Washington State Legislature

The Select Committee on Pension Policy

2005 INTERIM ISSUES

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Select Committee on Pension Policy

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January 2006
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2006 SCPP Request Legislation Summary

(December 20, 2005)

1. **$1,000 Minimum Benefit:** Establishes a $1,000 minimum benefit in the Plans 1 of PERS and TRS for those with at least 20 years of service and who have been retired at least 25 years; provides a 3 percent escalator for both $1,000 minimum benefits (the other being the $1,000 minimum benefit already available to those with 25 years of service and who have been retired 20 years).

2. **Age 66 COLA:** Amends the Uniform COLA eligibility requirements of the PERS and TRS Plans 1 to include all retirees who have been retired one year and will have attained age 66 by December 31 (instead of July 1) of the calendar year in which the increase is given.

3. **Contribution Rate Floors:** Beginning July 1, 2009, establishes minimum employer contribution rates for the Plan 1 UAAL in PERS and TRS, as well as minimum employer and member contribution rates for the Plans 2/3 normal cost in PERS, TRS, and SERS.

4. **Judges Benefit Multiplier:** Allows judges to discontinue participation in the judicial retirement account plan and use their contributions to enhance their benefits in the Plans 1, 2, and 3 of PERS and Plan 1 of TRS.

5. **LEOFF Plan 1:** Repeals the LEOFF 1 benefit cap as of July 1, 2006; reinstates contribution rates July 1, 2007, (6 percent member and 6 percent employer); forms a work group led by DRS working in concert with HCA to select and implement one or more funding vehicles for post-retirement medical benefits.

6. **Optional Membership and Distributions:** Creates the ability to receive a pension and work without restriction after age 70½ in PERS, TRS, and SERS; allows state elected officials to, at the beginning of each term of office, opt to continue active retirement system membership or retire and receive a pension.

7. **Plan 1 Unfunded Liability:** Establishes a three-year phase-in for contribution rates for the Plan 1 Unfunded Actuarial Accrued Liability (Plan 1 UAAL) in PERS and TRS.

8. **Plan 3 Vesting:** Establishes five-year vesting for the Plans 3 of PERS, SERS and TRS.

9. **Post-retirement Employment:** Requires employers utilizing the expanded retire-rehire program in the Plans 1 of PERS and TRS to hire retirees pursuant to a written policy; applies the following to TRS 1 (in order to provide consistency with PERS 1): prohibition of prior agreements, documentation of need, and documentation of the hiring process.

10. **PSERS Eligibility:** Redefines PSERS eligibility in a manner that is based on job duties rather than job titles; adds two new PSERS employers (DNR and DSHS).

11. **Purchasing Additional Service Credit:** Authorizes retirement system members in all plans to purchase up to five years of "air time" at full actuarial cost in order to obtain an additional annuity.

12. **Rule of 90:** Provides unreduced retirement benefits to any vested member of the TRS, SERS, and PERS Plans 2/3 for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more.

13. **TRS Out-of-State State Service Credit:** Authorizes members of TRS Plans 2 and 3 to purchase up to seven years of membership service credit for education experience in another state or with the federal government.

14. **Washington State Patrol Contribution Rates:** Changes the cost-sharing formula from a fifty-fifty member to employer split (with a 2 percent member minimum) to an allocation formula by which members pay one-third with a 7 percent cap and employers pay the balance; also establishes a minimum total contribution rate for the WSPRS.

2006 SCPP Request Legislation

(December 16, 2005)

(Cost in Millions)	2006-7 GF-S	2006-7 Local	2006-7 Total ER
Plan 3 Vesting			
PERS	$0.2	$0.5	$1.1
TRS	$0.9	$0.5	$1.4
SERS	$0.4	$0.6	$1.0
Total	$1.5	$1.6	$3.5
TRS Out-of-State Service			
TRS	$1.4	$0.8	$2.2
LEOFF 1			
LEOFF 1	$0.0	$0.0	$0.0
Plan 1 Unfunded Liability			
PERS	$14.0	$33.0	$70.1
TRS	$34.2	$18.8	$53.0
SERS	$4.5	$6.8	$11.3
Total	$52.7	$58.6	$134.4
WSP Contribution Rates			
WSP	$0.0	$0.0	$1.1
PSERS Eligibility*			
PERS	$0.0	$0.0	$0.0
PSERS	$0.5	$0.0	$0.5
Total	$0.5	$0.0	$0.5
** No impact to retirement system; DSHS and DNR impact only*			
Optional Membership and Distributions			
PERS	$0.3	$0.9	$1.8
TRS	$0.0	$0.0	$0.0
SERS	$0.1	$0.1	$0.2
Total	$0.4	$1.0	$2.0
Age 66 COLA			
PERS	$0.4	$0.9	$2.0
TRS	$1.6	$0.9	$2.5
SERS	$0.2	$0.2	$0.4
Total	$2.2	$2.0	$4.9
Rule of 90 for Plan 2/3			
PERS	$7.1	$19.2	$40.3
TRS	$24.3	$13.4	$37.7
SERS	$2.6	$3.9	$6.5
Total	$34.0	$36.5	$84.5
$1,000 Minimum			
PERS	$0.1	$0.3	$0.6
TRS	$0.3	$0.1	$0.4
SERS	$0.1	$0.1	$0.2
Total	$0.5	$0.5	$1.2
Grand Total - All Proposals**			
All Systems	$93.2	$101.0	$234.3

*** All other proposals have no fiscal impact*

(Cost in Millions)	2007-9 GF-S	2007-9 Local	2007-9 Total ER
Plan 3 Vesting			
PERS	$0.6	$1.5	$3.2
TRS	$2.1	$1.1	$3.2
SERS	$1.1	$1.7	$2.8
Total	$3.8	$4.3	$9.2
TRS Out-of-State Service			
TRS	$3.3	$1.6	$4.9
LEOFF 1			
LEOFF 1	$0.0	$2.2	$2.2
Plan 1 Unfunded Liability			
PERS	($15.0)	($35.3)	($75.1)
TRS	($38.4)	($19.2)	($57.6)
SERS	($5.6)	($8.4)	($14.0)
Total	($59.0)	($62.9)	($146.7)
WSP Contribution Rates			
WSP	$0.2	$0.0	$3.7
PSERS Eligibility*			
PERS	$0.0	$0.0	$0.0
PSERS	$0.8	$0.0	$0.8
Total	$0.8	$0.0	$0.8
** No impact to retirement system; DSHS and DNR impact only*			
Optional Membership and Distributions			
PERS	$0.8	$2.2	$4.6
TRS	$0.0	$0.0	$0.0
SERS	$0.2	$0.4	$0.6
Total	$1.0	$2.6	$5.2
Age 66 COLA			
PERS	$1.0	$2.5	$5.2
TRS	$3.5	$1.8	$5.3
SERS	$0.4	$0.6	$1.0
Total	$4.9	$4.9	$11.5
Rule of 90 for Plan 2/3			
PERS	$17.3	$46.7	$98.0
TRS	$52.4	$26.2	$78.6
SERS	$6.0	$9.0	$15.0
Total	$75.7	$81.9	$191.6
$1,000 Minimum			
PERS	$0.4	$0.8	$1.8
TRS	$0.6	$0.3	$0.9
SERS	$0.2	$0.2	$0.4
Total	$1.2	$1.3	$3.1
Grand Total - All Proposals**			
All Systems	$31.9	$35.9	$85.5

*** All other proposals have no fiscal impact*

(Cost in Millions)	25 Year GF-S	25 Year Local	25 Year Total ER
Plan 3 Vesting			
PERS	$24.0	$63.8	$134.2
TRS	$70.7	$35.2	$105.9
SERS	$48.9	$73.7	$122.6
Total	$143.6	$172.7	$362.7
TRS Out-of-State Service			
TRS	$88.9	$44.5	$133.4
LEOFF 1			
LEOFF 1	$0.0	$4.2	$4.2
Plan 1 Unfunded Liability			
PERS	($1.0)	($2.3)	($5.0)
TRS	($4.2)	($0.4)	($4.6)
SERS	($1.1)	($1.6)	($2.7)
Total	($6.3)	($4.3)	($12.3)
WSP Contribution Rates			
WSP	$3.3	$0.0	$114.7
PSERS Eligibility*			
PERS	($2.8)	$0.0	($2.8)
PSERS	$9.9	$0.0	$9.9
Total	$7.1	$0.0	$7.1
** No impact to retirement system; DSHS and DNR impact only*			
Optional Membership and Distributions			
PERS	$13.9	$35.4	$74.7
TRS	$0.0	$0.0	$0.0
SERS	$2.2	$3.6	$5.8
Total	$16.1	$39.0	$80.5
Age 66 COLA			
PERS	$14.7	$34.2	$73.2
TRS	$48.5	$24.2	$72.7
SERS	$5.5	$8.1	$13.6
Total	$68.7	$66.5	$159.5
Rule of 90 for Plan 2/3			
PERS	$267.8	$719.7	$1,511.5
TRS	$924.2	$464.1	$1,388.3
SERS	$90.4	$135.7	$226.1
Total	$1,282.4	$1,319.5	$3,125.9
$1,000 Minimum			
PERS	$4.9	$11.3	$24.3
TRS	$8.0	$4.0	$12.0
SERS	$1.9	$2.6	$4.5
Total	$14.8	$17.9	$40.8
Grand Total - All Proposals**			
All Systems	$1,618.6	$1,660.0	$4,016.5

** All other proposals have no fiscal impact

Background

This benefit was originally a component in the gain-sharing trade-off proposal recommended by the Select Committee on Pension Policy (SCPP) to the 2005 legislature (HB 1324). Analysis on this issue was provided in the 2004 Interim Issues Report under the *Plan 1 COLA / Gain-sharing Purchasing Power Subgroup Proposal*. In the gain-sharing deliberations during the 2005 interim, the SCPP recommended that a number of the components that had been included in HB 1324, including expanding eligibility for the PERS 1 and TRS 1 $1,000 alternative minimum, be forwarded to the 2006 legislature as free-standing legislative proposals.

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

Committee Activity

Presentation:
December 13, 2005 – Full Committee

Proposal:
December 13, 2005 - Full Committee

Recommendation to Legislature

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

Staff Contact

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BILL REQUEST - CODE REVISER'S OFFICE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

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

SUMMARY OF BILL:

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

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

Effective Date: July 1, 2006

CURRENT SITUATION:

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

MEMBERS IMPACTED:

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

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

FISCAL IMPACT:

Description:

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

Actuarial Determinations:

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

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

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

Fiscal Budget Determinations:

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

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

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Teachers' Retirement System and Public Employees' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the Systems will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Benefit improvement rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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

Background

This proposal was recently a component in the gain-sharing trade-off legislation recommended by the Select Committee on Pension Policy (SCPP) to the 2005 legislature (HB 1324). Analysis on this issue was provided in the 2004 Interim Issues Report under the *Plan 1 COLA / Gain-sharing Purchasing Power Subgroup Proposal* issue paper. In the gain-sharing deliberations during the 2005 interim, the SCPP recommended that a number of the components that had been included in HB 1324, including the Age 66 COLA, be forwarded to the 2006 legislature as free-standing legislative proposals.

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1 to be eligible for the adjustment paid on July 1.

Committee Activity

Presentation:
December 13, 2005 – Full Committee

Proposal:
December 13, 2005 - Full Committee

Recommendation to Legislature

Amend Uniform COLA eligibility to include all PERS 1 and TRS 1 retirees who have been retired one year and will have attained age 66 by December 31 of the calendar year in which the increase is given.

Staff Contact

Robert Wm. Baker, Senior Research Analyst
360.786.6144; baker.robert@leg.wa.gov

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0942.1/06

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Providing annual increases in certain retirement allowances.

AN ACT Relating to public employees' retirement system, plan 1 and teachers' retirement system, plan 1 age and retirement requirements for receipt of the annual increase amount; amending RCW 41.40.197 and 41.32.489; and providing an effective date.

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

Sec. 1. RCW 41.40.197 and 2005 c 327 s 8 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary who has received a retirement allowance for at least one year by July 1st in the calendar year in which the annual increase is given and has attained at least age sixty-six by ((~~July 1st~~)) December 31st in the calendar year in which the annual increase is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.40.1984.

(3) If otherwise eligible, those receiving an annual adjustment under RCW 41.40.188(1)(c) shall be eligible for the annual increase adjustment in addition to the benefit that would have been received absent this section.

(4) Those receiving a benefit under RCW 41.40.220(1), or a survivor of a disabled member under RCW 41.44.170(5) shall be eligible for the benefit provided by this section.

(5) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

Sec. 2. RCW 41.32.489 and 1995 c 345 s 2 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary who has received a retirement allowance for at least one year by July 1st in the calendar year in which the annual increase is given and has attained at least age sixty-six by ((~~July 1st~~)) December 31st in the calendar year in which the annual increase is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.32.4851.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.32.485; or

(b) A recipient of a survivor benefit on June 30, 1995, which has been increased by RCW 41.32.575.

(4) If otherwise eligible, those receiving an annual adjustment under RCW 41.32.530(1)(d) shall be eligible for the annual increase adjustment in addition to the benefit that would have been received absent this section.

(5) Those receiving a temporary disability benefit under RCW

41.32.540 shall not be eligible for the benefit provided by this section.

(6) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

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

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/19/05	Z-0942.1/Z-1015.1

SUMMARY OF BILL:

This legislation impacts the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) by amending Uniform COLA eligibility requirements to include all retirees who have been retired one year and will have attained age 66 by December 31st of the calendar year in which the increase is given.

Effective Date: July 1, 2006

CURRENT SITUATION:

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1st to be eligible for the adjustment paid on July 1st. The Uniform COLA increase amount for 2006 will be $1.29 per month/per year of service. This amount increases by at least 3% per year.

MEMBERS IMPACTED:

This bill will impact half the members in PERS 1 and TRS 1 under age 65–approximately 16,178 PERS 1 and 11,283 TRS 1 members. The table below shows membership by age and status.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	11,499	34,624
Actives	9,620	9,862
Terminated & Vested	1,446	1,475

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	12,610	54,568
Actives	16,893	17,829
Terminated & Vested	2,854	2,993

A typical member impacted will receive the Uniform COLA one year earlier. In 2006, this amounts to an additional $387 for a retiree with 25 years of service.

ASSUMPTIONS:

PERS and TRS Plan 1 members under the age of 65 whose birth date falls between July 2 and December 31 will receive the Uniform COLA one year earlier under this bill. We assumed that one-half of the PERS 1 and TRS 1 members currently under the age of 65 fall into this group and will be eligible to receive the Uniform COLA one year earlier.

FISCAL IMPACT:

Description:

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

Actuarial Determinations:

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

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 1	$12,818	$34	$12,852
(The Value of the Total Commitment to all Current Members)	TRS 1	$10,360	$30	$10,390
Unfunded Actuarial Accrued Liability	PERS 1	$2,563	$34	$2,597
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	$1,415	$30	$1,445
Unfunded Liability (PBO)	PERS 1	$2,254	$32	$2,286
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 1	$1,192	$29	$1,221

Increase in Contribution Rates: (Effective 09/01/06 unless indicated otherwise)	PERS/ SERS	TRS
Employee	0.00%	0.00%
Employer State	0.03%	0.06%

Fiscal Budget Determinations:

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

Costs (in Millions):	PERS	TRS	SERS	Total
2006-2007				
State:				
General Fund	$0.4	$1.6	$0.2	$2.2
Non-General Fund	$0.7	$0.0	$0.0	$0.7
Total State	**$1.1**	**$1.6**	**$0.2**	**$2.9**
Local Government	$0.9	$0.9	$0.2	$2.0
Total Employer	$2.0	$2.5	$0.4	$4.9
Total Employee	$0.0	$0.0	$0.0	$0.0
2007-2009				
State:				
General Fund	$1.0	$3.5	$0.4	$4.9
Non-General Fund	$1.7	$0.0	$0.0	$1.7
Total State	**$2.7**	**$3.5**	**$0.4**	**$6.6**
Local Government	$2.5	$1.8	$0.6	$4.9
Total Employer	$5.2	$5.3	$1.0	$11.5
Total Employee	$0.0	$0.0	$0.0	$0.0
2006-2031				
State:				
General Fund	$14.7	$48.5	$5.5	$68.7
Non-General Fund	$24.3	$0.0	$0.0	$24.3
Total State	**$39.0**	**$48.5**	**$5.5**	**$93.0**
Local Government	$34.2	$24.2	$8.1	$66.5
Total Employer	$73.2	$72.7	$13.6	$159.5
Total Employee	$0.0	$0.0	$0.0	$0.0

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Teachers' Retirement System and Public Employees' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the Systems will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Benefit improvement rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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

RECEIVED

JUL 1 2 2005

Office of the Governor

Charles Harkins
16801 lakeside Drive
Spanaway, Washington 98387
253-537-9714
eaharkins@juno.com

Referred to DRS on 10/7.

July 7, 2005

Governor Christine Gregoire
P.O. Box 40002
Olympia, Washington 98504-0002

Dear Governor:

I wrote you in January 2005, but I didn't receive a reply. I know a new Governor has many obligations, so I will try again.

My January letter asked that as you put your 2005-06 budget together that you would give Teacher Retirees (Plan I) the same COLA as elected officials, state employees, your cabinet, etc. Active teachers, state workers, legislators, your cabinet and YOU all received raises. Plan I Teacher Retirees did not. Worse yet, the State took the 200 million that should have gone into the Plan I Retirement Fund and spent it on other "needs".

Did your salary increase come out of that 200 million - your cabinets? As usual Plan I Retirees were told, NO, there isn't enough money! The State took in 7% more this past year than the year before, but obviously not enough to give us a fair raise.

The Retirees negotiated in "good faith" with the State (SCPP) Committee. We thought we had a deal in which we would give up "Gain Sharing" in exchange for a guaranteed COLA formula. We gave up "Gain Sharing" and as far as I know we received nothing in return. I guess this leaves more money in the budget to fund other peoples COLAs. This is totally unfair.

I would like you or someone you appoint to compare Washington's Retiree pay, COLAs, medical allowances, etc. with the other 49 states. I would imagine that this information is already available to the Retirement Department. I would also guess that Washington is in the lower 50%. Look at when they get a COLA (in Washington it's not before 66), what is their COLA, when does it start?

Governor, the cost of living has gone up approximately 40-50% since I retired in 1991. I have received 3 - 4 % increase in all those 14 years. My check is actually much less since medical cost have steadily increased. My wife and I are served by Puget Energy. They routinely ask for rate increases and get them via the Washington Utilities and Transportation Commission. Part of these raises go to give annual raises to their employees. The Washington Ferry System gets increases to fund raises for their employees. This pattern is true no matter what you do for a living (carpenter, plumber, electrician, lawyer, doctor, etc. etc. When Teacher Retirees want a raise we must plead with the Governor and Legislature and the answer is usually NO or we receive less than a fair increase.

You frequently say how important the teachers are to the citizens of the State. I would think that this concept would apply to Retired Teachers as well. Retired Teachers could receive a fair COLAs for less that ½ of 1% of the State Educational Budget if our service to the children of the people of the State of Washington was valued as it should be.

Thank you,

Charles Harkins

Charles Harkins

Citizen
Response
Tracking
Log: 604680

Office of the Governor
Mail Stop: 40002
(360) 753-6780

7/13/05
2:50 pm
Page 1

REFERRAL DIRECTIONS*

Referred To: **Casey Rundquist - CRT Analyst/Writer**

Action: **Respond as you deem appropriate (letter, phone call, director signature, etc.) Please return the original letter, the referral sheet, and copy of reply to constituent services. If you have replied by email, please send us a copy of your reply by email.**

Comments: Questions and comments about Teacher Retirees (Plan 1) Benefits.

Referral Date: 7/13/2005 **DUE BACK: 7/27/2005**

Return To: Tracie Schaefer 902-0674 SMTP:tracie.schaefer@gov.wa.gov

* FOR COMPLETE DIRECTIONS REFER TO CITIZEN RESPONSE TEAM GUIDELINES.

CONTACT INFORMATION

From: Charles Harkins
16801 Lakeside Dr S
Spanaway, WA 98387
eaharkins@juno.com

Contact Date: 7/11/2005
Contact Type: Mail

Phone(s): Home 1 (253) 537-9714

Categories:	STATEGOV	
Batch: 0	BENE-RET	Log: 604680

TMS

STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS
PO Box 48380 • Olympia WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

October 25, 2005

Charles Harkins
16801 Lakeside Drive
Spanaway, Washington 98387

RECE[illegible]D
OCT 27 2005
Office of
The State Actuary

Dear Mr. Harkins:

Thank you sharing your concerns about cost of living adjustments (COLA's) and gain sharing for retired teachers enrolled in Plan 1. Thank you also for your patience in our reply. Governor Gregoire has asked me to respond directly to you regarding your comments and questions.

I understand your concern about the increasing costs of living, especially as medical costs continue to escalate. We have received similar comments from other Plan I retirees and members about that plan's provisions for maintaining purchasing power.

The State of Washington sponsors a total of 14 different pension plans in 7 systems. Each of these plans are a reflection of the era in which they were created, often differing in provisions such as retirement age eligibility, disability retirement benefits, COLA's, etc. The PERS and TRS Plans I, for example, include a COLA that increases at a slower rate than the Plans 2, but a richer benefit package overall.

Changing the pension plans will always present a challenge because of the obvious cost impacts. The state legislature is the decision-making authority for changes to the plans such as the one you are suggesting. They created the Select Committee on Pension Policy (SCPP) three years ago to review all prospective changes to the plans and make recommendations. In addition to legislators, the Director of the Office of Financial Management (OFM) and myself, the SCPP includes individuals from groups such as the Washington Education Association to represent plan member interests and concerns.

The SCPP forwarded a proposal to the legislature during the last session for a permanent 20-cent increase to the Plan I uniform COLA. That proposal was not adopted by the legislature. Instead, the legislature requested the SCPP conduct a study about a comprehensive exchange of benefits in lieu of gain sharing. That study is to be completed by December 31, 2005.

Plans I COLAs are being discussed as part of this study. I am forwarding your letter and my response to the Office of the State Actuary (OSA) so that your concern can be registered again. You may want to take the additional step of contacting your legislators, as the legislature is the final decision-making authority. If you would like your legislators to know how you feel about this subject, you can do so by calling the legislative hotline at 1-800-562-6000. You might also consider contacting the Washington State School Retirees Association, an organization that actively advocates for retirees with the legislature.

Thank you again for sharing your concern. I hope I have provided you with new information that reflects that your concern has at least been heard, even if not yet addressed. If you have any additional questions, please do not hesitate to contact me at (360) 664-7312, or Dave Nelsen, Assistant Director, at (360) 664-7304.

Sincerely,

Sandy Matheson

Sandra J. Matheson
Director

cc: Governor Gregoire

November 18, 2005

RECEIVED

NOV 22 2005

Office of
The State Actuary

Governor Christine Gregoire
P.O.Box 40002
Olympia WA 98504-0002

Dear Governor,

I want to commend you for taking a firm stand against the federal government's effort to cut spending for a waste treatment plant at the Hanford Nuclear reservation. I agree that it is unconscionable for the federal government to break its commitment to clean up the Hanford project.

I also would like to request that your budget director be directed to place a line item budget amount into the 2006 supplemental budget to provide for the "buy out of gain sharing", a 1998 legislative commitment to active and retirees of Plan I and Plan III members of the state retirement system to share in what was called extra ordinary gains.

Gain sharing was a good faith legislative commitment to share with active and retirees when the investment market exceeded a 10% average return over four years. This past session the legislature had prepared legislation, HB1043 to repeal the "gain sharing" benefit that was previously negotiated in good faith and approved as an active and retiree benefit. Gain sharing is a part of the COLA benefit to reduce the loss of purchasing power for Plan I retirees.

On 11/2/05 the Select Committee on Pension Policy received an Attorney General's opinion on gain sharing which stated that gain sharing is not a contractual right. If the legislature decides to repeal gain sharing as it proposed last session, in HB 1043, it is only appropriate that an agreed upon buy out replacement benefit be provided. It would be unconscionable for the legislature to repeal this legislative approved benefit without a mutually agreed replacement benefit.

Please place a good faith budget estimate as a line item in your supplemental budget which would be used for the buy out of the gain sharing benefit.

I repeat, it would be unconscionable for the legislature to repeal this benefit without an acceptable replacement benefit. The legislature has for too many years used under funding of the pension system to balance the state budget.

Sincerely,

Robert Warnecke

Robert Warnecke
Past Legislative Chair
Washington School Retirees Association
1033 South 9th Street
Mount Vernon, WA 98274

copy to: Representative Bill Fromhold
Chair SCPP

Contribution Rate Floors

Background

This matter came before the SCPP on recommendation of the Chair at the December 13, 2005, meeting. The 2005 Plan 1 Unfunded Liability subgroup had recommended minimum contribution rates (or rate floors) for the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) for PERS and TRS beginning in 2009. The Chair recommended that the rate floors be removed from the bill addressing the Plan 1 UAAL and be included in a separate bill with rate floors not only for the Plan 1 UAAL, but also for the Plan 2/3 normal cost of PERS, SERS and TRS. (A rate floor for PSERS is not included, as it is premature. PSERS is a new plan that becomes effective July 1, 2006.)

This proposal is consistent with the SCPP's 2005 legislative proposal to adopt minimum contribution rates which function as a floor beneath which contribution rates are not intended to drop. It addresses contribution rate adequacy, an issue that was studied by the SCPP in the 2004 interim as part of "Contribution Rate Setting." (See Tab C of the 2004 Interim Issues Report.)

Committee Activity

Proposal:

December 13, 2005 – Full Committee

Recommendation to Legislature

Adopt minimum contribution rates beginning July 1, 2009, for the Plan 1 UAAL in PERS and TRS and the Plan 2/3 normal cost for PERS, TRS, and SERS.

Staff Contact

Laura Harper, Senior Research Analyst, Legal
360.786.6145; harper.laura@leg.wa.gov

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-1009.1/06

ATTY/TYPIST: LL:mos

BRIEF DESCRIPTION: Establishing minimum contribution rates for the public employees' retirement system, the public safety employees' retirement system, the school employees' retirement system, and the teachers' retirement system.

AN ACT Relating to minimum contribution rates for the public employees' retirement system, the public safety employees' retirement system, the school employees' retirement system, and the teachers' retirement system; reenacting and amending RCW 41.45.020; adding new sections to chapter 41.45 RCW; and providing an effective date.

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

Sec. 1. RCW 41.45.020 and 2004 c 242 s 37 and 2004 c 93 s 1 are each reenacted and amended to read as follows:

As used in this chapter, the following terms have the meanings indicated unless the context clearly requires otherwise.

(1) "Council" means the pension funding council created in RCW 41.45.100.

(2) "Department" means the department of retirement systems.

(3) "Law enforcement officers' and fire fighters' retirement system plan 1" and "law enforcement officers' and fire fighters' retirement system plan 2" means the benefits and funding provisions under chapter 41.26 RCW.

(4) "Public employees' retirement system plan 1," "public

employees' retirement system plan 2," and "public employees' retirement system plan 3" mean the benefits and funding provisions under chapter 41.40 RCW.

(5) "Teachers' retirement system plan 1," "teachers' retirement system plan 2," and "teachers' retirement system plan 3" mean the benefits and funding provisions under chapter 41.32 RCW.

(6) "School employees' retirement system plan 2" and "school employees' retirement system plan 3" mean the benefits and funding provisions under chapter 41.35 RCW.

(7) "Washington state patrol retirement system" means the retirement benefits provided under chapter 43.43 RCW.

(8) "Unfunded liability" means the unfunded actuarial accrued liability of a retirement system.

(9) "Actuary" or "state actuary" means the state actuary employed under chapter 44.44 RCW.

(10) "State retirement systems" means the retirement systems listed in RCW 41.50.030.

(11) "Classified employee" means a member of the Washington school employees' retirement system plan 2 or plan 3 as defined in RCW 41.35.010.

(12) "Teacher" means a member of the teachers' retirement system as defined in RCW 41.32.010(15).

(13) "Select committee" means the select committee on pension policy created in RCW 41.04.276.

(14) "Actuarial value of assets" means the value of pension plan investments and other property used by the actuary for the purpose of an actuarial valuation.

(15) "Public safety employees' retirement system plan 2" means the benefits and funding provisions established under chapter 41.37 RCW.

<u>(16) "Normal cost" means the portion of the actuarial present value of projected benefits and expenses that is allocated to a period, typically twelve months, under the actuarial cost method.</u>

<u>NEW SECTION.</u> **Sec. 2.** A new section is added to chapter 41.45 RCW to read as follows:

(1) Beginning July 1, 2009, a minimum 2.68 percent contribution is established as part of the basic state and employer contribution rate for the public employees' retirement system and the public safety

employees' retirement system, to be used for the sole purpose of amortizing the unfunded actuarial accrued liability in the public employees' retirement system plan 1. This minimum contribution rate shall remain effective until the actuarial value of assets in plan 1 of the public employees' retirement system equals one hundred twenty-five percent of the actuarial accrued liability or June 30, 2024, whichever comes first.

(2) Beginning September 1, 2009, a minimum 2.68 percent contribution is established as part of the basic state and employer contribution rate for the school employees' retirement system, to be used for the sole purpose of amortizing the unfunded actuarial accrued liability in the public employees' retirement system plan 1. This minimum contribution rate shall remain effective until the actuarial value of assets in plan 1 of the public employees' retirement system equals one hundred twenty-five percent of the actuarial accrued liability or June 30, 2024, whichever comes first.

(3) Beginning September 1, 2009, a minimum 4.71 percent contribution is established as part of the basic state and employer contribution rate for the teachers' retirement system, to be used for the sole purpose of amortizing the unfunded actuarial accrued liability in the teachers' retirement system plan 1. This minimum contribution rate shall remain effective until the actuarial value of assets in plan 1 of the teachers' retirement system equals one hundred twenty-five percent of the actuarial accrued liability or June 30, 2024, whichever comes first.

(4) Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of these minimum contribution rates and recommend to the legislature any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience.

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

(1) Beginning July 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic state and employer contribution rate for the public employees' retirement system. The minimum contribution rate for the plans 2 and

3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method.

(2) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic state and employer contribution rate for the school employees' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method.

(3) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the basic state and employer contribution rate for the teachers' retirement system. The minimum contribution rate for the plans 2 and 3 employer normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employer normal cost as calculated under the entry age normal cost method.

(4) Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of these minimum contribution rates and recommend to the legislature any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience.

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

(1) Beginning July 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the public employees' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(2) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the school employees' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required

to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(3) Beginning September 1, 2009, a minimum contribution rate is established for the plans 2 and 3 normal cost as part of the required contribution rate for members of plan 2 of the teachers' retirement system. The minimum contribution rate for the plans 2 and 3 employee normal cost shall equal the total contribution rate required to fund eighty percent of the plans 2 and 3 employee normal cost as calculated under the entry age normal cost method.

(4) Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of these minimum contribution rates and recommend to the legislature any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience.

NEW SECTION. **Sec. 5.** This act takes effect July 1, 2009.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/21/05	Z-1008.1 / Z-1009.1

SUMMARY OF BILL:

This bill impacts the Plans 1 of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) by providing minimum contribution rates for paying the unfunded actuarial accrued liability (UAAL) in those plans. These minimum rates would become effective in 2009, and would remain in effect until the target funding ratio of 125% is achieved or the amortization date of June 30, 2024 is reached, whichever comes first.

The proposed legislation would also impact the Plans 2 and 3 of PERS, TRS and the School Employees' Retirement System (SERS) by establishing minimum employer contribution rates for the Plan 2/3 normal cost. These minimum contribution rates would equal the total contribution rate required to fund eighty percent of the Plan 2/3 employer normal cost as calculated under the entry age normal cost method. Similarly, minimum contribution rates would be established for Plan 2 members of PERS, TRS and SERS. These rates would equal the total contribution rate required to fund eighty percent of the Plan 2/3 employee normal cost as calculated under the entry age normal cost method. [It should be noted that this calculation does not change the underlying cost method for the Plans 2/3, which remains the aggregate funding method. Also, it should be noted that the Public Safety Employees' Retirement System (PSERS) is not included due to the fact that it is not effective until July 1, 2006, and it is too soon to reliably establish minimum contribution rates for that plan.]

The bill adds the definition of "normal cost" to the actuarial funding chapter. "Normal cost" is defined as "the portion of the actuarial present value of projected benefits and expenses that is allocated to a period, typically twelve months, under the actuarial cost method."

Effective Date: July 1, 2009

CURRENT SITUATION:

Payments to amortize the Plan 1 UAAL are normally collected as a component of employer contribution rates. According to current funding policy, unfunded liability for the Plans 1 is spread among all PERS, TRS, SERS and PSERS employers. This unfunded liability is also spread over time. Current funding policy requires that the UAAL be fully amortized by June 30, 2024. Payments for the Plan 1 UAAL have been suspended for the current biennium, and were suspended in the previous biennium. Regular payments are scheduled to resume July 1, 2007.

The Plan 2/3 normal cost is not currently subject to minimum contribution rates (or rate "floors"). It is collected as a component of Plan 2 and 3 employer contribution rates and Plan 2 member contribution rates.

MEMBERS IMPACTED:

The bill would impact all members of PERS, TRS and SERS by establishing minimum employer contribution rates in 2009. Similarly, minimum contribution rates would be established for Plan 2 members of PERS, TRS and SERS in 2009.

PERS Members	Plan 1	Plan 2	Plan 3	Total
Receiving a Benefit	54,568	12,106	222	66,896
Actives	17,829	118,572	19,855	156,256
Terminated & Vested	2,993	16,754	1,284	21,031

TRS Members	Plan 1	Plan 2	Plan 3	Total
Receiving a Benefit	34,624	1,127	541	36,292
Actives	9,862	7,470	49,302	66,634
Terminated & Vested	1,475	2,510	2,761	6,746

SERS Members	Plan 1	Plan 2	Plan 3	Total
Receiving a Benefit	0	1,097	481	1,578
Actives	0	20,424	29,430	49,854
Terminated & Vested	0	2,428	2,035	4,463

ASSUMPTIONS:

We project that the contribution rates for the amortization of the PERS and TRS Plan 1 UAAL and the normal cost rates for PERS, TRS and SERS Plans 2 and 3 beginning in 2009, will exceed the minimum rates, or floors in the bill throughout the remainder of the amortization period.

FISCAL IMPACT:

None.

There is no fiscal impact for a minimum contribution rate or floor because any additional contributions due to a floor would be offset by reduced contributions in future years.

The floor or minimum contribution rate would not impact rates in the long run. The short term increase in rates in years in which the floor applied would be offset by lower rates in future years. A floor could actually result in a long term savings to the extent that investment earnings from the extra contributions due to the floor are used to reduce future contribution requirements. We considered but did not include any cost impact for any issues related to market timing and when the extra contributions from the floor are invested.

State Actuary's Comments:

The determination that a floor would result in no additional cost and possibly a savings is based on the assumption that any temporary reserve or "cushion" that is built up from a floor is used to reduce future contribution requirements and not used to provide for benefit increases. If the extra contributions from a floor are used for benefit increases, then there would be a cost to having a floor.

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 Public Employees' Retirement System Retirement System, the Teachers' Retirement System, and the School 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, or within the body of this fiscal note, include the following: None

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.

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

Robert Wm. Baker, Senior Research Analyst
360.786.6144; baker.robert@leg.wa.gov

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.

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 786-6144

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% of FAS × (Years of service ÷ 18) For members with more than 18 years of service: 50% of FAS + (1/18th 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% of FAS per year of service For members with 15 or more years of service: 3.5% 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%
Minnesota[1]	3.2%	5 years	76.8%
Missouri	2.5%, 3.33%, 4.17%	Current Salary	50%
Ohio[2]	2.2% up to 30 yrs	3 highest yrs	100%
Oregon **A: Regular** **B: With Pro Tempore service**	**A:** 2.8125% yrs 1-16 1.67% yrs 16+ **B:** 3.75% yrs 1-16 2.0% yrs 16+	36 months	A: 65% B: 75%
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: I f 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 SCPP 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 SCPP 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>NEW SECTION.</u> **Sec. 6.** A new section is added to chapter 41.40 RCW to read as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) The teachers' retirement system employer contribution rate established under this chapter; plus

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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:

(Dollars in Millions)		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 Superior Court Judges	PERS District & Municipal Court Judges	Total
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 Superior Court Judges	PERS District & Municipal Court Judges	Total
2006-2031			
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	$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.

Superior Court Judges' Association

WASHINGTON COURTS

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

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

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)

	Plan 1	Plan 2	Plan 3
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)*

	Employee*	Employer
Rate Under 3.5% Prospective Formula	7.57%	7.69%
Rate Under Current Formula (historical avg.)	4.35%	4.44%
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

	Employee	Employer
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)*

	Plan 1	Plan 2/3
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

Background

When first founded in 1971, Law Enforcement Officers' and Fire Fighters' retirement system plan 1 (LEOFF 1) had no benefit cap. With the passage of Chapter 120, Laws of 1974, members' benefits were capped at 60 percent of final average salary (FAS). Those hired into LEOFF 1 positions on or after February 19, 1974 – the effective date of the act – are subject to the 60 percent cap. Those hired prior to that date, about half the remaining active members, are not subject to the cap.

State and employer contribution rates were suspended for LEOFF 1 in 1999 when the unfunded liability was eliminated. Member contributions were suspended the following year. Contributions are not required as long as the plan is in surplus funding status.

LEOFF 1 retirees are eligible for full medical coverage provided by their former employer at no cost to themselves.

(Note: The draft bill and fiscal note were unavailable at the time of the printing of this report. As soon as these documents are available, the on-line version of this report will be updated to include them.)

Committee Activity

Presentations:

- July 19, 2005 – Full Committee
- September 27, 2005 – Full Committee
- November 15, 2005 – Full Committee
- December 13, 2005 – Full Committee

Proposal:

- December 13, 2005 – Full Committee

Recommendation to Legislature

Repeal the LEOFF 1 benefit cap, reinstate member and employer contribution rates, and form a work group led by the Department of Retirement Systems working in concert with the Health Care Authority whose charge is to establish one or more funding vehicles for LEOFF 1 post-retirement medical benefits.

Staff Contact

Robert Wm. Baker, Senior Research Analyst
360.786.6144; baker.robert@leg.wa.gov

Laura Harper, Senior Research Analyst, Legal
360.786.6145; harper.laura@leg.wa.gov

LEOFF 1 Benefit Cap

(December 19, 2005)

Proposal

Representatives of active members of the Law Enforcement Officers' and Fire Fighters' Plan 1 (LEOFF 1) have proposed removing or raising the cap that limits members' maximum retirement benefit to 60 percent of Final Average Salary (FAS).

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 786-6144

Members Impacted

As was reported in the upcoming 2004 valuation, the LEOFF 1 plan had 848 active members and 8,542 annuitants as of September 30, 2004. Of these remaining active members, 454 are subject to the 60 percent benefit cap.

Current Situation

When first founded in 1971, LEOFF 1 had no benefit cap. With the passage of Chapter 120, Laws of 1974, members' benefits were capped at 60 percent of FAS. Those hired into LEOFF 1 positions on or after February 19, 1974, – the effective date of the act – are subject to the 60 percent cap. Those hired prior to that date are not subject to the cap.

Of the 8,542 LEOFF 1 annuitants counted in the 2004 actuarial valuation, 2,345 were service retirees who became members prior to February 19, 1974. Of those, 717 had a benefit that was greater than 60 percent of their FAS.

In addition to LEOFF 1 members hired on or after February 19, 1974, both the Public Employees' Retirement System (PERS) Plan 1 and the Teachers' Retirement System (TRS) Plan 1 have provisions capping retirement benefits at 60 percent of Average Final Compensation (AFC).

Unlike LEOFF 1, the benefit cap in PERS 1 and TRS 1 was part of the original plan design, not added later. The Washington State Patrol Retirement System also has a benefit cap, but at 75 percent of FAS instead of 60 percent.

