

Select Committee on Pension Policy

P.O. Box 40914
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Regular Executive Committee Meeting

October 17, 2006

9:00 AM - 10:00 AM

1:00 PM - 3:00 PM

House Hearing Room C
Olympia

AGENDA

9:00 AM - 10:00 AM

9:00 AM (A) **OSA 07-09 Budget Request**, Matthew M. Smith, State Actuary

10:00 AM (B) **Adjourn**

1:00 PM - 3:00 PM

1:00 PM (C) **Approval of Minutes**

1:05 PM (D) **Constituent Correspondence**, Kelly Burkhart, Executive Assistant

1:15 PM (E) **State Actuary Evaluation**, Kelly Burkhart

1:30 PM (F) **Direction on Day's Agenda**

2:15 PM (G) **November Committee Meeting**

- 2005 actuarial valuation report
- PSERS membership report
- Gain-sharing
- \$150,000 death benefit
- Judges benefit multiplier
- Service credit purchase due to injury

3:00 PM (H) **Adjourn**

*Elaine M. Banks
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

*Representative Bill Fromhold,
Vice-Chair

Vacant
TRS and SERS Employers

Robert Keller
PERS Actives

*Sandra J. Matheson, Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

*Glenn Olson
PERS Employers

*Senator Craig Pridemore,
Chair

Diane Rae
TRS Actives

*J. Pat Thompson
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

* Executive Committee

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TDD: 1-800-635-9993

Select Committee on Pension Policy

2006 Interim Work Plan

(September 22, 2006)

May 16, 2006

WSIB update
Update on other states' pensions
Pension funding / accounting reforms

June 20, 2006

Dual membership
\$150,000 death benefit
Service credit purchase due to injury

July 18, 2006

Post retirement employment
Plan 1 funding method
Gain-sharing

August 22, 2006

Gain-sharing

September 19, 2006

Recommendation to PFC
\$150,000 death benefit
Service credit purchase due to injury
Judges benefit multiplier

October 17, 2006

Dual membership
Gain-sharing
Plan 1 funding method
Post-retirement employment
OSA 07-09 budget request

November 21, 2006

2005 actuarial valuation report
PSERS membership report
Gain-sharing
\$150,000 death benefit
Judges benefit multiplier
Service credit purchase due to injury

Subgroup

Plan 1 Funding Method

August 21, 2006

September 18, 2006

Members

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

December 12, 2006

2007 legislative proposals



WASHINGTON STATE LEGISLATURE
Office of the State Actuary

October 11, 2006

TO: Select Committee on Pension Policy (SCPP) Members

FROM: Matthew M. Smith, FCA, MAAA, EA, State Actuary

A handwritten signature in black ink, appearing to read "Matthew M. Smith".

SUBJECT: 2007-09 OSA BUDGET REQUEST

Enclosed please find a copy of the 2007-09 budget request for the Office of the State Actuary (OSA). SCPP Rule of Procedure 8(F) requires the State Actuary to submit the biennial budget request to the SCPP for approval. I plan to submit the agency budget request to the Office of Financial Management by no later than November 1, 2006.

The enclosed budget request includes the following items:

- description of agency mission;
- statutory authority;
- OSA organizational chart; and
- 2007-09 budget documents.

The proposed 2007-09 budget represents an increase of \$427,000 above the current 2005-07 biennial budget (14.1% increase). This increase is comprised of a \$31,000 increase to the agency's maintenance level budget (see attached budget documents) and \$396,000 to facilitate performance level changes (noted below).

The \$396,000 increase to facilitate performance level changes includes funding to implement the recommendations of the 2006 National Conference of State Legislatures (NCSL) salary survey for positions within the OSA and the addition of a full-time Associate Pension Actuary to the OSA staff.

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Funding Source

Funding for the agency's budget is provided from the Department of Retirement Systems (DRS) Expense Fund. This fund is supported by an administrative expense rate that is collected by DRS from all retirement system employers. The current DRS administrative expense rate is 0.18 percent. OSA's proposed 2007-09 budget request will not impact this expense rate.

Associate Pension Actuary

\$259,000 is requested to fund a permanent and full-time Associate Pension Actuary position. Requested funding would offset the cost of salary and wages, employee benefits, goods and services, training and capital outlays for this position over a two-year period.

The proposed additional position will allow OSA to support increased demands for actuarial services associated with the following:

Legislative program changes

- Creation of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (primary actuarial service provider for the Board)
- Creation of the Select Committee on Pension Policy (an increase in the number of meetings, subgroups, legislative options, and proposals that require actuarial pricing during the Interim)
- Creation of TRS, SERS and PERS Plans 3 and WSPRS Plan 2 (increased actuarial processing and number of calculations)
- Creation of PSERS Plan 2 (increased actuarial processing and number of calculations)

New services/responsibilities

- Support to and coordination with the Washington State Investment Board (cash-flow studies and asset-liability models)
- Support to the Health Care Authority and Office of Financial Management in calculating and accounting for other post-employment benefits (OPEB) under the new Government Accounting Standards Board (GASB) standards 43 and 45
- Support to the Treasurer's office for pension disclosures under bond prospectus

Existing services

- Increase in the number of statutory reports/studies; and
- Increased requests for actuarial public records.

The consequences of not funding this request would be to significantly hinder the agency's ability to respond to requests for additional actuarial services in the future. Under existing actuarial staffing resources, the 2008 economic and demographic experience studies, 2008 actuarial valuations, and associated audit cycle will substantially impact the agency's ability to respond to these increased demands during the 2007-09 biennium.

