



Washington State Legislature

The Select Committee on Pension Policy 2006 INTERIM ISSUES

The Select Committee on Pension Policy

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*Executive Committee Member

**Resigned as of August 31, 2006. Position now vacant.

***Resigned as of October 17, 2006. Position now vacant.

Office of the State Actuary

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Select Committee on Pension Policy

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Subgroup

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Subgroup Members

Senator Pridemore, Chair
Representative Fromhold
Representative Bailey
Representative Crouse
Representative Conway
Victor Moore
Sandra Matheson
Elaine Banks

September 19, 2006

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Select Committee on Pension Policy

2007 SCPP Legislative Summary

(December 19, 2006)

Request Legislation:

1. **\$150,000 Death Benefit¹:** Expands the eligibility for the \$150,000 death benefit to include death from duty-related illness in all plans where it is not already provided. Indexes the amount of the death benefit to cumulative changes in the *Consumer Price Index for Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton*, with a maximum change of 3 percent per year.
2. **Age 66 COLA:** Changes 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.
3. **Dual Membership¹:** Changes the definition of base salary in the portability chapter to include previously excluded payments (such as overtime) that are reportable in all of a dual member's retirement systems*. Lifts portability's "maximum benefit rule" (a rule designed to protect Plan 1 benefit caps) for members with less than fifteen years of service in one capped plan and service in one uncapped plan. Adds LEOFF 2 to the list of retirement plans whose members can combine service under portability in order to receive indexing of the term-vested benefit available to those with at least twenty years of service.

* The Washington State Patrol Retirement System was excluded from this benefit based on a request from the Washington State Patrol Troopers' Association.
4. **Post-retirement Employment:** Creates parity with PERS 1 by adding a cumulative lifetime limit of 1,900 hours to TRS 1, creates PERS-TRS parity with respect to procedural safeguards and penalties, and increases the TRS 1 waiting period from one to one and one-half months (half the duration of the PERS 1 waiting period). Also adds the requirement of a written policy to programs under both plans.
5. **Service Credit Purchase Due to Injury¹:** Allows members of PSERS, SERS, LEOFF 2, and TRS to purchase up to twenty-four consecutive months of service credit for each period of temporary duty disability.
6. **Technical Corrections:** Adds appropriate cross-references and other updates identified by the Department of Retirement Systems as necessary for consistency with recent changes to Washington's public pension law. The majority of corrections concern implementation of the new Public Safety Employees' Retirement System (PSERS).

7. **Washington State Patrol Contribution Rate:** Establishes 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.

Endorsed Legislation (OSA Request):

8. **Contribution Rate Adoption Process:** This bill amends the contribution rate adoption process described in the actuarial funding chapter. Most significantly, it provides that contribution rate-setting will occur two months earlier than it does now.

Legislation Forwarded Without Recommendation:

9. **Judges Benefit Multiplier:** Allows Judges who elect to contribute a higher percent of pay to earn the higher benefit multiplier, to buy the higher benefit multiplier for past judicial service by paying 5 percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased (PERS 3 members would pay 2.5 percent), plus interest as determined by the Director of the Department of Retirement Systems.

¹ Issues coordinated with the LEOFF 2 Retirement Board.

Select Committee on Pension Policy

2007 SCPP Request Legislation

(December 19, 2006)

Estimated Fiscal Budget Determinations:

<i>(Cost in Millions)</i>	2007-9 GF-S	2007-9 Local	2007-9 Total ER
\$150,000 Death Benefit			
WSP	\$0.0	\$0.0	\$0.0
Age 66 Cola			
PERS	\$0.7	\$2.7	\$4.5
PSERS	\$0.2	\$0.0	\$0.2
SERS	\$0.4	\$0.6	\$1.0
TRS	<u>\$3.2</u>	<u>\$2.0</u>	<u>\$5.2</u>
Total	<u>\$4.5</u>	<u>\$5.3</u>	<u>\$10.9</u>
Dual Membership			
PERS	\$0.2	\$0.7	\$1.2
Judges Benefit Multiplier*			
PERS	\$0.2	\$0.9	\$1.5
Post Retirement Employment			
TRS	(\$1.6)	(\$1.0)	(\$2.6)
Washington State Patrol Contribution Rate			
WSP	\$0.3	\$0.0	\$3.3
Grand Total - All Proposals**			
All Systems	<u>\$3.6</u>	<u>\$5.9</u>	<u>\$14.3</u>

*Forwarded without recommendation.

**All other proposals are no fiscal impact.

Select Committee on Pension Policy

<i>(Cost in Millions)</i>	2009-11 GF-S	2009-11 Local	2009-11 Total ER
\$150,000 Death Benefit			
WSP	\$0.0	\$0.0	\$0.0
Age 66 Cola			
PERS	\$0.8	\$3.3	\$5.5
PSERS	\$0.2	\$0.2	\$0.4
SERS	\$0.4	\$0.6	\$1.0
TRS	<u>\$3.9</u>	<u>\$1.9</u>	<u>\$5.8</u>
Total	\$5.3	\$6.0	\$12.7
Dual Membership			
PERS	\$0.2	\$0.8	\$1.3
Judges Benefit Multiplier*			
PERS	\$0.2	\$0.8	\$1.4
Post Retirement Employment			
TRS	(\$2.0)	(\$1.0)	(\$3.0)
Washington State Patrol Contribution Rate			
WSP	\$0.4	\$0.0	\$4.5
Grand Total - All Proposals**			
All Systems	\$4.1	\$6.6	\$16.9

*Forwarded without recommendation.

**All other proposals are no fiscal impact.

<i>(Cost in Millions)</i>	2007-32 GF-S	2007-32 Local	2007-32 Total ER
\$150,000 Death Benefit			
WSP	\$0.0	\$0.0	\$0.4
Age 66 Cola			
PERS	\$10.0	\$40.1	\$66.4
PSERS	\$2.1	\$1.5	\$3.6
SERS	\$5.1	\$7.6	\$12.7
TRS	<u>\$45.8</u>	<u>\$22.5</u>	<u>\$68.3</u>
Total	\$63.0	\$71.7	\$151.0
Dual Membership			
PERS	\$1.7	\$6.8	\$11.2
Judges Benefit Multiplier*			
PERS	\$1.8	\$6.9	\$11.6
Post Retirement Employment			
TRS	(\$22.9)	(\$11.3)	(\$34.2)
Washington State Patrol Contribution Rate			
WSP	\$10.0	\$0.0	\$103.7
Grand Total - All Proposals**			
All Systems	\$53.6	\$74.1	\$243.7

*Forwarded without recommendation.

**All other proposals are no fiscal impact.

\$150,000 Death Benefit

Background

A \$150,000 lump sum death benefit is provided for public employees who die from duty-related causes. The benefit is payable upon death from duty-related injury in all retirement systems. The benefit is also payable upon death from duty-related illness in LEOFF 2, and in the Volunteer Firefighters' Relief and Pension Fund. Eligibility for the benefit is determined by the Department of Labor and Industries. The amount of the benefit is not adjusted for inflation and has not changed since 1996.

A bill dealing with the \$150,000 death benefit was introduced during the 2006 Legislative session. HB 2933 expanded the eligibility for the death benefit to include LEOFF 2 members who die from occupational diseases and indexed the death benefit for LEOFF 2 in the same manner as LEOFF 2 retirement benefits. The indexing provision was removed from the version of the bill that passed (Chapter 351, Laws of 2006). During the 2006 interim, the LEOFF 2 Retirement Board asked the Select Committee on Pension Policy to study adding an inflationary adjustment to the \$150,000 death benefit for all plans.

Committee Activity

Presentations:

June 20, 2006 - Full Committee

September 19, 2006 - Full Committee

Proposal:

November 21, 2006 - Full Committee

Recommendation to Legislature

Expand eligibility for the \$150,000 death benefit to include death from duty-related illness in all plans where it is not already provided; and index the amount of the death benefit to cumulative changes in the *Consumer Price Index for Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton*, with a maximum change of 3 percent per year.

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In Brief

PROPOSAL

A \$150,000 death benefit is provided to survivors of public employees who die as a result of a duty-related injury or illness. The benefit amount is not adjusted for inflation and has not changed since 1996.

The LEOFF 2 Board has proposed that the \$150,000 death benefit be annually adjusted for inflation.

Secondary issues identified by the OSA include differences in the eligibility criteria between plans and a technical issue related to the Volunteer Fire Fighters' system.

MEMBER IMPACT

Fewer than 13 duty-deaths are expected each year from a group of over 465,000 current and former public employees.

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\$150,000 Death Benefit

Current Situation

Survivors of public employees who die as a result of injuries sustained or, in some cases, illnesses contracted in the course of employment are eligible to receive a lump sum death benefit of \$150,000. Determination of eligibility is made by the Department of Labor and Industries (L&I). The benefit amount is set in statute, is not adjusted for inflation, and has not changed since the benefit was first established in 1996. Some differences exist in the eligibility criteria between plans. Benefits are provided by the state retirement systems and, in some cases, the state general fund. The benefits are not subject to federal income tax.

Survivors of members of the following retirement systems receive a \$150,000 lump sum benefit for death due to duty-related injury:¹

- ❖ Public Employees' Retirement System (PERS);
- ❖ Teachers' Retirement System (TRS);
- ❖ School Employees' Retirement System (SERS);
- ❖ Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF);
- ❖ Washington State Patrol Retirement System (WSP);
- ❖ Public Safety Employees' Retirement System (PSERS);
- ❖ Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFF);²
- ❖ Judicial Retirement System (JRS);³ and
- ❖ Higher Education Retirement Plans (HIED).³

1. *In VFF and LEOFF Plan 2 the death benefit is also provided for deaths resulting from a duty-related illness.*

2. *VFF provides an additional \$2,000 duty death benefit.*

3. *Benefits paid from the state general fund.*

Also, survivors of state, school district, and higher education employees who are not members of a state retirement system receive a \$150,000 lump sum benefit for death due to duty-related injury paid from the state general fund.

In addition to the \$150,000 death benefit, survivors of public employees who die from duty-related causes may be eligible to receive other death benefits from federal and state sources. These benefits are discussed in greater detail under the section “Death Benefits for Public Employees.”

Figure 1

Number of \$150,000 Death Benefits Paid *	
Plan	Benefits Paid
LEOFF 2	20
PERS 2	7
LEOFF 1	2
VFF	2
PERS 1	1
TRS 3	1
WSP	1
Unknown <i>(paid from general fund)</i>	3
Total	37

**Length of reporting period varies among systems.*

Members Impacted

Any of the more than 465,000 estimated active, retired, disabled, and terminated vested members of PERS, TRS, SERS, LEOFF, WSP, PSERS, JRS, HIED, and the VFF retirement systems who die from duty-related causes may be impacted. State, school district, and higher education employees who are not members of a state retirement system and who die from duty-related causes may also be impacted. Counts for HIED are estimated based on 2003 data; all other counts are based on data as of September 30, 2005.

It is expected that fewer than 13 duty-related deaths will occur each year. Figure 1 shows the history of duty-death benefits paid to date.

History

The \$150,000 death benefit was first established in LEOFF and WSP in 1996 and subsequently extended to various other groups of public employees.

The most recent activity around this benefit occurred with HB 2933 during the 2006 legislative session. HB 2933 was request legislation of the LEOFF Plan 2 Retirement Board. The original bill expanded eligibility for the \$150,000 death benefit to include death resulting from a duty-related illness and added an annual increase to the lump sum benefit amount. The annual increase was tied to changes in the

Since 1996, a total of eight bills dealing with the \$150,000 death benefit have passed—the most recent in 2006.

Consumer Price Index for Wage Earners and Clerical Workers [CPI-W] for Seattle-Tacoma-Bremerton [STB], up to a maximum of 3 percent per year—the same increase provided for LEOFF Plan 2 retirement benefits. The proposed annual increase was not included in the version of the bill that passed (Chapter 351, Laws of 2006). Since 1996, a total of eight bills dealing with the \$150,000 death benefit have passed the Legislature (see Figure 2).

Figure 2

History of Legislative Changes to the \$150,000 Death Benefit		
Year	Bill	Effect
1996	E2SSB 5322	\$150,000 death benefit established for LEOFF and WSP.
1998	SB 5217 ESB 6305	\$150,000 death benefit established in VFF. \$150,000 death benefit is established for survivors of PERS 1 port and university police officers.
1999	ESSB 5180 (Budget)	\$150,000 death benefit provided to teachers and paid as sundry claim from general fund. Expired 6/30/2001.
2000	EHB 2487 (Budget)	\$150,000 death benefit provided to school district employees and paid as sundry claim from general fund. Expired 6/30/2001.
2001	ESSB 6153 (Budget)	\$150,000 death benefit provided to state, school district, and higher education employees and paid as sundry claim from general fund. Expired 6/30/2003.
2003	HB 1207	\$150,000 death benefit established in PERS, TRS, and SRS. Benefit also provided as a sundry claim to the general fund for state, school district, and higher education employees who are not eligible to receive the benefit from a state retirement system.
2006	SHB 2933	Eligibility for the \$150,000 death benefit expanded to include death from duty-related illness for LEOFF 2.

Policy Analysis

Several elements may be considered when examining the policy implications of adjusting the \$150,000 death benefit for inflation. This paper will specifically look at:

- ❖ State policy on inflation protection;
- ❖ The effects of inflation;
- ❖ Indexing benefits to protect against inflation;
- ❖ Death benefits for public employees;
- ❖ Lump sum death benefits in comparative systems;
- ❖ Plan differences in the benefit provisions;

- ❖ Administration of death from duty-related illness claims; and,
- ❖ A technical issue related to VFF.

State Policy on Inflation Protection

State policy on protecting retirement benefits from inflation can be found in existing policy statements and further inferred from plan design. The SCPP has adopted as a stated goal “. . . to increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS. . . .” The Plans 2/3 of the state’s retirement systems, the most recently created tiers, provide an annual Cost-of-Living Adjustment (COLA) on retirement pensions. The Plan 2/3 COLA is based on inflation as measured by changes in a Consumer Price Index (CPI). The inclusion of this COLA in the Plan 2/3 design indicates a clear desire to protect retirement pensions from the effects of inflation.

Effect of Inflation on the \$150,000 Death Benefit

The value of the death benefit has declined 21 percent since 1996.

Inflation erodes the relative value of a fixed dollar amount over time. The \$150,000 death benefit was first established in 1996. The cumulative effect of inflation since then has eroded 21 percent* of the relative value of the benefit. If inflation were to continue at a rate of 3.5 percent a year for the next ten years, the total value of the benefit lost since 1996 would amount to 44 percent*.

**Based on CPI-W STB, all Items. Actual CPI data used through 2005, projected at 3.5 percent from 2006-2015.*

Indexing

Indexing is a common way to protect benefits against inflation. Indexing may be full, partial, or level.

A frequently used method of protecting the value of a benefit against inflation is indexing. Indexing involves making annual adjustments to the benefit amount based on changes in an underlying measure of inflation.

One of the most commonly used measures of inflation is the CPI, which records changes in the price of a set

"market basket" of goods and services at different points in time. The U.S. Department of Labor publishes numerous indexes that measure inflation based on different market baskets and geographic regions. Each CPI produces a slightly different measure of inflation.

A key issue in indexing benefits is the amount of inflation protection to provide. The value of a benefit may be:

- ❖ *Fully* protected from inflation (full indexing);
- ❖ Protected up to a *maximum* amount of inflation (partial indexing);
- ❖ Protected against a *set* amount of inflation (level indexing).

A *fully indexed* benefit increases at the same percentage change as inflation each year. This method ensures the full purchasing power of the benefit is always maintained, but can lead to greater than expected costs if actual inflation exceeds the amount assumed for funding the benefit. Examples of fully indexed retirement benefits include Social Security, which is indexed to the CPI-W, All U.S. Cities; and the LEOFF Plan 1 pension, which is indexed to the CPI-W STB.

A *partially indexed* benefit increases with the percentage change in inflation each year up to a maximum percentage. In years where inflation exceeds the maximum, the benefit will lose some purchasing power. The index can be designed to allow the benefit to recover lost purchasing power during periods when actual inflation is lower than the maximum. This method can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Examples of partially indexed retirement benefits are Plan 2/3 pensions, which are indexed to the CPI-W STB, to a maximum of 3 percent.

A *level indexed* benefit increases by a fixed percentage every year. Purchasing power is lost in years when inflation exceeds the fixed percentage and is gained in years when inflation is less than the fixed percentage. This method is simple to administer and can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Under this method, if actual inflation is consistently less than the fixed amount, the

purchasing power of the benefit will increase. An example of a level indexed retirement benefit is the PERS and TRS Plan 1 Uniform COLA, which increases by 3 percent each year.

A key policy consideration is the intended purpose of the benefit.

One of the key considerations in using indexing to protect the value of a benefit from inflation is the intended purpose of the benefit. Is the benefit intended to become part of the ongoing income stream of an individual and support a standard of living, or, is the benefit intended to provide one-time relief for specific situations? The answer to this question will have significant policy implications.

Indexing a lump sum does not provide inflation protection to an individual.

Indexing a pension or other annuity-type benefit provides inflation protection to the recipient by maintaining the relative value of the annuity payments over time. In contrast, increasing the amount of a lump sum benefit through indexing does not provide inflation protection to an individual recipient since the payment is not received "over time" — it is received only once. From the perspective of policy makers, there may be less need to automatically adjust a lump sum benefit for inflation because the benefit does not become part of an individual's ongoing income stream. One reason policy makers may wish to automatically adjust the amount of a lump sum benefit for inflation is to maintain equity in the value of the benefit among successive generations of recipients.

Survivors may receive a variety of death benefits.

Death Benefits for Public Employees

In addition to the \$150,000 death benefit, survivors of public employees who die from duty-related causes may be eligible to receive a variety of other benefits including:

- ❖ Survivor, funeral, and death benefits from the retirement plan;
- ❖ L&I death benefits;
- ❖ Social Security survivor benefits;
- ❖ Federal public safety officers death benefits; and,
- ❖ Reimbursement of premiums paid to the Health Care Authority.

Employer provided life insurance is beyond the scope of this paper and is not considered among the benefits provided.

Figure 3 shows counts for the different types of survivor benefits provided. The "Total" column shows the total number of types, the "Indexed" column shows how many are annually adjusted using an index, and the "Duty" column shows how many are paid for duty-related deaths only. Survivor benefits from state retirement systems that are of essentially the same form are considered a single type. As seen from Figure 3, benefits paid in the form of a monthly annuity are much more likely to have some form of annual adjustment than benefits paid in a lump sum. A detailed list of the different types of survivor benefits is provided in Appendix A.

Figure 3

Types of Survivor Benefits			
Type	Total	Indexed	Duty
Annuity	9	7	3
Lump Sum	7	3	5

The table below summarizes the lump sum death benefits provided for public employees (Figure 4). The most significant other lump sum death benefit provided is the federal Public Safety Officers' Benefits Death Benefit. This benefit (\$283,385 in 2005) is payable to survivors of law enforcement officers, fire fighters, and other public safety personnel who die in the line of duty. The benefit is fully indexed to inflation.

Figure 4

Lump Sum Death Benefits Provided for Public Employees ¹		
Benefit	Amount	Annual Adjustment
\$150,000 Death Benefit	\$150,000 (+\$2,000 in VFF)	None
VFF Funeral Benefit	\$2,000	None
<u>TRS 1 Death Benefit</u>	\$400 or \$600	None
L&I Death Lump Sum	100% state average monthly wage (\$3,253) ²	Indexed to state average wage
L&I Burial Benefit	Up to 200% state average monthly wage (\$3,253) ²	Indexed to state average wage
<u>Social Security Burial Benefit</u>	\$255	None
Federal Public Safety Officers' Death Benefit	\$283,385 as of 10/01/2005	Indexed to CPI

1. Eligibility includes duty and non-duty deaths and varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. Underlined benefits are payable whether or not the death is duty-related. Excludes employer provided life insurance.

2. As of 7/01/2005.

Death Benefits in Comparative Systems

Most of the comparative systems provide survivor annuities similar to those in Washington systems. The annuities are generally based on the member's earned benefit or some percentage of the member's salary. Five of the comparative systems also provide some type of lump sum death benefit — none of which are indexed (see Figure 5). Three of the systems (Colorado, Idaho, and Wisconsin) provide a lump sum based on the member's contributions. Since contributions are based on salaries, and salaries grow with inflation, contribution-based lump sums effectively have built-in inflation adjustments. One system (California) provides a lump sum that is "periodically adjusted".

Figure 5

Lump Sum Death Benefits in Comparative Systems		
System	Benefit Amount	Annual Adjustment
California CALSTRS	\$6,136	Periodically adjusted
Colorado PERA	200% return of contributions, plus interest	None
Idaho PERSI	200% return of contributions plus interest	None
Iowa IPERS	\$100,000 for line of duty-death	None
Wisconsin WRS	200% return of contributions, plus interest	None

Plan Differences in the \$150,000 Death Benefit

The Legislature has set forth a policy that retirement systems should provide similar benefits wherever possible (RCW 41.50.005[1]). One area of concern is that differences in benefits may create a perception of inequity and lead to calls for legislative remedy. This often creates a ripple effect as benefit changes are adopted for one plan and incrementally extended to other plans.

Eligibility for benefits upon death from duty-related illness differs between plans.

There is one area in which the provisions of the \$150,000 death benefit differ between plans: eligibility for benefits upon death resulting from a duty-related illness. In 2006, the Legislature passed SHB 2933, which added death from a duty-related illness to the eligibility criteria for the

\$150,000 death benefit in LEOFF Plan 2. Duty-death benefits are also provided for VFF members who die as a result of a duty-related illness. (Duty-related illness may be more of an issue for fire fighters than other employees.) With this most recent legislative change, the eligibility provisions for \$150,000 death benefit differ both between the retirement systems and within the plans of the LEOFF system.

Administration of Death from Duty-Related Illness Claims

Payment of the \$150,000 death benefit for duty-related illness in LEOFF Plan 2 is contingent upon a determination by L&I that the death occurred as a result of an occupational disease. An occupational disease arises from the distinctive workplace conditions and duties of a given job. An occupational disease is one that could only be contracted from a particular occupation or has a greater risk of being contracted from the particular occupation. Diseases that are common to all employment, such as most communicable diseases, will generally not qualify as an occupational disease — even if contracted on the job or from a coworker. To substantiate a claim of occupational disease, medical documentation must be provided. This documentation must show that the workplace condition or job process is the most likely cause of the disease.

An occupational disease arises from distinctive workplace conditions.

There is a statutory presumption that certain respiratory diseases, cancers, and infectious diseases are occupational diseases for fire fighters (RCW 51.32.185). Fire fighters who contract one of the listed occupational diseases are not required to substantiate the link between fire-fighting employment and the disease.

Claims of occupational disease may be disallowed when evidence supports that other factors may be significant contributors to the contraction of the disease. Such factors may include a workers' lifestyle, fitness, heredity, exposure from activities unrelated to work, or personal choice in performing work.

It is estimated that very few additional \$150,000 death benefits would be paid out each year if the eligibility criteria were expanded to include death from duty-related illness in all plans where it is not currently provided: LEOFF 1, PERS, TRS, SRS, PSERS, WSP, JRS, and HIED.

Technical Issue in VFF

The amount of the death benefit is codified as \$152,000 in VFF.

When the \$150,000 death benefit was first extended to VFF in 1998, it was combined with a previously existing \$2,000 duty-death lump sum benefit and the amount codified as \$152,000 (RCW 41.24.160[1][a][i]). Combining the two benefits was a deliberate policy decision at that time of the Joint Committee on Pension Policy. This decision was likely influenced by the fact that the majority of VFF members are not covered by L&I and are consequently not eligible for the L&I duty-death lump sum benefits. Providing an annual adjustment to the duty-death lump sum benefit in VFF will require consideration of whether the adjustment should apply to the entire \$152,000 combined benefit or only the \$150,000 portion of the combined benefit.

Conclusions

Indexing is an effective method to protect the value of a benefit against inflation. Indexing can be tailored to achieve a variety of policy goals. While indexing both annuity and lump sum benefits is common practice, the reasons for, and ramifications of, indexing these distinct types of benefits differ. Policy makers may wish to consider the intended purpose of a benefit when developing specific policies on indexing benefits.

Claims for duty-related diseases are determined by L&I according to very narrowly defined criteria. Very few public employees are expected to die from a duty-related disease as currently defined. As a group, fire fighters have a greater risk of contracting certain duty-related diseases than other public employees.

Policy Questions

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

- ❖ Does the \$150,000 death benefit need to be annually adjusted for inflation?
- ❖ Will providing an annual inflation adjustment to the \$150,000 death benefit lead to calls to provide similar adjustments to other fixed-dollar benefits in statute such as the TRS Plan 1 death benefit or the VFF funeral benefit?
- ❖ Does the committee wish to address the plan differences in eligibility provisions for death from duty-related illnesses?
- ❖ Should any annual adjustment provided for VFF be made to the entire combined duty-death benefit or just the \$150,000 portion of the benefit?

Options for Indexing \$150,000 Death Benefit

1. **Fully index to changes in the CPI-W STB.** This option will preserve the value of the benefit at its current level but may lead to greater than expected costs if actual inflation exceeds the assumed rate. This is the most expensive option; however, the resulting increase in liabilities is insufficient to affect contribution rates in any plan.
2. **Index to cumulative changes in the CPI-W STB with a 3 percent a year maximum change.** This option would index the death benefit in the same manner as Plan 2/3 pensions. This option will maintain the value of the benefit if long term inflation averages 3 percent or less. If actual inflation exceeds a 3 percent average over the long term, the value of the benefit will decline. Establishing a floor ensures the amount of the death benefit will never be less than the original amount during periods of deflation. The cap on

the annual change serves to control costs and promote stable funding. This is the least expensive option. The resulting increase in liabilities is insufficient to affect contribution rates in any plan. This is also the option recommended by the LEOFF 2 Board.

3. **Increase the benefit by a level 3 percent each year.** This option is very similar to option 2 with the added advantages of being simpler to administer and providing a more predictable benefit. This option would recover some of the value of the benefit already lost to inflation if long term inflation averages less than 3 percent. The resulting increase in liabilities for this option is insufficient to affect contribution rates in any plan.
4. **Add eligibility for death from duty-related illness to Option 2.** This would index the benefit amount as in **Option 2** (*CPI-W STB with a 3 percent a year maximum change*) while expanding eligibility to include death from duty-related illness where not already provided. The expanded eligibility would apply to LEOFF 1, PERS, TRS, SERS, PSERS, WSP; and state, school district, and higher education employees who are not members of a state retirement system. This option would provide consistent eligibility criteria for all public employees covered by the death benefit and protect the value of the benefit as described under **Option 2**.

Fiscal Impact

This option would increase employer contribution rates by .01 percent in WSP. The increase in liabilities is insufficient to affect contributions rates in all other plans. The increased WSP contributions would not generate an appreciable increase in total employer costs for the 2007-2009 biennium, but would generate a 25 year total employer cost of \$0.4 million.

Committee Recommendation

At the November meeting, the SCPP recommended that legislation on this issue be forwarded to the Legislature for their consideration during the 2007 legislative session. The proposed legislation would provide the \$150,000 death benefit upon death from duty-related illness for all covered employees, and would index the death benefit to changes in a consumer price index (Option 4).

Bill Draft

Attached.

Fiscal Note (Draft)

Attached.

Stakeholder Correspondence

Kelly Fox, Chair, LEOFF 2 Board

Appendix A: Death Benefit Provided for Public Employees

Death Benefits Provided for Public Employees ¹				
Benefit	Normal Form	Eligible Deaths	Amount	Annual Adjustment ²
LEOFF & WSP Plan 1 Survivor Pension	Annuity	Duty & Non-Duty	50%-60% of AFC	Indexed to CPI
PERS & TRS Plan 1 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or return of contributions with interest (ROC) ³	Uniform COLA on annuity -- indexed by level 3%
Plans 2/3 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or ROC ^{3,4}	Annuity Indexed to CPI
VFF Survivor Benefit	Annuity	Duty & Non-Duty	Member's earned benefit	None -- Benefits periodically increased by Board
VFF Duty-Death Survivor Pension	Annuity	Duty	\$1,445-\$2,892 / month	Indexed to CPI
HIED Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Payout of member's account	None
LEOFF Plan 2 Survivor Health Care	Annuity	Duty	Reimbursement of premiums paid to Health Care Authority— up to \$946/month for 2006	Indexed to Health Care Authority medical and dental premiums
L&I Death Benefit	Annuity	Duty	60%-70% of gross wages up to 120% of state average wage ⁵	Indexed to state average wage ⁵
Social Security Survivor Benefit	Annuity	Duty & Non-Duty	75%-100% of employees earned Social Security benefit	Indexed to CPI
\$150,000 Death Benefit	Lump Sum	Duty	\$150,000 (+\$2,000 in VFF)	None
VFF Funeral Benefit	Lump Sum	Duty	\$2,000	None
TRS 1 Death Benefit	Lump Sum	Duty & Non-Duty	\$400 or \$600	None
L&I Death Lump Sum	Lump Sum	Duty	100% state average monthly wage ⁵	Indexed to state average wage ⁵
L&I Burial Benefit	Lump Sum	Duty	Up to 200% state average monthly wage ⁵	Indexed to state average wage ⁵
Social Security Burial Benefit	Lump Sum	Duty & Non-Duty	\$255	None
Federal Public Safety Officers' Death Benefit	Lump Sum	Duty	\$283,385 as of 10/01/2005	Indexed to CPI

1. Eligibility varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. Excludes employer provided life insurance.

2. Excludes optional COLAs purchased by recipient.

3. Actuarial reduction applied if death is not duty-related.

4. 150% ROC for LEOFF Plan 2; payout of member's DC account for Plans 3.

5. \$3,253 as of 7/01/2005.

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0267.2/07 2nd draft

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Determining death benefits for public employees.

1 AN ACT Relating to death benefits for public employees; amending
2 RCW 41.04.017, 41.24.160, 41.26.048, 41.32.053, 41.35.115, 41.37.110,
3 41.40.0931, 41.40.0932, and 43.43.285; providing an effective date; and
4 declaring an emergency.

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

6 **Sec. 1.** RCW 41.04.017 and 2003 c 402 s 4 are each amended to read
7 as follows:

8 (1) A one hundred fifty thousand dollar death benefit shall be paid
9 as a sundry claim to the estate of an employee of any state agency, the
10 common school system of the state, or institution of higher education
11 who dies as a result of (a) injuries sustained in the course of
12 employment; or (b) an occupational disease or infection that arises
13 naturally and proximately out of employment covered under this chapter,
14 and is not otherwise provided a death benefit through coverage under
15 their enrolled retirement system under chapter 402, Laws of 2003. The
16 determination of eligibility for the benefit shall be made consistent
17 with Title 51 RCW by the department of labor and industries. The
18 department of labor and industries shall notify the director of the
19 department of general administration by order under RCW 51.52.050.

1 (2)(a) Beginning July 1, 2007, and every year thereafter, the
2 department of retirement systems shall determine the following
3 information:

4 (i) The index for the 2005 calendar year, to be known as "index A";

5 (ii) The index for the calendar year prior to the date of
6 determination, to be known as "index B"; and

7 (iii) The ratio obtained when index B is divided by index A.

8 (b) The value of the ratio obtained shall be the annual adjustment
9 to the original death benefit and shall be applied beginning every July
10 1st. In no event, however, shall the annual adjustment:

11 (i) Produce a benefit which is lower than one hundred fifty
12 thousand dollars;

13 (ii) Exceed three percent in the initial annual adjustment; or

14 (iii) Differ from the previous year's annual adjustment by more
15 than three percent.

16 (c) For the purposes of this section, "index" means, for any
17 calendar year, that year's average consumer price index -- Seattle,
18 Washington area for urban wage earners and clerical workers, all items,
19 compiled by the bureau of labor statistics, United States department of
20 labor.

21 **Sec. 2.** RCW 41.24.160 and 2001 c 134 s 2 are each amended to read
22 as follows:

23 (1)(a) Whenever a participant dies as the result of injuries
24 received, or sickness contracted in consequence or as the result of the
25 performance of his or her duties, the board of trustees shall order and
26 direct the payment from the principal fund of (i) the sum of one
27 hundred fifty-two thousand dollars to his widow or her widower, or if
28 there is no widow or widower, then to his or her dependent child or
29 children, or if there is no dependent child or children, then to his or
30 her dependent parents or either of them, or if there are no dependent
31 parents or parent, then the death benefit shall be paid to the member's
32 estate, and (ii)(A) the sum of one thousand two hundred seventy-five
33 dollars per month to his widow or her widower during his or her life
34 together with the additional monthly sum of one hundred ten dollars for
35 each child of the member, unemancipated or under eighteen years of age,
36 dependent upon the member for support at the time of his or her death,

1 (B) to a maximum total of two thousand five hundred fifty dollars per
2 month.

