Select Committee on Pension Policy

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

Regular Committee Meeting

October 17, 2006

10:00 AM - 12:30 PM
House Hearing Room A
Olympia

AGENDA

10:00 AM	**(1)**	**Approval of Minutes**
10:05 AM	**(2)**	**Pension Funding Council Update**
10:10 AM	**(3)**	**Plan 1 Funding Method, Subgroup Recommendation** Senator Pridemore, Chair
10:15 AM	**(4)**	**OSA 07-09 Budget Request**, Matthew M. Smith, State Actuary *Public Testimony*
10:35 AM	**(5)**	**Dual Membership**, Laura Harper, Senior Research Analyst - Legal *Public Testimony*
11:05 AM	**(6)**	**Post-Retirement Employment** - Laura Harper *Public Testimony*
11:30 AM	**(7)**	**Gain-Sharing** - Robert Wm Baker, Senior Research Analyst *Public Testimony*
12:30 PM	**(8)**	**Adjourn**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 786-6140. TDD 1-800-635-9993.

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Select Committee on Pension Policy

2006 Meeting Dates

Full - 10:00 am – 12:00 pm
Executive - 12:30 – 2:30 pm
JLOB, Olympia, WA 98504

January 17, 2006 – *meeting cancelled*
February 21, 2006
March 21, 2006
April 18, 2006 – *meeting cancelled*
May 16, 2006
June 20, 2006
July 18, 2006
August 22, 2006
September 19, 2006
October 17, 2006
November 21, 2006
December 12, 2006

Plan 1 Funding Method
Reserved Subgroup Dates
Location to be determined
2:00 – 4:00 pm – Mondays

April 17, 2006
May 15, 2006
June 19, 2006
July 17, 2006
August 21, 2006 –
September 18, 2006
October 17, 2006 – No meeting scheduled
November 20, 2006 - No meeting scheduled
December 11, 2006 - No meeting scheduled

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Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

1. Contribution Rate Setting: To establish and maintain adequate, predictable and stable contribution rates, with equal cost-sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems.

2. Balanced Long-Term Management: To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce.

3. Retirement Eligibility: To establish a normal retirement age for members currently in the Plans 2/3 of PERS, SERS, and TRS that balances employer and employee needs, affordability, flexibility, and the value of the retirement benefit over time.

4. Purchasing Power: To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.

5. Consistency with the Statutory Goals within the Actuarial Funding Chapter: To be consistent with the goals outlined in the RCW 41.45.010:

    a. to provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;
    b. to continue to fully fund the retirement system plans 2 and 3, and the Washington State Patrol Retirement System, as provided by law;
    c. to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
    d. to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; and
    e. to fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

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REGULAR COMMITTEE MEETING
DRAFT MINUTES

September 19, 2006

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

Committee members attending:

Senator Pridemore, Chair	Doug Miller
Representative Fromhold, Vice Chair	Victor Moore
Representative Bailey	Senator Mulliken
Representative Conway	Glenn Olson
Representative Crouse	J. Pat Thompson
Senator Fraser	Senator Schoesler
Robert Keller	David Westberg
Sandra Matheson	

Senator Pridemore, Chair, called the meeting to order at 10:05 a.m.

(1) Approval of Minutes

It was moved to approve the August 22, 2006 Full Committee Draft Minutes. Seconded.

MOTION CARRIED

(2) Recommendation to PFC

Laura harper, Senior Research Analyst, Legal, reported on "Recommendation to PFC." Discussion followed.

The following people testified:
Steve Nelsen, LEOFF Plan 2 Retirement Board
Leslie Main, Washington State School Retirees' Association
Jim Justin, Association of Washington Cities
Paul Neal, on behalf of Washington State Patrol Troopers Association

It was moved to recommend that the Pension Funding Council adopt the contribution rates set forth in Attachment E to the State Actuary's September 18, 2006 letter to the Pension Funding Council, "2007-09 Contribution Rates without Mortality Improvements with Gain-sharing." Seconded. Discussion followed.

MOTION CARRIED

(3) $150,000 Death Benefit

Darren Painter, Research Analyst, reported on "$150,000 Death Benefit." Discussion followed.

(4) Service Credit Purchase Due to Injury

Bob Baker, Senior Research Analyst, reported on "Service Credit Purchase Due to Injury." Discussion followed.

(5) Judges Benefit Multiplier

Bob Baker, Senior Research Analyst, reported on "Judges Benefit Multiplier." Discussion followed.

The following people testified:
Judge Leonard Costello, Superior Court Judges' Association
Judge Costello introduced
Judge Deborah Fleck, Superior Court Judges' Association
Judge Dennis Sweeney, Superior Court Judges' Association

The meeting adjourned at 12:26 p.m.

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REGULAR SUBGROUP MEETING
PLAN 1 FUNDING METHOD SUBGROUP
DRAFT MINUTES

September 18, 2006

The Select Committee on Pension Policy, Plan 1 Funding Method Subgroup, met in House Hearing Room C, Olympia, Washington on September 18, 2006.

Committee members attending:

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

Senator Pridemore, Chair, called the meeting to order at 2:05 p.m.

(1) Approval of Minutes

It was moved to approve the August 21, 2006 Plan 1 Funding Method Subgroup Draft Minutes. Seconded

MOTION CARRIED

(2) Follow-Up Reports

Matt Smith, State Actuary, reviewed the “Ten-Year Experience Study”, “Minimum Interest Payments” and “Rate of Return Required to Eliminate Plan 1 UAAL” reports. Discussion followed.

(3) Stochastic Forecasts

Martin McCaulay, Senior Pension Actuary, reviewed the “PERS 1 and TRS 1 UAAL Stochastic Contribution Rate Projections.” Discussion followed.

(4) Spending Limits/Caps

Pam Davidson, Office of Financial Management, reviewed the FY 2006 Pensions as Percent of Total Budget” and “Six Year Outlook.” Discussion followed.

The following person testified:
Jim Justin, Association of Washington Cities

The meeting adjourned at 3:48 p.m.

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See Executive Committee Packet

Matt Smith
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In Brief

PROPOSAL

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

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

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Dual Membership

Current Situation

Who's In?

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

Who's out?

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

How does it work?

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

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

"Dual Membership" allows members to:

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

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

Example

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

PERS 2 Benefit:

2% x 10 years service credit x average final compensation x ERRF ÷ 12 months = PERS benefit

PSERS Benefit:

2% x 10 years service credit x average final compensation x ERRF ÷ 12 months = PSERS benefit

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

PSERS may add another 1,000 dual members to the state retirement system.

Members Impacted

As of September 30, 2005, there were 9,897 active retirement system members with dual membership, and an additional 1,502 dual members who were not active in either system. With the addition of the new PSERS plan in July, it is estimated that at least another 1,000 dual members are being added to the state retirement system.

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

History

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

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

Policy Analysis

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

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

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

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

**Panel Publishers, New York, 2002, page 2-21.*
***http://www.nctr.org/resources/poranaly.htm, accessed on May 22, 2006.*

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

Florida uses a similar approach to California's. The average final compensation is the average of the five highest fiscal years of earnings. **Wisconsin's** approach is also consistent with California's, in that service credits are not transferred from one system to another, but are instead combined for benefit eligibility purposes. It differs, however, in that each retirement system calculates benefits using the benefit formula in effect on the date the member terminates all employment within the participating systems. The final average earnings from each earlier system are increased by the "national salary index," updated to the last day paid for the last employment covered under one of the participating systems.

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

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

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

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

To avoid penalizing the participating retirement systems, Washington's portability statute uses a "base salary" definition that strips out elements of compensation that could be used to "spike" the final benefit such as overtime, sick leave cash outs, and other lump sum payments. It also requires that the total benefit be limited to the largest amount the dual member would receive if all of the member's service had been rendered in one system – the "maximum benefit rule."

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

Issues Raised Under Washington's Portability Statute

The LEOFF 2 Board raised the first three of the following four issues. DRS has reported member concerns regarding the fourth issue.

1. Base salary definition

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

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

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

See RCW 41.54.010(1). There is no legislative history indicating why Washington's portability statute excludes these elements of compensation from the definition of base salary. Thus, one can only speculate as to the policy reasons for the provision. The exclusion could be viewed as a means to limit costs associated with the dual membership program. It could also have the purpose of preventing members from using them to inflate their final pension benefits.

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

Since overtime is an element of compensation in most plans, its exclusion from the base salary definition is likely to cause the most consternation in members. For example, a member could earn overtime in two systems, pay pension contributions on the overtime, and yet never be allowed to include the overtime for pension purposes as a dual member. This has been a member complaint in LEOFF 2. With the advent of PSERS, this complaint could become more widespread.

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

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

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

As a general matter, overtime plus leave cash-outs and other lump sum payments could result in end-of-career paychecks that are significantly higher than those ever received during the member's career. However, this risk is somewhat mitigated by the use of compensation averaging. The various Washington State retirement plans provide for an average final compensation of 24 (Plans 1) to 60 (Plans 2, 3) of the highest paid service credit months. A longer averaging period will usually yield a lower final benefit. Salary averaging is part of the balance between giving the member a benefit based on relatively current salary and protecting retirement systems from having to pay for final benefits that were not funded over the working lifetimes of their members.

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

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

Wisconsin's approach is unique. Wisconsin uses the actual final average earnings from each system. However, in order to avoid penalizing the dual member's proportionate benefit from the earlier system, the final average earnings from the earlier system is increased by the "national salary index" in 42 USC 415 (b)(3)(A), updated to the last day of paid employment.

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

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

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

A. If the portability statute is changed to include elements previously excluded from the definition of base salary, which elements should they be? Is overtime distinguishable from other elements that are currently excluded?

B. If overtime, leave cash-outs, and lump sum payments are included in base salary for portability purposes, will retirement systems be forced to pay for benefits that were not funded over the working lives of their members?

C. Will the requirement that the specific elements of compensation be present in both of the dual member's systems in order to be included in the portability benefit protect against this funding concern?

2. Benefit Limitations

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

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

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

A. Determine the maximum benefit. DRS computes the benefit for each system as if all career service and earnings occurred in that system, and using the plan provisions of that system, including any benefit cap. The system with the highest benefit establishes the maximum benefit.

B. Determine the individual benefit. DRS will determine the individual benefit under each system and add the individual benefits together.

C. Compare the total of the individual benefits with the maximum. If the total exceeds the maximum benefit, the benefits from each system will be proportionately reduced until the total equals the maximum benefit.

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

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

Some history of specific portability provisions may be of interest in considering how benefit caps relate to portability. The original 1987 version of the portability statute strictly limited the total retirement benefit that dual members could receive. It included a so-called "minimum benefit rule," which provided that:

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Would easing restrictions for certain dual members constitute a benefit improvement? Or is this more like the removal of a "penalty" under portability?

B. Would easing restrictions for some dual members create pressures to do the same for others?

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

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

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

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

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

4. Active vs. Inactive Employees

The systems are not alike with respect to treating inactive employees as actives for portability purposes. In the PERS and the WSPRS Plans 1 there are different retirement eligibility rules for active and inactive members. If members are active, they generally may retire earlier without a reduction in benefits than if they are inactive.

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

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

General Policy Questions

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

Is cost a factor in making these distinctions?

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

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

Conclusion to Policy Analysis

Most programs that facilitate intrastate portability seek to achieve a balance that allows members to move smoothly and efficiently between public employee retirement systems. An ideal balance gives members full credit for service in each plan, while avoiding negative impacts on individuals and their retirement plans.

Options for Pricing

At its June meeting, the Executive Committee directed staff to price four changes related to dual membership:

1) Allow any payments defined as "earnable compensation" in each of a member's retirement systems to be included within the definition of "base salary" for portability purposes.

   Policy Impact: As a practical matter, this will mostly apply to overtime because overtime is included within the definition for all systems. This change will allow members to use all compensation for which contributions have been made in the benefit calculation. The risk of pension "spiking" using overtime is mitigated by the use of salary averaging in the calculation of the benefit.

   Fiscal Impact: This change would increase employer contribution rates by 0.01 percent for PERS and 0.02 percent for WSPRS. Employer costs in PERS and WSPRS would increase by $1.2 million in the 2007-2009 biennium and $11.5 million over the next 25 years.

2) Lift portability's "maximum benefit rule" for dual members who have a) less than 15 years of service in one capped plan; <u>and</u> b) service in one uncapped plan.

   Policy Impact: This change is consistent with the estoppel rule. Restricting this to members with less than 15 years of service in the capped plan provides a safeguard against members "gaming" the system.

The change could lead to additional requests for exceptions to the "maximum benefit rule".

Fiscal Impact: None. The increase in liabilities is insufficient to impact the contribution rate in any system.

3) Add LEOFF 2 to the list of plans that are able to combine service under portability to receive indexing of the term-vested benefit for members with at least 20 years of service.

   Policy Impact: The indexed term-vested benefit is found in the Plans 3 and LEOFF 2. Plan 3 dual members can already combine service to receive this benefit. This change creates consistency in the treatment of all dual members eligible for this benefit and corrects an apparent statutory oversight.

   Fiscal Impact: None. The increase in liabilities is insufficient to impact the contribution rate in any system.

4) Treat dual members who are inactive in WSPRS 1 as active members for portability purposes (meaning they can retire at 55 instead of 60).

   Policy Impact: This is already done for PERS 1, the other retirement system that has earlier retirement for active members than for inactive members. This change creates consistency in the way dual members are treated in systems with different retirement ages for active and inactive members.

   Fiscal Impact: This change would increase employer contribution rates in WSPRS by .09 percent. Employer costs would increase by $.1 million in the 2007-2009 biennium and $1.6 million over the next 25 years.

Total Fiscal Impact: If all four changes are made, the employer contribution rate would increase 0.01 percent for PERS and 0.11 percent for WSPRS. Employer costs would increase by $1.3 million in the 2007-2009 biennium and $13.1 million over the next 25 years.

Attachments

Attachments include the following:

1) Results of the OSA pricing for the proposals.
2) DRS website materials explaining dual membership.
3) April 26, 2006, report to the LEOFF 2 Board entitled "Dual Membership, Preliminary Report."
4) March 9, 2006, letter from the Chair of the LEOFF 2 Board to the members of the SCPP is attached.

Next Steps

After the full SCPP hears the pricing results for the four proposals, the next step in the process will be for the Executive Committee to determine whether it wishes to make a recommendation to the full SCPP. To move one or more proposals forward, the Executive Committee would direct staff to prepare a bill draft that would implement its recommendation. A draft fiscal note would also be prepared. The bill draft and fiscal note would be presented to the full SCPP at a public hearing in November or December (not currently scheduled).

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Dual Membership

Preliminary Report

April 26, 2006

1. Issue

An initial presentation was given in August 2005, on dual membership. This report is a follow-up report to reacquaint the Board with the topic of dual membership.

2. Staff

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3. Members Impacted

As stated in the August report, based on preliminary data as of September 30, 2004, there were 14,754 active, 1,788 inactive and 413 retired LEOFF Plan 2 members. Of the 14,754 active members, 1,485 have dual membership; of the 1,788 inactive members, 505 have dual membership; and of the 413 retired members, 57 have dual membership; for a total of 2,047 LEOFF 2 members who currently have dual membership.

4. Current Situation

Under the current portability statutes (RCW 41.54), when members meet age and service requirements from one system, they are eligible to retire out of all systems; however, not all systems allow for portability. For example, LEOFF Plan 1, the Judges and Judicial systems are not included in the portability statutes. A complete list of dual member systems is listed in Appendix B.

5. Background Information and Policy Issues

History

Dual membership or portability was created with the passage of ESSB 5150 in 1987. LEOFF Plan 2 was added as a dual member system in 1993. The purpose of portability was to ensure that employees, who serve the public in multiple careers, neither had their benefit increased nor decreased due to their career path in multiple public retirement systems.

Features of Dual Membership

- Allows members to combine their service credit in all systems to qualify for benefits in each system.
- Allows members to restore withdrawn contributions from a prior system within two years of establishing membership in the current system.
- Allows members to combine service credit from all systems to qualify for a disability retirement, but only in their current system. If they qualify for a disability retirement, they can receive a service retirement from the prior system, including actuarial reductions, if applicable.
- Allows Plan 3 members to combine service credit from all systems to qualify for the inflation factor feature.
- Allows members to combine service credit from all systems to qualify for a survivor benefit. Many of the plans, including LEOFF Plan 2, require a minimum of 10 years of service credit in order for the surviving spouse or eligible minor children to be eligible for a retirement allowance.
- Allows members to substitute the base salary from any of the systems as compensation used in calculating the retirement allowance. The base salary does not include overtime, vacation leave cash-outs or other similar types of compensation enhancements. This feature can be particularly attractive if the member's service in the inactive system occurred in the past when compensation was much lower.

LEOFF Plan 2 Dual Membership Issues

1. **Base salary.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have the same provision defining what is included in salary for calculating a retirement benefit within each of the systems. Under the current dual membership statutes, a member can choose to use their "base salary" from any dual member system in which they are members to calculate their retirement benefit in that system. However, the "base salary" is not as inclusive as the normal salary within the definitions of each of the systems (Appendix A).

   The definition for base salary in the dual member statutes does not include overtime and is vague in regards to deferred salary. Because part of the original intent of the dual membership statutes was to not diminish a member's retirement benefit because of a career change, the fact that certain salary elements are excluded in the calculation of a dual member benefit, would appear to be in conflict with the original intent of the statute.

2. **Thirty-year cap.** If a member is a dual member in LEOFF Plan 2 and PERS Plan 1, they are subject to a potential cap on their benefit calculation. Under the current dual membership statutes, the combined pension benefits from both plans may not exceed the maximum allowable benefits for any one of the dual member's plans. PERS Plan 1 has a limit (cap) of 30 years for calculating the maximum benefit allowance. Even though LEOFF Plan 2 does not have a 30-year cap, the dual member's benefit could still be affected by the Plan 1 cap if their combined service exceeds 30 years.

3. **Inflation factor for twenty years of service.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have an inflation factor provision within each system. This inflation factor increases a member's benefit by twenty-five one-hundredths of a percent, compounded each month from the member's date of separation to the date retirement benefits are received. Under the current dual membership statutes, all of the systems allow members to combine service to qualify for the inflation factor, except LEOFF Plan 2.

7. Supporting Information

Appendix A – Salary RCWs
Appendix B – Examples

APPENDIX A: Salary RCWs

LEOFF Plan 2:

"Basic salary" for plan 2 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay. In any year in which a member serves in the legislature the member shall have the option of having such member's basic salary be the greater of:

(i) The basic salary the member would have received had such member not served in the legislature; or

(ii) Such member's actual basic salary received for non-legislative public employment and legislative service combined. Any additional contributions to the retirement system required because basic salary under (b)(i) of this subsection is greater than basic salary under (b)(ii) of this subsection shall be paid by the member for both member and employer contributions.