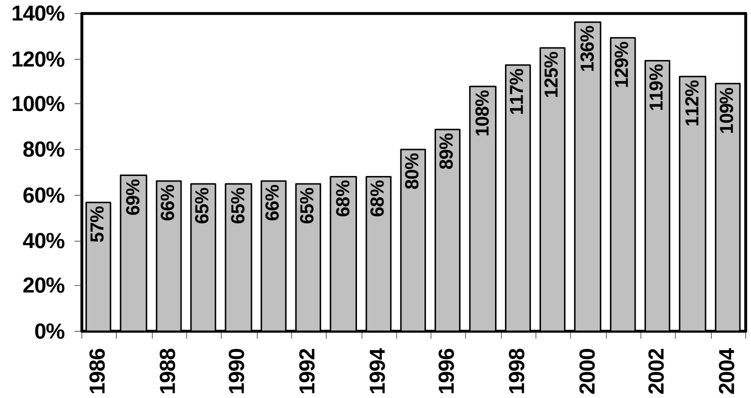
Unlike LEOFF 1, no LEOFF 2 members are subject to a benefit cap. LEOFF 2 uses a 60 month period for determining a member's FAS compared to the two-year average in LEOFF 1; members are also required to be age 53 to receive an unreduced benefit compared to age 50 in LEOFF 1. Despite the differences in the Plan 1 and Plan 2 provisions, both are still age-based plans.

The remaining Plans 2/3 also have no benefit cap and are age-based plans as opposed to the TRS 1 and PERS 1 designs, which are service-based. The School Employees' Retirement System (SERS), PERS, and TRS Plans 2/3 require members to be age 65 in order to receive an unreduced defined benefit.

Surplus Status

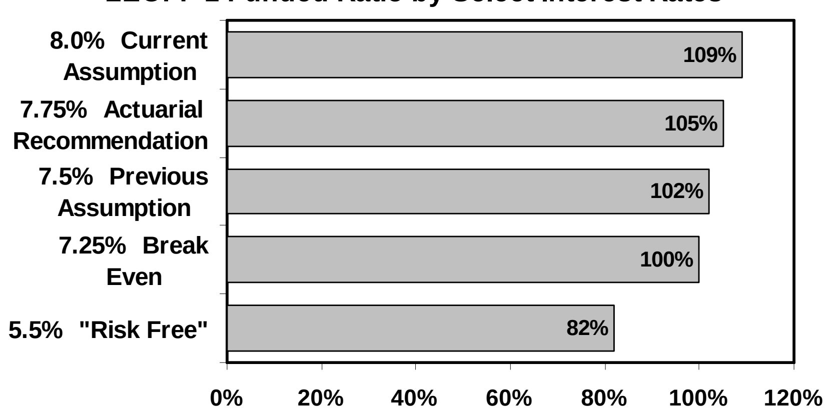
At the height of the previous investment cycle in 2000, the plan had a funded ratio of 136 percent (see Figure 1, below). At that point, the funding section of the chapter LEOFF 1 was amended to include the following provision: "No employer or member contribution is required after June 30, 2000, unless the most recent valuation study for Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 indicates the plan has unfunded liabilities." For the most recent valuation period, the funding ratio was 109 percent.

Figure 1
LEOFF 1 Funded Ratio: 1986 - 2004



As seen in the above illustration, a plan's funding ratio can be volatile. It is subject to not only the vagaries of the investment markets, but also changes in the plan's economic assumptions as well. An example of this is the change in the assumed rate of return on plan assets; in 2000 the assumed rate of return was increased from 7.5 percent to 8.0 percent. By assuming a higher investment return on assets, fewer contributions are needed to cover its liabilities. Similarly, a given dollar amount of assets will represent a greater funding ratio under an 8.0 percent rate of return assumption than under a 7.5 percent rate of return assumption (see Figure 2).

Figure 2
LEOFF 1 Funded Ratio by Select Interest Rates

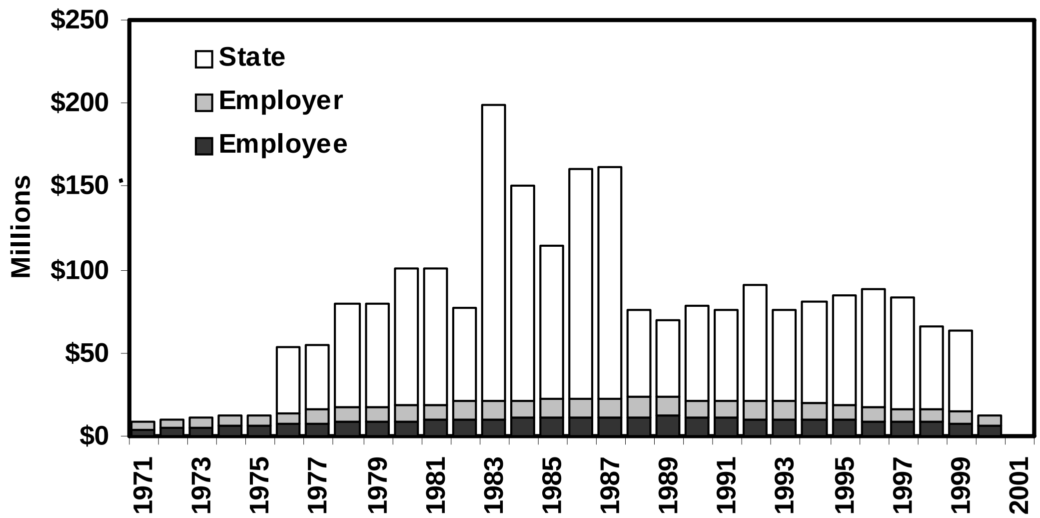


Contributions

When established on March 1, 1970, the LEOFF Plan 1 was to be funded through member, employer, and state contributions. The state's contribution was determined through the plan's first actuarial valuation performed by Milliman & Robertson, Inc. Consulting Actuaries. That valuation was completed on October 9, 1970. The report valued the current service liability of the system at 30.27 percent of salary and the unfunded liability for prior service at 14.89 percent of salary, for a total required contribution of 45.16 percent of salary. As the member and employer contributions were set in statute at 6.0 percent each, the state's contribution obligation in the first biennium was the remaining 33.16 percent of salary.

The state did not make contributions to LEOFF 1 in the first five years of its existence. But in the subsequent years, from 1976 through 1999, the state made the necessary appropriations and contributions (see Figure 3).

Figure 3
LEOFF 1 Member, Employer, and State Contributions



It is likely that the five-year delay in funding by the state resulted in a subsequently higher average contribution rate than the original recommendation. By the end of 2000, the state's contribution rate over the entire funding period averaged 40.4 percent of salary - over three-fourths of all the contributions to LEOFF 1 were state contributions (see Appendix A).

Active Member Profile

As was reported in the 2004 valuation, the average age of the remaining active LEOFF 1 member is 54.8 years and their average member service is 30.2 years. For members to be eligible for retirement in LEOFF 1 they need to be 50 years of age with at least five years of service. As of the 2004 valuation, only 62 members were not retirement eligible, 12 of whom were not vested. The following sections provide some additional detail on active LEOFF 1 members.

Category: The 848 active members are comprised of 408 police officers and 440 fire fighters. The majority of police officer active members are not subject to the benefit cap, while the majority of fire fighter active members are subject to the cap (see Figure 4). Among fire fighters, members from first-class cities represent the majority of active members; this is a departure from the police officer employer distribution and is likely a result of a greater use of volunteer fire fighters in rural areas.

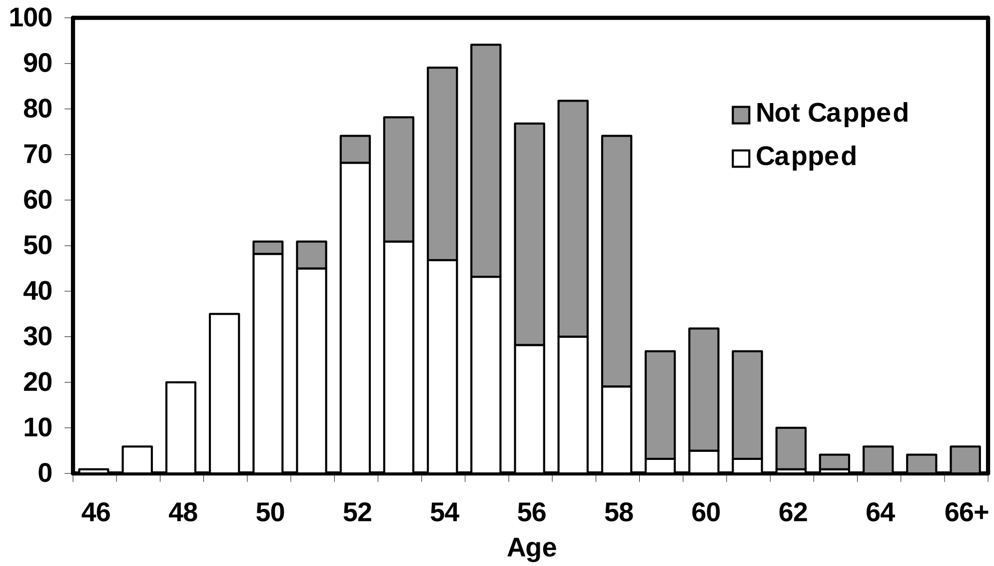
Figure 4

Active LEOFF 1 Members by Category, Employer, and Benefit Cap Status

	Not Capped	Capped	Total
Police Officers	210	198	408
1st Class City	101	75	176
Other City	42	71	113
County	67	52	119
Fire Fighters	184	256	440
1st Class City	114	121	235
Other Agency	66	130	196
Port	4	5	9
TOTAL	394	454	848

Age: Since the benefit cap legislation was prospective from February 19, 1974, it would hold that members subject to the cap would generally be younger than those not subject to the cap. While not all members were hired at the same age, records show that higher percentages of older members are not subject to the benefit cap (see Figure 5).

Figure 5
Active LEOFF 1 Members by Age and Benefit Cap Status



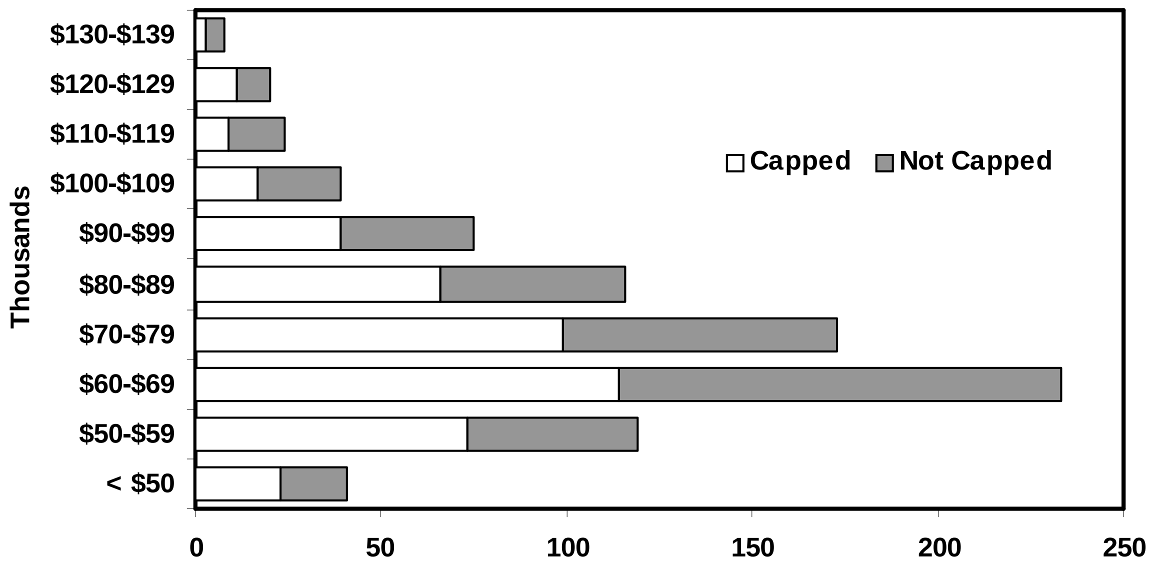
Service: In general, those members with over 30 years of service would not be subject to the benefit cap, while those with less than 30 years of service would. There are instances, however, of those who may have become members prior to February 19, 1974, but have had breaks in service. As a result, there are several members with relatively short periods of service who are not subject to the benefit cap (see Figure 6, next page).

Figure 6
Active LEOFF 1 Members by Service and Benefit Cap Status

Years of Service	Not Capped	Capped	Total
5-9	0	2	2
10-14	1	0	1
15-19	0	4	4
20-24	3	14	17
25-29	41	372	413
30-34	286	62	348
35 and over	63	0	63
Total	394	454	848

Salary: It could easily be assumed that those who are not subject to the benefit cap would have higher salaries than those who are subject to the cap. After all, they typically have longer periods of service that could translate into higher salaries. However, this does not appear to be the case. The salaries of those who are subject to the cap are not appreciably different from those who are not subject to the cap (see Figure 7 next page). For instance, among the 166 members earning $90,000 or more, 87 were not subject to the cap and 79 were. And of the 28 members earning $120,000 or more, 14 were not subject to the cap and 14 were. This is likely due to the steep salary/promotion schedule typical among police and fire organizations.

Figure 7
Active LEOFF 1 Members by Salary and Benefit Cap Status



As these characteristics show, the only significant variable having a bearing on whether a member's benefit is capped or not is their length of service. Those with more than 30 years of service as of 2004 are sure to have a benefit that is not capped. Those with less than 30 years of service are likely to have a benefit that is capped (save for those who gained membership before February 19, 1974, and had a significant break in service).

History

Two bills were introduced during the 2004 legislative session related to the 60 percent cap in LEOFF 1. HB 2416 proposed raising the limit to 70 percent of FAS and HB 2914 proposed eliminating the cap entirely; both bills received a hearing, but neither moved from committee.

Companion bills HB 1873 and SB 5901 were introduced in the 2005 legislative session that proposed rescinding the LEOFF 1 60 percent cap. Neither received a hearing.

Policy Considerations

Among the general policies found in the funding chapter (RCW 41.45) is the following: "Fund, to the extent feasible, benefit increases for all plan members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service." As of the 2004 valuation, the average remaining active member is already retirement eligible. For a plan that isn't fully funded, there would be scant time for members and employers to contribute to a benefit increase. Because LEOFF 1 is in surplus status at this time, any benefit increase would draw on that surplus. The cost of this proposal would increase the likelihood that the plan would come out of full funding in the future. Also, if the plan does come out of full funding, the plan would be projected to resume funding earlier and at a higher rate.

Another policy issue to consider is the inconsistent treatment of members within the same plan. While the provisional differences in LEOFF 1 and LEOFF 2 are typical of closed and open plans, it is rare for such differences to be present within the same plan.

A serious policy concern would be leapfrogging. One of the common criticisms of the Plan 1 design is that members' benefits are maximized at 30 years of service (2% × 30 years of service = 60% of AFC). Were the cap to be raised or eliminated in the LEOFF 1 Plan, members of the PERS and TRS Plans 1 may request a similar benefit increase, which would have a much higher cost.

Policy Questions

To help the committee decide whether to move forward with this issue, members may want to deliberate via the following issues:

- Have the original goals and/or incentives changed?
- Is this benefit improvement in keeping with the policies acknowledging the need for earlier retirement among police officers and fire fighters?
- Is there an overarching need to reward or retain long-tenured LEOFF 1 members?
- Could or should this issue be addressed outside of the retirement system?

- Would this benefit be retroactive? Would currently retired members with more than 30 years of service have their benefits adjusted?
- Would this spur retirees to return to active LEOFF membership? There are currently 638 service retirees under the age of 60.

Possible Options

If the committee wants to move forward with this issue, there are a number of approaches it could take. Here is a short list of possible options and the fiscal impact of each:

1. Eliminate the Benefit Cap

This option was originally priced in the fiscal note for HB 2914 from the 2004 legislative session. More recent calculations were done based on the 2004 Actuarial Valuation. Removing the cap would increase liabilities in the plan by $22 million. Because the plan is currently in surplus funded status, this increase in liability would not raise contribution rates.

2. Raise the Benefit Cap to 70 percent

This option was originally priced in the fiscal note for HB 2416 from the 2004 legislative session. More recent calculations were done based on the 2004 Actuarial Valuation. Raising the cap from 60 percent to 70 percent would increase liabilities in the plan by $17 million. Because the plan is currently in surplus funded status, this increase in liability would not raise contribution rates.

3. Raise or Eliminate the Benefit Cap with an Age Qualification

This option would allow members to accrue a benefit greater than 60 percent of their FAS as long as they served until at least 60 years of age. The LEOFF 1 Plan currently allows an unreduced benefit at age 50 with five years of service. Increasing the retirement age to 60 in order to receive an increased benefit should result in a savings component to each of the above proposals.

Eliminating the benefit cap with the age qualifier would increase plan liabilities by $11 million. Raising the cap from 60 percent to 70 percent with the age qualifier would increase plan liabilities by $8.5 million.

While an age qualifier would lower the liabilities related to these benefit proposals, it would probably also result in additional policy considerations. Age standards tend to result in "cliff" benefits – significant differences in benefits with very small differences in ages; a member who was 59 with 36 years of service would be eligible for a lesser benefit than a member who was 60 with 33 years of service. Would such a member be eligible for proportionate benefits?

Note: If the above proposals were to raise the benefit cap, but with an accrual that was less than the current 2 percent per year, the increased liability and contributions would be proportionate to the proposed rate of accrual relative to 2 percent. For instance, an accrual rate of 1 percent per year beyond 30 years of service would result in an increased liability half that of a 2 percent per year accrual.

4. *Retain the Current Benefit Cap*

This option adds no liability to the plan.

Stakeholder Input

Correspondence from:

Frederick W. Corlis, Board Member, Retired Fire Fighters of Washington (see Attachment).

Kelly L. Fox, President, Washington State Council of Fire Fighters (see Attachment).

Philip A Talmadge, Talmadge Law Group PLLC (see Attachment).

Richard Warbrouck, Retired Fire Fighters of Washington (see Attachment).

Committee Actions

In June, the Executive Committee of the SCPP recommended that this issue be heard by the full committee.

The full committee heard the first presentation of this issue at the July hearing. Questions from committee members warranted an additional presentation.

The full committee received an additional presentation at the September meeting.

Executive Committee Recommendation

At the October meeting, the Executive Committee of the SCPP moved to forward an updated bill eliminating the LEOFF 1 benefit cap to the full committee for their consideration.

Committee questions at the November hearing required additional analysis related to split contribution rates and service credit purchases in capped plans that would be made available at the December meeting.

Committee Recommendation

At the December 13th meeting, the SCPP recommended that a bill be forwarded to the legislature that repeals the LEOFF 1 benefit cap, reinstates member and employer contribution rates, and forms a group to work with the Department of Retirement Systems and the Health Care Authority to establish one or more funding vehicles for post-retirement medical benefits.

Pre-funding Post-Retirement Medical Benefits

An Overview by Laura Harper
Senior Research Analyst
December 13, 2005

Disclaimer

- This summary represents research from internet sources, some of which have not been verified for accuracy. Staff does not purport to be an expert on this topic at this time.

Reasons to Pre-Fund

- GASB 45
- Financial management and budgeting
- Intergenerational equity
- More benefit security
- Additional tax-favored retirement benefits

Ideal Funding Vehicle

- Tax-deductible employer contributions
- Tax-free accumulation of assets
- Full, unencumbered funding

Possible Vehicles

- 401(h) Account
- Health and Welfare Trust Fund Trust
  - 501(c)(9) Trust – VEBA
  - Section 115 Trust

401(h) Account

- Separate account under qualified pension plan
- Numerous requirements relating to funding of pension plan, accounting, and use of assets
- Contributions for medical benefits cannot exceed 25 percent of contributions for all pension benefits

401(h) Plan

- Account is protected as a trust
  - Co-mingled and invested with the retirement plan assets
- Must specify that after all benefit obligations are paid, any excess is returned to employers

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Advantages of 401(h) Plan

- Employer contributions are tax-deductible
- Investment earnings are tax-exempt
- No vesting required
- May use excess pension assets

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Disadvantages of 401(h) Plan

- Twenty-five percent contribution limit may prevent full funding
- Ability to transfer excess pension assets scheduled to expire 12/31/05
- IRS approval required
- Non-compliance has implications for pension plan

501(c)(9) Trust or VEBA

- VEBA: Voluntary Employees' Beneficiary Association
- IRS rules for funding, accounting, non-discrimination, and use of assets
- Separate and apart from government
- Employees of employers who opt in **must** participate

VEBA

- Legislature may establish policy guidance
- Benefits can be paid as defined benefits or based on individual account balances
- In WA, state agencies (not local employers) are currently authorized to participate in existing school district VEBA

Advantages of VEBA

- Employer contributions are non-taxable
- Investment earnings are tax-exempt
- No vesting required

Disadvantages of VEBA

- Time-consuming to set up
  - Need IRS approval
- Administratively complex
  - Requires control by employee members, independent trustee, or board of trustees
  - Federal law reporting requirements and rules apply

Section 115 Trust

- Section 115 provides tax exemption for income from an essential governmental function
- IRS private letter rulings say contributions to a trust to fund retiree health benefits fit the exemption

Advantages of Section 115 Trust

- Make-up of board of trustees is flexible
- Contribution level is flexible
- Is revocable
- Very few federal restrictions

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Disadvantages of Section 115 Trust

- Government's creditors may be able to reach
- Has not been widely used
- Private letter ruling needed for favorable tax treatment

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Other vehicles

- Separate account
  - May not be viewed as an offset to liabilities for disclosure purposes
- Insurance policies
  - No particular tax advantage
- Supplemental defined benefit pension
  - Like setting up a pension plan

Other Vehicles (continued)

- Health Savings Account
  - Only applicable to members covered by a high deductible health plans

Next Steps

- Identify stakeholders
- Form work group to determine program goals
- Choose consultant to help with necessary legal and IRS concerns
- Select and implement one or more funding vehicles

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Time Frame?

- Minimum of six weeks in private sector, if plan is already IRS-approved
- Public sector takes longer because of need for stakeholder agreement
- IRS approval needed if a new trust or plan is formed

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-1104.2/06 2nd draft

ATTY/TYPIST: LL:mos

BRIEF DESCRIPTION: Addressing the law enforcement officers' and fire fighters' retirement system plan 1.

AN ACT Relating to the law enforcement officers' and fire fighters' retirement system plan 1; amending RCW 41.26.100 and 41.26.080; creating a new section; providing effective dates; and providing an expiration date.

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

Sec. 1. RCW 41.26.100 and 1991 c 343 s 16 are each amended to read as follows:

A member upon retirement for service shall receive a monthly retirement allowance computed according to his or her completed creditable service credit years of service as follows: Five years but under ten years, one-twelfth of one percent of his or her final average salary for each month of service; ten years but under twenty years, one-twelfth of one and one-half percent of his or her final average salary for each month of service; and twenty years and over one-twelfth of two percent of his or her final average salary for each month of service: PROVIDED, That the recipient of a retirement allowance who shall return to service as a law enforcement officer or fire fighter shall be considered to have terminated his or her retirement status and he or she shall immediately become a member of the retirement system with the status of membership he or she had as of the date of retirement. Retirement benefits shall be suspended during the period of his or her return to service and he or she shall make contributions and receive service credit. Such a member shall have the right to again retire at any time and his or her retirement allowance shall be recomputed, and paid, based upon additional service rendered and any change in final average salary((~~: PROVIDED FURTHER, That no retirement allowance paid pursuant to this section shall exceed sixty percent of final average salary, except as such allowance may be increased by virtue of RCW 41.26.240, as now or hereafter amended~~)).

Sec. 2. RCW 41.26.080 and 2000 2nd sp.s. c 1 s 907 are each amended to read as follows:

((~~(1) Except as set forth under subsection (2) of this section,~~)) The total liability of the plan 1 system shall be funded as follows:

((~~(a)~~)) (1) Every plan 1 member shall have deducted from each payroll a sum equal to six percent of his or her basic salary for each pay period.

((~~(b)~~)) (2) Every employer shall contribute monthly a sum equal to six percent of the basic salary of each plan 1 employee who is a member of this retirement system. The employer shall transmit the employee and employer contributions with a copy of the payroll to the retirement system monthly.

((~~(c)~~)) (3) The remaining liabilities of the plan 1 system shall be funded as provided in chapter 41.45 RCW.

((~~(d)~~)) (4) Every member shall be deemed to consent and agree to the contribution made and provided for herein, and shall receipt in full for his or her salary or compensation. Payment less said contributions shall be a complete discharge of all claims and demands whatsoever for the services rendered by such person during the period covered by such payments, except his or her claim to the benefits to which he or she may be entitled under the provisions of this chapter.

((~~(2) No employer or member contribution is required after June 30, 2000, unless the most recent valuation study for law enforcement officers' and fire fighters' retirement system plan 1 indicates the plan has unfunded liabilities.~~))

NEW SECTION. **Sec. 3.** (1) The governor shall establish a joint executive task force on funding postretirement medical benefits for members of plan 1 of the law enforcement officers' and fire fighters' retirement system. The joint task force shall consist of seven members: The director of the department of retirement systems; the administrator of the health care authority; the state actuary; one representative of Washington cities, appointed by the governor; one representative of Washington counties, appointed by the governor; one active member of plan 1 of the law enforcement officers' and fire fighters' retirement system, appointed by the governor; and one retired member of plan 1 of the law enforcement officers' and fire fighters' retirement system, appointed by the governor.

(2) The joint task force shall elect one of its members to serve as chair of the joint task force.

(3) Joint task force members may be reimbursed for travel expenses as authorized under RCW 43.03.050 and 43.03.060.

(4) It is the intent of the legislature to create a funding vehicle to assist employers in providing postretirement medical benefits for members of plan 1 of the law enforcement officers' and fire fighters' retirement system. To that end, the joint task force is charged with reviewing private and public funding vehicles that would accept voluntary tax-advantaged employer contributions and permissible transfers of excess pension assets. The task force shall select one or more appropriate funding vehicles and coordinate with all necessary parties to achieve implementation. To the extent that further legislative authority is required for the implementation, the task force shall make its recommendations for proposed legislation to the appropriate committees of the legislature by no later than December 1, 2006. The task force shall submit its final report to the governor and appropriate committees of the legislature by no later than December 1, 2007.

(5) This section expires December 1, 2007.

NEW SECTION. **Sec. 4.** Sections 1 and 3 of this act take effect July 1, 2006.

NEW SECTION. **Sec. 5.** Section 2 of this act takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	1/11/06	Z-1103.2/Z-1104.2

SUMMARY OF BILL:

This bill would impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by removing the provision that limits the retirement allowance for those who became members on or after February 19, 1974 to 60% of their final average salary.

The bill would also resume 6% member and employer contributions to LEOFF 1 effective July 1, 2007.

Finally, the bill would form a joint executive task force to select and implement one or more appropriate funding vehicles for the LEOFF 1 post-retirement medical obligation.

Effective Dates: The cap removal and task force provisions become effective July 1, 2006. Contributions resume effective July 1, 2007. The task force provisions expire December 1, 2007.

CURRENT SITUATION:

Currently, the maximum retirement allowance for those who became members of LEOFF 1 on or after February 19, 1974 is 60% of their final average salary. Those who became members before February 19, 1974 have no such limit on their retirement allowance.

State contributions to LEOFF 1 ceased in 1999 when the plan's assets exceeded the plan's fully projected liabilities. Member and employer contributions ceased in 2000. Funding provisions require the resumption of contributions when the most recent valuation indicates the plan has unfunded liabilities.

Currently, local employers are responsible for providing post-retirement medical benefits to LEOFF 1 retirees. Currently there is no government-sponsored multi-employer funding vehicle being used for this obligation.

MEMBERS IMPACTED:

We estimate that 454 active members hired on or after February 19, 1974, out of the total 848 active members of this plan could be affected by the 60% cap portion of this bill. Additional members could be affected if they return to work and earn over 30 years of service.

Each year of additional service credit beyond 30 years would result in an increase of about $125 in monthly pension payments per person (based on a current annual salary of $75,222).

All active members of LEOFF 1 would be impacted by the resumption of 6% contributions.

ASSUMPTIONS:

We assumed that members with at least 30 years of service, who may be eligible for a disability retirement, will elect the proposed service retirement benefit with no cap in lieu of the 50 percent of pay tax-free disability benefit. The cost of this proposal was based on the change in the liability after this disability assumption change. We assumed that this proposed benefit change would also alter future retirement behavior in the plan. We subtracted 0.01 from the retirement rates from age 50 to 54 and subtracted 0.02 from the rates from age 55 to 59. The impact of the retirement assumption change is reflected in the cost of this proposal. We assumed that the 6% employer contribution would be paid by local employers and not by the state. We assumed that formation of the work group would have no impact on contribution rates or the administrative expense rate.

FISCAL IMPACT:

Description:

Removal of the 60% cap causes no immediate fiscal impact while the plan remains in a surplus, or fully funded, position. The current plan is expected to remain fully funded because the market value of assets exceed the liabilities by $365 million. The proposal to remove the cap would reduce the surplus, but as long as there is still a surplus on a market value basis, we would not expect the plan to come out of full funding. However, if there is some adverse experience due to the assumptions not being realized, the plan would be more likely to come out of full funding as a result of the proposed benefit increase. Also, if the plan does come out of full funding, the plan would be projected to resume funding earlier and at a higher rate.

The collection of contributions from members and local employers would serve to mitigate this proposal's reduction of the plan's funding surplus, making it even less likely that it will come out of full funding in the future. The 6% member contributions and 6% employer contributions, effective July 1, 2007, together have a present value of about $5 million. The increase in liability without the contributions was $22 million. The increase after the contributions is $22 million minus $5 million, or $17 million.

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:

	System: LEOFF 1		
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,330	$17	$4,347
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$(336)	$17	$(319)
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(385)	$17	$(368)

Increase in Contribution Rates: (Effective 7/1/07)

Employee	6.00%
Employer	6.00%
State	0.00%

Fiscal Budget Determinations:

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

Costs (in Millions):	LEOFF 1
2006-2007	
State:	
General Fund	$0.0
Non-General Fund	$0.0
Total State	$0.0
Local Government	$0.0
Total Employer	$0.0
Total Employee	$0.0
2007-2009	
State:	
General Fund	$0.0
Non-General Fund	$0.0
Total State	$0.0
Local Government	$2.2
Total Employer	$2.2
Total Employee	$2.2
2006-2031	
State:	
General Fund	$0.0
Non-General Fund	$0.0
Total State	$0.0
Local Government	$4.2
Total Employer	$4.2
Total Employee	$4.2

State Actuary's Comments:

We have projected that this bill would use up part of the plan's surplus, but that it would not increase the plan's future funding requirements. This projection reflects the future recognition of prior asset gains and losses and the impact of this proposed plan change. The plan's actual funded status will vary depending on the plan's actual experience and could easily be different than projected over the short-term.

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 Law Enforcement Officers' and Firefighters' 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:

Reduced Retirement Rates										
Age	50	51	52	53	54	55	56	57	58	59
Retirement Rate*	0.08	0.06	0.07	0.07	0.09	0.14	0.14	0.14	0.21	0.21

*Male and female

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.

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

December 13, 2005

TO: Members of the Select Committee on Pension Policy

FROM: Representative Bill Fromhold, Chair

RE: LEOFF 1 BENEFIT CAP

As you all know, removing the benefit cap in LEOFF 1 has been controversial. I have been talking with representatives of actives, retirees, and employers to facilitate a "package" of changes that would be a win-win for all concerned. To that end, I am suggesting that the SCPP recommend a bill in the 2006 legislative session that would accomplish the following:

1. Remove the LEOFF 1 benefit cap effective July 1, 2006.

2. Reinstate contribution rates (6 percent member and 6 percent employer) on July 1, 2007, (the beginning of the upcoming biennium, when new rates would be set for all systems).

3. Establish a work group of active members, retirees, employers, legislators, and professionals that would select and implement one or more appropriate funding vehicles for the LEOFF 1 post-retirement medical obligation by July 1, 2007. This work group would be staffed by the Office of the State Actuary with assistance from tax counsel.

If the committee is in agreement, I suggest a motion that would direct staff to prepare legislation incorporating these recommendations. I have spoken with the State Actuary about this proposal. He has indicated that his potential fiscal note for such a bill, if necessary, would indicate the need for some additional dollars to support this effort, particularly in terms of utilizing tax counsel to meet IRS requirements.

Thank you for your consideration.

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(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

Burkhart, Kelly

Subject: FW: SCPP. Lifting the Cap On LEOFF I

Subject: SCPP. Lifting the Cap On LEOFF I

October 13, 2005

Representative Bill Fromhold, Chair
Select Committee On Pension Policy

Representative Fromhold and Committee Members,

I am a board member of the Retired Fire Fighters of Washington and these are my thoughts and concerns which may or may not represent the members beliefs in general. However I am not writing this letter as the spoke person for or of the organization.

First of all I would like to say there have been changes to the pension system several times. Originally there were the prior acts people who had certain pension rights. In March of 1970 the Leoff I system was created and thus creating a new system for new hires. Prior act personnel retained certain parts of their previous pension system of which Leoff I only new hires did not receive. In 1974 changes to the Leoff I system were made which capped the service pension portion to a maximum of 60%. Then in 1977 the Leoff I system was closed and a new system, Leoff II, was created which had totally different regulations. Now 31 years later those few people left with in the 1974 system, 454, want you to change the system for their benefit, something that I believe is unprecedented.

At the July 19th. SCPP meeting I testified before the committee as did others. During testimony I was surprised to hear post 1974 Leoff I members state that they could not live on the 60% pension that they qualify for. Several members said that if you did not raise the cap that they would have to retire, with a 60% pension, and go to work somewhere else to be able to support themselves.
Over 50% of the 454 people left, I understand, are Captain and above and many are in Appointed Positions which do not require any competitive examination as a qualification for the job, pure politics. It is my opinion that this places them in the $80,000 to 120,000 per year salary or more. At 60% pension that entitles them to a monthly pension benefit of $4,000 - 6,000 or more plus medical benefits. To open the door for 70-80% pensions of these high paying positions while they have not contributed one cent to the system in the last 5 years and will not do so in the future is poor policy at best. At a time when Pers I is so far Under Funded it appears to me this idea of lifting the cap and setting a precedent for the other pension systems to follow is not only a poor idea & poor policy but not fundamentally sound or good judgment for the State or the pension systems.

If the SCPP decides to support this practice you are creating a burden on the entire system for the benefit of a few. Placing the already retired members, who paid their contributions their entire careers, and the system in jeopardy. The actuary has stated that the pension system is like a moving target always changing and could be in trouble if the % of investment gain drops from 8% to 7.3%. No one knows what the future holds. Just consider, if you would for a moment, what would have happened if the Legislature had removed the so called excess from the Leoff I system some 5,6,7 years ago as they were looking to do. The system dropped approximately $1.2 Billion, how would the state have come up with that money today to replace and fund the system.

While we are struggling to keep our pension systems sound private companies are looking to go bankrupt and dump their obligations of their retirees onto the government at a 50% reduction. If we allow our systems to get in trouble will our bond rating go in the toilet. It appears to me there is no reasonable ideology to remove the cap or do anything else that changes the pension systems in the state, including buying 5 years of service or any other idea that gives more money to the individual retiree at the end of their respective careers.

Today there is already an inequity between the systems, Leoff I & Leoff II, do to the contribution holiday for Leoff I members. They have already incurred 10% service credit without making a contribution to the system. To now decide to lift the cap thus allowing them to accrue more service credits of high paying positions and administrative appointments without paying into the system is without a doubt in my opinion poor Physical Responsibility on the Legislatures part. These individuals will receive very good pensions as it is $4-6000 per month with medical benefits so what is the reasoning behind this idea of lifting the cap besides greed.

The Retired Fire Fighters of Washington have in the past not supported this policy and continue to do so at the present time.

Thank You

Frederick W. Corlis
Board Member of the RFFOW

Affiliated with: AFL-CIO
International Association of Fire Fighters
Washington State Labor Council

Washington State Council of Fire Fighters

September 26, 2005

Chair Representative Fromhold
Vice-Chair Senator Fraser
SCPP Committee Members

Subject: Removal of LEOFF 1 Service Credit Cap

The Washington State Council of Fire Fighters (WSCFF) respectfully requests that the Select Committee recommend HB 1873/SB 5901 (LEOFF 1 Cap removal) to the 2006 Legislature. Removal of the service credit cap for LEOFF 1 members hired after February 18, 1974, provides service credit accrual equity with all other LEOFF 1 participants. This bill has no negative impact for any represented group, i.e., Retired Fire Fighters of Washington (RFFOW), retired LEOFF 1 members, active LEOFF 1 members, employer groups, or the state. We have attempted, without success, to convince certain retired LEOFF 1 members to reconsider their position to oppose this proposal.

The WSCFF letter dated July 18, 2005, addressed the policy questions put forth by the Executive Committee on June 21, 2005. Rather than reiterate the supporting evidence that removal of the cap does meet policy considerations, I would like to concentrate on three factors:

- The continuity and retention of institutional memory within our Public Safety provider organizations is important. LEOFF 1 Fire and Police members are highly respected and regarded among their peer groups and their communities. What purpose does it serve to deny service credit to so few of these affected individuals? The retention of valued employees far outweighs other concerns.
- Currently, the employer is relieved of pension contributions for these affected members. This was a legislative proposal, not a scheme advanced by LEOFF 1 members! Encouraging retirement by capping service at thirty years creates an environment whereby the employer replaces the retired employee with an employee who requires contributions from the employer *and the state.*
- LEOFF 1 pension modifications have no bearing on contribution rates for the employers or members. Rates for the employers and members had always been 6% for each until contributions were suspended in mid 2000. This suspension occurred primarily because the state, employers, and members had made sufficient contributions to meet all future obligations. The legislature correctly links contributions (or the suspension thereof) to the ability of this closed system to meet its future obligations. Any attempt to link LEOFF 1 pension modifications to a reinstatement of contribution rates has been shown to be speculative and inaccurate.

Kelly L. Fox, President • Greg B. Markley, Secretary-Treasurer
1069 Adams Street Southeast, Olympia, WA 98501 • 1-800-572-5762 • (360) 943-3030
Fax (360) 943-2333 • E-mail: wscff@wscff.org • Website: www.wscff.org

Removal of the service credit cap would benefit a minimal number of our membership - approximately 250 out of more than 7,000 members. In the interest of fairness and equity to the fire fighters affected by the cap, this has been a legislative priority from our membership for the past three years. The RFFOW has suggested that retention of any LEOFF 1 member is a detriment to LEOFF 2 members. For the record, the WSCFF is unanimously supportive of this proposal, this despite the fact that 96% of the membership is unaffected by the proposed change. Any suggestion that the proponents of the legislation are "selfish" or would be "abusive" is unfounded and most certainly misplaced.

We have supported the committee's recommendation during the last interim to add a new benefit to the surviving ex-spouses of deceased LEOFF 1 members funded from the system surpluses. This year, the SCPP has the opportunity to recommend legislation that retains institutional memory within the public safety community and provides service credit cap accrual equity within LEOFF 1, utilizing a portion of the same surplus.

We ask for your support in forwarding this important legislative proposal. If you have any questions, please contact me or WSCFF Legislative Liaison, Bud Sizemore.

Respectfully,

Kelly L Fox

Kelly Fox
President

opeiu23/afl-cio/dag

RENTON FIRE FIGHTERS • Local 864

INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS AFL-CIO

P.O. BOX 67 • RENTON, WASHINGTON 98057-0067 • www.iaff864.org

RECEIVED

OCT 26 2005

Office of
The State Actuary

October 10, 2005

To the members of the Select Committee on Pension Policy

During the last two legislative sessions a group of members from the Washington State Council of Firefighters have been attempting legislation to address an inequity for long serving LEOFF I members regarding the 30 year (60%) cap for a service retirement. The members affected were hired between 1974 and the end of LEOFF I in 1977. All LEOFF plan members (I & II) hired prior to 1974 and after 1977 do not have a cap on their service credit accrual. Renton Firefighters Local 864 represents participants of pre 1974 LEOFF I, LEOFF I participants affected by the service credit cap, and LEOFF II participants. All of our members support the removal of the service credit cap.

During the years of the cap the State was experiencing a significant number of early retirements from the newly formed LEOFF I system. The service credit cap was an effort to limit the liability to the State. Unfortunately, this action did not do anything to stem the tide of short-time members taking disability retirements from the system.

In fact, it is some of those members who are now lobbying against the passage of this legislation, stating in writing to you that this is a greedy attempt by a small group to take a free ride on the system. If you check the record, you will find that the more vocal of these members paid into LEOFF I for less than 15 years, and have been collecting fully from the system for more than 20 years. They served under the prior pension act (Chapter 41.18 RCW), and when LEOFF I (41.26 RCW) was created in 1970/1971, the prior funds did NOT transfer over to the new system. In fact, the system that did exist continues to pay additional benefits to some of the members receiving full LEOFF I retirement benefits.