NCSL Salary Survey

\$137,000 is requested to increase staff salary ranges in accordance with the 2006 NCSL salary survey for positions within the OSA. Requested funding would offset the cost of salary, wages, and employee benefits to achieve parity with the current market-value salaries of comparable positions.

AGENCY MISSION

The Office of the State Actuary strives to ensure public faith and confidence in the Washington state retirement systems by providing reliable actuarial analysis and expert knowledge of pension issues for the Legislative and Executive Branches of the State of Washington.

The Office of the State Actuary is an agency within the Legislative Branch, functioning on two levels:

- (1) The first functional level is that of actuary. This function requires specific professional and technical qualifications to apply the mathematical procedures utilized in the data analysis and recommendations necessary for valuations and periodic experience studies.

Valuations determine the fiscal status of a retirement system in order to know the funding required. They are prepared annually on each of the seven retirement systems funded by the state and administered by the Department of Retirement Systems.

Experience studies determine the validity of assumptions used for valuations and the adequacy of the funding system being utilized. These are prepared on five-year cycles.

The Office provides an advisory and consulting role to the Legislature, Office of the Governor, Department of Retirement Systems and State Investment Board.

- (2) The second functional level is that of staff support to the Select Committee on Pension Policy. This function mirrors the activity performed by other legislative committees. That is, it researches issues or subject areas at the direction of the Select Committee, provides verbal and written testimony on its research findings, and prepares and/or evaluates proposed legislation.

STATUTORY AUTHORITY

The powers and duties of the Office of State Actuary specified in RCW 44.44.040 are:

The office of the state actuary shall have the following powers and duties:

- (1) Perform all actuarial services for the department of retirement systems, including all studies required by law.
- (2) Advise the legislature and the governor regarding pension benefit provisions, and funding policies and investment policies of the state investment board.
- (3) Consult with the legislature and the governor concerning determination of actuarial assumptions used by the department of retirement systems.
- (4) Prepare a report, to be known as the actuarial fiscal note, on each pension bill introduced in the legislature which briefly explains the financial impact of the bill. The actuarial fiscal note shall include: (a) The statutorily required contribution for the biennium and the following twenty-five years; (b) the biennial cost of the increased benefits if these exceed the required contribution; and (c) any change in the present value of the unfunded accrued benefits. An actuarial fiscal note shall also be prepared for all amendments which are offered in committee or on the floor of the house of representatives or the senate to any pension bill. However, a majority of the members present may suspend the requirement for an actuarial fiscal note for amendments offered on the floor of the house of representatives or the senate.
- (5) Provide such actuarial services to the legislature as may be requested from time to time.
- (6) Provide staff and assistance to the committee established under RCW 41.04.276.
- (7) Provide actuarial assistance to the law enforcement officers' and fire fighters' plan 2 retirement board as provided in chapter 2, Laws of 2003. Reimbursement for services shall be made to the state actuary under RCW 39.34.130 and section 5(5), chapter 2, Laws of 2003.

[2003 c 295 § 4; 2003 c 92 § 2; 1987 c 25 § 3; 1986 c 317 § 6;
1975-'76 2nd ex.s. c 105 § 22.]

The Select Committee on Pension Policy was established by Chapter 295, Laws of 2003, and codified in RCW 41.04.276, .278, and .281. These statutes state:

RCW 41.04.276

- (1) The select committee on pension policy is created. The select committee consists of:
 - (a) Four members of the senate appointed by the president of the senate, two of whom are members of the majority party and two of whom are members of the minority party. At least three of the appointees shall be members of the senate ways and means committee;
 - (b) Four members of the house of representatives appointed by the speaker, two of whom are members of the majority party and two of whom are members of the minority party. At least three of the appointees shall be members of the house of representatives appropriations committee;
 - (c) Four active members or representatives from organizations of active members of the state retirement systems appointed by the governor for staggered three-year terms, with no more than two appointees representing any one employee retirement system;
 - (d) Two retired members or representatives of retired members' organizations of the state retirement systems appointed by the governor for staggered three-year terms, with no two members from the same system;
 - (e) Four employer representatives of members of the state retirement systems appointed by the governor for staggered three-year terms; and
 - (f) The directors of the department of retirement systems and office of financial management.

- (2) (a) The term of office of each member of the house of representatives or senate serving on the committee runs from the close of the session in which he or she is appointed until the close of the next regular session held in an odd-numbered year. If a successor is not appointed during a session, the member's term continues until the member is reappointed or a successor is appointed. The term of office for a committee member who is a member of the house of representatives or the senate who does not continue as a member of the senate or house of representatives ceases upon the convening of the next session of the legislature during the odd-numbered year following the member's appointment, or upon the member's resignation, whichever is earlier. All vacancies of positions held by members of the legislature must be filled from the same political party and from the same house as the member whose seat was vacated.
 - (b) Following the terms of members and representatives appointed under subsection (1)(d) of this section, the retiree positions shall be rotated to ensure that each system has an opportunity to have a retiree representative on the committee.
- (3) The committee shall elect a chairperson and a vice-chairperson. The chairperson shall be a member of the senate in even-numbered years and a member of the house of representatives in odd-numbered years and the vice-chairperson shall be a member of the house of representatives in even-numbered years and a member of the senate in odd-numbered years.
- (4) The committee shall establish an executive committee of six members, including the chairperson, the vice-chairperson, one member from subsection (1)(c) of this section, one member from subsection (1)(d) of this section, one member from subsection (1)(e) of this section, and the director of the department of retirement systems.
- (5) Nonlegislative members of the select committee serve without compensation, but shall be reimbursed for travel expenses under RCW 43.03.050 and 43.03.060.
- (6) The office of state actuary under chapter 44.44 RCW shall provide staff and technical support to the committee.