3 (b) Beginning on July 1, 2001, and each July 1st thereafter, the
4 compensation amount specified in (a)(ii)(B) of this subsection shall be
5 readjusted to reflect the percentage change in the consumer price
6 index, calculated as follows: The index for the calendar year
7 preceding the year in which the July calculation is made, to be known
8 as "calendar year A," is divided by the index for the calendar year
9 preceding calendar year A, and the resulting ratio is multiplied by the
10 compensation amount in effect on June 30th immediately preceding the
11 July 1st on which the respective calculation is made. For the purposes
12 of the calculation under this subsection (1)(b), "index" means the same
13 as the definition in RCW 2.12.037(1).

14 (c)(i) Beginning July 1, 2007, and every year thereafter, the state
15 board shall determine the following information:

16 (A) The index for the 2005 calendar year, to be known as "index A";

17 (B) The index for the calendar year prior to the date of
18 determination, to be known as "index B"; and

19 (C) The ratio obtained when index B is divided by index A.

20 (ii) The value of the ratio obtained shall be the annual adjustment
21 to the original death benefit specified in (a)(i) of this subsection
22 and shall be applied beginning every July 1st. In no event, however,
23 shall the annual adjustment:

24 (A) Produce a benefit which is lower than one hundred fifty-two
25 thousand dollars;

26 (B) Exceed three percent in the initial annual adjustment; or

27 (C) Differ from the previous year's annual adjustment by more than
28 three percent.

29 (iii) For the purposes of the calculation specified in (c) of this
30 subsection, "index" means, for any calendar year, that year's average
31 consumer price index -- Seattle, Washington area for urban wage earners
32 and clerical workers, all items, compiled by the bureau of labor
33 statistics, United States department of labor.

34 (2) If the widow or widower does not have legal custody of one or
35 more dependent children of the deceased participant or if, after the
36 death of the participant, legal custody of such child or children
37 passes from the widow or widower to another person, any payment on
38 account of such child or children not in the legal custody of the widow

1 or widower shall be made to the person or persons having legal custody
2 of such child or children. Such payments on account of such child or
3 children shall be subtracted from the amount to which such widow or
4 widower would have been entitled had such widow or widower had legal
5 custody of all the children and the widow or widower shall receive the
6 remainder after such payments on account of such child or children have
7 been subtracted. If there is no widow or widower, or the widow or
8 widower dies while there are children, unemancipated or under eighteen
9 years of age, then the amount of one thousand two hundred seventy-five
10 dollars per month shall be paid for the youngest or only child together
11 with an additional one hundred ten dollars per month for each
12 additional of such children to a maximum of two thousand five hundred
13 fifty dollars per month until they become emancipated or reach the age
14 of eighteen years; and if there are no widow or widower, child, or
15 children entitled thereto, then to his or her parents or either of them
16 the sum of one thousand two hundred seventy-five dollars per month for
17 life, if it is proved to the satisfaction of the board that the
18 parents, or either of them, were dependent on the deceased for their
19 support at the time of his or her death. In any instance in
20 subsections (1) and (2) of this section, if the widow or widower, child
21 or children, or the parents, or either of them, marries while receiving
22 such pension the person so marrying shall thereafter receive no further
23 pension from the fund.

24 (3) In the case provided for in this section, the monthly payment
25 provided may be converted in whole or in part into a lump sum payment,
26 not in any case to exceed twelve thousand dollars, equal or
27 proportionate, as the case may be, to the actuarial equivalent of the
28 monthly payment in which event the monthly payments shall cease in
29 whole or in part accordingly or proportionately. Such conversion may
30 be made either upon written application to the state board and shall
31 rest in the discretion of the state board; or the state board is
32 authorized to make, and authority is given it to make, on its own
33 motion, lump sum payments, equal or proportionate, as the case may be,
34 to the value of the annuity then remaining in full satisfaction of
35 claims due to dependents. Within the rule under this subsection the
36 amount and value of the lump sum payment may be agreed upon between the
37 applicant and the state board.

1 **Sec. 3.** RCW 41.26.048 and 2006 c 351 s 1 are each amended to read
2 as follows:

3 (1) A one hundred fifty thousand dollar death benefit shall be paid
4 to the member's estate, or such person or persons, trust or
5 organization as the member shall have nominated by written designation
6 duly executed and filed with the department. If there be no such
7 designated person or persons still living at the time of the member's
8 death, such member's death benefit shall be paid to the member's
9 surviving spouse as if in fact such spouse had been nominated by
10 written designation, or if there be no such surviving spouse, then to
11 such member's legal representatives.

12 (2) The benefit under this section shall be paid only when death
13 occurs: (a) As a result of injuries sustained in the course of
14 employment; or (b) (~~to a member of plan 2~~) as a result of an
15 occupational disease or infection that arises naturally and proximately
16 out of employment covered under this chapter. The determination of
17 eligibility for the benefit shall be made consistent with Title 51 RCW
18 by the department of labor and industries. The department of labor and
19 industries shall notify the department of retirement systems by order
20 under RCW 51.52.050.

21 (3)(a) Beginning July 1, 2007, and every year thereafter, the
22 department shall determine the following information:

23 (i) The index for the 2005 calendar year, to be known as "index A";
24 (ii) The index for the calendar year prior to the date of
25 determination, to be known as "index B"; and

26 (iii) The ratio obtained when index B is divided by index A.
27 (b) The value of the ratio obtained shall be the annual adjustment
28 to the original death benefit and shall be applied beginning every July
29 1st. In no event, however, shall the annual adjustment:

30 (i) Produce a benefit which is lower than one hundred fifty
31 thousand dollars;

32 (ii) Exceed three percent in the initial annual adjustment; or
33 (iii) Differ from the previous year's annual adjustment by more
34 than three percent.

35 (c) For the purposes of this section, "index" means, for any
36 calendar year, that year's average consumer price index -- Seattle,
37 Washington area for urban wage earners and clerical workers, all items,

1 compiled by the bureau of labor statistics, United States department of
2 labor.

3 **Sec. 4.** RCW 41.32.053 and 2003 c 402 s 2 are each amended to read
4 as follows:

5 (1) A one hundred fifty thousand dollar death benefit shall be paid
6 to the member's estate, or such person or persons, trust or
7 organization as the member has nominated by written designation duly
8 executed and filed with the department. If no such designated person
9 or persons are still living at the time of the member's death, the
10 member's death benefit shall be paid to the member's surviving spouse
11 as if in fact the spouse had been nominated by written designation, or
12 if there is no surviving spouse, then to the member's legal
13 representatives.

14 (2) The benefit under this section shall be paid only where death
15 occurs as a result of (a) injuries sustained in the course of
16 employment; or (b) an occupational disease or infection that arises
17 naturally and proximately out of employment covered under this chapter.
18 The determination of eligibility for the benefit shall be made
19 consistent with Title 51 RCW by the department of labor and industries.
20 The department of labor and industries shall notify the department of
21 retirement systems by order under RCW 51.52.050.

22 (3)(a) Beginning July 1, 2007, and every year thereafter, the
23 department shall determine the following information:

24 (i) The index for the 2005 calendar year, to be known as "index A";

25 (ii) The index for the calendar year prior to the date of
26 determination, to be known as "index B"; and

27 (iii) The ratio obtained when index B is divided by index A.

28 (b) The value of the ratio obtained shall be the annual adjustment
29 to the original death benefit and shall be applied beginning every July
30 1st. In no event, however, shall the annual adjustment:

31 (i) Produce a benefit which is lower than one hundred fifty
32 thousand dollars;

33 (ii) Exceed three percent in the initial annual adjustment; or

34 (iii) Differ from the previous year's annual adjustment by more
35 than three percent.

36 (c) For the purposes of this section, "index" means, for any
37 calendar year, that year's average consumer price index -- Seattle,

1 Washington area for urban wage earners and clerical workers, all items,
2 compiled by the bureau of labor statistics, United States department of
3 labor.

4 **Sec. 5.** RCW 41.35.115 and 2003 c 402 s 3 are each amended to read
5 as follows:

6 (1) A one hundred fifty thousand dollar death benefit shall be paid
7 to the member's estate, or such person or persons, trust or
8 organization as the member has nominated by written designation duly
9 executed and filed with the department. If no such designated person
10 or persons are still living at the time of the member's death, the
11 member's death benefit shall be paid to the member's surviving spouse
12 as if in fact the spouse had been nominated by written designation, or
13 if there is no surviving spouse, then to the member's legal
14 representatives.

15 (2) The benefit under this section shall be paid only where death
16 occurs as a result of (a) injuries sustained in the course of
17 employment; or (b) an occupational disease or infection that arises
18 naturally and proximately out of employment covered under this chapter.
19 The determination of eligibility for the benefit shall be made
20 consistent with Title 51 RCW by the department of labor and industries.
21 The department of labor and industries shall notify the department of
22 retirement systems by order under RCW 51.52.050.

23 (3)(a) Beginning July 1, 2007, and every year thereafter, the
24 department shall determine the following information:

25 (i) The index for the 2005 calendar year, to be known as "index A";

26 (ii) The index for the calendar year prior to the date of
27 determination, to be known as "index B"; and

28 (iii) The ratio obtained when index B is divided by index A.

29 (b) The value of the ratio obtained shall be the annual adjustment
30 to the original death benefit and shall be applied beginning every July
31 1st. In no event, however, shall the annual adjustment:

32 (i) Produce a benefit which is lower than one hundred fifty
33 thousand dollars;

34 (ii) Exceed three percent in the initial annual adjustment; or

35 (iii) Differ from the previous year's annual adjustment by more
36 than three percent.

1 (c) For the purposes of this section, "index" means, for any
2 calendar year, that year's average consumer price index -- Seattle,
3 Washington area for urban wage earners and clerical workers, all items,
4 compiled by the bureau of labor statistics, United States department of
5 labor.

6 **Sec. 6.** RCW 41.37.110 and 2004 c 242 s 14 are each amended to read
7 as follows:

8 (1) A one hundred fifty thousand dollar death benefit shall be paid
9 to the member's estate, or the person or persons, trust, or
10 organization the member has nominated by written designation duly
11 executed and filed with the department. If the designated person or
12 persons are not still living at the time of the member's death, the
13 member's death benefit shall be paid to the member's surviving spouse
14 as if in fact the spouse had been nominated by written designation, or
15 if there is no surviving spouse, then to the member's legal
16 representatives.

17 (2) The benefit under this section shall be paid only where death
18 occurs as a result of (a) injuries sustained in the course of
19 employment; or (b) an occupational disease or infection that arises
20 naturally and proximately out of employment covered under this chapter.
21 The determination of eligibility for the benefit shall be made
22 consistent with Title 51 RCW by the department of labor and industries.
23 The department of labor and industries shall notify the department of
24 retirement systems by order under RCW 51.52.050.

25 (3)(a) Beginning July 1, 2007, and every year thereafter, the
26 department shall determine the following information:

27 (i) The index for the 2005 calendar year, to be known as "index A";

28 (ii) The index for the calendar year prior to the date of
29 determination, to be known as "index B"; and

30 (iii) The ratio obtained when index B is divided by index A.

31 (b) The value of the ratio obtained shall be the annual adjustment
32 to the original death benefit and shall be applied beginning every July
33 1st. In no event, however, shall the annual adjustment:

34 (i) Produce a benefit which is lower than one hundred fifty
35 thousand dollars;

36 (ii) Exceed three percent in the initial annual adjustment; or

1 (iii) Differ from the previous year's annual adjustment by more
2 than three percent.

3 (c) For the purposes of this section, "index" means, for any
4 calendar year, that year's average consumer price index -- Seattle,
5 Washington area for urban wage earners and clerical workers, all items,
6 compiled by the bureau of labor statistics, United States department of
7 labor.

8 **Sec. 7.** RCW 41.40.0931 and 1998 c 157 s 1 are each amended to read
9 as follows:

10 (1) A one hundred fifty thousand dollar death benefit for members
11 who had the opportunity to transfer to the law enforcement officers'
12 and fire fighters' retirement system pursuant to chapter 502, Laws of
13 1993, but elected to remain in the public employees' retirement system,
14 shall be paid to the member's estate, or such person or persons, trust,
15 or organization as the member has nominated by written designation duly
16 executed and filed with the department. If there is no designated
17 person or persons still living at the time of the member's death, the
18 member's death benefit shall be paid to the member's surviving spouse
19 as if in fact the spouse had been nominated by written designation, or
20 if there is no surviving spouse, then to the member's legal
21 representatives.

22 (2) Subject to subsection (3) of this section, the benefit under
23 this section shall be paid only where death occurs as a result of (a)
24 injuries sustained in the course of employment as a general authority
25 police officer; or (b) an occupational disease or infection that arises
26 naturally and proximately out of employment covered under this chapter.
27 The determination of eligibility for the benefit shall be made
28 consistent with Title 51 RCW by the department of labor and industries.
29 The department of labor and industries shall notify the department of
30 retirement systems by order under RCW 51.52.050.

31 (3) The benefit under this section shall not be paid in the event
32 the member was in the act of committing a felony when the fatal
33 injuries were suffered.

34 (4)(a) Beginning July 1, 2007, and every year thereafter, the
35 department shall determine the following information:

36 (i) The index for the 2005 calendar year, to be known as "index A";

1 (ii) The index for the calendar year prior to the date of
2 determination, to be known as "index B"; and

3 (iii) The ratio obtained when index B is divided by index A.

4 (b) The value of the ratio obtained shall be the annual adjustment
5 to the original death benefit and shall be applied beginning every July
6 1st. In no event, however, shall the annual adjustment:

7 (i) Produce a benefit which is lower than one hundred fifty
8 thousand dollars;

9 (ii) Exceed three percent in the initial annual adjustment; or

10 (iii) Differ from the previous year's annual adjustment by more
11 than three percent.

12 (c) For the purposes of this section, "index" means, for any
13 calendar year, that year's average consumer price index -- Seattle,
14 Washington area for urban wage earners and clerical workers, all items,
15 compiled by the bureau of labor statistics, United States department of
16 labor.

17 **Sec. 8.** RCW 41.40.0932 and 2003 c 402 s 1 are each amended to read
18 as follows:

19 (1) A one hundred fifty thousand dollar death benefit shall be paid
20 to the member's estate, or such person or persons, trust or
21 organization as the member has nominated by written designation duly
22 executed and filed with the department. If no such designated person
23 or persons are still living at the time of the member's death, the
24 member's death benefit shall be paid to the member's surviving spouse
25 as if in fact the spouse had been nominated by written designation, or
26 if there is no surviving spouse, then to the member's legal
27 representatives.

28 (2) The benefit under this section shall be paid only where death
29 occurs as a result of (a) injuries sustained in the course of
30 employment; or (b) an occupational disease or infection that arises
31 naturally and proximately out of employment covered under this chapter.

32 The determination of eligibility for the benefit shall be made
33 consistent with Title 51 RCW by the department of labor and industries.
34 The department of labor and industries shall notify the department of
35 retirement systems by order under RCW 51.52.050.

36 (3)(a) Beginning July 1, 2007, and every year thereafter, the
37 department shall determine the following information:

1 (i) The index for the 2005 calendar year, to be known as "index A";
2 (ii) The index for the calendar year prior to the date of
3 determination, to be known as "index B"; and
4 (iii) The ratio obtained when index B is divided by index A.
5 (b) The value of the ratio obtained shall be the annual adjustment
6 to the original death benefit and shall be applied beginning every July
7 1st. In no event, however, shall the annual adjustment:
8 (i) Produce a benefit which is lower than one hundred fifty
9 thousand dollars;
10 (ii) Exceed three percent in the initial annual adjustment; or
11 (iii) Differ from the previous year's annual adjustment by more
12 than three percent.
13 (c) For the purposes of this section, "index" means, for any
14 calendar year, that year's average consumer price index -- Seattle,
15 Washington area for urban wage earners and clerical workers, all items,
16 compiled by the bureau of labor statistics, United States department of
17 labor.

18 **Sec. 9.** RCW 43.43.285 and 1996 c 226 s 2 are each amended to read
19 as follows:

20 (1) A one hundred fifty thousand dollar death benefit shall be paid
21 to the member's estate, or such person or persons, trust or
22 organization as the member shall have nominated by written designation
23 duly executed and filed with the department. If there be no such
24 designated person or persons still living at the time of the member's
25 death, such member's death benefit shall be paid to the member's
26 surviving spouse as if in fact such spouse had been nominated by
27 written designation, or if there be no such surviving spouse, then to
28 such member's legal representatives.

29 (2) The benefit under this section shall be paid only where death
30 occurs as a result of (a) injuries sustained in the course of
31 employment; or (b) an occupational disease or infection that arises
32 naturally and proximately out of employment covered under this chapter.
33 The determination of eligibility for the benefit shall be made
34 consistent with Title 51 RCW by the department of labor and industries.
35 The department of labor and industries shall notify the department of
36 retirement systems by order under RCW 51.52.050.

1 (3)(a) Beginning July 1, 2007, and every year thereafter, the
2 department shall determine the following information:

3 (i) The index for the 2005 calendar year, to be known as "index A";

4 (ii) The index for the calendar year prior to the date of
5 determination, to be known as "index B"; and

6 (iii) The ratio obtained when index B is divided by index A.

7 (b) The value of the ratio obtained shall be the annual adjustment
8 to the original death benefit and shall be applied beginning every July
9 1st. In no event, however, shall the annual adjustment:

10 (i) Produce a benefit which is lower than one hundred fifty
11 thousand dollars;

12 (ii) Exceed three percent in the initial annual adjustment; or

13 (iii) Differ from the previous year's annual adjustment by more
14 than three percent.

15 (c) For the purposes of this section, "index" means, for any
16 calendar year, that year's average consumer price index -- Seattle,
17 Washington area for urban wage earners and clerical workers, all items,
18 compiled by the bureau of labor statistics, United States department of
19 labor.

20 NEW SECTION. Sec. 10. This act is necessary for the immediate
21 preservation of the public peace, health, or safety, or support of the
22 state government and its existing public institutions, and takes effect
23 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	11/16/06	Z-0267.2

SUMMARY OF BILL:

This bill impacts the following retirement systems and public employees:

- Public Employees' Retirement System (PERS),
- Teachers' Retirement System (TRS),
- School Employees' Retirement System (SERS),
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF),
- Washington State Patrol Retirement System (WSP),
- Public Safety Employees' Retirement System (PSERS),
- Volunteer Fire Fighters' Relief and Pension Fund (VFF);
- members of the Judicial Retirement System (JRS),
- members of the Higher Education Retirement Plans (HIED);
- and state, school district, and higher education employees who are not members of a state retirement system.

This bill indexes the amount of the \$150,000 duty-death lump sum benefit to changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers, Seattle-Tacoma-Bremerton (CPI-W). The index is calculated based on cumulative changes in the CPI-W with a maximum annual change of no more than 3%. The amount of the death benefit is not allowed to decrease below the original amount in periods of deflation. This bill also expands eligibility for the death benefit to include death from occupational disease or duty-related illness for members of PERS, TRS, SERS, LEOFF Plan 1, WSP, PSERS, JRS, HIED; and state, school district and higher education employees who are not members of a state retirement system.

Effective Date: July 1, 2007

CURRENT SITUATION:

Survivors of public employees who die as a result of injuries sustained in the course of employment are eligible to receive a lump sum death benefit of \$150,000. The benefit amount does not adjust for inflation. This benefit is provided for all members of PERS, TRS, SERS, LEOFF, WSP, PSERS, VFF, JRS, HIED; and to state, school district and higher education employees who are not members of a state retirement system. The benefit is also provided for members of LEOFF Plan 2 and VFF who die from an occupational disease or duty-related illness. The amount of the lump sum death benefit is \$152,000 in VFF.

MEMBERS IMPACTED:

Any of the more than 465,000 estimated active, retired, disabled, and terminated vested members of PERS, TRS, SERS, LEOFF, WSP, PSERS, JRS, HIED, and the VFF retirement systems who die from duty-related causes may be impacted. State, school district, and higher education employees who are not members of a state retirement system and who die from duty-related causes may also be impacted.

It is expected that fewer than 13 duty-related deaths will occur each year. It is also expected that fewer than one additional death benefits will be paid each year due to the expansion of the eligibility criteria for death from duty-related illness.

The amount of the duty-death lump sum benefit may increase by up to 3% each year under this bill. On July 1, 2007, the amount of the duty-death lump sum benefit would increase to \$154,500 (\$156,560 for VFF) if inflation, as measured by the CPI-W, averages 3% or more between 2005 and 2006.

ASSUMPTIONS:

1. The rate of duty-related death will not change because the death benefit is indexed.
2. An index based on the CPI-W with a 3% yearly maximum is equivalent to a long term average increase of 2.96% a year. This assumption was developed using stochastic projections of expected inflation.
3. The inclusion of public employees who are not PERS, SERS, or TRS members does not increase the estimated number of eligible deaths.
4. The estimated increase in the duty death rate for duty-related illness is 10% for all systems except LEOFF 1. LEOFF 1 is 40%.
5. The liability for benefits paid to inactive members for death from duty-related illness will be proportionate to the number of benefits paid and will remain relatively constant as a percentage of the active liability for the benefit.
6. 20% of the currently inactive members (term vested, retired, and disabled) will be exposed to death from duty-related illness at 50% of the rate the active population is exposed.
7. Based on assumptions #5 and #6, the increase in liability for inactives as a percent of active liability is:

LEOFF 1	100%
LEOFF 2	0%
WSP	10%
PERS and TRS 1	40%
PERS 2/3, SERS 2/3, TRS 2/3, VFF, HIED	2%

8. The contribution rate increase calculated for PERS will apply to PSERS.
9. The current active VFF population will decrease by an average rate of 8% a year due to terminations, retirement, and deaths.
10. The rate of duty-related death for VFF is .000083 for all ages.

FISCAL IMPACT:

Description:

This bill would increase the dollar amount of the lump sum death benefit for future recipients and would likely increase the total number of lump sum death benefits paid.

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. This bill will increase the contribution rate for WSP, however, the liability increases in all other systems are insufficient to affect contribution rates. Liabilities for PSERS are included in the PERS totals.

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 1	\$13,604.57	\$0.06	\$13,604.63
	PERS 2/3	\$16,996.53	\$1.19	\$16,997.72
	TRS 1	\$10,822.98	\$0.01	\$10,822.99
	TRS 2/3	\$6,296.52	\$0.20	\$6,296.72
	SERS 2/3	\$2,472.81	\$0.36	\$2,473.17
	LEOFF 1	\$4,238.27	\$0.05	\$4,238.32
	LEOFF 2	\$5,461.85	\$0.72	\$5,462.57
	WSP 1/2	\$803.40	\$0.08	\$803.48
	VFF	\$146.24	\$0.42	\$146.66
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	\$3,566.71	\$0.06	\$3,566.77
	TRS 1	\$2,146.89	\$0.01	\$2,146.90
	LEOFF 1	\$(583.68)	\$0.05	\$(583.63)
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 1	\$3,439.44	\$0.06	\$3,439.50
	PERS 2/3	\$(2,611.15)	\$0.67	\$(2,610.48)
	TRS 1	\$2,100.31	\$0.01	\$2,100.32
	TRS 2/3	\$(1,130.92)	\$0.10	\$(1,130.82)
	SERS 2/3	\$(314.69)	\$0.21	\$(314.48)
	LEOFF 1	\$(576.78)	\$0.05	\$(576.73)
	LEOFF 2	\$(396.81)	\$0.39	\$(396.42)
	WSP 1/2	\$(80.19)	\$0.06	\$(80.13)
VFF	\$6.97	\$0.38	\$7.35	

Increase in Contribution Rates:
(Effective 09/01/2007)

Current Members	<u>WSP</u>
Employee	0.01%
Employer State	0.01%
 New Entrants*	
Employee	0.01%
Employer State	0.01%

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

Fiscal Budget Determinations:

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

Costs (in Millions):	<u>WSP</u>
 2007-2009	
State:	
General Fund	\$0.0
Non-General Fund	<u>0.0</u>
Total State	0.0
Local Government	0.0
Total Employer	0.0
Total Employee	\$0.0
 2009-2011	
State:	
General Fund	\$0.0
Non-General Fund	<u>0.0</u>
Total State	0.0
Local Government	0.0
Total Employer	0.0
Total Employee	\$0.0
 2007-2032	
State:	
General Fund	\$0.0
Non-General Fund	<u>0.4</u>
Total State	0.4
Local Government	0.0
Total Employer	0.4
Total Employee	\$0.4

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 preliminary September 30, 2005 actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, and the Volunteer Fire Fighters' Relief and Pension Fund. We used counts of HIED membership as of October 2003 in estimating the number of members impacted. We relied upon the 2006 Key Facts published by the Higher Ed Coordinating board to obtain the counts of HIED membership.
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 on documentation of claims administration provided by the Department of Labor and Industries in setting our assumptions for increases in the rate of duty-related death.

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 2007 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.



STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD

P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

March 9, 2006

RECEIVED

MAR 10 2006

Office of
The State Actuary

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to congratulate you on another successful legislative session.

I want to bring three topics to your attention as you begin preparations for the 2006 interim. It is my hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to develop legislation. Two of these topics, Dual Membership Corrections and Service Credit Purchase for Duty-Related Injury, came up in 2005 and were deferred by both the SCPP and the Board for full study in 2006. The third topic, Adding an Inflationary Adjustment to the \$150,000 Death Benefit, arose as a result of Board legislation in the 2006 session.

I have provided a brief summary of each topic for your reference:

Dual Membership

The Board studied impacts of making changes to the current dual membership statutes last year. Under the current portability statutes (RCW 41.54), there are situations where a member's pension benefits would seem to be unnecessarily penalized, if the member changes careers. Changes to the dual membership statutes studied by the Board included:

- Easing restrictions on total service credit if a Plan 2 member has less than 15 years of Plan 1 service.
- Adding indexing to all plans that allow shared service to qualify for indexing.
- Redefining base salary so that payments defined as salary or compensation, in both dual member systems, would be included in base salary.



Service Credit Purchase for Duty-Related Injury

The Legislature passed a bill in the 2004 session, which increased the period of service credit that could be purchased by a PERS member, who is on a leave of absence for a duty-related injury. The Board would like to study extending this policy to other pension plans, including LEOFF Plan 2.

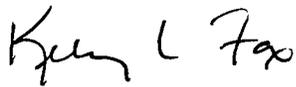
Inflationary Adjustment for \$150,000 Death Benefit

As you may be aware, the Board recommended legislation on this topic in 2006 (SHB 2933 - Death Benefit for Occupational Illnesses), which was passed with an amendment removing the annual inflation increase. Since other retirement plans also provide a lump-sum death benefit, legislators expressed an interest in the Board working with the SCPP to study the effect of adding this inflationary adjustment to all the plans.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or like any additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) (360) 943-3030 or pres@wscff.org.

We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,



Kelly Fox, Chair

cc: Matt Smith, State Actuary

Background

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.

This issue was studied by the SCPP in 2004 and additional background material is available in the *2004 Interim Issues Projects Report* under Tab 9. This proposal was previously forwarded by the SCPP to the Legislature in 2005 (HB 1324) as a component of the gain-sharing trade-off, and in 2006 (HB 2686) as free-standing legislation.

Committee Activity

Proposal:

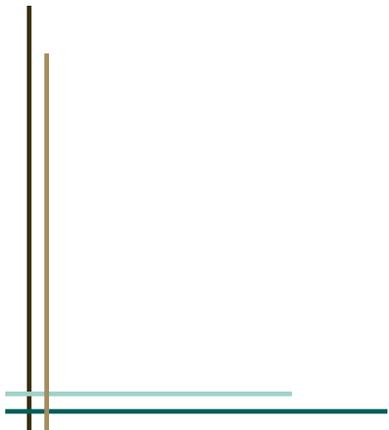
December 12, 2006 - Full Committee

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

Darren Painter, Research Analyst
360.786.6155; painter.darren@leg.wa.gov



In Brief

BILL

This bill changes the eligibility criteria for the Uniform COLA.

BILL DRAFT

Attached.

FISCAL NOTE (DRAFT)

Attached.

Age 66 COLA

Z-0061.1

Summary of Bill

This bill impacts the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1).

The bill amends Uniform Cost of Living Adjustment (COLA) eligibility criteria to provide the Uniform COLA increase to members who:

- ❖ Have been retired one year, and
- ❖ Will attain age 66 by December 31 of the calendar year in which the Uniform COLA increase is given.

O:\Reports\Interim Issues\2006\Issues\2.Age_66_COLA_issue_paper.doc

Darren Painter
Research Analyst
360.786.6155
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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0061.1/07

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Providing annual increases in certain retirement allowances.

1 AN ACT Relating to public employees' retirement system, plan 1 and
2 teachers' retirement system, plan 1 age and retirement requirements for
3 receipt of the annual increase amount; amending RCW 41.40.197 and
4 41.32.489; providing an effective date; and declaring an emergency.

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

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

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

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

13 (a) A beneficiary who has received a retirement allowance for at
14 least one year by July 1st in the calendar year in which the annual
15 increase is given and has attained at least age sixty-six by (~~July~~
16 ~~1st~~) December 31st in the calendar year in which the annual increase
17 is given; or

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

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

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

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

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

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

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

19 (a) A beneficiary who has received a retirement allowance for at
20 least one year by July 1st in the calendar year in which the annual
21 increase is given and has attained at least age sixty-six by (~~July~~
22 ~~1st~~) December 31st in the calendar year in which the annual increase
23 is given; or

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

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

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

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

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

36 (5) Those receiving a temporary disability benefit under RCW

1 41.32.540 shall not be eligible for the benefit provided by this
2 section.

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

7 NEW SECTION. **Sec. 3.** This act is necessary for the immediate
8 preservation of the public peace, health, or safety, or support of the
9 state government and its existing public institutions, and takes effect
10 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/5/06	Z-0061.1

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, 2007.

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 2007 will be \$1.33 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 15,735 PERS 1 and 10,928 TRS 1 members. The table below shows membership by age and status.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	12,169	35,264
Actives	8,386	8,592
Terminated & Vested	1,300	1,328

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	13,604	54,795
Actives	15,140	15,962
Terminated & Vested	2,725	2,833

A typical member impacted will receive the Uniform COLA one year earlier. In 2007, this amounts to an additional \$399 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 and PSERS employers to pay the PERS Plan 1 UAAL contribution rate, therefore, this bill will have a fiscal impact on SERS and PSERS.

Actuarial Determinations:

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

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 1	\$13,605	\$36	\$13,641
	TRS 1	\$10,823	\$30	\$10,853
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	\$3,567	\$36	\$3,603
	TRS 1	\$2,147	\$30	\$2,177
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 1	\$3,439	\$32	\$3,471
	TRS 1	\$2,100	\$29	\$2,129

Increase in Contribution Rates:

(Effective 09/01/07 unless indicated otherwise)

	PERS/ SERS/ PSERS	TRS
Employee	0.00%	0.00%
Employer State (Plan 1 UAAL)	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):	<u>PERS</u>	<u>PSERS</u>	<u>SERS</u>	<u>TRS</u>	<u>Total</u>
2007-2009					
State:					
General Fund	\$0.7	\$0.2	\$0.4	\$3.2	\$4.5
Non-General Fund	<u>1.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.1</u>
Total State	1.8	0.2	0.4	3.2	5.6
Local Government	2.7	0.0	0.6	2.0	5.3
Total Employer	4.5	0.2	1.0	5.2	10.9
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
State:					
General Fund	\$0.8	\$0.2	\$0.4	\$3.9	\$5.3
Non-General Fund	<u>1.4</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.4</u>
Total State	2.2	0.2	0.4	3.9	6.7
Local Government	3.3	0.2	0.6	1.9	6.0
Total Employer	5.5	0.4	1.0	5.8	12.7
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2032					
State:					
General Fund	\$10.0	\$2.1	\$5.1	\$45.8	\$63.0
Non-General Fund	<u>16.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>16.3</u>
Total State	26.3	2.1	5.1	45.8	79.3
Local Government	40.1	1.5	7.6	22.5	71.7
Total Employer	66.4	3.6	12.7	68.3	151.0
Total Employee	\$0.0	\$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 preliminary September 30, 2005 actuarial valuation report of the Teachers' Retirement System and Public Employees' Retirement System, except the rate increases which were based on the September 30, 2004 actuarial valuation.
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 2007 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.