We submit to you that the small group of working LEOFF I members are not greedy people seeking a free ride. They are loyal, experienced public servants who want to receive retirement credit for serving more than 30 years in their chosen profession. You have received testimony in the past which indicates that every year the state does not pay retirement benefits is a significant savings. In speaking to the State Actuary at the most recent LEOFF Educational Association Conference, it appears that a cost was placed on this issue because removing the 'cap' was compared to a person taking a 50% disability retirement. The people still working, after 30 years of service, have proven that they do not want to take the disability which so many have done before. They would like to proudly receive the service retirement that they have earned.

Thank you for our consideration in this matter.

Sincerely,

Craig Soucy
President Renton Firefighters Local 864

Retired Firefighters of Washington
15310 163rd Ct. SE
Renton, WA 98058-8122
425-226-3793
rffow@attbi.com

RECEIVED
DEC 8 - 2005
Office of
The State Actuary

Richard Warbrouck
President

Bob Burtch
Secretary

December 8, 2005

Rerpresentative Bill Fromhold, Chair
PO Box 40600
Olympia, WA 98504-0600

Dear Representative Fromhold,

As you prepare to vote on removing the sixty percent CAP on LEOFF 1 service pensions I would like you to consider that no fire department or police agency has testified that this change is necessary for them to maintain a viable workforce. All other pension systems have a sixty percent CAP except LEOFF II. When the LEOFF II system was developed it was not practical to have the service retirement capped at sixty percent because of the retirement age of 57. If a police officer or firefighter was hired at 21 years of age they were required to work for 36 years until age 57 making a sixty percent CAP unacceptable. If we remove the CAP now, how will we address those LEOFF 1 members who were hired in 1974 and who have now retired after 30 years of service in 2004 or 2005? The members still working have earned 5 years of service credit equaling 10 percent of salary at retirement without having made a pension contribution.

This bill would provide an additional 5 years or more of service credit that would equal 10% or more of salary at retirement. The additional 10% on a salary of $80,000 per year would equal an additional $8,000 per year or $666 per month at retirement.

The proponents have testified that there is no cost for this increase, maybe because the Fund has a surplus. The actuary however has placed a 17 million dollar fiscal note on the bill. If the state as suggested is the ultimate heir to the Fund one could conclude that the state is responsible for the 17 million dollar fiscal note.

Many of the members who would benefit from this change are now senior members in fire departments and police agencies. They are now working in appointed administrative positions or can be appointed to these positions without any competitive examination. These positions have higher salaries that relate to increased retirement benefits as the retirement pay is based on the salary of the position held at the time of retirement.

Representative Conway asked during the November meeting if there is a retirement rehire provision in the LEOFF law. There is not, but if the CAP is removed any LEOFF 1 member who has retired on a service or disability pension and who was hired after 1974 can return to work. Their pensions would be terminated and they would begin earning additional service credit when reemployed. If they were retired on a disability they would, when reemployed, earn 2% per year of service credit for the number of years they were on a disability pension.

The City of Tacoma recently rehired an assistant police chief who had been on a disability pension for 10 years. When reemployed he was credited with 2% per year of service credit for each year that he was on a disability retirement. He worked for only a few days and retired on a service pension with an additional 20% of retirement pay based on the current salary of the assistant chief of the Tacoma Police Department.

The City of Edmonds has hired a 54 year- old police patrol officer who had retired from another department. He was just featured in the local paper with a statement from the city stating that they were pleased to have gained from his training and work experience.

There is no defined fiduciary responsibility in the statute for the members of the Select Committee on Pension Policy, however the members do feel that there is an implied fiduciary responsibility. To make a change without considering the far-reaching implications would be bad policy and would invite ridicule from the members of the media.

A solution would be to create a LEOFF 1 medical fund with the employees and the employers contributing 6% of salary equal to the previous pension contribution. This would be totally separate from the LEOFF 1 Fund. The Fund would grow from the day it was established and would not be subject to the changes in value of the LEOFF 1 Pension Fund. The medical fund could be administrated by the Department of Retirement Systems. Any employers after having paid a predetermined amount for a medical treatment or for long- term care would apply for a grant from the medical fund to offset their cost. If we had implemented this program in 2002 when we first discussed this issue we would have accumulated approximately $19,269,000.00 in the first two-year period. The nineteen million dollar fund invested at 5% would earn $963,000,00 per year in interest. As you can see, this would have had a real impact in reducing the employer's liability for medical expenses.

We are now three years down the road and would of course have to reevaluate the figures to see what the advantages would be if such a fund was developed. Keep in mind that the 6% contribution would not be that costly for any one employer as no one employer has that many active LEOFF 1 members.

If this was possible:

1) The CAP could be removed.
2) The employees and the employers would be contributing 6% of salary and the members could earn additional service credit.
3) The employers would gain some relief for the medical expenses that they have been asking for.
4) The 17 million fiscal note for removing the CAP would still however come from the LEOFF 1 Fund.

I would be willing to participate in any future discussions as to how such a plan could be developed and administered.

Thank you for your consideration.

Sincerely,

R.C. Warbrouck

Richard C. Warbrouck

Burkhart, Kelly

Subject: FW: December SCPP Meeting

From: Frederick W. Corlis
Sent: Friday, December 09, 2005 12:39 PM
To: Fromhold, Rep. Bill
Cc: Bailey, Rep. Barbara; Mattingly, Corky; Banks, Elaine; millerd@wsdot.wa.gov; Clement, Lois; Moore, Victor; Conway, Rep. Steve; Crouse, Rep. Larry; glen.olsen@clark.wa.gov; Fraser, Sen. Karen; Pridemore, Sen. Craig; Rae, Diane; Goeke, Leland; Thompson, J. Pat; Keller, Bob; Matheson, Sandra
Subject: December SCPP Meeting

SCPP Committee Members,

The issue of lifting the Cap on post 1974 members has been on the table now for quite sometime.

The following are points that I believe are important to consider.

1. The LEOFF I system is a closed system and is currently in the black, who knows how long that will last, however other systems are underfunded. Lifting the Cap will set a precedent that will most likely be passed on throughout the States Pension Systems.

2. Those in the LEOFF I System have not paid into the system since 2000 and continue to not do so while earning service credit. A Precedent that is seen in No Other System.

3. These members will receive up to 60% of their final years salary, not averaged over a number of years as in other plans, and receive full medical benefits for the rest of there respective lives.

4. The vast majority of LEOFF I members, already retired, received 60% or less when they retired.

5. I am told on a weekly basis that they can not live on 60% of their salary and some have testified before this committee the same thing in the past. How then can and are the retired LEOFF I members making it now and in the past. I know of none on Welfare, do you.

6. There is also the issue, now under consideration, to allow members to buy 5 years of service credit upon leaving the system. That will allow them to add another 10% to their pensions. They will have to pay both sides of the contributions to the system to do so, which they have not been paying for the last 5 years, and It will only take 6 years for that to become a push.

7. These members have the opportunity to retire at 60% of there final salary at 50 years of age not like other systems that have to go until they are 65 for the same 60%.

8. If the committee feels it must do something then I would suggest that a **Retire/Rehire** program would be a good one to put in place. Let them retire and come back to work for wages the next day with out gaining further benefits.

It is the opinion of many of the RFFOW that these issues could Jeopardize the system that is currently in the black. The same system that has gone from 136% of funding to 109% of funding in the last 5 years. One never knows what tomorrow brings but many of us feel it is time to leave all the systems alone for the good of all the members active and retied.

With the private sector looking to dump their pension system obligations it only behoves all of us including the legislature to be prudent and not allow the State to get into any further pension troubles then it currently is today.

Thank You

Frederick W. Corlis
RFFOW Board Member

The Washington State Law Enforcement Association

November 15, 2005

Chair Representative Frormhold
Vice-Chair Senator Fraser
SCPP Committee Members

Subject: Removal of LEOFF I Service Credit Cap

The Washington State Law Enforcement Association (WSLEA) respectfully requests that the Select Committee recommend HB 1873/SB 5901 (LEOFF I Cap removal) to the 2006 Legislature. Removal of the service credit cap for LEOFF 1 members hired after February 18, 1974, has no negative impact for any represented group, i.e., Retired Fire Fighters of Washington (RFFOW), retired LEOFF 1 members, active LEOFF 1 members, employer groups, or the state. WSLEA has identified three important points:

- The continuity and retention of institutional memory within our Public Safety provider organizations is important. LEOFF 1 Fire and Police members are highly respected and regarded among their peer groups and their communities. What purpose does it serve to deny service credit to so few of these affected individuals? The retention of valued employees far outweighs other concerns.

- Currently, the employer is relieved of pension contributions for these affected members. This was a legislative proposal, not a scheme advanced by LEOFF 1 members. Encouraging retirement by capping service at thirty years creates an environment whereby the employer replaces the retired employee with an employee who requires contributions from the employer and the state.

- LEOFF 1 pension modifciations have no bearing on contribution rates for the employers or members. Rates for the employers and members had always been 6% for each until contributions were suspended in mid 2000. This suspension occurred primarily because the state, employers, and members had made sufficient contributions to meet all future obligations. The legislature correctly links contributions (or the suspension thereof) to the ability of this closed system to meet its future obligations. Any attempt to link LEOFF 1 pension modifications to a reinstatement of contribution rates has been shown to be speculative and inaccurate.

P O BOX 7369 - Olympia, WA 98507-7369 - 1-800-227-9753 - FAX 360-754-8114
www.wslea.org

Chair Representative Fromhold
Vice-Chair Senator Fraser
SCPP Committee Members
Page 2
November 15, 2005

In the interest of fairness and equity to the LEOFF 1 law enforcement officers and fire fighters affected by the cap, this has been a legislative priority from our association for the past three years.

This year, the SCPP has the opportunity to recommend legislation that retains institutional memory within the public safety community and provides service credit cap accrual equity within LEOFF 1, utilizing a portion of the same surplus.

We ask for your support in forwarding this important legislative proposal. If you have any questions, please contact me or WSLEA Legislative Liaison, Mike Matson.

Respectfully,

Bruce A. Morrison

Bruce A. Morrison
Chairman of the Board

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.

Staff Contact

Robert Wm. Baker, Senior Research Analyst
360.786.6144; baker.robert@leg.wa.gov

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

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 786-6144

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

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

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

(v) "Earnable compensation" does not include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

((~~(vi)~~)) (viii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(36) "Substitute teacher" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A member of the retirement system who is a member of the state legislature or a state official eligible for the combined pension and annuity provided by RCW 41.32.497((~~,~~)) or 41.32.498((~~, as now or hereafter amended~~)) shall have deductions taken from his or her salary in the amount of seven and one-half percent of earnable compensation and that service credit shall be established with the retirement system while such deductions are reported to the retirement system, unless he or she has by reason of his or her employment become a contributing member of another public retirement system in the state of Washington. Such elected official who has retired or otherwise terminated his or her public school service may then elect to terminate his or her membership in the retirement system and receive retirement benefits while continuing to serve as an elected official. A member of the retirement system who had previous service as an elected or appointed official, for which he or she did not contribute to the retirement system, may receive credit for such legislative service unless he or she has received credit for that service in another state retirement system, upon making contributions in such amounts as shall be determined by the ((~~board of trustees~~)) director.

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

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

(1) Persons in ineligible positions;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Persons in ineligible positions;

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

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

(b) A member holding elective office <u>other than state elective office</u> who has elected to apply for membership pursuant to (a) of this subsection and who later ((~~wishes to be~~)) <u>is</u> eligible for a retirement allowance shall have the option of ending his or her membership in the retirement system. A member ((~~wishing to end~~)) <u>ending</u> his or her membership under this subsection must file, on a form supplied by the department, a statement indicating that the member agrees to irrevocably abandon any claim for service for future periods served as an elected official. A member who receives more than fifteen thousand dollars per year in compensation for his or her elective service, adjusted annually for inflation by the director, is not eligible for the option provided by this subsection (3)(b);

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

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

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

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

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

(c) An employee shall not either before or after June 7, 1984, be excluded from membership or denied service credit pursuant to this subsection solely on account of: (i) Membership in the plan created under chapter 2.14 RCW; or (ii) enrollment under the relief and compensation provisions or the pension provisions of the volunteer fire fighters' relief and pension fund under chapter 41.24 RCW;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(21) Employees who are removed from membership under RCW 41.40.823 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:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS	$ 28,099	$ 19	$ 28,118
(The Value of the Total Commitment to all Current Members)	TRS	$ 15,616	$ 0	$ 15,616
	SERS	$ 2,126	$ 1	$ 2,127
Unfunded Actuarial Accrued Liability	PERS	$ 2,563	$ 8	$ 2,571
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS	$ 1,415	$ 0	$ 1,415
	SERS	$ N/A	$ N/A	$ N/A
Unfunded Liability (PBO)	PERS	$ (673)	$ 18	$ (655)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	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):	PERS	TRS	SERS	Total
2006-2007				
State:				
General Fund	$0.3	$0.0	$0.1	$0.4
Non-General Fund	$0.6	$0.0	$0.0	$0.6
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	$1.6	$0.0	$0.0	$1.6
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	$25.4	$0.0	$0.0	$25.4
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.

Background

The Unfunded Actuarial Accrued Liability for the PERS and TRS Plans 1 (Plan 1 UAAL) continues to be a significant obligation for all employers in PERS, TRS, SERS, and (effective July 1, 2006), PSERS. Payments for this obligation were suspended during the previous and current biennia. Regular UAAL payments are scheduled to resume in the 2007-2009 biennium.

Committee Activity

Presentations:
July 19, 2005 – Full Committee
August 23, 2005 – Full Committee

Plan 1 Unfunded Liability Subgroup:
October 3, 2005 – Subgroup Meeting
October 27, 2005 – Subgroup Meeting
November 15, 2005 – Subgroup Recommendation to Full Committee

Proposal:
December 13, 2005 – Full Committee

Recommendation to Legislature

Reinstate contribution rates for the Plan 1 UAAL beginning July 1, 2006, using a three-year phase-in. (Proposed legislation is under this tab.) Establish minimum contribution rates for the Plan 1 UAAL beginning July 1, 2009. (See Tab 3, Contribution Rate Floors.)

Staff Contact

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Plan 1 Unfunded Liability

(December 21, 2005)

Issue

The Unfunded Actuarial Accrued Liability for the PERS and TRS Plans 1 (Plan 1 UAAL) continues to be a significant obligation for all employers in PERS, TRS, SERS and (effective July 1, 2006), PSERS. The current funding methodology and policies for addressing the Plan 1 UAAL are contributing to courses of action that are causing this unfunded liability to grow. As the Plan 1 UAAL grows, it becomes an increasingly larger portion of employer contribution rates - rates which are already projected to climb steeply in the future. This report will examine the Plan 1 UAAL and explore options for managing it in the future.

Staff

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Members Impacted

Members are not directly impacted by the Plan 1 UAAL, as their contribution rates do not include payments for this unfunded liability. However, to the extent that the Plan 1 UAAL affects benefit security and future benefit improvements in the affected plans, there is an effect on members.

Current Situation

Current Funding Methodology

The current funding policy for paying the UAAL is twofold: 1) spread the cost out over time - that is, pay the UAAL over an amortization period that extends through June 30, 2024; and, 2) spread the cost over more employers - that is all PERS, TRS, SERS, and (starting July 1, 2006), PSERS employers of members of all the plans within those systems (Plans 1, 2 and 3), including projected new entrants for the systems in the future.

Magnitude of UAAL

According to the 2003 Actuarial Valuation Report (AVR), the PERS, and TRS Plans 1 have a combined UAAL of approximately **$4 billion**, with the UAAL for PERS 1 at $2.620 billion and the UAAL for TRS 1 at $1.416 billion. LEOFF 1 is currently running a negative UAAL, which is also referred to as a "surplus." The amount of the UAAL will vary from one actuarial valuation to the next. The most significant factor in this variation is investment returns.

Based on the most recent actuarial valuation, the employer contribution rates (expressed as a level percentage of pay) and schedule of payments required in the 2005-2007 biennium to amortize the Plan 1 UAAL are:

System	UAAL rate* 2005-2007	GF-S Contributions**	Total Employer Contributions
PERS	2.10%	$67.6	$338.0
TRS* **	2.80%	139.5	231.7
SERS	2.10%	23.3	59.7
Total		$230.4	$629.4

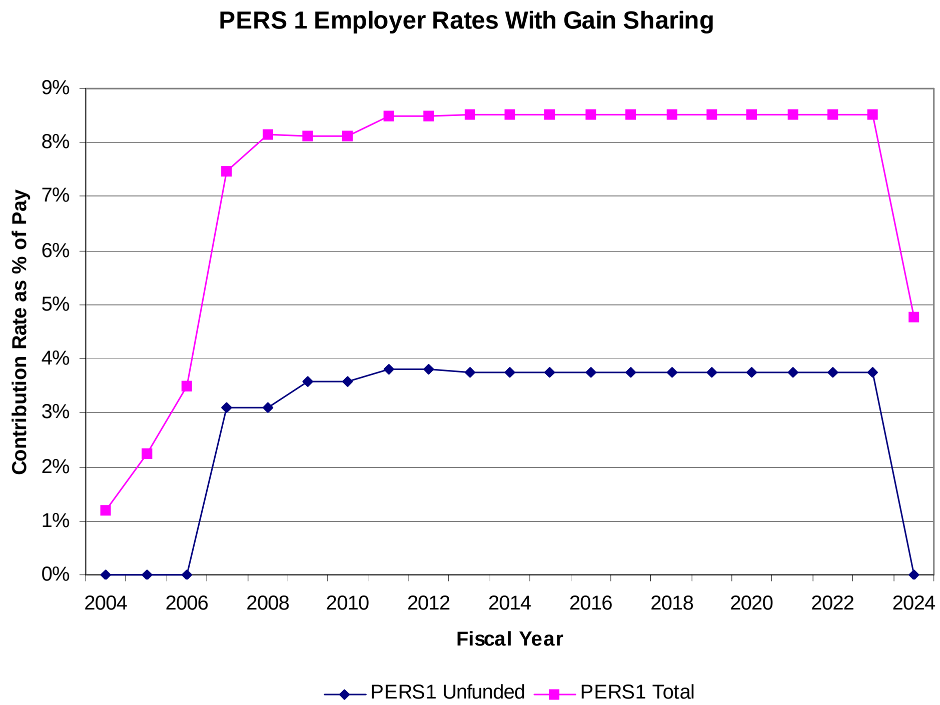
** Rates and funds include the cost of future gain-sharing benefits. Rates in effect for two-year period beginning July 1, 2005 for PERS, September 1, 2005 for TRS and SERS.*
*** Dollars are in millions.*
**** Includes an additional 0.01 percent for the non-automatic post-retirement benefit increase provided under Chapter 85, Laws of 2004.*

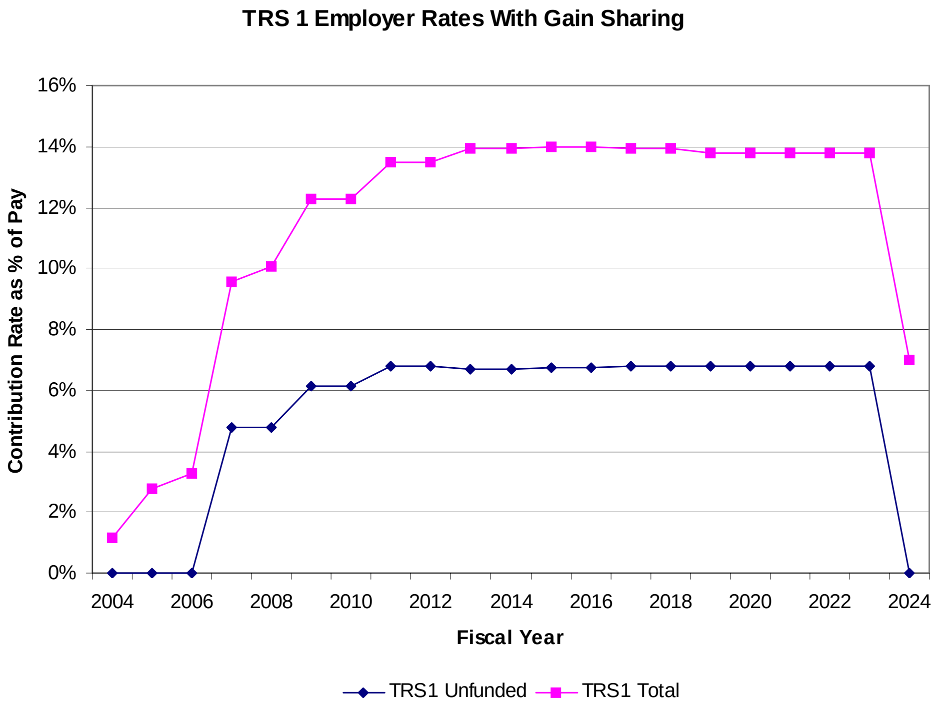
Role of Plan 1 UAAL in Projected Employer Contribution Rates

The Plan 1 UAAL payments represent a significant component of the required employer contribution rates. Currently, employer and state contribution rates must be the “level” percentages of pay that are required not only to fully amortize the unfunded liability in PERS 1 and TRS 1, but also to fully fund the Plans 2/3.

Contribution rates for all affected systems are projected to increase significantly over the next several biennia. By the 2009 fiscal year it will cost employers more than 6 percent of payroll just to fund the TRS 1 UAAL alone. In addition, basic contribution rates must cover the normal cost of benefits, meaning that employer rates are projected to climb to ultimate levels of about 8 percent for PERS, 14 percent for TRS and 11 percent for SERS.

The following graphs illustrate the role of the Plan 1 UAAL in projected basic employer contribution rates.


PERS 1 Employer Rates With Gain Sharing
Contribution Rate as % of Pay
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
Fiscal Year
PERS1 Unfunded
PERS1 Total



Current Status of Actuarially Required Payments

The legislature suspended payments for the UAAL in the current biennium (2005-2007). Payments were also suspended during the previous biennium (2003-2005). Absent this legislation, regular UAAL payments are scheduled to resume in the upcoming biennium (2007-2009).

There will be a long-term increase in the UAAL contribution rates as a result of this biennium's two-year suspension. The PERS UAAL rate, payable by PERS, SERS, and PSERS employers, will increase 0.25 percent and the TRS UAAL rate will increase 0.30 percent beginning in the 2007-2009 biennium. The fiscal budget determinations below illustrate the cost in dollars of suspending the Plan 1 UAAL in the current biennium.

Change in Plan 1 UAAL Rates from Suspension

Biennium	PERS	TRS	SERS
2005-2007	(1.70%)	(2.00%)	(1.70%)
2007-2009 & thereafter	0.25%	0.30%	0.25%

Fiscal Budget Determinations for Suspending UAAL Payments in 2005-2007:

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

Costs (in Millions):	**PERS**	**TRS**	**SERS**	**Total**
2005-2007				
State:				
General Fund	($54.7)	($99.6)	($18.9)	($173.2)
Non-General Fund	($90.3)	$0.0	$0.0	($90.3)
Total State	**($145.0)**	**($99.6)**	**($18.9)**	**($263.5)**
Local Government	($128.6)	($65.9)	($29.5)	($224.0)
Total Employer	($273.6)	($165.5)	($48.4)	($487.5)
Total Employee	$0.0	$0.0	$0.0	$0.0
2007-2009				
State:				
General Fund	$9.0	$18.1	$1.8	$28.9
Non-General Fund	$14.8	$0.0	$0.0	$14.8
Total State	**$23.8**	**$18.1**	**$1.8**	**$43.7**
Local Government	$21.2	$9.0	$2.5	$32.7
Total Employer	$45.0	$27.1	$4.3	$76.4
Total Employee	$0.0	$0.0	$0.0	$0.0
2005-2030				
State:				
General Fund	$66.8	$141.3	$25.4	$233.5
Non-General Fund	$109.9	$0.0	$0.0	$109.9
Total State	**$176.7**	**$141.3**	**$25.4**	**$343.4**
Local Government	$156.7	$54.4	$36.9	$248.0
Total Employer	$333.4	$195.7	$62.3	$591.4
Total Employee	$0.0	$0.0	$0.0	$0.0

Another way of examining the cost to all employers of suspending the Plan 1 UAAL payment in the current biennium is to use a "Truth in Lending" format that discloses the amount financed, the applicable interest percentage rate, and the dollars paid over the life of the "loan."

TRUTH-IN-LENDING DISCLOSURE FOR SUSPENSION OF PLAN 1 UAAL PAYMENT IN THE CURRENT BIENNIUM (2005-2007)

Annual Percentage Rate	Finance Charge	Amount Financed	Total of Payments
The cost of the "credit" as a yearly rate	The dollar amount the credit will cost all employers	The amount of credit provided (i.e. amount suspended in current biennium)	The amount all employers will have paid after making all the scheduled payments
8%	**$591.4 million**	**$487.5 million**	**$1.0789 billion**

History

How did PERS and TRS 1, which were closed in 1977, accumulate such a large UAAL? A combination of under-funding coupled with significant benefit improvements has, over time, led to this unfunded liability. Market returns have also played a role. Finally, changes in funding policy have steered the system toward contribution rate reductions which have amplified the rate increases that ultimately must follow.

Changes in Plan 1 UAAL Over Time

The following table is a ten-year history of the Plan 1 UAAL for PERS and TRS. This table illustrates how the Plan 1 UAAL can ebb and flow over time.

AVR*	PERS 1	TRS 1	TOTAL**
1994	$2,684	$2,720	$5,404
1995	2,993	2,850	5,843
1996	2,640	2,593	5,233
1997	1,659	1,547	3,206
1998	1,506	1,234	2,740
1999	809	663	1,472
2000	227	4	231
2001	301	(22)	279
2002	1,366	574	1,940
2003	2,620	1,416	4,036

* *Actuarial Valuation Report*
** *Dollars in millions*

Under-Funding

Prior to enactment of the Pension Funding Reform Act in 1989, contributions to the Plans 1 were made on an ad hoc basis. For the nine biennia (18 years) extending from 1973 through 1991, the full funding requirements of PERS, TRS, and LEOFF were satisfied by the legislature only once. Actual contributions ranged from a low of 60 percent of the required amount in 1973-75 to a high of 95 percent in 1979-81.

After passage of the Pension Funding Reform Act, the legislature embarked upon a 12-year period (1991-2003) of funding 100 percent of the actuarially required contributions. However, in the past and current biennia the legislature again created a gap between the actuarially required contributions and the amounts actually appropriated for expenditure, funding the retirement systems at the 70 percent level for 2003-2005.

Plan 1 Benefit Improvements

In 1972 for PERS and 1973 for TRS, the benefit formula for the Plans 1 was increased from a 1 percent to a 2 percent formula. There is no fiscal note to access for the legislation effecting this benefit change, as the Office of the State Actuary did not exist at that time. However, one can assume that this benefit improvement doubled the cost of retirement benefits in the Plans 1.

In 1989, the same year that the Pension Reform Act was enacted, the Plan 1 Age-65 COLA also became law. This was the first *automatic* cost-of-living adjustment granted in the PERS/TRS systems. Another significant benefit improvement occurred in 1995, when the Uniform COLA design replaced the Plan 1 Age 65 COLA.

The Uniform increase is a dollar amount, which increases by at least 3 percent each year, multiplied by the members' total years of service; the product is then added to each member's monthly retirement benefit each year. As of July 1, 2005, the Uniform Increase Amount is $1.25. A retiree who was at least age 66 at retirement with 30 years of service will receive a monthly increase of $37.50. In 1995, enactment of the Uniform COLA legislation was projected to increase the PERS and TRS Plan 1 unfunded liability by roughly $300 million (present value at 1995), and the 25-year "total state" cost of the benefit was estimated at $612 million.

Other Plan 1 benefit improvements have included early retirement windows in 1980, 1982, 1992, and 1993. Early retirement windows typically provide short-term salary savings but add long-term liability to the pension system, as the retirement benefits for those retiring early are received over a longer period of time.

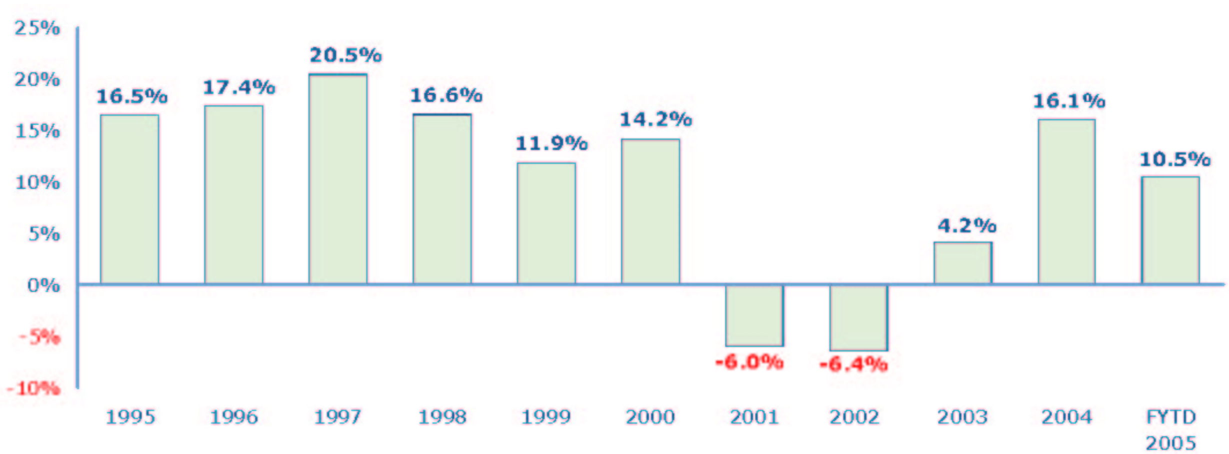
Also, in 1998, Plan 1 gain-sharing was enacted. For the PERS and TRS Plans 1, one-half of the gain-sharing amounts allocated in 1998 and 2000 resulted in increases to the "Annual Increase Amount" used in calculating the Uniform COLA. These benefit increases were permanent with a cost totaling $924 million. The other half of the Plan 1 gain-sharing allocations - another $924 million - was used to help draw down the Plan 1 amortization date. In 2000, as the result of gain-sharing, the Plan 1 UAAL payoff date was moved back to 2016. In 2001, however, the Plan 1 UAAL payoff date was extended back out to 2024, the same as it was prior to gain-sharing.

Market Returns

Market returns have also played a significant role in the magnitude and movement of the Plan 1 UAAL over time. When market experience is more favorable than the actuarial assumed rate of investment returns (8 percent for the Washington State Retirement Systems), unfunded plan liabilities are reduced. When market experience is less favorable, unfunded plan liabilities increase.

The State Investment Board reports the following annual performance for assets under management over the past ten years:

SIB Annual Performance - Fiscal Years End June 30



Changes in Funding Policy

Finally, changes in funding policy over the last 12 years have contributed to the movement and magnitude of the Plan 1 UAAL over time. Due to circumstances in the market, these changes steered the system toward contribution rate reductions in each instance, leading to both premature recognition of investment gains and also to delayed recognition of investment losses. The changes also amplified the future rate increases that must ultimately follow to meet the funding obligations by the required payoff date.

The funding policy changes that contributed to increasing the UAAL in the later years of the amortization schedule (i.e. "back-loading" the payoff) included:

- 1993 change from a six-year contribution rate setting cycle to a two-year cycle;
- 2001 change from a three-year to a four-year smoothing period;
- 2003 change from a four-year up to an eight-year smoothing period; and,
- Annual adoption of contribution rate decreases in certain "off-cycle" years.

To summarize, the history of the Plan 1 UAAL shows a multitude of factors contributing to its fluctuating size over time. These include under-funding, benefit improvements, investment returns and changes in funding policy. It would be useful to be able to break the UAAL into a convenient "pie chart" showing how much of today's unfunded liability it is attributable to each factor. However, this has not been possible because of the complexity of the factors and the difficulty in quantifying each one of them in today's dollars (e.g. costs in 1995 are not comparable to costs today). In any event, this report illustrates that the Plan 1 UAAL is not a fixed amount. Instead it fluctuates in every funding cycle and thus is a "moving target."

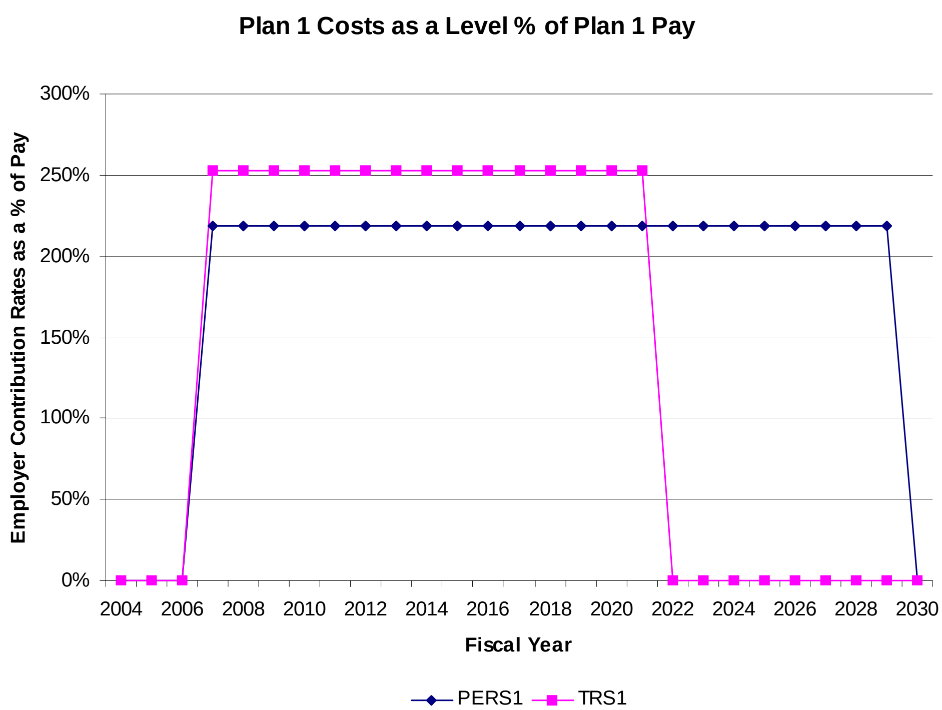
Policy Analysis

Intergenerational Equity

The statutory policy for intergenerational equity is codified within the actuarial funding chapter of the Revised Code of Washington. RCW 41.45.010(4) establishes the goal of funding, to the extent feasible, benefit increases for plan 1 members over the working lives of those members. The reason for this policy is so that the benefits are paid by the taxpayers who receive the benefits of those members' services.

The current funding methodology is inconsistent with this policy. The Plans 1 were closed in 1977. Now there are roughly three retirees for every active member in the Plans 1. The average age for active Plan 1 members is 55, the average number of years of service for PERS 1 is 21.4, and the average number of years service for TRS 1 is 23.9. There will be virtually no active members in the Plans 1 when the UAAL is paid off, assuming the legislature stays on track to fully pay the UAAL by June 30, 2024.

The following graph illustrates the magnitude of Plan 1 employer contribution rates that would be necessary if all remaining Plan 1 costs were spread over the working lifetimes of the remaining Plan 1 members. When the plans are funded over Plan 1 payroll, the PERS employer contribution rate jumps from about 3 percent to over 200 percent and the TRS rate increases from about 5.5 percent to over 250 percent.



Socializing the Cost

The Plan 1 UAAL is paid by employers (not members) as specified in Chapter 41.45 RCW. The Plan 1 UAAL costs have been considered too excessive to be absorbed by Plan 1 employers alone, as they would result in contribution rate increases that would be impossible for the Plan 1 employers to absorb. For this reason, the Plan 1 costs have been "socialized," or spread among all PERS, TRS, SERS, and (starting July 1, 2006) PSERS employers. Thus all employers pay a total contribution rate equal to the plan 2/3 normal cost plus the Plan 1 UAAL rate.

The consequence of socializing the costs of the Plan 1 UAAL is that all employers pay the same contribution rates, even though the normal cost of the Plans 2/3 is less than the normal cost in the Plans 1. Contribution rates are uniform for employers regardless of the plan membership of their employees. Shifting the UAAL costs to other plans is not a common actuarial funding method, but this strategy has reduced Plan 1 contribution rates to something employers could manage.

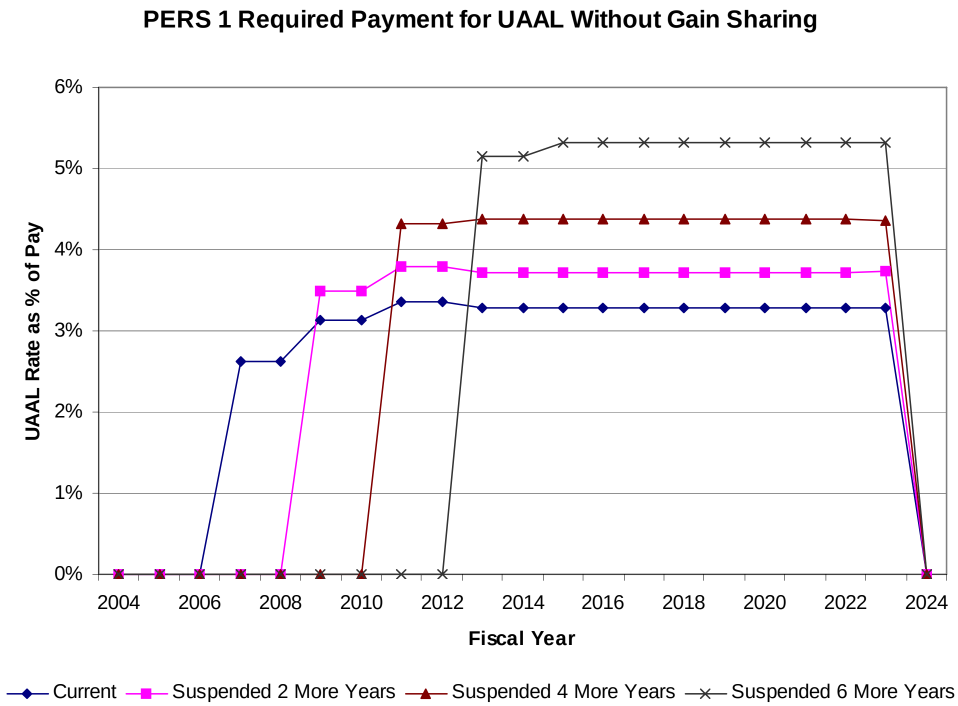
The advantage of this approach is that a workable plan was created to accommodate the payoff schedule for the Plan 1 UAAL. The disadvantage is that Plan 2/3 employers are paying the costs for benefits to members that never render services to them. Socializing the Plan 1 UAAL costs creates an issue of parity between the plans. It also contributes to obscuring the true cost of the Plans 1 and any proposed benefit improvements for its members.

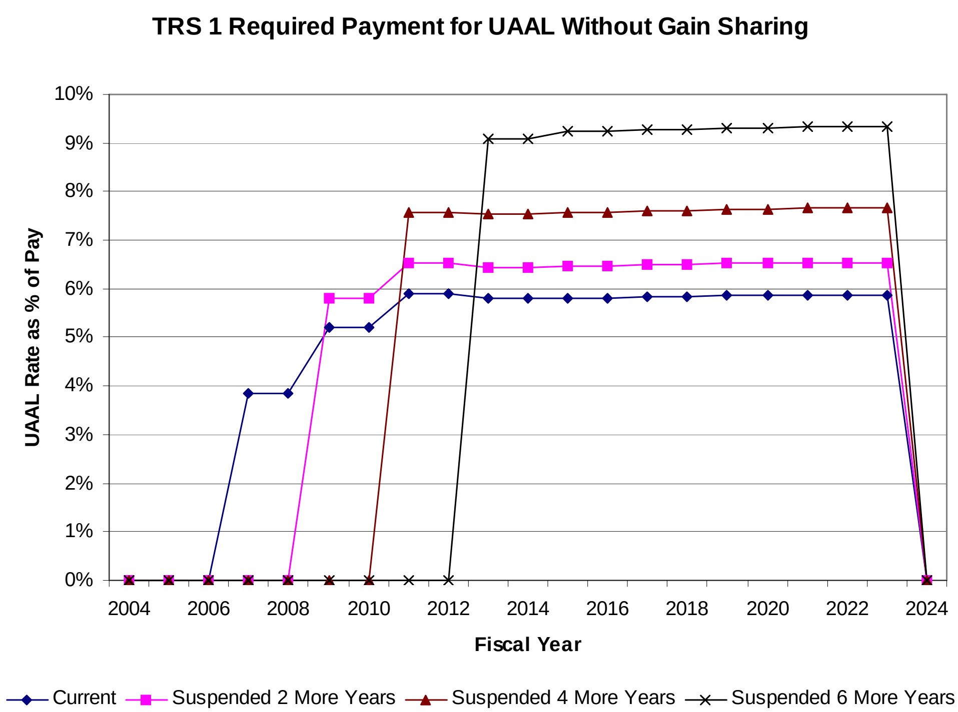
Full Amortization by June 30, 2024

The statutory funding policy for paying off the UAAL in the Plans 1 is also codified as a goal within the actuarial funding chapter. As shown above, adopting UAAL rates that would support intergenerational equity may not be realistic. This helps to explain why RCW 41.45.010(2) states that the funding process for the state retirement systems is intended to fully amortize the total Plan 1 costs by not later than June 30, 2024. This goal was a compromise that was set up to help close a funding gap that had been long-standing. The cost was made more manageable by spreading it out over time.