PERS Plan 2 & 3:

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

SERS Plan 2 & 3:

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

TRS Plan 2 & 3:

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

Dual Membership Definitions:

"Base salary" means salaries or wages earned by a member of a system during a payroll period for personal services and includes wages and salaries deferred under provisions of the United States internal revenue code, but shall exclude **overtime payments** [emphasis added], non-money maintenance compensation, and lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave, or any similar lump sum payment.

Appendix B – Examples

<u>Thirty-year Cap Example:</u>
A member retires at age 54, with a total of 35 years combined service; 22 years in PERS Plan 1 and 13 years in LEOFF Plan 2. Their LEOFF Plan 2 final average salary is $50,400 per year ($4,200/month). Their PERS Plan 1 average final salary is $54,000 per year ($4,500/month).

Step 1: **Determine benefit cap by calculating a monthly benefit in each system as if all of the service credit had been earned in one system subject to each system's rules.**

L2 = .02 x $4,200 x 35	P1 = .02 x $4,500 x 30 (can only use 30 because of cap)
L2 = $2,940.00	P1 = $2,700.00

The largest calculation amount is their benefit cap. In this example, their benefit cap is **$2,940.00.**

Step 2: Calculate their monthly benefit in each system based on each system's rules.

L2 = .02 x $4,200 x 13	P1 = .02 x $4,500 x 22
L2 = $1,092.00	P1 = $1,980.00

Step 3: Add the benefits from Step 2 and compare to benefit cap from Step 1. If the combined monthly benefits are greater than the cap, reduce the benefits proportionately in each to equal the cap.

Monthly benefit	= L2 + P1	Benefit cap	= $2,940
	= $1,092 + $1,980		= $2,940
	= $3,072		= $2,940

The monthly benefit is greater than the benefit cap therefore, both benefits would be reduced proportionately, to equal the benefit cap.

L2 = $1,092 - $49	P1 = $1,980 - $83
L2 = $1,043	P1 = $1,897

If the statute was changed to eliminate the 30-year cap be consistent with the Plan 3 Systems, the member would be entitled to the larger monthly benefit of $3,072, instead of the capped benefit of $2,940.

<u>Inflation Factor Example:</u>
A member leaves employment at age 46 with four years of service credit in PERS Plan 2 and 18 years in LEOFF Plan 2. At age 53, they retire out of both systems, but choose to defer their PERS Plan 2 benefit until age 65. Their final average salary (FAS) when they terminated at age 46 is $4,500.

Under current dual membership statutes, the FAS would not qualify for the inflation factor because they have less than 20 years of service in LEOFF Plan 2. Their monthly benefit at age 53 would be $1,620.00.

If the LEOFF 2 statute was changed to be consistent with the Plan 3 Systems, their monthly benefit at age 53 would be $1,772.36.

DRS

What is Dual Membership and How Does It Affect Me?

If you are an active member in any of the retirement systems listed below and you once belonged to another of these systems, you may be eligible for benefits under the provisions for dual membership. Dual member systems and plans include:

- Public Employees' Retirement System (PERS) Plans 1, 2 and 3
- Teachers' Retirement System (TRS) Plans 1, 2 and 3
- School Employees' Retirement System (SERS) Plans 2 and 3
- Public Safety Employees' Retirement System (PSERS) Plan 2
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
- Washington State Patrol Retirement System (WSPRS) Plans 1 and 2
- City Retirement Systems for Seattle, Spokane and Tacoma
- State-wide City Employees' Retirement System (SCERS) - *If you were a member of SCERS, contact a DRS Retirement Services Analyst for complete information about dual membership.*

How Do I Qualify?

You qualify for dual membership if you meet **all** of the following criteria:

- You are currently a member of one of the dual-member systems listed above.
- You previously contributed to a dual member system other than the one to which you now belong.
- You have not retired from any Department of Retirement Systems (DRS) administered system.
- You are not receiving disability retirement or disability leave benefits from any DRS-administered retirement system.

Note: If you are employed at the same time in a SERS-eligible position and a PERS-eligible position, different rules apply. Contact DRS for more information.

What Are the Advantages of Dual Membership?

Dual membership has three advantages:

- You may restore service credit withdrawn from any other dual member system.
- You may combine service credit earned in all dual member systems to become eligible for retirement.
- You can use your highest "base salary" in a dual member system to calculate your retirement benefit.

DRS
WASHINGTON STATE
Department of
Retirement Systems

Restoring contributions and service credit

If you become a dual member, you may restore contributions and service credit that you previously withdrew from any other dual member system. To restore, you must repay the withdrawn contributions plus interest within 24 months of becoming a dual member.

You can find out more about restoring contributions and service credit, or purchasing service credit, by reading the DRS publication *Recovery of Withdrawn or Optional Service Credit.* If you are restoring TRS Plan 1 service credit, you may be eligible to re-establish your membership in TRS Plan 1 after your bill for restoring the service credit is paid in full.

Retirement eligibility for dual members

As a dual member, you may combine service credit in all dual member systems to become eligible for retirement. If your combined service makes you eligible to retire under any dual member system, you may elect to retire from all dual member systems to which you belong. If a system's laws would not allow retirement because you are younger than the system's minimum retirement age, you may:

- Defer receiving a benefit until you reach full normal retirement age under the plan; or
- Begin receiving a reduced benefit prior to full retirement age.

Although you can combine service from all systems to become eligible for retirement, the amount of the benefit you will receive is determined by the rules of each individual system. Retirement eligibility rules from the dual member systems are as follows:

<table>
<tr>
<td>PERS and TRS Plan 1 may retire at:
• Any age with at least 30 service credit years
• Age 55 with at least 25 service credit years
• Age 60 with at least 5 service credit years</td>
<td>PERS, SERS and TRS Plan 2 may retire at:
• Age 65 with at least 5 service credit years
• Age 55 with at least 20 service credit years (benefit reduced)
• Age 55 with at least 30 Washington State service credit years (benefit will be reduced by 3% per year under age 65)</td>
</tr>
<tr>
<td>PSERS Plan 2 may retire at:
• Age 65 with at least 5 service credit years
• Age 60 with at least 10 service credit years in PSERS
• Age 53 with at least 20 service credit years (benefit will be reduced by 3% per year under age 60)</td>
<td rowspan="2">SERS, TRS and PERS Plan 3 may retire at age 65 with:
• At least 10 service credit years, or
• Five service credit years, including 12 service credit months earned after age 44, or
• At least five service credit years that were earned under Plan 2 before:
- July 1, 1996 for TRS
- September 1, 2000 for SERS
- June 1, 2003 for PERS

SERS, TRS and PERS Plan 3 may retire at age 55 with:
• At least 10 service credit years (benefit reduced)</td>
</tr>
<tr>
<td>LEOFF Plan 2 may retire at:
• Age 53 with at least 5 service credit years
• Age 50 with at least 20 service credit years (benefit reduced)</td>
</tr>
<tr>
<td rowspan="2">WSPRS Plans 1 and 2 may retire from active status at:
• Any age with at least 25 service credit years
• Age 55 with any service credit

WSPRS Plans 1 and 2 may retire from inactive status at:
• Age 60 with at least 5 service credit years
• Age 55 with at least 5 service credit years (benefit reduced)</td>
<td>SCERS
The Statewide City Employees' Retirement System was closed to new members in 1972. Contact DRS for more information.</td>
</tr>
<tr>
<td>First Class Cities
The Seattle, Tacoma and Spokane city retirement systems are not administered by DRS. If you need information, contact the appropriate system directly. Phone numbers are listed on page 8.</td>
</tr>
</table>

Disability Retirement

If you receive a disability retirement from your active system, you remain eligible to receive a service retirement benefit from each of your inactive dual member systems. Benefits from your inactive system may be reduced. Contact a DRS Retirement Services Analyst for further information.

Benefit Calculation

Under dual membership, you receive a separate defined benefit from each of your systems. All dual member systems have service retirement benefit calculations that are composed of three factors:

- Service credit in that system
- Average earnings
- A multiplier (usually two percent; or one percent for the defined benefit portion of SERS, TRS and PERS Plan 3)

Note: TRS Plan 3, SERS Plan 3 and PERS Plan 3 are composed of both a defined-benefit component, similar to those found in other DRS-administered retirement plans, and a defined-contribution component in which the benefit is based on contributions made and the investment earnings.

TYPICAL DEFINED BENEFIT FORMULA
service credit x multiplier x average earnings = retirement benefit

Service Credit: The benefit you receive from each system will be based on the service credit you accumulated in that system.

Average Earnings: Each retirement system and plan uses its own criteria to establish your average earnings in the benefit calculation. For instance, Plan 1 systems use a two-year average while Plan 2 and Plan 3 use a five-year average. For more detailed descriptions of average earnings criteria, refer to your member handbook.

Under dual membership, DRS will establish your average earnings using two methods. You will be awarded the higher of the benefits.

- Each system calculates your service retirement defined benefit based on the compensation earned in that system; or
- The highest "base salary" from any one system is used to determine the average earnings factor when calculating the retirement benefit for another dual member system. If you are eligible to retire retroactively, your base salary is salary earned prior to the date your combined service in both dual member systems makes you eligible for an **unreduced** benefit. However, if your average earnings are higher after the first date you are eligible to retire, you may choose to retire at a later date.

Base salary means salaries or wages earned during a payroll period for personal services. The base salary includes wages and salaries deferred under federal tax codes. Base salary does not include:

- Overtime pay;
- Non-money maintenance compensation;
- Cash-outs for deferred annual sick leave, unused accumulated vacation or unused accumulated annual leave;
- Any form of severance pay; or
- Fringe benefits.

How Does the Maximum Benefit Limitation Affect a Dual Member?

Several retirement systems have rules that set a maximum benefit. For instance, a PERS Plan 1 retiree may not receive a benefit in excess of 60 percent of his or her average earnings.

Retirement systems with maximum benefit limitations:

- **WSPRS Plans 1 and 2** - 75 percent of average earnings
- **TRS Plan 1** - 60 percent of average earnings
- **PERS Plan 1** - 60 percent of average earnings
- **First Class City systems** - Seattle and Tacoma - 60 percent of average earnings; Spokane - 64.5 percent of average earnings

If one of your retirement systems has a maximum benefit limitation, DRS will:

1. **Determine the maximum benefit.** DRS computes the benefit for each system as if all career service and earnings occurred in that system. The system with the highest benefit establishes the maximum benefit.
2. **Determine the individual benefit.** DRS will determine the individual benefit under each system and add the individual benefits together.
3. **Compare the total of the individual benefits with the maximum.** If the total exceeds the maximum benefit, the individual benefits will be proportionately reduced until the total equals the maximum benefit.

How Is My Retirement Benefit Affected By Dual Membership?

DRS has created the examples below, and on the following pages, to illustrate some of the common ways that dual membership may affect a member's retirement benefit. This is not a complete listing of dual membership scenarios. Please contact DRS if your particular situation is not addressed here or if you need more information.

- **Example 1** (See below) - Earlier retirement date
- **Example 2** (See page 5) - Immediate retirement, but benefits are significantly reduced
- **Example 3** (See page 5) - Base salary enhances total benefit
- **Example 4** (See page 6) - Salary earned after retirement does not increase benefit
- **Example 5** (See page 7) - Dual membership rules do not increase benefit
- **Example 6** (See page 7) - Maximum benefit rule limits benefit
- **Example 7** (see page 8) - Defer receipt for one system until full benefits are available

EXAMPLE 1:
Dual Membership provides an opportunity for an earlier retirement date

Lee is 52 years old and has four service credit years in LEOFF Plan 2 and 21 years in PERS Plan 1. Under dual membership rules, Lee can combine his service credit from the two systems to qualify for retirement. Under PERS Plan 1, Lee cannot qualify for retirement until age 55 with at least 25 service credit years. Since Lee has at least 20 years of service credit and is at least age 50, he qualifies under LEOFF Plan 2 eligibility rules. **(Refer to LEOFF Plan 2 retirement eligibility rules on page 2.)**

Dual membership allows Lee to retire immediately and collect reduced benefits from both systems.

EXAMPLE 2:
Dual membership allows immediate retirement, but benefits are significantly reduced
Vickie is 57 years old. She is a former Washington State Patrol Officer. She now works for a state agency and is a member of PERS Plan 2. She would like to retire as soon as possible without drastically reducing her retirement income. Vickie's accumulated service credit and average monthly earnings are:

WSPRS Plan 1	14 years	$3,000
PERS Plan 2	8 years	$3,000

Since Vickie is not an **active** State Patrol Officer, she is not eligible for a full retirement until age 60. If she chooses to retire at age 57, her benefit will be reduced to 74 percent of its full value to reflect the early retirement. **(Refer to WSPRS Plan 1 retirement eligibility rules on page 2.)**

WSPRS Plan 1 benefit:
14 x 2% x $3,000 = $840 (full benefit)
74% x $840 = $621.60 (reduced benefit)

PERS Plan 2 benefit: Vickie's PERS Plan 2 benefit would be reduced to 43 percent of its full value. A full benefit is not available until age 65.

8 x 2% x $3,000 = $480 (full benefit)
43% x $480 = $206.40 (reduced benefit)

Total monthly benefits at age 57
At age 57, Vickie's total benefits would be $828 ($621.60 + $206.40)

If Vickie delays retirement...
If Vickie remains in PERS Plan 2 for three more years, she will be able to claim a full benefit from WSPRS on the basis of her age.

WSPRS Plan 1 benefit:
14 x 2% x $3,000 = $840 per month

PERS Plan 2 benefit:
At age 60, she will be eligible for a PERS Plan 2 benefit that is 58 percent of full value based on 11 years of service rather than eight years.

11 x 2% x $3,000 = $660 per month
58% x $660 = $382.80 (reduced benefit)

Total monthly benefits at age 60
If Vickie continues to work until age 60, her total benefits will be $1,222.80 ($840 + $382.80). That's a 48 percent increase in Vickie's benefit, or nearly $400 per month.

EXAMPLE 3:
Dual member uses base salary to enhance total benefit
Ellen is age 65. She worked for 10 years as a teacher under TRS Plan 1. She spent the last 15 years of her career as a clerical employee under PERS Plan 3. Ellen's service credit and average monthly earnings are:

TRS Plan 1	10 years	$1,600
PERS Plan 3	15 years	$3,000

Because she is eligible for a full benefit from both systems based on her age and service credit, she does not need to use dual membership to qualify. Ellen chooses to retire as a dual member and use her base salary from PERS Plan 3 to calculate her TRS Plan 1 benefits.

Designating the base salary for TRS benefit
Ellen earned an average monthly salary of $3,000 during her two-year average period in PERS. This included overtime that averaged $125 per month. Overtime can be used for the PERS average earnings. It cannot be included in the base salary used to calculate a benefit in another system. Her monthly average base salary is $2,875.

The following calculations demonstrate Ellen's benefit using individual system earnings and using the base salary.

Calculating the PERS Plan 3 benefit
1% x 15 x $3,000 = $450 per month

Calculating the TRS Plan 1 benefit
TRS Plan 1 benefit using TRS salary
2% x 10 x $1,600 = $320 per month

TRS Plan 1 benefit using PERS Plan 3 base salary
2% x 10 x $2,875 = $575 per month

Total benefits
Based on individual systems rules
$770 per month ($450 + $320)

Using the PERS base salary
$1,025 per month ($450 + $575)

Note: Ellen will have a choice in selecting her retirement date from TRS Plan 1 and may receive a retroactive payment. For more information, contact a DRS Retirement Services Analyst.

EXAMPLE 4:
Dual member benefits may not be increased by salary earned after the retirement date

Mary works for four years in PERS Plan 1, then terminates employment and does not withdraw her contributions. Later, at age 33, she returns to employment as a teacher in TRS Plan 1, becoming a dual member. She works for another 23 years as a teacher and terminates employment at age 56 with 27 years of combined service.

Because she is over age 55 and has more than 25 years of combined service, she is immediately eligible to retire from TRS.

Her retirement date from PERS is retroactive, as she would have been eligible had she not continued employment as a teacher. Since she had 26 years of service when she reached her 55th birthday, her retirement date in PERS could be the first day of the month following her 55th birthday. Mary could also choose to retire at any date thereafter.

The average earnings used to calculate her benefit will be her TRS base salary from her 25th and 26th years of combined service - the 24 months immediately prior to her PERS eligibility date.

EXAMPLE 5:
Dual membership retirement does not increase benefit

Joe is age 60 and is an active PERS Plan 1 member. He has 30 years of TRS Plan 1 service and five years of PERS Plan 1 service. His TRS Plan 1 average earnings were $3,500. His PERS Plan 1 average earnings were $1,500. If he retires separately from TRS Plan 1 and PERS Plan 1, his benefit would be calculated as:

TRS Plan 1 Benefit
2% x 30 years x $3,500 = $2,100
PERS Plan 1 benefit
2% x 5 years x $1,500 = $150

His retirement benefit total would be
$2,250 ($2,100 + $150)

If Joe elected to retire under dual membership rules, he could use his TRS average earnings to determine both his TRS and PERS retirement benefit.

TRS Plan 1 Benefit
2% x 30 years x $3,500 = $2,100
PERS Plan 1 benefit
2% x 5 years x $3,500 = $350

However, under dual membership rules, the system with the highest benefit establishes the maximum benefit. And since TRS Plan 1 has a maximum benefit limitation of 60 percent of average earnings, Joe's benefit under dual membership would be limited to $2,100 (60 percent x $3,500).

In this example, Joe would receive a higher benefit by retiring from each system independently and not by using dual membership rules. Contact DRS for more information.

EXAMPLE 6:
The maximum benefit rule limits dual membership retirement benefits

Tom is age 60. He has accumulated service credit in TRS Plan 1 and in PERS Plan 1. Both TRS and PERS Plans 1 have a maximum benefit of 60 percent of average earnings. Tom's service and average annual earnings are as follows:

TRS Plan 1	20 years	$3,400
PERS Plan 1	11 years	$3,500

Calculating the maximum benefit

DRS calculates Tom's maximum benefit as if all career service and earnings had been in a single Plan 1 system. TRS Plan 1 average annual earnings are derived from the highest two consecutive fiscal years. PERS Plan 1 average monthly earnings are derived from the highest consecutive 24 months. Tom's highest average monthly earnings are $3,500. Sixty percent of $3,500 is $2,100, the maximum monthly benefit.

Calculating the TRS benefit

Tom worked for 20 years in TRS Plan 1. His average monthly earnings are $3,000, but his dual member average earnings are $3,500. His TRS benefit was calculated as: 20 x 2% x $3,500 = $1,400 per month.