**Washington State
School Retirees Association**

4726 Pacific Ave. SE

Lacey, WA 98503-1216

PHONE (360) 413-5496

MEMORANDUM

TO: Select Committee on Pension Policy (SCPP)
FROM: Ed Gonion, WSSRA Executive Director
Robert Rhule, WSSRA Legislative Committee Chair
DATE: March 15, 2006
SUBJECT: WSSRA's Legislative Priorities for 2006-07

RECEIVED

MAR 16 2006

Office of
The State Actuary

The Washington State School Retirees' Association (WSSRA) thanks members of the Select Committee on Pension Policy (SCPP) for their dedicated efforts in pursuing passage of SCPP request legislation during the 2006 Session. However, two key issues related to WSSRA's ongoing top priority – **RECOVERY OF LOST PURCHASING POWER FOR TRS/PERS 1 RETIREES** – did not pass during the '06 Session and require your continued attention:

- ✓ **Protection of Gain Sharing benefits as provided for in current statute or enactment of significant replacement benefits, and**
- ✓ **Elimination of the "post-June birthday penalty" contained in current Uniform Plan 1 COLA eligibility criteria.**

WSSRA requests that these issues be placed on the SCPP's 2006 Interim agenda.

Gain Sharing - Gain Sharing is an important benefit for members of TRS/PERS 1 and TRS/SERS/PERS 3. Many TRS/PERS 1 retirees are experiencing significant declines in their pensions' purchasing power. **Plan 1 Gain Sharing distributions serve to augment the value of the Uniform COLA and thus help to mitigate the negative impact of inflation on the value of the TRS/PERS 1 defined benefit. Similarly, TRS/SERS/PERS 3 members depend on Gain Sharing to augment the value of their Defined Contribution (DC) accounts. Plan 3 members also view Gain Sharing as a key factor in retention and recruitment of school and public employees. The need for the benefits provided by Gain Sharing was recognized when it was enacted in 1998. It is imperative that Gain Sharing be retained in statute unless and until significant replacement benefits are enacted.**

Uniform Plan 1 COLA Eligibility – With the Legislature's disappointing decision to maintain the Uniform Plan 1 COLA's current eligibility criteria, 11,283 TRS 1 and 16,178 PERS 1 retirees will still have to suffer financially by having to wait until nearly age 67 to begin receiving their COLA solely because of their post-June 30th birthday. **WSSRA requests that the SCPP once again put forth legislation during the 2007 Session permitting all TRS/PERS 1 retirees who have been retired one year to begin receiving their Uniform COLA pension adjustment in July of the calendar year they turn age 66.**

The common theme of these two issues is critical need and fairness. TRS/PERS 1 and TRS/SERS/PERS 3 members face a "take-away" of future Gain Sharing due to views among some lawmakers that this benefit is too expensive in comparison to other government priorities; and half of all TRS/PERS 1 retirees face a delayed receipt of their COLA due to their post-June 30th birthdays. WSSRA will continue to join with SCPP members and other interested parties to achieve fair and just resolution of these important issues. Please contact us at WSSRA, 1-800-544-5219 or 360-413-5496, with your questions or input. Thank you.

cc: Matt Smith, Office of the State Actuary

RETIREMENT/HEALTH 2007

PENSION COLAS

Increase the COLA amount in the Plan 1 Uniform COLA. Benefits should be paid in dollars of constant value, meaning equal to the value of the dollars when they were earned.

Background: The Plan 1 Uniform COLA began July 1, 1995 with a 59¢ per month per years of service (YOS) amount for those reaching the age of 66. This 59¢ amount is increased each July 1 by 3%. On July 1, 1998, the COLA moved to 74¢ with the 3% increase and an additional 10¢ gain-sharing increase. The July 1, 1999 rate was 77¢. The July 1, 2000 rate, which included gain sharing, was \$1.08. The present rate is \$1.29, effective July 1, 2006. Once the Plan 1 retiree is on the Uniform COLA, the impact of the annual increase on the member's pension is cumulative.

Prior to July, 1995, three different COLAs were in effect: 1) a \$17.18 per month per YOS minimum COLA; 2) a regular automatic COLA of up to 3% annually on the entire pension which generally did not begin until about age 79; and 3) a temporary "Age 70 COLA" which provided benefit increases of \$3.00 per month per YOS.

The Uniform COLA legislation was an improvement since it begins increases at an earlier age and it carries over funding to maintain benefit increases to those who were receiving the "Age 70 COLA". It was further improved through gain sharing adopted during the 1998 legislative session. However, we believe that the amount of the starting COLA (\$1.29 in 2006) should be further increased. If a Plan 1 member retired with a \$25,000 pension, had worked 30 years, and was age eligible for the Uniform COLA, the Uniform COLA would be worth a little more than half of the amount were the COLA based on an annual 3% increase to the entire pension.

The changes brought about in 1995 with SSB 5119 (Uniform COLA) generally did not cost the state new additional dollars. Ongoing costs to maintain pension increases for those on the "Age 70 COLA" were carried over into the new Uniform COLA. The increase to the COLA through gain sharing also did not cost the state additional general fund dollars since these improvements are covered through investments of the pension trust funds.

Benefits have been defined by the State Supreme Court as deferred compensation for services rendered. This implies that the benefits should be paid in dollars of constant value, meaning equal to the value of the dollars when they were earned. Without a permanent COLA that goes into effect upon retirement, a retiree's benefit is paid in dollars of declining value. In a 1993 *Nationwide Survey of K-12 Pension Benefits*, 31 of 50 states granted an automated COLA after 1 year of retirement. In Washington, the Uniform COLA does not go into effect until July 1 following the retiree reaching age 66. Some must wait until they are nearly 67. This age criteria should be lowered. For the past half dozen years legislation has been introduced to at least allow the Uniform COLA pension adjustment to begin in July of the calendar year the member turns age 66. This improvement of up to six months for some of our members whose birthday comes after July 1 seems like a small and reasonable first step.

WASA/AWSP POSITION

- Improve the Plan 1 COLA so that it comes closer to meeting cost of living increases.
- Start the Plan 1 COLA at age 65 or at least implement "Age 66 COLA" legislation such as in the 2006 bills, HB 2686/SB 6454.

Facilitated by John Kvamme, WASA/AWSP Consultant

Updated May 7, 2006

WASA Position Papers

Government Relations

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Background

This issue was studied at the request of the LEOFF 2 Retirement Board. The LEOFF 2 Board proposed amending the portability chapter in order to mitigate several adverse impacts on public employees who change retirement systems one or more times during their careers and retire as dual members.

Committee Activity

Presentations:

June 20, 2006 - Full Committee and Executive Committee

October 17, 2006 - Full Committee

November 21, 2006 - Executive Committee

Proposal:

December 12, 2006 - Full Committee

Recommendation to Legislature

- Change the definition of base salary to include previously excluded payments (such as overtime) that are reportable in all of a dual member's retirement systems. The Washington State Patrol Retirement System was excluded from this benefit based on a request from the Washington State Patrol Troopers' Association.
- Lift portability's "maximum benefit rule" (a rule designed to protect Plan 1 benefit caps) for members with less than fifteen years of service in one capped plan and service in one uncapped plan.
- Add LEOFF 2 to the list of retirement plans whose members can combine service under portability in order to receive indexing of the term-vested benefit available to those with at least twenty years of service.

Staff Contact

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In Brief

PROPOSAL

"Dual membership," or "portability," is a voluntary program for retirement system members who once belonged to another participating system within the State of Washington. The LEOFF 2 Board is proposing several program changes to address situations, which, in its view, may unnecessarily penalize its members' pension benefits when they change public sector careers. These "penalties" involve issues around salary restrictions, benefit limitations and access to benefit indexing. Resolution of these issues could affect members in other retirement systems.

In OSA discussions with the Department of Retirement Systems (DRS), a fourth issue was identified: disparate treatment of inactive members under portability. All four issues are covered in this briefing paper.

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Dual Membership

Current Situation

Who's In?

Dual membership, also known as "portability," is a voluntary program available to persons who are active members in any of the retirement systems listed below, and who once belonged to another of these systems: Public Employees' Retirement System (PERS) Plans 1, 2, and 3; Teachers' Retirement System (TRS) Plans 1, 2, and 3; School Employees' Retirement System (SERS) Plans 2 and 3; Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2; Washington State Patrol Retirement System (WSPRS) Plans 1 and 2; City Retirement Systems for Seattle, Spokane, and Tacoma; and Statewide City Employees' Retirement System (SCERS). The Public Safety Employees' Retirement System (PSERS) will be added to this list effective July 1, 2006.

Who's out?

LEOFF 1 and the Judges' and Judicial Retirement Systems are not included in the portability statute. In order to qualify for dual membership, members cannot have retired from any Department of Retirement Systems (DRS) - administered system, nor can they be receiving a disability retirement or disability leave benefits from any DRS retirement system.

How does it work?

Generally, dual membership prevents members from being unduly advantaged or disadvantaged by moving from one public employee retirement system to another. Participation in the dual membership program is an optional, non-contractual right that allows the following:

1. Dual members may restore service credit withdrawn from another dual member system.

"Dual Membership" allows members to:

- ❖ *Restore service credit*
- ❖ *Combine service credit*
- ❖ *Use highest base salary to calculate benefits*

2. They may combine service credit earned in all participating systems to become eligible for benefits, e.g. retirement benefits; survivor benefits; disability benefits; and PERS, SERS, and TRS Plan 3 indexing.
3. They may use their highest "base salary" in a dual member system to calculate their retirement benefit another system.

Example

Lee is a 43-year-old PERS 2 member with ten years of service credit who joins PSERS and works for another ten years. Under the dual membership program, Lee can elect to combine service credit from the two retirement systems at age 53 and qualify for early retirement under PSERS. Lee can also use his highest base salary from either system to calculate his final benefit in the other system. Each retirement system will pay its share of the total benefit.

PERS 2 Benefit:

$2\% \times 10 \text{ years service credit} \times \text{average final compensation} \times \text{ERRF} \div 12 \text{ months} = \text{PERS benefit}$

PSERS Benefit:

$2\% \times 10 \text{ years service credit} \times \text{average final compensation} \times \text{ERRF} \div 12 \text{ months} = \text{PSERS benefit}$

Detailed examples of dual membership scenarios are provided in the attached copy of DRS website materials entitled, *What is Dual Membership and How Does It Affect Me?* As can be seen from the examples, there are many instances in which dual membership allows members to receive higher benefits than if they had received separate benefits from each system. However, there are some instances in which members would not be better off as dual members. For that reason, dual membership is voluntary.

PSERS has added an estimated 1,867 dual members to the state retirement system.

Members Impacted

As of September 30, 2005, there were 9,897 active retirement system members with dual membership, and an additional 1,502 dual members who were not active in either system. With the addition of the new PSERS plan in July, it is estimated that 1,867 dual members have been added to the state retirement system since July 1, 2006.

DRS reports that last year there were approximately 180 calculations, 90 recalculations, and 800 estimates under portability. Currently, most portability cases involve members of both PERS and TRS, or PERS and First Class Cities.

History

The LEOFF 2 Board brought the issue of dual membership before the SCPP Executive Committee during the 2005 interim. At that time the Committee determined that it was too late in the interim to study the issue and deferred the matter to the 2006 interim.

Dual membership was established with the passage of ESSB 5150 in 1987, the year that the Joint Committee on Pension Policy (JCPP) was established. LEOFF 2 was added as a dual member system in 1993. The SCPP has not studied dual membership, although the proposed legislation was presented to the JCPP in 1987.

Policy Analysis

Neither the original portability statute nor the original session law provides an official record of the legislative intent of the dual membership statute. However, pension portability provisions that facilitate members to move more easily from one retirement system to another are common in public sector retirement systems. Many states provide portability of retirement benefits through purchases and transfers of service credit, or the ability to combine service credit.

When a member can transfer service credit from one retirement system to another within the same state, the

Approximately half of public sector systems allow members to transfer or combine service credit when moving from one retirement system to another within the same state.

practice is referred to as intrastate portability (or reciprocity). Some states do not have intrastate portability per se, but have laws that yield the same result by allowing the combining of service credit. Washington's portability statute is in the latter category. While it does not provide for routine service credit transfers when members join a new participating retirement system, it does allow for dual membership in the systems, which results in the ability to combine service credit.

According to Calhoun and Moore's, *The Governmental Plans Answer Book**, of 52 public sector systems surveyed, 52 percent allowed for transferring or combining service credit earned elsewhere, 46 percent did not, and another 2 percent did not respond to the question. Similarly, a 1999 portability survey conducted by the National Council on Teacher Retirement** found that of 45 systems surveyed, 58 percent provided the ability to transfer or combine service in systems within the state and 42 percent did not.

*Panel Publishers, New York, 2002, page 2-21.

**<http://www.nctr.org/resources/poranaly.htm>, accessed on May 22, 2006.

Within Washington's comparative systems there are several programs similar to this state's dual membership program. The **California** Public Employees' Retirement System (CalPERS) method for addressing the issue of members moving in and out of CalPERS and other public employee retirement systems is not to transfer service credit from one system to another; rather, service credit years are combined for the purpose of meeting vesting and benefit eligibility requirements. Each system then pays a retirement benefit based on the years of service in that respective system, subject to the membership, benefits, and rights of that system. California calls its system reciprocity and allows each member's highest eligible average earnings to be used when calculating the retirement benefit under any reciprocal system.

Florida uses a similar approach to California's. The average final compensation is the average of the five highest fiscal years of earnings. **Wisconsin's** approach is also consistent with California's, in that service credits are not transferred from one system to another, but are instead combined for benefit eligibility purposes. It differs, however, in that each retirement system calculates benefits using the benefit

formula in effect on the date the member terminates all employment within the participating systems. The final average earnings from each earlier system are increased by the “national salary index,” updated to the last day paid for the last employment covered under one of the participating systems.

Combining service credit and corresponding benefits for portability can be a relatively simple procedure when the underlying plans are very similar. However, when the benefit structures are very different, the process can be more of a challenge. One challenge in Washington’s portability program is integrating a partial benefit from a Plan 1 with a partial benefit from a Plan 2 or 3. Some of the Plan differences are highlighted below:

Plans 1	Plans 2/3
60% cap	No cap
24 month AFC	60 month AFC
Include annual leave cash outs	Do not include annual leave cash outs
Service based retirement	Age based retirement

These plans vary considerably in basic design. Where the underlying systems vary greatly in structure, there is more potential under portability for unintended negative consequences for individuals with unique circumstances. There is also more potential for windfalls resulting in unintended risks being imposed on the retirement system.

Washington’s portability statute utilizes several tools to address the complexity of its underlying systems. To avoid penalizing individuals, members get to use their highest base salary from either system to calculate the benefit from the other system. They can use all the service credit from both systems in order to qualify for benefits. In those instances in which they are better off retiring from each system and not under dual membership, they can choose to do so and are not required to participate in the dual membership program.

To avoid penalizing the participating retirement systems, Washington’s portability statute uses a “base salary” definition that strips out elements of compensation that could be used to “spike” the final benefit such as overtime, sick leave cash outs, and other lump sum payments. It also requires that the total benefit be limited to the largest

amount the dual member would receive if all of the member's service had been rendered in one system – the "maximum benefit rule."

The following issues raise questions as to whether Washington's portability statute achieves the appropriate balance between allowing members to move freely between public employee retirement systems without creating undue penalties for them or their retirement systems.

Issues Raised Under Washington's Portability Statute

The LEOFF 2 Board raised the first three of the following four issues. DRS identified the fourth issue.

1. Base salary definition

The portability statute's definition of base salary excludes the following components of compensation:

- ❖ Overtime
- ❖ Non-money maintenance compensation
- ❖ Lump sum payments for deferred annual sick leave
- ❖ Unused accumulated vacation
- ❖ Unused annual leave
- ❖ Any form of severance pay
- ❖ Any bonus for voluntary retirement
- ❖ Any other form of leave
- ❖ Any similar lump sum payment

Overtime and lump sum payments are excluded from "base salary."

See RCW 41.54.010(1). There is no legislative history indicating why Washington's portability statute excludes these elements of compensation from the definition of base salary. Thus, one can only speculate as to the policy reasons for the provision. The exclusions could be viewed as a means to limit costs associated with the dual membership program, especially costs to dual members' inactive systems. They could also have the purpose of

preventing members from using these elements to inflate their final pension benefits.

Generally speaking, leave cash-outs, leave payments, and other lump sum payments have been treated as compensation within the Plans 1 and not the Plans 2/3. In contrast, overtime is a part of compensation throughout the Plans 1, 2, and 3.

Since overtime is an element of compensation in most plans, its exclusion from the base salary definition is likely to cause the most consternation in members. For example, a member could earn overtime in two systems, pay pension contributions on the overtime, and yet not be allowed to include the overtime when substituting base salary under portability. This has been a member complaint in LEOFF 2. With the advent of PSERS, this complaint could become more widespread.

The following DRS-administered plans specifically include overtime in the definition of "earnable compensation":

- ❖ LEOFF Plan 2
- ❖ PERS Plans 2 and 3
- ❖ SERS Plans 2 and 3
- ❖ TRS Plans 2 and 3
- ❖ WSPRS Plans 1 and 2

PERS and TRS Plans 1 do not specifically include overtime in the definition, but they also do not exclude it. This paper has not examined the practices of the First Class Cities with respect to overtime. However, most Washington State Retirement Systems have categories of members whose salary may include overtime as a component of compensation and who pay pension contributions on overtime amounts. In fact, covered employers do not even report overtime separately to DRS. It is included within total wages, and must be manually calculated and excluded for dual members. DRS reports that overtime is an issue in 10-20 percent of its portability cases, and these usually involve a LEOFF 2 member.

As a general matter, overtime plus leave cash-outs and other lump sum payments could result in end-of-career paychecks that are significantly higher than those ever

received during the member's career. However, this risk is somewhat mitigated by the use of compensation averaging. The various Washington State retirement plans provide for an average final compensation of 24 (Plans 1) to 60 (Plans 2, 3) of the highest paid service credit months. A longer averaging period will usually yield a lower final benefit. Salary averaging is part of the balance between giving the member a benefit based on relatively current salary and protecting retirement systems from having to pay for final benefits that were not funded over the working lifetimes of their members.

The LEOFF 2 Board is proposing that payments defined as salary or compensation in **both** dual member systems should be included in base salary for portability purposes. The requirement of commonality of compensation elements between the two systems is intended to prevent members from utilizing portability to "game" the system, while still allowing members to get the benefit of compensation elements that were part of benefit packages.

The several states within Washington's comparative systems that have portability provisions similar to those in this state do not have an over-arching exclusion of overtime or other elements from salary. They simply use the member's best average final compensation to calculate the final benefit. For example, **California** uses the highest final compensation from either system, as defined by that system. This assumes that each system has built-in safeguards against pension ballooning. Some California plans use 12-month highest compensation and some use 36-month highest compensation. Members may use either as long as they retire on the same date from both systems. (Arkansas, Illinois, and Kentucky also use the highest final compensation from either plan.) **Florida's** definition of average final compensation is standardized across the various systems and uses the five highest fiscal years of earnings.

Wisconsin's approach is unique. Wisconsin uses the actual final average earnings from each system. However, in order to avoid penalizing the dual member's proportionate benefit from the earlier system, the final average earnings from the earlier system is increased by the "national salary

index" in 42 USC 415 (b)(3)(A), updated to the last day of paid employment.

All of these systems have implemented a variation on the policy that members should receive proportionate benefits from each system without using an outdated salary amount for the final benefit. In other states, as in this state, selecting the appropriate salary amount for calculating benefits under a dual membership program is one of the keys to making the program work for both members and employers.

The LEOFF 2 Board's proposal raises the following policy questions for the SCPP:

- A. If the portability statute is changed to include elements previously excluded from the definition of base salary, which elements should they be? Is overtime distinguishable from other elements that are currently excluded?
- B. If overtime, leave cash-outs, and lump sum payments are included in base salary for portability purposes, will retirement systems be forced to pay for benefits that were not funded over the working lives of their members?
- C. Will the requirement that the specific elements of compensation be present in both of the dual member's systems in order to be included in the portability benefit protect against this funding concern?

Selecting the appropriate salary amount is one of the keys to making the dual membership program work.

2. Benefit Limitations

Several of Washington's retirement systems have a "cap" on the percentage of average earnings that can be used to determine a member's final retirement benefit. Participating retirement systems with capped benefits include the following:

- ❖ WSPRS Plans 1 and 2 (75 percent cap)
- ❖ The Plans 1 of and PERS and TRS (60 percent cap)
- ❖ The City of Seattle (60 percent cap)
- ❖ The City of Spokane (64.5 percent cap)

The portability statute also limits the total benefit that can be obtained under dual membership. The "maximum benefit rule" provides that the total retirement benefit under dual membership shall not exceed the largest amount the dual member would receive if all the service had been rendered in any one system. Thus, if one or both of a dual member's retirement systems has a benefit cap, DRS will:

- A. Determine the maximum benefit. DRS computes the benefit for each system as if all career service and earnings occurred in that system, and using the plan provisions of that system, including any benefit cap. The system with the highest benefit establishes the maximum benefit.
- B. Determine the individual benefit. DRS will determine the individual benefit under each system and add the individual benefits together.
- C. Compare the total of the individual benefits with the maximum. If the total exceeds the maximum benefit, the benefits from each system will be proportionately reduced until the total equals the maximum benefit.

Benefit "caps" and "the maximum benefit rule" are distinct concepts. Benefit caps apply to individual plans. The maximum benefit rule is part of the portability statute.

An **example** of the application of this rule to a member in capped retirement systems is provided in Example 5 on page 7 of the attached DRS materials entitled *What is Dual Membership and How Does it affect Me?* In analyzing dual membership, it is helpful to keep the distinction between "caps" and the "maximum benefit rule" in mind. "Caps" refer to limits on the final retirement benefit within the individual plans. For example, in PERS and TRS Plan 1, members' final retirement benefit cannot exceed 60 percent of average final compensation. The "maximum benefit rule" is a concept under portability that limits the total benefit a member can receive from two systems.

Some history of specific portability provisions may be of interest in considering how benefit caps relate to portability. The original 1987 version of the portability statute strictly limited the total retirement benefit that dual

members could receive. It included a so-called "minimum benefit rule," which provided that:

*The total sum of the retirement allowances received under this chapter shall not exceed the **smallest** amount the dual member would receive if all the service had been rendered in any one system.*

The "minimum benefit rule" was changed to the "maximum benefit rule" in 1996.

At that time, most retirement system members were Plan 1 members and many of the dual members were in PERS 1 and TRS 1, both of which limited the ultimate retirement benefit to 60 percent of average final compensation. The minimum benefit rule prevented members from using dual membership as a means to avoid these Plan 1 caps.

Eventually, with new employees entering the Plans 2 and 3, there were more and more dual members in both capped and uncapped plans. Members were earning more service credit in uncapped systems, and dual membership was becoming less and less attractive for some members. The minimum benefit rule was changed in 1996 to a "maximum benefit rule," which currently provides:

*The total sum of the retirement allowances received under this chapter shall not exceed the **larger** amount the dual member would receive if all the service had been rendered in any one system.*

For members of capped and uncapped plans, this more recent version of the portability statute moved closer toward the implicit policy of allowing dual members to receive proportionate benefits from each retirement system without using an outdated salary amount for the final benefit.

As of September 30, 2005, there were approximately 1,000 members that were active in one capped and one uncapped plan, and another 200 inactive members who were in one capped and one uncapped plan. DRS estimates that about 5 percent of portability cases involving a Plan 1 cap result in imposition of the maximum benefit rule, and this is usually because of a large discrepancy between the average final compensation in the two systems.

The LEOFF 2 Board proposes to “ease restrictions on total service credit” for a dual member:

- ❖ Who is in one capped plan and one uncapped plan
- ❖ Who has less than 15 years of service credit in a capped plan.

Why 15 years? Fifteen years is consistent with the estoppel rule, which generally prohibits members who have 15 or more years of service and are receiving or eligible to receive a benefit from one system from becoming a member of a second system. Fifteen years also represents one-half of a Plan 1 career. Accordingly, this suggested “threshold” might help reduce the ability of members to “game” the system by switching from a capped to an uncapped plan. Also, according to staff, the LEOFF 2 Board does not oppose retaining benefit restrictions for members who are in two capped plans.

There is potentially another means for “easing restrictions” for these dual members by creating an exception to the maximum benefit rule for the suggested group. Such “easing of restrictions” could be viewed consistent with the codified legislative policy that persons hired into eligible positions shall accrue service credit for all service rendered, and their benefits shall be calculated in a manner that prevents the arithmetic lowering of benefits. See RCW 41.50.005(2) and (3).

On the other hand, lifting the cap or suspending the maximum benefit rule for some members within a plan and not others could create pressure to do the same for other members. It may also be viewed as inconsistent with the policy that the retirement systems of the state shall provide similar benefits wherever possible. See RCW 41.50.005(1). This latter policy is especially compelling where members are similarly situated.

The LEOFF 2 Board’s proposal raises the following policy questions for the SCPP:

- A. Would easing restrictions for certain dual members constitute a benefit improvement? Or is this more like the removal of a “penalty” under portability?
- B. Would easing restrictions for some dual members create pressures to do the same for others?

- C. Would easing restrictions for some dual members cause their retirement systems to take on obligations which were not funded over the working lifetimes of the affected members' careers?

3. Combining Service to Qualify for the Indexed Twenty-Year Term-Vested Benefit in LEOFF 2

PERS, SERS, and TRS "Plan 3 indexing," provides for a 3 percent per year increase in the defined benefit portion of Plan 3 for any member who has terminated and is vested with at least twenty years of service. Such members are referred to as "term-vested." How is this relevant to dual membership? The portability statute allows dual members to combine service for the purpose of qualifying for the indexed term-vested defined benefit in the Plans 3. PERS, SERS, and TRS 3 are all specifically mentioned in the portability statute. See RCW 41.54.030(1)(b).

LEOFF 2 also provides a 3 percent per year benefit increase for members who have terminated and are vested with twenty years of service. This benefit was established in Section 5 of Chapter 517, Laws of 1993 (before the Plans 3 were established). When this law was passed, the bill specified that LEOFF 2 would be included as a system under portability, but it did not specifically amend RCW 41.54.030 to include the ability to combine service credit for qualifying for the indexed term-vested benefit. This was most likely an oversight.

With the establishment of the Plans 3, the portability statute was specifically amended to allow members to combine service credit in order to qualify for the indexed term-vested benefit. Adding LEOFF 2 to the list in subsection (1)(b) would be consistent with the codified legislative policy to provide similar benefits wherever possible.

4. Active vs. Inactive Employees

The systems are not alike with respect to treating inactive employees as actives for portability purposes. In the PERS and the WSPRS Plans 1 there are different retirement eligibility rules for active and inactive members. If

members are active, they generally may retire earlier without a reduction in benefits than if they are inactive.

Current law allows PERS 1 inactive members (i.e., term-vested members who are no longer employed in that system) to be treated as actives for portability purposes. Portability does not allow such treatment for inactive members of the WSPRS. For example, an inactive member who is term-vested in WSPRS 1 and active in another system, and whose combined service would otherwise allow WSP retirement at age 55, would be required to wait to age 60 to retire. See RCW 43.43.280(2). This is an inconsistency in the application of the active vs. inactive rules within the portability statute itself.

DRS relies upon RCW 41.54.030(4), (which refers to the PERS 1 active eligibility standard in RCW 41.40.180), for the proposition that inactive members of PERS 1 are to be treated as active members under portability. Cases illustrating this inconsistency between PERS 1 and WSPRS 1 are relatively rare. However, resolving this discrepancy would be consistent with the codified legislative policy to provide similar benefits wherever possible. See RCW 41.50.005(1).

General Policy Questions

What is the distinction between creating a benefit improvement, correcting an inconsistency, and lifting a penalty?

Is cost a factor in making these distinctions?

How can the dual membership program best achieve the goals of allowing members to move from one public employee retirement system to another without suffering a diminution of their total benefit?

How can the portability statute best protect the underlying retirement systems from unintended costs associated with dual membership?

Conclusion

Most programs that facilitate intrastate portability seek to achieve a balance that allows members to move smoothly

and efficiently between public employee retirement systems. An ideal balance gives members full credit for service in each plan, while avoiding negative impacts on individuals and their retirement plans.

Legislative Proposal

On December 12, 2006, the SCPP voted to recommend legislation that would:

- Amend the definition of base salary to include previously excluded payments (such as overtime) that are reportable in all of a dual member's retirement systems. The Washington State Patrol Retirement System was excluded from this benefit based on a request from the Washington State Patrol Troopers Association.
- Lift portability's "maximum benefit rule" (a rule designed to protect Plan 1 benefit caps) for members with less than 15 years of service in one capped plan and service in one uncapped plan.
- Add LEOFF 2 to the list of retirement plans whose members can combine service under portability in order to receive indexing of the term-vested benefit available to those with at least 20 years of service.

Bill Draft

Attached.

Fiscal Note (Draft)

Attached.

Stakeholder Correspondence

Attached.

O:\Reports\Interim Issues\2006\Issues\4. Dual Membership_issue_paper.doc

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0318.2/07 2nd draft

ATTY/TYPIST: LL:bat

BRIEF DESCRIPTION: Addressing the portability of public retirement benefits.

1 AN ACT Relating to the portability of public retirement benefits;
2 amending RCW 41.54.010, 41.54.030, and 41.54.070; providing an
3 effective date; and declaring an emergency.

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

5 **Sec. 1.** RCW 41.54.010 and 2004 c 242 s 58 are each amended to read
6 as follows:

7 The definitions in this section apply throughout this chapter
8 unless the context clearly requires otherwise.

9 (1) "Base salary" means salaries or wages earned by a member of a
10 system during a payroll period for personal services and includes wages
11 and salaries deferred under provisions of the United States internal
12 revenue code, but shall exclude overtime payments, nonmoney maintenance
13 compensation, and lump sum payments for deferred annual sick leave,
14 unused accumulated vacation, unused accumulated annual leave, any form
15 of severance pay, any bonus for voluntary retirement, any other form of
16 leave, or any similar lump sum payment; except that forms of payment
17 which are excluded under this subsection shall be included in base
18 salary when reportable to the department in all of a dual member's

1 retirement systems, and when none of the dual member's retirement
2 systems are the Washington state patrol retirement system.

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

4 (3) "Director" means the director of the department of retirement
5 systems.

6 (4) "Dual member" means a person who (a) is or becomes a member of
7 a system on or after July 1, 1988, (b) has been a member of one or more
8 other systems, and (c) has never been retired for service from a
9 retirement system and is not receiving a disability retirement or
10 disability leave benefit from any retirement system listed in RCW
11 41.50.030 or subsection (6) of this section.

12 (5) "Service" means the same as it may be defined in each
13 respective system. For the purposes of RCW 41.54.030, military service
14 granted under RCW 41.40.170(3) or 43.43.260 may only be based on
15 service accrued under chapter 41.40 or 43.43 RCW, respectively.

16 (6) "System" means the retirement systems established under
17 chapters 41.32, 41.40, 41.44, 41.35, 41.37, and 43.43 RCW; plan 2 of
18 the system established under chapter 41.26 RCW; and the city employee
19 retirement systems for Seattle, Tacoma, and Spokane.

20 **Sec. 2.** RCW 41.54.030 and 2003 c 294 s 13 are each amended to read
21 as follows:

22 (1) A dual member may combine service in all systems for the
23 purpose of:

24 (a) Determining the member's eligibility to receive a service
25 retirement allowance; and

26 (b) Qualifying for a benefit under RCW 41.26.530(2), 41.32.840(2),
27 41.35.620, or 41.40.790.

28 (2) A dual member who is eligible to retire under any system may
29 elect to retire from all the member's systems and to receive service
30 retirement allowances calculated as provided in this section. Each
31 system shall calculate the allowance using its own criteria except that
32 the member shall be allowed to substitute the member's base salary from
33 any system as the compensation used in calculating the allowance.

34 (3) The service retirement allowances from a system which, but for
35 this section, would not be allowed to be paid at this date based on the
36 dual member's age may be received immediately or deferred to a later

1 date. The allowances shall be actuarially adjusted from the earliest
2 age upon which the combined service would have made such dual member
3 eligible in that system.

4 (4) The service retirement eligibility requirements of RCW
5 41.40.180 shall apply to any dual member whose prior system is plan 1
6 of the public employees' retirement system established under chapter
7 41.40 RCW.

8 **Sec. 3.** RCW 41.54.070 and 1996 c 55 s 6 are each amended to read
9 as follows:

10 (1) The benefit granted by this chapter shall not result in a total
11 benefit less than would have been received absent such benefit.