Spreading the Plan 1 UAAL costs out over time makes it appear that Plan 1 benefit increases have less effect on employer contribution rates when in fact, if the legislature used the same funding methodology that it applies to the Plans 2/3, the costs of benefit improvements would alter contribution rates much more quickly and therefore, more significantly.

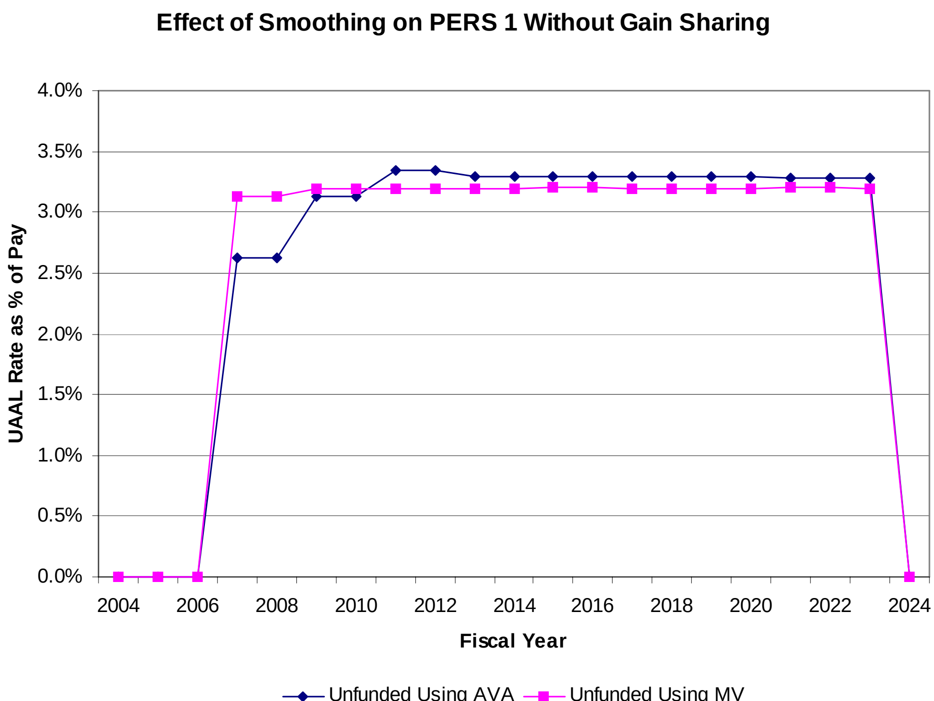
It should be noted that payment of the Plan 1 UAAL has already been "back loaded," meaning that UAAL payments must increase over time to reach the deadline of June 30, 2024. The following are the projected contribution rates necessary to fully amortize the total Plan 1 costs by not later than June 30, 2024, *excluding gain-sharing*, and skipping one or more payments as noted:


PERS 1 Required Payment for UAAL Without Gain Sharing
6%
5%
4%
3%
2%
1%
0%
UAAL Rate as % of Pay
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
Fiscal Year
Current
Suspended 2 More Years
Suspended 4 More Years
Suspended 6 More Years

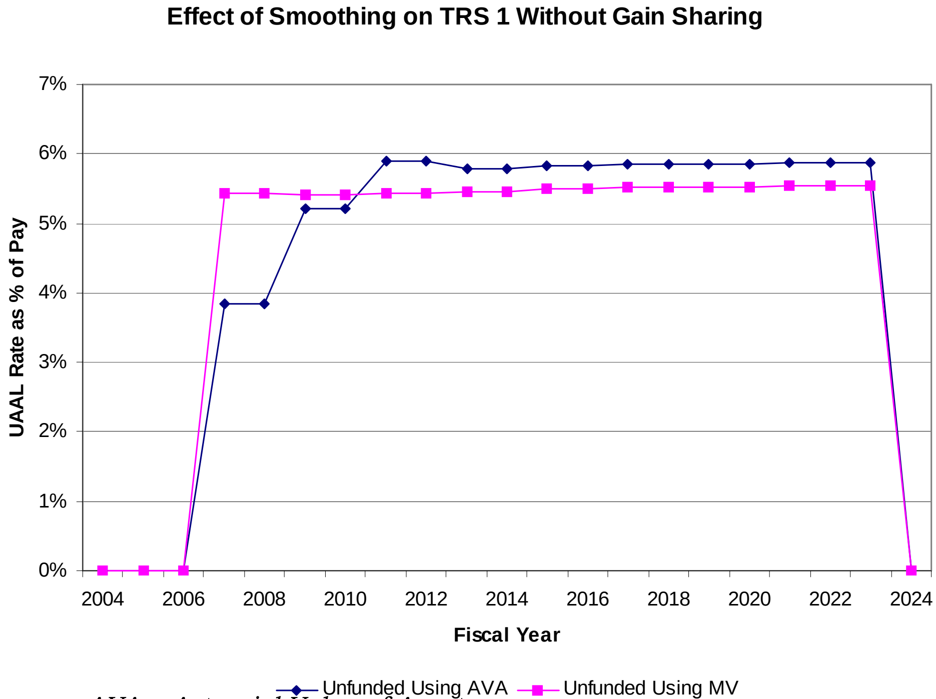

TRS 1 Required Payment for UAAL Without Gain Sharing
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
UAAL Rate as % of Pay
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
Fiscal Year
Current
Suspended 2 More Years
Suspended 4 More Years
Suspended 6 More Years

Effects of Smoothing

Asset smoothing is a method for deferring large increases or decreases in asset returns so as to avoid volatility in contribution rates. In Washington, we use a smoothing period of up to eight years with a market value corridor of 30 percent. In the short term, smoothing may contribute to a dynamic that temporarily obscures the unfunded costs of the Plans 1. This in turn may affect the willingness to improve Plan 1 benefits, as it may alter the short-term perceptions of the magnitude of the Plan 1 UAAL. As the graphs illustrate, assuming a static 8 percent annual investment return for all future years, the smoothing technique makes the step-up in required UAAL contribution rates more gradual for the first several years.



AVA = Actuarial Value of Assets
MV = Market Value of Assets



AVA = Actuarial Value of Assets
MV = Market Value of Assets

Economic Trends/Assumptions

The time frame that remains to address the Plan 1 UAAL payoff is now less than 20 years. The graphs above illustrate how payments are "back-loaded," meaning that the required contribution rates are significantly more in the future than what employers are currently used to paying. This fact becomes important to the UAAL payoff commitment, as required contribution rates become more sensitive to assumption changes and experience gains and losses in the final years of payoff.

It is useful to consider the effects of possible changes in economic trends and assumptions between now and the payoff date to understand how required UAAL contribution rates could be affected. For example if the assumed investment rate of return of 8 percent were not achieved over the next 19 years, and instead the fund returned 7.75 percent for the period, PERS required contribution rates would increase by .19 percent and TRS rates would increase by .33 percent for the period (without gain-sharing). Another way of considering the role of investment returns is to look at the returns that would be required to avoid increasing UAAL rates between now and the payoff date. The required investment returns to achieve that goal (for the UAAL only) would be about 12 percent per year throughout the current amortization period.

Another key assumption in the projected UAAL payoff schedule is the assumption that future membership will grow at 1.25 percent per year (0.9 percent in TRS). A no-membership growth assumption would require an increase in required contribution rates of .31 percent for PERS and .33 percent for TRS (again, without gain-sharing). These scenarios illustrate how short-term changes in long-term assumptions can affect contribution rates.

Long-term vs. Short-term Approaches

In setting its goals for actuarial funding of the state retirement systems, the legislature stated its intent in RCW 41.45.010 to provide a dependable and systematic process for funding the benefits provided to members and retirees. Recent contribution holidays and suspension of payments for the Plan 1 UAAL have, however, prevented the build-up of any temporary "asset reserve" that could have accumulated to offset the investment losses of several years ago that are still being recognized under the current asset smoothing method.

Compounding the problem has been the use of annual actuarial valuation results to justify both reductions in contribution rates and suspension of liability payments. An actuarial valuation report is merely a "snapshot" in time. The snapshot approach can work well for budget writers, who tend to focus on the needs of the upcoming biennium. The short-term focus, however, ignores the long-term consequences of such actions to pension system funding and tends to threaten contribution rate adequacy over the long-term. Inadequate contribution rates can in turn undermine contribution rate stability, bond ratings and ultimately, benefit security for plan members.

Benefit security is particularly important in closed plans. With few actives to support new contributions to the system, and with more and more benefits being paid to retirees, adequate and secure funds must be available to pay promised benefits. This is especially important in states like Washington, which recognize vested pension benefits as contractual obligations of the state.

Public defined benefit plans are designed to be funded over the long-term. In fact, it is the long-term approach that makes these plans cost-effective for taxpayers. A long-term funding approach allows for the pooling and spreading of risks, resulting in greater economic efficiencies and economies of scale for taxpayers. Short-term interruptions in required funding create costs that must be picked up in the future. This can be referred to as borrowing from the future to pay for the present, or "pay less now - pay more later." Short-term under-funding undermines not only the "economic engine" of public pension funds, but also violates the legislative funding goal of intergenerational equity, a doctrine that is grounded in concepts of fairness to successive generations of taxpayers.

Relationship to Other Plan 1 Goals

Given the current legislative inability to fully fund the retirement systems, one could say that there is "not enough money to go around." That being the case, retiring the Plan 1 UAAL is at odds with proposals that increase Plan 1 benefit costs. When there is not enough money to go around, policy makers are forced to prioritize their goals and decide which is more important.

There is at least one major Plan 1 goal that is at odds with the goal of paying of the Plan 1 UAAL by 2024. Increasing Plan 1 retiree purchasing power has been a theme before the SCPP and before that, the JCPP, for many years. Related to this goal is the role of gain-sharing as a mechanism for increasing Plan 1 adjustments to retirement benefits.

Examples of Approaches Used to Address Pension Funding Concerns

Increasing Contributions

Starting July 1, 2005, employer and member contributions for New Mexico's Educational Retirement System will increase according to a four-year phase-in plan. Employer contributions will increase to 13.9 percent from 8.65 percent prior to the phase-in. Member contributions will increase from 7.65 percent to 7.9 percent over the four-year period.[1]

In Montana, bills providing actuarially necessary employer contribution increases for four retirement plans, phased in over four to six years, were tabled. Solutions may be proposed in a special legislative session at the end of the calendar year. [2]

Benefit Reductions and New Tiers

Oregon's 2003 reform legislation was introduced to save the retirement system money by altering the benefit structure. The resulting plan amendments were challenged in the courts. Provisions affecting new employees in the new tiers were upheld, but plan amendments affecting benefits for existing employees and retirees were struck down as a violation of vested contractual rights. As of April 2005, Oregon's actuaries estimated that the cost of the Oregon Supreme Court's final decision in the case would cost 2.7 percent of pay. The projected total employer contribution rate for July 1, 2007, is expected to be about 24 percent of pay (assuming the use of about $1.8 billion in reserves for pension fund purposes).[3]

The DB/DC Debate

The California governor's plan to place a defined contribution plan for public employees on the ballot was delayed, largely in response to pressure from public safety officers that the new plan did not offer disability or death benefits. The proposed employer defined contribution rates were lower than the current normal cost contributions employers pay for the defined benefit plan. Savings were projected to be up to $1 billion in annual retirement costs after the plan is fully phased in for all public employees. Such a phase-in could take several decades.[4]

West Virginia closed the Teachers' DC Retirement System to newly hired personnel and returned to a defined benefit plan because it is cheaper to run in the long-term. Existing members of the DC plan will elect whether to continue operating the DC plan or whether it should be merged with the DB plan. The bill also mandates an education program for members of the DC plan.[5]

Alaska's 2005 Retirement Security Act places new hires in a DC plan.[6]

Pension Obligation Bonds

In 1997, New Jersey borrowed $2.7 billion in pension obligation bonds to fill a gap in its public pension plan funding. These bonds, sometimes called POBs, are general obligation debt much like any government borrowing, but they are issued in order to put the proceeds into the pension funds instead of into the general government coffers. The bond issuer makes a bet that the borrowed money can be invested to earn more than the interest rate that the bonds must pay.

Because New Jersey's pension obligation bonds were issued only a few years before a big drop in the stock market, the Garden State's bond issue has become a cautionary tale of how wrong that bet can go. Since 1997, New Jersey's POBs have averaged an annual return well below the 7.6 percent they owe in interest. The borrowing, which was intended to boost the pension plans' assets, has instead become a painful multiplier of the state's existing pension problems. Currently facing a pension deficit of at least $25 billion, the state will have to contribute more than $1 billion to its pension fund next year, up from $100 million this year.[7]

In West Virginia voters recently rejected a plan to sell as much as $5.5 billion of bonds to help pay for unfunded pension liabilities. Under a state Supreme Court order, West Virginia has to close its pension funding gap by 2034.[8]

Pursuant to authority granted to it by legislation passed in 2004, California issued more than $2 billion in pension obligation bonds last year.[9]

According to www.bloomberg.com, the largest-ever pension obligation bond sale was by Illinois in June 2003, when the state sold $10 billion.[10]

Rate Stabilization

CalPERS is considering strategies to stabilize contribution rates. These strategies do not focus on rate adequacy but rather on keeping contribution rates at a relatively constant percentage of pay over time. CalPERS has been looking at a longer asset smoothing period (15 years), longer amortization periods for annual non-investment gains/losses (30 years rolling), minimum contributions for plans in surplus, and a "pension stabilization account" that could function as a "rainy day" account.[11]

Federal Policy Trends for "At risk" Plans

In the wake of the United Airlines pension plan default, H.R. 2830 (“the Pension Protection Act”) was recently introduced at the federal level to reform current pension funding rules and to reduce the number of under-funded private pension plans. The bill would also increase the premiums employers pay to the Pension Benefit Guarantee Corporation from $19 to $30 per plan participant.

The bill calls for more aggressive funding targets, shorter amortization periods for shortfalls, freezes on benefit improvements for at-risk plans, and increased disclosure to plan participants and beneficiaries. Plans with more retirees, older workers, more lump sum payments, and shrinking workforces would be required to make greater pension contributions than plans with fewer retirees, younger workers, less lump sum payments, and growing workforces. H.R. 2830 applies to both single and multi-employer plans in the private sector.[12]

Increased disclosure is also a private sector concern. In a report released on June 15, 2005, the SEC urged the Financial Accounting Standards Board (FASB) to reconsider its accounting guidance for private sector defined benefit plans and other post-retirement plans. The report maintains that current pension accounting rules that allow for a complex series of smoothing mechanisms make financial statements difficult to understand and less transparent.[13]

The national discussion on pension reform is moving toward tighter funding rules and increased disclosure. These reforms would avoid practices which "hide" pension costs, help provide benefit stability, and improve long-term management of pension funding.

Questions for Policymakers

- Can employers afford more increases in the required projected contribution rates for the Plan 1 UAAL?
- If Plan 1 liabilities are increased by Plan 1 benefit enhancements that are not supported by existing contribution rates, is it fair to ask future taxpayers and Plan 2/3 employers to pay for them?
- Are there ways to manage the Plan 1 UAAL and still provide ongoing reasonable benefit enhancements for Plan 1 members and retirees?
- How can benefit security be protected in the final years of the plan?
- Would employers prefer to avoid unexpected increases in contribution rates and the end of the UAAL amortization period?

Options for Managing the Plan 1 UAAL

Option 1: *Stop suspending UAAL payments.*

A policy to avoid suspending future Plan 1 UAAL payments could be codified into the actuarial funding chapter along with other funding policies.

Option 2: *If revenue forecasts improve, resume payments as early as the next year of this biennium.*

This option could lead to a "split rate" in PERS for state vs. local governments, since state and local revenues come from different sources. A split rate would affect accounting and administration details.

Option 3: *Change the funding policy to price Plan 1 benefit improvements more accurately.*

For actives, this option would spread the cost over remaining payroll and for retirees, over their remaining lifetimes. This approach would be more consistent with existing policy for intergenerational equity.

Option 4: *Phase in a step-up of UAAL rates, then level rates out so as to retire the UAAL earlier than (or no later than) June 30, 2024.*

After a phased step-up in UAAL rates, a level funding requirement could be established to pay of the Plan 1 UAAL in a timely manner.

Option 5: *Establish a minium contribution rate floor with a target funding ratio.*

A minimum employer contribution could be established as part of the basic employer contribution that would be allocated for the sole purpose of amortizing the Plan 1 UAAL. This minimum contribution would remain effective until the actuarial value of assets equals a target percentage (e.g. 125 percent) of the actuarial accrued liability for each plan or the amortization date, whichever comes first.

Executive Committee/SCPP Recommendations

The Executive Committee of the SCPP recommended at its June meeting that this issue be heard by the full committee in July. After its July briefing, the SCPP further considered Plan 1 Unfunded Liability Options in August. On August 23, 2005 the SCPP formed a technical subgroup to further explore the options. After several meetings, the subgroup recommended a three-year phase-in of Plan 1 UAAL contribution rates beginning July 1, 2006. It also recommended that Plan 1 UAAL minimum contribution rates with a target funding ratio be established as of July 1, 2009. The phase-in and rate floor are found in two separate bills that are proposed for the 2006 legislative session.

Conclusion

The Plan 1 UAAL continues to be a significant pension liability for the Washington State Retirement System employers. This report is presented as a reminder of the role this liability plays in pension funding and pension funding policy. Also, to the extent that future pension dollars must continue to be used to pay off this liability, there are significant implications for the viability of pending and future proposals to improve Plan 1 benefits. As the payoff date approaches, the consequences of avoiding or postponing this liability are magnified, and the effects on benefit security will become more pronounced.

Endnotes

1. http://www.era.state.nm.us/Legislative_News/Legislation_2005/legislation_2005.htm
2. http://data.opi.state.mt.us/bills/2005/billhtml/HB0148.htm and http://data.opi.state.mt.us/bills/2005/billhtml/HB0181.htm
3. http://oregon.gov/PERS/
4. http://www.igs.berkeley.edu/library/htPensionReform.html#Topic6
5. http://news-register.net/news/story/0621202005_new02.asp
6. http://www.akrepublicans.org/stedman/24/news/sted2005041101p.php
7. http://businessweek.com/magazine/content/05_24/b3937088.htm
8. http://www.bloomberg.com/apps/news?pid=71000001&refer=us&sid=aQtQETWakQHY

9. http://www.metnews.com/articles/jarv121203.htm

10. http://www.taxpayfedil.org/oct03.htm

11. http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2005/april/stabilization-policy.xml

12. http://thomas.loc.gov/cgi-bin/query/z?c109:H.R.2830:

13. http://www.sec.gov/news/press/2005-91.htm

Rate Floor with Target Funding Ratio

(October 17, 2005)

Example

The following are excerpts from HB 1324 (2005 session) and provide an example of a rate floor with a target funding ratio that was included in last year's SCPP proposal:

> *"Beginning July 1, 2009, an additional minimum 2.75 percent is added to the minimum employer contribution rate of 4.00 percent for the public employees' retirement system until the actuarial value of assets equals one hundred 125 percent of the actuarial accrued liability for the public employees' retirement system plan 1 or June 30, 2024, whichever comes first."*

> *"Upon completion of each biennial actuarial valuation, the pension funding council and the state actuary shall review the appropriateness of the minimum contribution rates and the pension funding council shall recommend to the legislature any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods, or experience."*

Purpose of a Rate Floor with a Target Funding Ratio

Rate Floor

The addition of a rate floor under current Plan 1 funding policy would:

- eliminate a potential form of rate escalation at the end of the scheduled amortization period;
- stabilize future rates; and
- improve the adequacy of Plan 1 unfunded actuarial accrued liability (UAAL) rates over the long-term.

Under current funding policy, employer contribution rates necessary to amortize the Plan 1 UAAL by June 30, 2024 fluctuate based on the results of a biennial actuarial valuation. There is currently no statutory floor rate in place and contributions to the PERS 1 and TRS 1 UAAL have been suspended since the beginning of the 2003-05 biennium.

Under current funding policy, Plan 1 UAAL rates decrease as Plan 1 funded status improves and increase as funded status weakens. Short-term fluctuations in Plan 1 UAAL rates are largely based on short-term investment performance and directly correlated with the plan's asset allocation policy. Riskier assets classes, with the reward of higher long-term investment return and lower long-term plan costs, will produce more volatile investment returns in the short-term. Asset smoothing techniques help dampen rate volatility, but on their own cannot eliminate rate volatility entirely during periods of extraordinary investment performance.

In the absence of a rate floor, Plan 1 UAAL rates will decrease below expected long-term levels during periods of extraordinary investment performance and then return to expected long-term levels after the downward cyclical investment markets that historically follow. Given the fixed statutory amortization date of June 30, 2024, any premature reduction of Plan 1 UAAL contribution rates in the short-term will lead to escalating Plan 1 UAAL contribution rates at the end of the amortization period.

A Plan 1 UAAL rate floor will eliminate this type of potential escalation in rates, stabilize future rates and improve the adequacy of Plan 1 UAAL rates over the long-term.

Funding Target

The addition of a funding target under current Plan 1 funding policy would serve two purposes:

- increase the likelihood that once amortized, future contributions to the Plan 1 UAAL would not be required; and
- ensure that the floor contribution rates do not produce an excessive asset reserve.

A target funding ratio would be attained when the plan's assets divided by the plan's actuarial accrued liability exceeds a target percentage - say 140 percent. The assets would be calculated under the current asset smoothing method and the liabilities would be calculated under current assumptions and methods for determining on-going contribution requirements.

A plan that is exactly 100 percent funded on a particular valuation date may require additional contributions in the future. The key is understanding the purpose of the measurement and the assumptions used to determine the funded status under that measurement.

The following is an excerpt for the 2003 actuarial certification letter:

> *"The primary purpose of this valuation is to determine contribution requirements for the systems listed above as of the valuation date and should not be used for other purposes."*

The purpose of this statement is to inform the reader that the valuation results will vary depending on the intended purpose of the measurement. Is the reader seeking contribution requirements for an open and on-going plan? Seeking the lump-sum contribution required to settle the plan's unfunded liabilities under a closed plan? Perhaps the reader would like to know the contribution rate required to completely amortize the Plan 1 UAAL by 2024 and be reasonably assured that no future contributions would be required under current plan provisions?

Clearly, the results of a single actuarial valuation cannot accommodate all of the purposes listed above. Each measurement requires a unique set of actuarial assumptions and methods that produces materially different results.

Under current funding policy, the Plan 1 UAAL rate is calculated using assumptions that model expected long-term economic and demographic conditions over an extended measurement period - say 30 to 40 plus years into the future. However, the current amortization date is June 30, 2024 - less than 20 years from today. Applying an interest rate assumption over a period shorter than the intended measurement period (i.e., the duration of the amortization period is less than the duration of the measurement period for all plan liabilities) increases the likelihood that the interest assumption will not be achieved over the remaining amortization period. As a result, it is more likely than not that contributions to the Plan 1 UAAL will be required after June 30, 2024.

One way of addressing this situation is to tie the Plan 1 UAAL amortization policy to a target funding ratio. This would avoid a separate and distinct measurement of the Plan 1 UAAL. Under a target funding ratio, contributions to the Plan 1 UAAL would continue until a "target reserve" is established and the target reserve would decrease the likelihood that further contributions would be required following the amortization period.

Combining the target funding ratio with the rate floor provides a form of a “check and balance” between these two policies. A rate floor without a target funding ratio could produce an excessive asset reserve and unnecessarily increase plan costs. A funding target without a floor contribution rate would likely not be attained.

Appropriate Level of Floor Rates

The selection of an appropriate rate floor requires actuarial judgement and actuarial projections. Certainly, the selection of any rate floor will improve the rate stability issues mentioned previously. However, the improvements from such a funding policy change would diminish as the level of the rate floor decreases as a percentage of the long-term expected contribution rate. A floor contribution rate between 80 and 100 percent of the expected long-term rate would be appropriate for this purpose. This would correspond with rates between 2.68 and 3.35 percent for PERS 1 and rates between 4.71 and 5.89 percent in TRS 1. (Note: these rates exclude the cost of future gain-sharing benefits).

Appropriate Target Funding Ratio

The selection of an appropriate target funding ratio also involves actuarial judgement. A funding target closer to 100 percent could produce an insufficient reserve for the purposes stated above. On the other hand, a target ratio in excess of 150 percent may produce an excessive reserve and unnecessarily increase the long-term cost of the plan. An excessive reserve could also lead to increased demand for benefit enhancements - further increasing the long-term cost of the plan.

Federal law concerning minimum funding requirements for qualified retirement plans in the private sector provides some insight on this topic. Prior to the passage of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, the full funding limit credit under Section 412 of the Internal Revenue Code (IRC) was based on 150 percent of the plan's current liability. This was increased to 170 percent (for plan years beginning in 2003) following the passage of EGTRRA. The provisions of EGTRRA are set to expire for plan years beginning after December 31, 2010. Section 412 of the IRC does not apply to governmental plans, but does provide one point of reference in regards to full funding.

A funding target of 125 to 150 percent would be appropriate. The State Actuary recommends a funding target of 125 percent.

Summary

The addition of a Plan 1 UAAL rate floor tied to a target funding ratio would:

- eliminate a potential form of rate escalation at the end of the scheduled amortization period;
- stabilize future rates;
- improve the adequacy of Plan 1 UAAL rates over the long-term;
- increase the likelihood that once amortized, future contributions to the Plan 1 UAAL would not be required; and
- ensure that the floor contribution rates do not produce an excessive asset reserve.

The State Actuary recommends a floor contribution rate between 80 and 100 percent of the expected long-term rate. This would correspond with rates between 2.68 and 3.35 percent for PERS 1 and rates between 4.71 and 5.89 percent in TRS 1. (Note: these rates exclude the cost of future gain-sharing benefits).

The State Actuary recommends a funding target of 125 percent.

Next Steps

The subgroup will need to select floor PERS 1/TRS 1 UAAL rates (and decide whether or not to include the cost of future gain-sharing benefits) and select a target funding ratio. Staff will then prepare draft bill language for the full committee.

Rate Phase-In Proposals

(November 7, 2005)

Phase-In Proposals

- **Current Law** - no rate phase-in; full Plan 1 UAAL rates resume at the beginning of the 2007-09 biennium
- **1-Year Phase-In with Catch-Up** - full 2005-07 payment with interest made during 2006-07; no phase-in thereafter
- **3-Year Phase-In with Catch-Up** - full 2005-2007 payment with interest made during 2006-2009; no phase-in thereafter
- **4-Year Phase-In with Catch-Up** - full 2005-2007 payment with interest made during 2006-2010; no phase-in thereafter
- **2-Year Phase-In** - rate increases over 2006-08 with the same present value as current law over a 2-year phase-in period
- **3-Year Phase-In** - rate increases over 2006-09 with the same present value as current law over a 3-year phase-in period
- **4-Year Phase-In** - rate increases over 2006-10 with the same present value as current law over a 4-year phase-in period

Plan 1 UAAL Rate Phase-In Schedules*

	2006-07	2007-08	2008-09	2009-10	2010-11
PERS 1					
Current Law	0.00%	2.63%	2.63%	3.13%	3.13%
1-Year Phase-in with Catch-up	3.44%	2.38%	2.38%	2.88%	2.88%
3-Year Phase-in with Catch-up	1.38%	2.76%	4.14%	2.88%	2.88%
4-Year Phase-in with Catch-up	1.12%	2.24%	3.36%	4.48%	2.88%
2-Year Phase-in	0.87%	1.75%	2.63%	3.13%	3.13%
3-Year Phase-in	0.87%	1.75%	2.63%	3.13%	3.13%
4-Year Phase-in	0.84%	1.68%	2.51%	3.35%	3.13%
TRS 1					
Current Law	0.00%	3.85%	3.85%	5.21%	5.21%
1-Year Phase-in with Catch-up	4.05%	3.55%	3.55%	4.91%	4.91%
3-Year Phase-in with Catch-up	1.88%	3.75%	5.63%	4.91%	4.91%
4-Year Phase-in with Catch-up	1.62%	3.24%	4.87%	6.49%	4.91%
2-Year Phase-in	1.28%	2.54%	3.85%	5.21%	5.21%
3-Year Phase-in	1.29%	2.55%	3.83%	5.21%	5.21%
4-Year Phase-in	1.29%	2.58%	3.86%	5.15%	5.21%

* All rates shown in this exhibit exclude the cost of future gain-sharing benefits. The UAAL rates are in addition to the normal cost rates for PERS, SERS, TRS, and PSERS.

Total Employer Rates under Phase-In Schedules*

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
PERS					
Current Law	3.50%	6.69%	7.37%	7.33%	7.33%
1-Year Phase-in with Catch-up	6.94%	6.44%	7.12%	7.08%	7.08%
3-Year Phase-in with Catch-up	4.88%	6.82%	8.88%	7.08%	7.08%
4-Year Phase-in with Catch-up	4.62%	6.30%	8.10%	8.68%	7.08%
2-Year Phase-in	4.37%	5.81%	7.37%	7.33%	7.33%
3-Year Phase-in	4.37%	5.81%	7.37%	7.33%	7.33%
4-Year Phase-in	4.34%	5.74%	7.25%	7.55%	7.33%
TRS					
Current Law	3.25%	7.14%	7.63%	9.86%	9.86%
1-Year Phase-in with Catch-up	7.30%	6.84%	7.33%	9.56%	9.56%
3-Year Phase-in with Catch-up	5.13%	7.04%	9.41%	9.56%	9.56%
4-Year Phase-in with Catch-up	4.87%	6.53%	8.65%	11.14%	9.56%
2-Year Phase-in	4.53%	5.83%	7.63%	9.86%	9.86%
3-Year Phase-in	4.54%	5.84%	7.61%	9.86%	9.86%
4-Year Phase-in	4.54%	5.87%	7.64%	9.80%	9.86%

*All rates shown in this exhibit exclude the cost of future gain-sharing benefits and an administrative expense rate of 0.19%.

Fiscal Impact of the Phase-In Schedules

Costs (in Millions):	1 Year Phase-in w/ Catch-up	3 Year Phase-in w/ Catch-up	4 Year Phase-in w/ Catch-up	2 Year Phase-in	3 Year Phase-in	4 Year Phase-in
2006-2007						
State:						
General Fund	$ 180.5	$ 79.2	$ 66.9	$ 52.5	$ 52.7	$ 52.0
Non-General Fund	$ 91.5	$ 36.7	$ 29.8	$ 23.1	$ 23.1	$ 22.3
Total State	**$ 272.0**	**$ 115.9**	**$ 96.7**	**$ 75.6**	**$ 75.8**	**$ 74.3**
Local Government	$ 216.2	$ 90.5	$ 74.8	$ 58.4	$ 58.6	$ 57.2
Total Employer	$ 488.2	$ 206.4	$ 171.5	$ 134.0	$ 134.4	$ 131.5
Total Employee	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
2007-2008						
State:						
General Fund	$ (14.6)	$ 0.1	$ (26.9)	$(58.6)	$(58.4)	$(59.1)
Non-General Fund	$ (7.0)	$ 3.7	$ (11.0)	$(24.8)	$(24.8)	$(26.7)
Total State	**$ (21.6)**	**$ 3.8**	**$ (37.9)**	**$(83.4)**	**$(83.2)**	**$(85.8)**
Local Government	$ (16.8)	$ 4.9	$ (28.1)	$(62.7)	$(62.6)	$(65.5)
Total Employer	$ (38.4)	$ 8.7	$ (66.0)	$(146.1)	$(145.8)	$(151.3)
Total Employee	$ 0.0	$ 0.0	$ 0.0	$0.0	$0.0	$0.0

Costs (in Millions):	1 Year Phase-in w/ Catch-up	3 Year Phase-in w/ Catch-up	4 Year Phase-in w/ Catch-up	2 Year Phase-in	3 Year Phase-in	4 Year Phase-in
2008-2009						
State:						
General Fund	$ (15.4)	$ 91.8	$ 49.3	$ 0.0	$ (0.6)	$ (2.7)
Non-General Fund	$ (7.4)	$ 45.0	$ 21.7	$ 0.0	$ 0.0	$ (3.6)
Total State	**$ (22.8)**	**$ 136.8**	**$ 71.0**	**$ 0.0**	**$ (0.6)**	**$ (6.3)**
Local Government	$ (17.7)	$ 106.4	$ 53.9	$ 0.0	$ (0.3)	$ (6.1)
Total Employer	$ (40.5)	$ 243.2	$ 124.9	$ 0.0	$ (0.9)	$ (12.4)
Total Employee	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
2009-2010						
State:						
General Fund	$ (16.3)	$ (16.3)	$ 76.7	$ 0.0	$ 0.0	$ 3.9
Non-General Fund	$ (7.9)	$ (7.9)	$ 42.5	$ 0.0	$ 0.0	$ 6.9
Total State	**$ (24.2)**	**$ (24.2)**	**$ 119.2**	**$ 0.0**	**$ 0.0**	**$ 10.8**
Local Government	$ (18.7)	$ (18.7)	$ 95.6	$ 0.0	$ 0.0	$ 11.2
Total Employer	$ (42.9)	$ (42.9)	$ 214.8	$ 0.0	$ 0.0	$ 22.0
Total Employee	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
2010-2011						
State:						
General Fund	$ (17.2)	$ (17.2)	$ (17.2)	$ 0.0	$ 0.0	$ 0.0
Non-General Fund	$ (8.3)	$ (8.3)	$ (8.3)	$ 0.0	$ 0.0	$ 0.0
Total State	**$ (25.5)**	**$ (25.5)**	**$ (25.5)**	**$ 0.0**	**$ 0.0**	**$ 0.0**
Local Government	$ (19.8)	$ (19.8)	$ (19.8)	$ 0.0	$ 0.0	$ 0.0
Total Employer	$ (45.3)	$ (45.3)	$ (45.3)	$ 0.0	$ 0.0	$ 0.0
Total Employee	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
2006-2031 (25 Year)						
State:						
General Fund	$ (215.8)	$ (195.2)	$ (184.0)	n/a	n/a	n/a
Non-General Fund	$ (103.6)	$ (95.3)	$ (89.8)	n/a	n/a	n/a
Total State	**$ (319.4)**	**$ (290.5)**	**$ (273.8)**	n/a	n/a	n/a
Local Government	$ (244.7)	$ (224.6)	$ (211.5)	n/a	n/a	n/a
Total Employer	$ (564.1)	$ (515.1)	$ (485.3)	n/a	n/a	n/a
Total Employee	$ 0.0	$ 0.0	$ 0.0	n/a	n/a	n/a

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0884.3/06 3rd draft

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Funding the unfunded actuarial accrued liability in plan 1 of the public employees' retirement system and plan 1 of the teachers' retirement system.

AN ACT Relating to payment of the unfunded actuarial accrued liability in plan 1 of the public employees' retirement system and plan 1 of the teachers' retirement system; adding a new section to chapter 41.45 RCW; and providing an effective date.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.45 RCW to read as follows:

(1) It is the intent of the legislature to provide for the systematic payment of the plan 1 unfunded actuarial accrued liability in a manner that promotes contribution rate adequacy and stability for the affected systems. This change in funding policy requires a three-year phase-in of contribution rates beginning in 2006. The phase-in rates for the plan 1 unfunded actuarial accrued liability are in addition to the phase-in rates established pursuant to RCW 41.45.062.

(2) Beginning July 1, 2006, a 0.87 percent contribution is established as part of the basic state and employer contribution rate for the public employees' retirement system and the public safety employees' retirement system, to be used for the sole purpose of

amortizing the unfunded actuarial accrued liability in the public employees' retirement system plan 1.

(3) Beginning September 1, 2006, a 0.87 percent contribution is established as part of the basic state and employer contribution rate for the school employees' retirement system, to be used for the sole purpose of amortizing the unfunded actuarial accrued liability in the public employees' retirement system plan 1.

(4) Beginning September 1, 2006, a 1.29 percent contribution is established as part of the basic state and employer contribution rate for the teachers' retirement system, to be used for the sole purpose of amortizing the unfunded actuarial accrued liability in the teachers' retirement system plan 1.

(5) Upon completion of the 2005 actuarial valuation, the pension funding council and the state actuary shall review the contribution rates for the plan 1 unfunded actuarial accrued liability for 2007-2008 and 2008-2009 and by September 30, 2006, the pension funding council shall adopt contribution rates to complete the three-year phase-in schedule, adjusted for any material changes in benefits or actuarial assumptions, methods, and experience. The expected present value of projected contributions during the three-year phase-in period shall be the same as the expected present value of projected contributions that would have been collected without the phase-in, as determined by the state actuary and adjusted for any material changes in benefits or actuarial assumptions, methods, or experience.

NEW SECTION. **Sec. 2.** This act takes effect July 1, 2006.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/20/05	Z-0884.3 / Z-1019.2

SUMMARY OF BILL:

This bill impacts the Plans 1 of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The proposed legislation would establish a three-year phase-in of contribution rates to be used for the sole purpose of paying the unfunded actuarial accrued liability (UAAL) in those plans. The phase-in rates are in addition to the phase-in rates established pursuant to RCW 41.45.062.

In the 2006-2007 fiscal year, the rates would be 0.87% for the PERS 1 UAAL and 1.29% for the TRS 1 UAAL. The contribution rates for years two and three of the phase-in would be adopted by the pension funding council according to the following standard: the expected present value of projected contributions during the three-year phase-in period would be the same as the expected present value of projected contributions that would have been collected without the phase-in, as determined by the state actuary and adjusted for any material changes in benefits or actuarial assumptions, methods or experience.

Effective Date: July 1, 2006

CURRENT SITUATION:

Payments to amortize the Plan 1 UAAL are normally collected as a component of employer contribution rates. According to current funding policy, liability for the Plans 1 is spread among all PERS, TRS, SERS and PSERS employers. This liability is also spread over time. Current funding policy requires that the UAAL be fully amortized by June 30, 2024.

Payments for the Plan 1 UAAL have been suspended for the current biennium, and were suspended in the previous biennium. Regular payments are scheduled to resume July 1, 2007.

MEMBERS IMPACTED:

The bill would impact all 75,390 members of PERS 1 and all 45,961 members of TRS 1 by recommencing employer contributions in 2006 instead of 2007.

PERS Plan 1	Members
Receiving a Benefit	54,568
Actives	17,829
Terminated & Vested	2,993

TRS Plan 1	Members
Receiving a Benefit	34,624
Actives	9,862
Terminated & Vested	1,475

Member contributions would not change as a result of this bill.

ASSUMPTIONS:

The bill establishes a schedule of smoothed or phased-in contribution rates for 2006-2009. The rates for 2006-07 are specified. We assume that the 2007-2009 Plan 1 UAAL rates will be adjusted so that the expected present value of the contributions over 2006-2009 would be the same with or without the phase-in.

FISCAL IMPACT:

The rates under the 3-year phase-in will be higher in the 2006-07 than required under current law, and will be lower in 2007-08 and 2008-09 than required under the projected 2005 actuarial valuation.

Actuarial Determinations:

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

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS	$28,098	$0	$28,098
(The Value of the Total Commitment to all Current	TRS	$15,616	$0	$15,616
Members)	SERS	$2,126	$0	$ 2,126
Unfunded Actuarial Accrued Liability	PERS 1	$2,563	$0	$2,563
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	$1,415	$0	$1,415
Unfunded Liability (PBO)	PERS	($673)	$0	($673)
(The Value of the Total Commitment to all Current	TRS	($235)	$0	($235)
Members Attributable to Past Service)	SERS	($439)	$0	($439)

Increase in Contribution Rates:

We determined that the following adjustments to the Plan 1 UAAL rates would result in the same present value of contributions. The rates are effective 7/1/06 for PERS and PSERS, and 9/1/06 for TRS and SERS:

Year	PERS / SERS / PSERS	TRS
2006-2007	0.87%	1.29%
2007-2008	(0.88)%	(1.30%)
2008-2009	0.00%	(0.02%)
2009-2011 & thereafter	0.00%	0.00%

There is no change to the member rates.