Calculating the PERS benefit

Tom has 11 years in PERS Plan 1. His average monthly earnings were $3,500. His PERS benefit was calculated as:
11 x 2% x $3,500 = $770 per month.

Proportional reduction

The total of the TRS Plan 1 ($1,400) and PERS Plan 1 ($770) benefits is $2,170. This exceeds the allowable maximum benefit ($2,100) by $70. DRS will reduce Tom's TRS Plan 1 and PERS Plan 1 benefits to create a combined benefit equal to the maximum benefit of $2,100. The reduction is the proportional amount of service in each system compared to the total service.

Calculating the reduced benefits

Twenty years of TRS service divided by 31 total years is 64.5%. 64.5% x $70 = $45.15, the reduction to the TRS benefit. The reduced TRS benefit:
$1,400 - $45.15 = $1,354.85.

Eleven years of PERS service divided by 31 total years = 35.5%. 35.5% x $70 = $24.85, the reduction to the PERS benefit. The reduced PERS benefit:
$770 - $24.85 = $745.15.

The individually reduced benefits for TRS ($1,354.85) and PERS ($745.15) combine to make a total benefit of $2,100, which is the maximum benefit.

Tom has the option to retire from each system independently. The maximum benefit rule would not apply in this case. If he chooses to retire from each system independently, Tom's benefits would be calculated as:

TRS Plan 1: 20 x 2% x $3,400 = $1,360
PERS Plan 1: 11 x 2% x $3,500 = $770

Tom's total benefits received after retiring from each system independently would be $2,130 ($1,360 + $770).

EXAMPLE 7:
Defer receipt of benefit from one system until full benefits are available
Dave is age 60 and is an active PSERS Plan 2 member. He has 20 years of PSERS Plan 2 service and 8 years of PERS Plan 3 service. His PSERS average earnings were $3,500.00. His PERS average earnings were $1,500.00. Dave is eligible to retire with full benefits under PSERS, but if he takes his PERS benefit, it will be reduced at age 60.

PSERS Plan 2 Benefit at age 60
2% x 20 years x $3,500 = $1,400

PERS Plan 3 Benefit at age 60
1% x 8 years x $3,500 = $280
$280.00 x 61% Early Retirement Factor (ERF) = $170.80

If Dave defers his PERS benefit until age 65, he would receive the full benefit amount.

PERS Plan 3 Benefit at age 65
1% x 8 years x $3,500 = $280

Dave can retire from PSERS at age 60 and collect his benefit. He can then defer receipt of his PERS Plan 3 defined benefit until age 65 when he will receive full benefits, or take it at age 60 and receive a reduced benefit for his lifetime.

To Learn More

For information about a specific dual member system, refer to the appropriate member handbook. Member handbooks and other publications for either PERS, SERS, TRS, PSERS, LEOFF or WSPRS are available on the DRS Web site. Print copies can be obtained by contacting your employer's personnel office or DRS.

DRS Web site: *www.drs.wa.gov*

Telephone: 1-800-547-6657; or (360) 664-7000 in the Olympia area
TDD: 1-866-377-8895; or (360) 586-5450 in the Olympia area

E-mail: recep@drs.wa.gov

Address: P.O. Box 48380
Olympia WA 98504-8380

For information about a First Class city retirement system call:

Seattle	(206) 386-1292
Tacoma	(253) 591-2035
Spokane	(509) 625-6330

July 2006

This brochure does not contain a complete description of the law. If there are conflicts between what is written here and what is contained in the law, the applicable law will govern. Dual membership is described in Chapter 41.54 of the Revised Code of Washington (RCW) and Chapter 415-113 of the Washington Administrative Code (WAC).

STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD
P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

March 9, 2006

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

Dear Honorable Members of the Select Committee on Pension Policy:

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

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

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

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

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

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

Inflationary Adjustment for $150,000 Death Benefit
As you may be aware, the Board recommended legislation on this topic in 2006 (SHB 2933 - Death Benefit for Occupational Illnesses), which was passed with an amendment removing the annual inflation increase. Since other retirement plans also provide a lump-sum death benefit, legislators expressed an interest in the Board working with the SCPP to study the effect of adding this inflationary adjustment to all the plans.

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

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

Sincerely,

Kelly L Fox

Kelly Fox, Chair

cc: Matt Smith, State Actuary

WASHINGTON STATE LEGISLATURE

Office of the State Actuary

October 11, 2006

Sent via email and hardcopy as meeting materials

Select Committee on Pension Policy

RE: Estimated Fiscal Impact of Proposed Options for Dual Membership Changes

Dear Members:

At your June 20, 2006, meeting, you were briefed on the issue identified as "dual membership." This issue was incorporated into your interim work plan in response to a request from the Chairman of the Retirement Board for the Law Enforcement Officers' and Fire Fighters' Plan 2 (LEOFF 2). After the full committee briefing, the executive committee instructed staff to price four proposed changes to retirement system plan provisions related to dual membership. They include the following:

1. Allow any payments that are defined as earnable compensation in each of a dual member's retirement systems to be included within the definition of "base salary" for portability purposes. (As a practical matter, the focus of this pricing exercise is on overtime, because overtime is included within the definition of "base salary" for all the systems but excluded for portability purposes.)

2. Lift or suspend operation of portability's "maximum benefit rule" for dual members who have, a) less than 15 years of service in one capped plan; <u>and</u>, b) service in one uncapped plan.

3. Add LEOFF 2 to the list of plans that are able to combine service under portability in order to receive indexing of the term-vested benefit for members with at least 20 years of service. (This benefit is found in the Plans 3 and LEOFF 2. Plan 3 dual members can already combine service to receive this benefit.)

2100 Evergreen Park Drive SW, Suite 150
PO Box 40914
Olympia, WA 98504-0914
360.786.6140
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E-Mail: actuary.state@leg.wa.gov

4. Treat dual members who are inactive in the Washington State Patrol Retirement System Plan 1 (WSPRS 1) but are active in another dual membership system as active members for portability purposes. (This approach is already used in PERS 1. For members of WSPRS 1, this means that such members could retire at 55 instead of 60.)

Proposals 2 and 3 would have a cost, but the new plan changes would apply to so few members that the costs would not impact contribution rates. On the other hand, implementing Proposals 1 and 4 would impact contribution rates. Estimated rate increases and costs are summarized below. Detailed cost information including breakdowns by system and proposal are found in Appendix A.

If all proposals were implemented, it would impact the actuarial funding of the retirement systems by increasing the Actuarial Present Value of Projected Benefits by $11 million for all systems combined.

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

System/Plan	PERS	WSPRS
Current Members		
Employee*	0.01%	0.11%
Employer	0.01%	0.11%

**Paid by PERS plan 2 and all WSPRS members.*

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

Dual Membership - Projected Costs All Proposals, All Systems	
Costs (in Millions)	**Total**
2007-2009	
State:	
General Fund	$0.2
Non-General Fund	0.4
Total State	0.6
Local Government	0.7
Total Employer	1.3
Total Employee	$1.1
2007-2032	
State:	
General Fund	$1.9
Non-General Fund	4.4
Total State	6.3
Local Government	6.8
Total Employer	13.1
Total Employee	$11.1

**Totals may not match due to rounding.*

This analysis is based on the actuarial valuation performed as of September 30, 2005. The results in this letter are preliminary estimates only. The results have not been audited and are subject to change.

The sensitivity analysis provided in Appendix E illustrates that if actual liabilities were 50 percent higher than estimated, the estimated rates and fiscal costs for Proposals 1 and 4 would increase, but Proposals 2 and 3 would still have no rate or fiscal impact.

The following table provides counts of dual members within Washington State's retirement systems. Not all dual members would be impacted by the each proposal. Proposal 1 may impact all dual members, Proposal 2 would only impact duel members with service in a Plan 1 and Plan 2/3, Proposal 3 would only impact LEOFF dual members, and Proposal 4 would only impact WSPRS dual members.

Summary of Active Dual Members As of 9/30/2005						
Active System	**Dual Member System**					
	LEOFF	**PERS**	**TRS**	**SERS**	**WSPRS**	**Total**
LEOFF		1,545	32	17	23	1,617
PERS	266		361	757	6	1,390
PSERS (*estimated*)		1,000				1,000
TRS	29	5,148		1,084	0	6,261
SERS	15	293	152		1	461
WSPRS	10	154	3	1		168
Total	320	8,140	548	1,859	30	10,897
Dual members not active in either dual system						1,502
Estimated Dual Plan 1/Plan 2,3 Members active in one system						1,000
Estimated Dual Plan 1/Plan 2,3 Members not active in either system						100

In determining the costs of these proposals we identified dual members from the 2005 valuation data and studied the amount of overtime earned by active members. We then developed assumptions on how many dual members would be impacted by each proposal and how much the liability would increase for members impacted. The methods chosen are reasonable for the purpose of the actuarial calculations presented in this letter. Use of another set of methods may also be reasonable and might produce different results. More details on the actuarial methods are found in Appendix B.

- For all proposals we assumed there would not be a change in retirement behavior resulting from the passing of any single proposal or combination of these proposals into law.

- We assumed, based on a study of average overtime earned by active members per system, that liabilities for dual members would increase in the inactive system due to overtime earned in the active system (Proposal 1) at the following rates:

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

- We assumed that 20 percent of dual members would benefit from lifting the "maximum benefit rule" (Proposal 2) and that the average increase in benefits would be 7.5 percent.

- We assumed that 10 percent of LEOFF 2 terminated vested members would benefit from combining service to receive the indexed term-vested benefit (Proposal 3)

- We assumed that about half of the current WSPRS terminated vested members would benefit from lowering the retirement age for inactive members (Proposal 4) and that their benefit would increase by 60 percent.

- We assumed any contribution rate increases would be supplementary rates effective September 1, 2007.

The assumptions chosen are reasonable for the purpose of the actuarial calculations presented in this letter. Use of another set of assumptions may also be reasonable and might produce different results. More details on the assumptions are found in Appendix C.

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

This letter has been prepared for the use by the SCPP during the 2006 interim. Any third-party recipient of this work product is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in absence of such professional guidance. Any distribution of this letter must be in its entirety, unless prior consent is obtained from the Office of the State Actuary.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

We appreciate the opportunity to provide this information and would be happy to answer any questions you may have.

Sincerely,

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

Martin McCaulay, FSA, EA, MAAA
Senior Pension Actuary

Attachments:

- Appendix A – Actuarial Determinations
- Appendix B – Actuarial Methods
- Appendix C – Actuarial Assumptions
- Appendix D – Data
- Appendix E – Sensitivity Analysis
- Appendix F – Other Disclosures/Glossary

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Appendix A

Actuarial Determinations

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

(Dollars in Millions)	System/Plan	Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS	$31,346	$8	$31,354
(The Value of the Total Commitment to all	TRS	$17,451	$0	$17,451
Current Members)	SERS	$2,539	$1	$2,540
	LEOFF	$9,923	$0	$9,923
	WSPRS	$819	$2	$821
Unfunded Actuarial Accrued Liability	PERS	$3,761	$0	$3,761
(The Portion of the Plan 1 Liability that is	TRS	$2,287	$0	$2,287
Amortized at 2024)	LEOFF	($539)	$0	($539)
Unfunded Liability (PBO)	PERS	$1,286	$8	$1,294
(The Value of the Total Commitment to all	TRS	$1,195	$0	$1,195
Current Members Attributable to Past Service)	SERS	($281)	$1	($280)
	LEOFF	($847)	$0	($847)
	WSPRS	($69)	$2	($67)

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

System/Plan	PERS Proposal 1	WSPRS Proposal 1	WSPRS Proposal 4
Current Members			
Employee (Plan 2)	0.01%	0.02%	0.09%
Employer	0.01%	0.02%	0.09%

Proposals 2 and 3 did not result in contribution rate increases.

Appendix A

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

Individual Benefit Improvement Fiscal Costs

Dual Membership - Projected Costs				
Costs (in Millions)*	**PERS**	**WSPRS**	**Total**	**WSPRS**
2007-2009		**Proposal 1**		**Proposal 4**
State:				
General Fund	$0.2	$0.0	$0.2	$0.0
Non-General Fund	0.3	0.0	0.3	0.1
Total State	0.5	0.0	0.5	0.1
Local Government	0.7	0.0	0.7	0.0
Total Employer	1.2	0.0	1.2	0.1
Total Employee	$1.0	$0.0	$1.0	$0.1
2009-2011				
State:				
General Fund	$0.2	$0.0	$0.2	$0.0
Non-General Fund	0.3	0.0	0.3	0.1
Total State	0.5	0.0	0.5	0.1
Local Government	0.8	0.0	0.8	0.0
Total Employer	1.3	0.0	1.3	0.1
Total Employee	$1.0	$0.0	$1.0	$0.1
2007-2032				
State:				
General Fund	$1.7	$0.0	$1.7	$0.2
Non-General Fund	2.7	0.3	3.0	1.4
Total State	4.4	0.3	4.7	1.6
Local Government	6.8	0.0	6.8	0.0
Total Employer	11.2	0.3	11.5	1.6
Total Employee	$9.2	$0.3	$9.5	$1.6

**Totals may not match due to rounding.*

Total Fiscal Cost of all Benefit Improvements

Dual Membership - Projected Costs			
Costs (in Millions)	**PERS**	**WSPRS**	**Total**
2007-2009	**Total of Benefit Increases**		
State:			
General Fund	$0.2	$0.0	$0.2
Non-General Fund	0.3	0.1	0.4
Total State	0.5	0.1	0.6
Local Government	0.7	0.0	0.7
Total Employer	1.2	0.1	1.3
Total Employee	$1.0	$0.1	$1.1
2009-2011			
State:			
General Fund	$0.2	$0.0	$0.2
Non-General Fund	0.3	0.1	0.4
Total State	0.5	0.1	0.6
Local Government	0.8	0.0	0.8
Total Employer	1.3	0.1	1.4
Total Employee	$1.0	$0.1	$1.1
2007-2032			
State:			
General Fund	$1.7	$0.2	$1.9
Non-General Fund	2.7	1.7	4.4
Total State	4.4	1.9	6.3
Local Government	6.8	0.0	6.8
Total Employer	11.2	1.9	13.1
Total Employee	$9.2	$1.9	$11.1

**Totals may not match due to rounding.*

Appendix B

Actuarial Methods

Proposal 1, Overtime

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

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

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

Proposal 2, Cap

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

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

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

Proposal 3, Combine LEOFF 2 Service for Indexing of Terminated Vested Benefits

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

Dollar liability increase to LEOFF 2 = (1) x (2) x (3) / 2

Proposal 4, Decrease Normal Retirement Age for WSPRS 1 Term Vested Members

We started with the WSPRS 1 TV liability and multiplied that by the ratio of number of inactive WSPRS 1 DM to the total WSPRS TV members. To calculate the benefit increase we created annuity factors for 55 year old WSPRS 1 males, one beginning at age 55, the other deferred to age 60. The annuity at age 55 was about 60 percent more valuable than the deferred annuity, so we assumed the benefit for the inactive WSPRS 1 DM would increase by 60 percent. The last assumption we made was that about 50 percent of the WSPRS 1 inactive members would take this benefit. We based this on the ratio of WSPRS DM who came from LEOFF to the total WSPRS inactive DM (12 inactive WSPRS DM with LEOFF 2 service / 24 inactive WSPRS DM), since the retirement age in LEOFF 2 is less than 55 and the fact that PERS and SERS have significant early retirement reduction factors for retirement at age 55. The product of the TV liability (1), the ratio of TV DM to total inactive DM (2), the percentage of the benefit increase (3), and the ratio of those terminated vested DM who would take advantage of the benefit increase (4) equals the total liability increase for this benefit. We divided this liability increase by the WSPRS PVSal to calculate the contribution rate increase.

Dollar liability increase to WSPRS 1 = (1) x (2) x (3) x (4) / 2

The calculations done for these four proposals produce estimated liabilities, which we converted to estimated contribution rate increases. Proposals 2 and 3 both resulted in small liability increases to the respective systems, but the increase in liability was insufficient to impact contribution rates.

Appendix C

Actuarial Assumptions

For all proposals we assumed there would not be a change in retirement behavior resulting from the passing of any single proposal or combination of these proposals into law. We assumed any contribution rate increases would be supplementary rates effective September 1, 2007. We used the following assumptions for the respective proposals:

Proposal 1

We assumed, based on a study of average overtime earned by active members per system, the benefits would increase liabilities in the inactive system due to overtime earned in the active system at the following rates:

Active System	OT rate
PERS	3.00%
PSERS	10.00%
TRS	0.00%
SERS	1.00%
LEOFF	11.00%
WSPRS	9.00%

The only combination we assumed had a different increase from OT was active PERS members who were DM in TRS. We assumed their benefit only increased by 1 percent instead of 3 percent, since most of the TRS members who enter PERS likely took exempt positions that do not pay overtime. We assumed the percentage of future DM retirees in the systems followed the current ratios of active DM to total current members. We separated those ratios by the system the DM was inactive in so that the sum of the ratios of DM from the inactive systems to current system equaled the ratio of the total DM in the active system to the total current active members. We assumed 1,000 PERS members would transfer to PSERS based on the preliminary counts from DRS that showed 711 had already elected to transfer.

Proposal 2

We assumed 20 percent of the DM would be eligible for this benefit and that for those whose benefit increased, it would do so by one year of service. We assumed this would equal about a 7.5 percent benefit increase for the average eligible member. We assumed the DM have half the average service of non DM. We assumed future DM retirees would follow the same relative ratios of current active dual members.

Proposal 3

We assumed 10 percent of the LEOFF 2 TV members had more than twenty years of service and would be eligible for this benefit. We assumed those eligible would receive a 15 percent increase in their benefit and they would have half the service of a non DM.

Proposal 4

We assumed half of the WSPRS 1 members would make use of this benefit based on the fact that members of PERS and SERS would wait until they were eligible for an unreduced or lesser reduced benefit; whereas the LEOFF 2 DM would take their benefit at age 55. We assumed their benefits would increase by approximately 60 percent based on the ratio of an immediate annuity factor at age 55 and a 5 year deferred annuity factor at age 65.

We believe these assumptions are appropriate based on the data we have and the nature of the different proposals. Other assumptions could also be appropriate and could produce materially different results.

Appendix D

Data

We based our calculations mainly on the results of the 2005 Actuarial Valuation Report (AVR) including the following summary of DM counts:

Summary of Active Dual Members						
As of 9/30/2005						
	Count					
Active System	**Dual Member System**					
	LEOFF	**PERS**	**TRS**	**SERS**	**WSPRS**	**Total**
LEOFF		1,545	32	17	23	1,617
PERS	266		361	757	6	1,390
TRS	29	5,148		1,084	0	6,261
SERS	15	293	152		1	461
WSPRS	10	154	3	1		168
Total	320	8,140	548	1,859	30	10,897

We received preliminary counts of the PERS members who chose to transfer into PSERS from DRS indicating that 711 members elected to transfer. We expect this number to increase after DRS receives final data from employers about the members who have elected to transfer.

