29 receive credit for any period prior to the member's employment in an
30 eligible position except as provided in RCW 41.32.812 and
31 41.50.132((+))_.

32 (ii) If a member is employed either in an eligible position or as
33 a substitute teacher for nine months of the twelve month period between
34 September through August of the following year but earns earnable
35 compensation for less than eight hundred ten hours but for at least six
36 hundred thirty hours, he or she will receive one-half of a service
37 credit month for each month of the twelve month period((+))_.

1 (iii) All other members in an eligible position or as a substitute
2 teacher shall receive service credit as follows:

3 (A) A service credit month is earned in those calendar months where
4 earnable compensation is earned for ninety or more hours;

5 (B) A half-service credit month is earned in those calendar months
6 where earnable compensation is earned for at least seventy hours but
7 less than ninety hours; and

8 (C) A quarter-service credit month is earned in those calendar
9 months where earnable compensation is earned for less than seventy
10 hours.

11 (iv) Any person who is a member of the teachers' retirement system
12 and who is elected or appointed to a state elective position may
13 continue to be a member of the retirement system and continue to
14 receive a service credit month for each of the months in a state
15 elective position by making the required member contributions.

16 (v) Any member of the teachers' retirement system plan 2 or plan 3
17 who is elected to the state legislature has the option during a ninety-
18 day period at the beginning of each term of office either to resume
19 membership or to end membership in the retirement system and if
20 otherwise eligible begin their retirement allowance. A state
21 legislator who chooses to end membership at the beginning of a term of
22 office and begin their retirement allowance shall neither make
23 contributions nor earn service credit for the duration of that term.

24 (vi) Any member of the teachers' retirement system plan 2 or plan
25 3 who is elected to a state elective position other than the state
26 legislature has the option during a ninety-day period at the beginning
27 of each term of office either to resume membership or to end membership
28 in the retirement system and if otherwise eligible begin their
29 retirement allowance. A state elected official other than a state
30 legislator who chooses to end membership at the beginning of a term of
31 office and begin their retirement allowance shall neither make
32 contributions nor earn service credit for the duration of that term.

33 (vii) When an individual is employed by two or more employers the
34 individual shall only receive one month's service credit during any
35 calendar month in which multiple service for ninety or more hours is
36 rendered.

37 ~~((vi))~~ (viii) As authorized by RCW 28A.400.300, up to forty-five
38 days of sick leave may be creditable as service solely for the purpose

1 of determining eligibility to retire under RCW 41.32.470. For purposes
2 of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is
3 equal to two service credit months. Use of less than forty-five days
4 of sick leave is creditable as allowed under this subsection as
5 follows:

6 (A) Less than eleven days equals one-quarter service credit month;

7 (B) Eleven or more days but less than twenty-two days equals one-
8 half service credit month;

9 (C) Twenty-two days equals one service credit month;

10 (D) More than twenty-two days but less than thirty-three days
11 equals one and one-quarter service credit month;

12 (E) Thirty-three or more days but less than forty-five days equals
13 one and one-half service credit month.

14 (~~(vii)~~) (ix) As authorized in RCW 41.32.065, service earned in an
15 out-of-state retirement system that covers teachers in public schools
16 may be applied solely for the purpose of determining eligibility to
17 retire under RCW 41.32.470.

18 (~~(viii)~~) (x) The department shall adopt rules implementing this
19 subsection.

20 (27) "Service credit year" means an accumulation of months of
21 service credit which is equal to one when divided by twelve.

22 (28) "Service credit month" means a full service credit month or an
23 accumulation of partial service credit months that are equal to one.

24 (29) "Teacher" means any person qualified to teach who is engaged
25 by a public school in an instructional, administrative, or supervisory
26 capacity. The term includes state, educational service district, and
27 school district superintendents and their assistants and all employees
28 certificated by the superintendent of public instruction; and in
29 addition thereto any full time school doctor who is employed by a
30 public school and renders service of an instructional or educational
31 nature.