Fiscal Budget Determinations:

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

Costs (in Millions):	PERS*	TRS	SERS	Total
2006-2007				
State:				
General Fund	$14.0	$34.2	$4.5	$52.7
Non-General Fund	$23.1	$0.0	$0.0	$23.1
Total State	**$37.1**	**$34.2**	**$4.5**	**$75.8**
Local Government	$33.0	$18.8	$6.8	$58.6
Total Employer	$70.1	$53.0	$11.3	$134.4
Total Employee	$0.0	$0.0	$0.0	$0.0
2007-2009				
State:				
General Fund	($15.0)	($38.4)	($5.6)	($59.0)
Non-General Fund	($24.8)	$0.0	$0.0	($24.8)
Total State	**($39.8)**	**($38.4)**	**($5.6)**	**($83.8)**
Local Government	($35.3)	($19.2)	($8.4)	($62.9)
Total Employer	($75.1)	($57.6)	($14.0)	($146.7)
Total Employee	$0.0	$0.0	$0.0	$0.0

Costs (in Millions):	PERS*	TRS	SERS	Total
2006-2031				
State:				
General Fund	($1.0)	($4.2)	($1.1)	($6.3)
Non-General Fund	($1.7)	$0.0	$0.0	($1.7)
Total State	($2.7)	($4.2)	($1.1)	($8.0)
Local Government	($2.3)	($0.4)	($1.6)	($4.3)
Total Employer	($5.0)	($4.6)	($2.7)	($12.3)
Total Employee	$0.0	$0.0	$0.0	$0.0

* Includes PSERS effective 7/1/06

State Actuary's Comments:

This fiscal note involves calculations that require assumptions about future economic events and acts of future Legislatures. It assumes that the cost of future gain sharing will not be recognized under the phase-in schedule, that the contribution rates for 2007-2009 will be adjusted to complete the 3-year phase-in schedule, and that the Plan 1 amortization payments will resume in 2006 with no change in the amortization date. If any of these events occur differently than assumed, then the long term cost of this bill will change.

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 Public Employees' Retirement System Retirement System, the Teachers' Retirement System, and the School 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, or within the body of this fiscal note, include the following: None

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.

Washington State
School Retirees Association

4726 Pacific Ave. SE Lacey, WA 98503-1216 • PHONE (360) 413-5496

MEMORANDUM

RECEIVED
OCT 2 4 2005
Office of
The State Actuary

TO: Select Committee on Pension Policy (SCPP) Plan 1 Unfunded Liability Subgroup
Victor Moore, Chair
Senator Craig Pridemore
Representative Barbara Bailey
Glenn Olson – PERS Employer Representative

FROM: Robert Rhule, WSSRA Legislative Committee Chair
Leslie Main, WSSRA Legislative Coordinator

DATE: October 20, 2005

RE: Calculation of Unfunded Liability Costs

The Washington State School Retirees' Association (WSSRA) has a long and consistent record of advocating responsible pension funding, particularly with respect to amortization of the TRS/PERS Plan 1 Unfunded Liability. Accordingly, we are very appreciative and interested in the SCPP's desire to put forth a recommendation to the Legislature as to the resumption of payment toward this important employer obligation. It was our original understanding that the Plan 1 Unfunded Liability Subgroup was charged with analysis of the technical aspects of options related to the Unfunded Liability; the results of which would then be communicated to the full SCPP for their use in developing a policy recommendation. We are now aware that the Subgroup has decided to put forth a policy recommendation to the full SCPP.

WSSRA understands that payment of the TRS/PERS 1 Unfunded Liability represents a challenge to General Fund-State (GF-S), non-GF-S, and local government employers alike. However, it is our concern that omission of future Gain Sharing costs from a policy recommendation of the Plan 1 Unfunded Liability Subgroup would not fully represent total material liabilities of the TRS/PERS 1 pension funds. A case could be made that enactment of ESHB 1044 by the Legislature during the 2005 Session justifies omission of Gain Sharing costs from calculation of Unfunded Liability contributions during the remainder of the 2005-07 biennium. Nonetheless, it is the strong belief of WSSRA that until the Legislature takes definitive action on Gain Sharing, the costs of future Gain Sharing disbursements resulting from currently established statute should be accounted for in any calculation of Unfunded Liability obligations from 2007-09 and beyond.

Aside from the fiscal ramifications, WSSRA is also concerned about the policy implications of omitting the costs of future Gain Sharing disbursements from any recommendation of the Plan 1 Unfunded Liability Subgroup. We understand that some parties may hope to see a repeal of Gain Sharing benefits without any replacement benefits and thus realize only savings to employers. However, such a total "take away" of Gain Sharing benefits by the Legislature is not a forgone conclusion that should be utilized in the development of a policy recommendation dealing with resumption of employer payments toward the Plan 1 Unfunded Liability.

WSSRA therefore requests that any policy recommendation put forth by the Plan 1 Unfunded Liability Subgroup to the full SCPP be accompanied by cost estimates which include the cost of future Gain Sharing benefits. Thank you for your consideration of these important issues.

cc: Representative Bill Fromhold, SCPP Chair
Senator Karen Fraser, SCPP Vice-Chair
Matt Smith, State Actuary

Background

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their plan after ten years of service or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined benefit portion of their plan.

Committee Activity

Presentations:
July 19, 2005 – Executive Committee
August 23, 2005 – Full Committee

Proposal:
October 18, 2005 - Full Committee

Recommendation to Legislature

Reduce the required length of service for defined benefit vesting in the PERS, SERS, and TRS Plans 3 from ten years to five years for all members.

Staff Contact

Laura Harper, Senior Research Analyst, Legal
360.786.6145; harper.laura@leg.wa.gov

Plan 3 Vesting

(December 16, 2005)

Issue

Reduce the required length of service for vesting in the Defined Benefit (DB) portion of the PERS, SERS, and TRS Plans 3 from ten years to five years.

Staff

Laura Harper, Senior Research Analyst/Legal
(360) 786-6145

Members Impacted

As of the most recent valuation, there were 58,101 Plan 3 members who were not vested. Non-vested members included those who had less than ten years of service; those who were not vested in Plan 2 on July 1, 1996, in TRS; September 1, 2000, in SERS; or June 1, 2003, in PERS; and those who did not have five years of service including 12 months after age 54. Any of these non-vested members would be affected by this proposal unless they leave employment or become vested prior to the effective date of any legislation to change the vesting period.

Current Situation

New Plan 3 members of TRS, SERS, and PERS are vested in the DB portion of their plan after ten years of service or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the Defined Contribution (DC) portion of their Plan.

History

SHB 1298 was introduced in the 2003 legislative session. The bill would have shortened the DB vesting period in the Plans 3 from ten to five years. The bill passed the House, but was not heard in the Senate. In 2004, similar legislation was introduced as SB 6247/HB 2540. It passed in the Senate, but died in House Appropriations. In 2005, the SCPP recommended SB 5517/HB 1320, which would have made the same change to Plan 3 vesting as had been proposed in 2003 and 2004. A substitute bill passed the House that would have lowered the vesting period from ten to five years only for those members who are age 45 and older. This modification made the bill less costly, however, the substitute bill did not receive a hearing in Senate Ways and Means.

Policy Analysis

The Plans 3 are hybrid plans. The DB portion of these plans (the portion to which the ten-year vesting period applies) uses a formula to determine the monthly retirement benefit that a member will receive for life: 1% x Average Final Compensation (AFC) x years of service credit. The defined benefit is funded entirely by employers. When members leave employment prior to becoming vested, they forfeit these employer contributions. On the other hand, the DC portion of the Plans 3 is funded entirely by employees. Employees are immediately vested in their own contributions.

When the Plans 3 were on the drawing board, one of the concerns was the small size of the defined benefit that members would receive if they earned only a modest amount of service credit before full retirement. Plan 2 members receive 10 percent of AFC upon vesting (5 years × 2% per year). This 10 percent standard was used for the DB portion of the Plans 3. Setting the vesting period in the Plans 3 to ten years guaranteed vested members 10 percent of their AFC as a minimum defined benefit (10 years x 1% per year).

In the design of the Plans 3, the long vesting period for the DB portion of the pension was offset by the fact that Plan 3 members were immediately vested in the DC portion of their benefit. Since the defined benefit would be such a small portion of the total benefit during the early years of employment, and since members were immediately vested in their employee contributions, it was felt that those who left employment before the end of the vesting period would not be losing such a significant amount of their total retirement benefit that the longer vesting period would adversely affect employment behavior.

The following table illustrates the value of the DB portion of Plan 3 for members who entered the plan at various ages and separated from service after five years. These examples assume an average final compensation of $30,000 and an annual inflation rate of 3.5 percent.

Future Value of Plan 3 Benefit, Adjusted for 3.5 percent Assumed Inflation
(Defined Benefit payable at 65 = 1% x $30,000 x 5 years of service)

Entry Age	Age at Separation	DB Benefit at 65	Future Value*	% of DB
25	30	$1,500	$450	30%
35	40	$1,500	$635	42%
45	50	$1,500	$895	60%
55	60	$1,500	$1,263	84%

**Reduced for 3.5 percent assumed annual inflation from age at separation to age 65.*

The table illustrates that for those who are hired at earlier ages, the future benefit that is forfeited due to failure to vest is smaller after adjustment for assumed inflation from age at separation to age 65. This is consistent with the rationale behind the ten-year vesting period and the reason why the vesting period was lowered for older employees. The higher the plan entry age, the greater the percentage of the future benefit that would be forfeited at separation as the result of a failure to vest.

It is unknown whether members actually analyze their own retirement benefits at this level of detail or how much the vesting period is a factor in employment decisions. Theoretically, shorter vesting periods support attraction of new employees. Longer vesting periods support retention of current employees.

Another retention incentive in the Plans 3 is the provision that members who remain in the Plans 3 for at least 20 service-credit years receive the additional benefit of an "inflation protector." These members receive an increase in the DB portion of their retirement allowance of 3 percent per year, compounded for each month from the date of separation to the date that the retirement allowance commences.

Comparison with Washington Plans and Other States

The ten-year vesting period for the DB portion of the Plans 3 is the longest among the plans administered by Washington State. The Plans 1 and 2, which are all DB and not hybrid plans, have five-year vesting periods.

The national trend in retirement plans is toward shorter vesting periods due to the increasing mobility of the workforce and the trend toward multiple careers. However, numerous state and municipal retirement plans still use a ten-year vesting period. In the **2002 survey from the Public Pension Coordinating Council** covering 276 public retirement plans, a total of 96 plans had vesting requirements of ten years or more. More than 40 of those plans were administered by 25 states or territories in addition to Washington. In comparison, 132 plans had vesting requirements of five years or less. The survey results are attached.

Results of the **Wisconsin Legislative Councils' 2002 Comparative Study of Major Public Employee Retirement Systems** are also attached. According to this report, in 2002 a total of 60 out of 85 plans required five years or less of service to vest, with an increase of six plans in this category since the 2000 report. The number of plans in 2002 that required ten years of service to vest decreased by five plans from the 2000 report and by 20 plans from the 1990 report.

Options

The proposal to lower the vesting period for the DB portion of the Plans 3 from ten to five years has been considered and rejected during the last three legislative sessions. With that in mind, the Committee may wish to consider alternative approaches to the issue. One possibility is that the proposal was rejected due to cost.

An option for lowering the cost was explored in the development of last session's substitute bill, which proposed a five-year vesting in the higher age bracket (i.e. those 45 and over) when the vesting period is more likely to affect employment behavior. Currently five-year vesting is available in the Plans 3 if 12 months of a member’s service is earned after attaining age 54. That age could certainly be lowered to a threshold age of 50 or 45. These options were priced in November 2004 and the results are attached in the document entitled

Plan 3 Vesting Supplemental Summary.

If the SCPP wishes to pursue the issue of Plan 3 vesting, it might be useful to study the probability of member termination at various ages as well as the value of the DB component of the Plans 3 at various ages in order to better assess whether any changes to the vesting period might affect employment behavior.

If the Committee determines that the cost of changing the vesting period is prohibitive at this time, another option would be to encourage additional member education. There may be a perception that the longer vesting period for the DB portion of the Plans 3 is a detriment to those who might select Plan 3. However, through additional member education, more new hires may be able to better evaluate the financial implications of the vesting period and better understand the tradeoffs in the design of the Plans 3.

Stakeholder Input

Letters requesting that Plan 3 vesting be considered by the SCPP during the 2004 and/or 2005 interim are attached.

Executive Committee and SCPP Recommendations

At its July 19, 2005, meeting the Executive Committee considered whether to bring this issue back before the full committee. At that time it was decided that the full SCPP should consider the issue at its August 23, 2005, meeting. The full committee was briefed on August 23, 2005, and staff was directed to prepare a new bill draft for introduction in the 2006 legislative session. The bill was approved by the full committee on October 18, 2005.

Draft Bill (Attached)

Draft Fiscal Note (Attached)

It should be noted that if passed, the cost of this Plan 3 benefit enhancement would be shared equally among Plan 2/3 employers and Plan 2 employees. This cost-sharing approach is defined under state law in the actuarial funding chapter, Chapter 41.45 RCW.

Stakeholder Input (Attached)

Active Members and Vesting Requirements by Plan

Source: Public Pension Coordinating Council Survey 2002 (2000-2001 data)

ID#	PLAN NAME	Members	Vesting Requirement
0376G	West Virginia Teacher's Defined Contribution Plan	19,000	1/3 after 6 years; 2/3 after 9 years; 100% after 12 years
0020A	PARK EMPLOYEES & RET. BOARD EMPLOYEES ANNUITY AND BENEFIT FUND OF CHICAGO	3,639	10 YEARS
0247A	OAKLAND POLICE & FIRE RETIREMENT FUND	161	10 YEARS
0283A	City Pension Fund for Firefighters and Police Officers in the City of Pembroke Pines	364	10 years
0314C	BISMARCK FIREFIGHTERS RELIEF ASSOCIATION	62	10 YEARS
0376D	West Virginia State Police Retirement Plan□□(Trooper Plan B)	323	10 years
0497B	Macon Water Authority Employee Pension Plan	205	10 years
0672A	New York City Pension Fund – Subchapter 2	11,477	10 years
0022A	Dukes County Contributory Retirement Plan	932	10 years at age 55
0083A	OKLAHOMA TEACHERS' RETIREMENT SYSTEM	83,024	10 YEARS OF OKLAHOMA SERVICE
0005C	RETIREMENT SYSTEMS OF ALABAMA TEACHERS' PLAN	126,558	10 YEARS OF SERVICE
0010A	TEACHERS' RETIREMENT SYSTEM OF LA - REGULAR EMPLOYEES	87,631	10 YEARS OF SERVICE
0010B	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN B	2,115	10 YEARS OF SERVICE
0010C	TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN A	1,067	10 YEARS OF SERVICE
0038A	RETIREMENT SYSTEM FOR SWORN POLICE PERSONNEL	107	10 YEARS OF SERVICE
0015A	CONNECTICUT TEACHERS' RETIREMENT SYSTEM	46,500	10 YEARS OF SERVICE
0016A	PLYMOUTH COUNTY RETIREMENT ASSOCIATION	9,098	10 YEARS OF SERVICE
0017A	MIAMI FIRE FIGHTERS' AND POLICE OFFICERS' RETIREMENT TRUST	1,587	10 YEARS OF SERVICE
0024A	STERLING HEIGHTS POLICE AND FIRE RETIREMENT PLAN	261	10 YEARS OF SERVICE
0064B	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - PUBLIC SCHOOL	32,864	10 YEARS OF SERVICE
0064C	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - JUDICIAL	416	10 YEARS OF SERVICE
0004A	TEXAS MUNICIPAL RETIREMENT SYSTEM	86,203	10 YEARS OF SERVICE
0005A	RETIREMENT SYSTEMS OF ALABAMA EMPLOYEES	75,734	10 YEARS OF SERVICE
0064A	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - GENERAL	72,176	10 YEARS OF SERVICE
0067A	TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY	134,199	10 YEARS OF SERVICE
0068A	POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY	42,430	10 YEARS OF SERVICE
0069A	PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEW JERSEY	277,441	10 YEARS OF SERVICE
0146E	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN E: GENERAL	31,088	10 YEARS OF SERVICE
0071A	LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM	69,680	10 YEARS OF SERVICE
0087A	NEW HAMPSHIRE RETIREMENT SYSTEM - GENERAL PLAN/EMPLOYEES	20,262	10 YEARS OF SERVICE
0087C	NEW HAMPSHIRE RETIREMENT SYSTEM - POLICE PLAN	3,254	10 YEARS OF SERVICE
0087D	NEW HAMPSHIRE RETIREMENT SYSTEM - FIREFIGHTERS PLAN	1,269	10 YEARS OF SERVICE
0120A	CITY OF BOCA RATON GENERAL EMPLOYEES' TRUST	628	10 YEARS OF SERVICE
0131A	MWRD RETIREMENT FUND	2,084	10 years of service
0148A	TEACHERS RETIREMENT SYSTEM OF GEORGIA	191,908	10 YEARS OF SERVICE
0154B	NORTH DAKOTA HIGHWAY PATROL RETIREMENT PLAN	122	10 YEARS OF SERVICE
0156B	WICHITA POLICE AND FIRE RETIREMENT SYSTEM	993	10 YEARS OF SERVICE
0161A	INDIANA STATE TEACHERS' RETIREMENT PLAN	77,870	10 YEARS OF SERVICE
0163A	CHICOPEE RETIREMENT SYSTEM	1,140	10 YEARS OF SERVICE
0168A	FLORIDA RETIREMENT SYSTEM	597,823	10 YEARS OF SERVICE
0181A	MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	312,699	10 YEARS OF SERVICE
0182A	MICHIGAN STATE POLICE RETIREMENT SYSTEM	2,210	10 YEARS OF SERVICE
0185A	MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM	47,778	10 YEARS OF SERVICE
0193A	KANSAS PUBLIC EMPLOYEES RETIREMENT PLAN	142,870	10 YEARS OF SERVICE
0223A	CITY OF ALPENA - GENERAL	48	10 YEARS OF SERVICE
0224A	LA COUNTY METRO TRANSIT AUTHORITY - UTU RIP	3,944	10 YEARS OF SERVICE
0224B	LA COUNTY METRO TRANSIT AUTHORITY - MAINTENANCE EMPLOYEES	2,023	10 YEARS OF SERVICE
0224C	LA COUNTY METRO TRANSIT AUTHORITY - TCU RIP	697	10 YEARS OF SERVICE
0226A	CITY OF MANISTEE EMPLOYEES RETIREMENT SYSTEM	62	10 YEARS OF SERVICE
0255A	OKLAHOMA POLICE PENSION AND RETIREMENT PLAN	3,778	10 YEARS OF SERVICE

0269A	KANSAS CITY (MO) FIREFIGHTERS' PENSION SYSTEM	761	10 YEARS OF SERVICE
0293A	CITY OF MILFORD - BENEFIT PLAN I	700	10 YEARS OF SERVICE
0314A	CITY OF BISMARK CITY PENSION PLAN	307	10 YEARS OF SERVICE
0314B	CITY OF BISMARK POLICE PENSION PLAN	143	10 YEARS OF SERVICE
0335A	LYNN HAVEN POLICE PENSION PLAN	27	10 YEARS OF SERVICE
0337A	LYNN HAVEN GENERAL EMPLOYEE PENSION PLAN	74	10 YEARS OF SERVICE
0340A	A.S.G GENERAL EMPLOYEES PLAN	4,050	10 YEARS OF SERVICE
0372A	EMPLOYEES RETIREMENT SYSTEM OF RHODE ISLAND	26,738	10 YEARS OF SERVICE
0372B	MUNICIPAL EMPLOYEES RETIREMENT SYSTEM	6,983	10 YEARS OF SERVICE
0372C	STATE POLICE RETIREMENT BENEFITS TRUST	130	10 YEARS OF SERVICE
0381A	CITY OF ALAMEDA POLICE AND FIRE RETIREMENT PLAN 1079 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0381B	CITY OF ALAMEDA POLICE & FIRE PLAN 1082 (CLOSED TO NEW MEMBERS)	0	10 YEARS OF SERVICE
0388A	TOWN OF AVON POLICE RETIREMENT PLAN	25	10 YEARS OF SERVICE
0406A	ROSEVILLE CITY EMPLOYEE'S RETIREMENT PLAN	308	10 YEARS OF SERVICE
0413A	CITY OF CADILLAC POLICEMEN AND FIREMENT RETIREMENT SYSTEM	29	10 YEARS OF SERVICE
0414A	CITY OF BIRMINGHAM (MI) EMPLOYEES RETIREMENT SYSTEM	197	10 YEARS OF SERVICE
0423A	STATE POLICE RETIREMENT SYSTEM OF NEW JERSEY	2,623	10 YEARS OF SERVICE
0425A	PRISON OFFICERS' PENSION FUND OF NEW JERSEY	0	10 YEARS OF SERVICE
0437A	CITY OF WHEELING EMPLOYEES' RETIREMENT AND BENEFIT FUND	240	10 YEARS OF SERVICE
0465A	LONG BEACH TRANSIT PENSION PLAN - SALARIED EMPLOYEES	117	10 YEARS OF SERVICE
0786A	VIRGIN ISLANDS GOVERNMENT EMPLOYEES' RETIREMENT PLAN	16,861	10 YEARS OF SERVICE
0072A	ARKANSAS TEACHERS' RETIREMENT SYSTEM	58,528	10 YEARS OF SERVICE (7/1/98 -5 YEARS)
0278A	CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM *	715,105	10 YEARS OF SERVICE FOR TIER 2/5 YEARS SERVICE FOR TIER 1
0121A	PENNSYLVANIA STATE EMPLOYES' RETIREMENT SYSTEM	112,044	10 YEARS OF SERVICE OR 3 YEARS AT AGE 60
0235B	NEBRASKA PERS STATE PATROL RETIREMENT PLAN	388	10 YEARS OF SERVICE, SCHEDULE OF 20% PER YEAR FROM 6-10 YRS
0057C	WYOMING PAID FIREMEN'S PLAN	282	10 YEARS OF SERVICEFOR PLAN A; 4YRS FOR PLAN B
0195H	MONTANA VOLUNTEER FIREFIGHTERS COMPENSATION ACT	2,537	10 YRS
0677A	Springfield Police & Fire Retirement System	500	10 YRS
0569A	City of Kingsford Police and Firemen Retirement System	20	10 yrs service
0174I	Washington Teachers' Retirement System -- Plan 3	35,284	age 65 with at least 10 years of service
0619A	Holyoke Contributory Retirement System	1,407	10 yrs srv/age 55 20 yrs srv/any age
0124A	CITY OF MIAMI BEACH FIRE & POLICE SUPPLEMENTAL PLAN CITY PENSION FUND.	486	100% AFTER 10 YEARS
0497A	Macon Water Authority Employee Pension Plan	200	vested with 10 yrs. service
0060B	STATE COLLEGE BOROUGH - POLICE PLAN	60	12 YEARS
0193B	KANSAS POLICE AND FIRE RETIREMENT SYSTEM	6,560	15 YEARS
0407D	FLINT EMPLOYEES RETIREMENT SYSTEM - MEDICAL CENTER	2,220	15 YEARS (10 AT AGE 55)
0174H	WASHINGTON JUDICIAL RETIREMENT SYSTEM	38	15 YEARS OF SERVICE
0418A	POLICE RETIREMENT SYSTEM OF KANSAS CITY, MISSOURI	1,263	15 YEARS OF SERVICE
0376A	West Virginia Judges Retirement System (JRS)	52	16 years service
0183B	State of Michigan Defined Contribution Retirement Plan	234	2 years = 50% , 3 years = 75%, 4 yrs = 100%
0185B	State of Michigan Defined Contribution Retirement Plan	12,636	2 YOS = 50%, 3 YOS = 75%, 4 YOS = 100%
0009A	THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO	13,658	20 YEARS
0019A	OHIO STATE HIGHWAY PATROL RETIREMENT PLAN	1,545	20 YEARS
0759A	HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND	3,276	20 YEARS
0372D	JUDICIAL RETIREMENT BENEFITS TRUST	29	20 YEARS AGE 65, OR 15 YEARS AGE 75
0025A	CLAIR T. SINGERMAN EMPLOYEE RETIREMENT SYSTEM	374	20 YEARS AND AGE 55
0092A	FIRE AND POLICE PENSION FUND, SAN ANTONIO	3,500	20 YEARS OF SERVICE
0190A	TEXAS COUNTY AND DISTRICT RETIREMENT PLAN	90,633	8, 10, OR 12 YEARS, AT PARTICIPATING EMPLOYER'S ELECTION
0386A	COLORADO COUNTY OFFICIALS & EMPLOYEES RET. ASSOC. PLANS	15,000	IMMEDIATE; 5 YR; 10 YR-AS ADOPTED BY COUNTIES, MUNICI., & SPEC. DISTRICTS
0043A	MN STATE RETIREMENT SYSTEM GENERAL EMPLOYEES' PLAN	47,920	3 YEARS
0043B	MN STATE RETIREMENT SYSTEM STATE TROOPERS' RETIREMENT PLAN	830	3 YEARS
0043C	MN STATE RETIREMENT SYSTEM CORRECTIONAL EMPLOYEES' PLAN	2,882	3 YEARS
0133A	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - COORDINATED PLAN	135,560	3 YEARS
0133B	MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - POLICE & FIRE PLAN	9,627	3 YEARS
0462B	Employees' Retirement System of Montgomery County (DC Plan)Retirement Savings Plan	2,544	3 YEARS
0405A	MINNESOTA TEACHERS RETIREMENT ASSOCIATION	70,508	3 YEARS OF ALLOWABLE SERVICE

0023A	BURLINGTON EMPLOYEES' RET. SYSTEM FOR POLICE AND FIRE	165	3 YEARS OF SERVICE
0023B	BURLINGTON EMPLOYEES' RET. SYSTEM FOR GENERAL EMPLOYEES	534	3 YEARS OF SERVICE
0055A	NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT	10,025	3 YEARS OF SERVICE
0178A	SOUTH DAKOTA RETIREMENT SYSTEM	34,180	3 YEARS OF SERVICE
0006A	PERS OF MISSISSIPPI GENERAL PLAN	151,790	4 YEARS
0057D	WYOMING PUBLIC EMPLOYEES' SYSTEM	31,492	4 YEARS
0165E	UTAH FIREFIGHTER'S RETIREMENT SYSTEM	1,452	4 YEARS
0165A	UTAH PUBLIC EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM	3,972	4 YEARS OF SERVICE
0165B	UTAH PUBLIC EMPLOYEES' NON-CONTRIBUTORY RETIREMENT SYSTEM	81,894	4 YEARS OF SERVICE
0165C	UTAH PUBLIC SAFETY PLAN	6,839	4 YEARS OF SERVICE
0165F	UTAH GOVERNORS AND LEGISLATIVE PENSION PLAN	88	4 YEARS OF SERVICE
0452A	Municipal Fire & Police Retirement System of Iowa	3,843	4 years of service
0278B	CALIFORNIA LEGISLATORS' RETIREMENT SYSTEM	28	4 YEARS OF SERVICE CREDIT
0066A	EMPLOYEES' RETIREMENT SYSTEM OF TEXAS	152,167	5 YEARS
0376C	West Virginia Public Safety Death, Disability and Retirement Plan□□(Trooper Plan A)	360	5 years
0211A	MENDOCINO COUNTY ERA	1,347	5 YEARS
0278C	JUDGES' RETIREMENT SYSTEM I (JRS I)	1,091	5 YEARS
0376E	West Virginia Teacher's Retirement System (TRS)	25,278	5 years
0376F	West Virginia Public Employees Retirement System (PERS)	33,976	5 years contributory service
0013A	PA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM	234,210	5 YEARS OF SERVICE
0043D	MN STATE RETIREMENT SYSTEM JUDGES' RETIREMENT PLAN	282	5 YEARS OF SERVICE
0048B	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON HAZARDOUS	77,419	5 YEARS OF SERVICE
0048C	KENTUCKY EMPLOYEES' RETIRMENT SYSTEM - HAZARDOUS	4,007	5 YEARS OF SERVICE
0036A	MISSOURI LOCAL GOVERNMENT EMPLOYEES' RETIREMENT PLAN	28,491	5 YEARS OF SERVICE
0001A	PERS OF NEVADA GENERAL EMPLOYEES' PLAN	71,924	5 YEARS OF SERVICE
0001B	PERS OF NEVADA POLICE/FIRE EMPLOYEES' PLAN	8,910	5 YEARS OF SERVICE
0003A	SOUTH CAROLINA RETIREMENT SYSTEM - GENERAL PLAN	204,710	5 YEARS OF SERVICE
0003B	SOUTH CAROLINA RETIREMENT SYSTEM - POLICE OFFICERS' PLAN	24,827	5 YEARS OF SERVICE
0005B	RETIREMENT SYSTEMS OF ALABAMA JUDICIAL PLAN	351	5 YEARS OF SERVICE
0048D	KENTUCKY STATE POLICE RETIREMENT SYSTEM	1,023	5 YEARS OF SERVICE
0048E	KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - HAZARDOUS	7,951	5 YEARS OF SERVICE
0058A	CHATHAM COUNTH EMPLOYEES' RETIREMENT PLAN	1,613	5 YEARS OF SERVICE
0060A	STATE COLLEGE BOROUGH - GENERAL PLAN	126	5 YEARS OF SERVICE
0062A	PORTLAND FIRE AND POLICE DISABILITY AND RETIREMENT FUND	1,546	5 YEARS OF SERVICE
0147A	PERS OF IDAHO - GENERAL MEMBERS	55,297	5 YEARS OF SERVICE
0147B	PERS OF IDAHO - POLICE/FIRE MEMBERS	5,091	5 YEARS OF SERVICE
0195G	MONTANA FIREFIGHTERS UNIFIED RETIREMENT SYSTEM	419	5 YEARS OF SERVICE
0376B	West Virginia Deputy Sheriff's Retirement System (DSRS)	468	5 years of service
0070A	TACOMA EMPLOYEES' RETIREMENT SYSTEM	2,814	5 YEARS OF SERVICE
0075A	Defined Benefit Plan for City Employees	6,655	5 YEARS OF SERVICE
0075B	City of Cincinnati Employees Retirement System	6,655	5 YEARS OF SERVICE
0079A	OHIO SCHOOL EMPLOYEES' RETIREMENT SYSTEM	113,811	5 YEARS OF SERVICE
0095A	FT. LAUDERDALE GENERAL EMPLOYEES RETIREMENT SYSTEM	1,363	5 YEARS OF SERVICE
0096A	TEACHER RETIREMENT SYSTEM OF TEXAS	0	5 YEARS OF SERVICE
0097A	LONG BEACH TRANSIT PENSION PLAN - CONTRACT EMPLOYEES	495	5 YEARS OF SERVICE
0104A	TENNESSEE CONSOLIDATED RETIREMENT SYSTEM	190,344	5 YEARS OF SERVICE
0107A	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM DEFINED BENEFIT PLAN	385,530	5 YEARS OF SERVICE
0109A	TUCSON SUPPLEMENTAL RETIREMENT SYSTEM	3,484	5 YEARS OF SERVICE
0111A	PUBLIC SCHOOL TEACHERS' PENSION & RETIREMENT FUND OF CHICAGO	35,409	5 YEARS OF SERVICE
0113A	VIRGINIA RETIREMENT SYSTEM	286,234	5 YEARS OF SERVICE
0125A	PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO	162,106	5 YEARS OF SERVICE
0126A	FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM	1,570	5 YEARS OF SERVICE
0127A	FAIRFAX COUNTY SUPPLEMENTAL RETIREMENT SYSTEM	13,044	5 YEARS OF SERVICE
0128A	FAIRFAX COUNTY POLICE OFFICERS' RETIREMENT SYSTEM	1,115	5 YEARS OF SERVICE
0137A	NEW YORK STATE TEACHERS' RETIREMENT SYSTEM	224,986	5 YEARS OF SERVICE
0138A	MISSOURI STATE EMPLOYEES' RETIREMENT PLAN	57,774	5 YEARS OF SERVICE

0138D	MISSOURI STATE EMPLOYEES' PLAN 2000	0	5 years of service
0143A	ST LOUIS COUNTY LIBRARY DISTRICT EMPLOYEES' PENSION PLAN	316	5 YEARS OF SERVICE
0144A	OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM	158,988	5 YEARS OF SERVICE
0146A	LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOC. PLAN A GENERAL	7,560	5 YEARS OF SERVICE
0147C	PERS OF IDAHO - FIREFIGHTERS RETIREMENT FUND (CLOSED PLAN)	129	5 YEARS OF SERVICE
0154A	NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM - GENERAL	17,231	5 YEARS OF SERVICE
0159A	FORT WORTH EMPLOYEES' RETIREMENT FUND	5,423	5 YEARS OF SERVICE
0174A	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN I	28,167	5 YEARS OF SERVICE
0174B	WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN II	168,213	5 YEARS OF SERVICE
0174C	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN I	16,737	5 YEARS OF SERVICE
0174D	WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN II/III	8,663	5 YEARS OF SERVICE
0174E	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN I	1,743	5 YEARS OF SERVICE
0174F	WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN II	12,713	5 YEARS OF SERVICE
0174G	WASHINGTON STATE PATROL RETIREMENT SYSTEM	988	5 YEARS OF SERVICE
0177A	PUBLIC SCHOOL RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS	6,100	5 YEARS OF SERVICE
0194A	CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT PLAN - GENERAL	7,436	5 YEARS OF SERVICE
0194B	CONTRA COSTA COUNTY RETIREMENT SYSTEM - POLICE AND FIRE	1,674	5 YEARS OF SERVICE
0195A	MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	28,091	5 YEARS OF SERVICE
0195B	MONTANA GAME WARDENS AND PEACE OFFICERS RETIREMENT SYSTEM	494	5 YEARS OF SERVICE
0195C	MONTANA JUDGES RETIREMENT SYSTEM	46	5 YEARS OF SERVICE
0195D	MONTANA HIGHWAY PATROL OFFICERS RETIREMENT SYSTEM	190	5 YEARS OF SERVICE
0195E	MONTANA SHERIFFS RETIREMENT SYSTEM	611	5 YEARS OF SERVICE
0195F	MONTANA MUNICIPAL POLICE OFFICERS RETIREMENT SYSTEM	571	5 YEARS OF SERVICE
0202A	NEW YORK STATE & LOCAL EMPLOYEES' RET. SYSTEM - GENERAL	720,223	5 YEARS OF SERVICE
0202B	NEW YORK STATE & LOCAL POLICE AND FIRE RETIREMENT SYSTEM	31,955	5 YEARS OF SERVICE
0206A	MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	2,968	5 YEARS OF SERVICE
0221A	EAST BAY MUNICIPAL UTILITY DISTRICT	1,853	5 YEARS OF SERVICE
0224D	LA COUNTY METRO TRANSIT AUTH. - NON-CONTRACT EMPLOYEE RIP	427	5 YEARS OF SERVICE
0231A	AURORA GENERAL EMPLOYEES RETIREMENT PLAN	1,493	5 YEARS OF SERVICE
0236A	NEBRASKA DEFINED CONTRIBUTION PLANS - STATE EMPLOYEES	14,689	5 YEARS OF SERVICE
0236B	NEBRASKA DEFINED CONTRIBUTION PLANS - COUNTY EMPLOYEES	6,872	5 YEARS OF SERVICE
0245A	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS	72,365	5 YEARS OF SERVICE
0245B	STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS (DC PLAN)	5,680	5 YEARS OF SERVICE
0277A	CITY OF ST. LOUIS EMPLOYEE RETIREMENT PLAN	5,948	5 YEARS OF SERVICE
0278D	CALIFORNIA JUDGES RETIREMENT FUND (II)	445	5 YEARS OF SERVICE
0291A	MILWAUKEE COUNTY EMPLOYEES' RETIREMENT PLAN	7,246	5 YEARS OF SERVICE
0303A	ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	0	5 YEARS OF SERVICE
0315A	LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM	24,234	5 YEARS OF SERVICE
0321A	SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION	5,231	5 YEARS OF SERVICE
0325A	CITY OF GERMANTOWN EMPLOYEE RETIREMENT PLAN	377	5 YEARS OF SERVICE
0353A	DENVER EMPLOYEES RETIREMENT PLAN	10,821	5 YEARS OF SERVICE
0368A	Denver Public Schools Retirement System	7,182	5 YEARS OF SERVICE
0373A	PERA OF NEW MEXICO	54,647	5 YEARS OF SERVICE
0374A	STATE EMPLOYEES RETIREMENT SYSTEM OF MARYLAND	178,456	5 YEARS OF SERVICE
0379A	Kern County Employees' Retirement Assocation	7,109	5 years of service
0387A	CITY OF ENGLEWOOD NON-EMERGENCY PENSION PLAN	231	5 YEARS OF SERVICE
0387B	CITY OF ENGLEWOOD POLICE PENSION PLAN	11	5 YEARS OF SERVICE
0387C	CITY OF ENGLEWOOD FIREFIGHTER'S PENSION PLAN	10	5 YEARS OF SERVICE
0388B	TOWN OF AVON PUBLIC WORKS RETIREMENT PLAN	14	5 YEARS OF SERVICE
0388C	TOWN OF AVON NON-ORGANIZED RETIREMENT PLAN	32	5 YEARS OF SERVICE
0388D	TOWN OF AVON BOARD OF EDUCATION RETIREMENT PLAN	38	5 YEARS OF SERVICE
0388E	Town of Avon 401(a) f.t.Employees' Plan	26	5 YEARS OF SERVICE
0419A	CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF K.C., MO.	583	5 YEARS OF SERVICE
0422A	MONTANA TEACHERS' RETIREMENT SYSTEM	18,205	5 YEARS OF SERVICE
0424A	JUDICIAL RETIREMENT SYSTEM OF NEW JERSEY	414	5 YEARS OF SERVICE
0449A	EMPLOYEES' RETIREMENT SYSTEM OF TULSA COUNTY, OKLAHOMA	1,389	5 YEARS OF SERVICE

0453A	CITY OF ARNOLD (MO) POLICE PENSION PLAN	46	5 YEARS OF SERVICE
0454A	SAN BERNARDINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION	15,858	5 YEARS OF SERVICE
0462A	Employees' Retirement System of Montgomery County	6,396	5 YEARS OF SERVICE
0737A	Town of Suffield Pension Plan	138	5 years of service
0146D	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN D: GENERAL	31,300	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146F	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN A SAFETY	2,005	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146G	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B SAFETY	9,259	5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP
0146B	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B: GENERAL	556	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0146C	LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN C: GENERAL	413	5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP
0063A	TEACHERS' RETIREMENT SYSTEMS OF ILLINOIS	144,975	5 YEARS OF SERVICE; ALSO SINGLE-SUM BENEFIT PAYABLE AT 65 IF < 5 YEARS
0034A	ARKANSAS LOCAL POLICE & FIRE RETIREMENT SYSTEM	7,983	5 YRS
0700A	Defined Benefit - Douglas County Employees Retirement Trust	0	5 yrs
0542A	City of St Petersburg Employee Retirement System	1,796	5 yrs of service
0160A	VIA METROPOLITAN TRANSIT RETIREMENT PLAN	1,409	50% VESTED AT 5 YEARS, GRADED TO 100% AT 10 YEARS OF SERVICE
0043E	MN STATE RETIREMENT SYSTEM LEGISLATORS' RETIREMENT PLAN	173	6 YEARS
0057A	WYOMING WARDEN AND PATROL RETIREMENT PLAN	260	6 YEARS
0165D	UTAH JUDGES' RETIREMENT SYSTEM	104	6 YEARS OF SERVICE
0310A	Iowa Judicial Retirement Fund	194	6 years of service
0007C	ILLINOIS JUDGES' RETIREMENT SYSTEM	908	6 YEARS OF SERVICE (AGE 62); 10 YEARS OF SERVICE (AGE 60); 2 YEARS OF SERVICE (AG
0145A	PERS OF OHIO - STATE AND LOCAL DIVISION	392,530	60 CONTRIBUTING MONTHS
0145B	PERS OF OHIO - LAW ENFORCEMENT DIVISION	7,389	60 CONTRIBUTING MONTHS
0156A	WICHITA EMPLOYEES' RETIREMENT PLAN	1,018	7 YEARS OF SERVICE
0156C	Wichita Employees' Retirement System Plan 3	878	7 years of service
0217A	LANSING BOARD OF WATER AND LIGHT EMPLOYEES'DEFINED BENEFIT PLAN	121	7 YEARS OF SERVICE
0217B	LANSING BOARD OF WATER AND LIGHT DEFINED CONTRIBUTION PENSION PLANS	636	7 YEARS OF SERVICE
0542B	City of St Petersburg Firefighters Retirement System	298	7 years of service
0542C	City of St Petersburg Police Officers Retirement System	457	7 years of service
0371A	SHELBY COUNTY RETIREMENT SYSTEM	6,271	71/2 YEARS OF SERVICE
0007A	ILLINOIS STATE EMPLOYEES' RETIREMENT SYSTEM	80,676	8 YEARS
0037A	KALAMAZOO COUNTY EMPLOYEES' RETIREMENT PLAN	1,064	8 YEARS
0043F	MN STATE RET. SYSTEM ELECTIVE OFFICERS' RET. PLAN	0	8 YEARS
0064D	EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - LEGISLATIVE	210	8 YEARS
0110A	ILLINOIS MUNICIPAL RETIREMENT FUND	157,816	8 YEARS
0169A	OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM	42,886	8 YEARS
0173A	WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM	5,407	8 YEARS
0183A	MICHIGAN JUDGES RETIREMENT SYSTEM	399	8 YEARS
0007B	ILLINOIS GENERAL ASSEMBLY RETIREMENT SYSTEM	161	8 YEARS (AGE 55); 4 YEARS (AGE 62)
0289A	GOGEBIC COUNTY EMPLOYEES RETIREMENT PLAN	375	8 YEARS OF SERVICE
0304A	ALASKA TEACHERS' RETIREMENT SYSTEM	9,164	8 YEARS OF SERVICE
0329A	CITY OF GRAND RAPIDS GENERAL EMPLOYEES' RETIREMENT SYSTEM	1,176	8 YEARS OF SERVICE
0451A	ELK COUNTY EMPLOYEES' RETIREMENT PLAN	132	8 YEARS OF SERVICE
0474A	VILLAGE OF MOUNT PROSPECT-POLICE	82	8 YEARS OF SERVICE
0195I	MONTANA PUBLIC EMPLOYEES' RETIREMENT DEFERRED COMPENSATION	7,048	ACCOUNT BALANCES ARE FULLY VESTED AT TIME OF DEPOSIT
0087B	NEW HAMPSHIRE RETIREMENT SYSTEM - TEACHERS' PLAN	14,114	AGE 60 W/ ANY YEARS
0235A	NEBRASKA PERS SCHOOL PLAN	34,718	AGE 65 WITH 5 YEARS CREDITED SERVICE; AGE 65 REGARDLESS OF SERVICE
0426A	CONSOLIDATED POLICE & FIREMEN'S PENSION FUND OF NEW JERSEY (CPFPF)	43,331	CLOSED PLAN, NO ACTIVE MEMBERS
0098A	WISCONSIN RETIREMENT SYSTEM	258,195	IMMEDIATE VESTING
0107B	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM CASH BALANCE PROGRAM	9,552	IMMEDIATE VESTING
0138B	MISSOURI ADMINISTRATIVE LAW JUDGES' RETIREMENT PLAN	52	IMMEDIATE VESTING
0138C	MISSOURI REGULAR JUDGES' RETIREMENT PLAN	375	IMMEDIATE VESTING
0235C	NEBRASKA PERS JUDGES' RETIREMENT PLAN	157	IMMEDIATE VESTING
0505A	VILLAGE OF BOLINGBROOK POLICE PENSION PLAN	86	IMMEDIATE VESTING
0542D	City of St Petersburg	100	Immediate vesting
0057B	WYOMING VOLUNTEER FIREMEN'S PLAN	2,118	MUST BE VOLUNTEER UNTIL AGE 60
0090A	Charlotte Firefighters' Retirement Plan	0	
0534A	Miami Shores General Employees Retirement Plan	0	

0650A	Fairfax County Water Authority Retirement Plan	0
0655A	Spokane Employees' Retirement Plan	0
	Number of plans with vesting requirements of 10 or more years	96
	Active members of plans with vesting requirements of 10 or more years	3,662,540
	Number of plans with vesting requirements of less than 10 years	172
	Active members of plans with vesting requirements of less than 10 years	5,988,342
	Number of plans with vesting requirements of 5 years or less	132
	Active members of plans with vesting requirements of 5 years or less	4,908,400

* About 50,000 members in Tier 2

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0836.1/06
ATTY/TYPIST:	LL:rmh
BRIEF DESCRIPTION:	Allowing vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3.