Appendix E

Sensitivity Analysis

For Proposal 1, if the experience of AFC increase from OT was 50 percent higher than we assumed for all active systems, the contribution rates would increase as follows:

System	Member	Employer	State
PERS	0.01%	0.01%	
PSERS	0.00%	0.00%	
TRS	0.00%	0.00%	
SERS	0.01%	0.01%	
LEOFF	0.00%	0.00%	0.00%
WSPRS	0.03%	0.03%	

For Proposals 2 and 3, assuming a 50 percent higher than expected increase in benefits still had no impact on rates.

For Proposal 4, assuming 50 percent more inactive WSPRS 1 members use this benefit than expected, the total contribution rate increases to about 26 basis points, 13 for the member and 13 for the employer.

For each of these proposals, the increase in one of the assumptions by 50 percent essentially increases the liability for the proposal by 50 percent.

Appendix F

Other Disclosures/Glossary

Statement of Data and Assumptions Used In Preparing the Fiscal Costs for This Letter:

The costs presented in this letter are based on our understanding of the request/proposed legislation as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2005, actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, and the Washington State Patrol Retirement System.

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

3. The analysis of this proposed legislation 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. These fiscal costs are intended for use only during the 2006 Interim.

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.

Appendix F

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.

The Select Committee on Pension Policy

Dual Membership

Darren Painter, Research Analyst

October 17, 2006

History Of Issue

- LEOFF 2 Board request
- Full briefing in June
- Direction from executive committee
  - Price proposals
  - Bring back to full SCPP

What Is Dual Membership?

- AKA "portability"
- Applies to members in
  - Multiple state systems
  - State and first class city
- Portability statute provides alternative benefit calculation
  - Entire public career
  - Minimizes impact of change

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How Does This Benefit Work?

- Combine service credit
- Use highest salary
- Results in larger pension
- Optional

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Issues

- Not all adverse impacts to changing systems eliminated
  - Base salary
  - Maximum benefit rule
  - Indexed term vested benefit
  - Inactive retirement age (DRS)

Base Salary: Issue

- Dual members use highest "base salary" from any system
- "Base salary" excludes
  - Overtime
  - Leave cash outs
  - Lump sum payments
- Some excluded items would be allowed for non-dual members

Base Salary: Proposal

- Change definition of base salary
  - Include any payments that are defined as salary in each of a dual member's systems
  - Overtime will be included for most dual members

Base Salary: Policy Impact

- Contributions already paid on these amounts
- Salary averaging may mitigate pension spiking
  - More so in Plans 2/3
- May affect 1,000+ dual members
  - PSERS and LEOFF most impacted

Base Salary: Fiscal Impact

- Employer rate increase
  - .01% PERS
  - .02% WSP
- 2007-2009
  - $0.2 million GFS
  - $1.2 million total employer
- 25 Year
  - $1.7 million GFS
  - $11.5 million total employer

Maximum Benefit Rule: Issue

- Limits dual member benefit to largest amount possible if all service earned in one system
- Recognizes that some plans have
  - Benefit caps
  - Longer salary averaging periods
- Applies when significant differences in AFC between systems

Maximum Benefit Rule: Proposal

- Lift the rule for those with less than 15 years in one capped plan and service in one uncapped plan
- Rule remains when both plans are capped

Max Benefit Rule: Policy Impact

- Affects declining population
  - WSP 2 only open, capped plan
- Fifteen-year provision a safeguard against “gaming” the system
- Change could lead to additional requests for exceptions
- May affect up to 200 dual members

Max Benefit Rule: Fiscal Impact

- No fiscal impact
- Costs would be insufficient to affect contribution rates

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Indexed Term Vested Benefit: Issue

- Pension increased by 3% a year
  - Members leave employment
  - Twenty plus years of service
- Found in Plans 3 and LEOFF 2
- Dual members can combine service from all systems for this benefit
  - Exception: LEOFF 2

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Indexed Term Vested Benefit: Proposal

- Allow LEOFF 2 dual members to combine service to qualify for indexed term vested benefit

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14

Indexed Term Vested Benefit: Policy Impact

- Corrects what was most likely an oversight
- Creates consistency for dual members
  - LEOFF 2 treated like Plan 3
- May affect up to 60 LEOFF 2 dual members

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15

Indexed Term Vested Benefit: Fiscal Impact

- No fiscal impact
- Costs would be insufficient to affect contribution rates

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Inactive Retirement Age: Issue

- Retirement age is higher for inactive members
  - PERS 1 (65 inactive vs. 60 active)
  - WSP (60 inactive vs. 55 active)
- Portability statute allows inactive PERS 1 members to retire as active
  - Not allowed for WSP

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Inactive Retirement Age: Proposal

- Allow dual members inactive in WSP to retire as active
  - Age 55 instead of age 60

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Inactive Retirement Age: Policy Impact

- Creates consistency for dual members
  - WSP treated like PERS 1
- May affect up to 20 WSP dual members

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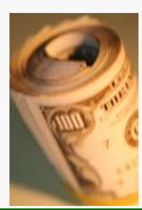
Inactive Retirement Age: Fiscal Impacts

- Employer rate increase
  - .09% WSP
- 2007-2009
  - No GFS
  - $0.1 million total employer
- 25 Year
  - $0.2 million GFS
  - $1.6 million total employer

Fiscal Impacts: All Proposals

- Employer rate increase
  - .01% PERS
  - .11% WSP
- 2007-2009
  - $0.2 million GFS
  - $1.3 million total employer
- 25 Year
  - $1.9 million GFS
  - $13.1 million total employer



Summary

- Each proposal removes one adverse impact of changing systems
  - Two would affect rates
    - Base salary and inactive retirement age
  - Two would not
    - Max benefit rule and indexed term vested benefit
- Inactive retirement age identified by DRS as a member concern

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Next Steps

- Direction from executive committee
- Not scheduled for additional hearing

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Post-Retirement Employment

In Brief

ISSUE

SHB 2689 (2006) proposed to refine the current retire-rehire program by:

- *Discouraging abuse*
- *Creating parity between PERS 1 and TRS 1*

As framed by the Executive Committee, the issue today is whether the SCPP should submit the same proposal to the legislature for 2007, or a variation of that proposal.

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Background

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

The full SCPP was briefed on this issue on July 18, 2006. On September 19, 2006, the SCPP's Executive Committee considered possible legislative strategies for the 2007 session. The Committee recommended that staff bring the following items to the full SCPP for possible recommendation to the legislature in 2007:

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

SHB 2689 (2006) (Bailey, Conway, Fromhold)

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

- Added the requirement of a written policy to PERS 1 and TRS 1
- Made the TRS 1 penalty provision consistent with PERS 1 (misdemeanor)

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

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

Keller Proposal

Member Keller has expressed a desire to ease restrictions for PERS 1 retirees who return to work with a different employer. He would do that by lifting the PERS 1 cumulative lifetime limit on hours worked past 867 for these individuals. He would also leave the current statutory waiting periods between retirement and returning to work in tact. To summarize, his proposal would:

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

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

Comparison of Retire-Rehire Restrictions

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

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0059.1/07

ATTY/TYPIST: LL:rmh

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(v) "Earnable compensation" does not include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(36) "Substitute teacher" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every seven hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) "Employer" for plan 2 and plan 3 members, means every branch, department, agency, commission, board, and office of the state, and any political subdivision and municipal corporation of the state admitted into the retirement system, including public agencies created pursuant to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 2000, school districts and educational service districts will no longer be employers for the public employees' retirement system plan 2.

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

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

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

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

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

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

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

(f) Any member who has been a contributor under the system for two or more years and who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement has rendered five or more years of service for the state or any political subdivision prior to the time of the admission of the employer into the system; except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member.

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

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

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

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

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

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

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

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

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

(ii) "Compensation earnable" does not include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

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

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

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

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

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

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

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

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

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

(13) "Membership service" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(25) "Eligible position" means:

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

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

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

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

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

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

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

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

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

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

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

(35) "Plan 3" means the public employees' retirement system, plan 3 providing the benefits and funding provisions covering persons who:

(a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

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

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

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

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

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

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

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

does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination. <u>Mere expressions or inquiries about postretirement employment by an employer or employee that do not constitute a commitment to reemploy the employee after retirement are not an agreement under this subsection.</u>

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

Sec. 5. RCW 41.40.037 and 2005 c 319 s 103 are each amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

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

(2)(a) Except as provided in (b) of this subsection, a retiree from plan 1 who enters employment with an employer at least one calendar month after his or her accrual date may continue to receive pension payments while engaged in such service for up to eight hundred sixty-seven hours of service in a calendar year without a reduction of pension.

(b) A retiree from plan 1 who enters employment with an employer at least three calendar months after his or her accrual date and:

(i) Is hired <u>pursuant to a written policy</u> into a position for which the employer has documented a justifiable need to hire a retiree into the position;

(ii) Is hired through the established process for the position with the approval of: A school board for a school district; the chief executive officer of a state agency employer; the secretary of the senate for the senate; the chief clerk of the house of representatives for the house of representatives; the secretary of the senate and the chief clerk of the house of representatives jointly for the joint legislative audit and review committee, the ((~~joint~~)) <u>select</u> committee on pension policy, the legislative evaluation and accountability program, the legislative systems committee, and the statute law committee; or according to rules adopted for the rehiring of retired plan 1 members for a local government employer;

(iii) The employer retains records of the procedures followed and decisions made in hiring the retiree, and provides those records in the event of an audit; and

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

shall cease to receive pension payments while engaged in that service after the retiree has rendered service for more than one thousand five hundred hours in a calendar year. The one thousand nine hundred hour cumulative total under this subsection applies prospectively to those retiring after July 27, 2003, and retroactively to those who retired prior to July 27, 2003, and shall be calculated from the date of retirement.

(c) When a plan 1 member renders service beyond eight hundred sixty-seven hours, the department shall collect from the employer the applicable employer retirement contributions for the entire duration of the member's employment during that calendar year.

(d) A retiree from plan 2 or plan 3 who has satisfied the break in employment requirement of subsection (1) of this section may work up to eight hundred sixty-seven hours in a calendar year in an eligible position, as defined in RCW 41.32.010, 41.35.010, 41.37.010, or 41.40.010, or as a fire fighter or law enforcement officer, as defined in RCW 41.26.030, without suspension of his or her benefit.

(3) If the retiree opts to reestablish membership under RCW 41.40.023(12), he or she terminates his or her retirement status and becomes a member. Retirement benefits shall not accrue during the period of membership and the individual shall make contributions and receive membership credit. Such a member shall have the right to again retire if eligible in accordance with RCW 41.40.180. However, if the right to retire is exercised to become effective before the member has

rendered two uninterrupted years of service, the retirement formula and survivor options the member had at the time of the member's previous retirement shall be reinstated.

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

(5) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to be employed for more than five months in a calendar year without a reduction of his or her pension.

NEW SECTION. **Sec. 6.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	10/17/06	Z-0059.1

SUMMARY OF BILL:

This bill impacts the Plan 1 of the Teachers' Retirement System (TRS 1) and Plan 1 of the Public Employees' Retirement System (PERS 1). It adds some of the same general hiring qualifications to TRS 1 as currently exist for PERS 1 retirees who seek to work in excess of 867 hours annually. Those include a prohibition of any written or verbal agreement to return to work with the same employer. Under the proposed legislation, a TRS 1 separation from service that is pursuant to such an agreement would constitute a potential misdemeanor violation of the statute entitled "Penalties for False Statements," RCW 41.32.055. Further, TRS 1 employers would be subject to certain record-keeping requirements when they rehire these retirees, including documentation of the need to hire the retiree and records of the actual hiring process. The bill would also require both PERS 1 and TRS 1 employers to rehire retirees pursuant to a written policy.

This bill also establishes additional requirements for TRS 1 members who participate in the expanded retire-rehire program (i.e., work 1500 hours per year). The bill would establish a prospective 1900-hour cumulative lifetime limit on hours worked beyond 867 annually. (This limit is already in effect for PERS 1.) It would also increase the TRS 1 waiting period for participating in the expanded retire-rehire program from one month to one and one-half months. (The PERS 1 waiting period is three months.)

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, PERS 1 retirees are subject to more specific rules affecting post-retirement employment than TRS 1 retirees. PERS 1 retirees are subject to an amended definition of "separation from service" so that any written or verbal agreement to return to work with the same employer creates a potential violation of the statute entitled "Penalties for False Statements," RCW 41.40.55. Further, PERS 1 employers are subject to certain record-keeping requirements when they hire these retirees, including documentation of the need to hire the retirees and records of the actual hiring process. These PERS 1 requirements are not currently applicable to TRS 1.

Currently, there is no requirement in either system to hire retirees pursuant to a written policy.

Members of TRS 1 who participate in the expanded retire-rehire program are not currently subject to a cumulative lifetime limit on the number of hours worked. A cumulative lifetime limit of 1900 hours is currently applicable to PERS 1 members who seek to return to work for more than 867 hours and up to 1500 hours annually. Once the 1900 hour limit is reached, PERS 1 retirees may only work up to 867 hours in subsequent calendar years before their benefits are suspended.

Members of TRS 1 who participate in the expanded retire-rehire program are currently subject to a one-month waiting period, while PERS 1 members are subject to a one and one-half month waiting period.

MEMBERS IMPACTED:

This bill potentially affects all current and future PERS 1 and TRS 1 retirees. Beneficiaries of retired members are not affected. Members potentially affected include 73,590 PERS 1 and 45,184 TRS 1, active, terminated vested, and retired members.

ASSUMPTIONS:

- We assumed the changes made to the PERS 1 post-retirement provisions under this bill would not affect future retirement behavior in PERS 1.
- We assumed the changes made to the TRS 1 post-retirement provisions under this bill would reduce the utilization of the program by 50% in TRS 1.
- We assumed different retirement rates to determine the fiscal impact of this bill. We developed one set of retirement rates for TRS 1 based on an experience study conducted by the Office of the State Actuary (OSA) in 2005 that examined the impact of the current Post-Retirement Employment Program on retirement behavior. We developed a second set of TRS 1 retirement rates for the program as modified by this bill. These rates were developed using one-half of the increase in rates assumed for the current program. The rates used are disclosed in the Statement of Data and Assumptions section of this fiscal note.

FISCAL IMPACT:

Description:

In the November, 2005, "Post-Retirement Employment Program Report", published by the OSA, it was determined that the Post-Retirement Employment Program had induced members to retire earlier than they would have in absence of the program. Earlier retirements generate a cost to the system since retirement benefits must be paid out sooner than assumed and funded for, and over a longer period of time. There is also a loss of expected member contributions to the system.

This bill would change the retirement experience in TRS 1 by making it less likely that members would retire earlier to participate in the Post-Retirement Employment Program. The effect of this change would be to lower the liabilities of the plan and the required contribution rates.

Actuarial Determinations:

The bill would impact the actuarial funding of the system by decreasing the present value of benefits payable under TRS 1 and the required actuarial contribution rate as shown below. There is no impact in PERS.

(Dollars in Millions)	Teachers' Retirement System Plan 1 Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$10,970	($15)	$10,955
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$2,287	($15)	$2,272
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$2,246	($17)	$2,229

Increase in Contribution Rates: (Effective 09/01/2007)	
Current Members	
Employee (Plan 1)	0.00%
Employer State	(0.03)%

Fiscal Budget Determinations:

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

Costs (in Millions):	TRS
2007-2009	
State:	
General Fund	($1.6)
Non-General Fund	0.0
Total State	(1.6)
Local Government	(1.0)
Total Employer	($2.6)
Total Employee	$0.0
2009-2011	
State:	
General Fund	($2.0)
Non-General Fund	0.0
Total State	(2.0)
Local Government	(1.0)
Total Employer	($3.0)
Total Employee	$0.0

Costs (in Millions):	TRS
2007-2032	
State:	
General Fund	($22.9)
Non-General Fund	0.0
Total State	(22.9)
Local Government	(11.3)
Total Employer	($34.2)
Total Employee	$0.0

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2005 actuarial valuation report of the Teachers' Retirement System. The rates used to determine the fiscal impact are those used in SHB 2689 from the 2006 session.

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

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

   We used the following retirement rates for determining the fiscal impact of the proposed changes to the Post-Retirement Employment Program.

TRS Plan 1 Retirement Rates For Post-Retirement Employment Program

	Current Provisions				Proposed Changes			
	Service <> 30		Service = 30		Service <> 30		Service = 30	
Age	Male	Female	Male	Female	Male	Female	Male	Female
50*	0.27	0.22	0.43	0.32	0.26	0.21	0.42	0.31
51	0.27	0.22	0.43	0.33	0.26	0.21	0.42	0.31
52	0.28	0.22	0.44	0.33	0.26	0.21	0.42	0.32
53	0.28	0.22	0.44	0.33	0.26	0.21	0.42	0.32
54	0.28	0.22	0.44	0.33	0.26	0.21	0.42	0.32
55	0.28	0.22	0.44	0.33	0.26	0.21	0.42	0.32
56	0.22	0.22	0.39	0.33	0.21	0.21	0.37	0.32
57	0.22	0.22	0.38	0.33	0.21	0.21	0.37	0.31
58	0.22	0.22	0.43	0.33	0.21	0.21	0.42	0.31
59	0.21	0.27	0.48	0.32	0.21	0.26	0.47	0.31
60	0.21	0.27	0.48	0.32	0.21	0.26	0.47	0.31
61	0.21	0.21	0.64	0.38	0.21	0.21	0.62	0.36
62*	0.48	0.38	0.64	0.59	0.47	0.36	0.62	0.57

*Rates for ages less than 50 and greater than 62 are unchanged from rates used in the 2005 valuation.

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

5. This fiscal note is intended for use only during the 2007 Legislative Session.

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

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average

working lifetime of the current active Plan 2/3 members.

8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0245.1/07 ROUGH DRAFT

ATTY/TYPIST: LL:mos

BRIEF DESCRIPTION:

HB/SB .... (Z-0059.1/07) - SCPP AMD
By Select Committee on Pension Policy

Strike everything after the enacting clause and insert the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(v) "Earnable compensation" does not include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest

consecutive sixty service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

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

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

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

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

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

(36) "Substitute teacher" means:

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

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

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

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

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

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

(38) "Plan 1" means the teachers' retirement system, plan 1

providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

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

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

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

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

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

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

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

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

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

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

(49) "Employed" or "employee" means a person who is providing services for compensation to an employer, unless the person is free

from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

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

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

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

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

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every seven hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

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

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

(3) Any retired teacher or retired administrator who enters service in any public educational institution in Washington state one month or more after his or her accrual date and:

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

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

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

shall cease to receive pension payments while engaged in that service after the retiree has rendered service for more than one thousand five hundred hours in a school year.