[2005 c 24 § 1; 2003 c 295 § 1.]

RCW 41.04.278

- (1) The select committee on pension policy may form three function-specific subcommittees, as set forth under subsection (2) of this section, from the members under RCW 41.04.276(1) (a) through (e), as follows:
 - (a) A public safety subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e);
 - (b) An education subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e); and
 - (c) A state and local government subcommittee, with one retiree member under RCW 41.04.276(1)(d) and two members from each group under RCW 41.04.276(1) (a) through (c) and (e).

The retiree members may serve on more than one subcommittee to ensure representation on each subcommittee.

- (2)
 - (a) The public safety subcommittee shall focus on pension issues affecting public safety employees who are members of the law enforcement officers' and fire fighters', public safety employees', and Washington state patrol retirement systems.
 - (b) The education subcommittee shall focus on pension issues affecting educational employees who are members of the public employees', teachers', and school employees' retirement systems.
 - (c) The state and local government subcommittee shall focus on pension issues affecting state and local government employees who are members of the public employees' retirement system.

[2006 c 309 § 4; 2003 c 295 § 2.]

RCW 41.04.281

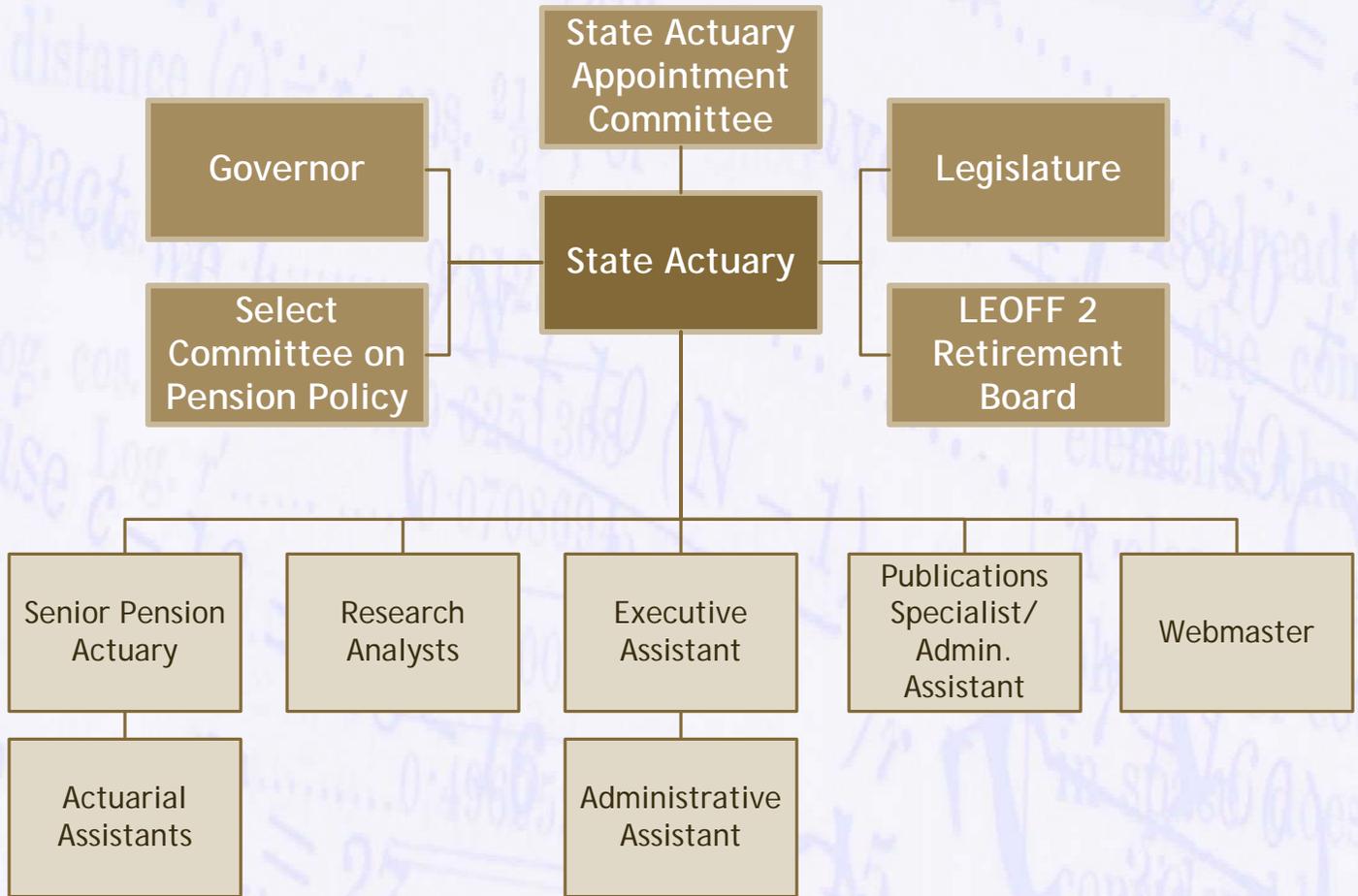
The select committee on pension policy has the following powers and duties:

- (1) Study pension issues, develop pension policies for public employees in state retirement systems, and make recommendations to the legislature;
- (2) Study the financial condition of the state pension systems, develop funding policies, and make recommendations to the legislature;
- (3) Consult with the chair and vice-chair on appointing members to the state actuary appointment committee upon the convening of the state actuary appointment committee established under RCW 44.44.013; and
- (4) Receive the results of the actuarial audits of the actuarial valuations and experience studies administered by the pension funding council pursuant to RCW 41.45.110. The select committee on pension policy shall study and make recommendations on changes to assumptions or contribution rates to the pension funding council prior to adoption of changes under RCW 41.45.030, 41.45.035, or 41.45.060.