32 (30) "Average final compensation" for plan 2 and plan 3 members,
33 means the member's average earnable compensation of the highest
34 consecutive sixty service credit months prior to such member's
35 retirement, termination, or death. Periods constituting authorized
36 leaves of absence may not be used in the calculation of average final
37 compensation except under RCW 41.32.810(2).

1 (31) "Retiree" means any person who has begun accruing a retirement
2 allowance or other benefit provided by this chapter resulting from
3 service rendered to an employer while a member.

4 (32) "Department" means the department of retirement systems
5 created in chapter 41.50 RCW.

6 (33) "Director" means the director of the department.

7 (34) "State elective position" means any position held by any
8 person elected or appointed to statewide office or elected or appointed
9 as a member of the legislature.

10 (35) "State actuary" or "actuary" means the person appointed
11 pursuant to RCW 44.44.010(2).

12 (36) "Substitute teacher" means:

13 (a) A teacher who is hired by an employer to work as a temporary
14 teacher, except for teachers who are annual contract employees of an
15 employer and are guaranteed a minimum number of hours; or

16 (b) Teachers who either (i) work in ineligible positions for more
17 than one employer or (ii) work in an ineligible position or positions
18 together with an eligible position.

19 (37)(a) "Eligible position" for plan 2 members from June 7, 1990,
20 through September 1, 1991, means a position which normally requires two
21 or more uninterrupted months of creditable service during September
22 through August of the following year.

23 (b) "Eligible position" for plan 2 and plan 3 on and after
24 September 1, 1991, means a position that, as defined by the employer,
25 normally requires five or more months of at least seventy hours of
26 earnable compensation during September through August of the following
27 year.

28 (c) For purposes of this chapter an employer shall not define
29 "position" in such a manner that an employee's monthly work for that
30 employer is divided into more than one position.

31 (d) The elected position of the superintendent of public
32 instruction is an eligible position.

33 (38) "Plan 1" means the teachers' retirement system, plan 1
34 providing the benefits and funding provisions covering persons who
35 first became members of the system prior to October 1, 1977.

36 (39) "Plan 2" means the teachers' retirement system, plan 2
37 providing the benefits and funding provisions covering persons who

1 first became members of the system on and after October 1, 1977, and
2 prior to July 1, 1996.

3 (40) "Plan 3" means the teachers' retirement system, plan 3
4 providing the benefits and funding provisions covering persons who
5 first become members of the system on and after July 1, 1996, or who
6 transfer under RCW 41.32.817.

7 (41) "Index" means, for any calendar year, that year's annual
8 average consumer price index, Seattle, Washington area, for urban wage
9 earners and clerical workers, all items compiled by the bureau of labor
10 statistics, United States department of labor.

11 (42) "Index A" means the index for the year prior to the
12 determination of a postretirement adjustment.

13 (43) "Index B" means the index for the year prior to index A.

14 (44) "Index year" means the earliest calendar year in which the
15 index is more than sixty percent of index A.

16 (45) "Adjustment ratio" means the value of index A divided by index
17 B.

18 (46) "Annual increase" means, initially, fifty-nine cents per month
19 per year of service which amount shall be increased each July 1st by
20 three percent, rounded to the nearest cent.

21 (47) "Member account" or "member's account" for purposes of plan 3
22 means the sum of the contributions and earnings on behalf of the member
23 in the defined contribution portion of plan 3.

24 (48) "Separation from service or employment" occurs when a person
25 has terminated all employment with an employer.

26 (49) "Employed" or "employee" means a person who is providing
27 services for compensation to an employer, unless the person is free
28 from the employer's direction and control over the performance of work.
29 The department shall adopt rules and interpret this subsection
30 consistent with common law.