AN ACT Relating to vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3; and amending RCW 41.32.875, 41.35.680, and 41.40.820.

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

Sec. 1. RCW 41.32.875 and 2000 c 247 s 903 are each amended to read as follows:

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

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

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

~~(c)~~)) or completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817((~~;~~))
shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed

according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

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

Sec. 2. RCW 41.35.680 and 2000 c 247 s 906 are each amended to read as follows:

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

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

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

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

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

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

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member

retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 3. RCW 41.40.820 and 2000 c 247 s 309 are each amended to read as follows:

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

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

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

~~(c)~~)) or completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795((~~:~~))

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

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

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	10/6/05	Z-0784.1/Z-0836.1

SUMMARY OF BILL:

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five.

Effective Date: 90 days after session.

CURRENT SITUATION:

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000, and June 1, 2003, for TRS, SERS and PERS respectively.

MEMBERS IMPACTED:

The counts of active vested and non-vested members are shown below. Not included in these counts are terminated non-vested members who would add to the total should they become re-employed. As of the most recent valuation, 58,101 out of 98,587 Plan 3 members had less than ten years of service or were not vested based on service in Plan 2, or did not have five years of service including 12 months after age 54. Any of these non-vested members would be affected by this bill if they were to leave public employment with between five to ten years of service and before they earned 12 months of service after age 54.

System / Plan	Vested	Non-Vested
PERS 3	9,447	10,408
TRS 3	19,979	29,323
SERS 3	11,060	18,370

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:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 2/3	$ 15,280	$ 5	$ 15,285
(The Value of the Total Commitment to all Current Members)	TRS 2/3	$ 5,256	$ 11	$ 5,267
	SERS 2/3	$ 2,126	$ 7	$ 2,133
Unfunded Actuarial Accrued Liability		N/A	N/A	N/A
(The Portion of the Plan 1 Liability that is Amortized at 2024)				
Unfunded Liability (PBO)	PERS 2/3	$ (2,927)	$ 2	$ (2,925)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 2/3	$ (1,427)	$ 6	$ (1,421)
	SERS 2/3	$ (439)	$ 4	$ (435)

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

	PERS	TRS	SERS
Current Members			
Employee	0.01%	0.03%	0.05%
Employer State	0.01%	0.03%	0.05%
New Entrants*			
Employee	0.04%	N/A	N/A
Employer State	0.04%	0.06%	0.18%

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

Fiscal Budget Determinations:

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

Costs (in Millions):	PERS	TRS	SERS	Total
2006-2007				
State:				
General Fund	$0.2	$0.9	$0.4	$1.5
Non-General Fund	$0.4	$0.0	$0.0	$0.4
Total State	$0.6	$0.9	$0.4	$1.9
Local Government	$0.5	$0.5	$0.6	$1.6
Total Employer	$1.1	$1.4	$1.0	$3.5
Total Employee	$0.7	$0.1	$0.2	$1.0
2007-2009				
State:				
General Fund	$0.6	$2.1	$1.1	$3.8
Non-General Fund	$1.1	$0.0	$0.0	$1.1
Total State	$1.7	$2.1	$1.1	$4.9
Local Government	$1.5	$1.1	$1.7	$4.3
Total Employer	$3.2	$3.2	$2.8	$9.2
Total Employee	$1.9	$0.2	$0.4	$2.5
2006-2031				
State:				
General Fund	$24.0	$70.7	$48.9	$143.6
Non-General Fund	$46.4	$0.0	$0.0	$46.4
Total State	$70.4	$70.7	$48.9	$190.0
Local Government	$63.8	$35.2	$73.7	$172.7
Total Employer	$134.2	$105.9	$122.6	$362.7
Total Employee	$70.3	$1.5	$3.0	$74.8

State Actuary's Comments:

This bill does not modify the employee/employer level of cost sharing as defined in the actuarial funding chapter – Chapter 41.45 RCW. As a result, the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teacher's Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Fiscal Budget Determinations were based on preliminary 2004 data.

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. Rate increases are based on rates that exclude the cost of future gain-sharing benefits.

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.

WPEA

Washington Public Employees Association, UFCW Local 365

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May 23, 2005

TO: Senator Karen Fraser, Chair
Members of the Select Committee on Pension Policy
State Actuary Staff

FROM: Lynn Maier, Governmental Relations Director

SUBJECT: Requested Interim Study Issues

As you develop a potential interim work plan, I respectfully request that you consider issues important to WPEA outlined below.

Of most significance is the directive given to the SCPP via passage of HB 1044 to study options regarding the liability associated with future gain-sharing distributions given the legislature's choice to suspend gain-sharing for the 2005-07 biennium.

As you may recall, WPEA joined a host of other employee organizations in strong support of the package recommended to the legislature by the SCPP providing for a modified Rule of 90 in Plans 2 and 3 and modest improvements in Plan 1 in lieu of gain-sharing. We remain steadfast in our support of the original package and in our desire to achieve a viable trade-off for the loss of gain-sharing. And, we urge Committee members to revisit this issue with vigor with the intent of developing a comparable set of recommendations to the 2006 legislature. We also urge the SCPP to revisit the issue of 5-year vesting in Plan 3.

In addition to the above, we would appreciate SCPP consideration this interim of the following issues:

- Inclusion of DNR Natural Resource Investigators, DNR Forest Crew Supervisors and Deputy State Fire Marshals in the Public Safety Employees Retirement System (PSERS)
- Military service credit in PERS 2 and 3 comparable with PERS 1 (WPEA initiated HB 1522/SB 5521)
- Plan 2 access to state health plans at age 55 with at least 10 years of service on *separation* from employment (WPEA initiated HB 1520/SB 5520)

Regarding our request for additions to PSERS, we believe that the duties of the job classes enumerated meet the intent of the enabling legislation regarding physical risk and public protection of lives and property. PSERS goes into effect in July 2006, thus it is imperative that attention be given to our request to ensure consideration in the next legislative session.

Thank you for your consideration of these issues. I look forward to working with you during the interim.

Background

The 2005 budget bill directed the Office of the State Actuary to study the cost of the current retire-rehire program (as expanded in 2001 and modified in 2003) and to examine alternatives to the current program. The report was presented to the SCPP, House Appropriations, and Senate Ways and Means and is available on the OSA website. After receiving the report, the SCPP instructed staff to prepare the letter from the Chair and Vice Chair to the fiscal chairs, which is included in this report, and to prepare a bill for the 2006 session that includes certain procedural safeguards to help avoid abuses within the program.

Committee Activity

Presentations:

June 21, 2005 – Full Committee
July 19, 2005 - Full Committee
November 15, 2005 – Full Committee

Proposal:

December 13, 2005 – Executive and Full Committee

Recommendation to Legislature

See attached letter to fiscal chairs recommending further study by one or more entities other than OSA, and proposing "no cost" legislation that would implement certain procedural safeguards to help avoid abuses within the program.

Staff Contact

Laura Harper, Senior Research Analyst, Legal
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Post-Retirement Employment Program Report

November 15, 2005

Office of the State Actuary

Laura Harper, JD, CPP
Senior Research Analyst

Retire-rehire is a bellwether….

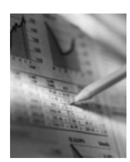
- It's controversial.
- It raises questions about the role of the pension system.
- It reflects changing views of retirement.

Setting the stage….

- 2005 Study Mandate to OSA:
  - Cost of current program.
  - Alternatives to current program.
- Report to Ways and Means, Appropriations, and SCPP by December 1, 2005.

What the report is....

- Actuarial analysis:
  - Examines experience.
  - Compares experience to assumptions.
  - Projects liabilities/identifies costs.
- Consultation:
  - Examines current program.
  - Presents alternatives.

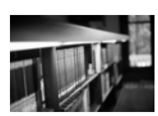


What the report is not….

- Does not determine workforce needs or how to address them.
- Does not take a position on whether the current program is working.
- Does not recommend a strategy (neutral).

Report is a resource….

- Reference tool for varied audience.
- Pick and choose topics and level of detail.
- Will not satisfy every reader, but every reader will find something satisfying.



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Actuarial Experience Study

- Key finding:
  - The 2001 program expansion has resulted in earlier Plan 1 retirements.

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Earlier retirement has a cost.

- Retirement benefits must be paid sooner and longer.
- There is a loss of expected member contributions.

What is the cost to employers?

Retirement System	Required Rate Increase
TRS 1	0.06%
PERS 1	0.01%

Projected Fiscal Impacts

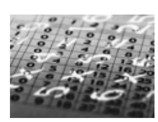
Period	Total Employer Costs
2007-2009	$ 7.5 million
25-year cost	$101.5 million

Alternatives

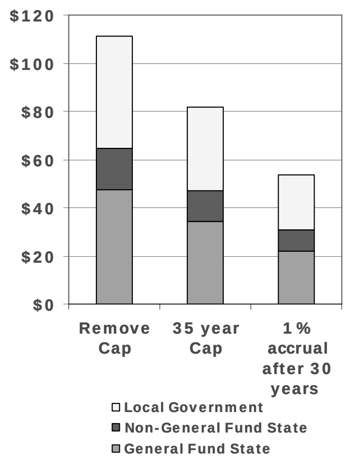
- System-wide incentives (remove or modify benefit cap).
- Amend.
- Repeal.
- Phased retirement.
- Deferred retirement option plan (DROP).

System-wide incentives

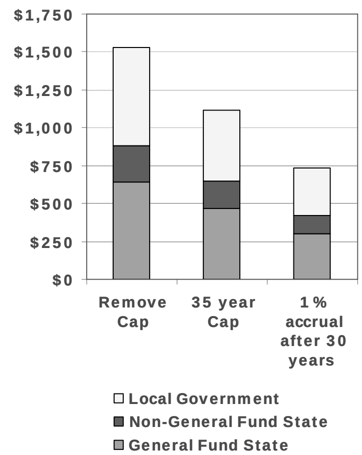
- Current Plan 1 benefit cap is 60 percent.
- Remove or amend cap as incentive for longer service.
  - Remove cap altogether.
  - Allow a partial (1 percent) benefit accrual after 30 years.
  - Increase the cap to 35 years (70 percent benefit).



2007-2009 Fiscal Costs
(After recognizing cost of current program)
$ in Millions



25 Year Fiscal Costs
(After recognizing cost of current program)
$ in Millions



Amend current program

- Many options for amending.
- Bill that passed the House in 2005 session was very close to SCPP proposal.
- Study prices that bill, and the same bill with a 50 percent benefit reduction.

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Repeal current program

- Contractual right?
  - November 2, 2005 AG opinion.
  - AG says non-contractual right clause is effective.
- Save cost of program?
- Litigation risk?

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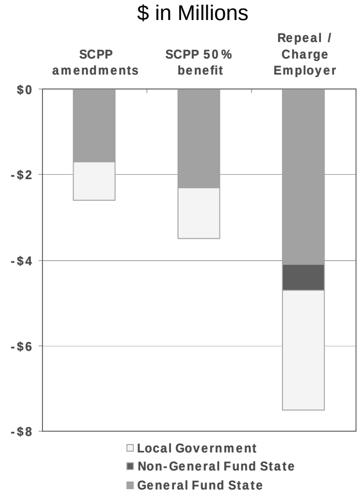
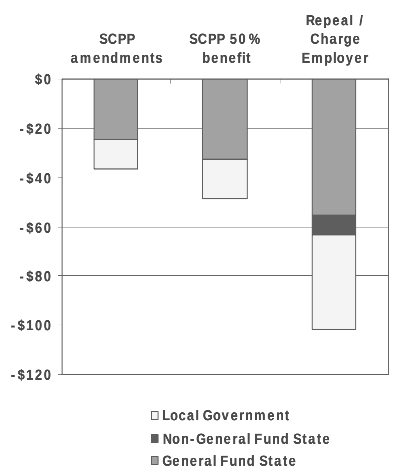
2007-2009 Fiscal Costs
(After recognizing cost of current program)
$ in Millions



25 Year Fiscal Costs
(After recognizing cost of current program)
$ in Millions



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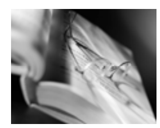
Phased retirement

- Partially retired, partially in service.
- Costs depend on program design; program design depends on goals.
- IRS has proposed DRAFT rules.



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DROP

- Member “retires” but works during set period.
- Pension goes into special account.
- At end of DROP period, member has access to benefits in account.
- Costs depend on program design; program design depends on goals.

Changing workforce

- Do nothing.
- Change plan design.
- Utilize special programs.

Choosing a strategy

- Requires decision-making around goals.
- Expresses values about the role of the retirement system.
- Requires a balancing of Plan 1 needs
  - Amortize unfunded liability.
  - Provide security to retirees with respect to existing benefit structure.

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Select Committee on Pension Policy

December 2, 2005

Senator Margarita Prentice, Chair
Senate Ways and Means Committee

Senator Joseph Zarelli, Ranking Minority Member
Senate Ways and Means Committee

Representative Helen Sommers, Chair
House Appropriations Committee

Representative Gary Alexander, Ranking Minority Member
House Appropriations Committee

RE: 2005 Post-Retirement Employment Program Report

Dear Chair Prentice, Chair Sommers, Senator Zarelli and Representative Alexander:

The Office of the State Actuary (OSA) has delivered its 2005 Post-Retirement Employment Program Report to the Select Committee on Pension Policy (SCPP), as required by Chapter 518, Laws of 2005. The SCPP has considered the report and offers the following response and recommendations:

1. Further study is needed. While the report is responsive to the study mandate, it is clear that cost is just one of many factors in determining an appropriate workforce strategy for public employees. The expanded post-retirement employment program was originally introduced to respond to workforce shortages, primarily in the education sector. The OSA report took no position as to whether the program has been successful in addressing these shortages, or whether the program is necessary to continue to avert them, assuming they still exist.

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While the OSA has access to certain data collected by the Department of Retirement Systems for the purpose of performing actuarial valuations, data from other sources would be required to fully evaluate the success of the program as a personnel tool. We recommend that some other entity may be more appropriate than the OSA to profile the state's public workforce, evaluate workforce needs, set personnel goals, and recommend an appropriate strategy to reach those goals. Perhaps a multidisciplinary task force would be an appropriate body to undertake this effort.

The expanded retire-rehire program is currently available in the Plans 1 of the Public Employees' Retirement System and Teachers' Retirement System. By far the largest employers in these plans are the K-12 employers, so we would view representatives of that group as critical to the success of any further study. Other affected entities include state agencies, counties, higher education institutions, county subdivisions and cities.

2. No immediate or significant changes in current practices are required at this time. In light of our recommendation for further study, we believe that significant legislative action would be premature. However, we are recommending, as a sort of "stopgap measure," legislation that would implement certain procedural safeguards to help avoid abuses within the program. These safeguards would involve no changes to hour limits or waiting periods, and thus, would have **no cost**. Instead, we recommend that employers be required to hire retirees pursuant to a written policy. Further, we recommend consistency between PERS 1 and TRS 1 regarding the following: a) prohibitions against prior agreements to rehire retirees, and b) requirements that employers document their need to hire retirees and keep records of their hiring processes.

Thank you for your consideration of these recommendations. We would be happy to discuss them with you in more detail.

Sincerely,

Bill	Karen
Representative Bill Fromhold, Chair	Senator Karen Fraser, Vice-Chair
Select Committee on Pension Policy	Select Committee on Pension Policy

cc: Matt Smith, State Actuary
David Schumacher, Sr. Staff Coordinator/Capital Budget Coordinator
Charlie Gavigan, Staff Coordinator

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0941.1/06

ATTY/TYPIST: LL:ads

BRIEF DESCRIPTION: Addressing the public employment of retirees from the teachers' retirement system plan 1 and the public employees' retirement system plan 1.

AN ACT Relating to the public employment of retirees from the teachers' retirement system plan 1 and the public employees' retirement system plan 1; amending RCW 41.32.055, 41.32.570, 41.40.010, and 41.40.037; reenacting and amending RCW 41.32.010; prescribing penalties; and providing an effective date.

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

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

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

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

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

(2) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

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

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

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

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

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

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

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

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

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

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

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

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

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

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

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

(v) "Earnable compensation" does not include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(vi) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

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

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

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

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

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

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

(viii) The department shall adopt rules implementing this subsection.

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

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

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

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

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

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

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

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

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

(36) "Substitute teacher" means:

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

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

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

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

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

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

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

(39) "Plan 2" means the teachers' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and prior to July 1, 1996.

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

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

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

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

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

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

(46) "Annual increase" means, initially, fifty-nine cents per month

per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

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

(48) "Separation from service or employment" occurs when a person has terminated all employment with an employer. <u>Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.32.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination. Mere expressions or inquiries about postretirement employment by an employer or employee that do not constitute a commitment to reemploy the employee after retirement are not an agreement under this section.</u>

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

Sec. 2. RCW 41.32.055 and 2003 c 53 s 218 are each amended to read as follows:

<u>(1)</u> Any person who shall knowingly make false statements or shall falsify or permit to be falsified any record or records of the retirement system<u>, except under subsection (2) of this section,</u> in any attempt to defraud such system as a result of such act, is guilty of a class B felony punishable according to chapter 9A.20 RCW.

<u>(2) Any person who shall knowingly make false statements or shall falsify or permit to be falsified any record or records of the retirement systems related to a member's separation from service and qualification for a retirement allowance under RCW 41.32.480 in any attempt to defraud that system as a result of such an act, is guilty of a gross misdemeanor.</u>

Sec. 3. RCW 41.32.570 and 2003 c 295 s 6 are each amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every seven hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

(b) The benefit reduction provided in (a) of this subsection will accrue for a maximum of one hundred forty hours per month. Any monthly benefit reduction over one hundred percent will be applied to the benefit the retiree is eligible to receive in subsequent months.

(2) Except under subsection (3) of this section, any retired teacher or retired administrator who enters service in any public educational institution in Washington state ((~~and who has satisfied the break in employment requirement of subsection (1) of this section~~)) at least one calendar month after his or her accrual date shall cease to receive pension payments while engaged in such service, after the retiree has rendered service for more than ((~~one thousand five hundred~~)) eight hundred sixty-seven hours in a school year.

(3) Any retired teacher or retired administrator who enters service in any public educational institution in Washington state one calendar month or more after his or her accrual date and:

(a) Is hired pursuant to a written policy into a position for which the school board has documented a justifiable need to hire a retiree into the position;

(b) Is hired through the established process for the position with the approval of the school board or other highest decision-making authority of the prospective employer; and

(c) Whose employer retains records of the procedures followed and the decisions made in hiring the retired teacher or retired administrator and provides those records in the event of an audit;

shall cease to receive pension payments while engaged in that service after the retiree has rendered service for more than one thousand five hundred hours in a school year.

(4) When a retired teacher or administrator renders service beyond eight hundred sixty-seven hours, the department shall collect from the employer the applicable employer retirement contributions for the entire duration of the member's employment during that fiscal year.

((~~(3)~~)) (5) The department shall collect and provide the state actuary with information relevant to the use of this section for the select committee on pension policy.

((~~(4)~~)) (6) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to be employed for more than five hundred twenty-five hours per year without a reduction of his or her pension.

Sec. 4. RCW 41.40.010 and 2004 c 242 s 53 are each amended to read as follows:

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

(1) "Retirement system" means the public employees' retirement system provided for in this chapter.

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

(3) "State treasurer" means the treasurer of the state of Washington.

(4)(a) "Employer" for plan 1 members, means every branch, department, agency, commission, board, and office of the state, any political subdivision or association of political subdivisions of the state admitted into the retirement system, and legal entities authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the term shall also include any labor guild, association, or organization the membership of a local lodge or division of which is comprised of at least forty percent employees of an employer (other than such labor guild, association, or organization) within this chapter. The term may also include any city of the first class that has its own retirement system.

(b) "Employer" for plan 2 and plan 3 members, means every branch, department, agency, commission, board, and office of the state, and any political subdivision and municipal corporation of the state admitted into the retirement system, including public agencies created pursuant to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 2000, school districts and educational service districts will no longer be employers for the public employees' retirement system plan 2.

(5) "Member" means any employee included in the membership of the retirement system, as provided for in RCW 41.40.023. RCW 41.26.045 does not prohibit a person otherwise eligible for membership in the retirement system from establishing such membership effective when he or she first entered an eligible position.

(6) "Original member" of this retirement system means:

(a) Any person who became a member of the system prior to April 1, 1949;

(b) Any person who becomes a member through the admission of an employer into the retirement system on and after April 1, 1949, and prior to April 1, 1951;

(c) Any person who first becomes a member by securing employment with an employer prior to April 1, 1951, provided the member has rendered at least one or more years of service to any employer prior to October 1, 1947;

(d) Any person who first becomes a member through the admission of an employer into the retirement system on or after April 1, 1951, provided, such person has been in the regular employ of the employer for at least six months of the twelve-month period preceding the said admission date;

(e) Any member who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement becomes entitled to be credited with ten years or more of membership service except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member;

(f) Any member who has been a contributor under the system for two or more years and who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement has rendered five or more years of service for the state or any political subdivision prior to the time of the admission of the employer into the system; except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member.

(7) "New member" means a person who becomes a member on or after April 1, 1949, except as otherwise provided in this section.

(8)(a) "Compensation earnable" for plan 1 members, means salaries or wages earned during a payroll period for personal services and where the compensation is not all paid in money, maintenance compensation shall be included upon the basis of the schedules established by the member's employer.

(i) "Compensation earnable" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable and the individual shall receive the equivalent service credit;

(B) If a leave of absence is taken by an individual for the purpose of serving in the state legislature, the salary which would have been received for the position from which the leave of absence was taken, shall be considered as compensation earnable if the employee's contribution is paid by the employee and the employer's contribution is paid by the employer or employee;

(C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(D) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(E) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(F) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(ii) "Compensation earnable" does not include:

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

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

(b) "Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections

403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Compensation earnable" for plan 2 and plan 3 members also includes the following actual or imputed payments, which are not paid for personal services:

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

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

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

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(9)(a) "Service" for plan 1 members, except as provided in RCW 41.40.088, means periods of employment in an eligible position or positions for one or more employers rendered to any employer for which compensation is paid, and includes time spent in office as an elected or appointed official of an employer. Compensation earnable earned in full time work for seventy hours or more in any given calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service except as provided in RCW 41.40.088. Only service credit months and one-quarter service credit months shall be counted in the computation of any retirement allowance or other benefit provided for in this chapter. Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits. Time spent in standby status, whether compensated or not, is not service.

(i) Service by a state employee officially assigned by the state on a temporary basis to assist another public agency, shall be considered as service as a state employee: PROVIDED, That service to any other public agency shall not be considered service as a state employee if such service has been used to establish benefits in any other public retirement system.

(ii) An individual shall receive no more than a total of twelve service credit months of service during any calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for seventy or more hours is rendered.

(iii) A school district employee may count up to forty-five days of sick leave as creditable service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than twenty-two days equals one-quarter service credit month;

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

(C) More than twenty-two days but less than forty-five days equals one and one-quarter service credit month.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member in an eligible position or positions for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(i) Service in any state elective position shall be deemed to be full time service, except that persons serving in state elective positions who are members of the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and fire fighters' retirement system at the time of election or appointment to such position may elect to continue membership in the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and fire fighters' retirement system.

(ii) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

(iii) Up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

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

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

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

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

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

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

(11) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(12) "Prior service" means all service of an original member rendered to any employer prior to October 1, 1947.

(13) "Membership service" means:

(a) All service rendered, as a member, after October 1, 1947;

(b) All service after October 1, 1947, to any employer prior to the time of its admission into the retirement system for which member and employer contributions, plus interest as required by RCW 41.50.125, have been paid under RCW 41.40.056 or 41.40.057;

(c) Service not to exceed six consecutive months of probationary service rendered after April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of the total amount of the employer's contribution to the retirement fund which would have been required under the law in effect when such probationary service was rendered if the member had been a member during such period, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member;

(d) Service not to exceed six consecutive months of probationary service, rendered after October 1, 1947, and before April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of five percent of such member's salary during said period of probationary service, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member.

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

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

(15) "Regular interest" means such rate as the director may determine.

(16) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(17)(a) "Average final compensation" for plan 1 members, means the annual average of the greatest compensation earnable by a member during any consecutive two year period of service credit months for which service credit is allowed; or if the member has less than two years of service credit months then the annual average compensation earnable during the total years of service for which service credit is allowed.

(b) "Average final compensation" for plan 2 and plan 3 members, means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.40.710(2).

(18) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(19) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(20) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(21) "Retirement allowance" means the sum of the annuity and the pension.

(22) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

(23) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

(24) "Retirement" means withdrawal from active service with a retirement allowance as provided by this chapter.

(25) "Eligible position" means:

(a) Any position that, as defined by the employer, normally requires five or more months of service a year for which regular compensation for at least seventy hours is earned by the occupant thereof. For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position;

(b) Any position occupied by an elected official or person appointed directly by the governor, or appointed by the chief justice of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which compensation is paid.

(26) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (25) of this section.

(27) "Leave of absence" means the period of time a member is authorized by the employer to be absent from service without being separated from membership.

(28) "Totally incapacitated for duty" means total inability to perform the duties of a member's employment or office or any other work for which the member is qualified by training or experience.

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

(30) "Director" means the director of the department.

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

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

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

(34) "Plan 2" means the public employees' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and are not included in plan 3.

(35) "Plan 3" means the public employees' retirement system, plan 3 providing the benefits and funding provisions covering persons who:

(a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

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

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

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

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

(40) "Adjustment ratio" means the value of index A divided by index B.

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

(42) "Separation from service" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination. <u>Mere expressions or inquiries about postretirement employment by an employer or employee that do not constitute a commitment to reemploy the employee after retirement are not an agreement under this subsection.</u>

(43) "Member account" or "member's account" for purposes of plan 3

means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

Sec. 5. RCW 41.40.037 and 2005 c 319 s 103 are each amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

(b) The benefit reduction provided in (a) of this subsection will accrue for a maximum of one hundred sixty hours per month. Any benefit reduction over one hundred percent will be applied to the benefit the retiree is eligible to receive in subsequent months.

(2)(a) Except as provided in (b) of this subsection, a retiree from plan 1 who enters employment with an employer at least one calendar month after his or her accrual date may continue to receive pension payments while engaged in such service for up to eight hundred sixty-seven hours of service in a calendar year without a reduction of pension.

(b) A retiree from plan 1 who enters employment with an employer at least three calendar months after his or her accrual date and:

(i) Is hired pursuant to a written policy into a position for which the employer has documented a justifiable need to hire a retiree into the position;

(ii) Is hired through the established process for the position with the approval of: A school board for a school district; the chief executive officer of a state agency employer; the secretary of the senate for the senate; the chief clerk of the house of representatives for the house of representatives; the secretary of the senate and the chief clerk of the house of representatives jointly for the joint legislative audit and review committee, the ((~~joint~~)) select committee on pension policy, the legislative evaluation and accountability program, the legislative systems committee, and the statute law committee; or according to rules adopted for the rehiring of retired plan 1 members for a local government employer;

(iii) The employer retains records of the procedures followed and decisions made in hiring the retiree, and provides those records in the event of an audit; and

(iv) The employee has not already rendered a cumulative total of more than one thousand nine hundred hours of service while in receipt of pension payments beyond an annual threshold of eight hundred sixty-seven hours;

shall cease to receive pension payments while engaged in that service after the retiree has rendered service for more than one thousand five hundred hours in a calendar year. The one thousand nine hundred hour cumulative total under this subsection applies prospectively to those retiring after July 27, 2003, and retroactively to those who retired prior to July 27, 2003, and shall be calculated from the date of retirement.

(c) When a plan 1 member renders service beyond eight hundred sixty-seven hours, the department shall collect from the employer the applicable employer retirement contributions for the entire duration of the member's employment during that calendar year.

(d) A retiree from plan 2 or plan 3 who has satisfied the break in employment requirement of subsection (1) of this section may work up to eight hundred sixty-seven hours in a calendar year in an eligible position, as defined in RCW 41.32.010, 41.35.010, 41.37.010, or 41.40.010, or as a fire fighter or law enforcement officer, as defined in RCW 41.26.030, without suspension of his or her benefit.

(3) If the retiree opts to reestablish membership under RCW 41.40.023(12), he or she terminates his or her retirement status and becomes a member. Retirement benefits shall not accrue during the period of membership and the individual shall make contributions and receive membership credit. Such a member shall have the right to again retire if eligible in accordance with RCW 41.40.180. However, if the right to retire is exercised to become effective before the member has rendered two uninterrupted years of service, the retirement formula and survivor options the member had at the time of the member's previous retirement shall be reinstated.

(4) The department shall collect and provide the state actuary with information relevant to the use of this section for the select committee on pension policy.

(5) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to be employed for more than five months in a calendar year without a reduction of his or her pension.

<u>NEW SECTION.</u> **Sec. 6.** This act takes effect July 1, 2006.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	11/23/05	Z-0941.1/Z-1017.1

SUMMARY OF BILL:

This bill impacts the Plan 1 of the Teachers' Retirement System (TRS 1) and Plan 1 of the Public Employees' Retirement System (PERS 1). It adds some of the same general hiring qualifications to TRS 1 as currently exist for PERS 1 retirees who seek to work in excess of 867 hours annually. Those include a prohibition of any written or verbal agreement to return to work with the same employer. Under the proposed legislation, a TRS 1 separation from service that is pursuant to such an agreement would constitute a potential misdemeanor violation of the statute entitled "Penalties for False Statements," RCW 41.32.055. Further, TRS 1 employers would be subject to certain record-keeping requirements when they rehire these retirees, including documentation of the need to hire the retiree and records of the actual hiring process. The language for these requirements largely tracks that of the existing PERS 1 statute. Finally, the bill would require both PERS 1 and TRS 1 employers to rehire retirees pursuant to a written policy.

Effective Date: July 1, 2006

CURRENT SITUATION:

Currently, PERS 1 retirees are subject to more specific rules affecting post-retirement employment than TRS 1 retirees. PERS 1 retirees are subject to an amended definition of "separation from service" so that any written or verbal agreement to return to work with the same employer creates a potential violation of the statute entitled "Penalties for False Statements," RCW 41.40.55. Further, PERS 1 employers are subject to certain record-keeping requirements when they hire these retirees, including documentation of the need to hire the retirees and records of the actual hiring process.

Currently, there is no requirement in either system to hire retirees pursuant to a written policy.

MEMBERS IMPACTED:

This bill potentially affects all current and future PERS 1 and TRS 1 retirees. Beneficiaries of retired members are not affected. Members potentially affected include 69,126 PERS 1 and 43,511 TRS 1 active, terminated vested, and retired members as of September 30, 2004.

FISCAL IMPACT:

None. We assume that the changes proposed under this bill will not alter future retirement behavior in the affected systems.

Background

The Public Safety Employees' Retirement System (PSERS) legislation was sponsored by the SCPP and was passed into law as Chapter 242, Laws of 2004. It will take effect on July 1, 2006. This plan was established to acknowledge the law enforcement nature of certain public employee occupations that do not meet all the statutory criteria for membership in the Law Enforcement Officers' and Fire Fighters' retirement system (LEOFF). This legislation excluded certain occupational titles, particularly those with supervisory duties and others who may meet the statutory criteria for membership. Issues were raised by the DRS regarding the administering of an occupational list – including those not intended and excluding those who were intended for membership.

Committee Activity

Presentations:

July 19, 2005 – Full Committee
September 27, 2005 – Full Committee
November 15, 2005 – Executive Committee
December 13, 2005 – Full Committee

Proposal:

December 18, 2005 – Full Committee

Recommendation to Legislature

Amend the PSERS statutes to establish a criteria/duty based membership design while retaining a statutory list of employers. Expand the employer list to include the Washington State Department of Natural Resources and Department of Social and Health Services.

Staff Contact

Robert Wm. Baker, Senior Research Analyst
360.786.6144; baker.robert@leg.wa.gov

PSERS Membership Eligibility

(December 20, 2005)

Issue

Legislation establishing the Public Safety Employees' Retirement System (PSERS) excluded certain occupational titles, particularly those with supervisory duties and others who may meet the statutory criteria for membership.

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 786-6144

Members Impacted

There are an estimated 7,200 PERS 2/3 members with public safety law enforcement responsibilities currently employed by the Washington State Department of corrections, the Washington State Department of Parks and Recreation, the Washington State Gambling Commission, the Washington State Patrol, the Washington State Liquor Control Board, county corrections departments, and city corrections departments not covered under first class city retirement plans chapter 41.28 RCW.

Background

The PSERS legislation was sponsored by the SCPP and was passed into law as Chapter 242, Laws of 2004. It will take effect on July 1, 2006. This plan was established to acknowledge the law enforcement nature of certain public employee occupations that do not meet all the statutory criteria for membership in the Law Enforcement Officers' and Fire Fighters' retirement system (LEOFF).

These public safety employees are currently members of the Public Employees' Retirement System (PERS) and eligible to receive normal retirement after five years of service and attainment of age 65; in Plan 3, it is ten years of service and attainment of age 65. A Plan 2 member may receive an actuarially reduced early retirement after 20 years of service and attainment of age 55. A member with 30 years of service and age 55 may receive a benefit reduced 3 percent per year from age 65.

The PSERS benefit design includes:

- Regular retirement at age 65 with five years of service.
- Unreduced retirement at age 60 with ten years of service in PSERS.
- Three percent early retirement reduction factor (ERF) from age 60 if age 53 with at least 20 years of service.
- Disability early retirement with an actuarial equivalent ERF from age 60.

History

Numerous groups with some law enforcement authority have sought membership in the retirement plans for Law Enforcement Officers' and Fire Fighters' (LEOFF). A few of these groups have been successful. Recently, Emergency Medical Technicians and Fish and Wildlife enforcement officers have gained membership in LEOFF 2 as they met all statutory criteria for membership. Other groups who have sought membership in LEOFF do not meet these statutory criteria.

At the December 10, 2001, meeting of the Joint Committee on Pension Policy (JCPP), the committee passed a motion to study the issue of "... providing additional public safety benefits to certain members of PERS Plans 2 and 3 ...." The

JCPP heard presentations and public testimony on this issue during the June and July 2002 interim hearings. The committee did not forward a recommendation to the full legislature.

In the 2003 interim, the SCPP formed the PERS Public Safety subgroup to study the issue and brought a recommendation to the executive committee of the SCPP. That recommendation, the establishment of the Public Safety Employees' Retirement System, was endorsed by the full committee, forwarded to the legislature, and passed into law as Chapter 242, Laws of 2004.

SCPP Deliberations

When deliberating on the question of who should be included in membership in PSERS, the SCPP deliberated over using an activity-based criteria or using a statutory list. The committee decided in favor of a statutory list. It was also decided that an activity criteria would be included in the intent section of the legislation.

The committee limited membership in PSERS to those jobs in which there were law enforcement characteristics and duties. Those characteristics, duties, and qualifications were outlined in RCW 41.37.005 and included:

- A high degree of physical risk to member's own personal safety;
- Providing public protection of lives and property;
- Authority and power to arrest;
- Conduct criminal investigations;
- Enforce the criminal laws of the state of Washington;
- Authority to carry a firearm as a part of the job;
- Passage of a civil service examination; and,
- Completion of the Washington Criminal Justice Training Commission (CJTC) basic course or equivalent.

While the above criteria for membership were in the intent section of the legislation, the statutory list of those eligible for membership in PSERS was placed in the definition section (RCW 41.37.010). The list includes city corrections officers, jailers, police support officers, custody officers, and bailiffs; county corrections officers, jailers, custody officers, and sheriffs corrections officers; county probation officers, probation counselors, and court services officers; state correctional officers, correctional sergeants, and community corrections officers; liquor enforcement officers; park rangers; commercial vehicle enforcement officers; and gambling special agents.

At the time of passage, it was acknowledged that the legislation probably excluded certain occupational titles, particularly those with supervisory duties, and others who may qualify for membership based on the activity criteria. Because of the delayed effective date, it was felt that there was time for those who wanted to be included in PSERS membership to contact the committee or their legislators for consideration.

Policy

In order for a public employee to be a law enforcement member of LEOFF they must:

- Be employed by a general authority law enforcement agency;
- Be employed on a full-time fully compensated basis to enforce the criminal laws of the state of Washington;
- Pass a civil service examination;
- Meet specific medical and health standards; and,
- Complete CJTC basic training.

While PSERS eligible employees meet some of these standards, they do not meet all of the standards. The SCPP has limited membership in PSERS to public employees who engage in law enforcement activities, are not eligible to be LEOFF members, but who most closely meet the traditional definition of "public safety."

