

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.

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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
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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