The present members of the Select Committee on Pension Policy are:

Representative Barbara Bailey	Corky Mattingly - PERS Employers
*Elaine M. Banks - TRS Retirees	Doug Miller - PERS Employers
Lois Clement - PERS Retirees	Victor Moore, OFM Director
Representative Steve Conway	Senator Joyce Mulliken
Representative Larry Crouse	*Glenn Olson - PERS Employers
Senator Karen Fraser	*Senator Craig Pridemore, Chair
*Representative Bill Fromhold,	Diane Rae - TRS Active
Vice-Chair	Senator Mark Schoesler
Leland A. Goeke - TRS/SERS Employers	*J. Pat Thompson - PERS Active
Bob Keller - PERS Active	David Westberg - SERS Active
*Sandra J. Matheson, DRS Director	

* *Member of the Executive Committee*



Appropriation Period: 2007-09 Activity Version: BB - 07-09 Carry Forward Level

035 - Office of State Actuary

A001 Actuarial Analysis for Pensions and Investments

The Office of the State Actuary performs actuarial services for the Department of Retirement Systems; advises the Legislature and Governor regarding pension benefits, funding policies, and investment policies for the state retirement systems' assets; consults with the Legislature and Governor concerning determination of actuarial assumptions; prepares reports on each pension bill introduced in the Legislature; and provides such actuarial services to the Legislature as may be required.

	FY 2008	FY 2009	Biennial Total
FTE's	12.5	12.5	12.5
GFS	\$0	\$0	\$0
Other	\$1,757,518	\$1,692,171	\$3,449,689
Total	\$1,757,518	\$1,692,171	\$3,449,689

Statewide Result Area: Strengthen government's ability to achieve results efficiently and effectively

Expected Results

The professional service activities performed by the Office of the State Actuary provide state retirement system plan sponsors, participants, administrators, and other state retirement system stakeholders with complete, accurate, and objective fiscal and policy analysis. These professional service activities provide retirement system stakeholders with the actuarial and policy analysis required for the prudent governance of the state retirement systems.

Appropriation Period: 2007-09 Activity Version: BB - 07-09 Carry Forward Level

Grand Total

	FY 2008	FY 2009	Biennial Total
FTE's	12.5	12.5	12.5
GFS	\$0	\$0	\$0
Other	\$1,757,518	\$1,692,171	\$3,449,689
Total	\$1,757,518	\$1,692,171	\$3,449,689

State of Washington
Recommendation Summary

Agency: **035 Office of State Actuary**

2:07:23PM
 10/11/2006

Dollars in Thousands	Annual Average FTEs	General		Total Funds
		Fund State	Other Funds	
2005-07 Current Biennium Total	11.5		3,022	3,022
CL 0I Merit Pay Increases			16	16
CL 2B Central Service Agency Charges			(2)	(2)
CL 2I Pension Rate Biennialization			32	32
CL 2L Non-represented Salary COLA			(8)	(8)
CL 2M Nonrepresented Health Benefits			13	13
CL BB Actuarial Valuation System			(120)	(120)
Total Carry Forward Level	11.5		2,953	2,953
Percent Change from Current Biennium			(2.3)%	(2.3)%
Carry Forward plus Workload Changes	11.5		2,953	2,953
Percent Change from Current Biennium			(2.3)%	(2.3)%
M2 8L Lease Rate Adjustments			10	10
M2 98 General Inflation (OFM only)			7	7
M2 AD Merit Pay Increases			57	57
M2 BC Actuarial Valuation System			26	26
Total Maintenance Level	11.5		3,053	3,053
Percent Change from Current Biennium			1.0%	1.0%
PL CC NCSL Salary Survey			137	137
PL DD Associate Pension Actuary	1.0		259	259
Subtotal - Performance Level Changes	1.0		396	396
2007-09 Total Proposed Budget	12.5		3,449	3,449
Percent Change from Current Biennium	8.7%		14.1%	14.1%

M2 8L Lease Rate Adjustments

Funding is requested for an assumed 15% increase in our office space lease that expires October 31, 2008 and is subject to another 5-year renegotiation.

M2 98 General Inflation (OFM only)

Request funding for Implicit Price Deflator (IPD) per OFM memo dated September 15, 2006.

M2 AD Merit Pay Increases

Funding is requested for annual merit pay increases of 2.5% per year, per employee, consistent with legislative policy and procedures.

M2 BC Actuarial Valuation System

Funding is requested to correct the carry-forward level for our leased actuarial software. As a result, an increase in our 2007-09 maintenance level budget of \$26,000 per biennium is requested to accommodate the estimated \$106,000 lease cost of our actuarial software per biennium.

PL CC NCSL Salary Survey

Funding is requested to increase staff salary ranges in accordance with the recommendations of the 2006 NSCL salary survey for positions within the Office of the State Actuary.

PL DD Associate Pension Actuary

Funding is requested for the addition of a full-time Associate Pension Actuary position (range 25 of the Legislative Salary Schedule) to support increased demands for actuarial services (as noted below).