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

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

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

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

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

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

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

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

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

(b) "Employer" for plan 2 and plan 3 members, means every branch, department, agency, commission, board, and office of the state, and any political subdivision and municipal corporation of the state admitted into the retirement system, including public agencies created pursuant to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 2000, school districts and educational service districts will no longer be employers for the public employees' retirement system plan 2.

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

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

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

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

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

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

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

(f) Any member who has been a contributor under the system for two or more years and who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement has rendered five or more years of service for the state or any political subdivision prior to the time of the admission of the employer into the system; except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member.

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

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

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

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

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

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

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

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

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

(ii) "Compensation earnable" does not include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

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

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

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

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

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

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

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

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

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

(13) "Membership service" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(25) "Eligible position" means:

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

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

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

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

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

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

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

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

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

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

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

(35) "Plan 3" means the public employees' retirement system, plan 3 providing the benefits and funding provisions covering persons who:

(a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

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

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

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

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

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

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

(42) "Separation from service" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination. <u>Mere expressions or inquiries about postretirement employment by an employer or employee that do not constitute a commitment to reemploy the employee after retirement are not an agreement under this subsection.</u>

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

Sec. 5. RCW 41.40.037 and 2005 c 319 s 103 are each amended to read as follows:

(1)(a) If a retiree enters employment with an employer sooner than one calendar month after his or her accrual date, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month. This reduction will be applied each month until the retiree remains absent from employment with an employer for one full calendar month.

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

(2)(a) Except as provided in (b) or (c) of this subsection, a retiree from plan 1 who enters employment with an employer at least one calendar month after his or her accrual date may continue to receive pension payments while engaged in such service for up to eight hundred sixty-seven hours of service in a calendar year without a reduction of pension.

(b) A retiree from plan 1 who enters employment with ((~~an~~)) the same employer at least three calendar months after his or her accrual date and:

(i) Is hired pursuant to a written policy into a position for which the employer has documented a justifiable need to hire a retiree into the position;

(ii) Is hired through the established process for the position with the approval of: A school board for a school district; the chief executive officer of a state agency employer; the secretary of the senate for the senate; the chief clerk of the house of representatives for the house of representatives; the secretary of the senate and the chief clerk of the house of representatives jointly for the joint legislative audit and review committee, the ((~~joint~~)) select committee on pension policy, the legislative evaluation and accountability program, the legislative systems committee, and the statute law committee; or according to rules adopted for the rehiring of retired plan 1 members for a local government employer;

(iii) The employer retains records of the procedures followed and decisions made in hiring the retiree, and provides those records in the event of an audit; and

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

shall cease to receive pension payments while engaged in that service after the retiree has rendered service for more than one thousand five hundred hours in a calendar year. The one thousand nine hundred hour cumulative total under this subsection applies prospectively to those retiring after July 27, 2003, and retroactively to those who retired prior to July 27, 2003, and shall be calculated from the date of retirement.

(c) A retiree from plan 1 who enters employment with a different employer as determined by the department, at least three calendar months after his or her accrual date, and:

(i) Is hired pursuant to a written policy into a position for which the employer has documented a justifiable need to hire a retiree into the position;

(ii) Is hired through the established process for the position with the approval of: A school board for a school district; the chief executive officer of a state agency employer; the secretary of the senate for the senate; the chief clerk of the house of representatives for the house of representatives; the secretary of the senate and the chief clerk of the house of representatives jointly for the joint legislative audit and review committee, the select committee on pension policy, the legislative evaluation and accountability program, the legislative systems committee, and the statute law committee; or according to rules adopted for the rehiring of retired plan 1 members for a local government employer; and

(iii) The employer retains records of the procedures followed and decisions made in hiring the retiree, and provides those records in the event of an audit;

shall cease to receive pension payments while engaged in that service after the retiree has rendered service for more than one thousand five hundred hours in a calendar year.

(d) When a plan 1 member renders service beyond eight hundred sixty-seven hours, the department shall collect from the employer the applicable employer retirement contributions for the entire duration of the member's employment during that calendar year.

((~~(d)~~)) (e) A retiree from plan 2 or plan 3 who has satisfied the break in employment requirement of subsection (1) of this section may work up to eight hundred sixty-seven hours in a calendar year in an eligible position, as defined in RCW 41.32.010, 41.35.010, 41.37.010, or 41.40.010, or as a fire fighter or law enforcement officer, as defined in RCW 41.26.030, without suspension of his or her benefit.

(3) If the retiree opts to reestablish membership under RCW 41.40.023(12), he or she terminates his or her retirement status and becomes a member. Retirement benefits shall not accrue during the

period of membership and the individual shall make contributions and receive membership credit. Such a member shall have the right to again retire if eligible in accordance with RCW 41.40.180. However, if the right to retire is exercised to become effective before the member has rendered two uninterrupted years of service, the retirement formula and survivor options the member had at the time of the member's previous retirement shall be reinstated.

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

(5) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to be employed for more than five months in a calendar year without a reduction of his or her pension.

NEW SECTION. **Sec. 6.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007."

HB/SB .... (Z-0059.1/07) - SCPP AMD
By Select Committee on Pension Policy

On page 1, line 3 of the title, after "plan 1;" strike the remainder of the title and insert "amending RCW 41.32.055, 41.32.570, 41.40.010, and 41.40.037; reenacting and amending RCW 41.32.010; prescribing penalties; providing an effective date; and declaring an emergency."

--- END ---

The Select Committee on Pension Policy

Post-Retirement Employment

Laura Harper, Senior Research Analyst
October 17, 2006

2007 Legislative Strategy

- Two items for consideration
  - Bill draft
  - Amendment
- Today is last scheduled hearing for interim

Status

- Full committee briefing in July
- Issue also studied in 2000, 2002, 2003, 2004, and 2005
- Executive committee has narrowed the issue
  - Bill draft
  - Amendment

Bill Draft

- Identical to SHB 2689 (2006)
  - Bill passed House and Senate Ways and Means
  - Did not move from Rules at end of session
- Last year's sponsors: Bailey, Conway, and Fromhold

What's in the Bill?

- Procedural safeguards
- Parity between PERS 1 and TRS 1

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Procedural Safeguards

- Requires a written policy in both plans
  - Not in current law
- Applies PERS 1 procedural safeguards to TRS 1
  - No prior agreements
  - Document need
  - Follow hiring policy/procedure

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PERS 1 – TRS 1 Parity

- Add 1,900-hour cumulative lifetime limit to TRS 1
  - Currently law: only in PERS 1
- Increase waiting period for TRS 1 by one-half month
  - Current PERS 1 wait is three months
  - Current TRS 1 wait is one month

PERS 1 – TRS 1 Parity (continued)

- Add misdemeanor penalty for violations in TRS 1
  - Currently PERS 1 has misdemeanor penalty
  - No penalty in TRS 1 under current law

Keller Amendment

- PERS 1 exception: No 1,900-hour limit for retirees returning to different employer
- No 1,900-hour limit in TRS 1
- One-month waiting period in TRS 1; three months in PERS 1

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Pricing – Bill Draft

- Draft fiscal note available for bill draft
  - Updated from last session
  - Savings in TRS 1 from imposing more restrictions
- 2007-2009 savings
  - ($1.6 million) GFS
  - ($2.6 million) Total Employer
- 25-year savings
  - ($22.9 million) GFS
  - ($34.2 million) Total Employer

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Pricing Estimate - Keller Amendment

- Assumed cost increase due to liberalizing provisions in PERS 1
- Estimated impact on employer contribution rate: a possible zero to .01 percent increase

Next Steps

- Clarify recommendation for 2007
  - Recommend bill as drafted?
  - Apply Keller amendment to draft?

From: Wil Brannon
To: actuary.state@leg.wa.gov
Date: 3/24/06 1:10PM
Subject: ATTENTION:SELECT COMMITTEE ON PENSION POLICY (SCPP) retire/rehire situation FOR WIL E. BRANNON

I hope someone will listen to my story and give me some direction. I retired in May of 2000 after almost 34 years with Pierce County Public Works.

In 2002, due to extreme medical problems with my wife, Linda, I found it necessary to return to work. I went through all the training offered by the unemployment office and started on a job search. As I read over job requirements I realized that I had only worked in one profession my whole life; Public Works. To make a long story short, I started applying for Public Works positions where I had the best qualifications. One of those applications went to an open "Interim" Public Works position at Lewis County. I competed for this temporary position and eventually was awarded the job, starting in March of 2003. This was a fair and competitive hiring process. I rented a small bachelor apartment in Chehalis, where I lived during the work week. I went home to Puyallup on weekends. In late July of 2003, the Lewis County Public Works Director and the Board of County Commissioners offered me this position on a permanent basis. I accepted the position in August of 2003. I was finally able to sell my home in Puyallup, and moved my family to Lewis County in November of 2004. Believe me, this was not a popular move with my two teenage daughters; but it was a direction we had to make in order to keep our family together. Now, due to legislative changes that happened after my retirement in 2000, I feel I am forced to make a career decision that I am really should not have to make. When I retired in 2000, the Pers 1 rehire laws placed loss of retirement benefits on any rehires after 1500 hours of employment per year in a Pers 1 position. There were no restrictions as to how many years a person could continue to work under those guidelines. Then, in 2003, legislation was passed that further reduced the annual benefit limit from 1500 hours to 867 hours after three full-time years of employment in a Pers position. I ask to be "grand fathered" in to the retirement rehire guidelines that I retired under in the year 2000. I feel consideration for this request is warranted due to the following reasons:

1. When I retired in 2000, I had no intention of being rehired into a position in the Pers 1 Plan. My retirement contract was in good faith, but, medical conditions forced me back into the only position I was experienced in, as Public Works was my entire working life. I was able to perform immediately at a high level of efficiency in my new job.
2. These retirements benefits were earned and paid for by myself and my previous employer (Pierce County). My having to return to work should not have a bearing on previously earned benefits.
3. I competed for the new position fairly, having completed and submitted the job application and resume'. I also went through the interview and testing process.
4. For the first 20 months in the new position, many sacrifices were made by myself and my family. I mention this solely to put further emphasis on the fact that my return to work was a dire necessity, not a luxury.
5. There is also the political issue that came about, when former Governor Locke vetoed a similar law for all the "TERS 1" rehire/retire teachers and administrator. Why was that? That was a major hit on the Pers program members.
6. I feel like some form of my "Right to Work" privileges to get employment in the State of Washington have been taken away. The number of public agencies where I could apply for positions that I

was qualified for was greatly reduced because the vast majority participate in the Pers programs.

7. I am aware that their may be people who have abused the system, but why not seek them out and correct them. I am sincere in being the best provider possible to my wife and my children. Again, I became a rehire due to family illnesses and necessities and I competed fairly for the position. I do not consider my request for reconsideration being grand fathered in to the retirement laws for the year that I retired. I would appreciate being contacted to give me some advice on what direction I should take my appeal.

PLEASE CORRECT ME IF I HAVE BEEN MIS-INFORMED ON ANY OF THE ABOVE INFORMATION.

WIL E. BRANNON
740 A LEUDINGHAUS ROAD
CHEHALIS, WA. 98532
HOME PHONE=360-291-0029
WORK PHONE=360-740-1384

October 17, 2006

Jean Backman
4807 Center Lane N.E.
Olympia, WA 98516

wk: (360) 786-1303
hm: (360) 456-2126

SUBJECT: RETIRE/REHIRE – PERS 1

- PERS 1 retiree – retired effective May 1, 2002
- 31 years in state government, worked in various state agencies, last position a Human Resource Consultant 3 with Department of Personnel
- When I retired, retire/rehire law was 1,500 hours/yr. – approx. 9 months
- In 2003, **1 year after I retired**, law was changed to lifetime max. calculation - 867 total hours per year, **and made retroactive to include my retirement date**
- Living situation changed - expenses increased – had to return to full-time work. Adult children/grandchildren moved in due to change in their financial status, widowed mother-in-law w/dementia moved in.
- Current employer is WFSE, **a private, not-for-profit corporation**, but as a "labor organization", is a PERS 1 employer.
- In May 2003, as soon as I learned about the change in the retirement law, wrote to Governor and various legislators – negative responses
- Change in retire/rehire law affected me beginning May 2006 (lifetime calculation)

- Result - retirement benefits are cut off end of May rather than end of September = **difference of 4 months = approx. $10,800 additional loss per year** (already had a 3 month loss each year = $8,100).

- Current law creates financial hardship

- Months not collecting Retirement = $1,000 budget deficit/month. Pulling money from savings. Beginning 2007, will have to pull from Deferred Comp. account – 7 months each year. Only enough in Deferred Comp. for several years at the rate of $1,000 a month. Will then be financially wiped out.

- **Cannot pursue any public sector employment without same effect:** any entity in PERS 1 system - State, County, City, Municipalities; some higher education institutions, community colleges, and local school districts with ties to PERS 1 (SERS?).

- **Options** – private sector? Have gone on interviews, lower pay, little or no health care benefits for employee and/or spouse. For husband, private pay, between $500 - $700 per month for health insurance. Any benefit realized by private sector employment wiped out by health care costs.

- **Unfairly penalized.** Did not return to old job in state government – did not have any "sweetheart deal" lined up. Had almost 5-month break between retirement and employment. Retired in good faith. Due to this law, am being treated unfairly and penalized for my years of public service.

GARY LOCKE
Governor

STATE OF WASHINGTON
OFFICE OF THE GOVERNOR
P.O. Box 40002 • Olympia, Washington 98504-0002 • (360) 753-6780 • www.governor.wa.gov

June 19, 2003

W J. Backman
1401 Marvin Rd NE #307-205
Lacey, WA 98516

Dear Jean:

Thank you for contacting the Office of the Governor regarding legislation passed this year by the Legislature. Governor Locke appreciates the time you took to let him know your thoughts on this matter. The legislative process is always enhanced when citizens take an active interest in shaping public policy.

This is truly a budget for hard times, and one that will require sacrifices from all of the people of our state. Many individuals and businesses are adjusting to the pressures of the economic downturn, and state government also must shoulder its share of the burden. By working together, we can meet our goals as a state and secure Washington's future.

Governor Locke has taken action on all the bills that passed the legislature and came to his desk this past session and during the special session. You can check on the final status of all bills passed this year at http://www.governor.wa.gov/03leg/billact.htm or by calling the Legislative Hotline at 1-800-562-6000.

Again, thank you for taking the time to contact the Office of the Governor.

Sincerely,

Office of the Governor
Constituent Services
http://www.governor.wa.gov/contact/govemail.htm

Enclosure

STATE OF WASHINGTON

OFFICE OF THE GOVERNOR

P.O. Box 40002 • Olympia, Washington 98504-0002 • (360) 753-6780 • www.governor.wa.gov

May 20, 2003

To the Honorable Speaker and Members,
The House of Representatives of the State of Washington

Ladies and Gentlemen:

I am returning herewith, without my approval as to sections 1 and 2, Substitute House Bill No. 1829 entitled:

> "AN ACT Relating to postretirement employment in the public employees' retirement system and the teachers' retirement system;"

This bill would impose new standards and procedures for rehiring members of the Teachers Retirement System and the Public Employees Retirement System who have retired from public employment.

I initially proposed the retire-rehire legislation in 2001 to address the shortage of qualified teachers and school administrators. Prior to this law, the Teachers Retirement System penalized experienced teachers by limiting them to 30 years of retirement service credit, even if they taught longer than that.

Section 1 would make it a felony for a member of the Teachers Retirement System to enter into an oral or written agreement to resume employment after retirement. While I appreciate the intent of the Legislature to prohibit employees and employers from entering into private handshake deals, the penalty in this section is significantly more severe than the penalty for similar acts committed by members of the Public Employees Retirement System. Therefore, I am vetoing section 1.

Section 2 would provide new standards and procedures for the future employment of retirees within the public school system. I strongly support those accountability provisions. However, section 2 would also place an artificial "lifetime limit" on the number of hours that a retired member of the system could work after being rehired, and would make that limit retroactive. The retroactive lifetime limit will place an unreasonable recruitment burden on school districts facing significant shortages of qualified teachers and principals. We must protect the ability of school districts to provide for the education of our children, and trust their locally elected school boards to properly administer the retire-rehire law. Therefore, I am vetoing section 2.

While I am not vetoing Section 4, which would make it a gross misdemeanor for a member of the Public Employees Retirement System to enter into an oral or written agreement to resume employment after retirement, I am concerned that the language of the section is flawed and therefore almost impossible to prosecute under. I believe the Legislature should consider legislation to perfect the language to make the elements of the crime clear and to place the language into RCW 41.40.055, which is the section dealing with pension fraud for this retirement system.

For these reasons, I have vetoed sections 1 and 2 of Substitute House Bill No. 1829.

With the exception of sections 1 and 2, Substitute House Bill No. 1829 is approved.

Respectfully submitted,

Gary Locke
Governor

May 28, 2003

The Honorable Gary Locke
Governor of Washington
Office of the Governor
P.O. Box 40002
Olympia, WA 98504-0002

Dear Governor Locke:

SUBJECT: SUBSTITUTE HOUSE BILL NO. 1829 – "AN ACT RELATING TO POSTRETIREMEMT EMPLOYMENT IN PUBLIC EMPLOYEES' RETIREMENT SYSTEM..."

I am a PERS 1 retiree who is affected by the above-referenced bill, which you recently signed into law. I worked for state government for 31 years and believe I am entitled to my pension according to the rules under which I retired on May 1, 2002. This new law creates a financial hardship for me in that I made financial decisions (including building a new home) based upon the income I believed I would continue receiving.

Please note the following:

1. I did **not** return to work at my old job, nor any state nor local government agency. In fact, **I work for a private, non-profit, unincorporated association.** But because my new employer, the **Washington Federation of State Employees** is considered a PERS 1 employer, I fall under the new law.

2. I did **not** "line up" this job while working for the state. I retired only with the hope that I would be able to find another job to supplement my pension. I was unemployed for 5 months last year. I was accepted for a position with the Federation in September 2002.

3. I am **not** "bringing in the big bucks" like the high-level managers this new law is apparently intended to penalize. In fact, I am making approximately half what I made at my last job with the Department of Personnel (DOP). My annual Federation salary plus my 1,500-hour per year pension is roughly equivalent to my former DOP salary.

4. I **will** suffer a financial hardship if this law remains as written. I will very likely be unable to keep my home.

5. I **was** an exemplary employee and a faithful servant of the people of the state of Washington for 31 years. I earned my pension and deserve to keep it according to the conditions under which I originally retired.