Policy Questions

Does the Committee want to maintain the *law enforcement related* activity criteria for membership in PSERS?

If the Committee wants to expand membership, on what criteria or measure should that membership be based? Should it include supervisory positions?

Does the committee want to consider changing the membership provision from a statutory list to a criteria base? (Job titles may be easier to change administratively than actual job duties.)

Are there other provisions in PSERS the Committee wants to change?

Executive Committee Action

At the June 21, 2005, meeting, the Executive Committee of the SCPP recommended that this issue be heard by the full committee in July.

At the July 19, 2005, meeting, the Executive Committee of the SCPP recommended that a bill be drafted incorporating a criteria/duty based membership design while retaining a statutory list of employers.

At the November 15, 2005, meeting, the Executive Committee of the SCPP recommended both a bill draft, and an amendment to include the Department of Social and Health Services to the list of employers, be forwarded to the full committee for public hearing and possible executive session in December. The amendment would need to be adopted by the full committee before it could modify the existing bill draft.

Committee Recommendation

At the December 13, 2005, meeting the full committee, during executive session, recommended the bill incorporating a criteria/duty based membership design while retaining a statutory list of employers be forwarded to the legislature for consideration. The employer list would include the Department of Natural Resources and the Department of Social and Health Services.

Bill Draft

Attached

Fiscal Note (Draft)

Attached

Stakeholder Input

Charles Jones, Correctional Captain, Washington State Department of Corrections (see Attachment).

Lynn Maier, Governmental Relations Director, Washington Public Employees Association, UFCW Local 365 (see Attachment).

Dennis Trettel, Master Investigator, Snohomish County Medical Examiner's Office (see Attachment).

Bev Hermanson, Washington Federation of State Employees, AFSCME, AFL-CIO (see Attachment).

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0835.7/06 7th draft
ATTY/TYPIST:	LL:seg
BRIEF DESCRIPTION:	Making changes to general provisions in the public safety employees' retirement system.

AN ACT Relating to general provisions in the public safety employees' retirement system; amending RCW 41.37.005, 41.37.010, 41.04.270, 41.04.278, and 41.04.393; and declaring an emergency.

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

Sec. 1. RCW 41.37.005 and 2004 c 242 s 1 are each amended to read as follows:

It is the intent of the legislature to establish a separate public safety employees' retirement system for ((~~those~~)) certain public employees whose jobs contain a high degree of physical risk to their own personal safety and who ((~~engage in duties contained in this section. The duties involved in these jobs include providing~~)) provide public protection of lives and property, ((~~the authority and power to arrest, conducting criminal investigations, enforcing the criminal laws of the state of Washington, and the authority to carry a firearm as part of the job. Qualifications and training for these jobs include passage of a civil service examination and completion of the Washington criminal justice training commission basic training course or equivalent. Only those job classes specifically included in RCW 41.37.010(5) by the legislature are public safety employees, and only~~

~~for service earned after the effective date of the inclusion of that job class in RCW 41.37.010(5)~~)) but who are not eligible for membership in the law enforcement officers' and fire fighters' retirement system.

Sec. 2. RCW 41.37.010 and 2005 c 327 s 4 are each amended to read as follows:

The definitions in this section apply throughout this chapter, unless the context clearly requires otherwise.

(1) "Retirement system" means the Washington public safety employees' retirement system provided for in this chapter.

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

(3) "State treasurer" means the treasurer of the state of Washington.

(4) "Employer" means the Washington state department of natural resources, the Washington state department of social and health services, the Washington state department of corrections, the Washington state parks and recreation commission, the Washington state gambling commission, the Washington state patrol, and the Washington state liquor control board((~~,~~)); any county corrections department((~~s,~~)); any city corrections department((~~s~~)) not covered under chapter 41.28 RCW((~~,~~)); or other employers employing statewide elective officials.

(5) "Member" means any employee employed by an employer on a full-time((~~, fully compensated~~)) basis ((~~within the following job classes in effect as of January 1, 2004: City corrections officers, jailers, police support officers, custody officers, and bailiffs; county corrections officers, jailers, custody officers, and sheriffs corrections officers; county probation officers and probation counselors; state correctional officers, correctional sergeants, and community corrections officers; liquor enforcement officers; park rangers; commercial vehicle enforcement officers; and gambling special agents~~)):

(a) Who is in a position that requires completion of a certified criminal justice training course and is authorized by their employer to arrest, conduct criminal investigations, enforce the criminal laws of the state of Washington, and carry a firearm as part of the job;

(b) Whose primary responsibility is to ensure the custody and security of incarcerated individuals as a corrections officer or jailer;

(c) Who is a limited authority Washington peace officer, as defined in RCW 10.93.020, for an employer; or

(d) Whose primary responsibility is to supervise members eligible under this subsection.

(6)(a) "Compensation earnable" for members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

(b) "Compensation earnable" for members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement, which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided in this subsection, and the individual shall receive the equivalent service credit;

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

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

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.37.070;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(7) "Service" means periods of employment by a member on or after July 1, 2006, for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(a) Service in any state elective position shall be deemed to be full-time service.

(b) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

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

(9) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(10) "Membership service" means all service rendered as a member.

(11) "Beneficiary" means any person in receipt of a retirement

allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(12) "Regular interest" means such rate as the director may determine.

(13) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(14) "Average final compensation" means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.37.290.

(15) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(16) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(17) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(18) "Retirement allowance" means monthly payments to a retiree or beneficiary as provided in this chapter.

(19) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

(20) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

(21) "Retirement" means withdrawal from active service with a retirement allowance as provided by this chapter.

(22) "Eligible position" means any permanent, full-time, fully compensated position included in subsection (5) of this section.

(23) "Ineligible position" means any position which does not

conform with the requirements set forth in subsection (22) of this section.

(24) "Leave of absence" means the period of time a member is authorized by the employer to be absent from service without being separated from membership.

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

(26) "Director" means the director of the department.

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

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

(29) "Plan" means the Washington public safety employees' retirement system plan 2.

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

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

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

(33) "Adjustment ratio" means the value of index A divided by index B.

(34) "Separation from service" occurs when a person has terminated all employment with an employer.

Sec. 3. RCW 41.04.270 and 2005 c 327 s 1 are each amended to read as follows:

(1) Except as provided in chapter 2.10, 2.12, 41.26, 41.28, 41.32, 41.35, 41.37, 41.40, or 43.43 RCW, on and after March 19, 1976, any member or former member who (a) receives a retirement allowance earned by ((~~said~~)) the former member as deferred compensation from any public retirement system authorized by the general laws of this state, or (b) is eligible to receive a retirement allowance from any public retirement system listed in RCW 41.50.030, but chooses not to apply, or (c) is the beneficiary of a disability allowance from any public

retirement system listed in RCW 41.50.030 shall be estopped from becoming a member of or accruing any contractual rights whatsoever in any other public retirement system listed in RCW 41.50.030: PROVIDED, That (a) and (b) of this subsection shall not apply to persons who have accumulated less than fifteen years service credit in any such system.

(2) Nothing in this section is intended to apply to any retirement system except those listed in RCW 41.50.030 and the city employee retirement systems for Seattle, Tacoma, and Spokane. Subsection (1)(b) of this section does not apply to a dual member as defined in RCW 41.54.010.

Sec. 4. RCW 41.04.278 and 2003 c 295 s 2 are each amended to read as follows:

(1) The select committee on pension policy may form three function-specific subcommittees, as set forth under subsection (2) of this section, from the members under RCW 41.04.276(1) (a) through (e), as follows:

(a) A public safety subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e);

(b) An education subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e); and

(c) A state and local government subcommittee, with one retiree member under RCW 41.04.276(1)(d) and two members from each group under RCW 41.04.276(1) (a) through (c) and (e).

The retiree members may serve on more than one subcommittee to ensure representation on each subcommittee.

(2)(a) The public safety subcommittee shall focus on pension issues affecting public safety employees who are members of the law enforcement officers' and fire fighters', public safety employees', and Washington state patrol retirement systems.

(b) The education subcommittee shall focus on pension issues affecting educational employees who are members of the public employees', teachers', and school employees' retirement systems.

(c) The state and local government subcommittee shall focus on pension issues affecting state and local government employees who are members of the public employees' retirement system.

Sec. 5. RCW 41.04.393 and 2003 c 32 s 1 are each amended to read as follows:

Retirement benefits paid under chapter 41.26, 41.37, 41.40, or 43.43 RCW to beneficiaries of public safety officers who die in the line of duty shall be paid in accordance with Title 26 U.S.C. Sec. 101(h) as amended by the Fallen Hero Survivor Benefit Fairness Act of 2001.

NEW SECTION. **Sec. 6.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/21/05	Z-0835.7 / Z-0886.4

SUMMARY OF BILL:

This bill impacts the Public Safety Employees' Retirement System (PSERS) by amending the definition of employer to include the Washington State Department of Natural Resources and the Washington State Department of Social and Health Services. The member definition is also amended to replace the statutory list of job titles with job duties and activities to form a criteria basis for membership.

Though job titles are no longer listed, it is expected that the new language would allow for the inclusion of 10 Natural Resource Investigators and 330 Juvenile Rehabilitation Security Officers and supervisors into membership.

Effective Date: Immediately upon signing.

CURRENT SITUATION:

Currently PSERS eligible employers and members are based on statutory lists. The Department of Natural Resources and the Department of Social and Health Services are not among the eligible employers. Natural Resource Investigators and Juvenile Security Officers are not among the eligible members.

MEMBERS IMPACTED:

We used our fiscal note in 2004 for HB 2537 (Chapter 242, Laws of 2004) as the basis for this analysis.

This bill

We estimate that 340 members out of the total 132,448 members in PERS Plans 2/3 would be affected by this bill.

Fiscal note detail for Chapter 242, Laws of 2004

We had previously estimated that approximately 7,200 members out of the total 132,448 members in PERS plans 2/3 would be eligible to transfer. However, since the enhanced PSERS retirement and disability benefit require at least 10 years of service credit, we estimate that 1,200 members would opt not to transfer from PERS to PSERS. This reduced the estimated initial PSERS population to about 6,000.

Demographic information for the group of PERS Plan 2/3 employees that will likely transfer to PSERS is summarized in the following tables:

Estimated Initial PSERS Population - 2004 Fiscal Note

Job Class	Estimated Count*	GF-S Percentage	Local Government Percentage	Average Annual Salary
State Park Rangers	170	100%	0%	$39,800
Gambling Commission Enforcement Officers	70	0%	0%	$48,500
Liquor Enforcement Officers	55	17%	0%	$44,500
Commercial Vehicle Enforcement Officers	50	6%	0%	$45,200
State Correction Officers	2,800	100%	0%	$38,400
State Community Correction Officers	585	100%	0%	$41,300
County Correction Officers	1,765	0%	100%	$35,100
City Correction Officers**	130	0%	100%	$34,700
Local Community Correction Officers	340	0%	100%	$41,300
Total	5,965	60%	36%	$38,100

** Estimated counts increased by a 5% load due to uncertainty in the data and to reflect general conservatism*

*** Does not include employees covered under the first-class cities retirement system which are ineligible for membership*

Estimated Additional PSERS Population - This Bill

Job Class	Estimated Count	GF-S Percentage	Local Government Percentage	Average Annual Salary
Department of Natural Resources (DNR) Investigators	10	100%	0%	$43,183
Department of Social and Health Services (DSHS)	330	100%	0%	$31,816
Total	340	100%	0%	$32,150

The average PERS Plan 2/3 member that would likely transfer to PSERS is age 38 with about 7 years of service credit in PERS (as of September 30, 2002).

We estimate that for a typical member impacted by this bill, the increase in benefits would be the option to retire at the following earlier ages:

1. At age 53 or later, with a retirement allowance reduced by 3% per year for each year the member retires prior to age 60 (utilizing portability with PERS for eligibility purposes); or
2. At age 60, with an unreduced retirement allowance after 10 years of PSERS service credit

ASSUMPTIONS:

This bill

We assumed that the 340 members eligible under this bill have similar demographics and future retirement behavior as the 7,200 members eligible under the current law.

Fiscal note detail for Chapter 242, Laws of 2004

We have assumed that existing PERS Plan 2/3 members who could not benefit from the enhanced benefit provisions in PSERS, due to the 10-year service requirement in PSERS, will opt not to transfer to PSERS. Approximately 17% of the state correction officers in PERS Plans 2/3 fall into this category. We have applied a similar percentage (20%) to the local government job classes where individual PERS member data is unavailable at this time.

We have assumed the following rates of retirement due to the enhanced retirement benefit provisions under this proposed retirement plan. Members with past service in PERS are assumed to retire at rates between the PERS rates and the Public Safety rates (weighted by service in each system).

Public Safety Retirement Rates		
Age	Male	Female
53	3%	3%
54	3%	3%
55	3%	3%
56	8%	8%
57	8%	8%
58	15%	11%
59	16%	12%
60	30%	36%
61	26%	26%
62	36%	36%
63	50%	50%
64	89%	89%

Public Safety Retirement Rates		
Age	Male	Female
65	46%	31%
66	30%	30%
67	22%	26%
68	22%	26%
69	26%	22%
70	100%	100%

In determining the fiscal budget determinations, we have applied the GF-S and local government percentages contained in the Members Impacted section. We have also increased the average annual salary for state agency job classes by a 10% load due to uncertainty in the data and to reflect general conservatism. We used the high average salary from the Washington City and County 2003 Salary and Benefit Survey for the local government job classes where individual member data was unavailable.

FISCAL IMPACT:

Description:

This bill will transfer prospective service credit in PERS to the proposed PSERS Plan 2 for members that elect to transfer. As a result, the present value of future benefits for existing members impacted by this bill will decrease in PERS and increase in PSERS (see table under Actuarial Determinations).

Actuarial Determinations:

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

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits				
(The Value of the Total Commitment to all Current Members)	PERS 2/3	$12,789	($14)	$12,775
	PSERS 2	$385	$18	$403
	Total	$13,174	$4	$13,178
Unfunded Actuarial Accrued Liability				
(The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 2/3	n/a	n/a	n/a
	PSERS 2	n/a	n/a	n/a
	Total	n/a	n/a	n/a
Unfunded Liability (PBO)				
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 2/3	($3,924)	$0	($3,924)
	PSERS 2	$0	$0	$0
	Total	($3,924)	$0	($3,924)

This bill

The additional cost for members eligible under this bill is insufficient to impact the contribution rates provided in the 2004 fiscal note.

Fiscal note detail for Chapter 242, Laws of 2004

Projected PERS contribution rates will decrease as a result of this proposal. The Aggregate Cost (AC) method in PERS Plans 2/3 results in the funding of some benefits before they are accrued (future benefits). The amount of this "prefunding" depends on the length of one's working career and the magnitude of past investment gains or losses relative to the long-term investment return assumption. Past investment gains and the "prefunding" of future benefits under the AC method, on an actuarial value basis, will not transfer from PERS to PSERS for the members that elect to transfer. This will serve to temporarily reduce projected PERS contribution rates after the transfer as reflected below.

The initial PSERS contribution rate will exceed the projected PERS rate by about 3% and trend down to about 1% in 2009 and thereafter. PERS contribution rates are projected to increase over the next several biennia due to recent asset losses. The projected PSERS contribution rate, on the other hand, remains relatively stable since the plan starts without any assets (and without any past investment gains or losses that are not yet recognized in the actuarial value of assets). As a result, it may require several biennia before the expected long-term biennial cost of this proposal will surface.

	2004 Fiscal Note			
	PERS Increase	PSERS Increase	PSERS Total	Increase from this bill
2006-2007				
Employee (Plan 2)	0.00%	3.24%	6.57%	0.00%
Employer	0.00%	3.24%	8.23%*	0.00%
2007-2009				
Employee (Plan 2)	0.00%	2.17%	6.45%	0.00%
Employer	0.00%	2.17%	8.72%	0.00%
2009-2011				
Employee (Plan 2)	(0.04)%	1.33%	6.23%	0.00%
Employer	(0.04)%	1.33%	9.04%	0.00%
Long-Term Rates				
Employee (Plan 2)	0.00%	0.80%	5.30%	0.00%
Employer	0.00%	0.80%	5.30%**	0.00%

** The employer is projected to contribute 6.57% to PSERS; the remainder is an estimate of the PERS 1 UAAL rate.*

***Assumes that the PERS 1 UAAL has been completely amortized.*

Fiscal Budget Determinations:

As a result of the expanded PSERS membership under this bill, the increase in funding expenditures for DNR and DSHS combined is projected to be:

Costs (in Millions):	PERS	PSERS*	Total
2006-2007			
State:			
General Fund	$0.0	$0.5	$0.5
Non-General Fund	$0.0	$0.0	$0.0
Total State	**$0.0**	**$0.5**	**$0.5**
Local Government	$0.0	$0.0	$0.0
Total Employer	$0.0	$ 0.5	$0.5
2007-2009			
State:			
General Fund	$0.0	$0.8	$0.8
Non-General Fund	$0.0	$0.0	$0.0
Total State	**$0.0**	**$0.8**	**$0.8**
Local Government	$0.0	$0.0	$0.0
Total Employer	$0.0	$0.8	$0.8
2006-2031			
State:			
General Fund	($2.8)	$9.9	$7.1
Non-General Fund	$0.0	$0.0	$0.0
Total State	**($2.8)**	**$9.9**	**$7.1**
Local Government	$0.0	$0.0	$0.0
Total Employer	($2.8)	$9.9	$7.1

**Represents the increase in funding expenditures for the members that are assumed to transfer from PERS to PSERS (not the total cost of PSERS).*

State Actuary's Comments:

We have estimated that the addition of DNR and DSHS as eligible PSERS employers will add approximately 340 members to the initial PSERS population. The actual cost will be borne by the actual membership and will vary from what is assumed in this fiscal note.

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, 2002 actuarial valuation report of the Public Employees Retirement System.

   We also relied upon demographic data compiled in the Washington City and County Employee 2003 Salary and Benefit survey for the development of costs for the local government job classes where individual PERS member data is unavailable at this time.

   We used available 2005 data for DNR and DSHS.

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:

   We relied upon comparable state agency data as an estimate for local government job classes where individual member data was unavailable.

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.

Baker, Bob

From:	Baker, Bob
Sent:	Wednesday, May 26, 2004 2:20 PM
To:	Fraser, Sen. Karen
Cc:	Smith, Matt
Subject:	FW: Pension Plans

Senator Fraser,

I contacted Mr. Charles Jones. He is a Correctional Captain employed by the Department of Corrections. He was concerned that Correctional Lieutenants and Captains were being excluded from the new Public Safety plan. I informed him that one of the reasons for the extended effective date of the PSERS plan was the recognition that some deserving occupational titles may have been missed and that the legislature would have time to amend the plan if necessary. He was also concerned about the 10 year vesting provision as he may be too old to make membership worth his while. I advised him to draft a letter to the Select Committee on Pension Policy stating his issues and that the State Actuary's Office would inform the committee of his concerns.

Bob Baker

-----Original Message-----
From: Smith, Matt
Sent: Tuesday, May 25, 2004 12:48 PM
To: Baker, Bob
Cc: Burkhart, Kelly
Subject: FW: Pension Plans

Bob, can you help with this? Kelly, please green sheet. Thanks.

-----Original Message-----
From: Fitzsimmons, Brenda
Sent: Tuesday, May 25, 2004 12:43 PM
To: Smith, Matt
Subject: FW: Pension Plans

Matt:
Could you please have someone on your staff contact Mr. Jones for Senator Fraser. Thanks

Brenda

-----Original Message-----
From: chazzjones99@comcast.net [mailto:chazzjones99@comcast.net]
Sent: Thursday, May 13, 2004 4:05 PM
To: Fraser, Sen. Karen
Subject: Pension Plans

SENATE INTERNET E-MAIL DELIVERY SERVICE

TO: Senator Karen Fraser

FROM:

Mr. Charles Jones
2847 Firland st. SW
Tumwater, WA 98512

E-MAIL: chazzjones99@comcast.net

PHONE: 360-570-0837

SUBJECT: Pension Plans

MESSAGE:

How do changes to the current state pension plan occur, If I am excluded from a new pension plan coming into effect in 2006. How can I effect changes. Do I need to take legal action or is there some other avenue or course of action I can take. Any information or direction would be greatly appreciated.

OTE: Mr. Jones has requested a response to this message.

NOTE: We are 99% sure that this constituent is in your district

WPEA

Washington Public Employees Association, UFCW Local 365

OLYMPIA HEADQUARTERS
140 Percival Street NW
P.O. Box 7159, Olympia, WA 98507
(360) 943-1121 1-800-544-WPEA
Fax: (360) 357-7627 wpea@wpea.org

EASTERN REGIONAL OFFICE
N. 4407 Division Street, Suite 514
Spokane, WA 99207
(509) 483-0383 1-877-734-WPEA
Fax: (509) 483-0264 wpeaeast@wpea.org

NORTHWEST REGIONAL OFFICE
18820 Aurora Avenue N., Suite 204
Shoreline, WA 98133
(206) 542-2690 1-877-901-WPEA
Fax: (206) 542-1725 luis@wpea.org

July 7, 2005

TO: Bob Baker
Office of the State Actuary

FROM: Lynn Maier
Governmental Relations Director

RE: WPEA Interest in Additional PSERS Inclusions

As we discussed earlier today, I have compiled the accompanying summary of job duties and qualifications for WPEA members working as DNR Natural Resource Investigators, Forest Crew Supervisors and WSP Deputy State Fire Marshals. As conveyed in my memo sent previously to SCPP members and State Actuary staff, WPEA would appreciate SCPP consideration of these classes for inclusion in PSERS this interim.

Thank you for your assistance in this matter. I look forward to working with you on this issue and others before the SCPP throughout the balance of the interim.

PSERS Membership Requirements and
WPEA Member Job Class Duties/Qualifications

Intent Language RCW 41.37.005 – Public Safety Employees Retirement System

PSERS members' job must contain a high degree of physical risk to their own persons.

Duties Involved:
- providing public protection of lives & property
- the authority & power to arrest & conduct investigations
- enforcing the criminal laws of the state
- authority to carry a firearm as part of the job

Qualification/training
- Passage of a civil service examination & completion of the WA Criminal Justice Training Commission (CJTC) basic course or an equivalent.

DNR Natural Resource Investigators **Total staff = 9**

Duties:

- Provide protection to DNR lands, employees and the public
- Conduct complex criminal & civil investigations
- Power to arrest, detain and initiate prosecution of violators
- Determine origin and cause of forest and other fires
- Conduct follow-up investigations for the Attorney General & County Prosecutor

Qualifications:

- Passage of a civil service examination & completion of the CJTC and advanced level fire investigations training or equivalent

DNR Forest Crew Supervisors **Total staff = 50**

Duties:

- Direct a crew of 5-10 or more individuals (inmates and/or Washington Conservation Corps Crews or seasonal workers) performing natural resource management activities, such as fighting grass, brush and forest fires, maintaining trails, roads and campgrounds, establishing and maintaining firebreaks, trails, planting trees and conducting pre-commercial forest thinning, tree planting, vegetation management and rehabilitating streams.

Qualifications:

- Experience as a DNR Forest Worker or forest fire fighter and/or experience as a supervisor of a crew performing outdoor physical labor and/or an A.A. degree in natural resource technology
- Ability to work on uneven terrain in extreme weather conditions for extended periods of time and successfully pass an annual work capacity test at the arduous level
- Valid driver's license without major restrictions
- Incumbents may be required to obtain specialized license regarding public pesticide application and intermediate or combination endorsements to driver's license
- Passage of a civil service exam

Deputy State Fire Marshal **Total staff = 19**

Duties:

- Develops/implements statewide fire programs addressing fire training, life safety inspections and fire investigations
- Works in cooperation with state, federal and local officials in public education, standards and accreditation and emergency mobilization of statewide structure fire resources
- Supports and strengthens grass roots efforts to prevent fire and emergency incidents and to control risk to life, property and community vitality that may result from destructive fire and emergency incidents.

Qualifications:

- Experience as a fire or police officer, codes enforcement officer, insurance industry inspector or investigator or emergency management coordinator
- College-level training in fire protection, police science, law enforcement or allied field
- Uniform Fire Code and Life Safety Code Certification must be obtained with 1st six months; Fire Instructor 1, Fire Investigator 1 and Fire Safety Evaluation System Certification must be obtained with 1st year of employment.
- Experience performing fire and life safety inspections and surveys of residential and health care facilties and/or transient accommodations, day care and group home facilities
- Passage of a civil service exam

RECEIVED

SEP 1 2 2005

Office of
The State Actuary

Date: August 26, 2005

To: Representative Bill Fromhold
239 JLOB
PO Box 40600
Olympia, WA 98504-0600

From: Dennis Trettel
5300 Glenwood Ave. unit A-1
Everett, WA 98203

RE: Public Safety Employees' Retirement System

Snohomish County
Medical Examiner's Office

Dennis Trettel, D-ABMDI
Master Investigator

D.TRETTEL@co.snohomish.wa.us

(425) 438-6200
FAX (425) 438-6222
9509 29th Ave., West
Everett, WA 98204

Representative Fromhold,

I am writing to you to request assistance for my job to be considered to be added to the Public Safety Employees' Retirement System. I work for Snohomish County as a Death Investigator for the Medical Examiners Office.

To keep things simple and short, my position as a Death Investigator is similar to any Police Detective with the exception of carrying a weapon and having a Law Enforcement Commission. As a Death Investigator, I do have Subpoena Authority and I take Custody of the Decedent. I interview (witnesses) and conduct scene investigations again like Police Detectives and provide police support. We (as death investigators) provide a service to the community 24/7 (and Holidays) and are required to staff our department as so.

I have included a CD-ROM disc (power point presentation) that gives the basics of what we do at the Medical Examiners Office.

What I am requesting, is that the job description of Medical Examiner/Coroner (and Investigators) be considered for admission to the PSERS. The Medical Examiner/Coroner is a large part of Public Safety with regards to the service we provide to the community, which is no different from the service people that have been allowed to join the PSERS.

I, again request any help you may be able to give to us (Medical Examiners/Coroners and Investigators), this is a hard enough job as it is and it would be good to know our service to the community would be recognized and appreciated.

I am available (and look forward) to explain our position further.

Thank you,

Dennis Trettel

STATE HEADQUARTERS
1212 JEFFERSON ST. S.E., SUITE 300 • OLYMPIA, WA 98501
PHONE 360-352-7603 • FAX 360-352-7608

September 27, 2005

TO: Select Committee on Pension Policy

FROM: Bev Hermanson, Lobbyist

RE: PSERS Eligibility for Juvenile Rehabilitation Administration (JRA) Corrections Employees

Our members who work at the Institutions for Juvenile Offenders, in community group homes and in juvenile parole are faced with ever increasing danger in supervising the juvenile offender population. The juvenile institutions are no longer home to hubcap stealers and kids who continually skip school or are truant. The youthful offenders in our institutions today are murderers, rapists, armed robbers – in short some of the most dangerous people in this state. The only difference between the clients handled by state corrections staff and JRA staff is their age. The job of JRA staff is to rehabilitate them, but also to keep them locked up and out of your neighborhoods for the duration of their sentences.

We are entering a time when many of these juveniles are third generation drug abusers, starting with their grandparents, their parents, and now passed on to them. This causes a whole cadre of mental health disorders that were never thought of a few years ago. JRA staff must know how to deal with these disorders. The JRA staff is called upon to be protectors, counselors, trainers, and yes, jailors.

One of the most difficult problems for JRA is getting people trained and then keeping them on the job so that they gain the experience they need to be effective with juvenile offenders. The pay is low and often staff will work long enough to get trained and then move into the ranks of social work. This is not because social work is less stressful or the pay better, but because they don't have evening and weekend shifts and can spend more time with their own family. Allowing staff to be a part of the PSERS retirement system, with the possibility of an earlier retirement age, could be one factor that would encourage staff to remain on the job and provide the division with the continuity of services it needs to take care of their clients.

JRA staff must have prior experience in such work areas as social services, security guard, correctional officer, police officer, military police or other law enforcement work. They also must either have a certificate of completion in basic law enforcement training by the Washington Criminal Justice Training Commission; or, a certificate of completion in a police or reserve police academy or military training program.

In short, while the staff who provide security at the juvenile rehabilitation institutions do not carry a firearm they are providing supervision to some of the most dangerous felons in our society and have the added responsibility of trying to rehabilitate them so that they can be productive members of that society. We believe the JRA staff who provide supervision to the juvenile offenders fit the description of the type of employee who should be covered by PSERS. Please give serious consideration to this request. We will provide more information if you need it.

Attached you will find the job descriptions of each of the job classes who provide correctional services in the JRA system. There are approximately 741 staff who would be interested in becoming members of the PSERS plan.

Attachment

Class Code	Job Class Title	# of Members
36182	JRA Community Counselor	43
36188	JRA Security Officer 1	264
36189	JRA Security Officer 2	18
36190	JRA Security Manager	3
36180	JRA Counselor Assistant	120
36181	JRA Residential Counselor	242
36183	JRA Supervisor	42
36185	JRA Program Manager 1	9
	TOTAL	741

Purchasing Additional Service Credit

Background

This proposal would involve expanding retirement plan provisions allowing the purchase of additional service credit, also known as "air time" (because it is not based on actual service of any kind). Currently, eligible members of the PERS, SERS and TRS Plans 2/3 may, at the time of early or alternate early retirement, purchase up to five years of additional service credit at actuarial cost to offset the required reductions for early and alternate early retirement.

Committee Activity

Presentations:
August 23, 2005 – Executive Committee
October 18, 2005 – Executive Committee

Proposal:
November 15, 2005 – Full Committee
December 13, 2005 – Executive Committee

Recommendation to Legislature

Allow members of PERS, TRS, SERS, LEOFF 1 and WSPRS to purchase up to five years of additional service credit at *normal* retirement for the purpose of increasing their retirement benefit. This service credit would not be membership service and would be used exclusively to provide members with a monthly annuity that is paid in addition to their retirement allowance.

Staff Contact

Laura Harper, Senior Research Analyst, Legal
360.786.6145; harper.laura@leg.wa.gov

Purchasing Additional Service Credit

(December 20, 2005)

Issue

This proposal would involve expanding retirement plan provisions allowing the purchase of additional service credit, also known as "air time" (due to the fact that it is not based on actual service of any kind). Under such expansion, members of PERS, TRS, SERS, PSERS, LEOFF 1, and WSPRS could purchase up to five years of additional service credit at normal retirement for the purpose of increasing their retirement benefit (as opposed to being limited to purchases made at early retirement to offset the applicable actuarial reduction). A similar provision was adopted for LEOFF 2 during the 2005 legislative session.

Staff

Laura C. Harper, Senior Research Analyst/Legal
360-786-6145

Members Impacted

Expanding the use of additional service credit could conceivably affect all retirement eligible members of PERS, TRS, SERS, PSERS, LEOFF 1, and WSPRS.

Current Situation

As of July 1, 2006, eligible members of the PERS, SERS, and TRS Plans 2/3 may, at the time of retirement, make a one-time purchase of up to five years of additional service credit. The service credit purchased would not need to correspond to any actual service within Washington, or any other retirement system, hence the term "additional service credit." The service credit is not membership service and cannot be used to qualify for retirement, but it can be used to increase early and alternate early retirement benefits by offsetting the required reductions for early retirement.

Under current law, only Plan 2/3 members who are eligible for early retirement or alternate early retirement may purchase additional service credit. The member pays the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement.

Currently the Plans 1 do not have provisions that authorize the purchase of additional service credit to offset early retirement reductions because there is no early retirement in the Plans 1. In the Plans 2/3, early retirement is available at age 55 with 20 years of service and alternate early retirement is available at age 55 with 30 years of service.

During the 2005 legislative session the LEOFF 2 Board's legislative proposal concerning additional service credit was successful. This bill differs from the provisions for the Plans 2/3 of PERS, SERS, and TRS in that up to five years of additional service credit is available to those eligible for normal retirement. The service credit purchased can be used to increase the member's benefits, but cannot be used for retirement eligibility. In other words, the member must already be eligible to retire in order to take advantage of this provision. The cost to the member is the actuarial equivalent value of the resulting increase in the member's benefit.

History

The ability to purchase additional service credit was added to the PERS and SERS Plans 2/3 during the 2004 legislative session as Chapter 172, Laws of 2004. The proposal was an outgrowth of the work of the public safety subcommittee that recommended the formation of the Public Safety Employees' Retirement System (PSERS), which becomes effective on July 1, 2006. This benefit was also given an effective date of July 1, 2006. It was intended to address those retirement system members who were not included in PSERS, but who might need to retire early due to stressful or dangerous jobs. Such individuals were thought to be members of either PERS or SERS. It was felt that these additional service credit provisions would provide a vehicle to, in effect, purchase a Plan 2/3 normal retirement when qualifying for early retirement.

The ability to purchase additional service credit was expanded to include the TRS Plans 2/3 by Chapter 65, Laws of 2005. The proposal was forwarded to the Legislature by the SCPP and created consistency with PERS and SERS 2/3. This bill also had an effective date of July 1, 2006. The LEOFF 2 Board's additional service credit purchase provision (which is described above) was implemented by the Legislature in Chapter 21, Laws of 2005 with an effective date of July 1, 2006.

Proposal

This proposal would expand the ability of members of PERS, SERS, TRS, PSERS, LEOFF 1 and WSPRS to purchase additional service credit as follows:

1. Up to five years of additional service credit could be purchased at normal retirement to increase members' benefits.

2. The service credit purchased would not be used for benefits eligibility.

3. The member would pay the actuarial equivalent value of the resulting increase in the member's benefit.

4. The cost of the service credit may be paid with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement.

Estimated Fiscal Impact

There would be no fiscal impact from this proposal. The OSA assumes that this benefit proposal will not change future retirement behavior in the affected retirement systems. Existing members currently have access to private sector providers that offer products with similar annuities.

Policy Analysis

This proposal would be consistent with the LEOFF 2 legislation that passed in 2005. It would provide the opportunity for members of the various retirement systems to purchase a larger retirement benefit than they would otherwise receive, thus affording them additional flexibility for achieving their retirement goals. This option also promotes benefit adequacy throughout retirement by allowing members to, in effect, purchase a lifetime annuity while saving some of the costs associated with similar product offerings in the private sector. Under this proposal, service credit cannot be used for retirement or benefit eligibility purposes. The service credit is purchased when the member already qualifies for normal retirement. Thus, the proposal does not alter plan policy with respect to when it is appropriate for members to retire. In that sense, this proposal can fit with a service-based plan design as seen in the Plans 1 as well as an age-based retirement plan design as found in the Plans 2/3.

Additional service credit or "air time" is a less conventional type of service credit, but is available for purchase in other states. The National Council on Teacher Retirement conducted a survey of air time practices in 2004, the results of which are attached at the end of this report. Most of the states allowing this type of service credit require that the member pay the actuarial cost of the increase in the member's benefit.

Executive Committee and SCPP Recommendations

The Executive Committee recommended on August 23, 2005, that this issue be heard before the full SCPP. Staff was directed to prepare a bill draft that was presented to the Executive Committee on October 18, 2005. The Executive Committee recommended that the bill be forwarded to the Full Committee for a Public Hearing and possible Executive Session on November 15, 2005.

The bill was considered and approved by the full SCPP on November 15, 2005. At that time, questions arose about the relationship between additional service credit, or "air time" and other benefit provisions such as the Plan 1 benefit caps. Technical clarification was provided to the Executive Committee on December 13, 2005, to the effect that "air time" is independent of other benefit provisions and is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Bill

Attached

Fiscal Impact

(Draft fiscal note attached)

Stakeholder Input

None

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0838.2/06 2nd draft

ATTY/TYPIST: LL:ads

BRIEF DESCRIPTION: Permitting members of the public employees' retirement system, the teachers' retirement system, the school employees' retirement system, the public safety employees' retirement system, plan 1 of the law enforcement officers' and fire fighters' retirement system, and the Washington state patrol retirement system to make a one-time purchase of additional service credit.

AN ACT Relating to permitting members of the public employees' retirement system, the teachers' retirement system, the school employees' retirement system, the public safety employees' retirement system, plan 1 of the law enforcement officers' and fire fighters' retirement system, and the Washington state patrol retirement system to make a one-time purchase of additional service credit; adding a new section to chapter 41.40 RCW; adding a new section to chapter 41.32 RCW; adding a new section to chapter 41.35 RCW; adding a new section to chapter 41.37 RCW; adding a new section to chapter 41.26 RCW; adding a new section to chapter 43.43 RCW; repealing RCW 41.40.713, 41.40.833, 41.32.767, 41.32.877, 41.35.473, and 41.35.653; and providing an effective date.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.40 RCW under the subchapter heading "provisions applicable to plan 1, plan 2, and plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.40.180, 41.40.630, or 41.40.820 may, at the time of filing a written application for

retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service and shall be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW under the subchapter heading "provisions applicable to plan 1, plan 2, and plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.32.480, 41.32.765, or 41.32.875 may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal

revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service and shall be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.35 RCW under the subchapter heading "provisions applicable to plan 2 and plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.35.420 or 41.35.680 may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service and shall be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

<u>NEW SECTION.</u> **Sec. 4.** A new section is added to chapter 41.37 RCW to read as follows:

(1) A member eligible to retire under RCW 41.37.210 may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service and shall be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

<u>NEW SECTION.</u> **Sec. 5.** A new section is added to chapter 41.26 RCW under the subchapter heading "plan 1" to read as follows:

(1) A member eligible to retire under RCW 41.26.090 may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or

trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service and shall be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

NEW SECTION. **Sec. 6.** A new section is added to chapter 43.43 RCW to read as follows:

(1) A member eligible to retire under RCW 43.43.250 may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of up to five years of additional service credit.

(2) To purchase additional service credit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing additional service credit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(4) Additional service credit purchased under this section is not membership service and shall be used exclusively to provide the member

with a monthly annuity that is paid in addition to the member's retirement allowance.

<u>NEW SECTION.</u> **Sec. 7.** The following acts or parts of acts are each repealed:

(1) RCW 41.40.713 (Purchase of additional service credit--Costs--Rules) and 2004 c 172 s 1;

(2) RCW 41.40.833 (Purchase of additional service credit--Costs--Rules) and 2004 c 172 s 2;

(3) RCW 41.32.767 (Additional service credit purchase--Rules) and 2005 c 65 s 1;

(4) RCW 41.32.877 (Additional service credit purchase--Rules) and 2005 c 65 s 2;

(5) RCW 41.35.473 (Purchase of additional service credit--Costs--Rules) and 2004 c 172 s 3; and

(6) RCW 41.35.653 (Purchase of additional service credit--Costs--Rules) and 2004 c 172 s 4.

<u>NEW SECTION.</u> **Sec. 8.** This act takes effect July 1, 2006.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/21/05	Z-0838.2 / Z-0859.2

SUMMARY OF BILL:

This bill impacts all plans within the Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Public Employees' Retirement System (PERS), Public Safety Employee's Retirement System (PSERS), and Washington State Patrol Retirement System (WSPRS), as well as the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by permitting members who are eligible for normal or unreduced retirement to make a one-time purchase of up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. A member may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The bill directs the department of retirement systems to promulgate rules to ensure IRS compliance. The additional service credit purchased under these provisions would not be membership service and would be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Effective Date: July 1, 2006

CURRENT SITUATION:

Under current law, the opportunity to purchase additional service credit (or "air time") is limited. Only TRS, SERS, and PERS Plan 2/3 members who are eligible for early or alternate early retirement (age 55 with required service) may purchase up to 5 years of additional service credit at the time of retirement. The member pays the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement. The service credit is not membership service and cannot be used to qualify the member for early or alternate early retirement; rather, the service credit enhances the benefit and serves as an "offset" to the early retirement reductions in those plans. Under current law, LEOFF Plan 2 members can purchase additional service credit at early, alternate early or normal retirement to enhance their benefits.

TRS, SERS, and PERS members who are eligible for normal or unreduced retirement do not currently have the option to purchase additional service credit. Also, the option to purchase additional service credit or "air time" is not available to members of LEOFF Plan 1, WSPRS and PSERS. (Note: There are no provisions for early or alternate early retirement in LEOFF 1 or WSPRS). Members of any of these retirement plans could, however, purchase an equivalent annuity through a private sector annuity provider. The cost of the annuity would vary from provider to provider and would be based on the particular annuity product offered. This bill provides the opportunity for members of the affected systems to enhance their normal or unreduced retirement benefits by purchasing additional service credit or "air time" through the Department of Retirement Systems.