State of Washington
Agency Budget Request Decision Package Summary

(Lists only the agency Performance Level budget decision packages, in priority order)

Agency: **035 Office of State Actuary**

10/11/2006
9:12:34AM

Budget Period: **2007-09**

Decision Package

<u>Code</u>	<u>Decision Package Title</u>
PL-DD	Associate Pension Actuary
PL-CC	NCSL Salary Survey

State of Washington
Decision Package

FINAL

Agency: 035 Office of State Actuary
Decision Package Code/Title: 8L Lease Rate Adjustments
Budget Period: 2007-09
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

Funding is requested for an assumed 15% increase in our office space lease that expires October 31, 2008 and is subject to another 5-year renegotiation.

Fiscal Detail

Operating Expenditures	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State		9,944	9,944
Total Cost		9,944	9,944

Package Description:

See recommendation summary text. The 15% assumed increase was provided by the Department of General Administration.

Narrative Justification and Impact Statement

How contributes to strategic plan:

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Reason for change:

Office space lease is subject to renegotiation and is anticipated to increase 15% for a 5-year lease.

Impact on clients and services:

None.

October 11, 2006

Impact on other state programs:

None.

Relationship to capital budget:

None.

Required changes to existing RCW, WAC, contract, or plan:

None.

Alternatives explored by agency:

None.

Budget impacts in future biennia:

On-going cost.

Distinction between one-time and ongoing costs:

On-going cost.

Effects of non-funding:

Cost would be absorbed by agency, reducing funds available to continue current activities.

Expenditure Calculations and Assumptions:

The current lease expires 10/31/08. The agency will need increased expenditure authority to cover the anticipated increase for eight months in the 07-09 biennium. The current lease amount is \$8,289.25 per month. General Administration estimated the lease increase amount at three percent per year in the lease agreement. Assuming a five year lease we estimate a 15% increase upon renegotiation of the lease. The agency will need an additional \$1,243 per month ($\$8,289.25 \times 15\% = \$1,243$). The total needed in the 07-09 biennium is $\$1,243 \times 8 \text{ months} = \$9,944$.

<u>Object Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
E Goods And Services		9,944	9,944

State of Washington
Decision Package

FINAL

Agency: 035 Office of State Actuary
Decision Package Code/Title: 98 General Inflation (OFM only)
Budget Period: 2007-09
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

Request funding for Implicit Price Deflator (IPD) per OFM memo dated September 15, 2006.

Fiscal Detail

Operating Expenditures	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	3,702	3,702	7,404
Total Cost	3,702	3,702	7,404

Package Description:

Actuarial Analysis for Pensions and Investments - Request funding for inflation per OFM IPD inflation factors.

Narrative Justification and Impact Statement

How contributes to strategic plan:

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Reason for change:

Current rate of inflation.

Impact on clients and services:

None

Impact on other state programs:

None

Relationship to capital budget:

None

Required changes to existing RCW, WAC, contract, or plan:

None

Alternatives explored by agency:

None

Budget impacts in future biennia:

Inflation is on-going.

Distinction between one-time and ongoing costs:

On-going

Effects of non-funding:

Inflation will need to be absorbed from existing funding.

Expenditure Calculations and Assumptions:

Increase for Goods & Services and Travel. Amounts based on OFM calculation.

OFM's methodology is to use actual expenditures for 2006 as the base, excluding certain objects and sub objects (salaries, benefits, travel costs set by state policy, revolving fund charges, equipment and personal service contracts, etc.) and applying the latest fiscal year Implicit Price Deflator (IPD) inflation estimates generated by the Washington State Economic and Revenue Forecast Council on August 31, 2006 to generate inflation estimates for years 2008 and 2009.

<u>Object Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
E Goods And Services	3,702	3,702	7,404

State of Washington
Decision Package

FINAL

Agency: 035 Office of State Actuary
Decision Package Code/Title: AD Merit Pay Increases
Budget Period: 2007-09
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

Funding is requested for annual merit pay increases of 2.5% per year, per employee, consistent with legislative policy and procedures.

Fiscal Detail

Operating Expenditures	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	16,550	40,779	57,329
Total Cost	16,550	40,779	57,329

Package Description:

It is the long-term practice of the Legislative Branch to provide annual pay increases to staff based upon job performance. Funding these increases from current level funding is a hardship for small agencies.

Narrative Justification and Impact Statement

How contributes to strategic plan:

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Reason for change:

None.

Impact on clients and services:

None.

Impact on other state programs:

None.

Relationship to capital budget:

None.

Required changes to existing RCW, WAC, contract, or plan:

None.

Alternatives explored by agency:

None.

Budget impacts in future biennia:

On-going cost.

Distinction between one-time and ongoing costs:

On-going cost.

Effects of non-funding:

Cost would be absorbed by agency, reducing funds available to continue current activities.

Expenditure Calculations and Assumptions:

Employees will receive a 2.5% pay increase in fiscal years 2008 and 2009 on their anniversary date.

<u>Object Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
A Salaries And Wages	12,793	34,371	47,164
B Employee Benefits	3,757	6,408	10,165
Total Objects	16,550	40,779	57,329

State of Washington
Decision Package

FINAL

Agency: 035 Office of State Actuary
Decision Package Code/Title: BC Actuarial Valuation System
Budget Period: 2007-09
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

Funding is requested to correct the carry-forward level for our leased actuarial software. As a result, an increase in our 2007-09 maintenance level budget of \$26,000 per biennium is requested to accommodate the estimated \$106,000 lease cost of our actuarial software per biennium.