12 (2) The total sum of the retirement allowances received under this
13 chapter shall not exceed the largest amount the dual member would
14 receive if all the service had been rendered in any one system. When
15 calculating the maximum benefit a dual member would receive: ~~((+1))~~

16 (a) Military service granted under RCW 41.40.170(3) or 43.43.260 shall
17 be based only on service accrued under chapter 41.40 or 43.43 RCW,
18 respectively; and ~~((+2))~~ (b) the calculation shall be made assuming
19 that the dual member did not defer any allowances pursuant to RCW
20 41.54.030(3). When a dual member's combined retirement allowances
21 would exceed the limitation imposed by this ~~((section))~~ subsection, the
22 allowances shall be reduced by the systems on a proportional basis,
23 according to service. The limitation imposed by this subsection shall
24 not apply to a dual member with:

25 (i) Less than fifteen years of service credit in a plan with a
26 retirement benefit cap as defined by the department; and

27 (ii) Service credit in a plan with no retirement benefit cap.

28 NEW SECTION. **Sec. 4.** This act is necessary for the immediate
29 preservation of the public peace, health, or safety, or support of the
30 state government and its existing public institutions, and takes effect
31 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/6/06	Z-0318.2

SUMMARY OF BILL:

This bill impacts the teachers' retirement system (TRS), the public employees' retirement system (PERS), the statewide city employees' retirement system, the school employees' retirement system (SERS), the public safety employees' retirement system (PSERS), the Washington state patrol retirement system (WSPRS), plan 2 of the law enforcement officers and firefighters' retirement system (LEOFF2), and the city employee retirement systems for Seattle, Tacoma and Spokane. The bill amends the chapter providing portability of public employee retirement benefits to remove certain adverse impacts on public employees who change retirement systems during the course of their careers:

1. Overtime - Allows previously excluded forms of payment that are reportable (for contribution purposes) in each of a dual member's retirement systems to be included within the portability chapter's "base salary" definition with the following exception: neither of the dual member's retirement systems can be the Washington state patrol retirement system. As a practical matter, this will mostly apply to overtime. The change will allow certain members to use more of their compensation to determine their final retirement benefit.
2. Service Cap - Lifts portability's "maximum benefit rule" for dual members who have (a) less than 15 years of service in one capped plan; and (b) service in one uncapped plan.
3. Indexing - Adds LEOFF Plan 2 to the list of plans that are able to combine service under portability to receive indexing of the term-vested benefit for members with at least twenty years of service.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently the portability chapter limits the definition of "base salary" that is used to calculate a dual member's final retirement benefit. Portability's definition excludes overtime payments, non-money maintenance compensation, lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave or any similar lump sum payment. See RCW 41.54.010.

Currently, all dual members are subject to the "maximum benefit rule." This limit on a dual member's total retirement benefit is found in RCW 41.54.070. It provides: "The total sum of the retirement allowances received under this chapter shall not exceed the largest amount the dual member would receive if all the

service had been rendered in any one system." When a dual member's combined retirement allowances would exceed this limitation, the allowances are reduced by the systems on a proportional basis, according to service.

Currently, LEOFF Plan 2 is omitted from the list of plans whose members can combine service under portability for the purpose of receiving indexing of the term-vested benefit for members with at least 20 years of service. See RCW 41.54.030 (1)(b).

MEMBERS IMPACTED:

We estimate that 11,754 active dual members out of the total 290,111 active members of LEOFF, PERS, TRS, SERS, and WSPRS as of September 30, 2005 would be affected by this bill.

The following table provides counts of dual members within Washington State's retirement systems. Not all dual members would be impacted by the each provision. The provision on overtime may impact all dual members, the provision on the service cap would only impact dual members with service in a Plan 1 and Plan 2/3, and the provision on indexing would only impact LEOFF Plan 2 dual members.

Summary of Active Dual Members						
As of 9/30/2005						
Active System	Dual Member System					Total
	LEOFF	PERS	TRS	SERS	WSPRS	
LEOFF		1,545	32	17	23	1,617
PERS	266		361	757	6	1,390
PSERS (<i>Estimated</i>)		1,857				1,857
TRS	29	5,148		1,084	0	6,261
SERS	15	293	152		1	461
WSPRS	10	154	3	1		168
Total	320	8,997	548	1,859	30	11,754
Dual members not active in either dual system.						1,502
Estimated Dual Plan 1/Plan 2,3 Members active in one system.						1,000
Estimated Dual Plan 1/Plan 2,3 Members not active in either system.						100

The bill would also impact all PSERS members who elected to transfer from PERS. We received preliminary counts of the PERS members who chose to transfer into PSERS from DRS indicating that 1,857 members elected to transfer.

We estimate that for a typical member impacted by this bill, the increase in benefits would be a 1 percent to 11 percent increase in the benefit from the dual member system.

METHODS AND ASSUMPTIONS:

Actuarial Methods

Overtime

We developed the assumptions about overtime earned by active members from the respective systems as described below. We took the ratios of the number of inactive Dual Members (DM) now active in a given system to the total inactive DM regardless of current active system. To determine the percentage liability increase to the system the DM were inactive in, we used the benefit increase from overtime (1), the percent of retirees in the active system who had dual membership in another system (2), and spread this liability over the Terminated Vested (TV) population of the inactive system (3). We divided this number by two since on average DM have half the service per system:

Percent liability increase to inactive system = (1) x (2) x (3) / 2 summed over all active/inactive combinations for a fixed inactive system.

We repeated this step for all active/inactive combinations for each system and summed the results to get the total liability increase for each respective system. The total liability increase as a percent was multiplied by the systems' Present Value of Fully Projected Benefits (PVFB) to convert the percent to a dollar amount. The dollar amount of liability was divided by the systems' Present Value of Future Salaries (PVSa) to determine the contribution rate increase, if any.

Service Cap

We compared the numbers of DM who were active in a system with an uncapped accrual percentage that came from a capped system (e.g. active in a Plan 2, inactive in a Plan 1) with the total actives in the uncapped system. Example: Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 members could be DM in the Public Employees' Retirement System (PERS) Plan 1, Teachers' Retirement System (TRS) Plan 1, and the Washington State Patrol Retirement System (WSPRS) Plan 1. For each of the capped inactive systems, we formed the ratio of the number of DM per inactive system to the total DM who are active in an uncapped system. For each of these combinations we assumed a certain percentage of the DM would actually be able to increase their benefit under this proposal. For those people who would utilize the benefit we assumed they would receive a 7.5 percent increase in their benefit and that they had half the average service as a non-DM in the active system. The percentage liability increase for each combination is the product of the ratio of actives in the uncapped system retiring from a capped system (1), multiplied by the rate at which that group was assumed to benefit from the proposal (2), times the percent increase in benefit (3), divided by two:

Percent liability increase to active system = (1) x (2) x (3) / 2 summed over all active/inactive combinations for a fixed active system.

For each active uncapped system the total percentage liability increase is the sum of the individual combinations of percentage liability increases for each combination of DM from a capped plan. We converted these respective liability percentage increases to contribution rate increases in the same manner described in Proposal 1.

Indexing of Terminated Vested Benefits

We started with the LEOFF 2 terminated vested liabilities (1) and took 10 percent of that liability (2) to assign to the DM who would benefit from this proposal. We assumed their benefit would increase by 15 percent (3) and that they had half the service of the average member. We divided by LEOFF 2 PVSaI to determine the rate increase.

$$\text{Dollar liability increase to LEOFF 2} = (1) \times (2) \times (3) / 2$$

The methods chosen are reasonable for the purpose of the actuarial calculations presented in this fiscal note. Use of another set of methods may also be reasonable and might produce different results.

Actuarial Assumptions

In determining the costs of these proposals we identified dual members from the 2005 valuation data and studied the amount of overtime earned by active members. We then developed assumptions on how many dual members would be impacted by each proposal and how much the liability would increase for members impacted.

- For all provisions we assumed there would be no change in retirement behavior resulting from the passing of any single proposal or combination of these proposals into law.
- We assumed, based on a study of average overtime earned by active members per system, that liabilities for dual members would increase in the inactive system due to overtime earned in the active system at the following rates:

Active System	Overtime Rate
PERS	3.00%
PSERS	10.00%
TRS	0.00%
SERS	1.00%
LEOFF	11.00%
WSPRS	9.00%

- We assumed that 20 percent of dual members would benefit from lifting the "maximum benefit rule" (the service cap) and that the average increase in benefits would be 7.5 percent.
- We assumed that 10 percent of LEOFF 2 terminated vested members would benefit from combining service to receive the indexed term-vested benefit (indexing)
- We assumed any contribution rate increases would be supplementary rates effective September 1, 2007.

The assumptions chosen are reasonable for the purpose of the actuarial calculations presented in this fiscal note. Use of another set of assumptions may also be reasonable and might produce different results.

Data

We relied upon system membership data provided by the Department of Retirement Systems (DRS). We also relied upon DRS for an estimate of the number of members who transferred to the Public Safety Employees' Retirement System (PSERS). An audit of the data was not performed, however, we believe the data to be reasonable for the purpose of the actuarial calculations presented in this fiscal note. Use of different data may also be reasonable and may produce different results.

FISCAL IMPACT:

Description:

The provision on overtime would have a cost and impact on contribution rates. The provisions on the service cap and indexing would have a cost, but the new plan changes would apply to so few members that the costs would not impact contribution rates.

Actuarial Determinations:

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

<i>(Dollars in Millions)</i>	System/Plan	Current	Increase	Total
Actuarial Present Value of Projected Benefits				
(The Value of the Total Commitment to all Current Members)	PERS	\$31,601	\$8	\$31,609
	TRS	\$17,119	\$0	\$17,119
	SERS	\$2,473	\$1	\$2,474
	LEOFF	\$9,700	\$0	\$9,700
	WSPRS	\$803	\$0	\$803
Unfunded Actuarial Accrued Liability				
(The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS	\$3,567	\$0	\$3,567
	TRS	\$2,147	\$0	\$2,147
	LEOFF	(\$584)	\$0	(\$584)
Unfunded Liability (PBO)				
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS	\$828	\$8	\$836
	TRS	\$969	\$0	\$969
	SERS	(\$315)	\$1	(\$314)
	LEOFF	(\$974)	\$0	(\$974)
	WSPRS	(\$80)	\$0	(\$80)

Increase in Contribution Rates (Effective 9/1/2007)	
System/Plan	PERS
Current Members	
Employee	0.01%
Employer	0.01%
New Entrants	
Employee	0.01%
Employer	0.01%

As a result of the higher required contribution rates, the estimated increase in funding expenditures for all proposals and systems combined is projected to be:

Dual Membership - Projected Costs	
Costs (in Millions)*	PERS
2007-2009	
State:	
General Fund	\$0.2
Non-General Fund	<u>0.3</u>
Total State	0.5
Local Government	<u>0.7</u>
Total Employer	1.2
Total Employee	\$1.0
2009-2011	
State:	
General Fund	\$0.2
Non-General Fund	<u>0.3</u>
Total State	0.5
Local Government	<u>0.8</u>
Total Employer	1.3
Total Employee	\$1.0
2007-2032	
State:	
General Fund	\$1.7
Non-General Fund	<u>2.7</u>
Total State	4.4
Local Government	<u>6.8</u>
Total Employer	11.2
Total Employee	\$9.2

Sensitivity Analysis

For the benefit improvement related to overtime, if the experience of Average Final Compensation (AFC) increase from overtime were 50 percent higher than we assumed for all active systems, the contribution rates would increase as follows:

System	Member	Employer	State
PERS	0.01%	0.01%	
PSERS	0.00%	0.00%	
TRS	0.00%	0.00%	
SERS	0.01%	0.01%	
LEOFF	0.00%	0.00%	0.00%

For the benefit improvements related to the service cap and indexing, assuming a 50 percent higher than expected increase in benefits still had no impact on contribution 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 preliminary September 30, 2005 actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, and 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 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 2007 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.



STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD

P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

March 9, 2006

RECEIVED

MAR 10 2006

Office of
The State Actuary

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to congratulate you on another successful legislative session.

I want to bring three topics to your attention as you begin preparations for the 2006 interim. It is my hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to develop legislation. Two of these topics, Dual Membership Corrections and Service Credit Purchase for Duty-Related Injury, came up in 2005 and were deferred by both the SCPP and the Board for full study in 2006. The third topic, Adding an Inflationary Adjustment to the \$150,000 Death Benefit, arose as a result of Board legislation in the 2006 session.

I have provided a brief summary of each topic for your reference:

Dual Membership

The Board studied impacts of making changes to the current dual membership statutes last year. Under the current portability statutes (RCW 41.54), there are situations where a member's pension benefits would seem to be unnecessarily penalized, if the member changes careers. Changes to the dual membership statutes studied by the Board included:

- Easing restrictions on total service credit if a Plan 2 member has less than 15 years of Plan 1 service.
- Adding indexing to all plans that allow shared service to qualify for indexing.
- Redefining base salary so that payments defined as salary or compensation, in both dual member systems, would be included in base salary.



Service Credit Purchase for Duty-Related Injury

The Legislature passed a bill in the 2004 session, which increased the period of service credit that could be purchased by a PERS member, who is on a leave of absence for a duty-related injury. The Board would like to study extending this policy to other pension plans, including LEOFF Plan 2.

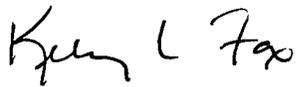
Inflationary Adjustment for \$150,000 Death Benefit

As you may be aware, the Board recommended legislation on this topic in 2006 (SHB 2933 - Death Benefit for Occupational Illnesses), which was passed with an amendment removing the annual inflation increase. Since other retirement plans also provide a lump-sum death benefit, legislators expressed an interest in the Board working with the SCPP to study the effect of adding this inflationary adjustment to all the plans.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or like any additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) (360) 943-3030 or pres@wscff.org.

We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,



Kelly Fox, Chair

cc: Matt Smith, State Actuary



WASHINGTON STATE PATROL TROOPERS ASSOCIATION

200 UNION AVE. SE STE. 200, OLYMPIA, WA 98501 (360) 704-7530 FAX (360) 704-7527

COPY

November 14, 2006

The Honorable Craig Pridemore, Chair
Select Committee on Pension Policy
5419 NE Chateau Drive
Vancouver, WA 98661

Dear Senator Pridemore,

It has come to our attention that the Select Committee on Pension Policy is considering two portability issues affecting the Washington State Patrol Retirement System. The first is a LEOFF 2 Board proposal that would include overtime in the base salary of the WSPRS portion for employees that have left the state patrol and subsequently entered the LEOFF 2 system. We are told that this change would cause a .02% increase in the contribution rate of current WSPRS members and the employer. The members of the Washington State Patrol Troopers Association are OPPOSED to this change at this time.

The second portability issue involves "active member status for former WSPRS members that leave the system before retirement eligibility and enter PERS 2" and establishes dual membership. An active WSPRS member can retire at age 55, however in inactive member can only exercise a retire option at age 60. To change this policy the active WSPRS members and employers contribution rate would be increased by .09%. The members of the Washington State Patrol Troopers Association are OPPOSED to this change as well.

We appreciate the work of the SCPP on the WSPRS Rate Stabilization bill and look forward to seeing that measure once again recommended to the 2007 Legislature. Rate stabilization is the number one priority policy issue for the members of the Troopers Association. We would like to see this policy approved by the legislature before any further costly changes to the system are introduced.

Thank you for your consideration.

Sincerely,

Tom Pillow
President

Cc: Representative Bill Fromhold

Background

Gain-sharing provides periodic benefit improvements in PERS 1, PERS 3, TRS 1, TRS 3, and SERS 3. When the investment performance of the retirement plan assets have met certain thresholds, Plan 1 members receive an improvement in their Uniform COLA, and Plan 3 members receive disbursements to their individual defined contribution accounts.

The SCPP studied gain-sharing in the 2004, 2005, and 2006 interims. In 2005, the Legislature directed the SCPP to: “ study the options available to the Legislature for addressing the liability associated with future gain-sharing benefits” and “report the findings and recommendation of its study to the legislative fiscal committees by no later than December 15, 2005.”

In the 2006 interim, the SCPP continued to study various trade-off proposals.

Committee Activity

Presentations:

July 18, 2006 - Full Committee

August 22, 2006 - Full Committee

October 17, 2006 - Full Committee and Executive Committee

November 21, 2006 - Full Committee

Proposals:

December 12, 2006 - Full Committee

Recommendation to Legislature

None.

Staff Contact

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

In Brief

Gain-sharing provides benefit increases in the Public Employees', Teachers', and School Employees' retirement systems (PERS 1/3, TRS 1/3, and SERS 3). Over the last three interims, the SCPP has discussed trading gain-sharing away for more certain alternative benefits with a lower cost.

SCPP efforts during the 2004 and 2005 interims resulted in trade-off bills for the 2005 and 2006 sessions; neither passed.

The SCPP was also directed by the legislature to produce a gain-sharing study during the 2005 interim. The committee forwarded the study to the fiscal committees in December of that year.

The SCPP continued to study a variety of benefit options during the 2006 interim.

Robert Wm. Baker
Senior Research Analyst
(360) 786-6144
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Gain-sharing: SCPP 2006 Interim Background

The Select Committee on Pension Policy (SCPP) has held hearings on gain-sharing in the 2004, 2005, and 2006 interims, and has sponsored gain-sharing bills in the 2005 and 2006 legislative sessions.

In the 2006 interim, the SCPP held gain-sharing hearings in July, August, October, and November. This background paper will review analysis provided and the actions taken by the SCPP during the 2006 interim.

During the 2006 interim the SCPP was briefed on the updated long-term cost, projections for 2008, the 2008 event priced as a single benefit increase, the trigger, and the methodology to calculate the impact that gain-sharing has on the long-term rate-of-return on plan assets. The committee was also introduced to an interactive spreadsheet and graph used to price the various trade-off options.

July Hearing

The gain-sharing issue was first heard at the July 18 SCPP meeting. During that hearing, the committee heard a staff presentation on the SCPP-sponsored legislation that had been before the 2006 legislature. Members voiced an interest in the methodology used to calculate gain-sharing's interest rate impact.

The executive committee decided that an August hearing would be scheduled for the purpose of hearing public testimony.

August Hearing

At the August 22 hearing, staff gave a brief presentation and the full committee heard public testimony.

The executive committee directed staff to update the pricing of the legislation that had been forwarded to the 2006 legislature. Staff was also asked to update the 2008 gain-sharing projections, price the 2008 gain-sharing projection as though it were a single benefit increase, and calculate the standard gain-sharing trigger using various percentages of the cost of future gain-sharing.

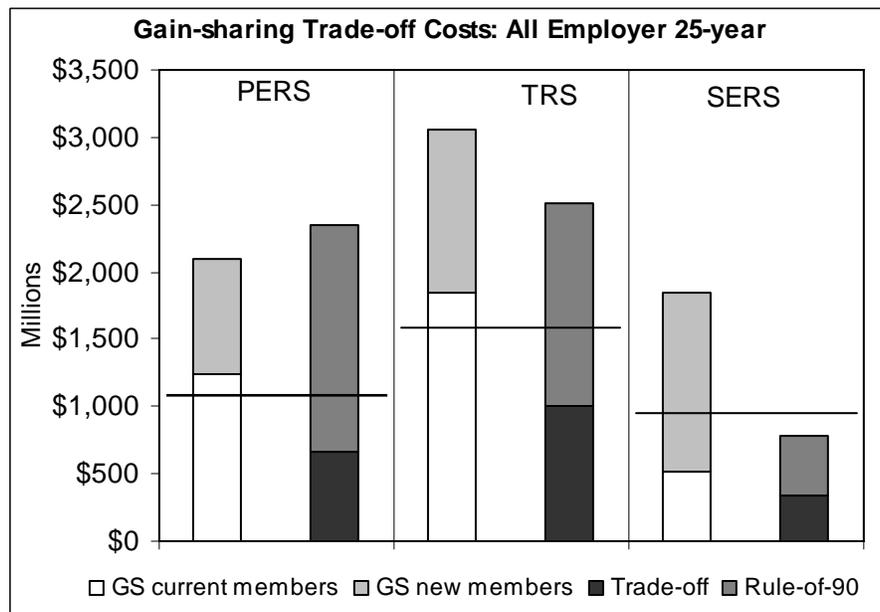
October Hearing

At the October hearing, staff briefed the full committee on the cost of gain-sharing based on the most recent valuation data, provided follow-up materials that had been requested at the July and August meetings, and introduced an interactive spreadsheet and graph that could be used to price any combination of various gain-sharing options that the committee had already proposed.

Interactive Spreadsheet and Graph

Throughout the many meetings, the SCPP has reviewed and discussed numerous options to address the future cost of gain-sharing. To help the committee proceed, the chair asked the OSA to prepare an interactive spreadsheet containing all the various options that had previously been priced. These options, provided on a checklist for SCPP members, could then be arrayed in any combination, priced automatically, and displayed in a variety of graphs.

The graphs, like the one below, displayed PERS, TRS, and SERS General Fund or Total Employer costs for either the 2007-2009 biennium or the 25-year period. Also included in the graphs was a horizontal line depicting half the cost of future gain-sharing.



Through the use of this spreadsheet, SCPP executive committee members priced numerous combinations of options and agreed to forward the following proposal to the full committee for discussion.

Proposal for Discussion

At the October 17 meeting, the executive committee of the SCPP proposed changing the gain-sharing provisions to exclude new hires from eligibility. In addition, the executive committee proposed allowing new hires in TRS and SERS to choose membership in either Plan 2 or Plan 3 of their respective systems. This proposal would be forwarded to the full committee in November for discussion.

November Hearing

At the November 21 meeting of the SCPP, the October executive meeting proposal was introduced to the full committee. Members amended the proposal to include a prospective rule-of-90 with a minimum age 60 requirement. This proposal would be considered by the full committee in December for possible executive action.

December Hearing

At the December 12 meeting of the SCPP, the full committee heard a presentation on the proposal from November. The committee chose to take no action.

Stakeholder Correspondence

The SCPP received many letters concerning gain-sharing and various trade-off proposals. This correspondence is available for inspection in the Office of the State Actuary.

Judges Benefit Multiplier

Background

In 2006 the Legislature provided enhancements of judges' defined retirement benefits. PERS 1, PERS 2, and TRS 1 judges may now accrue benefits at 3.5 percent of Average Final Compensation (AFC) per year of service to a maximum of 75 percent, and PERS 3 Judges may now accrue benefits at 1.6 percent of AFC per year of service to a maximum of 37.5 percent. Newly elected and appointed judges automatically participate, while existing judges were given the option to participate, including the ability to purchase the higher multiplier for past judicial service by paying the full actuarial cost.

During the 2006 interim the Superior Court Judges' Association requested that the SCPP study their proposal to change the cost for purchasing the higher multiplier for past service to make it more affordable.

Committee Activity

Presentations:

September 19, 2006 - Full Committee

November 21, 2006 - Executive Committee

Proposal:

December 12, 2006 - Full Committee

Recommendation to Legislature

Bill forwarded without recommendation.

Allows judges who elect to contribute a higher percent of pay and earn a higher benefit multiplier to buy the higher multiplier for past judicial service by paying 5 percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased (PERS 3 members would pay 2.5 percent), plus interest as determined by the Director of the Department of Retirement Systems.

Staff Contact

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In Brief

BILL

This legislation would change the cost for participating Judges to buy the higher benefit multiplier for past judicial service.

BILL DRAFT

Attached.

FISCAL NOTE (DRAFT)

Attached.

STAKEHOLDER CORRESPONDENCE

Attached.

Judges Benefit Multiplier

Z-0320.1

Bill Summary

This bill allows Judges who elect to contribute a higher percent of pay and earn a higher benefit multiplier, to buy the higher benefit multiplier for past judicial service:

- PERS 1, PERS 2, and TRS 1 Judges would pay 5 percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased.
- PERS 3 Judges would pay 2.5 percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased.
- Judges would also pay interest as determined by the Director of the Department of Retirement Systems.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0320.1/07

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Granting an optional retirement benefit to certain judges.

1 AN ACT Relating to purchasing an increased benefit multiplier for
2 past judicial service for judges in the public employees' retirement
3 system and the teachers' retirement system; amending RCW 41.40.124,
4 41.40.127, 41.40.870, 41.40.873, and 41.32.584; adding new sections to
5 chapter 41.40 RCW; adding a new section to chapter 41.32 RCW; providing
6 an effective date; and declaring an emergency.

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

8 **Sec. 1.** RCW 41.40.124 and 2006 c 189 s 5 are each amended to read
9 as follows:

10 (1) Between January 1, 2007, and December 31, 2007, a member of
11 plan 1 or plan 2 employed as a supreme court justice, court of appeals
12 judge, or superior court judge may make a one-time irrevocable
13 election, filed in writing with the member's employer, the department,
14 and the administrative office of the courts, to accrue an additional
15 benefit equal to one and one-half percent of average final compensation
16 for each year of future service credit from the date of the election in
17 lieu of future employee and employer contributions to the judicial
18 retirement account plan under chapter 2.14 RCW.

1 (2)(a) A member who chooses to make the election under subsection
2 (1) of this section may apply to the department to increase the
3 member's benefit multiplier by an additional one and one-half percent
4 per year of service for the period in which the member served as a
5 justice or judge prior to the election. The member may purchase the
6 higher benefit multiplier for all or part of the member's prior
7 judicial service beginning with the most recent judicial service. The
8 member shall pay(~~, for the applicable period of service,~~) five
9 percent of the salary earned for each month of service for which the
10 higher benefit multiplier is being purchased, plus interest as
11 determined by the director. The purchase price shall not exceed the
12 actuarially equivalent value of the increase in the member's benefit
13 resulting from the increase in the benefit multiplier (~~as determined~~
14 ~~by the director~~). This payment must be made prior to retirement.

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

27 **Sec. 2.** RCW 41.40.127 and 2006 c 189 s 6 are each amended to read
28 as follows:

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

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

1 service for the period in which the member served as a judge prior to
2 the election. The member may purchase the higher benefit multiplier
3 for all or part of the member's prior judicial service beginning with
4 the most recent judicial service. The member shall pay(~~(, for the~~
5 ~~applicable period of service,)) five percent of the salary earned for~~
6 each month of service for which the higher benefit multiplier is being
7 purchased, plus interest as determined by the director. The purchase
8 price shall not exceed the actuarially equivalent value of the increase
9 in the member's benefit resulting from the increase in the benefit
10 multiplier (~~(as determined by the director)~~). This payment must be
11 made prior to retirement.

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

24 **Sec. 3.** RCW 41.40.870 and 2006 c 189 s 8 are each amended to read
25 as follows:

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

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

1 for the period in which the member served as a justice or judge prior
2 to the election. The member may purchase the higher benefit multiplier
3 for all or part of the member's prior judicial service beginning with
4 the most recent judicial service. The member shall pay(~~(, for the~~
5 ~~applicable period of service,)~~) two and one-half percent of the salary
6 earned for each month of service for which the higher benefit
7 multiplier is being purchased, plus interest as determined by the
8 director. The purchase price shall not exceed the actuarially
9 equivalent value of the increase in the member's benefit resulting from
10 the increase in the benefit multiplier (~~(as determined by the~~
11 ~~director)~~). This payment must be made prior to retirement.

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

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

27 **Sec. 4.** RCW 41.40.873 and 2006 c 189 s 9 are each amended to read
28 as follows:

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

36 (2)(a) A member who chooses to make the election under subsection
37 (1) of this section may apply to the department to increase the

1 member's benefit multiplier by six-tenths percent per year of service
2 for the period in which the member served as a judge prior to the
3 election. The member may purchase the higher benefit multiplier for
4 all or part of the member's prior judicial service beginning with the
5 most recent judicial service. The member shall pay(~~, for the~~
6 ~~applicable period of service,~~) two and one-half percent of the salary
7 earned for each month of service for which the higher benefit
8 multiplier is being purchased, plus interest as determined by the
9 director. The purchase price shall not exceed the actuarially
10 equivalent value of the increase in the member's benefit resulting from
11 the increase in the benefit multiplier (~~as determined by the~~
12 ~~director~~). This payment must be made prior to retirement.

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

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

28 **Sec. 5.** RCW 41.32.584 and 2006 c 189 s 7 are each amended to read
29 as follows:

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

1 (2)(a) A member who chooses to make the election under subsection
2 (1) of this section may apply to the department to increase the
3 member's benefit multiplier by one and one-half percent per year of
4 service for the period in which the member served as a justice or judge
5 prior to the election. The member may purchase the higher benefit
6 multiplier for all or part of the member's prior judicial service
7 beginning with the most recent judicial service. The member shall
8 pay(~~(, for the applicable period of service,)~~) five percent of the
9 salary earned for each month of service for which the higher benefit
10 multiplier is being purchased, plus interest as determined by the
11 director. The purchase price shall not exceed the actuarially
12 equivalent value of the increase in the member's benefit resulting from
13 the increase in the benefit multiplier (~~as determined by the~~
14 ~~director~~). This payment must be made prior to retirement.

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

27 NEW SECTION. Sec. 6. A new section is added to chapter 41.40 RCW
28 under the subchapter heading "provisions applicable to plan 1, plan 2,
29 and plan 3" to read as follows:

30 A member who purchased the higher benefit multiplier for prior
31 judicial service prior to the effective date of this act may, between
32 July 1, 2007, and December 31, 2007, apply to the department to have
33 the higher benefit multiplier cost recalculated under RCW 41.40.124 and
34 41.40.127. Any difference in the cost in favor of the member shall be
35 remitted to the member.

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

3 A member who purchased the higher benefit multiplier for prior
4 judicial service prior to the effective date of this act may, between
5 July 1, 2007, and December 31, 2007, apply to the department to have
6 the higher benefit multiplier cost recalculated under RCW 41.40.870 and
7 41.40.873. Any difference in the cost in favor of the member shall be
8 remitted to the member.

9 NEW SECTION. **Sec. 8.** A new section is added to chapter 41.32 RCW
10 under the subchapter heading "plan 1" to read as follows:

11 A member who purchased the higher benefit multiplier for prior
12 judicial service prior to the effective date of this act may, between
13 July 1, 2007, and December 31, 2007, apply to the department to have
14 the higher benefit multiplier cost recalculated under RCW 41.32.584.
15 Any difference in the cost in favor of the member shall be remitted to
16 the member.

17 NEW SECTION. **Sec. 9.** This act is necessary for the immediate
18 preservation of the public peace, health, or safety, or support of the
19 state government and its existing public institutions, and takes effect
20 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/5/06	Z-0320.1

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System (PERS) by allowing Judges who elect to contribute a higher percent of pay to earn a 3.5 percent per year of service benefit multiplier, to buy the higher benefit multiplier for past judicial service for 5 percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased, plus interest as determined by the Director of the Department of Retirement Systems (DRS):

This bill also allows a member who purchased the higher benefit multiplier for past judicial service prior to the effective date of this act, to have the cost of the purchase recalculated and any difference remitted to the member.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, Judges who elect to contribute a higher percent of pay to earn a 3.5 percent per year of service benefit multiplier, may purchase the higher benefit multiplier for past judicial service if they pay the actuarially equivalent value of the increase in the member's benefit resulting from the higher multiplier.

MEMBERS IMPACTED:

We estimate that 334 members out of the 155,578 total PERS members could be impacted by this bill. We estimate that approximately 225 of the 334 eligible members would actually benefit from this bill.

The majority of the Judges eligible for this benefit are State-employed Judges (Superior Court, Court of Appeals, and Supreme Court), with lesser numbers of District and Municipal Court Judges also eligible. Of the 199 State-employed Judges eligible, 142 would benefit from purchasing the higher multiplier for their past judicial service. Of the 108 District Court Judges also eligible for this provision, 64 would benefit from making such a purchase. Municipal Court Judges make up the smallest cohort with 27 being eligible; of these, 19 would benefit from a service purchase.

Past Judicial Service Purchase Analysis			
	Judges eligible	Benefitting from a service purchase	Not benefiting from a service purchase
State Employed Judges	199	142	57
Plan 1	57	49	8
Plan 2	131	88	43
Plan 3	11	5	6
District Judges	108	64	44
Plan 1	20	15	5
Plan 2	86	47	39
Plan 3	2	2	0
Municipal Judges	27	19	8
Plan 1	4	3	1
Plan 2	20	14	6
Plan 3	<u>3</u>	<u>2</u>	<u>1</u>
Total	334	225	109

We estimate that for a typical member who would benefit from this bill, the value of the increase in benefits would average about \$51,000 per person. The distribution of benefit increases per judge, however, tends to be much higher for older judges and much lower for younger judges.

ASSUMPTIONS:

We assumed all judges who were eligible would elect to earn the higher benefit multiplier prospectively beginning January 1, 2007. We assumed only judges for whom the actuarially equivalent cost was greater than the cost of the proposed buy-back would participate in the buy-back. We assumed that everyone who could increase their benefit multiplier up to the 75 percent cap would do so and would purchase the higher multiplier for as many years as they had eligible judicial service prior to hitting the cap to do so. We assumed that eligible members who would not need to purchase the higher benefit multiplier to reach the cap would not participate in the buy-back. We assumed that those members who would only need to purchase a portion of their previous service at the higher multiplier would only purchase the higher multiplier for the most recent years of eligible service when the cost would be the lowest. For those members who entered PERS as a judge after September 30, 2005, we assumed their salaries were consistent with those of superior court judges at the valuation date.