31 **Sec. 5.** RCW 41.32.263 and 1991 c 35 s 41 are each amended to read
32 as follows:

33 A member of the retirement system who is a member of the state
34 legislature or a state official eligible for the combined pension and
35 annuity provided by RCW 41.32.497((~~7~~)) or 41.32.498(~~(7~~~~—~~~~as~~~~—~~~~now~~~~—~~~~or~~
36 ~~hereafter~~~~—~~~~amended~~)) shall have deductions taken from his or her salary
37 in the amount of seven and one-half percent of earnable compensation

1 and that service credit shall be established with the retirement system
2 while such deductions are reported to the retirement system, unless he
3 or she has by reason of his or her employment become a contributing
4 member of another public retirement system in the state of Washington.
5 Such elected official who has retired or otherwise terminated his or
6 her public school service may then elect to terminate his or her
7 membership in the retirement system and receive retirement benefits
8 while continuing to serve as an elected official. A member of the
9 retirement system who had previous service as an elected or appointed
10 official, for which he or she did not contribute to the retirement
11 system, may receive credit for such legislative service unless he or
12 she has received credit for that service in another state retirement
13 system, upon making contributions in such amounts as shall be
14 determined by the (~~board of trustees~~) director.

15 **Sec. 6.** RCW 41.35.030 and 2005 c 131 s 9 are each amended to read
16 as follows:

17 Membership in the retirement system shall consist of all regularly
18 compensated classified employees and appointive and elective officials
19 of employers, as defined in this chapter, with the following
20 exceptions:

21 (1) Persons in ineligible positions;

22 (2)(a) Persons holding elective offices or persons appointed
23 directly by the governor: PROVIDED, That such persons shall have the
24 option of applying for membership during such periods of employment:
25 AND PROVIDED FURTHER, That any persons holding or who have held
26 elective offices or persons appointed by the governor who are members
27 in the retirement system and who have, prior to becoming such members,
28 previously held an elective office, and did not at the start of such
29 initial or successive terms of office exercise their option to become
30 members, may apply for membership to be effective during such term or
31 terms of office, and shall be allowed to establish the service credit
32 applicable to such term or terms of office upon payment of the employee
33 contributions therefor by the employee with interest as determined by
34 the director and employer contributions therefor by the employer or
35 employee with interest as determined by the director: AND PROVIDED
36 FURTHER, That all contributions with interest submitted by the employee
37 under this subsection shall be placed in the employee's individual

1 account in the employee's savings fund and be treated as any other
2 contribution made by the employee, with the exception that any
3 contributions submitted by the employee in payment of the employer's
4 obligation, together with the interest the director may apply to the
5 employer's contribution, shall not be considered part of the member's
6 annuity for any purpose except withdrawal of contributions;

7 (b) A member holding elective office other than state elective
8 office who has elected to apply for membership pursuant to (a) of this
9 subsection and who later (~~wishes to be~~) is eligible for a retirement
10 allowance shall have the option of ending his or her membership in the
11 retirement system. A member (~~wishing to end~~) ending his or her
12 membership under this subsection must file on a form supplied by the
13 department a statement indicating that the member agrees to irrevocably
14 abandon any claim for service for future periods served as an elected
15 official. A member who receives more than fifteen thousand dollars per
16 year in compensation for his or her elective service, adjusted annually
17 for inflation by the director, is not eligible for the option provided
18 by this subsection (2)(b);

19 (c) Any member of the school employees' retirement system plan 2 or
20 plan 3 who is elected to the state legislature has the option during a
21 ninety-day period at the beginning of each term of office either to
22 resume membership or to end membership in the retirement system and if
23 otherwise eligible begin their retirement allowance. A state
24 legislator who chooses to end membership at the beginning of a term of
25 office and begin their retirement allowance shall neither make
26 contributions nor earn service credit for the duration of that term;

27 (d) Any member of the school employees' retirement system plan 2 or
28 plan 3 who is elected to a state elective position other than the state
29 legislature has the option during a ninety-day period at the beginning
30 of each term of office either to resume membership or to end membership
31 in the retirement system and if otherwise eligible begin their
32 retirement allowance. A state elected official other than a state
33 legislator who chooses to end membership at the beginning of a term of
34 office and begin their retirement allowance shall neither make
35 contributions nor earn service credit for the duration of that term;

36 (3) Retirement system retirees: PROVIDED, That following
37 reemployment in an eligible position, a retiree may elect to