I beg you to reconsider your position and take the necessary steps to amend or repeal this law that unfairly penalizes "the little guy." Please focus on the intended target – the high-level managers and administrators who "cut deals" to continue in their previous jobs at substantially increased salaries.

Sincerely,

Jean Backman

W. Jean Backman
1401 Marvin Road N.E., #307-205
Lacey, WA 98516

STATE REPRESENTATIVE
22nd DISTRICT
SAM HUNT
ASST. MAJORITY FLOOR LEADER

State of Washington House of Representatives

CAPITAL BUDGET
VICE CHAIRMAN
AGRICULTURE & NATURAL RESOURCES
STATE GOVERNMENT
RULES

June 12, 2003

Ms. W. Jean Backman
1401 Marvin Rd NE, #307-205
Lacey, WA 98516

Dear Ms. Backman:

Thank you for your letter expressing the financial hardship you will face with the implementation of Substitute House Bill 1829, regarding regulation of postretirement employment for PERS Plan 1 and TRS Plan 1 members.

As you know, the intent of this legislation is to better regulate the retire-rehire process. This came about when several retirees abused the program and began receiving additional benefits from the current system. I sympathize with your situation. Unfortunately, the actions of a few have resulted in disadvantage for others.

SHB 1829 passed the House unanimously and was signed into law by the Governor, effective July 27, 2003. Governor Locke vetoed a portion of the bill addressing the teachers' retirement plan. The Legislature did not change this bill during the special sessions.

Thanks again for taking the time to share your views with me. I'm sorry that this legislation will cause you hardship.

Sincerely,

Sam Hunt

SAM HUNT
State Representative
22nd Legislative District

LEGISLATIVE OFFICE: 325 JOHN L. O'BRIEN BUILDING, PO BOX 40600, OLYMPIA, WA 98504-0600 • 360-786-7992
TOLL-FREE LEGISLATIVE HOTLINE: 1-800-562-6000 • TDD: 1-800-635-9993
E-MAIL: hunt_sa@leg.wa.gov • **LEGISLATIVE WEBSITE:** www.leg.wa.gov

May 28, 2003

The Honorable Sam Hunt
House of Representatives
P.O. Box 40600
Olympia, WA 98504-0600

Dear Mr. Hunt:

SUBJECT: SUBSTITUTE HOUSE BILL NO. 1829 –
"AN ACT RELATING TO POSTRETIREMEMT EMPLOYMENT IN PUBLIC EMPLOYEES' RETIREMENT SYSTEM..."

I am a PERS 1 retiree who is affected by the above-referenced bill, which was recently signed into law. I worked for state government for 31 years and believe I am entitled to my pension according to the rules under which I retired on May 1, 2002. This new law creates a financial hardship for me in that I made financial decisions (including building a new home) based upon the income I believed I would continue receiving.

Please note the following:

1. I did **not** return to work at my old job, nor any state nor local government agency. In fact, **I work for a private, non-profit, unincorporated association.** But because my new employer, the **Washington Federation of State Employees** is considered a PERS 1 employer, I fall under the new law.

2. I did **not** "line up" this job while working for the state. I retired only with the hope that I would be able to find another job to supplement my pension. I was unemployed for 5 months last year. I was accepted for a position with the Federation in September 2002.

3. I am **not** "bringing in the big bucks" like the high-level managers this new law is apparently intended to penalize. In fact, I am making approximately half what I made at my last job with the Department of Personnel (DOP). My annual Federation salary plus my 1,500-hour per year pension is roughly equivalent to my former DOP salary.

4. I **will** suffer a financial hardship if this law remains as written. I will very likely be unable to keep my home.

5. I **was** an exemplary employee and a faithful servant of the people of the state of Washington for 31 years. I earned my pension and deserve to keep it according to the conditions under which I originally retired.

I beg you to take the necessary steps to amend or repeal this law that unfairly penalizes "the little guy." Please focus on the intended target – the high-level managers and administrators who "cut deals" to continue in their previous jobs at substantially increased salaries.

Sincerely,

Jean Backman

W. Jean Backman
1401 Marvin Road N.E., #307-205
Lacey, WA 98516

STATE REPRESENTATIVE
22nd DISTRICT
SANDRA ROMERO

State of
Washington
House of
Representatives

LOCAL GOVERNMENT
CHAIR

TECHNOLOGY,
TELECOMMUNICATIONS & ENERGY

TRANSPORTATION

CAPITOL FURNISHINGS
PRESERVATION COMMITTEE
CO-CHAIR

LEGISLATIVE BUILDING
PRESERVATION AND
RENOVATION COMMISSION

LEGISLATIVE TRANSPORTATION
COMMITTEE

June 6, 2003

W. Jean Backman
1401 Marvin Road NE #307-205
Lacey, WA 98516

Dear Ms. Backman:

Thank you for your letter letting me know you opposed HB 1829, Regulating Postretirement Employment. I appreciated hearing from you and can certainly appreciate your frustration with this legislation.

As you know, the bill did pass and was delivered to the Governor. The Governor signed the bill, but vetoed Sections 1 and 2; sections that deal with teachers and the public school system. A copy of the veto message is enclosed for your information.

I am sorry this legislation will have such a bad result for you. Unfortunately, the actions of a few taking advantage of the situation have had a detrimental affect on others. I wish we could have found another way to correct the situation.

Again, thank you for contacting me. I hope you'll call or write again if you have other concerns or questions. I'd like to hear from you.

Sincerely,

Sandra Romero
Representative
22nd District

LEGISLATIVE OFFICE: MODULAR 1 BLDG., ROOM 106, PO BOX 40600, OLYMPIA, WA 98504-0600 • 360-786-7940
TOLL-FREE LEGISLATIVE HOTLINE: 1-800-562-6000 • TDD: 1-800-635-9993
E-MAIL: anderson_ma@leg.wa.gov

VETO MESSAGE ON HB 1829-S

May 20, 2003

To the Honorable Speaker and Members,
The House of Representatives of the State of Washington

Ladies and Gentlemen:

I am returning herewith, without my approval as to sections 1 and 2, Substitute House Bill No. 1829 entitled:

> "AN ACT Relating to postretirement employment in the public employees' retirement system and the teachers' retirement system;"

This bill would impose new standards and procedures for rehiring members of the Teachers Retirement System and the Public Employees Retirement System who have retired from public employment.

I initially proposed the retire-rehire legislation in 2001 to address the shortage of qualified teachers and school administrators. Prior to this law, the Teachers Retirement System penalized experienced teachers by limiting them to 30 years of retirement service credit, even if they taught longer than that.

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For these reasons, I have vetoed sections 1 and 2 of Substitute

House Bill No. 1829.

With the exception of sections 1 and 2, Substitute House Bill No. 1829 is approved.

Respectfully submitted,
Gary Locke
Governor

May 28, 2003

The Honorable Sandra Romero
House of Representatives
P.O. Box 40600
Olympia, WA 98504-0600

Dear Ms. Romero:

SUBJECT: SUBSTITUTE HOUSE BILL NO. 1829 –
"AN ACT RELATING TO POSTRETIREMEMT EMPLOYMENT IN PUBLIC EMPLOYEES' RETIREMENT SYSTEM..."

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I beg you to take the necessary steps to amend or repeal this law that unfairly penalizes “the little guy.” Please focus on the intended target – the high-level managers and administrators who “cut deals” to continue in their previous jobs at substantially increased salaries.

Sincerely,

Jean Backman

W. Jean Backman
1401 Marvin Road N.E., #307-205
Lacey, WA 98516

May 28, 2003

No response
Rec'd

The Honorable Karen Fraser
The State Senate
P.O. Box 40422
Olympia, WA 98504-0422

Dear Senator Fraser:

SUBJECT: SUBSTITUTE HOUSE BILL NO. 1829 – "AN ACT RELATING TO POSTRETIREMEMT EMPLOYMENT IN PUBLIC EMPLOYEES' RETIREMENT SYSTEM..."

I am a PERS 1 retiree who is affected by the above-referenced bill, which was recently signed into law. I worked for state government for 31 years and believe I am entitled to my pension according to the rules under which I retired on May 1, 2002. This new law creates a financial hardship for me in that I made financial decisions (including building a new home) based upon the income I believed I would continue receiving.

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Sincerely,

Jean Backman

W. Jean Backman
1401 Marvin Road N.E., #307-205
Lacey, WA 98516

WASHINGTON STATE LEGISLATURE

Office of the State Actuary

October 11, 2006

Representative Steve Conway
PO Box 40600
Olympia, WA 98504-0600

Dear Representative Conway,

This letter is in response to the question you raised at the August SCPP hearing regarding the method used to measure the impact of future gain-sharing benefits on the interest rate (rate-of-return) earned by retirement plan assets. The following table includes the Washington State Investment Board (WSIB) simulations for four-year rates-of-return that the Office of the State Actuary has been using for gain-sharing cost estimates. Results of the simulations are shown for ten percentiles. These returns are based on the current asset allocation of the retirement commingled trust fund and ignore past performance.

Gain-Sharing Interest Rate Impact Analysis				
Percentiles	**Expected 4-Year Return**	**Excess over 10%**	**½ Excess**	**Every Other Year**
95th Percentile	19.0%	9.0%	4.5%	2.25%
85th Percentile	14.6%	4.6%	2.3%	1.15%
75th Percentile	12.0%	2.0%	1.0%	0.50%
65th Percentile	10.0%	0.0%	0.0%	0.00%
55th Percentile	8.2%	0.0%	0.0%	0.00%
45th Percentile	6.5%	0.0%	0.0%	0.00%
35th Percentile	4.8%	0.0%	0.0%	0.00%
25th Percentile	2.9%	0.0%	0.0%	0.00%
15th Percentile	0.6%	0.0%	0.0%	0.00%
5th Percentile	-3.1%	0.0%	0.0%	0.00%
Average	7.6%	1.56%	0.78%	0.39%

The formula to determine the impact of gain-sharing is based on the above four-year rates-of-return, one-half of any excess over 10 percent and an allocation/distribution payable every other year. As shown in the above table, three of these percentiles would result in a gain-sharing event – the 75^{th}, 85^{th}, and 95^{th} percentiles. For instance, the 95^{th} percentile has a 19 percent four-year return, or 9 percentage points (900 basis points) above the 10 percent gain-sharing threshold. The excess over 10 percent is added for all percentiles, divided by ten to give each of the

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percentiles equal weight, divided by two, because gain-sharing is one-half of the excess over 10 percent, and divided by two again because it is potentially payable in January of even-numbered years.

Gain-sharing interest rate analysis using basis points:
(((900 basis points + 460 basis points + 200 basis points) ÷ 10) ÷ 2) ÷ 2 = 39 basis points

As shown in the preceding calculations, the gain-sharing allocation/distribution mechanism results in about a 0.4 percent, or a 40 basis point, reduction in investment return. As a consequence, retirement liabilities with gain sharing are valued at 7.6 percent instead of the assumed 8 percent rate of return.

This calculation is applicable to Plan 1 because all Plan 1 assets are attributable to Plan 1 gain-sharing. The calculation must be modified with respect to Plan 3 because the assets of Plan 3 are mingled with those of Plan 2 for investment and funding purposes. To separate the assets attributable to Plans 3 participants, the total assets in Plans 2/3 are multiplied by the ratio of service in Plan 3 over service in Plans 2/3.

If you have further questions, please contact me at (360) 786-6144.

Sincerely,

Robert Wm. Baker
Senior Research Analyst
Office of the State Actuary

cc: Select Committee on Pension Policy

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2008 Gain-Sharing Projections

Gain-Sharing Background

Gain-sharing benefits apply to PERS, TRS, and SERS Plans 1 and Plans 3. The benefits can be triggered if certain conditions are met on June 30 of odd-numbered years.

Gain-sharing benefits will be triggered on June 30, 2007, and payable on January 1, 2008, if the four-year average compound annual investment return exceeds 10 percent. The gain-sharing benefits are based on half the excess return over 10 percent.

Assets applicable to Plan 3 gain-sharing benefits are the assets attributable to Plan 3 participants. These attributable assets are the total assets in Plans 2 and 3, multiplied by the ratio of service in Plan 3 over service in Plans 2 and 3.

Gain-sharing benefits in Plan 1 are granted as an increase to the Uniform Increase amount. Gain-sharing benefits in Plan 3 are granted as a distribution from the defined benefit plan to members' defined contribution accounts.

Estimated Investment Returns for 2008 Gain-Sharing

The 2008 gain-sharing formula will consider the investment returns over the four years ending on June 30, 2007. The applicable returns to August 31, 2006, are 16.7 percent for the year ending June 30, 2004, 13.3 percent for the year ending June 30, 2005, 16.7 percent for the year ending June 30, 2006, and 2.68 percent for the two months ending August 31, 2006. The accumulated return is 58.5 percent.

In order to trigger gain-sharing, investment returns would have to average 10 percent for each of the four years to June 30, 2007, for a total return of 46.4 percent. The

PURPOSE OF THIS DOCUMENT

The purpose of this communication is to provide policy makers with the likelihood of an extraordinary investment gain, as defined under Chapters 41.31 and 41.31A RCW, for 2008. It is intended to assist policy decision makers as they assess options for addressing future gain-sharing liabilities and should not be used for other purposes. **It is not intended as a financial planning tool for retirement system members.**

This document summarizes calculations that require assumptions about future investment performance. The assumptions and methods used in this document are reasonable and appropriate for the primary purpose stated above. The use of another set of assumptions and methods, however, could also be reasonable and could result in materially different results.

This document consists of four pages and should be used in its entirety. The partial use and/or distribution of this document could be misleading to other parties.

The results presented in this document will change as projected investment return is replaced with actual investment performance. **The reader should exercise caution when applying the results of this document beyond the date listed above.**

Martin McCaulay
Senior Pension Actuary
360.786.6150
mccaulay.martin@leg.wa.gov

current accumulated return of 58.5 percent exceeds the four-year accumulated return of 46.4 percent required for gain-sharing.

The table below uses investment return simulations from the Washington State Investment Board (WSIB). It shows the expected future annual rate of return over the next ten months for each tenth percentile (the probability of getting a value less than that indicated, based on the distribution of simulated returns). This is combined with past actual returns for three years and two months to estimate the total four-year return to June 30, 2007. The compound average annual rate of return is calculated, along with the excess over 10 percent, and half the excess over 10 percent.

Investment Return Percentiles	Expected Future Annual Rate of Return	Total Four-Year Return to 6/30/07	Average Annual Rate of Return	Excess, if any, Over 10%	½ Excess, if any, Over 10%
95%	31.9%	99.6%	18.9%	8.9%	4.4%
85%	22.2%	87.4%	17.0%	7.0%	3.5%
75%	16.8%	80.4%	15.9%	5.9%	3.0%
65%	12.7%	75.1%	15.0%	5.0%	2.5%
55%	9.1%	70.4%	14.3%	4.3%	2.1%
45%	5.7%	66.0%	13.5%	3.5%	1.8%
35%	2.3%	61.6%	12.7%	2.7%	1.4%
25%	-1.3%	56.8%	11.9%	1.9%	1.0%
15%	-5.7%	51.0%	10.9%	0.9%	0.4%
5%	-12.6%	41.7%	9.1%	0.0%	0.0%
Median Value	**8.2%**	**69.3%**	**14.1%**	**4.1%**	**2.0%**

The 95th percentile is an annual rate of return of 31.9%. This is interpreted as a 95% probability of getting a rate less than 31.9%, or a 5% probability of getting a rate more than 31.9% - based on the distribution of simulated returns.

Possible Gain-Sharing Benefits in 2008

The benefits percentile table below lists half the excess over 10 percent returns applicable to the gain-sharing calculation. This is multiplied by the assets attributable to gain-sharing to get the value of the gain-sharing benefits.

The Plan 1 value was used to calculate additional Plan 1 benefits. These benefits are granted in the form of an additional Uniform Increase amount.

The Plan 3 value was used to calculate the Plan 3 benefits. The benefit is defined as a dollar amount per year of service to be transferred from the defined benefit plan to members' defined contribution accounts.

Benefit Percentiles	½ Excess, if any, Over 10%	Total Gain-Sharing Value*	Plan 1 Value	Plan 3 Value	Plan 1 Benefits (Uniform Inc.)	Plan 3 Benefits ($/year of service)
		($ in Millions)				
95%	4.4%	$ 1,087	$ 803	$ 284	$ 0.40	$ 291
85%	3.5%	$ 858	$ 634	$ 224	$ 0.31	$ 229
75%	3.0%	$ 724	$ 534	$ 189	$ 0.26	$ 193
65%	2.5%	$ 617	$ 456	$ 161	$ 0.23	$ 165
55%	2.1%	$ 522	$ 386	$ 137	$ 0.19	$ 140
45%	1.8%	$ 431	$ 318	$ 113	$ 0.16	$ 115
35%	1.4%	$ 337	$ 249	$ 88	$ 0.12	$ 90
25%	1.0%	$ 233	$ 172	$ 61	$ 0.09	$ 62
15%	0.4%	$ 105	$ 77	$ 27	$ 0.04	$ 28
5%	0.0%	$ 0	$ 0	$ 0	$ 0.00	$ 0
Median Value	**2.0%**	**$ 499**	**$ 369**	**$ 131**	**$ 0.18**	**$ 133**

Estimate based on market value of assets at September 30, 2005.

Market Value of Assets 9/30/05	Total Assets	Gain-Sharing Assets	Plan 1 Assets	Plan 3 Assets
		($ in Millions)		
PERS 1	$ 9,837	$ 9,837	$ 9,837	
TRS 1	$ 8,278	$ 8,278	$ 8,278	
PERS 2/3	$ 12,704	$ 4,294		$ 1,269
TRS 2/3	$ 4,474	$ 1,512		$ 3,384
SERS2/3	$ 1,803	$ 609		$ 1,762
Total	**$ 37,097**	**$ 24,530**	**$ 18,115**	**$ 6,415**

Assets applicable to Plan 3 gain-sharing benefits are the assets attributable to Plans 3 participants. These attributable assets are the total assets in Plans 2 and 3, multiplied by the ratio of service in Plan 3 over service in Plans 2 and 3.

All Plan 1 assets are attributable to Plan 1 gain-sharing.

The asset and service data was obtained from the preliminary results of the 2005 actuarial valuation of the plans.

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Appendix

Data, Assumptions, and Methods

The asset and service data was obtained from the preliminary results of the 2005 actuarial valuation of the plans.

Investment returns for the period July 1, 2003, to August 31, 2006, were obtained from the WSIB.

The simulated investment returns use the 2006 capital market assumptions provided by the WSIB.