We assumed that all Plan 1 judges retire at age 64 and all Plans 2/3 judges retire at age 66 or we assumed the judges retire immediately if their current age is greater than the given retirement ages. We assumed the judges received 3 percent salary inflation per year. We assumed DRS would charge 8 percent interest per year. These assumptions are consistent with those used to develop the annuity purchase factors associated with the current law (Chapter 189, Laws of 2006).

These assumptions are based on our best judgement, past experience and our beliefs about future behavior. In the case of the assumptions taken from the development of the annuity purchase factors, full descriptions for their selection can be found in our communication with DRS dated July 6, 2006.

METHODS:

We projected service as a judge, total PERS service, age, and salary forward to December 31, 2006, the day before the date when the higher benefit multiplier could first be purchased for past service; future service from this date would be earned at the higher benefit multiplier. After calculating the increase in liabilities to the system we discounted those liabilities to the valuation date, September 30, 2005, to calculate the change in contribution rates.

To calculate the liability to PERS resulting from judges buying the higher benefit multiplier for their prior judicial service at a subsidized rate, we first calculated the actuarial value of the service credit accrual purchase under the provisions of the current law (Chapter 189, Laws of 2006) for each member. From this value, on a member to member basis, we subtracted the total cost of purchasing the higher accrual for each year of service at 5 percent of the member's salary at the time the service credit was earned. To estimate the member's salary at previous years, we discounted their current salary by 3 percent per year. Plan 3 members were charged 2.5 percent of salary per year instead of 5.0 percent per year. For all plans, we accumulated the cost associated with the purchase of the extra accrual for individual years of service credit with 8 percent interest per year to find the present value of the service credit buy-back.

For example, a judge purchasing the higher accrual rate for their two most recent years of service (whether they could purchase more years of service is not relevant to this example) would have the present value of those years calculated under the buy-back method as follows. Given a salary of \$125,000 for the last 12 months, the present value of the first year would be 0.05 times \$125,000, or \$6,250. The value of the second year would be 0.05 times \$121,359, or \$6,067.95. The present value of this amount would be 1.08 times \$6,067.95, or \$6,553.39, which is the original value accumulated with interest at 8.0 percent. The salary for the second year was calculated as the salary for the first year discounted at 3.0 percent: \$125,000 divided by 1.03, or \$121,359. The total cost to the given judge for purchasing the higher accrual rate for their two most recent years of service would be the sum of the present values for the individual years, or \$12,803.39.

The cost to PERS, in this example, would be determined using the purchase factor, which corresponds to the age of the given judge in years and months, times the judge's final average salary times the 24 months for which the higher accrual rate was purchased. From this value would be subtracted the amount charged to the member - \$12,803.39 in this example. The remainder would be liability paid by PERS. The total liability is the sum of the individual liabilities and is paid by PERS employers and Plan 2 members. Under current funding policy, for PERS 1 members this liability would be spread over the salaries of all PERS, SERS and PSERS members. For members of Plan 2 or Plan 3, the liability would be spread over the salaries of just PERS members.

To determine if a given judge would purchase the higher benefit multiplier we calculated their accrual rate at retirement both with and without making the purchase. If a given judge would not reach the 75 percent cap (37.5 percent for Plan 3) without purchasing the higher multiplier for some or all of their eligible years of service we determined how many years they would purchase to reach the cap. To calculate the number of years purchased we calculated the difference between the cap and the individual's accrual rate at retirement without purchasing the higher benefit multiplier. This number was divided by 0.015 for Plan 1 and 2 members and 0.006 for Plan 3 members. The result of the division is the number of years for which,

if the higher benefit multiplier were purchased, would result in the maximum benefit accrual rate for the given member at their assumed retirement age. This number and the eligible purchasable service were compared; the minimum of the two was used as the amount of service purchased by that member.

DATA:

We relied on data from DRS. They provided 2005 valuation data for 334 judges who would be eligible to purchase the higher benefit multiplier for their eligible past service credit. We believe this to be a comprehensive list of eligible judges. Judges who enter PERS after January 1, 2007 will have the option to pay higher contribution rates to receive the 3.5 percent multiplier and will not have any eligible prior service to purchase at the higher multiplier. There was one judge with eligible service who was a member of the Teachers' Retirement System prior to becoming a judge. We included the TRS judge in the computation and treated the TRS judge as if all the non-eligible service were PERS service.

We also used the annuity purchase factors developed to implement Chapter 189, Laws of 2006.

FISCAL IMPACT:

Description:

The liability increase is relative to the current law where the value of the service credit purchase is calculated using annuity purchase factors on an individual member basis and is paid completely by the member receiving the benefit. The members who would not benefit from the buy-back or who would reach the cap without utilizing the buy-back did not contribute any liability to our calculations. Under this proposal, the liability for purchasing the higher multiplier is shared by the member receiving the benefit and the entire PERS population, both members and employers. The average cost to the PERS population per member receiving a benefit is approximately \$55,000. This is based on 334 judges eligible to purchase the higher accrual rate and 225 judges who would actually receive a benefit from participating in the buy-back. While the average cost to the system per judge is about \$55,000 for the total purchase, the distribution of costs to the system per year of service credit purchased tends to be much higher for older judges and much lower for younger judges. The change in liability for Plan 1 is not enough to increase contribution rates, but the increase in liability for Plans 2/3 is significant enough to increase contribution rates for Plan 2 members and all PERS 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:

<i>(Dollars in Millions)</i>	<u>System: Public Employees' Retirement System</u>		
	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	\$30,601	\$11	\$30,612
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	\$3,567	\$4	\$3,571
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	\$828	\$11	\$839

Increase in Contribution Rates: (Effective 9/1/2007)

Current Members	
Plan 2 Employees	0.01%
PERS Employers	0.01%
New Entrants*	
Plan 2 Employees	0.00%
PERS Employers	0.00%

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

Fiscal Budget Determinations:

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

Costs (in Millions):	<u>PERS</u>
2007-2009	
State:	
General Fund	\$0.2
Non-General Fund	<u>0.4</u>
Total State	0.6
Local Government	<u>0.9</u>
Total Employer	1.5
Total Employee	\$1.1
2009-2011	
State:	
General Fund	\$0.2
Non-General Fund	<u>0.4</u>
Total State	0.6
Local Government	<u>0.8</u>
Total Employer	1.4
Total Employee	\$1.0
2007-2032	
State:	
General Fund	\$1.8
Non-General Fund	<u>2.9</u>
Total State	4.7
Local Government	<u>6.9</u>
Total Employer	11.6
Total Employee	\$9.3

State Actuary's Comments:

These liabilities, rate changes, and resulting fiscal impacts are estimations based on the data available at the time the calculations were performed. The calculations were developed using assumptions based on past experience and our best judgment. DRS will perform the actual calculations using complete individual data.

Sensitivity Analysis:

The current proposal, with the member paying 5 percent per year of service or 2.5 percent per year of service in Plan 3, results in a cost sharing of 51 percent for the judge and 49 percent for PERS 2 members and all PERS employers. The resulting liability increases would be about \$4 million to the Plan 1 UAAL and about \$7 million to the Plan 2/3 present value of future benefits (PVFB). If the 5 percent assumption were decreased to 4 percent per year of service for Plan 1 and 2 members, and 2 percent per year of service for Plan 3 members, the cost sharing would be about 41 percent for the judge and 59 percent for PERS 2 members and all PERS employers. The resulting liability increases would be about \$5 million to the Plan 1 UAAL and about \$9 million to the Plan 2/3 PVFB. If the 5 percent assumption were increased to 6 percent per year of service for Plan 1 and 2 members, and 3 percent per year of service for Plan 3 members, the cost sharing would be about 61 percent for the judge and 39 percent for PERS 2 members and all PERS employers. The resulting liability increases would be about \$3 million to the Plan 1 UAAL and about \$6 million to the Plan 2/3 PVFB.

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 preliminary September 30, 2005, actuarial valuation report of the 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. 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.
4. This draft fiscal note is intended for use only during the 2007 Legislative session.
5. 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.
6. 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.
7. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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

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August 29, 2006

The Honorable Craig Pridemore
Washington State Senate
PO Box 40482
Olympia WA 98504-0482

Dear Senator Pridemore:

The judges at all levels of court very much appreciate the efforts of the Select Committee on Pension Policy and the Office of the State Actuary leading up to the 2006 legislative session in working with us to develop and to pass an improved retirement benefit multiplier for judges.

As you know, judges come to this public service as a second career – the average age of judges taking the Superior Court bench is 47. Through the work of the Select Committee, the State Actuary and the Legislature, the retirement benefit multiplier for new judges starting in 2007 has been restored to the pre-1988 level making the defined benefit far more comparable to such benefits for judges in other states. Our goal, consistent with the Select Committee's Goal #2, was to restore this benefit multiplier for past and future service to aid in both the recruitment and retention of highly qualified judges. This new legislation will foster that goal for newly appointed judges, with the cost borne by the judges alone. We are very grateful to the members of the Select Committee, as well as the State Actuary and the Legislature for this significant improvement.

Under the bill passed by the Legislature, current judges also have the opportunity to opt into this improved benefit on a going forward basis by shouldering the entire cost of the new benefit. The difficulty for many of the seasoned judges relates to the issue of the buy back of past service credit. The judges understood that we would have the opportunity to "buy back" past service credit as a judge at a cost per year reflected on the proposal approved by the Select Committee. We did not understand that the legislation required a "buy forward" or annuity purchase methodology to be used to purchase past service credit. Unfortunately, the annuity methodology results

The Honorable Craig Pridemore
August 29, 2006
Page 2

in a cost that is prohibitive for the most highly experienced judges currently serving in Washington. This situation creates a vast disparity in retirement benefits for most of the judges currently serving when compared to the judges who took the bench before 1988 and those that will take the bench in 2007 and thereafter.

I am writing to ask for your help in addressing this issue. We appreciate you including this subject for the full Committee agenda on September 19. We believe that there are several other methods that can be used to calculate the cost to purchase past service credit that are fair, both to the state and to the judges. We are very interested in achieving such a change and are focused on identifying a method that will not impact the rates. We are confident that, with the help of the Office of the State Actuary if you were to so direct, we could identify several options for the Select Committee's consideration.

As an example, one option is to utilize the average group cost as reflected on the proposal that the Select Committee approved, with the Actuary determining the assumption for "anti-selection," that is, a number reflecting the fact that some judges will not elect to buy back. That figure could be analyzed in terms of the rounding factor to determine if the cost fell below .005% and thus not impact the rates. If it was somewhat higher, the Actuary could determine what amount, such as 105% of the average group cost figure, would bring the cost below the rounding factor.

Another option is to require the employee-judge to pay what he or she would have paid in a given year of service based on that year's rates and the judge's salary for that year, and also require the employee-judge to pay what the employer would have paid, plus the assumed 8% interest rate. The Actuary could then determine if this payment, taking into account the anti-selection factor, would fall below the rounding factor and therefore not impact the rates. Again, if it was above .005%, some premium (for example, 105%) could be utilized to bring it below the rounding factor. Although this would be a substantially higher cost for the judges with the most experience, we believe it is still fair and would be a good resolution. Either of these options, and perhaps others, would allow currently sitting judges to achieve the same retirement benefits for their service as those judges beginning service before 1988 and after 2007. This is a significant issue of fairness and parity for the judges currently serving in the state of Washington.

We would truly appreciate your help in resolving this issue. We are very interested in meeting with Mr. Smith and his staff to discuss these and other options and understand that he requires your direction to do so.

Sincerely,

Michael E. Cooper
President

SCJA\President's Correspondence\Cooper\ltr Pridemore re pension.doc
cc: Regina McDougall



Post-Retirement Employment

Background

Post-retirement employment or “retire-rehire” was studied by the SCPP and its predecessor, the Joint Committee on Pension Policy in 2000, 2002, 2003, 2004, and 2005. The Office of the State Actuary also studied the issue and published its report in December 2005. Most recently, the SCPP has grappled with how to make the rules for participating in this program more consistent between the Plans 1 of the Public Employees’ Retirement System and the Teachers’ Retirement System.

Committee Activity

Presentations:

- July 18, 2006 - Full Committee
- August 22, 2006 - Executive Committee
- September 19, 2006 - Executive Committee
- October 17, 2006 - Full Committee

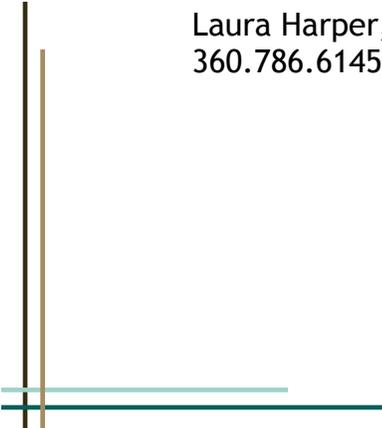
Proposal:

- November 21, 2006 - Full Committee

Recommendation to Legislature

Creates parity with PERS 1 by adding a cumulative lifetime limit of 1,900 hours to TRS 1, creates PERS-TRS parity with respect to procedural safeguards and penalties, and increases the TRS 1 waiting period from one to one and one-half months (half the duration of the PERS 1 waiting period). Also adds the requirement of a written policy to programs under both plans.

Staff Contact



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In Brief

ISSUE

The proposed bill does the following:

- *Adds the PERS 1 cumulative lifetime limit to TRS 1.*
- *Creates PERS-TRS parity with respect to procedural safeguards and penalties.*
- *Increases the TRS 1 waiting period by one-half month.*

Post-Retirement Employment

Background

Post-retirement employment or “retire-rehire” was studied by the Select Committee on Pension Policy (SCPP) and its predecessor, the Joint Committee on Pension Policy in 2000, 2002, 2003, 2004, and 2005. The Office of the State Actuary (OSA) also studied the issue, pursuant to a 2005 legislative mandate, and published its report in December, 2005. The legislation resulting from last interim’s SCPP study was introduced in the House and amended in the Appropriations Committee. The substitute bill, SHB 2689, passed the House and was forwarded to the Senate where it passed Ways and Means. SHB 2689, however, did not move out of the Rules Committee before the end of session.

During the 2006 interim, the SCPP formally considered two legislative strategies for the 2007 session:

1. A new bill draft that is identical to SHB 2689, the post-retirement employment bill that passed the House and Senate Ways and Means during the 2006 legislative session.
2. A proposed amendment to the bill as suggested by SCPP Member Bob Keller. This proposal is described below.

On November 21, 2007 the SCPP voted to recommend legislation identical SHB 2689 (2006).

Keller Proposal

The elements of Member Keller’s proposal would have eased restrictions for PERS 1 retirees who returned to work with a different employer. This would have been accomplished by lifting the PERS 1 cumulative lifetime limit (1900 hours) on hours worked past 867 for these individuals. The Keller proposal would also have left the current statutory waiting periods between retirement and returning to work in tact. To summarize, his proposal would have:

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- Eliminated the 1,900-hour cumulative lifetime limit in PERS 1 for those returning to work with a different employer. [Note: Under current law there is no cumulative lifetime limit in TRS 1.]
- Retained the current waiting periods for persons working 1,500 hours (currently one month in TRS and three months in PERS).

The Keller proposal also applied procedural safeguards to the program that were identical to those set forth in SHB 2689 (2006), and added the misdemeanor penalty from PERS 1 to TRS 1.

Last Year's Proposal, SHB 2689 (2006)

The major provisions of last year's bill are summarized below. The bill:

- Added the requirement of a written policy to PERS 1 and TRS 1.
- Made the TRS 1 penalty provision consistent with PERS 1 (misdemeanor).
- Added procedural safeguards to TRS 1 that were already in PERS 1: prohibition of prior agreements, documentation of need, and documentation of the hiring process.
- Increased the TRS 1 waiting period for working 1,500 hours from one to one and one-half months (already three months in PERS 1)
- Created a cumulative lifetime limit in TRS 1 of 1,900 hours worked in excess of 867 annually (already in PERS 1).

This bill differed from the SPCP's original 2006 bill in that the original bill did not propose to address waiting periods or hour limits. The House amendments to the bill, however, increased the parity between PERS 1 and TRS 1 by imposing the PERS 1 cumulative lifetime limit on TRS 1, and by increasing the length of the TRS 1 waiting period.

The following table summarizes the basic differences between current law, last year's SPCP proposal before it was amended in House Appropriations, last year's bill after it was amended [SHB 2689 (2006)], and the Keller proposal:

Comparison of Retire-Rehire Restrictions

Restriction	Current Law	SCPP 2006	SHB 2689 2006	Keller 2007
Written policy	Neither plan	Both plans	Both plans	Both plans
No prior agreements	PERS only	Both plans	Both plans	Both plans
Document need	PERS only	Both plans	Both plans	Both plans
Follow hiring policy / procedure	PERS only	Both plans	Both plans	Both plans
Wait 3 months to work 1,500 hours	PERS only (one month in TRS)	PERS only (one month in TRS)	PERS only (1 ½ months in TRS)	PERS only (one month in TRS)
1,900-hour cumulative limit	PERS only (no cumulative limit in TRS)	PERS only (no cumulative limit in TRS)	Both plans	PERS only, and only if returning to same employer
Misdemeanor	PERS only	Both plans	Both plans	Both plans

SCPP's Recommendation

On November 21, 2006 the SCPP voted to recommend legislation identical SHB 2689 (2006) for introduction in the 2007 legislative session.

Bill Draft

Attached.

Fiscal Note (Draft)

Attached.

Stakeholder Correspondence

Attached.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0059.1/07

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Addressing the public employment of retirees from the teachers' retirement system plan 1 and the public employees' retirement system plan 1.

1 AN ACT Relating to the public employment of retirees from the
2 teachers' retirement system plan 1 and the public employees' retirement
3 system plan 1; amending RCW 41.32.055, 41.32.570, 41.40.010, and
4 41.40.037; reenacting and amending RCW 41.32.010; prescribing
5 penalties; providing an effective date; and declaring an emergency.

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

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

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

11 (1)(a) "Accumulated contributions" for plan 1 members, means the
12 sum of all regular annuity contributions and, except for the purpose of
13 withdrawal at the time of retirement, any amount paid under RCW
14 41.50.165(2) with regular interest thereon.

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

1 (2) "Actuarial equivalent" means a benefit of equal value when
2 computed upon the basis of such mortality tables and regulations as
3 shall be adopted by the director and regular interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 (iv) For members employed less than full time under written
21 contract with a school district, or community college district, in an
22 instructional position, for which the member receives service credit of
23 less than one year in all of the years used to determine the earnable
24 compensation used for computing benefits due under RCW 41.32.497,
25 41.32.498, and 41.32.520, the member may elect to have earnable
26 compensation defined as provided in RCW 41.32.345. For the purposes of
27 this subsection, the term "instructional position" means a position in
28 which more than seventy-five percent of the member's time is spent as
29 a classroom instructor (including office hours), a librarian, a
30 psychologist, a social worker, a nurse, a physical therapist, an
31 occupational therapist, a speech language pathologist or audiologist,
32 or a counselor. Earnable compensation shall be so defined only for the
33 purpose of the calculation of retirement benefits and only as necessary
34 to insure that members who receive fractional service credit under RCW
35 41.32.270 receive benefits proportional to those received by members
36 who have received full-time service credit.

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

1 (A) Remuneration for unused sick leave authorized under RCW
2 41.04.340, 28A.400.210, or 28A.310.490;

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

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

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

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

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

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

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

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

36 (12) "Fiscal year" means a year which begins July 1st and ends June
37 30th of the following year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 (viii) The department shall adopt rules implementing this
2 subsection.

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

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

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

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

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

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

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

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

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

32 (36) "Substitute teacher" means:

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

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

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

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

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

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

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

18 (39) "Plan 2" means the teachers' retirement system, plan 2
19 providing the benefits and funding provisions covering persons who
20 first became members of the system on and after October 1, 1977, and
21 prior to July 1, 1996.

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

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

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

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

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

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

37 (46) "Annual increase" means, initially, fifty-nine cents per month

1 per year of service which amount shall be increased each July 1st by
2 three percent, rounded to the nearest cent.

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

6 (48) "Separation from service or employment" occurs when a person
7 has terminated all employment with an employer. Separation from
8 service or employment does not occur, and if claimed by an employer or
9 employee may be a violation of RCW 41.32.055, when an employee and
10 employer have a written or oral agreement to resume employment with the
11 same employer following termination. Mere expressions or inquiries
12 about postretirement employment by an employer or employee that do not
13 constitute a commitment to reemploy the employee after retirement are
14 not an agreement under this section.

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

20 **Sec. 2.** RCW 41.32.055 and 2003 c 53 s 218 are each amended to read
21 as follows:

22 (1) Any person who shall knowingly make false statements or shall
23 falsify or permit to be falsified any record or records of the
24 retirement system, except under subsection (2) of this section, in any
25 attempt to defraud such system as a result of such act, is guilty of a
26 class B felony punishable according to chapter 9A.20 RCW.

27 (2) Any person who shall knowingly make false statements or shall
28 falsify or permit to be falsified any record or records of the
29 retirement systems related to a member's separation from service and
30 qualification for a retirement allowance under RCW 41.32.480 in any
31 attempt to defraud that system as a result of such an act, is guilty of
32 a gross misdemeanor.

33 **Sec. 3.** RCW 41.32.570 and 2003 c 295 s 6 are each amended to read
34 as follows:

35 (1)(a) If a retiree enters employment with an employer sooner than
36 one calendar month after his or her accrual date, the retiree's monthly

1 retirement allowance will be reduced by five and one-half percent for
2 every seven hours worked during that month. This reduction will be
3 applied each month until the retiree remains absent from employment
4 with an employer for one full calendar month.

5 (b) The benefit reduction provided in (a) of this subsection will
6 accrue for a maximum of one hundred forty hours per month. Any monthly
7 benefit reduction over one hundred percent will be applied to the
8 benefit the retiree is eligible to receive in subsequent months.

9 (2) Except under subsection (3) of this section, any retired
10 teacher or retired administrator who enters service in any public
11 educational institution in Washington state (~~and who has satisfied the~~
12 ~~break in employment requirement of subsection (1) of this section~~) at
13 least one calendar month after his or her accrual date shall cease to
14 receive pension payments while engaged in such service, after the
15 retiree has rendered service for more than (~~one thousand five~~
16 ~~hundred~~) eight hundred sixty-seven hours in a school year.

17 (3) Any retired teacher or retired administrator who enters service
18 in any public educational institution in Washington state one and one-
19 half calendar months or more after his or her accrual date and:

20 (a) Is hired pursuant to a written policy into a position for which
21 the school board has documented a justifiable need to hire a retiree
22 into the position;

23 (b) Is hired through the established process for the position with
24 the approval of the school board or other highest decision-making
25 authority of the prospective employer;

26 (c) Whose employer retains records of the procedures followed and
27 the decisions made in hiring the retired teacher or retired
28 administrator and provides those records in the event of an audit; and

29 (d) The employee has not already rendered a cumulative total of
30 more than one thousand nine hundred hours of service while in receipt
31 of pension payments beyond an annual threshold of eight hundred sixty-
32 seven hours;

33 shall cease to receive pension payments while engaged in that service
34 after the retiree has rendered service for more than one thousand five
35 hundred hours in a school year. The one thousand nine hundred hour
36 cumulative total limitation under this section applies prospectively
37 after the effective date of this act.

1 (4) When a retired teacher or administrator renders service beyond
2 eight hundred sixty-seven hours, the department shall collect from the
3 employer the applicable employer retirement contributions for the
4 entire duration of the member's employment during that fiscal year.

5 ~~((3))~~ (5) The department shall collect and provide the state
6 actuary with information relevant to the use of this section for the
7 select committee on pension policy.

8 ~~((4))~~ (6) The legislature reserves the right to amend or repeal
9 this section in the future and no member or beneficiary has a
10 contractual right to be employed for more than five hundred twenty-five
11 hours per year without a reduction of his or her pension.

12 **Sec. 4.** RCW 41.40.010 and 2004 c 242 s 53 are each amended to read
13 as follows:

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

16 (1) "Retirement system" means the public employees' retirement
17 system provided for in this chapter.

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

20 (3) "State treasurer" means the treasurer of the state of
21 Washington.

22 (4)(a) "Employer" for plan 1 members, means every branch,
23 department, agency, commission, board, and office of the state, any
24 political subdivision or association of political subdivisions of the
25 state admitted into the retirement system, and legal entities
26 authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the
27 term shall also include any labor guild, association, or organization
28 the membership of a local lodge or division of which is comprised of at
29 least forty percent employees of an employer (other than such labor
30 guild, association, or organization) within this chapter. The term may
31 also include any city of the first class that has its own retirement
32 system.

33 (b) "Employer" for plan 2 and plan 3 members, means every branch,
34 department, agency, commission, board, and office of the state, and any
35 political subdivision and municipal corporation of the state admitted
36 into the retirement system, including public agencies created pursuant

1 to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August
2 31, 2000, school districts and educational service districts will no
3 longer be employers for the public employees' retirement system plan 2.

4 (5) "Member" means any employee included in the membership of the
5 retirement system, as provided for in RCW 41.40.023. RCW 41.26.045
6 does not prohibit a person otherwise eligible for membership in the
7 retirement system from establishing such membership effective when he
8 or she first entered an eligible position.

9 (6) "Original member" of this retirement system means:

10 (a) Any person who became a member of the system prior to April 1,
11 1949;

12 (b) Any person who becomes a member through the admission of an
13 employer into the retirement system on and after April 1, 1949, and
14 prior to April 1, 1951;

15 (c) Any person who first becomes a member by securing employment
16 with an employer prior to April 1, 1951, provided the member has
17 rendered at least one or more years of service to any employer prior to
18 October 1, 1947;

19 (d) Any person who first becomes a member through the admission of
20 an employer into the retirement system on or after April 1, 1951,
21 provided, such person has been in the regular employ of the employer
22 for at least six months of the twelve-month period preceding the said
23 admission date;

24 (e) Any member who has restored all contributions that may have
25 been withdrawn as provided by RCW 41.40.150 and who on the effective
26 date of the individual's retirement becomes entitled to be credited
27 with ten years or more of membership service except that the provisions
28 relating to the minimum amount of retirement allowance for the member
29 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
30 apply to the member;

31 (f) Any member who has been a contributor under the system for two
32 or more years and who has restored all contributions that may have been
33 withdrawn as provided by RCW 41.40.150 and who on the effective date of
34 the individual's retirement has rendered five or more years of service
35 for the state or any political subdivision prior to the time of the
36 admission of the employer into the system; except that the provisions
37 relating to the minimum amount of retirement allowance for the member

1 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
2 apply to the member.

3 (7) "New member" means a person who becomes a member on or after
4 April 1, 1949, except as otherwise provided in this section.

5 (8)(a) "Compensation earnable" for plan 1 members, means salaries
6 or wages earned during a payroll period for personal services and where
7 the compensation is not all paid in money, maintenance compensation
8 shall be included upon the basis of the schedules established by the
9 member's employer.

10 (i) "Compensation earnable" for plan 1 members also includes the
11 following actual or imputed payments, which are not paid for personal
12 services:

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

20 (B) If a leave of absence is taken by an individual for the purpose
21 of serving in the state legislature, the salary which would have been
22 received for the position from which the leave of absence was taken,
23 shall be considered as compensation earnable if the employee's
24 contribution is paid by the employee and the employer's contribution is
25 paid by the employer or employee;

26 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
27 72.09.240;

28 (D) Compensation that a member would have received but for a
29 disability occurring in the line of duty only as authorized by RCW
30 41.40.038;

31 (E) Compensation that a member receives due to participation in the
32 leave sharing program only as authorized by RCW 41.04.650 through
33 41.04.670; and

34 (F) Compensation that a member receives for being in standby
35 status. For the purposes of this section, a member is in standby
36 status when not being paid for time actually worked and the employer
37 requires the member to be prepared to report immediately for work, if
38 the need arises, although the need may not arise.

1 (ii) "Compensation earnable" does not include:

2 (A) Remuneration for unused sick leave authorized under RCW
3 41.04.340, 28A.400.210, or 28A.310.490;

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

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

14 "Compensation earnable" for plan 2 and plan 3 members also includes
15 the following actual or imputed payments, which are not paid for
16 personal services:

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

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

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

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

35 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
36 and 72.09.240;

37 (iv) Compensation that a member would have received but for a

1 disability occurring in the line of duty only as authorized by RCW
2 41.40.038;

3 (v) Compensation that a member receives due to participation in the
4 leave sharing program only as authorized by RCW 41.04.650 through
5 41.04.670; and

6 (vi) Compensation that a member receives for being in standby
7 status. For the purposes of this section, a member is in standby
8 status when not being paid for time actually worked and the employer
9 requires the member to be prepared to report immediately for work, if
10 the need arises, although the need may not arise.

11 (9)(a) "Service" for plan 1 members, except as provided in RCW
12 41.40.088, means periods of employment in an eligible position or
13 positions for one or more employers rendered to any employer for which
14 compensation is paid, and includes time spent in office as an elected
15 or appointed official of an employer. Compensation earnable earned in
16 full time work for seventy hours or more in any given calendar month
17 shall constitute one service credit month except as provided in RCW
18 41.40.088. Compensation earnable earned for less than seventy hours in
19 any calendar month shall constitute one-quarter service credit month of
20 service except as provided in RCW 41.40.088. Only service credit
21 months and one-quarter service credit months shall be counted in the
22 computation of any retirement allowance or other benefit provided for
23 in this chapter. Any fraction of a year of service shall be taken into
24 account in the computation of such retirement allowance or benefits.
25 Time spent in standby status, whether compensated or not, is not
26 service.

27 (i) Service by a state employee officially assigned by the state on
28 a temporary basis to assist another public agency, shall be considered
29 as service as a state employee: PROVIDED, That service to any other
30 public agency shall not be considered service as a state employee if
31 such service has been used to establish benefits in any other public
32 retirement system.

33 (ii) An individual shall receive no more than a total of twelve
34 service credit months of service during any calendar year. If an
35 individual is employed in an eligible position by one or more employers
36 the individual shall receive no more than one service credit month
37 during any calendar month in which multiple service for seventy or more
38 hours is rendered.

1 (iii) A school district employee may count up to forty-five days of
2 sick leave as creditable service solely for the purpose of determining
3 eligibility to retire under RCW 41.40.180 as authorized by RCW
4 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW
5 28A.400.300 is equal to two service credit months. Use of less than
6 forty-five days of sick leave is creditable as allowed under this
7 subsection as follows:

8 (A) Less than twenty-two days equals one-quarter service credit
9 month;

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

11 (C) More than twenty-two days but less than forty-five days equals
12 one and one-quarter service credit month.

13 (b) "Service" for plan 2 and plan 3 members, means periods of
14 employment by a member in an eligible position or positions for one or
15 more employers for which compensation earnable is paid. Compensation
16 earnable earned for ninety or more hours in any calendar month shall
17 constitute one service credit month except as provided in RCW
18 41.40.088. Compensation earnable earned for at least seventy hours but
19 less than ninety hours in any calendar month shall constitute one-half
20 service credit month of service. Compensation earnable earned for less
21 than seventy hours in any calendar month shall constitute one-quarter
22 service credit month of service. Time spent in standby status, whether
23 compensated or not, is not service.

24 Any fraction of a year of service shall be taken into account in
25 the computation of such retirement allowance or benefits.

26 (i) Service in any state elective position shall be deemed to be
27 full time service, except that persons serving in state elective
28 positions who are members of the Washington school employees'
29 retirement system, teachers' retirement system, public safety
30 employees' retirement system, or law enforcement officers' and fire
31 fighters' retirement system at the time of election or appointment to
32 such position may elect to continue membership in the Washington school
33 employees' retirement system, teachers' retirement system, public
34 safety employees' retirement system, or law enforcement officers' and
35 fire fighters' retirement system.

36 (ii) A member shall receive a total of not more than twelve service
37 credit months of service for such calendar year. If an individual is
38 employed in an eligible position by one or more employers the

1 individual shall receive no more than one service credit month during
2 any calendar month in which multiple service for ninety or more hours
3 is rendered.

4 (iii) Up to forty-five days of sick leave may be creditable as
5 service solely for the purpose of determining eligibility to retire
6 under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of
7 plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal
8 to two service credit months. Use of less than forty-five days of sick
9 leave is creditable as allowed under this subsection as follows:

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

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

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

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

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

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

20 (11) "Service credit month" means a month or an accumulation of
21 months of service credit which is equal to one.

22 (12) "Prior service" means all service of an original member
23 rendered to any employer prior to October 1, 1947.