1 prospectively become a member of the retirement system if otherwise
2 eligible;

3 (4) Persons enrolled in state-approved apprenticeship programs,
4 authorized under chapter 49.04 RCW, and who are employed by employers
5 to earn hours to complete such apprenticeship programs, if the employee
6 is a member of a union-sponsored retirement plan and is making
7 contributions to such a retirement plan or if the employee is a member
8 of a Taft-Hartley retirement plan;

9 (5) Persons rendering professional services to an employer on a
10 fee, retainer, or contract basis or when the income from these services
11 is less than fifty percent of the gross income received from the
12 person's practice of a profession;

13 (6) Substitute employees, except for the purposes of the purchase
14 of service credit under RCW 41.35.033. Upon the return or termination
15 of the absent employee a substitute employee is replacing, that
16 substitute employee shall no longer be ineligible under this
17 subsection;

18 (7) Employees who (a) are not citizens of the United States, (b) do
19 not reside in the United States, and (c) perform duties outside of the
20 United States;

21 (8) Employees who (a) are not citizens of the United States, (b)
22 are not covered by chapter 41.48 RCW, (c) are not excluded from
23 membership under this chapter or chapter 41.04 RCW, (d) are residents
24 of this state, and (e) make an irrevocable election to be excluded from
25 membership, in writing, which is submitted to the director within
26 thirty days after employment in an eligible position;

27 (9) Employees who are citizens of the United States and who reside
28 and perform duties for an employer outside of the United States:
29 PROVIDED, That unless otherwise excluded under this chapter or chapter
30 41.04 RCW, the employee may apply for membership (a) within thirty days
31 after employment in an eligible position and membership service credit
32 shall be granted from the first day of membership service, and (b)
33 after this thirty-day period, but membership service credit shall be
34 granted only if payment is made for the noncredited membership service
35 under RCW 41.50.165(2), otherwise service shall be from the date of
36 application; and

37 (10) Employees who are removed from membership under RCW 41.35.683
38 or 41.35.423.

1 **Sec. 7.** RCW 41.40.023 and 2005 c 151 s 12 and 2005 c 131 s 7 are
2 each reenacted and amended to read as follows:

3 Membership in the retirement system shall consist of all regularly
4 compensated employees and appointive and elective officials of
5 employers, as defined in this chapter, with the following exceptions:

6 (1) Persons in ineligible positions;

7 (2) Employees of the legislature except the officers thereof
8 elected by the members of the senate and the house and legislative
9 committees, unless membership of such employees be authorized by the
10 said committee;

11 (3)(a) Persons holding elective offices or persons appointed
12 directly by the governor: PROVIDED, That such persons shall have the
13 option of applying for membership during such periods of employment:
14 AND PROVIDED FURTHER, That any persons holding or who have held
15 elective offices or persons appointed by the governor who are members
16 in the retirement system and who have, prior to becoming such members,
17 previously held an elective office, and did not at the start of such
18 initial or successive terms of office exercise their option to become
19 members, may apply for membership to be effective during such term or
20 terms of office, and shall be allowed to establish the service credit
21 applicable to such term or terms of office upon payment of the employee
22 contributions therefor by the employee with interest as determined by
23 the director and employer contributions therefor by the employer or
24 employee with interest as determined by the director: AND PROVIDED
25 FURTHER, That all contributions with interest submitted by the employee
26 under this subsection shall be placed in the employee's individual
27 account in the employee's savings fund and be treated as any other
28 contribution made by the employee, with the exception that any
29 contributions submitted by the employee in payment of the employer's
30 obligation, together with the interest the director may apply to the
31 employer's contribution, shall not be considered part of the member's
32 annuity for any purpose except withdrawal of contributions;

33 (b) A member holding elective office other than state elective
34 office who has elected to apply for membership pursuant to (a) of this
35 subsection and who later (~~wishes to be~~) is eligible for a retirement
36 allowance shall have the option of ending his or her membership in the
37 retirement system. A member (~~wishing to end~~) ending his or her
38 membership under this subsection must file, on a form supplied by the