Fiscal Detail

Operating Expenditures	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	13,000	13,000	26,000
Total Cost	13,000	13,000	26,000

Package Description:

Funding is requested to correct the carry-forward level for our leased actuarial software. As a result, an increase in our 2007-09 maintenance level budget of \$26,000 per biennium is requested to accommodate the estimated \$106,000 lease cost of our actuarial software per biennium.

Narrative Justification and Impact Statement

How contributes to strategic plan:

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Reason for change:

Correct carry-forward reduction.

Impact on clients and services:

None.

Impact on other state programs:

None.

Relationship to capital budget:

None.

Required changes to existing RCW, WAC, contract, or plan:

None.

Alternatives explored by agency:

None.

Budget impacts in future biennia:

This represents an adjustment to our on-going maintenance level budget.

Distinction between one-time and ongoing costs:

On-going cost.

Effects of non-funding:

Insufficient funds to lease the optimal number of licenses to run the valuation software at optimal capacity resulting in a decreased level of actuarial services to our clients.

Expenditure Calculations and Assumptions:

Includes on-going maintenance costs.

<u>Object Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
J Capital Outlays	13,000	13,000	26,000

State of Washington
Decision Package

FINAL

Agency: 035 Office of State Actuary
Decision Package Code/Title: DD Associate Pension Actuary
Budget Period: 2007-09
Budget Level: PL - Performance Level

Recommendation Summary Text:

Funding is requested for the addition of a full-time Associate Pension Actuary position (range 25 of the Legislative Salary Schedule) to support increased demands for actuarial services (as noted below).

Fiscal Detail

Operating Expenditures	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	132,916	126,396	259,312
Total Cost	132,916	126,396	259,312

Staffing	<u>FY 2008</u>	<u>FY 2009</u>	<u>Annual Average</u>
FTEs	1.0	1.0	1.0

Package Description:

Please see Recommendation Summary Text above.

Narrative Justification and Impact Statement

How contributes to strategic plan:

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Reason for change:

The proposed additional position will allow OSA to support increased demands for actuarial services associated with the following:

Legislative program changes

- Creation of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (primary actuarial service provider for the Board)
- Creation of the Select Committee on Pension Policy (an increase in the number of meetings, subgroups, legislative options, and proposals that require actuarial pricing during the Interim)
- Creation of TRS, SERS and PERS Plans 3 and WSPRS Plan 2 (increased actuarial processing and number of calculations)
- Creation of PSERS Plan 2 (increased actuarial processing and number of calculations)

New services/responsibilities

- Support to and coordination with the Washington State Investment Board (cash-flow studies and asset-liability models)
- Support to the Health Care Authority and Office of Financial Management in calculating and accounting for other post-employment benefits (OPEB) under the new Government Accounting Standards Board (GASB) standards 43 and 45
- Support to the Treasurer's office for pension disclosures under bond prospectus

Existing services

- Increase in the number of statutory reports/studies; and
- Increased requests for actuarial public records..

Impact on clients and services:

Improved client service and timeliness of deliverables.

Impact on other state programs:

None

Relationship to capital budget:

None

Required changes to existing RCW, WAC, contract, or plan:

None

Alternatives explored by agency:

We explored and have used personal services contracts with outside actuaries. This alternative approach is helpful in addressing short-term resource needs, but would not address our on-going need for additional actuarial resources.

Budget impacts in future biennia:

On-going cost

Distinction between one-time and ongoing costs:

On-going

Effects of non-funding:

The consequences of not funding this request would be to significantly hinder the agency's ability to respond to requests for additional actuarial services in the future. Under existing actuarial staffing resources, the 2008 economic and demographic experience studies, 2008 actuarial valuations, and associated audit cycle will substantially impact the agency's ability to respond to the increased demands (noted above) during the 2007-09 biennium.

Expenditure Calculations and Assumptions:

Assumes a full-time equivalent (FTE) position with a salary of \$100,812 per year. Also includes an estimate for equipment, travel, goods and services related to adding an FTE.

<u>Object Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
A Salaries And Wages	100,812	100,812	201,624
B Employee Benefits	19,136	19,136	38,272
E Goods And Services	4,638	4,370	9,008
G Travel	2,078	2,078	4,156
J Capital Outlays	6,252		6,252
Total Objects	132,916	126,396	259,312

State of Washington
Decision Package

FINAL

Agency: 035 Office of State Actuary
Decision Package Code/Title: CC NCSL Salary Survey
Budget Period: 2007-09
Budget Level: PL - Performance Level

Recommendation Summary Text:

Funding is requested to increase staff salary ranges in accordance with the recommendations of the 2006 NSCL salary survey for positions within the Office of the State Actuary.

Fiscal Detail

Operating Expenditures	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	68,350	68,350	136,700
Total Cost	68,350	68,350	136,700

Package Description:

Funding is requested to increase the current salary range for the position of State Actuary, currently \$142,452 per year (range 32, step 22 on the Senate Salary Schedule), to \$161,208 (New Salary Range).

Funding is requested to increase the current salary range for the position of Senior Pension Actuary, currently \$111,264 per year (range 27, step 22 on the Senate Salary Schedule), to \$142,452 (range 32, step 22).

Funding is requested to increase the current salary range for the position of Senior Research Analyst/Legal, currently \$86,940 per year (range 22, step 22 on the Senate Salary Schedule), to \$91,344 (range 23, step 22).

Funding is requested to increase the current salary range for the position of Senior Research Analyst, currently \$86,940 per year (range 22, step 22 on the Senate Salary Schedule), to \$91,344 (range 23, step 22).