2006 WSIB Capital Market Assumptions

			Current Portfolio	
Investment Type	Expected Returns	Standard Deviation	Target Allocation	Expected Return
U.S. Equity	8.50%	17.50%	23%	2.0%
Non-U.S. Equity	8.50%	19.00%	23%	2.0%
Fixed Income	5.00%	5.00%	25%	1.3%
Private Equity	12.50%	33.00%	17%	2.1%
Real Estate	7.75%	14.00%	12%	0.9%
Cash	3.25%	1.50%	0%	0.0%
TIPS	4.75%	5.00%	0%	0.0%
Long Duration FI	5.50%	7.50%	0%	0.0%
Total			**100%**	**8.2%**

The expected future annual rate of return over the next twelve months is shown for each tenth percentile from the fifth percentile to the ninety-fifth percentile. The percentile is the probability of getting a value less than that indicated. The ninety-fifth percentile is an annual rate of return of 31.9 percent. This is interpreted as a 95 percent probability of getting a rate less than 31.9 percent, or a 5 percent probability of getting a rate more than 31.9 percent - based on the distribution of simulated returns.

WASHINGTON STATE LEGISLATURE

Office of the State Actuary

October 11, 2006

Sent via email and hardcopy as meeting materials

Select Committee on Pension Policy Members

RE: Impact of 2008 Gain-Sharing Event

Dear Members:

The cost and liability of gain-sharing can be difficult to grasp because of the sporadic timing and uncertain quantity of the benefit stream. An alternative way to understand this cost is to isolate one particular gain-sharing event and price it as though it were a single benefit improvement. This letter presents the results of pricing the impact of the median projected 2008 gain-sharing benefit improvements based on investment returns through August 2006. Under these forecasts, the median projected gain-sharing benefits include an $0.18 increase in the Plan 1 Uniform Cost of Living Adjustment (UCOLA) and a $133 per year of service disbursement to the Defined Contribution (DC) accounts for Plan 3 members of the Public Employees', Teachers', and School Employees' Retirement Systems (PERS, TRS, and SERS, respectively).

If the Washington State Investment Board (WSIB) realizes rates-of-return for the Commingled Trust Fund (CTF) from September 2006 through July 2007 consistent with their 2006 capital market assumptions, gain-sharing benefits will be paid in January of 2008. These benefits would increase the liabilities of the Plans, which would in turn increase the employer Unfunded Actuarial Accrued Liability (UAAL) and Normal Cost contribution rates. The liability and contribution rate increases are summarized below.

Increase in Liabilities by System *(Dollars in Millions)*

	System	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	**PERS**	$31,346	$226	$31,572
	TRS	$17,451	$237	$17,688
	SERS	$2,539	$36	$2,575
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	**PERS**	$3,761	$200	$3,961
	TRS	$2,287	$168	$2,455
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	**PERS**	$1,286	$226	$1,512
	TRS	$1,195	$237	$1,432
	SERS	($281)	$36	($245)

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Increase in Employer Contribution Rates: (Effective 9/1/2007)				
System/Plan	**PERS**	**PSERS**	**TRS**	**SERS**
Contribution rate increase	0.21%	0.17%	0.53%	0.52%

As a result of the higher required contribution rates, the increase in projected funding expenditures in the first biennium would be an additional $38.1 million in General Fund State (GFS) costs, and an increase of $89.7 million in total employer costs. Over the 25-year span, GFS expenses would increase $487.4 million, and total employer expenses would exceed $1.1 billion:

2008 Gain-Sharing as a Proposed Benefit Improvement - Projected Costs					
2007 - 2009 Costs (in Millions)	**PERS**	**PSERS**	**TRS**	**SERS**	**Total**
State:					
General Fund	$4.7	$0.9	$27.2	$5.3	$38.1
Non-General Fund	7.6	0.0	0.0	0.0	7.6
Total State	12.3	0.9	27.2	5.3	45.7
Local Government	18.7	0.5	16.8	8.0	44.0
Total Employer	$31.0	$1.4	$44.0	$13.3	$89.7

2008 Gain-Sharing as a Proposed Benefit Improvement - Projected Costs					
2007 – 2032 Costs (in Millions)	**PERS**	**PSERS**	**TRS**	**SERS**	**Total**
State:					
General Fund	$63.3	$11.9	$358.1	$54.1	$487.4
Non-General Fund	103.4	0.3	0.0	0.0	103.7
Total State	166.7	12.2	358.1	54.1	591.1
Local Government	255.9	7.1	176.1	79.4	518.5
Total Employer	$422.6	$19.3	$534.2	$133.5	$1,109.6

We estimate that the increase of the UCOLA will impact all members of PERS 1 and TRS 1. We estimate that the Plan 3 gain-sharing disbursements would impact all current members, annuitants, terminated-vested members, and terminated non-vested members who are rehired, of PERS 3, TRS 3, and SERS 3, except those that do not meet the requirement of having a minimum $1,000 balance in their member account.

This project was based on benefit improvements equivalent in liability to the median projected 2008 gain-sharing event. The median total projected liability is $499 million. The actual gain-sharing distribution could be as low as $0.0 or as high as $1.1 billion or higher depending on investment returns through June 30, 2007. More likely than not, the 2008 gain-sharing distribution will be in the $233 million to $724 million range.

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

For this project we relied on the rates-of-return provided by WSIB for the time period from July 1, 2003, through August 30, 2006. We also used the capital market assumptions from the WSIB to determine the probability distribution that there will be gain-sharing disbursements on January 1, 2008. We also used the results from the 2005 Actuarial Valuation.

This letter has been prepared for use by the SCPP during the 2006 interim. Any third-party recipient of this work product is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in absence such professional guidance. Any distribution of this letter must be in its entirety, unless prior consent is obtained from the Office of the State Actuary.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

We appreciate the opportunity to provide this information and would be happy to answer any questions you may have.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA	Martin McCaulay, FSA, EA, MAAA
State Actuary	Senior Pension Actuary

Attachments:
- Appendix A – Actuarial Determinations
- Appendix B – Actuarial Methods
- Appendix C – Actuarial Assumptions
- Appendix D – Data
- Appendix E – Sensitivity Analysis
- Appendix F – Other Disclosures/Glossary

Appendix A

Actuarial Determinations

(Dollars in Millions)	System	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	**PERS**	$31,346	$226	$31,572
	TRS	$17,451	$237	$17,688
	SERS	$2,539	$36	$2,575
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	**PERS**	$3,761	$200	$3,961
	TRS	$2,287	$168	$2,455
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	**PERS**	$1,286	$226	$1,512
	TRS	$1,195	$237	$1,432
	SERS	($281)	$36	($245)

Increase in Employer Contribution Rates: (Effective 9/1/2007)				
System/Plan	**PERS**	**PSERS**	**TRS**	**SERS**
Contribution rate increase	0.21%	0.17%	0.53%	0.52%

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

Impact of 2008 Gain Sharing as a Proposed Benefit Improvement - Projected Costs					
Costs (in Millions)	**PERS**	**PSERS**	**TRS**	**SERS**	**Total**
2007-2009					
State:					
General Fund	$4.7	$0.9	$27.2	$5.3	$38.1
Non-General Fund	7.6	0.0	0.0	0.0	7.6
Total State	12.3	0.9	27.2	5.3	45.7
Local Government	18.7	0.5	16.8	8.0	44.0
Total Employer	$31.0	$1.4	$44.0	$13.3	$89.7
2009-2011					
State:					
General Fund	$5.5	$1.0	$32.0	$5.7	$44.2
Non-General Fund	9.0	0.0	0.0	0.0	9.0
Total State	14.5	1.0	32.0	5.7	53.2
Local Government	22.3	0.6	15.4	8.4	46.7
Total Employer	$36.8	$1.6	$47.4	$14.1	$99.9
2007-2032					
State:					
General Fund	$63.3	$11.9	$358.1	$54.1	$487.4
Non-General Fund	103.4	0.3	0.0	0.0	103.7
Total State	166.7	12.2	358.1	54.1	591.1
Local Government	255.9	7.1	176.1	79.4	518.5
Total Employer	$422.6	$19.3	$534.2	$133.5	$1,109.6

The fiscal impacts above are as a result of a benefit improvement equal in liability to the projected median gain-sharing event payable on January 1, 2008. The fiscal costs will change as future investment returns vary from expected investment returns.

Appendix B

Actuarial Methods

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

We began by building the probability distribution for the random value of gain-sharing in 2008. From this distribution we calculated the projected median value of 2008 gain-sharing. We looked at what the four-year compound rate-of-return for the CTF would be at that median value for the time period beginning July 1, 2003, and ending June 30, 2007, and took half of the amount over 10 percent. We spread this rate-of-return between the Plans 1 and 3 to determine the corresponding liability increase attributable to the respective Plans.

To determine the contribution rate increases from the gain-sharing benefits we used the projected liability increases from our probability of gain-sharing distribution and divided them by the Present Value of Future Salaries (PVSals) of the respective plans. We assumed the increase in contribution rates would become effective on September 1, 2007, as a supplemental contribution rate increase.

Appendix C

Actuarial Assumptions

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

For the purposes of this letter we assumed that gain-sharing benefits would be triggered June 30, 2007, and paid on January 1, 2008. We assumed the proposed benefit improvements would be equal to the median value produced by the gain-sharing projections done by our office.

All other assumptions are the same as those disclosed in the 2005 Actuarial Valuation Report.

Appendix D

Data

For this project we relied on the rates-of-return provided by WSIB for the time period from July 1, 2003, through August 30, 2006. We also used the capital market assumptions from WSIB to determine the probability distribution that there will be gain-sharing disbursements on January 1, 2008. We used the PVSals and other results from the 2005 Actuarial Valuation.

We estimate that the increase of the Uniform COLA will impact all 73,590 members of PERS 1 and all 45,184 members of TRS 1. We estimate that the Plan 3 gain-sharing disbursements would impact all current members of PERS 3, TRS 3, and SERS 3, except those that do not meet the requirement of having a minimum $1,000 balance in their member account; all of the Plan 3 annuitants, all of the Plan 3 terminated vested members meeting the minimum balance requirement, and any Plan 3 terminated non-vested members who are rehired.

(As of September 30, 2005)	**PERS 3**	**TRS 3**	**SERS 3**
Active	21,216	51,473	30,963
Annuitants	343	706	705
Terminated and Vested	1,793	3,158	2,491
Total	23,352	55,337	34,159

Appendix E

Sensitivity Analysis

This project was based on benefit improvements equivalent to the median projected value of the 2008 gain-sharing distribution. The median total liability increase is $499 million. The actual gain-sharing distribution could be as low as $0 or as high as $1.1 billion or higher depending on investment returns through June 30, 2007. More likely than not, the 2008 gain-sharing distribution will be in the $233 million to $724 million range.

Appendix F

Other Disclosures/Glossary

Statement of Data and Assumptions Used In Preparing the Fiscal Costs for This Letter:

The costs presented in this letter are based on our understanding of the request/proposed legislation as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2005, actuarial valuation report of the Public Employees' Retirements System, the Teachers' Retirement System and the School Employee's Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the Plans 1 and 3 will vary from those presented in the valuation report or this letter to the extent that actual experience differs from that projected by the actuarial assumptions.

3. The analysis of this request 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. These fiscal costs are intended for use only during the 2006 Legislative Interim.

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. These costs were also developed based on an assumed initial enrollment in the Public Safety Employees' Retirement System of 5,965 members. If that assumption is not realized, these costs may change.

Appendix F

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 LEGISLATURE

Office of the State Actuary

October 11, 2006

Sent via email and hardcopy as meeting materials

Select Committee on Pension Policy

RE: Cost of Future Gain-Sharing Benefits

Dear SCPP Members,

In the September executive committee meeting of the Select Committee on Pension Policy (SCPP), the Office of the State Actuary (OSA) was asked to provide SCPP members with gain-sharing costs based on the most recent valuation (September 30, 2005). These costs were to distinguish between current and future members. This differentiation illustrates that a significant portion of the cost of future gain-sharing is that related to new members – members not yet hired.

Distinguishing between current and future members also illustrates one means of addressing the liability of future gain-sharing – limiting gain-sharing benefits to members active prior to a specific date. Future members, those who acquire membership on or after that specific date, could be excluded from gain-sharing benefits. This would be applicable to Plan 3 members only, as Plan 1 is a closed plan and has had no new members since 1977.

According to the most recent valuation data, gain-sharing increases the liability in the various systems and plans by a total of $1.7 billion present value. Over half of that liability is in the Public Employees' Retirement System (PERS) Plan 1 and the Teachers' Retirement System (TRS) Plan 1, with the remaining liability in PERS Plan 3, TRS Plan 3, and School Employee's Retirement System (SERS) Plan 3.

Increase in Liabilities for All Systems *($ in Millions)*	**System/Plan**	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	**PERS 1**	$13,289	$509	$13,798
	TRS 1	$10,551	$419	$10,970
	PERS 2/3	$17,360	$144	$17,504
	TRS 2/3	$6,029	$443	$6,472
	SERS 2/3	$2,342	$191	$2,534

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Such increases in liability would warrant the following increases in contribution rates. These rates are applicable to employers only; gain-sharing does not affect member contribution rates as Plan 1 members' rates are set in statute and Plan 3 members contribute only to their member defined contribution accounts.

Increase in Employer Contribution Rates: 2007-2009
(Effective 7/1/2007 in PERS and 9/1/2007 in TRS and SERS)

System/Plan	PERS	TRS	SERS
Current Members			
Plan 1 UAAL	0.40%	0.78%	0.40%
Plan 2/3 Normal Cost	0.22%	1.16%	1.78%
Total Employer	0.62%	1.94%	2.18%
New Entrants			
Plan 2/3 Normal Cost	0.27%	0.87%	2.08%

Increase in Contribution Rates: 2009-2011
(Effective 7/1/2009 in PERS and 9/1/2009 in TRS and SERS)

System/Plan	PERS	TRS	SERS
Current Members			
Plan 1 UAAL	0.42%	0.80%	0.42%
Plan 2/3 Normal Cost	0.23%	1.22%	1.87%
Total Employer	0.65%	2.02%	2.29%
New Entrants			
Plan 2/3 Normal Cost	0.27%	0.87%	2.08%

As a result of the higher required contribution rates, the increase in employer funding expenditures is projected to be close to $7 billion over the next 25 years. The majority of these costs will be in the Plans 3. Unlike the Plans 1, which are closed, the Plans 3 will add new members each year. As new members join, the liability associated with their retirement benefits is added to the existing liabilities. It is important to note that the great majority of the Plan 3 costs over the next 25 years are related to new members.

Gain-sharing Twenty-five Year Total Employer Projected Costs
by Current and New Entrants
($ in Millions)

	PERS	PSERS	TRS	SERS	Total
Current Plan 1	$930.0	$47.1	$911.8	$178.2	$2,067.1
Current Plan 3	$263.8	$0.0	$942.8	$338.3	$1,544.9
New Entrants	$848.5	$0.0	$1,198.3	$1,319.6	$3,366.4
Total	$2,042.3	$47.1	$3,052.9	$1,836.1	$6,978.4

Gain sharing affects all 73,590 members of PERS 1 and all 45,184 members of TRS 1. It also affects all current members of PERS 3, TRS 3, and SERS 3 that have a minimum $1,000 balance in their member account, all of the Plan 3 annuitants, all of the Plan 3 terminated-vested members meeting the minimum balance requirement, and any Plan 3 terminated non-vested members who are rehired.

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

Data used in these calculations were from the September 30, 2005, actuarial valuation participant data file. We also relied upon the Washington State Investment Board's (WSIB) rate-of-return simulations to determine the interest rate adjustments due to gain-sharing.

This letter has been prepared for the use by the SCPP during the 2006 interim. Any third-party recipient of this work product is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in absence of such professional guidance. Any distribution of this letter must be in its entirety, unless prior consent is obtained from the Office of the State Actuary.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

We appreciate the opportunity to provide this information and would be happy to answer any questions you may have.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA	Martin McCaulay, FSA, EA, MAAA
State Actuary	Senior Pension Actuary

Attachments:
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- Appendix B – Actuarial Methods
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- Appendix D – Data
- Appendix E – Sensitivity Analysis
- Appendix F – Other Disclosures/Glossary

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Appendix A

Actuarial Determinations

The cost of future gain-sharing benefits 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:

($ in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	**PERS 1**	$13,289	$509	$13,798
(The Value of the Total Commitment	**TRS 1**	$10,551	$419	$10,970
to all Current Members)	**PERS 2/3**	$17,360	$144	$17,504
	TRS 2/3	$6,029	$443	$6,472
	SERS 2/3	$2,342	$191	$2,534

Increase in 2007-2009 Contribution Rates:	**PERS**	**TRS**	**SERS**
(Effective 7/01/07 unless indicated otherwise)			
Current Members (effective 9/1/07 for TRS and SERS)			
Plan 1 UAAL	0.40%	0.78%	0.40%
Plan 2/3 Normal Cost	0.22%	1.16%	1.78%
Total Employer	0.62%	1.94%	2.18%
New Entrants (effective 9/1/07 for TRS and SERS)			
Plan 2/3 Normal Cost	0.27%	0.87%	2.08%

Increase in 2009-2011 Contribution Rates:	**PERS**	**TRS**	**SERS**
(Effective 7/01/09 unless indicated otherwise)			
Current Members (effective 9/1/09 for TRS and SERS)			
Plan 1 UAAL	0.42%	0.80%	0.42%
Plan 2/3 Normal Cost	0.23%	1.22%	1.87%
Total Employer	0.65%	2.02%	2.29%
New Entrants(effective 9/1/09 for TRS and SERS)			
Plan 2/3 Normal Cost	0.27%	0.87%	2.08%

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

Plan 1					
Costs *(in Millions)*	**PERS 1**	**PSERS**	**TRS 1**	**SERS**	**All Plan 1 Systems**
2007-2009					
State:					
General Fund	$9.1	$1.1	$42.1	$4.8	$57.1
Non-General Fund	15.0	0.1	0.0	0.0	15.1
Total State	24.1	1.2	42.1	4.8	72.2
Local Government	36.9	0.6	25.9	7.4	70.8
Total Employer	$61.0	$1.8	$68.0	$12.2	$143.0
2009-2011					
State:					
General Fund	$11.7	$2.5	$52.4	$6.0	$72.6
Non-General Fund	19.1	0.2	0.0	0.0	19.3
Total State	30.8	2.7	52.4	6.0	91.9
Local Government	47.2	1.5	25.3	8.8	82.8
Total Employer	$78.0	$4.2	$77.7	$14.8	$174.7
2007-2032					
State:					
General Fund	$139.3	$28.5	$611.6	$72.3	$851.7
Non-General Fund	227.9	1.6	0.0	0.0	229.5
Total State	367.2	30.1	611.6	72.3	1,081.2
Local Government	562.8	17.0	300.2	105.9	985.9
Total Employer	$930.0	$47.1	$911.8	$178.2	$2,067.1