1 department, a statement indicating that the member agrees to
2 irrevocably abandon any claim for service for future periods served as
3 an elected official. A member who receives more than fifteen thousand
4 dollars per year in compensation for his or her elective service,
5 adjusted annually for inflation by the director, is not eligible for
6 the option provided by this subsection (3)(b);

7 (c) Any member of the public employees' retirement system who is
8 elected to the state legislature has the option during a ninety-day
9 period at the beginning of each term of office either to resume
10 membership or to end membership in the retirement system and if
11 otherwise eligible begin their retirement allowance. A state
12 legislator who chooses to end membership at the beginning of a term of
13 office and begin their retirement allowance shall neither make
14 contributions nor earn service credit for the duration of that term;

15 (d) Any member of the public employees' retirement system who is
16 elected to a state elective position other than the state legislature
17 has the option during a ninety-day period at the beginning of each term
18 of office either to resume membership or to end membership in the
19 retirement system and if otherwise eligible begin their retirement
20 allowance. A state elected official other than a state legislator who
21 chooses to end membership at the beginning of a term of office and
22 begin their retirement allowance shall neither make contributions nor
23 earn service credit for the duration of that term;

24 (4) Employees holding membership in, or receiving pension benefits
25 under, any retirement plan operated wholly or in part by an agency of
26 the state or political subdivision thereof, or who are by reason of
27 their current employment contributing to or otherwise establishing the
28 right to receive benefits from any such retirement plan except as
29 follows:

30 (a) In any case where the retirement system has in existence an
31 agreement with another retirement system in connection with exchange of
32 service credit or an agreement whereby members can retain service
33 credit in more than one system, such an employee shall be allowed
34 membership rights should the agreement so provide;

35 (b) An employee shall be allowed membership if otherwise eligible
36 while receiving survivor's benefits;

37 (c) An employee shall not either before or after June 7, 1984, be
38 excluded from membership or denied service credit pursuant to this

1 subsection solely on account of: (i) Membership in the plan created
2 under chapter 2.14 RCW; or (ii) enrollment under the relief and
3 compensation provisions or the pension provisions of the volunteer fire
4 fighters' relief and pension fund under chapter 41.24 RCW;

5 (d) Except as provided in RCW 41.40.109, on or after July 25, 1999,
6 an employee shall not be excluded from membership or denied service
7 credit pursuant to this subsection solely on account of participation
8 in a defined contribution pension plan qualified under section 401 of
9 the internal revenue code;

10 (e) Employees who have been reported in the retirement system prior
11 to July 25, 1999, and who participated during the same period of time
12 in a defined contribution pension plan qualified under section 401 of
13 the internal revenue code and operated wholly or in part by the
14 employer, shall not be excluded from previous retirement system
15 membership and service credit on account of such participation;

16 (5) Patient and inmate help in state charitable, penal, and
17 correctional institutions;

18 (6) "Members" of a state veterans' home or state soldiers' home;

19 (7) Persons employed by an institution of higher learning or
20 community college, primarily as an incident to and in furtherance of
21 their education or training, or the education or training of a spouse;

22 (8) Employees of an institution of higher learning or community
23 college during the period of service necessary to establish eligibility
24 for membership in the retirement plans operated by such institutions;

25 (9) Persons rendering professional services to an employer on a
26 fee, retainer, or contract basis or when the income from these services
27 is less than fifty percent of the gross income received from the
28 person's practice of a profession;

29 (10) Persons appointed after April 1, 1963, by the liquor control
30 board as contract liquor store managers;

31 (11) Employees of a labor guild, association, or organization:
32 PROVIDED, That elective officials and employees of a labor guild,
33 association, or organization which qualifies as an employer within this
34 chapter shall have the option of applying for membership;

35 (12) Retirement system retirees: PROVIDED, That following
36 reemployment in an eligible position, a retiree may elect to
37 prospectively become a member of the retirement system if otherwise
38 eligible;