MEMBERS IMPACTED:

Any future retiree from TRS, SERS, PERS, PSERS, WSPRS or LEOFF 1 could potentially be impacted by this bill, however, we do not expect a majority of members will choose to purchase additional service credit under this bill. The table below shows the active and terminated vested membership counts for the affected plans as of September 30, 2004.

System	Active	Term Vested
TRS	66,634	6,746
SERS	49,854	4,463
PERS*	156,256	21,031
WSPRS	1,057	39
LEOFF Plan 1	848	7

**Includes members who will transfer to PSERS.*

ASSUMPTIONS:

We have assumed that the member will pay the full "actuarial equivalent value of the resulting increase in the member's benefit" which includes the increase in benefit from additional years of service.

We have further assumed that this benefit proposal will not change future retirement behavior in the affected retirement systems since existing members currently have access to private-sector annuity providers that currently provide similar annuity products. We have also assumed that the full actuarial cost will include the cost of any adverse selection that may develop due to mortality experience and/or interest rate timing by the member.

FISCAL IMPACT:

None.

Background

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

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

Committee Activity

Gain-sharing Subgroup meetings:

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

Presentations:

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

Proposal:

December 13, 2005

Recommendation to Legislature

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

Staff Contact

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-1016.1/06
ATTY/TYPIST:	LL:mos
BRIEF DESCRIPTION:	Providing unreduced retirement benefits in the plans 2 and 3 of the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

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

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

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

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

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

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

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

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

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

(a) Completed ten service credit years; or

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

(c) Completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

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

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

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

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

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

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

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

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

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

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

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

(a) Completed ten service credit years; or

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Completed ten service credit years; or

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

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

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

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

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

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

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

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

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

SUMMARY OF BILL:

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

Effective Date: July 1, 2006

CURRENT SITUATION:

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

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

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

MEMBERS IMPACTED:

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

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

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

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

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

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

ASSUMPTIONS:

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

FISCAL IMPACT:

Description:

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

Actuarial Determinations:

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

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

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

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

Fiscal Budget Determinations:

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

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

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers' Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Fiscal Budget Determinations were based on 2004 data. This excludes the cost of future gain-sharing.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

Rule of 90

Kicker Added to Retirement Probability

Age	PERS Male	PERS Female	SERS Male	SERS Female	TRS Male	TRS Female
55	0.35	0.29	0.30	0.30	0.30	0.30
56	0.35	0.29	0.30	0.30	0.30	0.30
57	0.35	0.29	0.30	0.30	0.30	0.30
58	0.29	0.22	0.30	0.30	0.30	0.30
59	0.29	0.22	0.30	0.30	0.30	0.30
60	0.29	0.22	0.30	0.30	0.30	0.30
61	0.29	0.22	0.25	0.30	0.30	0.30
62	0.29	0.16	0.25	0.20	0.30	0.20
63	0.11	0.16	0.25	0.20	0.25	0.20
64	0.11	0.16	0.25	0.20	0.25	0.20

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

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This draft fiscal note is intended for use only during the 2006 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Benefit improvement rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

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

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

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

Note to Rule-of-90 Stakeholder Input

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

Burkhart, Kelly

Subject: FW: teacher retirement

-----Original Message-----
From: tareybs@comcast.net [mailto:tareybs@comcast.net]
Sent: Wednesday, December 07, 2005 6:33 PM
To: Fromhold, Rep. Bill
Subject: NC: teacher retirement

HOUSE INTERNET E-MAIL DELIVERY SERVICE

TO: Representative Bill Fromhold

FROM:

Jeff Reyburn (Non-Constituent from District 6)
n. 15706 Timberglen Ct
Spokane, WA 99208

E-MAIL: tareybs@comcast.net

PHONE: 509 467-1127

SUBJECT: teacher retirement

MESSAGE:

Dear Representative Fromhold:

I am a public school teacher here in Spokane (Lewis and Clark H. S.) I am almost halfway through my 36th year of teaching. Having moved to Washington in 1985, I am a member of the TRS plan three retirement. I know you must be aware that there are three separate and very unequal plans for the state's teachers. I am asking that you look into the possibility of adopting some form of a rule of 90, whereby teachers enrolled in plan 3 with a combined total of 90 years of age/service could retire without penalty and draw their defined benefit.
Although I am still a very effective teacher, I am getting weary. I am also expensive compared to a teacher beginning his career. Educational changes, innovation, technology, and test culture have taken their toll on me, and I am sure a younger teacher would be more tractable and less of a pain in the ass for the educational establishment. Whether I chose to retire early or not, at lest I would have an option. I see where the state has unexpected revenues and feel that this could be an opportune time to invest it in us.
I see that the Select Committee on Pension Policy is scheduled to meet on Dec. 13. I appreciate any consideration that you can give this plan.
Thank you, Jeff Reyburn
n. 15706 Timberglen Ct.

TRS Out-of-State Service Credit

Background

This proposal is an outgrowth of the Age 65 study in the 2004 interim, and was presented as one of the Age 65 Retirement Options. Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which they may retire. (Such service is not purchased and it is not membership service.) This proposal allows the acquisition of out-of-state service credit that can be used not only for retirement eligibility, but also to increase the member's retirement benefit.

Committee Activity

Presentation:
August 23, 2005 – Full Committee

Proposal:
August 23, 2005 – Full Committee

Recommendation to Legislature

Allow eligible members of the TRS Plans 2/3 to make a one-time purchase of up to seven years of membership service credit for public education experience as a teacher in a public school in another state or with the federal government. The member must have at least five and less than ten years of service credit in TRS to be eligible. The member pays an amount that includes applicable employer and employee contribution rates plus interest.

Staff Contact

Laura Harper, Senior Research Analyst, Legal
360.786.6145; harper.laura@leg.wa.gov

TRS Out-of-State Service Credit

(December 15, 2005)

Issue

The issue before the SCPP is whether to continue to propose legislation allowing eligible members of the Teachers' Retirement System (TRS) Plans 2 and 3 to purchase up to seven years of membership service credit for public education experience as a teacher in a public school in another state or with the federal government.

Staff

Laura Harper, Senior Research Analyst/Legal
(360) 586-7616

Members Impacted

This proposal impacts eligible members of TRS Plans 2 and 3. We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill.

Current Situation

Currently, members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's benefit is actuarially reduced to recognize the difference between the age a member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

Procedural Posture/Executive Committee and SCPP Recommendations

As the result of the September 7, 2004, briefing of the SCPP on the issue of Age 65 Retirement, an "age 65 subgroup" was formed to make specific recommendations to the SCPP. In the fall of 2004, the subgroup recommended to the Executive Committee that the SCPP consider legislation to provide eligible members of TRS Plans 2/3 the opportunity to purchase up to seven years of out-of-state service credit as membership service, with conditions as set forth in the description below. The Executive Committee directed staff to prepare a bill draft and fiscal note on the proposal and the full Committee approved the proposed legislation for introduction in the 2005 legislative session.

In the 2005 session, the SCPP's bill was introduced as HB 1322/SB 5489. The bill did not move from House Appropriations and did not receive a hearing in Senate Ways and Means. The 2005 fiscal note indicated a total employer cost of $4.5 million in 2005-2007, $5.1 million in 2007-2009, and $130.4 million through 2030. At its July 2005 meeting, the Executive Committee recommended that this issue be brought back to the full committee for consideration on August 23, 2005. On August 23, 2005, the full SCPP recommended bill draft Z-0785.1/06 for introduction in the 2006 legislative session. This bill draft incorporates the elements of the 2005 proposal.

2005 SCPP Legislative Proposal

Eligibility

1. This proposal impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System.

2. The public education experience claimed must have been covered by a governmental retirement or pension plan and the member must not be receiving or eligible to receive an unreduced retirement benefit that includes the service to be purchased.

3. To take advantage of this provision, a member must have between five and ten years of service credit in TRS.

4. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.

5. The service credit purchased is membership service and may be used to qualify the member for retirement.

Cost to Member

1. The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW:

   (Employer rate + employee rate) x salary x years of service + compounded interest (8 percent)

   The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method.

2. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan and the employer may pay all or a portion of the member's cost.

Policy Analysis

This proposal provides a benefit to the TRS Plans 2 and 3 that is not available in the SERS or PERS Plans 2/3, nor will it be available in PSERS Plan 2. The proposal is inconsistent with the legislative policy that the retirement systems of the state shall provide similar benefits wherever possible. See RCW 41.50.005(1). If it were passed by the legislature, this proposal could lead to "leapfrogging" in that members of other retirement systems may seek similar or improved service credit purchase opportunities in the future. Proponents of this legislation have argued that the teaching profession has a unique need for this benefit in order to assist in recruitment and retention of teachers.

It should be noted that TRS members have another service credit option that PERS and SERS members do not have and PSERS members will not have: the ability to elect to apply service credit earned in an out-of-state retirement system that covers teachers in public schools solely for the purpose of determining the time at which the member may retire. See RCW 41.32.065. TRS members are not required to pay for the out-of-state credit, as it is not used to increase the amount of their benefit.

As of July 1, 2006, all Plan 2/3 members in PERS, SERS and TRS will have the ability at retirement to make a one-time purchase of up to five years of additional service credit (or "air time") in order to offset the required benefit reductions for early retirement. (This ability has not been made available to members of PSERS Plan 2, who have an earlier retirement age for unreduced benefits than members of the Plans 2/3 of PERS and SERS.) There is no cost for this option because the purchase price for "air time" is the actuarial cost, which is paid in full by the member. Since the purchase occurs late in the member's career (at early retirement), the member's cost is higher than it would be early in a member's career. In any event, this benefit is relevant to the out-of-state service credit purchase issue in that members of these plans who have prior service credit from another state could use retirement moneys from those other plans to help purchase "air time."

Comparative Systems

According to a December 7, 2000, report to the Connecticut General Assembly, nearly all teacher retirement plans allow members to purchase credit for out-of-state teaching service, but most impose limits on such purchases. Among the most common are limits on the number of years of service a member can purchase, requiring the member to have a minimum number of years in the state plan before (s)he can purchase other service and limiting purchases to service for which the member will receive no other pension.

The following table summarizes two aspects of out-of-state service credit purchase provisions for teachers using Washington's comparative systems: 1) the maximum number of years that can be purchased, and 2) member cost:

State/System	Maximum Number of Years	Member Cost
CalSTRS	No limit	Years x special contribution rate with age factor x highest earnable compensation during last three years
Colorado PERA	No limit	Actuarial cost
Florida	10 years	20% of annual compensation for first full year of service in FL but not less than $12,000, plus interest @ 6.5% compounded annually from date of first annual salary until full payment; employer may pay all or part of the cost
Idaho	4 years	Actuarial cost
Iowa	No limit	Actuarial cost
Minnesota TRA	Not allowed	
Missouri PSRS	No more than total service credit earned	Highest annual salary x current contribution rate (ER + EE) = cost for one year of service credit
Ohio STRS	Lesser of 5 years or member's total years of service	50% of actuarial cost
Oregon	4 years	Actuarial cost
Wisconsin	Limited to number of years of participation in WRS at time of purchase	Actuarial cost

For additional resources, see the results of the National Council on Teacher Retirement Portability Study (1999 and 2001 update), www.nctr.org. See also the National Education Association's publication entitled "Characteristics of Large Public Education Pension Plans" (2004), www.nea.org.

Executive Committee and SCPP Recommendations:

Allow members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System according to the terms outlined on pages 2 and 3 of this report.

Bill Draft (Attached)

Draft Fiscal Note (Attached)

Stakeholder Input (Attached)

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0837.1/06
ATTY/TYPIST:	LL:rmh
BRIEF DESCRIPTION:	Purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government.

AN ACT Relating to purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government; adding new sections to chapter 41.32 RCW; and providing an effective date.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 2" to read as follows:

(1) An active member who has completed a minimum of five years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government;

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government;

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased;

(d) The member has less than ten years of creditable service in the retirement system; and

(e) The purchase will not result in the purchase of service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the product of the sum of the employer and employee contribution rates multiplied by the member's annualized salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in chapter 41.45 RCW. Compounded interest shall be applied to each year of service credit purchased as follows: No interest for the first year, one years' interest for the second year, two years' interest for the third year, three years' interest for the fourth year, four years' interest for the fifth year, five years' interest for the sixth year, and six years' interest for the seventh year. The applicable employer and employee contribution rates shall be based on the member's age at entry into the retirement system and calculated under the entry age normal cost method.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to

determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer may pay all or a portion of the member's cost of the service credit purchased under this section.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 3" to read as follows:

(1) An active member who has completed a minimum of five years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government;

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government;

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased;

(d) The member has less than ten years of creditable service in the retirement system; and

(e) The purchase will not result in the purchase of service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the product of the employer contribution rate multiplied by the member's annualized salary at the time of purchase and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in chapter 41.45 RCW. Compounded interest shall be applied to each year of service credit purchased as follows: No interest for the first year, one years' interest for the

second year, two years' interest for the third year, three years' interest for the fourth year, four years' interest for the fifth year, five years' interest for the sixth year, and six years' interest for the seventh year. The total amount paid by the member shall be deemed a contribution on behalf of the employer for the purpose of RCW 41.32.867, and shall not be refundable. The applicable employer contribution rate shall be based on the member's age at entry into the retirement system and calculated under the entry age normal cost method.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer may pay all or a portion of the member's cost of the service credit purchased under this section.

NEW SECTION. **Sec. 3.** 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	10/6/05	Z-0785.1/Z-0837.1

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience claimed must have been covered by a governmental retirement or pension plan, and the member must not be receiving a benefit or eligible to receive an unreduced retirement benefit that includes the service to be purchased. To take advantage of this provision, a member must have at least five and less than ten years of service credit in TRS. The purchase cannot result in the purchase of service credit that is greater than the member's total years of creditable service in the retirement system.

The member pays the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase, and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW. The applicable employer and employee contribution rates are based on the member's age at entry into TRS and calculated under the entry age normal cost method. All or part of the cost may be paid by a rollover or transfer from an eligible retirement plan, and the employer may pay all or a portion of the member's cost. The service credit purchased is membership service and may be used to qualify the member for retirement.

Effective Date: January 1, 2007

CURRENT SITUATION:

Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's monthly benefit is actuarially reduced to recognize the difference between the age the member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

MEMBERS IMPACTED:

We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill.

We estimate that a typical member impacted by this bill would purchase 1.15 years of out-of-state service. The entry age normal cost rate used to determine the purchase price would vary by the member's entry age. The cost of purchasing 1.15 years of service for a typical member with a salary of $50,000 would be as follows:

Plan 2 Member: $50,000 x 11.80% x (1 + 1.08(.15)) = $6,856
Plan 3 Member: $50,000 x 5.90% x (1 + 1.08(.15)) = $3,428

ASSUMPTIONS:

We estimated that the average member would buy 1.15 years of service based on a sample of out-of-state service for 6,850 members. These members had a total of 10,815 years of out-of-state service, or an average of 1.58 years per member. When the service was limited to seven years, the members in the sample had a total of 7,910 years, or an average of 1.15 years.

Plan 2 members pay both the member and the employer rate. Plan 3 members pay the employer rate only. The contributions to purchase Plan 2 service would be included with the regular and refundable Plan 2 member contributions. The contributions to purchase Plan 3 service would not be refundable but would be used to determine the Plan 3 defined benefit. The purchase of the first year has no interest. The second year interest rate is 8 percent.

We included the out-of-state service for the benefit calculation, retirement eligibility, and vesting service. Some of our demographic assumptions such as turnover and step salary increases are service based. Our experience studies to determine these rates are based on TRS service only. For estimating the cost of this bill, we assumed that a member's turnover and merit increases would be based on service with TRS only.

FISCAL IMPACT:

Description:

The member would pay for the cost of the additional service, but the plan would be partially subsidizing the cost because the interest is based on the date of purchase, not on the adjusted date of hire.

Actuarial Determinations:

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

(Dollars in Millions)	Teachers' Retirement System Plan 2/3 Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$5,256	$18	$5,274
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	N/A	N/A	N/A
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(1,427)	$14	$(1,413)

Increase in Contribution Rates: (Effective 09/01/2006)

Current Members	
Employee	0.05%
Employer State	0.05%
New Entrants*	
Employee	n/a
Employer State	0.07%

**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):	TRS 2/3
2006-2007	
State:	
General Fund	$1.4
Non-General Fund	$0.0
Total State	$1.4
Local Government	$0.8
Total Employer	$2.2
Total Employee	$0.2
2007-2009	
State:	
General Fund	$3.3
Non-General Fund	$0.0
Total State	$3.3
Local Government	$1.6
Total Employer	$4.9
Total Employee	$0.4
2006-2031	
State:	
General Fund	$88.9
Non-General Fund	$0.0
Total State	$88.9
Local Government	$44.5
Total Employer	$133.4
Total Employee	$2.8

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers' Retirement System. Fiscal Budget Determinations were based on preliminary 2004 data.
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. 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.

WASHINGTON SCHOOL PERSONNEL ASSOCIATION

RECEIVED
MAY 1 7 2004
Office of
The State Actuary

May 13, 2004

Senator Shirley Winsley
Chair, Select Committee on Pension Policy
P O Box 40914
Olympia, WA 98504-0914

Dear Senator Winsley:

The Washington School Personnel Association has a growing concern with Plan 3 retirement systems. Our primary focus is the Teachers Retirement System (TRS), however the challenges and concerns are equally applicable to School Employees' Retirement System (SERS) and Public Employees Retirement System (PERS). We very much appreciate the commitment by the Select Committee to study this issue ("Working Until Age 65") during the 2004 interim. The purpose of this letter is to offer a study guideline for your consideration.

As structured, an employee must effectively work to age 65 to qualify for a viable retirement. For teachers, this means remaining in the classroom for forty to forty-five (40-45) years after acquiring a basic education degree. While teachers are lifelong learners, the expectation of maintaining a viable mastery of knowledge over such a pro-longed period of time is overwhelming. Further, the age requirement fails to appreciate the rigors of performing the duties of a classroom teacher over such an extended period.

We recognize that in designing Plan 3, legislatures acted on the assumption that the defined benefit portion of the retirement plan (1% per year) would become secondary to the defined contribution (investment) in value, and that the added portability of the investment portion would provide an attractive alternative to those leaving service before age 65. It is interesting to note that recent news articles state that participation in 401K plans decreased 2.5% in 2002 and another 3.6% in 2003, and currently rests at 72.6% participation. The same source noted that 42% of workers must cash out their 401K investment when changing jobs. We see this as a more than a transition. Clearly employees recognize that the investment returns of the 1990's were an anomaly that is not likely to be repeated in the future. Consequently, a viable defined benefit is essential to the total compensation package necessary to attract and retain quality educators.

In today's environment and the foreseeable future, 1% per year (30% over three years) is not a viable amount. This is particularly critical, when one considers the severity of the penalty for early retirement. A teacher retiring at age 55 with 30 years of services would only be entitled to 70% of their average earnings for a net benefit of 21% for 30 years of service. The same employee with 29 years of service would be subject to an actuarial reduction instead of a fixed 3% reduction and would only receive 37% of their defined benefit, or 11.1%. With these parameters, working to age 65 becomes mandatory; not an option.

A final, and extremely significant, concern with Plan 2 and 3 is the inability to purchase service credit for out of state service. School Districts increasingly conduct interstate recruiting. Teachers who are vested in another state and who have no opportunity to purchase service credit in Washington State are increasingly less likely to consider a transfer. A purchase option must be available and affordable. Prior provisions for purchasing out of state service credit (i.e., Plan 1) required that the employee pay the full actuarial value for such credit. This rendered it unaffordable. The example used in DRS Information Sheets discloses that an employee earning $50,000, who is 50 years of age, who purchases 3 years of service credit will be required to pay $34,159 dollars. In a recruitment and retention perspective, the objective is not zero cost to the State of Washington. Rather, it is treating the experience as though it had been earned in Washington in exchange for the commitment to future Washington employment.

We understand that resolving these concerns has significant cost considerations. However, in that regard, we note that the Washington State contribution to employee retirement in TRS 3 has declined from 11.94% in 1999 to 1.39% in 2003. While this helped balance budget deficits during difficult years, it did so by removing the funding capacity from the retirement system that would have allowed for necessary changes. We believe that with difficult times beginning to move to the past, it should be a legislative priority to restore this "borrowed" funding capacity. We believe new funding ideas, as well as restoration of state contributions, are necessary to create an affordable and financially viable system for both the State and the employee.

We ask that the State Actuary consider alternatives to the above considerations in the conduct of the interim study. As always, the Association, representing School District Human Resource professionals across the State, appreciates the positive and supportive position taken by the Select Committee and the preceding Joint Pension Policy Committee.

Sincerely,

Randy Hathaway
Executive Director

cc: Barb Mertens, WASA

Background

Historically, members of the Washington State Patrol Retirement System (WSPRS) contributed 7 percent of pay with the balance provided by employers. In 2001, funding provisions for the plan were modified so that members pay one-half the cost of the system or 2 percent, whichever is greater, and employers pay the balance. At the time this funding policy changed, contribution rates were at historic lows. Now, projected member contribution rates are increasing and could exceed 7 percent within several biennia. For this reason, the Troopers' Association is proposing to return the funding policy to something more in line with the historical split. The proposal is also intended to promote contribution rate adequacy and stability by establishing a minimum total contribution rate (or rate "floor") beginning July 1, 2009. This issue was studied by the SCPP in 2004 and additional background material is available in the *2004 Interim Issues Projects Report* under Tab 18.

Committee Activity

Public Safety Subgroup meetings:
- September 27, 2005
- October 18, 2005
- November 15, 2005

Presentations:
- November 15, 2005 – Executive Committee
- December 13, 2005 – Full Committee

Proposal:
- December 13, 2005 – Full Committee

Recommendation to Legislature

Establish a new cost-allocation formula by which members would pay one-third the cost of the plan with a 7 percent cap and employers would pay the balance. A minimum total contribution rate would become effective July 1, 2009, equal to 70 percent of the system's normal cost as calculated under the entry age normal cost method.

Staff Contact

Laura Harper, Senior Research Analyst, Legal
360.786.6145; harper.laura@leg.wa.gov

History of WSPRS Funding Policy

Select Committee on Pension Policy
Public Safety Subgroup

September 27, 2005

Laura C. Harper
Senior Research Analyst/Legal

What is current policy?

- Cost–Sharing Policy
  - Member contribution rate is ½ cost of system or 2 percent, whichever is greater.
  - Employer pays balance.
- Funding Method
  - WSPRS uses "aggregate" funding method.
  - Does not allow for accrual of UAAL (unfunded actuarial accrued liability).

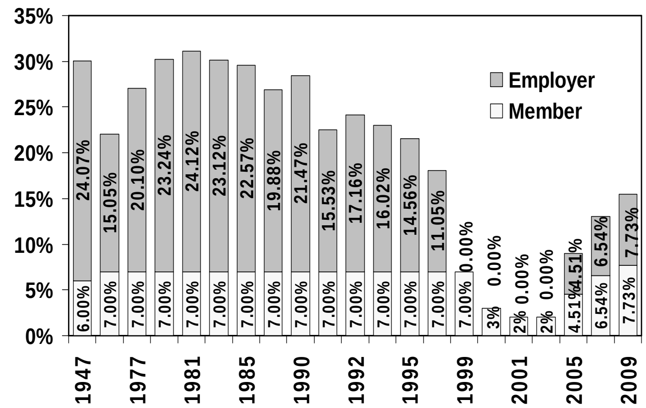
Funding Policy Change

- Cost-Sharing policy changed in 2001.
  - From 1948 until 1999, members paid 7 percent of pay with balance provided by employers.
  - New approach is consistent with the cost-sharing approach in the Plans 2, with the exception of the 2 percent member minimum.

Funding Method Change

- Funding method also changed in 2001.
  - Previous method was “entry age normal.”
  - Former method allowed for accrual of UAAL (unfunded actuarial accrued liability).

WSP Member and Employer Contribution Rates Historical 1947-2003 and Forecast 2005 - 2009



Status of Plan in 2001

- When funding provisions were modified, plan was in fully-funded status.
  - Member contributions = 2 percent.
  - Employer contributions = 0 percent.
- State's contribution had been suspended since 1999.

Role of JCPP in 2001 Changes

- 1999 legislature directed JCPP to study the method for setting employer and employee contribution rates during 2000 interim and propose changes.
- 2001 JCPP legislation:
  - Included funding policy changes.
  - Also included substantial benefit changes for members commissioned on or after January 1, 2003, (detailed in 2004 report).

2001 Plan Structure

- Benefit changes did not result in a closed Plan 1 and a new Plan 2.
  - This was a departure from approach in every other Washington retirement system.
  - References to a WSPRS Plan 1 and 2 are to distinguish benefits for old hires and new hires, but are not formal (statutory) distinctions.

2001 Funding Structure

- No WSPRS 2 fund
  - All contributions go to same fund.
  - All members are part of same experience group.
  - All members pay same contribution rate.
- “Plan 2” members add liability to plan, but have lower normal cost than “Plan 1” members.

2004-2005 SCPP Activity

- SCPP studied “WSP Rate Stability” in 2004 interim and proposed legislation in 2005.
- In-depth report from last interim provides complete study of this issue (included in materials).
- SCPP established subgroup in 2005 interim.

Issue Today

- Member rates are currently projected to surpass 7 percent in 2009-2011 biennium.
- Possible Bakenhus concern for "Plan 1" members who feel they have a contractual right to historical limit of 7 percent; clearly not a concern for "Plan 2" members.

Issue Today (continued)

- Troopers' Association wants to reformulate the 2001 cost-sharing design:
  - ⅓ member, ⅔ employer, with 7 percent cap on member contributions.
- Cost-sharing would return to something more consistent with historical split.

Why are rates increasing?

- Due to smoothing, plan is still recognizing losses from poor investment returns in 2000-2001.
- Plan is open to new entrants.
  - As new members join, new liabilities are recognized very quickly.
  - In closed plans like LEOFF 1, reduction of surplus funds is slower.

Contribution Rate Stability

- "… establish long-term employer contribution rates, which will remain a relatively predictable proportion of the future state budgets."
- Recent system-wide legislation addresses historic volatility with smoothing and asset corridor measures.

2004 SCPP Proposal

- Member rates at ⅓ of total cost of system or 7 percent, whichever is less, with member contribution rate floor of 2 percent.
- Employer pays the balance.
- 2 percent floor for member contribution rate helps address rate adequacy.

Status of 2005 SCPP Bill

- Introduced as HB 1317/SB 5341.
- Bill did not move from Appropriations and did not receive a hearing in Ways and Means.
- Is technically still alive for the 2006 legislative session.

Estimated Fiscal Impact on Employers

Total Employer Costs:

2006-07	$ 1.1 million
2007-09	3.7 million
2006-31	114.7 million

Implications of Change

- Changing cost-sharing formula would not change liabilities of plan.
- Would shift ⅙ of cost from members to employers.
- Changes cost allocation of any future benefit improvements: members pay ⅓ instead of ½.

Members Impacted

- 1,057 Active (based on 1/24/05 FN)
  - 997 in WSPRS 1
    - Historically did not pay more than 7 percent.
  - 60 in WSPRS 2

Next Steps

- Recommend that SCPP continue to support HB 1317/SB 5341?
- Introduce same approach as new bill in 2006?
- Pursue some other approach to cost-sharing and rate setting?

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-1018.2/06
ATTY/TYPIST:	LL:mos
BRIEF DESCRIPTION:	Setting contribution rates in the Washington state patrol retirement system.

AN ACT Relating to contribution rates in the Washington state patrol retirement system; amending RCW 41.45.0631; and providing an effective date.

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

Sec. 1. RCW 41.45.0631 and 2001 c 329 s 11 are each amended to read as follows:

(1) Beginning July 1, ((~~2001~~)) 2006, the required contribution rate for members of the Washington state patrol retirement system shall be ((~~two percent or equal to the employer rate adopted under RCW 41.45.060 and 41.45.070 for the Washington state patrol retirement system, whichever is greater~~)) 3.01 percent and the required basic employer contribution rate shall be 6.01 percent.

(2) Beginning July 1, 2007, the required Washington state patrol retirement system contribution rates shall be adopted under RCW 41.45.060 and 41.45.070, subject to the following funding policies:

(a) The member contribution rate shall be one-third of the total Washington state patrol retirement system contribution rate or seven percent, whichever is less, and the employer contribution rate shall be the balance of the total contribution rate. This allocation formula shall be applied only after the total Washington state patrol contribution rate has been determined, and the determination shall include the application of any minimum total contribution rate that may be in effect for the Washington state patrol retirement system.

(b) Beginning July 1, 2009, a minimum total contribution rate is established for the Washington state patrol retirement system. The total Washington state patrol retirement system contribution rate as adopted by the pension funding council and subject to revision by the legislature may exceed, but shall not drop below, the established minimum total contribution rate. The minimum total contribution rate shall equal the total contribution rate required to fund seventy percent of the Washington state patrol retirement system's normal cost as calculated under the entry age normal cost method. Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of this minimum total contribution rate and recommend to the legislature any adjustments as may be needed.

NEW SECTION. **Sec. 2.** This act takes effect July 1, 2006.

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	35	12/19/05	Z-0885.2/Z-1018.2

SUMMARY OF BILL:

This bill impacts the Washington State Patrol (WSP) Retirement System by changing the contribution rate setting formula. This bill sets rates for the 2007 fiscal year at 3.01 percent for members and 6.01 percent for the employer. Beginning July 1, 2007, the member contribution rate is one-third of the total cost of the system or 7 percent, whichever is less, and the employer would then be responsible for the balance. The total contribution rate for the system is determined before the cost-sharing formula is applied. As part of the total contribution rate determination, a minimum total contribution rate is established beginning July 1, 2009. This floor is equal to 70 percent of the Washington State Patrol Retirement System's normal cost as calculated under the entry age normal cost method.

Effective Date: July 1, 2006

CURRENT SITUATION:

Currently, the member contribution rate in WSP is set at half the cost of the system or 2 percent, whichever is greater. The employer is then responsible for the remaining costs of the system. Because of the funded status of the system, member contribution rates were 2 percent in 2001-2005 and there were no employer contributions during that period. Beginning July 1, 2005, both the employer and employee contribution rates were increased to 4.51 percent of pay.

MEMBERS IMPACTED:

All 1,057 active members of this system would be affected by this bill.

For members impacted by this bill, there would be no increase in benefits, but there would be a decrease in member contributions.

ASSUMPTIONS:

The one-third member, two-thirds employer split would apply for all years beginning July 1, 2006. The member contribution rate is rounded to two decimal places after multiplying the total rate by one-third. This rate is then compared to the 7.00 percent maximum to get the final member rate. The state contribution rate would then be the difference between the total rate and the member rate. The minimum total contribution rate of 70 percent of the entry age normal cost rate is established beginning July 1, 2009. The previously described member and employer rate allocation formula is applied only after the calculation of the minimum total contribution rate. Here are some illustrative examples:

- The current total rate of 9.02 percent would be split, with 3.01 percent for the member and 6.01 percent for the employer, effective July 1, 2006.
- A total rate of 12 percent would result in a member contribution of 4.00 percent and the state contribution rate would be 8.00 percent.
- A total rate of 25 percent would result in a rounded member contribution of 8.33 percent, which would be limited to 7.00 percent. The state contribution rate would be 18.00 percent in this case.
- If the entry age normal cost rate were 20 percent, the minimum total contribution rate would be 14 percent, and the member and employer allocations would be 4.67 percent and 9.33 percent respectively.
- With a total rate of 12 percent under the aggregate method and a floor of 70 percent of a 20 percent entry age normal cost rate, or 14 percent, the floor would apply. The member contribution would be 4.67 percent and the state contribution rate would be 9.33 percent
- With a total rate of 25 percent under the aggregate method and a floor of 70 percent of a 20 percent entry age normal cost rate, or 14 percent, the floor would not apply. The member contribution would be 7.00 percent and the state contribution rate would be 18.00 percent.
- With a total rate of 20 percent under the aggregate method and a floor of 70 percent of a 32 percent entry age normal cost rate, or 22.4 percent, the floor would apply before applying the one-third, two-thirds split and the 7 percent member minimum rate. The member contribution would be 7.00 percent and the state contribution rate would be 15.40 percent.
- The projected contribution rates for the current six-year period under the current and proposed formulas are shown in the following table:

	Current Formula		Proposed Formula	
	50.00%	50.00%	33.33%	66.67%
Year	Member	Employer	Member	Employer
2005-2006	4.51%	4.51%	4.51%	4.51%
2006-2007	4.51%	4.51%	3.01%	6.01%
2007-2008	6.54%	6.54%	4.36%	8.72%
2008-2009	6.54%	6.54%	4.36%	8.72%
2009-2010	7.73%	7.73%	5.15%	10.31%
2010-2011	7.73%	7.73%	5.15%	10.31%

We did not include any cost impact related to the establishment of a floor contribution rate. A floor, or minimum, contribution rate would not be expected to impact rates in the long run. The short term increase in rates in years in which the floor applied would be offset by lower rates in future years. A floor could actually result in a long-term savings to the extent that investment earnings from the extra contributions due to the floor are used to reduce future contribution requirements. We considered but did not include any cost impact for any issues related to market timing and when the extra contributions from the floor are invested.

The determination that a floor would result in no additional cost and possibly a savings is based on the assumption that any reserve or cushion that is built up from a floor is used to reduce future contribution requirements and not used to provide for benefit increases. If the extra contributions from a floor are used for benefit increases, then there would be a cost to having a floor.

FISCAL IMPACT:

Description:

This proposal would not change the liabilities of the current plan. On average, it would shift one-sixth of the total contributions from members to employers. It would also change the cost allocation of any future benefit improvements so that the members would only be paying for one-third instead of one-half and the employer would be responsible for two-thirds of the cost instead of one-half.

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:

	System: Washington State Patrol		
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to All Current Members)	$739	$0	$739
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$0	$0	$0
Unfunded Liability (PBO) (The Value of the Total Commitment to All Current Members Attributable to Past Service)	($100)	$0	($100)
Increase in Contribution Rates: (Effective 7/1/2006)			
Employee	(1.50%)		
Employer State	1.50%		

Fiscal Budget Determinations:

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

Costs (in Millions):	WSP
2006-2007	
State:	
General Fund	$0.0
Non-General Fund	1.1
Total State:	$1.1
Local Government	$0.0
Total Employer	$1.1
Total Employee	($1.1)

Costs (in Millions):	WSP
2007-2009	
State:	
General Fund	$0.2
Non-General Fund	3.5
Total State:	$3.7
Local Government	$0.0
Total Employer	$3.7
Total Employee	($3.7)
2006-2031	
State:	
General Fund	$3.3
Non-General Fund	111.4
Total State:	$114.7
Local Government	$0.0
Total Employer	$114.7
Total Employee	($114.7)

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 Washington State Patrol 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 of 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 that 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.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2, and 3 members until the year 2024.

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

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

STATE OF WASHINGTON
WASHINGTON STATE PATROL
General Administration Building, PO Box 42600 • Olympia, Washington 98504-2600 • (360) 753-6540

RECEIVED
NOV 10 2005
Office of
The State Actuary

November 9, 2005

The Honorable Bill Fromhold, Chair
Select Committee on Pension Policy
PO Box 40914
Olympia WA 98504-0914

Dear Representative Fromhold:

During the Public Safety Subgroup meeting on October 18, 2005, the funding policy history of the Washington State Patrol Retirement System (WSPRS) was discussed. HB 1317, introduced during the 2005 session and being reconsidered for 2006, proposed to change the contribution rate for members of the WSPRS to seven percent or one-third of the rate adopted under RCW 41.45.060 and 41.45.070 for the WSPRS, whichever is less.

In the course of this meeting, Representative Conway asked the position of the Washington State Patrol (WSP) regarding HB 1317. He was advised the Patrol was unable to provide a position at that time due to concerns regarding the impact this proposal would have to the State Patrol Highway Account, which is expected to have a negative fund balance by July 2007. Representative Conway and the subgroup were advised that the WSP would need to discuss the matter with Governor Gregoire's office before committing to a position.

On October 21, 2005, Captain Jeff DeVere met with representatives from Governor Gregoire's office regarding HB 1317. Discussed were the impacts of increased employer contribution to the 2005 -2007 ($1.1 million) and the 2007 -2009 ($3.7 million) budgets. Attached is the Fund Balance Detail sheet indicating the challenge facing the department regarding this proposal.

The WSP will be unable to provide a definitive position on HB 1317 until the Governor's budget has been finalized in December 2005.

If you have any questions or concerns regarding this matter, please contact me at 360-753-5299.

Sincerely,

CHIEF JOHN R. BATISTE

Captain Jeff DeVere
Government and Media Relations

JKD:mp
cc: Chief John R. Batiste, Washington State Patrol
Marty Brown, Legislative Director, Office of the Governor
Victor Moore, Director, Office of Financial Management
Tom Pillow, President, Washington State Patrol Troopers' Association

Fund Balance Detail

DOT0509 (R) - 2005-07

Washington State Patrol - Request Level

081 - State Patrol Highway Account
($ in Thousands)

	03-05	05-07
Beginning Fund Balance (Phase III)	**12,817**	**21,368**
Revenue Data (0509)		
Total Federal Revenue	6,957	10,544
Total Local Revenue	1,465	2,177
I-776 Impact (refund from prior biennium)	(1,491)	-
Treasury Deposit Earnings (80%)	478	600
ACCESS user fees	1,600	1,600
Transfer - Motor Vehicle Account	(4,000)	1,406
Transfer - DRS	(290)	-
Court DUI cost reimbursement	1,026	1,026
Motor Veh Lics Permits Fees (Sept 2005)	252,037	261,688
Terminal Safety Inspection Fees From UTC	2,500	2,500
Breath Test Fees	1,750	1,750
Other Revenue	1,000	682
Minimum Fund Balance	-	(3,500)
Fund Balance Adjustments	-	898
Revenue Total	**263,032**	**281,371**
Expenditure Data (DOT0509)		
225 010 Field Operations 010 (WSP)	181,187	213,243
225 030 Support Services 030 (WSP)	71,089	84,756
225 90C WSP Capital	2,205	2,801
2006 Supplemental Request		**10,696**
SCPP Pension Proposal		**1,100**
Projected Expenditure Total	**254,481**	**312,596**
Projected Ending Fund Balance	**$ 21,368**	**$ (9,857)**

WASHINGTON STATE PATROL TROOPERS ASSOCIATION

200 UNION AVE. SE STE. 200 , OLYMPIA, WASHINGTON 98501 (360) 704-7530 FAX (360) 704-7527

May 26, 2005

Senator Karen Fraser, Chair
Select Committee on Pension Policy
417 JAC
PO Box 40422
Olympia, WA 98504-0422

Re: Troopers Association Request for SCPP Agenda Items

Dear Senator Fraser:

As the incoming president of the Troopers Association, I wanted to first thank you for your help during the last Legislative session. We are particularly pleased with the passage of Second Substitute House Bill 1188, our collective bargaining bill. As always, there is still more work to do. I am writing to ask for your help in allowing us to bring the following issues to the Select Committee on Pension Policy during the 2005 interim:

- Trooper Contributions. We were grateful for the SCPP's support for our contribution rate bill, HB 1317/SB 5341. That bill would have returned the Troopers to a 1/3 – 2/3 contribution ratio with a 7% cap on employee contributions. Unfortunately, neither bill made it out of the house of origin. We would like to continue to work the bill with the Committee during the interim.
- Increase Mandatory Retirement to Age 65. The Troopers have supported this bill in the past and would like to continue to keep it alive during the interim.
- Disabled Troopers Converting to Retirement. As you know, disabled troopers are not retired. Instead, they remain on the payroll at half-salary and are paid out of the Patrol's operating budget. A recent decision of the Chelan County Superior Court, In Re Truman, considered the survivor pension calculation for a Trooper who died while on disability status. While the Troopers association agrees with the decision, it does point out some confusion about the treatment of disabled Troopers under the retirement system. We would like to discuss the possibility of having disabled Troopers continue to contribute to the retirement system and convert to retiree status at age 60.
- Distinctions between WSPRS and PERS. Discussions surrounding the Troopers contribution bill brought to light some ambiguity about the policy differences between WSPRS and PERS 2. We would like an opportunity to discuss those issues with the Committee for background when considering WSPRS issues.

Finally, we are asking you to convene the public safety subcommittee authorized under RCW 41.04.278, to facilitate consideration of these issues.

Thank you for your consideration of this request. Please feel free to either call me at (360) 704-7530 or Rick Jensen at (360) 951-9531 with any questions or for discussion.

Sincerely,

Tom Pillow

Tom Pillow, President
Washington State Patrol Troopers Association

cc: Matt Smith
Rick Jenson
Davor Gjurassic
Paul Neal