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.

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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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In Brief

BILL

This bill changes the contribution rate setting formula for WSP.

BILL DRAFT

Attached.

FISCAL NOTE (DRAFT)

Attached.

STAKEHOLDER CORRESPONDENCE

Attached.

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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.

AN ACT Relating to contribution rates in the Washington state patrol retirement system; amending RCW 41.45.0631; providing an effective date; and declaring an emergency.

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

Sec. 1. RCW 41.45.0631 and 2006 c 94 s 2 are each amended to read as follows:

(1) Beginning July 1, 2001, the required contribution rate for members of the Washington state patrol retirement system shall be ((~~two percent or equal to the employer rate adopted under RCW 41.45.060 and 41.45.070 for the Washington state patrol retirement system, whichever is greater~~)) adopted under RCW 41.45.060 and 41.45.070, subject to the following funding policies:

(a) The required member contribution rate shall be one-third of the required total Washington state patrol retirement system contribution rate or seven percent, whichever is less. The required basic employer contribution rate shall be the balance of the total contribution rate. The allocation formula between employer and employee shall be applied only after the total Washington state patrol contribution rate has been determined, and the determination shall include the application of any minimum total contribution rate that may be in effect for the Washington state patrol retirement system.

(b) The ((~~employee~~)) member contribution rate as determined under (a) of this subsection shall not((~~, however,~~)) include any increase as a result of distributions under RCW 43.43.270(2) for survivors of members who became disabled under RCW 43.43.040(2) prior to July 1, 2006.

(c) Beginning July 1, 2009, a minimum total contribution rate is established for the Washington state patrol retirement system. The total Washington state patrol retirement system contribution rate as adopted by the pension funding council and subject to revision by the legislature may exceed, but shall not drop below, the established minimum total contribution rate. The minimum total contribution rate shall equal the total contribution rate required to fund seventy percent of the Washington state patrol retirement system's normal cost as calculated under the entry age normal cost method. Upon completion of each biennial actuarial valuation, the state actuary shall review the appropriateness of this minimum total contribution rate and recommend to the legislature any adjustments as may be needed.

(2) Beginning July 1, 2007, through June 30, 2009, the resulting required member contribution rate shall be 4.47 percent and the resulting required basic employer contribution rate shall be 9.98 percent.

NEW SECTION. **Sec. 2.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect 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:

	Current Formula with Floor		Proposed Formula with Floor	
Year	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:

	System: Washington State Patrol		
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to All Current Members)	$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):	WSP
2007-2009	
State:	
General Fund	$0.3
Non-General Fund	3.0
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	4.1
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	93.7
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