1 (13) Persons employed by or appointed or elected as an official of
2 a first class city that has its own retirement system: PROVIDED, That
3 any member elected or appointed to an elective office on or after April
4 1, 1971, shall have the option of continuing as a member of this system
5 in lieu of becoming a member of the city system. A member who elects
6 to continue as a member of this system shall pay the appropriate member
7 contributions and the city shall pay the employer contributions at the
8 rates prescribed by this chapter. The city shall also transfer to this
9 system all of such member's accumulated contributions together with
10 such further amounts as necessary to equal all employee and employer
11 contributions which would have been paid into this system on account of
12 such service with the city and thereupon the member shall be granted
13 credit for all such service. Any city that becomes an employer as
14 defined in RCW 41.40.010(4) as the result of an individual's election
15 under this subsection shall not be required to have all employees
16 covered for retirement under the provisions of this chapter. Nothing
17 in this subsection shall prohibit a city of the first class with its
18 own retirement system from: (a) Transferring all of its current
19 employees to the retirement system established under this chapter, or
20 (b) allowing newly hired employees the option of continuing coverage
21 under the retirement system established by this chapter.

22 Notwithstanding any other provision of this chapter, persons
23 transferring from employment with a first class city of over four
24 hundred thousand population that has its own retirement system to
25 employment with the state department of agriculture may elect to remain
26 within the retirement system of such city and the state shall pay the
27 employer contributions for such persons at like rates as prescribed for
28 employers of other members of such system;

29 (14) Employees who (a) are not citizens of the United States, (b)
30 do not reside in the United States, and (c) perform duties outside of
31 the United States;

32 (15) Employees who (a) are not citizens of the United States, (b)
33 are not covered by chapter 41.48 RCW, (c) are not excluded from
34 membership under this chapter or chapter 41.04 RCW, (d) are residents
35 of this state, and (e) make an irrevocable election to be excluded from
36 membership, in writing, which is submitted to the director within
37 thirty days after employment in an eligible position;

1 (16) Employees who are citizens of the United States and who reside
2 and perform duties for an employer outside of the United States:
3 PROVIDED, That unless otherwise excluded under this chapter or chapter
4 41.04 RCW, the employee may apply for membership (a) within thirty days
5 after employment in an eligible position and membership service credit
6 shall be granted from the first day of membership service, and (b)
7 after this thirty-day period, but membership service credit shall be
8 granted only if payment is made for the noncredited membership service
9 under RCW 41.50.165(2), otherwise service shall be from the date of
10 application;

11 (17) The city manager or chief administrative officer of a city or
12 town, other than a retiree, who serves at the pleasure of an appointing
13 authority: PROVIDED, That such persons shall have the option of
14 applying for membership within thirty days from date of their
15 appointment to such positions. Persons serving in such positions as of
16 April 4, 1986, shall continue to be members in the retirement system
17 unless they notify the director in writing prior to December 31, 1986,
18 of their desire to withdraw from membership in the retirement system.
19 A member who withdraws from membership in the system under this section
20 shall receive a refund of the member's accumulated contributions.

21 Persons serving in such positions who have not opted for membership
22 within the specified thirty days, may do so by paying the amount
23 required under RCW 41.50.165(2) for the period from the date of their
24 appointment to the date of acceptance into membership;

25 (18) Persons serving as: (a) The chief administrative officer of
26 a public utility district as defined in RCW 54.16.100; (b) the chief
27 administrative officer of a port district formed under chapter 53.04
28 RCW; or (c) the chief administrative officer of a county who serves at
29 the pleasure of an appointing authority: PROVIDED, That such persons
30 shall have the option of applying for membership within thirty days
31 from the date of their appointment to such positions. Persons serving
32 in such positions as of July 25, 1999, shall continue to be members in
33 the retirement system unless they notify the director in writing prior
34 to December 31, 1999, of their desire to withdraw from membership in
35 the retirement system. A member who withdraws from membership in the
36 system under this section shall receive a refund of the member's
37 accumulated contributions upon termination of employment or as

1 otherwise consistent with the plan's tax qualification status as
2 defined in internal revenue code section 401.