24 (13) "Membership service" means:

25 (a) All service rendered, as a member, after October 1, 1947;

26 (b) All service after October 1, 1947, to any employer prior to the
27 time of its admission into the retirement system for which member and
28 employer contributions, plus interest as required by RCW 41.50.125,
29 have been paid under RCW 41.40.056 or 41.40.057;

30 (c) Service not to exceed six consecutive months of probationary
31 service rendered after April 1, 1949, and prior to becoming a member,
32 in the case of any member, upon payment in full by such member of the
33 total amount of the employer's contribution to the retirement fund
34 which would have been required under the law in effect when such
35 probationary service was rendered if the member had been a member
36 during such period, except that the amount of the employer's
37 contribution shall be calculated by the director based on the first
38 month's compensation earnable as a member;

1 (d) Service not to exceed six consecutive months of probationary
2 service, rendered after October 1, 1947, and before April 1, 1949, and
3 prior to becoming a member, in the case of any member, upon payment in
4 full by such member of five percent of such member's salary during said
5 period of probationary service, except that the amount of the
6 employer's contribution shall be calculated by the director based on
7 the first month's compensation earnable as a member.

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

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

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

17 (16) "Accumulated contributions" means the sum of all contributions
18 standing to the credit of a member in the member's individual account,
19 including any amount paid under RCW 41.50.165(2), together with the
20 regular interest thereon.

21 (17)(a) "Average final compensation" for plan 1 members, means the
22 annual average of the greatest compensation earnable by a member during
23 any consecutive two year period of service credit months for which
24 service credit is allowed; or if the member has less than two years of
25 service credit months then the annual average compensation earnable
26 during the total years of service for which service credit is allowed.

27 (b) "Average final compensation" for plan 2 and plan 3 members,
28 means the member's average compensation earnable of the highest
29 consecutive sixty months of service credit months prior to such
30 member's retirement, termination, or death. Periods constituting
31 authorized leaves of absence may not be used in the calculation of
32 average final compensation except under RCW 41.40.710(2).

33 (18) "Final compensation" means the annual rate of compensation
34 earnable by a member at the time of termination of employment.

35 (19) "Annuity" means payments for life derived from accumulated
36 contributions of a member. All annuities shall be paid in monthly
37 installments.

1 (20) "Pension" means payments for life derived from contributions
2 made by the employer. All pensions shall be paid in monthly
3 installments.

4 (21) "Retirement allowance" means the sum of the annuity and the
5 pension.

6 (22) "Employee" or "employed" means a person who is providing
7 services for compensation to an employer, unless the person is free
8 from the employer's direction and control over the performance of work.
9 The department shall adopt rules and interpret this subsection
10 consistent with common law.

11 (23) "Actuarial equivalent" means a benefit of equal value when
12 computed upon the basis of such mortality and other tables as may be
13 adopted by the director.

14 (24) "Retirement" means withdrawal from active service with a
15 retirement allowance as provided by this chapter.

16 (25) "Eligible position" means:

17 (a) Any position that, as defined by the employer, normally
18 requires five or more months of service a year for which regular
19 compensation for at least seventy hours is earned by the occupant
20 thereof. For purposes of this chapter an employer shall not define
21 "position" in such a manner that an employee's monthly work for that
22 employer is divided into more than one position;

23 (b) Any position occupied by an elected official or person
24 appointed directly by the governor, or appointed by the chief justice
25 of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which
26 compensation is paid.

27 (26) "Ineligible position" means any position which does not
28 conform with the requirements set forth in subsection (25) of this
29 section.

30 (27) "Leave of absence" means the period of time a member is
31 authorized by the employer to be absent from service without being
32 separated from membership.

33 (28) "Totally incapacitated for duty" means total inability to
34 perform the duties of a member's employment or office or any other work
35 for which the member is qualified by training or experience.

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

1 (30) "Director" means the director of the department.

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

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

7 (33) "Plan 1" means the public employees' retirement system, plan
8 1 providing the benefits and funding provisions covering persons who
9 first became members of the system prior to October 1, 1977.

10 (34) "Plan 2" means the public employees' retirement system, plan
11 2 providing the benefits and funding provisions covering persons who
12 first became members of the system on and after October 1, 1977, and
13 are not included in plan 3.

14 (35) "Plan 3" means the public employees' retirement system, plan
15 3 providing the benefits and funding provisions covering persons who:
16 (a) First become a member on or after:
17 (i) March 1, 2002, and are employed by a state agency or institute
18 of higher education and who did not choose to enter plan 2; or
19 (ii) September 1, 2002, and are employed by other than a state
20 agency or institute of higher education and who did not choose to enter
21 plan 2; or
22 (b) Transferred to plan 3 under RCW 41.40.795.

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

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

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

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

32 (40) "Adjustment ratio" means the value of index A divided by index
33 B.

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

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

1 does not occur, and if claimed by an employer or employee may be a
2 violation of RCW 41.40.055, when an employee and employer have a
3 written or oral agreement to resume employment with the same employer
4 following termination. Mere expressions or inquiries about
5 postretirement employment by an employer or employee that do not
6 constitute a commitment to reemploy the employee after retirement are
7 not an agreement under this subsection.

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

11 **Sec. 5.** RCW 41.40.037 and 2005 c 319 s 103 are each amended to
12 read as follows:

13 (1)(a) If a retiree enters employment with an employer sooner than
14 one calendar month after his or her accrual date, the retiree's monthly
15 retirement allowance will be reduced by five and one-half percent for
16 every eight hours worked during that month. This reduction will be
17 applied each month until the retiree remains absent from employment
18 with an employer for one full calendar month.

19 (b) The benefit reduction provided in (a) of this subsection will
20 accrue for a maximum of one hundred sixty hours per month. Any benefit
21 reduction over one hundred percent will be applied to the benefit the
22 retiree is eligible to receive in subsequent months.

23 (2)(a) Except as provided in (b) of this subsection, a retiree from
24 plan 1 who enters employment with an employer at least one calendar
25 month after his or her accrual date may continue to receive pension
26 payments while engaged in such service for up to eight hundred sixty-
27 seven hours of service in a calendar year without a reduction of
28 pension.

29 (b) A retiree from plan 1 who enters employment with an employer at
30 least three calendar months after his or her accrual date and:

31 (i) Is hired pursuant to a written policy into a position for which
32 the employer has documented a justifiable need to hire a retiree into
33 the position;

34 (ii) Is hired through the established process for the position with
35 the approval of: A school board for a school district; the chief
36 executive officer of a state agency employer; the secretary of the
37 senate for the senate; the chief clerk of the house of representatives

1 for the house of representatives; the secretary of the senate and the
2 chief clerk of the house of representatives jointly for the joint
3 legislative audit and review committee, the (~~joint~~) select committee
4 on pension policy, the legislative evaluation and accountability
5 program, the legislative systems committee, and the statute law
6 committee; or according to rules adopted for the rehiring of retired
7 plan 1 members for a local government employer;

8 (iii) The employer retains records of the procedures followed and
9 decisions made in hiring the retiree, and provides those records in the
10 event of an audit; and

11 (iv) The employee has not already rendered a cumulative total of
12 more than one thousand nine hundred hours of service while in receipt
13 of pension payments beyond an annual threshold of eight hundred sixty-
14 seven hours;

15 shall cease to receive pension payments while engaged in that service
16 after the retiree has rendered service for more than one thousand five
17 hundred hours in a calendar year. The one thousand nine hundred hour
18 cumulative total under this subsection applies prospectively to those
19 retiring after July 27, 2003, and retroactively to those who retired
20 prior to July 27, 2003, and shall be calculated from the date of
21 retirement.

22 (c) When a plan 1 member renders service beyond eight hundred
23 sixty-seven hours, the department shall collect from the employer the
24 applicable employer retirement contributions for the entire duration of
25 the member's employment during that calendar year.

26 (d) A retiree from plan 2 or plan 3 who has satisfied the break in
27 employment requirement of subsection (1) of this section may work up to
28 eight hundred sixty-seven hours in a calendar year in an eligible
29 position, as defined in RCW 41.32.010, 41.35.010, 41.37.010, or
30 41.40.010, or as a fire fighter or law enforcement officer, as defined
31 in RCW 41.26.030, without suspension of his or her benefit.

32 (3) If the retiree opts to reestablish membership under RCW
33 41.40.023(12), he or she terminates his or her retirement status and
34 becomes a member. Retirement benefits shall not accrue during the
35 period of membership and the individual shall make contributions and
36 receive membership credit. Such a member shall have the right to again
37 retire if eligible in accordance with RCW 41.40.180. However, if the
38 right to retire is exercised to become effective before the member has

1 rendered two uninterrupted years of service, the retirement formula and
2 survivor options the member had at the time of the member's previous
3 retirement shall be reinstated.

4 (4) The department shall collect and provide the state actuary with
5 information relevant to the use of this section for the select
6 committee on pension policy.

7 (5) The legislature reserves the right to amend or repeal this
8 section in the future and no member or beneficiary has a contractual
9 right to be employed for more than five months in a calendar year
10 without a reduction of his or her pension.

11 NEW SECTION. **Sec. 6.** This act is necessary for the immediate
12 preservation of the public peace, health, or safety, or support of the
13 state government and its existing public institutions, and takes effect
14 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	10/17/06	Z-0059.1

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 bill would also require both PERS 1 and TRS 1 employers to rehire retirees pursuant to a written policy.

This bill also establishes additional requirements for TRS 1 members who participate in the expanded retire-rehire program (i.e., work 1500 hours per year). The bill would establish a prospective 1900-hour cumulative lifetime limit on hours worked beyond 867 annually. (This limit is already in effect for PERS 1.) It would also increase the TRS 1 waiting period for participating in the expanded retire-rehire program from one month to one and one-half months. (The PERS 1 waiting period is three months.)

Effective Date: July 1, 2007

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. These PERS 1 requirements are not currently applicable to TRS 1.

Currently, there is no requirement in either system to hire retirees pursuant to a written policy.

Members of TRS 1 who participate in the expanded retire-rehire program are not currently subject to a cumulative lifetime limit on the number of hours worked. A cumulative lifetime limit of 1900 hours is currently applicable to PERS 1 members who seek to return to work for more than 867 hours and up to 1500 hours annually. Once the 1900 hour limit is reached, PERS 1 retirees may only work up to 867 hours in subsequent calendar years before their benefits are suspended.

Members of TRS 1 who participate in the expanded retire-rehire program are currently subject to a one-month waiting period, while PERS 1 members are subject to a one and one-half month waiting period.

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 73,590 PERS 1 and 45,184 TRS 1, active, terminated vested, and retired members.

ASSUMPTIONS:

- We assumed the changes made to the PERS 1 post-retirement provisions under this bill would not affect future retirement behavior in PERS 1.
- We assumed the changes made to the TRS 1 post-retirement provisions under this bill would reduce the utilization of the program by 50% in TRS 1.
- We assumed different retirement rates to determine the fiscal impact of this bill. We developed one set of retirement rates for TRS 1 based on an experience study conducted by the Office of the State Actuary (OSA) in 2005 that examined the impact of the current Post-Retirement Employment Program on retirement behavior. We developed a second set of TRS 1 retirement rates for the program as modified by this bill. These rates were developed using one-half of the increase in rates assumed for the current program. The rates used are disclosed in the Statement of Data and Assumptions section of this fiscal note.

FISCAL IMPACT:

Description:

In the November, 2005, "Post-Retirement Employment Program Report", published by the OSA, it was determined that the Post-Retirement Employment Program had induced members to retire earlier than they would have in absence of the program. Earlier retirements generate a cost to the system since retirement benefits must be paid out sooner than assumed and funded for, and over a longer period of time. There is also a loss of expected member contributions to the system.

This bill would change the retirement experience in TRS 1 by making it less likely that members would retire earlier to participate in the Post-Retirement Employment Program. The effect of this change would be to lower the liabilities of the plan and the required contribution rates.

Actuarial Determinations:

The bill would impact the actuarial funding of the system by decreasing the present value of benefits payable under TRS 1 and the required actuarial contribution rate as shown below. There is no impact in PERS.

<i>(Dollars in Millions)</i>	Teachers' Retirement System Plan 1		
	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	\$10,823	(\$15)	\$10,808
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	\$2,147	(\$15)	\$2,132
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	\$2,100	(\$17)	\$2,083
Increase in Contribution Rates: (Effective 09/01/2007)			
Current Members			
Employee (Plan 1)	0.00%		
Employer State	(0.03)%		

Fiscal Budget Determinations:

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

Costs (in Millions):	<u>TRS</u>
2007-2009	
State:	
General Fund	(\$1.6)
Non-General Fund	<u>0.0</u>
Total State	(1.6)
Local Government	(1.0)
Total Employer	(\$2.6)
Total Employee	\$0.0
2009-2011	
State:	
General Fund	(\$2.0)
Non-General Fund	<u>0.0</u>
Total State	(2.0)
Local Government	(1.0)
Total Employer	(\$3.0)
Total Employee	\$0.0

Costs (in Millions):	<u>TRS</u>
2007-2032	
State:	
General Fund	(\$22.9)
Non-General Fund	<u>0.0</u>
Total State	(22.9)
Local Government	(11.3)
Total Employer	(\$34.2)
Total Employee	\$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 preliminary September 30, 2005 actuarial valuation report of the Teachers' Retirement System. The rates used to determine the fiscal impact are those used in SHB 2689 from the 2006 session.
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 used the following retirement rates for determining the fiscal impact of the proposed changes to the Post-Retirement Employment Program.

TRS Plan 1 Retirement Rates For Post-Retirement Employment Program								
	Current Provisions				Proposed Changes			
	Service <> 30		Service = 30		Service <> 30		Service = 30	
Age	Male	Female	Male	Female	Male	Female	Male	Female
50*	0.27	0.22	0.43	0.32	0.26	0.21	0.42	0.31
51	0.27	0.22	0.43	0.33	0.26	0.21	0.42	0.31
52	0.28	0.22	0.44	0.33	0.26	0.21	0.42	0.32
53	0.28	0.22	0.44	0.33	0.26	0.21	0.42	0.32
54	0.28	0.22	0.44	0.33	0.26	0.21	0.42	0.32
55	0.28	0.22	0.44	0.33	0.26	0.21	0.42	0.32
56	0.22	0.22	0.39	0.33	0.21	0.21	0.37	0.32
57	0.22	0.22	0.38	0.33	0.21	0.21	0.37	0.31
58	0.22	0.22	0.43	0.33	0.21	0.21	0.42	0.31
59	0.21	0.27	0.48	0.32	0.21	0.26	0.47	0.31
60	0.21	0.27	0.48	0.32	0.21	0.26	0.47	0.31
61	0.21	0.21	0.64	0.38	0.21	0.21	0.62	0.36
62*	0.48	0.38	0.64	0.59	0.47	0.36	0.62	0.57

*Rates for ages less than 50 and greater than 62 are unchanged from rates used in the 2005 valuation.

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 2007 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.

From: Wil Brannon
To: actuary.state@leg.wa.gov
Date: 3/24/06 1:10PM
Subject: ATTENTION: SELECT COMMITTEE ON PENSION POLICY (SCPP) retire/rehire situation FOR WIL E. BRANNON

I hope someone will listen to my story and give me some direction. I retired in May of 2000 after almost 34 years with Pierce County Public Works.

In 2002, due to extreme medical problems with my wife, Linda, I found it necessary to return to work. I went through all the training offered by the unemployment office and started on a job search. As I read over job requirements I realized that I had only worked in one profession my whole life; Public Works. To make a long story short, I started applying for Public Works positions where I had the best qualifications. One of those applications went to an open "Interim" Public Works position at Lewis County. I competed for this temporary position and eventually was awarded the job, starting in March of 2003. This was a fair and competitive hiring process. I rented a small bachelor apartment in Chehalis, where I lived during the work week. I went home to Puyallup on weekends. In late July of 2003, the Lewis County Public Works Director and the Board of County Commissioners offered me this position on a permanent basis. I accepted the position in August of 2003. I was finally able to sell my home in Puyallup, and moved my family to Lewis County in November of 2004. Believe me, this was not a popular move with my two teenage daughters; but it was a direction we had to make in order to keep our family together. Now, due to legislative changes that happened after my retirement in 2000, I feel I am forced to make a career decision that I am really should not have to make. When I retired in 2000, the Pers 1 rehire laws placed loss of retirement benefits on any rehires after 1500 hours of employment per year in a Pers 1 position. There were no

restrictions as to how many years a person could continue to work under those guidelines. Then, in 2003, legislation was passed that further reduced the annual benefit limit from 1500 hours to 867 hours after three full-time years of employment in a Pers position. I ask to be "grand fathered" in to the retirement rehire guidelines that I retired under in the year 2000. I feel consideration for this request is warranted due to the following reasons:

1. When I retired in 2000, I had no intention of being rehired into a position in the Pers 1 Plan. My retirement contract was in good faith, but, medical conditions forced me back into the only position I was experienced in, as Public Works was my entire working life. I was able to perform immediately at a high level of efficiency in my new job.
2. These retirements benefits were earned and paid for by myself and my previous employer (Pierce County). My having to return to work should not have a bearing on previously earned benefits.
3. I competed for the new position fairly, having completed and submitted the job application and resume'. I also went through the interview and testing process.
4. For the first 20 months in the new position, many sacrifices were made by myself and my family. I mention this solely to put further emphasis on the fact that my return to work was a dire necessity, not a luxury.
5. There is also the political issue that came about, when former Governor Locke vetoed a similar law for all the "TERS 1" rehire/retire teachers and administrator. Why was that? That was a major hit on the Pers program members.
6. I feel like some form of my "Right to Work" privileges to get employment in the State of Washington have been taken away.
The number of public agencies where I could apply for positions that I

was qualified for was greatly reduced because the vast majority participate in the Pers programs.

7. I am aware that their may be people who have abused the system, but why not seek them out and correct them. I am sincere in being the best provider possible to my wife and my children. Again, I became a rehire due to family illnesses and necessities and I competed fairly for the position. I do not consider my request for reconsideration being grand fathered in to the retirement laws for the year that I retired. I would appreciate being contacted to give me some advice on what direction I should take my appeal.

PLEASE CORRECT ME IF I HAVE BEEN MIS-INFORMED ON ANY OF THE ABOVE INFORMATION.

WIL E. BRANNON
740 A LEUDINGHAUS ROAD
CHEHALIS, WA. 98532
HOME PHONE=360-291-0029
WORK PHONE=360-740-1384

October 17, 2006

Jean Backman
4807 Center Lane N.E.
Olympia, WA 98516

wk: (360) 786-1303
hm: (360) 456-2126

SUBJECT: RETIRE/REHIRE – PERS 1

- PERS 1 retiree – retired effective May 1, 2002
- 31 years in state government, worked in various state agencies, last position a Human Resource Consultant 3 with Department of Personnel
- When I retired, retire/rehire law was 1,500 hours/yr. – approx. 9 months
- In 2003, **1 year after I retired**, law was changed to lifetime max. calculation - 867 total hours per year, **and made retroactive to include my retirement date**
- Living situation changed - expenses increased – had to return to full-time work. Adult children/grandchildren moved in due to change in their financial status, widowed mother-in-law w/dementia moved in.
- Current employer is WFSE, **a private, not-for-profit corporation**, but as a “labor organization”, is a PERS 1 employer.
- In May 2003, as soon as I learned about the change in the retirement law, wrote to Governor and various legislators – negative responses
- Change in retire/rehire law affected me beginning May 2006 (lifetime calculation)

- Result - retirement benefits are cut off end of May rather than end of September = **difference of 4 months = approx. \$10,800 additional loss per year** (already had a 3 month loss each year = \$8,100).
- Current law creates financial hardship
- Months not collecting Retirement = \$1,000 budget deficit/month. Pulling money from savings. Beginning 2007, will have to pull from Deferred Comp. account – 7 months each year. Only enough in Deferred Comp. for several years at the rate of \$1,000 a month. Will then be financially wiped out.
- **Cannot pursue any public sector employment without same effect:** any entity in PERS 1 system - State, County, City, Municipalities; some higher education institutions, community colleges, and local school districts with ties to PERS 1 (SERS?).
- **Options** – private sector? Have gone on interviews, lower pay, little or no health care benefits for employee and/or spouse. For husband, private pay, between \$500 - \$700 per month for health insurance. Any benefit realized by private sector employment wiped out by health care costs.
- **Unfairly penalized.** Did not return to old job in state government – did not have any “sweetheart deal” lined up. Had almost 5-month break between retirement and employment. Retired in good faith. Due to this law, am being treated unfairly and penalized for my years of public service.

May 28, 2003

The Honorable Karen Fraser
The State Senate
P.O. Box 40422
Olympia, WA 98504-0422

Dear Senator Fraser:

SUBJECT: SUBSTITUTE HOUSE BILL NO. 1829 –
“AN ACT RELATING TO POSTRETIREMENT EMPLOYMENT IN
PUBLIC EMPLOYEES’ RETIREMENT SYSTEM...”

I am a PERS 1 retiree who is affected by the above-referenced bill, which was recently signed into law. I worked for state government for 31 years and believe I am entitled to my pension according to the rules under which I retired on May 1, 2002. This new law creates a financial hardship for me in that I made financial decisions (including building a new home) based upon the income I believed I would continue receiving.

Please note the following:

1. I did **not** return to work at my old job, nor any state nor local government agency. In fact, I **work for a private, non-profit, unincorporated association**. But because my new employer, the **Washington Federation of State Employees** is considered a PERS 1 employer, I fall under the new law.
2. I did **not** “line up” this job while working for the state. I retired only with the hope that I would be able to find another job to supplement my pension. I was unemployed for 5 months last year. I was accepted for a position with the Federation in September 2002.
3. I am **not** “bringing in the big bucks” like the high-level managers this new law is apparently intended to penalize. In fact, I am making approximately half what I made at my last job with the Department of Personnel (DOP). My annual Federation salary plus my 1,500-hour per year pension is roughly equivalent to my former DOP salary.
4. I **will** suffer a financial hardship if this law remains as written. I will very likely be unable to keep my home.

Senator Karen Fraser
May 28, 2003
Page 2

5. I **was** an exemplary employee and a faithful servant of the people of the state of Washington for 31 years. I earned my pension and deserve to keep it according to the conditions under which I originally retired.

I beg you to take the necessary steps to amend or repeal this law that unfairly penalizes "the little guy." Please focus on the intended target – the high-level managers and administrators who "cut deals" to continue in their previous jobs at substantially increased salaries.

Sincerely,

A handwritten signature in cursive script that reads "Jean Backman".

W. Jean Backman
1401 Marvin Road N.E., #307-205
Lacey, WA 98516

Service Credit Purchase Due to Injury

Background

Members of the PERS, SERS, PSERS, LEOFF 2 may purchase service credit for periods where they have suffered an on-the-job injury and are unable to work; also known as a periods of Temporary Duty Disability (TDD). To qualify to receive service credit for these periods, members have to be receiving, or have received, Workers' Compensation Time-Loss benefits. Such a member may purchase the service credit for the disability period by paying the member contributions plus interest; their employer will then be billed for the employer contributions plus interest. Contributions will be based on the salary the member would have been making had they not been injured. PERS members may receive up to twenty-four months of such service for each TDD period. SERS and PSERS members may purchase up to twelve months of service for each TDD period. LEOFF 2 members may purchase up to six months of service for each TDD period. TRS members have no such statutory provision.

This is one of three issues in which the LEOFF 2 Retirement Board sought to coordinate with the SCPP.

Committee Activity

Presentations:

June 20, 2006 - Full Committee

September 19, 2006 - Full Committee

Proposal:

November 21, 2006 - Full Committee

Recommendation to Legislature

Allow members of PSERS, SERS, LEOFF 2, and TRS to purchase up to twenty-four consecutive months of service credit for each period of temporary duty disability.

Staff Contact

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

In Brief

PROPOSAL

The Law Enforcement Officers' and Fire Fighters' Plan 2 (LEOFF 2) Board is seeking to improve the provisions that allow members to purchase service credit for injury recovery periods. The Board recognizes that this issue crosses most public employee retirement systems and, because similar provisions were recently improved in the Public Employees' Retirement system (PERS), would likely be an issue before the SCPP this interim. As a result, the Board wishes to coordinate with the SCPP on this issue (see correspondence).

MEMBER IMPACT

Improvement in the provisions allowing the purchase of service credit for injury recovery periods could impact all members of PERS, SERS, PSERS, TRS, and LEOFF 2.

Robert Wm. Baker
Senior Research Analyst
(360) 786-6144
Baker.Robert@leg.wa.gov

Service Credit Purchase Due to Injury

Current Situation

Provisions in the Public Employees' Retirement System (PERS) governing the purchase of service credit for injury recovery periods – also known as periods of temporary duty disability (TDD) – were improved under 2005 legislation. PERS members may now purchase up to twenty-four consecutive months of service credit for each period they are on TDD and receiving Workers' Compensation time-loss payments; they were formerly limited to purchasing twelve consecutive months of service credit for each TDD period. These improvements were exclusive to PERS; TDD provisions in the other retirement systems remained unchanged.

Earned Service Credit

In general, members of the retirement plans can acquire service credit by either earning it or purchasing it. PERS members earn service credit for each creditable month they are actively employed by a PERS employer or on paid leave of absence. Members earn service credit in increments based on how many hours they work in a month (Figure 1). This service credit is used in the formula for determining a member's retirement benefit.

Figure 1

PERS Service Credit Provisions	
Plan 1	70+ hours of work per month = 1 service credit month
	1-69 hours of work per month = ¼ service credit month
Plan 2/3	90+ hours of work per month = 1 service credit month
	70-89 hours of work per month = ½ service credit month
	1-69 hours of work per month = ¼ month service credit

Identical Plan 2 service credit provisions are found in the Public Safety Employees' Retirement System (PSERS) and LEOFF.

A service credit month is earned after 70 hours of work in the LEOFF 1 and Washington State Patrol (WSPRS) retirement systems. These plans do not award partial service credit because members are required to be in full-time fully compensated positions.

Members of the School Employees' Retirement System (SERS) and Teachers' Retirement System (TRS) earn service credit based on school-year activity. A TRS 1 member who works 144 days in a school year earns a full service credit year. SERS 2/3 or TRS 2/3 members earn twelve service credit months if they work nine months during the school year and are compensated for at least 810 hours during that period.

Purchased Service Credit

TRS has no provisions allowing the purchase of service credit for temporary duty disability recovery periods.

Members of State administered retirement plans may also purchase service credit. At retirement, a member may purchase up to five years of service credit to enhance their retirement annuity. Because the purchase of this service credit is not tied to a particular period of actual service it is commonly known as purchasing "air time." Members must pay the full actuarial cost to purchase such service credit.

Retirement system members may also purchase up to five years of service credit for interruptive military service. Interruptive military service occurs after a member establishes plan membership – which is distinct from military service that occurred prior to establishing plan membership. A member may purchase service credit for the period of interruptive military service by paying the member contributions; the employer will be billed for the employer contributions plus interest.

Members may also purchase service credit for periods where they have suffered an on-the-job injury and are unable to work; also known as a TDD. In order to qualify to receive service credit for these periods, members have to

be receiving or have received Workers' Compensation Time Loss benefits. Such a member may purchase the service credit for the disability period by paying the member contributions (plus interest if necessary); their employer will then be billed for the employer contributions (plus interest if necessary). Contributions will be based on the salary the member would have been making had they not been injured. PERS members may receive up to twenty-four months of such service for each TDD period.

Those on TDD may avoid the interest charges if their contribution payments are made during their disability period – this must be arranged with their employer. If a member on TDD waits until after returning to employment before making what would then be retroactive retirement contributions, they will be charged interest.

Currently, TRS has no statutory provisions allowing the purchase of service credit for on-the-job injury recovery periods. Current school district human resource practices, and contract provisions related to temporary duty disability situations, appear to have this issue covered for many TRS members. It is unknown whether all TRS members receive similar service credit coverage for TDD periods.

Example

The process for receiving service credit for periods of injury – TDD – is as follows:

Plan 3 members are charged their individual contribution rates without interest.

- ❖ After returning to work following a TDD period, the member will contact the Department of Retirement Systems (DRS).
- ❖ DRS will then contact the member's employer.
- ❖ The employer will confirm the member's TDD status and dates.
- ❖ The employer will provide DRS with the regular wage/salary the member would have received had they not been injured.

- ❖ DRS will bill the member for the appropriate contributions, plus interest (Plan 3 members are charged their individual contribution rates without interest).
- ❖ After the member has paid the contributions, DRS will bill the employer for the appropriate contributions, plus interest.
- ❖ After the employer has paid the contributions, DRS will credit the member's service.

Figure 2

Average TDD Billed Amounts by System and Plan Source: DRS		
System / Plan	Member	Employer
SERS 2	\$517.80	\$866.40
SERS 3	\$609.84	\$1,101.46
LEOFF 2	\$668.06	\$430.75
PERS 1	\$1,062.79	\$1,150.03
PERS 2	\$532.57	\$847.29
PERS 3	\$819.47	\$970.12
WSPRS 1	\$2,767.28	\$1,725.49
Total	\$730.84	\$838.86

Following all these steps can be a lengthy process. A member may be billed an amount they cannot pay all at once. The longer the member takes to pay, the more interest they are charged. Because the employer is billed after the member payments are completed, they will be billed more because of the longer interest period, administrative rate, and possible Unfunded Actuarial Accrued Liability (UAAL) rate. The DRS billing data in Figure 2 are the most recent figures for paid bills; other data are available for pending and cancelled bills.

History

SB 5522 and HB 1521 were introduced in the 2005 session. SB 5522 passed the legislature and was signed into law as Chapter 363, Laws of 2005. The legislation increased from twelve months to twenty-four months the allowable service credit PERS members could purchase for each period in which they were on TDD and were receiving workers' compensation payments. There was a cost to increasing the period members may purchase under this provision, but it was insufficient to increase the member or employer contribution rates.

This issue was not studied by the SCPP.

Policy Analysis

Provisional Differences in Washington Systems

The purchase of service credit for periods of TDD under PERS, SERS, PSERS, and LEOFF 2 is not provided as a contractual right.

The recent legislative change in the PERS provisions that govern the awarding of service credit for periods of on-the-job injury highlights the inconsistencies among the retirement systems administered by Washington State (Figure 3, below). The provisions related to the time that can be awarded vary from none in TRS to an unlimited amount in the WSPRS and LEOFF 1. The costs borne by members receiving such service credit range from *contributions plus interest* in PERS to a fully subsidized benefit in LEOFF 1.

The purchase of service credit for periods of TDD under PERS, SERS, PSERS, and LEOFF 2 is not provided as a contractual right.

Figure 3

Service Credit for Temporary Duty Disability in Washington Systems and Plans		
System	Time Limit	Cost to Member
PERS	24 consecutive months	Member contributions (plus interest if applicable)
SERS	12 consecutive months	Member contributions (plus interest if applicable)
TRS	No provision	No provision
PSERS	12 consecutive months	Member contributions (plus interest if applicable)
WSPRS	No limit	Member contributions
LEOFF 1	No limit	None
LEOFF 2	6 months per incident, 24 month total	Member contributions

Comparative Systems

There appears to be no particular consensus among the comparative systems on whether such a benefit should be available or what it should cost the member. The comparative systems show a range of provisions similar to that found in Washington systems (Figure 4). There are systems that do not allow members to purchase service credit for periods they were injured and not working (Colorado and Wisconsin), while others offer service credit for periods of injury (or leaves of absence) at no cost to the member (Missouri and Oregon).

Figure 4

Service Credit for Temporary Duty Disability In the Comparative Systems		
System	Time Limit	Cost to Member
California CalPERS	No limit	Member contributions plus interest
Colorado PERA	No provision	No provision
Florida FRS	No limit	Member contributions plus interest
Idaho PERSI	No limit	Full actuarial cost
Iowa IPERS	No limit	Full actuarial cost
Missouri MOSERS	12 month limit	None
Minnesota MSRS	No Limit	Member contributions plus interest if purchased at the conclusion of the leave period – full actuarial cost if paid later.
Ohio OPERS	3 year limit	None
Oregon OPSRS	No limit	None if member received workers' comp.
Seattle SCERS	No limit	20% of member contributions plus interest
Wisconsin WRS	No provision	No provision

Of the systems that do require member contributions, the Seattle City Employees' Retirement System (SCERS) requires the least expensive buy-in for the member. The City will cover 80 percent of normal contributions for a member on TDD. Upon returning to employment, employees have the option of accepting the prorated service credit or paying the remaining 20 percent of contributions to make it whole. If they choose to pay within five years of resuming

employment, they are charged 5.75 percent interest. If they choose to pay after five years of resuming employment, they are charged 7.75 percent interest.

Risk of Injury

A major factor driving a service credit purchase policy for TDD periods is the risk of becoming injured on-the-job and being unable to work. No job is free from the risk of injury, though some jobs are considerably less risky than others. Data from the Department of Labor and Industries in Figure 5 compares time-loss claims by select employers.