Funding is requested to increase the current salary range for the position of Research Analyst/Data Analyst, currently \$86,940 per year (range 22, step 22 on the Senate Salary Schedule), to \$91,344 (range 23, step 22).

Narrative Justification and Impact Statement

How contributes to strategic plan:

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

October 11, 2006

Reason for change:

Achieve parity with the current market-value salaries of comparable positions.

Impact on clients and services:

None

Impact on other state programs:

None

Relationship to capital budget:

None

Required changes to existing RCW, WAC, contract, or plan:

None

Alternatives explored by agency:

None

Budget impacts in future biennia:

On-going cost

Distinction between one-time and ongoing costs:

On-going

Effects of non-funding:

Potential negative consequences on staff retention and future recruitment.

Expenditure Calculations and Assumptions:

Please see information above.

<u>Object Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
A Salaries And Wages	63,156	63,156	126,312
B Employee Benefits	5,194	5,194	10,388
Total Objects	68,350	68,350	136,700

Select Committee on Pension Policy

REGULAR EXECUTIVE COMMITTEE MEETING
DRAFT MINUTES

September 19, 2006

The Select Committee on Pension Policy met in House Hearing Room C, Olympia, Washington on September 19, 2006.

Executive Committee members attending:

Senator Pridemore, Chair	Sandra Matheson
Representative Conway for	Glenn Olson
Representative Fromhold	J. Pat Thompson

Other Committee members attending:

Lois Clement	Bob Keller
Representative Crouse	Senator Mulliken
Senator Fraser	Senator Schoesler

Senator Pridemore, Chair, called the meeting to order at 1:05 p.m.

(A) Approval of Minutes

It was moved to approve the July 18, 2006 minutes. Seconded.

MOTION CARRIED

(B) Direction on Day's Agenda

- Recommendation to PFC
- \$150,000 death benefit
- Service credit purchase due to injury
- Judges benefit multiplier

Discussion followed.

(C) October Full Committee Meeting

- Pension Funding Council update
- Plan 1 funding method, subgroup recommendation
- OSA 07-09 budget request
- Dual membership
- Post-retirement employment
- Gain-sharing

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

***Representative Bill Fromhold,**
Vice-Chair

Vacant
TRS and SERS Employers

Robert Keller
PERS Actives

***Sandra J. Matheson,** Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

***Glenn Olson**
PERS Employers

***Senator Craig Pridemore,**
Chair

Diane Rae
TRS Actives

***J. Pat Thompson**
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

*** Executive Committee**

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

The above issues will be reported on at the Regular Committee meeting October 17, 2006.

There will be an Executive Committee meeting at 9:00 a.m., October 17, 2006 to review the OSA 07-09 budget request.

(D) State Actuary Evaluation/State Actuary Appointment Committee

Kelly Burkhart, Executive Assistant, explained the State Actuary Evaluation process. Discussion followed.

Chair Pridemore appointed Glenn Olson to replace Leland Goeke on the State Actuary Appointment Committee and take the lead on the state actuary evaluation process.

(E) Constituent Correspondence

Kelly Burkhart, Executive Assistant, reported on the "Constituent Correspondence."

The meeting adjourned at 3:05 p.m.

516 NE 52nd Street
Seattle, WA 98105

RECEIVED

SEP 21 2006

Office of
The State Actuary

RECEIVED
SEP 20 2006
OFFICE OF THE GOVERNOR

Dear Christine Gregoire:

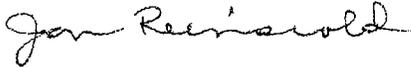
I retired last year after working as an educator in the Highline School District for twenty eight years.

Recently I read in the WEA magazine that the Legislature is considering abolishing the gainsharing plan in relation to our pensions.

I hope that you will work against this effort to take money away from educators' pensions and convince the Legislature that this is wrong.

Thank you for your work on behalf of retired educators who have served the public schools of Washington.

Yours truly,



Jan Reinsvold

Hyde, Elizabeth

From: Donna Moulton [dmoulton@centurytel.net]
Sent: Monday, September 25, 2006 5:35 PM
To: Office State Actuary, WA
Subject: Rule of 90 Retirement for TRS2 and TRS3

Please support the reintroduction of the Rule of 90 Retirement Bill for teachers in TRS 2 and TRS 3. Thank you.

Donna Moulton
Special Education Teacher
Quillayute Valley School District
Forks, WA 98331



September 27, 2006

RECEIVED

SEP 29 2006

Office of
The State Actuary

The Honorable Craig Pridemore
Washington State Senator
111 Modular Building 1
PO Box 40449
Olympia, WA 98504-0449

Dear Senator Pridemore:

Thank you for meeting with us last week to discuss our legislative agenda.

The undersigned organizations are seeking SCPP consideration of a bill qualifying associations of political subdivisions as employers for PERS 2.

Our associations qualify as employers for PERS plan 1 but were amended out of the definition of employer for PERS 2. As our PERS 1 employees retire, we are facing significant recruitment problems as the pool of prospective employees tends to be drawn from public employees who are established PERS members.

Given that virtually all of our members are PERS 2 employers, having acted as PERS 1 employers in good standing for many years, and the state's interest, expressed in our authorizing statutes, that our organizations provide quality information and services to our members and to the Legislature, we believe that our organizations are appropriate participants in PERS 2.

We would appreciate an opportunity to bring this issue to the SCPP at the October 17th meeting. Thank you for your consideration.