3 Persons serving in such positions who have not opted for membership
4 within the specified thirty days, may do so at a later date by paying
5 the amount required under RCW 41.50.165(2) for the period from the date
6 of their appointment to the date of acceptance into membership;

7 (19) Persons enrolled in state-approved apprenticeship programs,
8 authorized under chapter 49.04 RCW, and who are employed by local
9 governments to earn hours to complete such apprenticeship programs, if
10 the employee is a member of a union-sponsored retirement plan and is
11 making contributions to such a retirement plan or if the employee is a
12 member of a Taft-Hartley retirement plan;

13 (20) Beginning on July 22, 2001, persons employed exclusively as
14 trainers or trainees in resident apprentice training programs operated
15 by housing authorities authorized under chapter 35.82 RCW, (a) if the
16 trainer or trainee is a member of a union-sponsored retirement plan and
17 is making contributions to such a retirement plan or (b) if the
18 employee is a member of a Taft-Hartley retirement plan; and

19 (21) Employees who are removed from membership under RCW 41.40.823
20 or 41.40.633.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/5/05	Z-0924.1/Z-0965.1

SUMMARY OF BILL:

This bill impacts the Public Employee's Retirement System, School Employee's Retirement System, and Teachers Retirement System by allowing members who retire on or after age seventy and one-half, and who fulfill the 1 month separation requirement, to return to work without restriction; upon receipt of retirement benefits such an individual would cease active membership and no longer make contributions nor receive service credit. Current state elected and appointed officials are exempt from this act unless they leave elected office, or are re-elected after the effective date of the act.

The bill also allows state elective officials the option to continue or resume membership, and if otherwise eligible, retire and receive their retirement allowance at the beginning of each term of office. A state elected official member who chooses to end membership at the beginning of a term of office shall neither make contributions nor earn service credit for the duration of that term.

Effective Date: 90 days after session.

CURRENT SITUATION:

After a one-month separation, PERS, SERS, and TRS 2/3 retirees may return to work for 867 hours per calendar year or school year before their benefit is suspended. PERS 1 members may return to work after a 3-month separation and work up to 1,500 hours per calendar year before their benefit is suspended. TRS 1 members may return to work after a one-month separation and work for up to 1,500 hours per school year before their benefit is suspended.

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receipt of their retirement benefits regardless of age. While the rules for state elected officials vary by system and plan, the Teachers' Retirement System Plan 1 is a notable distinction in permitting state elected officials, if otherwise eligible, to begin their retirement benefit while serving in state elective office.

MEMBERS IMPACTED:

We estimate that potentially all active members in these systems could be affected by the age 70 1/2 portion of this bill. Active members currently over age 70 1/2 would be impacted on the effective date of the bill. This includes 375 out of 156,256 active members in PERS, 31 out of 66,634 in TRS, and 135 out of 49,854 in SERS.

We estimate that relatively few members in these systems could be affected by the opt-in/opt-out portion of this bill, although nearly all members could potentially become elected officials. The opt-in/opt-out portion of the bill would impact the current state elected officials in the systems if they are reelected following the effective date. This includes 148 active members in PERS, 1 in TRS (not including 4 in TRS 1 who already have the opt-in/opt-out provision), and 0 in SERS.

We estimate that a typical member impacted by the age 70 1/2 provision of this bill would receive a benefit of about \$11,700 per year, but would give up additional benefit accruals of about \$1,000 per year. For example, a PERS member who retired at age 74 with 19 years of service would receive an annual benefit of \$13,200; waiting one additional year to retire would result in an annual benefit of \$14,400. A typical SERS member who retired at age 74 with 12 years of service would receive an annual benefit of \$4,600; waiting one additional year to retire would result in an annual benefit of \$5,200. The impact on long service members over age 70 1/2, and not subject to the 30-year service cap, is greater than the impact on short service members.

ASSUMPTIONS:

Our current retirement rate assumptions have all members retiring at age 70 or earlier. The members over 70 1/2 who continue working after we have assumed they will retire, typically produce an actuarial experience gain to the system. In general, the benefits earned for each year of additional service and increases in pay after age 70 are not as valuable as the retirement benefits that could have been received in the year. This is especially true for Plan 1 members who already have hit the 30-year maximum on service.