Figure 5

Workers Compensation Claims in Fiscal Year 2004 For Employers With Over 50 Employees Source: Labor and Industries	
Industry description	Claims per 200,000 Hours
Software Publishers	0.64
Elementary & Secondary Schools	6.51
Junior Colleges	3.27
Colleges, Universities, & Professional Schools	4.36
Executive Offices	6.09
Legislative Bodies	6.89
Public Finance Activities	1.38
Executive & Legislative Offices, Combined	9.69
Other General Government Support	9.39
Courts	1.15
Police Protection	13.32
Correctional Institutions	10.77
Fire Protection	12.42
Administration Of Education Programs	1.62
Administration Of Public Health Programs	5.18
Administration Of Human Resource Programs	5.03
Administration Of Veteran's Affairs	3.31
Administration Of Air & Water Resource & Solid Waste	4.82
Administration Of Conservation Programs	11.55
Administration Of Housing Programs	9.36
Administration Of Urban Planning & Community & Rural Programs	1.95
Regulation And Administration Of Transportation Programs	8.34
Regulation Of Agricultural Marketing And Commodities	6.21
Regulation, Licensing, And Inspection Of Miscellaneous Commodities	3.48

It is apparent that the frequency of claims is greater for public safety employees than for typical PERS, SERS, or TRS members, though there are some atypically high claims within the Administration of Conservation Programs because of the physical nature of many of those jobs.

The key difference between public safety employees and other public employees is the degree to which an injury can impede their job performance. A broken leg may be a painful inconvenience for a PERS member working in an office environment, but it would not necessarily stop that member from performing their job. In comparison, a broken leg would easily side-line a fire fighter. This sensitivity to injury requires a greater emphasis on physical fitness and safety procedures among members engaged in the public safety systems (PSERS, LEOFF, and WSPRS) than among members of other systems in general.

Figure 6

Temporary Duty Disability Bills Compared to Total Membership By System and Plan Source: DRS			
System / Plan	Total Bills	Total Membership	TDD Rate
SERS 2	49	20,424	0.24%
SERS 3	33	29,430	0.11%
LEOFF 2	589	14,754	3.99%
PERS 1	658	17,829	3.69%
PERS 2	906	118572	0.76%
PERS 3	73	19,855	0.37%
WSPRS 1	4	997	0.40%
Total	2,312	221,861	1.04%

Based on the most recent information, there were a total of 2,312 total TDD bills administered by DRS (Figure 6). Comparing the TDD bills to total plan membership provides a reasonable “rate” of TDD injury (except for WSPRS). While injured State Patrol members are eligible for workers’ compensation time-loss benefits, they are also eligible for WSPRS disability benefits administered by the Chief of the State Patrol. Because WSPRS disability benefits are off-set by L&I benefits, the great majority of WSPRS members who experience an injury do not apply for L&I.

The TDD rates vary considerably between the systems and plans. The highest rate is found in LEOFF 2 at almost 4 percent. Close behind is PERS 1 with a rate of almost 3.7 percent; PERS 1 is a closed plan whose membership is rapidly aging and more susceptible to injury. Other plans tend to have TDD rates well below 1 percent.

Injury Period

A tertiary policy issue related to service credit purchases for TDD periods is how much TDD time members should be allowed to purchase. Were injuries commonplace, or

Figure 7

Average Service Credit Purchase for Temporary Duty Disability by System and Plan Source: DRS	
System/Plan	Average Months Purchased
SERS 2	7.1
SERS 3	7.2
LEOFF 2	2.2
PERS 1	4.4
PERS 2	4.4
PERS 3	4.5
WSPRS 1	10.3
Total	4.0

typically so severe as to require lengthy rehabilitation, then policy-makers may think it appropriate to allow members to purchase similar periods of service credit. Based on the TDD optional bill data from DRS, the average TDD period being purchased is 4.0 months (Figure 7). This average varies by system, but not much by plan. PERS members purchased between 4.4 and 4.5 months of service. SERS members purchase 7.1 to 7.2 months of service. LEOFF 2 members purchase an average of 2.2 months; this shorter period is likely due to the fact that lesser injuries may impede a LEOFF member's duties.

The question then becomes what are the extremes experienced by workers on TDD? While the average TDD recuperation period may be four months, there may be individuals with considerably longer recovery periods. Instances of members purchasing the maximum service credit may indicate that they were injured for a longer period and are limited by the maximum service credit purchase period. Based on the most recent records from the Department, 144 service credit purchase bills for injury

periods were for the maximum allowed (Figure 8). Members of SERS have a relatively low number of total billings, but a significant share of those billings was for the maximum period allowed (twelve months).

Figure 8

Temporary Duty Disability Bills Compared to Maximum Service Bills By System and Plan Source: DRS			
System / Plan	Total Bills	Maximum Service Bills	% Max Bills
SERS 2	49	12	24.5%
SERS 3	33	5	15.2%
LEOFF 2	589	44	7.5%
PERS 1	658	37	5.6%
PERS 2	906	44	4.9%
PERS 3	73	2	2.7%
Total	2,308	144	6.2%

Service and Service Credit

Any provision related to purchasing service credit is likely to raise policy maker's concerns about possible conflicts with Internal Revenue Service (IRS) regulations. However, unlike the purchasing of "air time" where the service credit in question is not tied to any particular period of employment (actual service), members who are

injured and receiving TDD benefits are still considered "employed." Under the current permissibility standards, the linkage between TDD periods and actual service is reasonably firm. As a result, purchasing service credit for TDD periods – limited periods where the member is still considered officially employed – is unlikely to draw the ire of the IRS.

Cost Sharing

Another policy issue related to service credit purchases for TDD periods revolves around how much of the cost of such a purchase should be borne by the member, and how much by the employer. In PERS, SERS, PSERS, and LEOFF 2 plans there is a common cost-sharing method. For the period of disability, the member and the employer each pay whatever the contributions would have been were the member active; interest is also charged, if necessary. The actual amounts billed the member and employer will not necessarily be equal because of the differing interest periods and the differences in member and employer contribution rates (employers pay an additional Plan 1 UAAL rate and an administrative expense rate).

While considering improving the provisions allowing service credit purchases for TDD periods, policy-makers may also want to ask whether the current cost sharing policy is appropriate in all on-the-job injury situations. Are there instances when more of the cost should be borne by the employer or by the member?

Plan Consistency

A broad policy concern is that of plan consistency. It is a statutory policy within the Retirement Systems chapter that the systems and plans provide similar benefits wherever possible (RCW 41.50.005[1]). This issue illustrates what occurs when one system is awarded a benefit improvement exclusive from the other systems and creates dissimilarity where none existed before. Members of other systems excluded from such legislation will inevitably request equal treatment, particularly if there is no discernable reason for the difference. This could be called the elastic band effect – one system stretches out a benefit “lead” and the other systems scramble to catch up.

There are always cost concerns in such a benefit situation. The cost of expanding the service credit purchase for injury provision in PERS was not sufficient to increase contribution rates. Recent pricing calculations for the other systems show similarly small fiscal impacts.

Policy Questions

To help the committee decide on a course of action, members may want to deliberate via the following questions:

- ❖ Are the service credit purchase provisions for injury periods in Washington's retirement systems adequate?
 - ◆ Is the period of coverage adequate, should there be a limit?
 - ◆ Is the cost-sharing appropriate?
- ❖ Are the differences in the service credit purchase for injury provisions in Washington's retirement systems significant enough to warrant a statutory remedy?
- ❖ If the committee wants to pursue a legislative remedy, would they want to include TRS in that remedy?

Possible Options

Option 1

Allow members of PSERS and SERS to purchase up to two years of service credit for periods of temporary duty disability.

Policy Impact: Expanding the service credit purchase provisions for periods temporary duty disability in PSERS, and SERS would provide these members benefits equal to those in the Public Employee's Retirement System (PERS), thus maintaining system and plan consistency as is a goal within statutory retirement policy.

Fiscal Impact: Because of the small number of members who would be eligible for this benefit, the impact on the retirement funds would be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 2

Allow members of SERS to purchase up to two years of service credit for periods of temporary duty disability, and allow members of PSERS to purchase up to four years of service credit for periods of temporary duty disability.

Policy Impact: Expanding the service credit purchase provisions for periods of temporary duty disability in SERS would provide these members benefits equal to those in PERS, thus maintaining system and plan consistency as is a goal within statutory retirement policy. Expanding the service credit purchase provisions for periods temporary duty disability in PSERS to four years would acknowledge the greater inherent risk in public safety occupations.

Fiscal Impact: The increase in number of members who would experience extended TDD periods is minimal. The share of members purchasing the maximum time currently allowed is only 6.2 percent of all those purchasing service credit for TDD periods. The share purchasing service credit for longer periods would be a subset of that group. As a result, the impact on the retirement funds would continue to be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 3

Allow members of PERS, SERS, and PSERS to purchase service credit for all periods of temporary duty disability.

Policy Impact: Allowing service credit to be purchased for all periods of temporary duty disability would provide members benefits equal to the injury risk inherent in each system, thus maintaining system and plan consistency as is a goal within statutory retirement policy.

Fiscal Impact: The increase in members eligible to purchase the additional TDD time is minimal. The number of members purchasing the maximum time

currently allowed is only 6.2 percent of all those purchasing service credit for TDD periods. As a result, the impact on the retirement funds would continue to be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 4

Include members of TRS in any proposal.

Policy Impact: Including TRS members in any service credit purchase proposal would be in keeping with maintaining system and plan consistency as is a goal with statutory retirement policy.

Fiscal Impact: Giving TRS members the statutory authority to purchase service credit for TDD periods would, in many instances, codify existing human resource and contractual practices. As there is no significant difference in injury frequency among school employees compared to other non-public safety employees, the cost to the retirement system would be similarly negligible and insufficient to increase contribution rates, be it for a two year statutory period or for an unlimited statutory period. As with the other systems, there would be budgetary impacts, as employers would continue to be responsible for contribution and interest payments for those employees making such a purchase.

Executive Committee Recommendation

At the September 19, 2006 meeting, the Executive Committee of the SCPP recommended that a bill and fiscal note be prepared for Option 1 including LEOFF 2 and TRS – allowing members of PSERS, SERS, LEOFF 2 and TRS to purchase up to twenty-four consecutive months of service

credit for each period of temporary duty disability. The bill and fiscal note were forwarded to the full committee for possible executive action.

Committee Recommendation

At the November 21st meeting of the SCPP, the full committee recommended that a bill be forwarded to the 2007 legislature that would allow members of PSERS, SERS, LEOFF 2, and TRS to purchase up to twenty-four consecutive months of service credit for each period of temporary duty disability.

Bill Draft

Attached.

Fiscal Note (Draft)

Attached.

Stakeholder Correspondence

Kelly Fox, Chair, LEOFF Plan 2 Board

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0244.4/07 4th draft

ATTY/TYPIST: LL:bat

BRIEF DESCRIPTION: Purchasing service credit for periods of temporary duty disability in the law enforcement officers' and fire fighters' retirement system plan 2, the teachers' retirement system, the school employees' retirement system, and the public safety employees' retirement system.

1 AN ACT Relating to purchasing service credit for periods of
2 temporary duty disability in the law enforcement officers' and fire
3 fighters' retirement system plan 2, the teachers' retirement system,
4 the school employees' retirement system, and the public safety
5 employees' retirement system; amending RCW 41.35.070 and 41.37.060;
6 adding a new section to chapter 41.26 RCW; adding a new section to
7 chapter 41.32 RCW; providing an effective date; and declaring an
8 emergency.

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

10 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.26 RCW
11 under the subchapter heading "plan 2" to read as follows:

12 Those members subject to this chapter who became disabled in the
13 line of duty on or after July 1, 2002, and who received or are
14 receiving benefits under Title 51 RCW or a similar federal workers'
15 compensation program shall receive or continue to receive service
16 credit subject to the following:

17 (1) No member may receive more than one month's service credit in
18 a calendar month.

1 (2) No service credit under this section may be allowed after a
2 member separates or is separated without leave of absence.

3 (3) Employer contributions shall be paid by the employer at the
4 rate in effect for the period of the service credited.

5 (4) Employee contributions shall be collected by the employer and
6 paid to the department at the rate in effect for the period of service
7 credited.

8 (5) State contribution shall be as provided in RCW 41.45.060 and
9 41.45.067.

10 (6) Contributions shall be based on the regular compensation which
11 the member would have received had the disability not occurred. If
12 contribution payments are made retroactively, interest shall be charged
13 at the rate set by the director on both employee and employer
14 contributions. Service credit shall not be granted until the employee
15 contribution has been paid.

16 (7) The service and compensation credit shall not be granted for a
17 period to exceed twenty-four consecutive months.

18 (8) This section does not abridge service credit rights granted in
19 RCW 41.26.470(3). However, members receiving service credit under RCW
20 41.26.470(3) may not receive service credit under this section.

21 (9) Should the legislature revoke the service credit authorized
22 under this section or repeal this section, no affected employee is
23 entitled to receive the credit as a matter of contractual right.

24 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW
25 under the subchapter heading "provisions applicable to plan 1, plan 2,
26 and plan 3" to read as follows:

27 Those members subject to this chapter who became disabled in the
28 line of duty and who received or are receiving benefits under Title 51
29 RCW or a similar federal workers' compensation program shall receive or
30 continue to receive service credit subject to the following:

31 (1) No member may receive more than one month's service credit in
32 a calendar month.

33 (2) No service credit under this section may be allowed after a
34 member separates or is separated without leave of absence.

35 (3) Employer contributions shall be paid by the employer at the
36 rate in effect for the period of the service credited.

1 (4) Employee contributions shall be collected by the employer and
2 paid to the department at the rate in effect for the period of service
3 credited.

4 (5) Contributions shall be based on the regular compensation which
5 the member would have received had the disability not occurred. If
6 contribution payments are made retroactively, interest shall be charged
7 at the rate set by the director on both employee and employer
8 contributions. Service credit shall not be granted until the employee
9 contribution has been paid.

10 (6) The service and compensation credit shall not be granted for a
11 period to exceed twenty-four consecutive months.

12 (7) Should the legislature revoke the service credit authorized
13 under this section or repeal this section, no affected employee is
14 entitled to receive the credit as a matter of contractual right.

15 **Sec. 3.** RCW 41.35.070 and 1998 c 341 s 8 are each amended to read
16 as follows:

17 Those members subject to this chapter who became disabled in the
18 line of duty and who received or are receiving benefits under Title 51
19 RCW or a similar federal workers' compensation program shall receive or
20 continue to receive service credit subject to the following:

21 (1) No member may receive more than one month's service credit in
22 a calendar month.

23 (2) No service credit under this section may be allowed after a
24 member separates or is separated without leave of absence.

25 (3) Employer contributions shall be paid by the employer at the
26 rate in effect for the period of the service credited.

27 (4) Employee contributions shall be collected by the employer and
28 paid to the department at the rate in effect for the period of service
29 credited.

30 (5) Contributions shall be based on the regular compensation which
31 the member would have received had the disability not occurred. If
32 contribution payments are made retroactively, interest shall be charged
33 at the rate set by the director on both employee and employer
34 contributions. No service credit shall be granted until the employee
35 contribution has been paid.

36 (6) The service and compensation credit shall not be granted for a
37 period to exceed (~~twelve~~) twenty-four consecutive months.

1 (7) Should the legislature revoke the service credit authorized
2 under this section or repeal this section, no affected employee is
3 entitled to receive the credit as a matter of contractual right.

4 **Sec. 4.** RCW 41.37.060 and 2004 c 242 s 9 are each amended to read
5 as follows:

6 Those members subject to this chapter who became disabled in the
7 line of duty and who received or are receiving benefits under Title 51
8 RCW or a similar federal workers' compensation program shall receive or
9 continue to receive service credit subject to the following:

10 (1) No member may receive more than one month's service credit in
11 a calendar month.

12 (2) No service credit under this section may be allowed after a
13 member separates or is separated without leave of absence.

14 (3) Employer contributions shall be paid by the employer at the
15 rate in effect for the period of the service credited.

16 (4) Employee contributions shall be collected by the employer and
17 paid to the department at the rate in effect for the period of service
18 credited.

19 (5) Contributions shall be based on the regular compensation which
20 the member would have received had the disability not occurred. If
21 contribution payments are made retroactively, interest shall be charged
22 at the rate set by the director on both employee and employer
23 contributions. Service credit shall not be granted until the employee
24 contribution has been paid.

25 (6) The service and compensation credit shall not be granted for a
26 period to exceed (~~twelve~~) twenty-four consecutive months.

27 (7) Should the legislature revoke the service credit authorized
28 under this section or repeal this section, no affected employee is
29 entitled to receive the credit as a matter of contractual right.

30 NEW SECTION. **Sec. 5.** This act is necessary for the immediate
31 preservation of the public peace, health, or safety, or support of the
32 state government and its existing public institutions, and takes effect
33 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	11/6/06	Z-0244.4

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2), the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS), and the Public Safety Employees' Retirement System (PSERS) by allowing members who were injured in the course of employment to receive up to twenty-four consecutive months of service credit for each injury recovery period. These periods are also known as temporary duty disability (TDD) periods. To receive this service credit, a member must have received benefits for the injury period under Title 51 (Industrial Insurance). The member must pay the required employee contributions for the TDD period; if the payments are retroactive, interest will be charged at a rate set by the Director of the Department of Retirement Systems. After the member contributions are made, the employer will then be billed for the employer contributions for the TDD period; if the payments are retroactive, interest will also be charged; in LEOFF 2, the State is also billed for contributions.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, members of LEOFF 2 may receive up to six consecutive months of service credit for each TDD period. To be eligible, members must have received the employer-provided "leave supplement" amount. Members may purchase the service credit for each TDD period by paying the member contributions for the period. The employer and State are also required to pay the appropriate contributions. Neither the member, employer, nor State are charged recovery interest. Members who are injured longer than six consecutive months may purchase the service credit for the period beyond six months by paying the member and employer contributions plus interest under the "leave of absence" provisions. If the employer is a city or town with a population of less than twenty-five hundred, or a county with a population of less than ten thousand, they are not required to pay the "leave supplement" amount; a member of such an employer may purchase service credit for a TDD period by paying the member and employer contributions plus interest under the "leave of absence" provisions.

Currently, members of SERS and PSERS may receive up to twelve consecutive months of service credit for each TDD period. Members must have received time-loss benefits under Title 51, and they must pay the member contributions plus interest for the TDD period. After the member pays their contributions plus interest, the member's employer is billed for the employer contributions plus interest.

Currently, members of TRS have no statutory provision allowing for the purchase of service credit for on-the-job injury periods.

MEMBERS IMPACTED:

We estimate that each year two members out of the 67,270 active TRS membership would become disabled by duty-related injuries (2.97 per 100,000 members).

We estimate that for a typical TRS member impacted by this bill, the increase in benefits would be \$172 per month if an extra assumed two years of service is purchased (service above the 0 months available for purchase under current law).

We estimate that each year less than one member out of an estimated 2,000 active PSERS membership would become disabled by duty-related injuries (10.6 per 100,000 members).

We estimate that for a typical PSERS member impacted by this bill, the increase in benefits would be \$49 per month if an extra assumed one year of service is purchased (service above the 12 months available for purchase under current law).

We estimate that each year five members out of the 50,350 active SERS membership would become disabled by duty-related injuries (9.9 per 100,000 members).

We estimate that for a typical SERS member impacted by this bill, the increase in benefits would be \$18 per month if an extra assumed one year of service is purchased (service above the 12 months available for purchase under current law).

We estimate that each year two members out of the 15,168 active LEOFF 2 membership would become disabled by duty-related injuries (13.2 per 100,000 members).

We estimate that for a typical LEOFF 2 member impacted by this bill, the increase in benefits would be \$159 per month if an extra assumed 1.5 years of service is purchased (service above the six months available for purchase under current law). See next section for assumptions.

Of the members assumed to have duty disabilities, not all are expected to return to work. It is further assumed that of those who do return to work, not all will elect to purchase and restore service credit.

ASSUMPTIONS:

We assume that all affected members will purchase their first full year of service and 25% will purchase their full second year of service. This assumption is in conjunction with a staff presentation to the SCPP at their June 20, 2006 meeting that showed the percentages of members that bought the maximum service under current law. We used the highest number to show a worst case scenario. We further assume that each affected member will remain employed and retire at his or her plan's average projected retirement age.

To estimate the number of members impacted each year, we applied the disability rates (includes duty and non-duty) in the 2005 Actuarial Valuation Report to our projections. We further assume that 10% of all disabilities are duty-related.

FISCAL IMPACT:

None.

While the bill would increase the liability in the affected systems, the cost of this bill is insufficient to increase the member or employer contribution rates in any of the affected systems.

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 preliminary September 30, 2005 actuarial valuation report.
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 2007 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.



STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD

P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

March 9, 2006

RECEIVED

MAR 10 2006

Office of
The State Actuary

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to congratulate you on another successful legislative session.

I want to bring three topics to your attention as you begin preparations for the 2006 interim. It is my hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to develop legislation. Two of these topics, Dual Membership Corrections and Service Credit Purchase for Duty-Related Injury, came up in 2005 and were deferred by both the SCPP and the Board for full study in 2006. The third topic, Adding an Inflationary Adjustment to the \$150,000 Death Benefit, arose as a result of Board legislation in the 2006 session.

I have provided a brief summary of each topic for your reference:

Dual Membership

The Board studied impacts of making changes to the current dual membership statutes last year. Under the current portability statutes (RCW 41.54), there are situations where a member's pension benefits would seem to be unnecessarily penalized, if the member changes careers. Changes to the dual membership statutes studied by the Board included:

- Easing restrictions on total service credit if a Plan 2 member has less than 15 years of Plan 1 service.
- Adding indexing to all plans that allow shared service to qualify for indexing.
- Redefining base salary so that payments defined as salary or compensation, in both dual member systems, would be included in base salary.



Service Credit Purchase for Duty-Related Injury

The Legislature passed a bill in the 2004 session, which increased the period of service credit that could be purchased by a PERS member, who is on a leave of absence for a duty-related injury. The Board would like to study extending this policy to other pension plans, including LEOFF Plan 2.

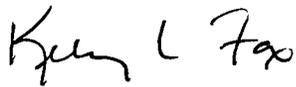
Inflationary Adjustment for \$150,000 Death Benefit

As you may be aware, the Board recommended legislation on this topic in 2006 (SHB 2933 - Death Benefit for Occupational Illnesses), which was passed with an amendment removing the annual inflation increase. Since other retirement plans also provide a lump-sum death benefit, legislators expressed an interest in the Board working with the SCPP to study the effect of adding this inflationary adjustment to all the plans.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or like any additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) (360) 943-3030 or pres@wscff.org.

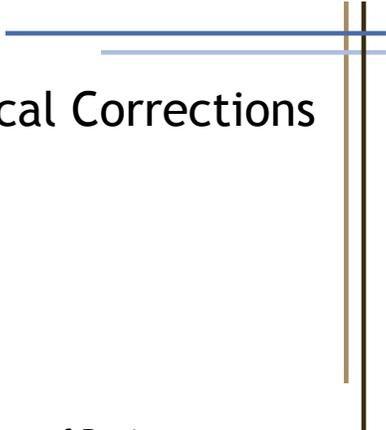
We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,



Kelly Fox, Chair

cc: Matt Smith, State Actuary



Technical Corrections

Background

Technical corrections were identified by the Department of Retirement Systems as necessary for consistency with changes in Washington's public pension laws in recent years. They include the addition of appropriate cross-references and other updates. The majority of corrections are needed to implement the new PSERS plan.

Committee Activity

Presentation:

November 21, 2006 - Executive Committee

Proposal:

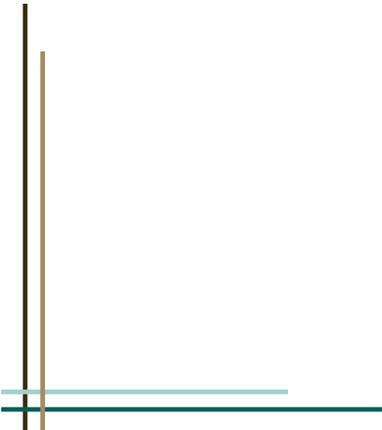
December 12, 2006 - Full Committee

Recommendation to Legislature

See the Sectional Analysis which follows for a summary of the technical corrections included in the bill.

Staff Contact

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



In Brief

BILL

The corrections, which have been identified by the Department of Retirement Systems (DRS), are necessitated by changes to Washington's public pension law in recent years. They include the addition of appropriate cross-references and other updates needed for consistency with the recent changes. The majority of corrections concern implementation of the new Public Safety Employees' Retirement System (PSERS).

BILL DRAFT

Attached.

FISCAL NOTE (DRAFT)

Attached.

Laura Harper
 Senior Research Analyst,
 Legal
 (360) 786-6145
 harper.laura@leg.wa.gov

Technical Corrections

Z-0300.1

Sectional Analysis

Section	RCW Amended	Provision
1	6.15.020	Re: Personal property exemptions: add reference to PSERS.
2	41.32.835	Re: Consolidation of local government unit and first class city retirement system: add references to PSERS.
3	41.04.440	Re: Employer pick-up of member contributions: add references to SERS and PSERS.
4	41.04.445	Re: Employer pick-up of member contributions: add reference to PSERS.
5	New 41.04.450	Re: Employer pick-up of member contributions: add reference to PSERS.
6	41.05.320	Re: Benefits contribution plan, HCA: add references to SERS and PSERS.
7	41.24.400	Re: Enrollment of reserve officers: add references to SERS and PSERS.
8	41.26.195	Re: LEOFF service credit transfers from other retirement systems: add reference to PSERS.
9	41.31A.020	Re: Plan 3 Gain-sharing: update vesting requirements for consistency with new law.
10	41.37.010	Re: PSERS definitions: correct an error in a cross-reference under (6)(b)(iv) and update definition of "eligible position" under (22) for consistency with definition of member.
11	41.45.203	Re: TRS contribution rates for justices and judges: update for consistency.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0300.1/07

ATTY/TYPIST: LL:ads

BRIEF DESCRIPTION: Making technical corrections in the public retirement systems.

1 AN ACT Relating to technical corrections in the public retirement
2 systems; amending RCW 41.04.410, 41.04.440, 41.04.445, 41.04.450,
3 41.05.320, 41.24.400, 41.26.195, 41.31A.020, 41.37.010, and 41.45.203;
4 reenacting and amending RCW 6.15.020; and creating a new section.

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

6 **Sec. 1.** RCW 6.15.020 and 1999 c 81 s 1 and 1999 c 42 s 603 are
7 each reenacted and amended to read as follows:

8 (1) It is the policy of the state of Washington to ensure the well-
9 being of its citizens by protecting retirement income to which they are
10 or may become entitled. For that purpose generally and pursuant to the
11 authority granted to the state of Washington under 11 U.S.C. Sec.
12 522(b)(2), the exemptions in this section relating to retirement
13 benefits are provided.

14 (2) Unless otherwise provided by federal law, any money received by
15 any citizen of the state of Washington as a pension from the government
16 of the United States, whether the same be in the actual possession of
17 such person or be deposited or loaned, shall be exempt from execution,
18 attachment, garnishment, or seizure by or under any legal process
19 whatever, and when a debtor dies, or absconds, and leaves his or her

1 family any money exempted by this subsection, the same shall be exempt
2 to the family as provided in this subsection. This subsection shall
3 not apply to child support collection actions issued under chapter
4 26.18, 26.23, or 74.20A RCW, if otherwise permitted by federal law.

5 (3) The right of a person to a pension, annuity, or retirement
6 allowance or disability allowance, or death benefits, or any optional
7 benefit, or any other right accrued or accruing to any citizen of the
8 state of Washington under any employee benefit plan, and any fund
9 created by such a plan or arrangement, shall be exempt from execution,
10 attachment, garnishment, or seizure by or under any legal process
11 whatever. This subsection shall not apply to child support collection
12 actions issued under chapter 26.18, 26.23, or 74.20A RCW if otherwise
13 permitted by federal law. This subsection shall permit benefits under
14 any such plan or arrangement to be payable to a spouse, former spouse,
15 child, or other dependent of a participant in such plan to the extent
16 expressly provided for in a qualified domestic relations order that
17 meets the requirements for such orders under the plan, or, in the case
18 of benefits payable under a plan described in sections 403(b) or 408 of
19 the internal revenue code of 1986, as amended, or section 409 of such
20 code as in effect before January 1, 1984, to the extent provided in any
21 order issued by a court of competent jurisdiction that provides for
22 maintenance or support. This subsection shall not prohibit actions
23 against an employee benefit plan, or fund for valid obligations
24 incurred by the plan or fund for the benefit of the plan or fund.

25 (4) For the purposes of this section, the term "employee benefit
26 plan" means any plan or arrangement that is described in RCW 49.64.020,
27 including any Keogh plan, whether funded by a trust or by an annuity
28 contract, and in sections 401(a) or 403(a) of the internal revenue code
29 of 1986, as amended; or that is a tax-sheltered annuity described in
30 section 403(b) of such code or an individual retirement account
31 described in section 408 of such code; or a Roth individual retirement
32 account described in section 408A of such code; or a medical savings
33 account described in section 220 of such code; or an education
34 individual retirement account described in section 530 of such code; or
35 a retirement bond described in section 409 of such code as in effect
36 before January 1, 1984. The term "employee benefit plan" also means
37 any rights accruing on account of money paid currently or in advance
38 for purchase of tuition units under the advanced college tuition

1 payment program in chapter 28B.95 RCW. The term "employee benefit
2 plan" shall not include any employee benefit plan that is established
3 or maintained for its employees by the government of the United States,
4 by the state of Washington under chapter 2.10, 2.12, 41.26, 41.32,
5 41.34, 41.35, 41.37, 41.40, or 43.43 RCW or RCW 41.50.770, or by any
6 agency or instrumentality of the government of the United States.

7 (5) An employee benefit plan shall be deemed to be a spendthrift
8 trust, regardless of the source of funds, the relationship between the
9 trustee or custodian of the plan and the beneficiary, or the ability of
10 the debtor to withdraw or borrow or otherwise become entitled to
11 benefits from the plan before retirement. This subsection shall not
12 apply to child support collection actions issued under chapter 26.18,
13 26.23, or 74.20A RCW, if otherwise permitted by federal law. This
14 subsection shall permit benefits under any such plan or arrangement to
15 be payable to a spouse, former spouse, child, or other dependent of a
16 participant in such plan to the extent expressly provided for in a
17 qualified domestic relations order that meets the requirements for such
18 orders under the plan, or, in the case of benefits payable under a plan
19 described in sections 403(b) or 408 of the internal revenue code of
20 1986, as amended, or section 409 of such code as in effect before
21 January 1, 1984, to the extent provided in any order issued by a court
22 of competent jurisdiction that provides for maintenance or support.

23 (6) Unless contrary to applicable federal law, nothing contained in
24 subsection (3), (4), or (5) of this section shall be construed as a
25 termination or limitation of a spouse's community property interest in
26 an individual retirement account held in the name of or on account of
27 the other spouse, the account holder spouse. At the death of the
28 nonaccount holder spouse, the nonaccount holder spouse may transfer or
29 distribute the community property interest of the nonaccount holder
30 spouse in the account holder spouse's individual retirement account to
31 the nonaccount holder spouse's estate, testamentary trust, inter vivos
32 trust, or other successor or successors pursuant to the last will of
33 the nonaccount holder spouse or the law of intestate succession, and
34 that distributee may, but shall not be required to, obtain an order of
35 a court of competent jurisdiction, including a nonjudicial dispute
36 resolution agreement (~~((entered into pursuant to RCW 11.96.170))~~) or
37 other order entered under chapter 11.96A RCW, to confirm the
38 distribution. For purposes of subsection (3) of this section, the

1 distributee of the nonaccount holder spouse's community property
2 interest in an individual retirement account shall be considered a
3 person entitled to the full protection of subsection (3) of this
4 section. The nonaccount holder spouse's consent to a beneficiary
5 designation by the account holder spouse with respect to an individual
6 retirement account shall not, absent clear and convincing evidence to
7 the contrary, be deemed a release, gift, relinquishment, termination,
8 limitation, or transfer of the nonaccount holder spouse's community
9 property interest in an individual retirement account. For purposes of
10 this subsection, the term "nonaccount holder spouse" means the spouse
11 of the person in whose name the individual retirement account is
12 maintained. The term "individual retirement account" includes an
13 individual retirement account and an individual retirement annuity both
14 as described in section 408 of the internal revenue code of 1986, as
15 amended, a Roth individual retirement account as described in section
16 408A of the internal revenue code of 1986, as amended, and an
17 individual retirement bond as described in section 409 of the internal
18 revenue code as in effect before January 1, 1984. As used in this
19 subsection, an order of a court of competent jurisdiction includes an
20 agreement, as that term is used under RCW 11.96A.220.