Sincerely,

Bill Vogler, Executive Director
Washington State Association of Counties

Patrick Jones, Executive Director
Washington Public Ports Association

Debbie Wilke, Executive Director
Washington Association of County Officials

Tom McBride, Executive Secretary
Washington Association of Prosecuting Attorneys

cc: Matt Smith, State Actuary

WASA/AWSP Gain sharing Trade-Off Proposal

Background:

- The total employer saving over the 2007-09 biennium is \$341 M by repealing gain sharing. This \$341 M saving includes Non General Funds, Local Government and State General Fund dollars. The General Fund saving by eliminating prefunding of gain sharing is \$147.6 M. The total employer savings for 2006-2031 is estimated to be \$7.0 billion or \$3.1 billion General Fund if gain sharing is repealed.
- By the end of 2007 the average earnings of the retirement funds within the state investment accounts over a four year period could very well be over 10% since earnings were 16.7% for 2004, 13.3% for 2005 and 15.6% through March of 2006. If the four-year average earning exceeds the 10% gain sharing threshold, a 2008 allocation of half of the excess is due to members of TRS, SERS, and PERS Plan 1 and 3. The estimated total excess is close to one billion dollars. At the August meeting of the Select Committee on Pension Policy (SCPP) the State Actuary reported that using an average rate of return of approximately 14.3%, projected a 2008 gain sharing distribution of an \$0.18 increase to the Uniform Plan COLA, and a Plan 3 lump sum distribution of \$127 per year of service. Updated information brings the distribution higher, \$0.19 to \$0.20 for Plan 1 and \$131 to \$133 for Plan 3 members.
- The State Attorney General's opinion regarding gain sharing reports that the Legislature can repeal this program. However there appears to be some evidence that the attraction of gain sharing played a "role" in Plan 2 members making the choice to opt into Plan 3. Legal questions would quickly arise if the Legislature took this action.

Proposed Options:

1. Increase the TRS, SERS, PERS Plan 1 COLA by 38 cents at a cost of \$49.6M General Fund for the 2007-09 biennium.
2. Give TRS and SERS new members the choice of being in Plan 2 or 3. This option would cost \$1.3M General Fund during the 2007-09 biennium.
3. Provide SERS Plan 3 members \$12 per year of service at a cost of \$7.3M General Fund during the 2007-09 biennium.
4. Start implementing the "Rule of 90" for Plans 2 & 3 by initiating a modified version with an age 60 requirement with no prospective element. The State General Fund cost would be \$50.3 M.

\$108.5M – total trade-off cost – 73.5% of the cost of prefunding gain sharing.

AWSP & WASA gain sharing trade-off proposal, John Kvamme, Consultant

Select Committee on Pension Policy

Actuary Performance Evaluation

(November 12, 2003)

The State Actuary Appointment Committee has the statutory authority to review the performance and make adjustments to the pay of the State Actuary. The State Actuary Appointment Committee consists of:

- Chairs and ranking minority members of the Senate Ways and Means Committee and the House Appropriations Committee; plus
- Four members of the Select Committee on Pension Policy (SCPP) appointed jointly by the Chair and Vice Chair of the SCPP.

The SCPP Executive Committee will conduct a review of the State Actuary's performance and relay it to the State Actuary Appointment Committee with recommendations for pay adjustments, as deemed appropriate. The review will take place at least once every two employment anniversaries of the State Actuary or as requested by the Chair of the SCPP.

In conducting the review, the Executive Committee of the SCPP or their designee will:

- Review the statutory responsibilities of the Office of the State Actuary (OSA);
- Request a self-performance evaluation, including future goals and development activities from the State Actuary;
- Develop a list of feedback sources which may include OSA staff, SCPP members, Directors of the Department of Retirement Systems and Office of Financial Management, Chairs and/or staff of the legislative fiscal committees and the Executive Director of the LEOFF 2 Board;
- Solicit written feedback from feedback sources;
- Meet with the State Actuary to share feedback and overall performance evaluation.
- Relay the results of the performance evaluation and any recommendations regarding performance and/or pay adjustments to the members of the State Actuary Appointment Committee.

Select Committee on Pension Policy
Direction on Today's Agenda
(October 10, 2006)

Item #		Next Scheduled Hearing
(5)	Dual Membership	<u>None</u>
	<hr/> <ol style="list-style-type: none">Should a recommendation be made to the full committee?If so, what proposals should be forwarded<ol style="list-style-type: none">overtime in base salarylifting maximum benefit ruleLEOFF 2 indexed term vested benefitWSP retirement ageIf required, when should a public hearing be scheduled on the proposals? <hr/>	
(6)	Post-retirement employment	<u>None</u>
	<hr/> <ol style="list-style-type: none">Forward last year's SCPP proposal?Forward last year's SCPP proposal with Keller amendment? <hr/>	
(7)	Gain-sharing	<u>November</u>
	<hr/> <ol style="list-style-type: none">Forward existing SCPP gain-sharing/rule-of-90 proposal?Forward alternative proposal? <hr/>	

Select Committee on Pension Policy

November 21st – Meeting Planner

(October 10, 2006)

FULL COMMITTEE AGENDA

- (1) 2005 actuarial valuation report
- (2) PSERS membership report
- (3) Gain-sharing
- (4) \$150,000 death benefit
- (5) Judges benefit multiplier
- (6) Service credit purchase due to injury
- (7) Adjourn

EXECUTIVE COMMITTEE AGENDA

- (A) Constituent correspondence
- (B) State Actuary evaluation
- (C) Direction on day's agenda
- (D) December committee meeting
 - 2007 Legislative Proposals
- (E) Adjourn