To determine the cost of the age 70 1/2 provision, we started with an assumption change for the retirement rates at age 70 and beyond. For PERS and SERS, we replaced our 100% retirement assumption at age 70 with 25% per year from age 70 to 81 and 100% at age 82. We did not change the rates before age 70. For TRS, we did not change our 100% assumption at age 70, because the number of active TRS members working past age 70 is not significant compared to PERS and SERS, and the oldest active TRS member is 78, compared to 88 in both PERS and SERS. So we would not expect any significant cost impact for TRS.

For PERS and SERS, we compared the costs of the plans with the new retirement assumption to the costs using an alternative retirement assumption. We increased the 25% rate to 37.5% as an estimate of how many more active members over age 70 1/2 would retire after the bill is effective.

FISCAL IMPACT:

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>		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS	\$ 28,099	\$ 19	\$ 28,118
	TRS	\$ 15,616	\$ 0	\$ 15,616
	SERS	\$ 2,126	\$ 1	\$ 2,127
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS	\$ 2,563	\$ 8	\$ 2,571
	TRS	\$ 1,415	\$ 0	\$ 1,415
	SERS	\$ N/A	\$ N/A	\$ N/A
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS	\$ (673)	\$ 18	\$ (655)
	TRS	\$ (235)	\$ 0	\$ (235)
	SERS	\$ (439)	\$ 1	\$ (438)

Increase in Contribution Rates:
(Effective 9/1/06)

	PERS	TRS	SERS
Current Members			
Employee	0.02%	0.00%	0.01%
Employer State*	0.03%	0.00%	0.02%
New Entrants**			
Employee	0.01%	0.00%	0.00%
Employer State	0.01%	0.00%	0.00%

* 0.01% of the total employer rate increase goes toward amortizing the Plan 1 UAAL.

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

Fiscal Budget Determinations:

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

Costs (in Millions):	<u>PERS</u>	<u>TRS</u>	<u>SERS</u>	<u>Total</u>
2006-2007				
State:				
General Fund	\$0.3	\$0.0	\$0.1	\$0.4
Non-General Fund	<u>\$0.6</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.6</u>
Total State	\$0.9	\$0.0	\$0.1	\$1.0
Local Government	\$0.9	\$0.0	\$0.1	\$1.0
Total Employer	\$1.8	\$0.0	\$0.2	\$2.0
Total Employee	\$0.9	\$0.0	\$0.0	\$0.9
2007-2009				
State:				
General Fund	\$0.8	\$0.0	\$0.2	\$1.0
Non-General Fund	<u>\$1.6</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$1.6</u>
Total State	\$2.4	\$0.0	\$0.2	\$2.6
Local Government	\$2.2	\$0.0	\$0.4	\$2.6
Total Employer	\$4.6	\$0.0	\$0.6	\$5.2
Total Employee	\$2.2	\$0.0	\$0.1	\$2.3
2006-2031				
State:				
General Fund	\$13.9	\$0.0	\$2.2	\$16.1
Non-General Fund	<u>\$25.4</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$25.4</u>
Total State	\$39.3	\$0.0	\$2.2	\$41.5
Local Government	\$35.4	\$0.0	\$3.6	\$39.0
Total Employer	\$74.7	\$0.0	\$5.8	\$80.5
Total Employee	\$31.5	\$0.0	\$0.6	\$32.1

State Actuary's Comments:

The postponed retirements after age 70 1/2 currently produce actuarial gains. The age 70 1/2 portion of the bill would reduce these gains. The opt-in/opt-out provision of the bill would apply to a small group of members and the associated cost would be insufficient to increase rates.

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 Teacher's Retirement System, School Employees' Retirement System, and Public Employees' Retirement System.
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: The retirement rate assumptions for PERS and SERS were changed. The retirement rate of 100% at age 70 was changed to 25% from age 70 to 81 and 100% at age 82.
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. 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.