21 **Sec. 2.** RCW 41.04.410 and 1984 c 184 s 24 are each amended to read
22 as follows:

23 If a consolidated employer is a participating member in the public
24 employees' retirement system under chapter 41.40 RCW prior to the
25 consolidation or in the public safety employees' retirement system
26 under chapter 41.37 RCW prior to the consolidation:

27 (1) All existing employees of the consolidated employer who are
28 active members of the public employees' or public safety employees'
29 retirement system immediately prior to the consolidation shall continue
30 to be members of that retirement system while employed by the
31 consolidated employer.

32 (2) All existing employees of the consolidated employer who are
33 active members of a first class city retirement system under chapter
34 41.28 RCW immediately prior to the consolidation shall cease to be
35 members of that system at the time of the consolidation and, if
36 eligible, shall immediately become members of the public employees' or
37 public safety employees' retirement system. However, any such active

1 member may, by a writing filed with the consolidated employer within
2 thirty days after the consolidation or within thirty days after March
3 15, 1984, whichever is later, irrevocably elect instead to continue to
4 be a member of the first class city retirement system, thereby forever
5 waiving any rights under the public employees' or public safety
6 employees' retirement system based upon employment with the
7 consolidated employer.

8 (3) Only prospective periods of qualifying service under the public
9 employees' or public safety employees' retirement system may be
10 established under this section.

11 **Sec. 3.** RCW 41.04.440 and 2000 c 247 s 1101 are each amended to
12 read as follows:

13 (1) The sole purpose of RCW 41.04.445 and 41.04.450 is to allow the
14 members of the retirement systems created in chapters 2.10, 2.12,
15 41.26, 41.32, 41.35, 41.37, 41.40, 41.34, and 43.43 RCW to enjoy the
16 tax deferral benefits allowed under 26 U.S.C. 414(h). Chapter 227,
17 Laws of 1984 does not alter in any manner the provisions of RCW
18 41.45.060, 41.45.061, and 41.45.067 which require that the member
19 contribution rates shall be set so as to provide fifty percent of the
20 cost of the respective retirement plans.

21 (2) Should the legislature revoke any benefit allowed under 26
22 U.S.C. 414(h), no affected employee shall be entitled thereafter to
23 receive such benefit as a matter of contractual right.

24 **Sec. 4.** RCW 41.04.445 and 2000 c 247 s 1102 are each amended to
25 read as follows:

26 (1) This section applies to all members who are:

27 (a) Judges under the retirement system established under chapter
28 2.10, 2.12, or 2.14 RCW;

29 (b) Employees of the state under the retirement system established
30 by chapter 41.32, 41.37, 41.40, or 43.43 RCW;

31 (c) Employees of school districts under the retirement system
32 established by chapter 41.32 or 41.40 RCW, except for substitute
33 teachers as defined by RCW 41.32.010;

34 (d) Employees of educational service districts under the retirement
35 system established by chapter 41.32 or 41.40 RCW; or

1 (e) Employees of community college districts under the retirement
2 system established by chapter 41.32 or 41.40 RCW.

3 (2) Only for compensation earned after the effective date of the
4 implementation of this section and as provided by section 414(h) of the
5 federal internal revenue code, the employer of all the members
6 specified in subsection (1) of this section shall pick up only those
7 member contributions as required under:

8 (a) RCW 2.10.090(1);

9 (b) RCW 2.12.060;

10 (c) RCW 2.14.090;

11 (d) RCW 41.32.263;

12 (e) RCW 41.32.350;

13 (f) RCW 41.40.330 (1) and (3);

14 (g) RCW 41.45.061 and 41.45.067;

15 (h) RCW 41.34.070;

16 (i) RCW 43.43.300; and

17 (j) RCW 41.34.040.

18 (3) Only for the purposes of federal income taxation, the gross
19 income of the member shall be reduced by the amount of the contribution
20 to the respective retirement system picked up by the employer.

21 (4) All member contributions to the respective retirement system
22 picked up by the employer as provided by this section, plus the accrued
23 interest earned thereon, shall be paid to the member upon the
24 withdrawal of funds or lump-sum payment of accumulated contributions as
25 provided under the provisions of the retirement systems.

26 (5) At least forty-five days prior to implementing this section,
27 the employer shall provide:

28 (a) A complete explanation of the effects of this section to all
29 members; and

30 (b) Notification of such implementation to the director of the
31 department of retirement systems.

32 **Sec. 5.** RCW 41.04.450 and 2003 c 294 s 1 are each amended to read
33 as follows:

34 (1) Employers of those members under chapters 41.26, 41.34, 41.35,
35 41.37, and 41.40 RCW who are not specified in RCW 41.04.445 may choose
36 to implement the employer pick up of all member contributions without
37 exception under RCW 41.26.080(1)(a), 41.26.450, 41.40.330(1),

1 41.45.060, 41.45.061, and 41.45.067 and chapter 41.34 RCW. If the
2 employer does so choose, the employer and members shall be subject to
3 the conditions and limitations of RCW 41.04.445 (3), (4), and (5) and
4 RCW 41.04.455.

5 (2) An employer exercising the option under this section may later
6 choose to withdraw from and/or reestablish the employer pick up of
7 member contributions only once in a calendar year following forty-five
8 days prior notice to the director of the department of retirement
9 systems.

10 **Sec. 6.** RCW 41.05.320 and 1995 1st sp.s. c 6 s 13 are each amended
11 to read as follows:

12 (1) Elected officials and all permanent employees of the state are
13 eligible to participate in the benefits contribution plan and
14 contribute amount(s) by agreement with the authority. The authority
15 may adopt rules to permit participation in the plan by temporary
16 employees of the state.

17 (2) Persons eligible under subsection (1) of this section may enter
18 into benefits contribution agreements with the state.

19 (3)(a) In the initial year of the medical flexible spending
20 arrangement or cafeteria plan, if authorized, an eligible person may
21 become a participant after the adoption of the plan and before its
22 effective date by agreeing to have a portion of his or her gross salary
23 contributed and deposited into a health care and other benefits account
24 to be used for reimbursement of expenses covered by the plan.

25 (b) After the initial year of the medical flexible spending
26 arrangement or cafeteria plan, if authorized, an eligible person may
27 become a participant for a full plan year, with annual benefit
28 selection for each new plan year made before the beginning of the plan
29 year, as determined by the authority, or upon becoming eligible.

30 (c) Once an eligible person elects to participate and the amount of
31 gross salary that he or she shall contribute and the benefit for which
32 the funds are to be used during the plan year is determined, the
33 agreement shall be irrevocable and may not be amended during the plan
34 year except as provided in (d) of this subsection. Prior to making an
35 election to participate in the (~~benefit[s]~~) benefits contribution
36 plan, the eligible person shall be informed in writing of all the

1 benefits and contributions that will occur as a result of such
2 election.

3 (d) The authority shall provide in the benefits contribution plan
4 that a participant may enroll, terminate, or change his or her election
5 after the plan year has begun if there is a significant change in a
6 participant's status, as provided by 26 U.S.C. Sec. 125 and the
7 regulations adopted under that section and defined by the authority.

8 (4) The authority shall establish as part of the benefits
9 contribution plan the procedures for and effect of withdrawal from the
10 plan by reason of retirement, death, leave of absence, or termination
11 of employment. To the extent possible under federal law, the authority
12 shall protect participants from forfeiture of rights under the plan.

13 (5) Any contribution under the benefits contribution plan shall
14 continue to be included as reportable compensation for the purpose of
15 computing the state retirement and pension benefits earned by the
16 employee pursuant to chapters 41.26, 41.32, 41.35, 41.37, 41.40, and
17 43.43 RCW.

18 **Sec. 7.** RCW 41.24.400 and 1999 c 148 s 31 are each amended to read
19 as follows:

20 (1) Except as provided in subsection (2) of this section, any
21 municipality may make provision by appropriate legislation and payment
22 of fees required by RCW 41.24.030(1) solely for the purpose of enabling
23 any reserve officer to enroll under the retirement pension provisions
24 of this chapter or fees required under RCW 41.24.030(1) to pay for the
25 costs of extending the relief provisions of this chapter to its reserve
26 officers.

27 (2) A reserve officer is not eligible to receive a benefit under
28 the retirement provisions of this chapter for service under chapter
29 41.26, 41.32, 41.35, 41.37, or 41.40 RCW.

30 (3) Every municipality shall make provisions for the collection and
31 payment of the fees required under this chapter, and shall continue to
32 make provisions for all reserve officers who come under this chapter as
33 long as they continue to be employed as reserve officers.

34 (4) Except as provided under RCW 41.24.450, a reserve officer is
35 not eligible to receive a benefit under the relief provisions of this
36 chapter.

1 **Sec. 8.** RCW 41.26.195 and 2003 c 294 s 2 are each amended to read
2 as follows:

3 Any member of the teachers' retirement system plans 1, 2, or 3, the
4 public employees' retirement system plans 1, 2, or 3, the public safety
5 employees' retirement system plan 2, the school employees' retirement
6 system plans 2 or 3, or the Washington state patrol retirement system
7 plans 1 or 2 who has previously established service credit in the law
8 enforcement officers' and fire fighters' retirement system plan 1 may
9 make an irrevocable election to have such service transferred to their
10 current retirement system and plan subject to the following conditions:

11 (1) If the individual is employed by an employer in an eligible
12 position, as of July 1, 1997, the election to transfer service must be
13 filed in writing with the department no later than July 1, 1998. If
14 the individual is not employed by an employer in an eligible position,
15 as of July 1, 1997, the election to transfer service must be filed in
16 writing with the department no later than one year from the date they
17 are employed by an employer in an eligible position.

18 (2) An individual transferring service under this section forfeits
19 the rights to all benefits as a member of the law enforcement officers'
20 and fire fighters' retirement system plan 1 and will be permanently
21 excluded from membership.

22 (3) Any individual choosing to transfer service under this section
23 will have transferred to their current retirement system and plan: (a)
24 All the individual's accumulated contributions; (b) an amount
25 sufficient to ensure that the employer contribution rate in the
26 individual's current system and plan will not increase due to the
27 transfer; and (c) all applicable months of service, as defined in RCW
28 41.26.030(14)(a).

29 (4) If an individual has withdrawn contributions from the law
30 enforcement officers' and fire fighters' retirement system plan 1, the
31 individual may restore the contributions, together with interest as
32 determined by the director, and recover the service represented by the
33 contributions for the sole purpose of transferring service under this
34 section. The contributions must be restored before the transfer can
35 occur and the restoration must be completed within the time limitations
36 specified in subsection (1) of this section.

37 (5) Any service transferred under this section does not apply to

1 the eligibility requirements for military service credit as defined in
2 RCW 41.40.170(3) or 43.43.260(3).

3 (6) If an individual does not meet the time limitations of
4 subsection (1) of this section, the individual may elect to restore any
5 withdrawn contributions and transfer service under this section by
6 paying the amount required under subsection (3)(b) of this section less
7 any employee contributions transferred.

8 **Sec. 9.** RCW 41.31A.020 and 2003 c 294 s 4 are each amended to read
9 as follows:

10 (1) On January 1, 2004, and on January 1st of even-numbered years
11 thereafter, the member account of a person meeting the requirements of
12 this section shall be credited by the extraordinary investment gain
13 amount.

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

16 (a) Any member of the teachers' retirement system plan 3, the
17 Washington school employees' retirement system plan 3, or the public
18 employees' retirement system plan 3 who earned service credit during
19 the twelve-month period from September 1st to August 31st immediately
20 preceding the distribution and had a balance of at least one thousand
21 dollars in their member account on August 31st of the year immediately
22 preceding the distribution; or

23 (b) Any person in receipt of a benefit pursuant to RCW 41.32.875,
24 41.35.680, or 41.40.820; or

25 (c) Any person who is a retiree pursuant to RCW 41.34.020(8) and
26 who:

27 (i) Completed ten service credit years; or

28 (ii) Completed five service credit years, including twelve service
29 months after attaining age (~~fifty-four~~) forty-four; or

30 (d) Any teacher who is a retiree pursuant to RCW 41.34.020(8) and
31 who has completed five service credit years by July 1, 1996, under plan
32 2 and who transferred to plan 3 under RCW 41.32.817; or

33 (e) Any classified employee who is a retiree pursuant to RCW
34 41.34.020(8) and who has completed five service credit years by
35 September 1, 2000, and who transferred to plan 3 under RCW 41.35.510;
36 or

1 (f) Any public employee who is a retiree pursuant to RCW
2 41.34.020(8) and who has completed five service credit years by March
3 1, 2002, and who transferred to plan 3 under RCW 41.40.795; or

4 (g) Any person who had a balance of at least one thousand dollars
5 in their member account on August 31st of the year immediately
6 preceding the distribution and who:

7 (i) Completed ten service credit years; or

8 (ii) Completed five service credit years, including twelve service
9 months after attaining age (~~fifty-four~~) forty-four; or

10 (h) Any teacher who had a balance of at least one thousand dollars
11 in their member account on August 31st of the year immediately
12 preceding the distribution and who has completed five service credit
13 years by July 1, 1996, under plan 2 and who transferred to plan 3 under
14 RCW 41.32.817; or

15 (i) Any classified employee who had a balance of at least one
16 thousand dollars in their member account on August 31st of the year
17 immediately preceding the distribution and who has completed five
18 service credit years by September 1, 2000, and who transferred to plan
19 3 under RCW 41.35.510; or

20 (j) Any public employee who had a balance of at least one thousand
21 dollars in their member account on August 31st of the year immediately
22 preceding the distribution and who has completed five service credit
23 years by March 1, 2002, and who transferred to plan 3 under RCW
24 41.40.795.

25 (3) The extraordinary investment gain amount shall be calculated as
26 follows:

27 (a) One-half of the sum of the value of the net assets held in
28 trust for pension benefits in the teachers' retirement system combined
29 plan 2 and 3 fund, the Washington school employees' retirement system
30 combined plan 2 and 3 fund, and the public employees' retirement system
31 combined plan 2 and 3 fund at the close of the previous state fiscal
32 year not including the amount attributable to member accounts;

33 (b) Multiplied by the amount which the compound average of
34 investment returns on those assets over the previous four state fiscal
35 years exceeds ten percent;

36 (c) Multiplied by the proportion of:

37 (i) The sum of the service credit on August 31st of the previous

1 year of all persons eligible for the benefit provided in subsection (1)
2 of this section; to

3 (ii) The sum of the service credit on August 31st of the previous
4 year of:

5 (A) All persons eligible for the benefit provided in subsection (1)
6 of this section;

7 (B) Any person who earned service credit in the teachers'
8 retirement system plan 2, the Washington school employees' retirement
9 system plan 2, or the public employees' retirement system plan 2 during
10 the twelve-month period from September 1st to August 31st immediately
11 preceding the distribution;

12 (C) Any person in receipt of a benefit pursuant to RCW 41.32.765,
13 41.35.420, or 41.40.630; and

14 (D) Any person with five or more years of service in the teachers'
15 retirement system plan 2, the Washington school employees' retirement
16 system plan 2, or the public employees' retirement system plan 2;

17 (d) Divided proportionally among persons eligible for the benefit
18 provided in subsection (1) of this section on the basis of their
19 service credit total on August 31st of the previous year.

20 (4) The legislature reserves the right to amend or repeal this
21 section in the future and no member or beneficiary has a contractual
22 right to receive this distribution not granted prior to that time.

23 **Sec. 10.** RCW 41.37.010 and 2006 c 309 s 2 are each amended to read
24 as follows:

25 The definitions in this section apply throughout this chapter,
26 unless the context clearly requires otherwise.

27 (1) "Retirement system" means the Washington public safety
28 employees' retirement system provided for in this chapter.

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

31 (3) "State treasurer" means the treasurer of the state of
32 Washington.

33 (4) "Employer" means the Washington state department of
34 corrections, the Washington state parks and recreation commission, the
35 Washington state gambling commission, the Washington state patrol, and
36 the Washington state liquor control board; any county corrections

1 department; any city corrections department not covered under chapter
2 41.28 RCW; or other employers employing statewide elective officials.

3 (5) "Member" means any employee employed by an employer on a full-
4 time basis:

5 (a) Who is in a position that requires completion of a certified
6 criminal justice training course and is authorized by their employer to
7 arrest, conduct criminal investigations, enforce the criminal laws of
8 the state of Washington, and carry a firearm as part of the job;

9 (b) Whose primary responsibility is to ensure the custody and
10 security of incarcerated or probationary individuals as a corrections
11 officer, probation officer, or jailer;

12 (c) Who is a limited authority Washington peace officer, as defined
13 in RCW 10.93.020, for an employer; or

14 (d) Whose primary responsibility is to supervise members eligible
15 under this subsection.

16 (6)(a) "Compensation earnable" for members, means salaries or wages
17 earned by a member during a payroll period for personal services,
18 including overtime payments, and shall include wages and salaries
19 deferred under provisions established pursuant to sections 403(b),
20 414(h), and 457 of the United States internal revenue code, but shall
21 exclude nonmoney maintenance compensation and lump sum or other
22 payments for deferred annual sick leave, unused accumulated vacation,
23 unused accumulated annual leave, or any form of severance pay.

24 (b) "Compensation earnable" for members also includes the following
25 actual or imputed payments, which are not paid for personal services:

26 (i) Retroactive payments to an individual by an employer on
27 reinstatement of the employee in a position, or payments by an employer
28 to an individual in lieu of reinstatement, which are awarded or granted
29 as the equivalent of the salary or wage which the individual would have
30 earned during a payroll period shall be considered compensation
31 earnable to the extent provided in this subsection, and the individual
32 shall receive the equivalent service credit;

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

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

1 (B) Such member's actual compensation earnable received for
2 nonlegislative public employment and legislative service combined. Any
3 additional contributions to the retirement system required because
4 compensation earnable under (b)(ii)(A) of this subsection is greater
5 than compensation earnable under (b)(ii)(B) of this subsection shall be
6 paid by the member for both member and employer contributions;

7 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
8 and 72.09.240;

9 (iv) Compensation that a member would have received but for a
10 disability occurring in the line of duty only as authorized by RCW
11 ((41.37.070)) 41.37.060;

12 (v) Compensation that a member receives due to participation in the
13 leave sharing program only as authorized by RCW 41.04.650 through
14 41.04.670; and

15 (vi) Compensation that a member receives for being in standby
16 status. For the purposes of this section, a member is in standby
17 status when not being paid for time actually worked and the employer
18 requires the member to be prepared to report immediately for work, if
19 the need arises, although the need may not arise.

20 (7) "Service" means periods of employment by a member on or after
21 July 1, 2006, for one or more employers for which compensation earnable
22 is paid. Compensation earnable earned for ninety or more hours in any
23 calendar month shall constitute one service credit month. Compensation
24 earnable earned for at least seventy hours but less than ninety hours
25 in any calendar month shall constitute one-half service credit month of
26 service. Compensation earnable earned for less than seventy hours in
27 any calendar month shall constitute one-quarter service credit month of
28 service. Time spent in standby status, whether compensated or not, is
29 not service.

30 Any fraction of a year of service shall be taken into account in
31 the computation of such retirement allowance or benefits.

32 (a) Service in any state elective position shall be deemed to be
33 full-time service.

34 (b) A member shall receive a total of not more than twelve service
35 credit months of service for such calendar year. If an individual is
36 employed in an eligible position by one or more employers the
37 individual shall receive no more than one service credit month during

1 any calendar month in which multiple service for ninety or more hours
2 is rendered.

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

5 (9) "Service credit month" means a month or an accumulation of
6 months of service credit which is equal to one.

7 (10) "Membership service" means all service rendered as a member.

8 (11) "Beneficiary" means any person in receipt of a retirement
9 allowance or other benefit provided by this chapter resulting from
10 service rendered to an employer by another person.

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

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

17 (14) "Average final compensation" means the member's average
18 compensation earnable of the highest consecutive sixty months of
19 service credit months prior to such member's retirement, termination,
20 or death. Periods constituting authorized leaves of absence may not be
21 used in the calculation of average final compensation except under RCW
22 41.37.290.

23 (15) "Final compensation" means the annual rate of compensation
24 earnable by a member at the time of termination of employment.

25 (16) "Annuity" means payments for life derived from accumulated
26 contributions of a member. All annuities shall be paid in monthly
27 installments.

28 (17) "Pension" means payments for life derived from contributions
29 made by the employer. All pensions shall be paid in monthly
30 installments.

31 (18) "Retirement allowance" means monthly payments to a retiree or
32 beneficiary as provided in this chapter.

33 (19) "Employee" or "employed" means a person who is providing
34 services for compensation to an employer, unless the person is free
35 from the employer's direction and control over the performance of work.
36 The department shall adopt rules and interpret this subsection
37 consistent with common law.

1 (20) "Actuarial equivalent" means a benefit of equal value when
2 computed upon the basis of such mortality and other tables as may be
3 adopted by the director.

4 (21) "Retirement" means withdrawal from active service with a
5 retirement allowance as provided by this chapter.

6 (22) "Eligible position" means any permanent, full-time(~~(, fully~~
7 ~~compensated))~~) position included in subsection (5) of this section.

8 (23) "Ineligible position" means any position which does not
9 conform with the requirements set forth in subsection (22) of this
10 section.

11 (24) "Leave of absence" means the period of time a member is
12 authorized by the employer to be absent from service without being
13 separated from membership.

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

17 (26) "Director" means the director of the department.

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

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

23 (29) "Plan" means the Washington public safety employees'
24 retirement system plan 2.

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

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

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

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

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

36 **Sec. 11.** RCW 41.45.203 and 2006 c 189 s 18 are each amended to
37 read as follows:

1 (1) The required employer contribution rate in support of teachers'
2 retirement system members employed as supreme court justices, court of
3 appeals judges, and superior court judges who elect to participate
4 under RCW 41.32.584(1), or who are newly elected or appointed after
5 January 1, 2007, shall equal the teachers' retirement system employer
6 contribution rate established under this chapter.

7 (2) The required contribution rate for members of the teachers'
8 retirement system plan 1 employed as supreme court justices, court of
9 appeals judges, and superior court judges who elect to participate
10 under RCW 41.32.584(1), or who are newly elected or appointed after
11 January 1, 2007, shall be the deductions established under RCW
12 41.50.235 plus (~~six and twenty six~~) three and seventy-six one-
13 hundredths percent of pay.

14 NEW SECTION. **Sec. 12.** Section 9 of this act is null and void, if
15 legislation is enacted during 2007 repealing RCW 41.31A.020.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/11/06	Z-0300.1

SUMMARY OF BILL:

This bill impacts the public employee retirement systems by adding appropriate cross-references and updates needed for consistency with recent changes to the Washington state retirement system laws. The following changes are included: References to PSERS are added to statutes concerning personal property exemptions, treatment of employees under consolidation of local government units and first class city retirement systems, employer pick-up provisions for member contributions, reportability of deferrals into the Health Care Authority's (HCA's) benefits contribution plan, the role of service credit in benefits for reserve officers, and LEOFF service credit transfers from other retirement systems. References to SERS are added to an employer pick-up provision, provisions regarding deferrals into HCA's benefits contribution plan, and provisions concerning the role of service credit in benefits for reserve officers. Plan 3 gain-sharing provisions are updated to be consistent with last year's plan 3 vesting law. An error is corrected in a cross-reference in one PSERS definition, and another PSERS definition (of "eligible position") is updated for consistency with the definition of "member. " Finally, TRS Plan 1 contribution rates for justices and judges who opt into the increased multiplier program are updated for consistency with PERS Plan 1 rates.

Effective Date: 90 days after the end of session

CURRENT SITUATION:

Current laws are missing the essential cross-references, updates and corrections identified above. These omissions involve oversights associated with the implementation of relatively recent changes in the retirement system laws. Without the technical corrections, there would be unintended omissions, disparate treatment of certain plan members as well as possible inconsistent applications of retirement system laws.

FISCAL IMPACT:

None.

Washington State Patrol Contribution Rate

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. 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 Select Committee on Pension Policy (SCPP) in 2004 and additional background material is available in the *2004 Interim Issues Projects Report* under Tab 18. This proposal was previously forwarded by the SCPP to the Legislature in 2006 (HB 2682).

Committee Activity

Proposal:

December 12, 2006 - 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

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In Brief

BILL

This bill changes the contribution rate setting formula for WSP.

BILL DRAFT

Attached.

FISCAL NOTE (DRAFT)

Attached.

STAKEHOLDER CORRESPONDENCE

Attached.

WSP Contribution Rates

Z-0299.1

Summary of Bill

This bill impacts the Washington State Patrol Retirement System (WSP).

The bill changes the WSP contribution rate setting formula as follows:

- The member contribution rate is one-third the total cost of the system (excluding certain employer-paid liabilities) not to exceed 7 percent.
- The employer contribution rate is the balance of the total required contribution rate.
- A minimum total contribution rate is established beginning July 1, 2009.

The bill sets the following contribution rates for the 2007-09 biennium:

- 4.47 percent member, and
- 9.98 percent employer.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0299.1/07

ATTY/TYPIST: LL:bat

BRIEF DESCRIPTION: Establishing contribution rates in the
Washington state patrol retirement system.

1 AN ACT Relating to contribution rates in the Washington state
2 patrol retirement system; amending RCW 41.45.0631; providing an
3 effective date; and declaring an emergency.

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

5 **Sec. 1.** RCW 41.45.0631 and 2006 c 94 s 2 are each amended to read
6 as follows:

7 (1) Beginning July 1, 2001, the required contribution rate for
8 members of the Washington state patrol retirement system shall be ((two
9 percent or equal to the employer rate adopted under RCW 41.45.060 and
10 41.45.070 for the Washington state patrol retirement system, whichever
11 is greater)) adopted under RCW 41.45.060 and 41.45.070, subject to the
12 following funding policies:

13 (a) The required member contribution rate shall be one-third of the
14 required total Washington state patrol retirement system contribution
15 rate or seven percent, whichever is less. The required basic employer
16 contribution rate shall be the balance of the total contribution rate.
17 The allocation formula between employer and employee shall be applied
18 only after the total Washington state patrol contribution rate has been

1 determined, and the determination shall include the application of any
2 minimum total contribution rate that may be in effect for the
3 Washington state patrol retirement system.

4 (b) The ((employee)) member contribution rate as determined under
5 (a) of this subsection shall not((, however,)) include any increase as
6 a result of distributions under RCW 43.43.270(2) for survivors of
7 members who became disabled under RCW 43.43.040(2) prior to July 1,
8 2006.

9 (c) Beginning July 1, 2009, a minimum total contribution rate is
10 established for the Washington state patrol retirement system. The
11 total Washington state patrol retirement system contribution rate as
12 adopted by the pension funding council and subject to revision by the
13 legislature may exceed, but shall not drop below, the established
14 minimum total contribution rate. The minimum total contribution rate
15 shall equal the total contribution rate required to fund seventy
16 percent of the Washington state patrol retirement system's normal cost
17 as calculated under the entry age normal cost method. Upon completion
18 of each biennial actuarial valuation, the state actuary shall review
19 the appropriateness of this minimum total contribution rate and
20 recommend to the legislature any adjustments as may be needed.

21 (2) Beginning July 1, 2007, through June 30, 2009, the resulting
22 required member contribution rate shall be 4.47 percent and the
23 resulting required basic employer contribution rate shall be 9.98
24 percent.

25 NEW SECTION. Sec. 2. This act is necessary for the immediate
26 preservation of the public peace, health, or safety, or support of the
27 state government and its existing public institutions, and takes effect
28 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/5/06	Z-0299.1

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 2007-09 biennium at 4.47 percent for members and 9.98 percent for the employer. Beginning July 1, 2007, the member contribution rate is one-third of the difference between the total cost of the system and the rate attributed to disbursements made under RCW 43.43.270 (2) for survivors of members who became disabled under RCW 43.43.040 (2) prior to July 1, 2006 (the retroactive liability resulting from the Truman law suit, hence forth to be referred to as the "Truman liability") or 7 percent, whichever is less. 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, 2007

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. Beginning July 1, 2007, the employer contribution rate will be 7.75 percent of pay and the employee contribution rate will be 6.70 percent of pay.

MEMBERS IMPACTED:

All 1,022 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. The decrease in member contributions would be offset by an increase in employer contributions.

ASSUMPTIONS:

For the current 50/50 rate split after the Truman liability, the total rate minus 1.05 percent is divided by two and rounded to determine the member rate. The employer rate is the difference between the total rate and the member rate.

The one-third member, two-thirds employer split would apply for all years beginning July 1, 2007. The member contribution rate is rounded to two decimal places after multiplying the total rate less the Truman liability, which has been calculated as 1.05 percent, 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 total rate of 14.45 percent for the 2007-09 biennium would have 1.05 percent subtracted, yielding the rate to be split of 13.40 percent. This rate is split with 4.47 percent for the member and the remaining 9.98 percent of the original total rate for the employer, effective July 1, 2007.

- A total rate of 13.05 percent, after subtracting 1.05 percent, would result in a member contribution of 4.00 percent and the state contribution rate would be 9.05 percent.
- A total rate of 26.05 percent, after subtracting 1.05 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 19.05 percent in this case.
- If the entry age normal cost rate were 20 percent, the minimum total contribution rate would be 14 percent. After subtracting 1.05 percent and dividing by three, the member and employer allocations would be 4.32 percent and 9.68 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 4.32 percent and the state contribution rate would be 9.68 percent.
- With a total rate of 26.05 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 19.05 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 22.40 percent, the floor would apply before subtracting 1.05 percent and 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 formula, proposed formula and proposed minimum are shown in the following table:

Year	Current Formula with Floor		Proposed Formula with Floor	
	50.00% Member	50.00% Employer	33.33% Member	66.67% Employer
2006-2007	4.51%	4.51%	N/A	N/A
2007-2008	6.70%	7.75%	4.47%	9.98%
2008-2009	6.70%	7.75%	4.47%	9.98%
2009 & Beyond	7.50%	8.54%	5.00%	11.04%

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 net of the Truman liability 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:

<i>(Dollars in Millions)</i>	System: Washington State Patrol		
	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to All Current Members)	\$803	\$0	\$803
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)	(\$80)	\$0	(\$80)
Increase in Contribution Rates: (Effective 9/1/2007)	2007-09	2009-11 & Beyond	
Member	(2.23%)	(2.50%)	
Employer/State	2.23%	2.50%	

Fiscal Budget Determinations:

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

Costs (in Millions):	<u>WSP</u>
2007-2009	
State:	
General Fund	\$0.3
Non-General Fund	<u>3.0</u>
Total State:	3.3
Local Government	0.0
Total Employer	3.3
Total Employee	(\$3.3)
2009-2011	
State:	
General Fund	\$0.4
Non-General Fund	<u>4.1</u>
Total State:	4.5
Local Government	0.0
Total Employer	4.5
Total Employee	(\$4.5)
2007-2032	
State:	
General Fund	\$10.0
Non-General Fund	<u>93.7</u>
Total State:	103.7
Local Government	0.0
Total Employer	103.7
Total Employee	(\$103.7)

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 preliminary September 30, 2005, 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. 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.
4. This draft fiscal note is intended for use only during the 2007 Legislative session.
5. 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.
6. 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 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 PATROL TROOPERS ASSOCIATION

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November 14, 2006

The Honorable Craig Pridemore, Chair
Select Committee on Pension Policy
5419 NE Chateau Drive
Vancouver, WA 98661

Dear Senator Pridemore,

It has come to our attention that the Select Committee on Pension Policy is considering two portability issues affecting the Washington State Patrol Retirement System. The first is a LEOFF 2 Board proposal that would include overtime in the base salary of the WSPRS portion for employees that have left the state patrol and subsequently entered the LEOFF 2 system. We are told that this change would cause a .02% increase in the contribution rate of current WSPRS members and the employer. The members of the Washington State Patrol Troopers Association are OPPOSED to this change at this time.

The second portability issue involves "active member status for former WSPRS members that leave the system before retirement eligibility and enter PERS 2" and establishes dual membership. An active WSPRS member can retire at age 55, however in inactive member can only exercise a retire option at age 60. To change this policy the active WSPRS members and employers contribution rate would be increased by .09%. The members of the Washington State Patrol Troopers Association are OPPOSED to this change as well.

We appreciate the work of the SCPP on the WSPRS Rate Stabilization bill and look forward to seeing that measure once again recommended to the 2007 Legislature. Rate stabilization is the number one priority policy issue for the members of the Troopers Association. We would like to see this policy approved by the legislature before any further costly changes to the system are introduced.

Thank you for your consideration.

Sincerely,

Tom Pillow
President

Cc: Representative Bill Fromhold