Plan 3

Costs *(in Millions)*	**PERS 3**	**TRS 3**	**SERS 3**	**All Plan 3 Systems**
2007-2009				
State:				
General Fund	$5.3	$60.5	$21.5	$87.3
Non-General Fund	8.5	0.0	0.0	8.5
Total State	13.8	60.5	21.5	95.8
Local Government	21.2	37.2	32.4	90.8
Total Employer	$35.0	$97.7	$53.9	$186.6
2009-2011				
State:				
General Fund	$4.5	$62.0	$17.4	$83.9
Non-General Fund	7.3	0.0	0.0	7.3
Total State	11.8	62.0	17.4	91.2
Local Government	18.0	29.9	25.5	73.4
Total Employer	$29.8	$91.9	$42.9	$164.6
2007-2032				
State:				
General Fund	$39.7	$630.8	$136.9	$807.4
Non-General Fund	64.5	0.0	0.0	64.5
Total State	104.2	630.8	136.9	871.9
Local Government	159.6	312.0	201.4	673.0
Total Employer	$263.8	$942.8	$338.3	$1,544.9

New Entrants

Costs *(in Millions)*	**PERS**	**TRS**	**SERS**	**All Systems**
2007-2009				
State:				
General Fund	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0
Total Employer	$0.0	$0.0	$0.0	$0.0
2009-2011				
State:				
General Fund	$2.3	$12.8	$9.6	$24.7
Non-General Fund	3.7	0.0	0.0	3.7
Total State	6.0	12.8	9.6	28.4
Local Government	9.1	6.2	14.1	29.4
Total Employer	$15.1	$19.0	$23.7	$57.8
2007-2032				
State:				
General Fund	$127.4	$808.8	$535.8	$1,472.0
Non-General Fund	207.8	0.0	0.0	207.8
Total State	335.2	808.8	535.8	1,679.8
Local Government	513.3	389.5	783.8	1,686.6
Total Employer	$848.5	$1,198.3	$1,319.6	$3,366.4

Total

Costs *(in Millions)*	**PERS**	**PSERS**	**TRS**	**SERS**	**All Systems**
2007-2009					
State:					
General Fund	$14.4	$1.1	$102.6	$26.3	$144.4
Non-General Fund	23.5	0.1	0.0	0.0	23.6
Total State	37.9	1.2	102.6	26.3	168.0
Local Government	58.1	0.6	63.1	39.8	161.6
Total Employer	$96.0	$1.8	$165.7	$66.1	$329.6
2009-2011					
State:					
General Fund	$18.5	$2.5	$127.2	$33.0	$181.2
Non-General Fund	30.1	0.2	0.0	0.0	30.3
Total State	48.6	2.7	127.2	33.0	211.5
Local Government	74.3	1.5	61.4	48.4	185.6
Total Employer	$122.9	$4.2	$188.6	$81.4	$397.1
2007-2032					
State:					
General Fund	$306.4	$28.5	$2,051.2	$745.0	$3,131.1
Non-General Fund	500.2	1.6	0.0	0.0	501.8
Total State	806.6	30.1	2,051.2	745.0	3,632.9
Local Government	1,235.7	17.0	1,001.7	1,091.1	3,345.5
Total Employer	$2,042.3	$47.1	$3,052.9	$1,836.1	$6,978.4

Appendix B

Actuarial Methods

For current members in Plans 1 and Plans 3, the first step was to calculate the effective interest rate reduction due to future gain-sharing benefits. To do this we relied upon rate-of-return simulations from the WSIB's 2006 capital market assumptions. We determined the likelihood of earning more than 10 percent over a four-year period and took half of the excess over 10 percent. We then took half of that number since gain-sharing is only paid every other year. This is the effective interest rate reduction due to the expected loss of assets from gain sharing.

Our valuations are then run using the interest rate associated with gain sharing. The difference in present value of future benefits between our base run and the run at the lower interest rate is the liability associated with future gain sharing.

Once the gain sharing liability is found then the employer contribution rate associated with this liability is the liability divided by the 2005 present value of future salaries for each system. The reason for differing contribution rates between 2007-2009 and 2009-2011 and beyond is that projected mortality is not included in 2007-2009 but is included thereafter.

For new entrants, the first step is to calculate the effective interest rate reduction due to gain sharing in a similar manner. Then two valuations are run: the first at 8 percent, and the second at the effective gain sharing discount rate. Again, the gain sharing liability is the difference in present value of future benefits between the two valuation runs. The contribution rate associated with this liability is the difference in the entry age normal cost rates between the two valuation runs.

The new entrant fiscal impact excludes the new entrant rates for 2007-2009 because the underlying contribution rates are based on a closed-group valuation at September 30, 2005. If gain-sharing were repealed for new hires in 2007, the associated fiscal impact would begin in 2009.

Appendix C

Actuarial Assumptions

We assumed that, if new entrant gain sharing were repealed in 2007, it would not affect contribution rates until the 2009-2011 biennium. All other assumptions are the same as those disclosed in the 2005 Actuarial Valuation Report.

Appendix D

Data

We used the September 30, 2005, actuarial valuation participant data file.

We estimate that gain sharing affects all 73,590 members of PERS 1 and all 45,184 members of TRS 1. It also affects all current members of PERS 3, TRS 3, and SERS 3 that meet the requirement of having a minimum $1,000 balance in their member account, all of the Plan 3 annuitants, all of the Plan 3 terminated-vested members meeting the minimum balance requirement, and any Plan 3 terminated non-vested members who are rehired.

(As of September 30, 2005)	PERS 3	TRS 3	SERS 3
Active	21,216	51,473	30,963
Annuitants	343	706	705
Terminated and Vested	1,793	3,158	2,491
Total	23,352	55,337	34,159

We relied upon the WSIB's rate-of-return simulations to determine the interest rate adjustments due to gain-sharing.

2006 WSIB Rate-of-Return Simulations

Percentile	1 Year	2 Year	3 Year	4 Year	5 Year	10 Year	20 Year	50 Year
95th Percentile	31.9	24.2	20.9	19.0	17.7	14.6	12.4	10.5
85th Percentile	22.2	17.7	15.7	14.6	13.8	11.9	10.5	9.4
75th Percentile	16.8	14.0	12.7	12.0	11.5	10.3	9.4	8.7
65th Percentile	12.7	11.1	10.4	10.0	9.7	9.0	8.5	8.1
55th Percentile	9.1	8.6	8.4	8.2	8.1	7.9	7.8	7.6
Expected Value	8.2	7.8	7.7	7.6	7.5	7.5	7.4	7.4
45th Percentile	5.7	6.2	6.4	6.5	6.6	6.8	7.0	7.1
35th Percentile	2.3	3.8	4.4	4.8	5.1	5.8	6.2	6.6
25th Percentile	-1.3	1.2	2.3	2.9	3.4	4.6	5.4	6.1
15th Percentile	-5.7	-2.0	-0.4	0.6	1.3	3.1	4.3	5.4
5th Percentile	-12.6	-7.1	-4.6	-3.1	-2.0	0.6	2.6	4.3

Appendix E

Sensitivity Analysis

The results are sensitive to the estimate of the interest rate reduction due to gain sharing. The interest rate reduction is in the range of 34 to 45 basis points, with the best estimate being an interest rate reduction of 40 basis points.

Appendix F

Other Disclosures/Glossary

Statement of Data and Assumptions Used In Preparing the Fiscal Costs for This Letter:

The costs presented in this letter are based on our understanding of the request/proposed legislation as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005, actuarial valuation report.

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

3. The analysis of this request/proposed legislation 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. These fiscal costs are intended for use only during the 2006 Legislative Interim.

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.

8. These costs were also developed based on an assumed initial enrollment in the Public Safety Employees' Retirement System of 5,965 members. If that assumption is not realized, these costs may change.

Appendix F

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 LEGISLATURE
Office of the State Actuary

October 11, 2006

Sent via e-mail and hardcopy as meeting materials

Select Committee on Pension Policy Members

RE: Gain-Sharing Trigger

Dear Members:

There have been numerous suggestions on ways to limit the liability related to gain-sharing. One of those ways is to raise the rate-of-return threshold used in triggering a gain-sharing event. Currently that threshold is a 10 percent compounded rate-of-return on plan assets over a four-year period.

This letter presents the rate-of-return triggers that would cut the cost of gain-sharing to 40 percent, 30 percent, 20 percent, and 10 percent of its original liability.

Percent of Current Gain-sharing	Gain-sharing Trigger
100%	10.00%
40%	13.67%
30%	14.44%
20%	15.89%
10%	17.44%

These results are the best estimates within a range of results. Increasing the rate-of-return trigger to 13.67 percent could result in gain-sharing costs within a range of 34 percent to 46 percent of its original liability. Each gain-sharing trigger as shown in Appendix E has a similar range of possibilities.

We estimate that changing the gain-sharing trigger will affect all 73,590 members of Public Employees' Retirement System (PERS) Plan 1 and all 45,184 members of the Teachers' Retirement System (TRS) Plan 1. It will also affect all PERS 3, TRS 3, and School Employees' Retirement System (SERS) Plan 3 members, active or otherwise, that meet the requirement of having a minimum $1,000 balance in their member account.

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

We used census data from the 2005 actuarial valuation to determine the members impacted and data from the Washington State Investment Board (WSIB) for the capital market assumptions.

This letter has been prepared for use by the SCPP during the 2006 interim. Any third-party recipient of this work product is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in absence such professional guidance. Any distribution of this letter must be in its entirety, unless prior consent is obtained from the Office of the State Actuary.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

We appreciate the opportunity to provide this information and would be happy to answer any questions you may have.

Sincerely,

Martin McCaulay

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

Martin McCaulay, FSA, EA, MAAA
Senior Pension Actuary

Attachments:
- Appendix A – Actuarial Determinations
- Appendix B – Actuarial Methods
- Appendix C – Actuarial Assumptions
- Appendix D – Data
- Appendix E – Sensitivity Analysis
- Appendix F – Other Disclosures/Glossary

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Appendix A

Actuarial Determinations

Gain-Sharing Trigger

We prepared this letter to show the impact of changing the existing gain-sharing trigger of 10 percent. This letter presents the results of determining the interest rates that will trigger gain-sharing in PERS 1, TRS 1, PERS 3, TRS 3, and SERS 3 and result in 10 percent, 20 percent, 30 percent, and 40 percent of the cost of future gain-sharing benefits.

Summary of Results

The triggers required for gain-sharing to be 10 percent, 20 percent, 30 percent, and 40 percent of current gain-sharing are 17.44 percent, 15.89 percent, 14.44 percent, and 13.67 percent respectively. This assumes no change to either of the other two parts of the trigger; the measurement period or payment frequency. These results are summarized in the table below:

Percent of Current Gain-sharing	Gain-sharing Trigger
100%	10.00%
40%	13.67%
30%	14.44%
20%	15.89%
10%	17.44%

We relied upon capital market assumptions provided by the WSIB to complete this project. Limitations on the use of this data are discussed under the section with the Statement of Intended Use and Limitations.

Appendix B

Actuarial Methods

The actuarial method for pricing the impact of changing the gain sharing trigger uses the WSIB capital market assumptions to determine the distribution of rates of return for the next four years. The current 10 percent gain-sharing trigger results in a 39 basis point reduction on the overall expected return on the part of the Commingled Trust Fund (CTF) exposed to gain-sharing. To obtain a gain-sharing trigger that would result in 10 percent of the current gain-sharing liability, we solved for the trigger that would create a 3.9 (10 percent of 39) basis point reduction in the overall expected return on the CTF. We repeated this process for the triggers that would create 20 percent, 30 percent, and 40 percent of the current gain-sharing costs as well.

Appendix C

Actuarial Assumptions

We have assumed that current gain-sharing effectively reduces the expected rate-of-return by 39 basis points. The simulated investment returns use the 2006 capital market assumptions provided by the WSIB.

2006 WSIB Capital Market Assumptions

			Current Portfolio	
Investment Type	**Expected Returns**	**Standard Deviation**	**Target Allocation**	**Expected Return**
U.S. Equity	8.50%	17.50%	23%	2.0%
Non-U.S. Equity	8.50%	19.00%	23%	2.0%
Fixed Income	5.00%	5.00%	25%	1.3%
Private Equity	12.50%	33.00%	17%	2.1%
Real Estate	7.75%	14.00%	12%	0.9%
Cash	3.25%	1.50%	0%	0.0%
TIPS	4.75%	5.00%	0%	0.0%
Long Duration FI	5.50%	7.50%	0%	0.0%
Total			**100%**	**8.2%**

The table below uses investment return simulations from the WSIB. It shows the expected future four-year annual rate-of-return for each tenth percentile (the probability of getting a value less than that indicated, based on the distribution of simulated returns). The table shows the excess over 10 percent, and one-fourth the excess over 10 percent. One-fourth is used because gain-sharing pays one-half of the excess every other year.

Investment Return Percentiles	Expected Four-Year Return	Excess, if any, Over 10%	1/4 Excess, if any, Over 10%
95%	19.0%	9.0%	2.25%
85%	14.6%	4.6%	1.15%
75%	12.0%	2.0%	0.50%
65%	10.0%	0.0%	0.00%
55%	8.2%	0.0%	0.00%
45%	6.5%	0.0%	0.00%
35%	4.8%	0.0%	0.00%
25%	3.0%	0.0%	0.00%
15%	0.7%	0.0%	0.00%
5%	-3.1%	0.0%	0.00%
Mean Value	**7.6%**	**1.56%**	**0.39%**

The expected four-year future annual rate-of-return is shown for each tenth percentile from the fifth percentile to the ninety-fifth percentile. The percentile is the probability of getting a value less than that indicated. The ninety-fifth percentile is an annual rate-of-return of 19.0 percent. This is interpreted as a 95 percent probability of getting a rate less than 19.0 percent, or a 5 percent probability of getting a rate more than 19.0 percent - based on the distribution of simulated returns. A chart showing the expected future four-year return for each percentile from 0 to 100 is shown in the Appendix.

Appendix D

Data

We used census data from the 2005 actuarial valuation to determine the members impacted and data from the WSIB for the capital market assumptions.

Summary of Members Impacted

We estimate that changing the gain-sharing interest rate trigger will affect all 73,590 members of PERS 1 and all 45,184 members of TRS 1. It will also affect all current members of PERS 3, TRS 3, and SERS 3 that meet the requirement of having a minimum $1,000 balance in their member account, all of the Plan 3 annuitants, all of the Plan 3 terminated-vested members meeting the minimum balance requirement, and any Plan 3 terminated non-vested members who are rehired.

(As of September 30, 2005)	**PERS 3**	**TRS 3**	**SERS 3**
Active	21,216	51,473	30,963
Annuitants	343	706	705
Terminated and Vested	1,793	3,158	2,491
Total	23,352	55,337	34,159

Capital Market Data

We relied upon the WSIB capital market assumptions to determine the probability distribution of CTF returns. These are the four-year expected returns for the CTF (table, next page).

Appendix D

Expected Future Four-Year Returns

100th Percentile	33.615%	49th Percentile	7.210%
99th Percentile	24.174%	48th Percentile	7.042%
98th Percentile	22.076%	47th Percentile	6.874%
97th Percentile	20.763%	46th Percentile	6.706%
96th Percentile	19.785%	45th Percentile	6.538%
95th Percentile	18.996%	44th Percentile	6.370%
94th Percentile	18.328%	43rd Percentile	6.201%
93rd Percentile	17.746%	42nd Percentile	6.032%
92nd Percentile	17.227%	41st Percentile	5.862%
91st Percentile	16.757%	40th Percentile	5.692%
90th Percentile	16.326%	39th Percentile	5.521%
89th Percentile	15.927%	38th Percentile	5.348%
88th Percentile	15.554%	37th Percentile	5.175%
87th Percentile	15.204%	36th Percentile	5.000%
86th Percentile	14.873%	35th Percentile	4.824%
85th Percentile	14.558%	34th Percentile	4.647%
84th Percentile	14.259%	33rd Percentile	4.467%
83rd Percentile	13.971%	32nd Percentile	4.286%
82nd Percentile	13.696%	31st Percentile	4.103%
81st Percentile	13.430%	20th Percentile	3.917%
80th Percentile	13.173%	29th Percentile	3.730%
79th Percentile	12.925%	28th Percentile	3.539%
78th Percentile	12.684%	27th Percentile	3.346%
77th Percentile	12.449%	26th Percentile	3.148%
76th Percentile	12.221%	25th Percentile	2.948%
75th Percentile	11.998%	24th Percentile	2.744%
74th Percentile	11.781%	23rd Percentile	2.535%
73rd Percentile	11.568%	22nd Percentile	2.322%
72nd Percentile	11.359%	21st Percentile	2.103%
71st Percentile	11.154%	20th Percentile	1.879%
70th Percentile	10.953%	19th Percentile	1.648%
69th Percentile	10.755%	18th Percentile	1.411%
68th Percentile	10.561%	17th Percentile	1.165%
67th Percentile	10.369%	16th Percentile	0.911%
66th Percentile	10.180%	15th Percentile	0.647%
65th Percentile	9.993%	14th Percentile	0.372%
64th Percentile	9.809%	13th Percentile	0.083%
63rd Percentile	9.627%	12th Percentile	-0.220%
62nd Percentile	9.446%	11th Percentile	-0.541%
61st Percentile	9.267%	10th Percentile	-0.882%
60th Percentile	9.090%	9th Percentile	-1.248%
59th Percentile	8.915%	8th Percentile	-1.644%
58th Percentile	8.740%	7th Percentile	-2.077%
57th Percentile	8.567%	6th Percentile	-2.559%
56th Percentile	8.395%	5th Percentile	-3.106%
55th Percentile	8.224%	4th Percentile	-3.745%
54th Percentile	8.053%	3rd Percentile	-4.524%
53rd Percentile	7.884%	2nd Percentile	-5.551%
52nd Percentile	7.714%	1st Percentile	-7.146%
51st Percentile	7.546%	0th Percentile	-13.707%
50th Percentile	7.378%		

Appendix E

Sensitivity Analysis

We looked at ten different percentiles of rates of return and calculated expected values to calculate the 39 basis point reduction in the rate-of-return for gain-sharing. This is our best estimate. The best estimate range is a reduction of 34 basis points to the 45 basis points. The low end of the range is from considering every fifth percentile for a total of 19 different percentiles. The high end is from considering every percentile from 0 to 100 for a total of 101 percentiles.

The results shown in this letter are based on our best estimates. The best estimate ranges for each trigger as a percent of current gain-sharing are shown below:

	Percent of Current Gain-sharing	
Gain-sharing Trigger	**Best Estimate**	**Best Estimate Range**
13.67%	40%	34%-46%
14.44%	30%	25%-39%
15.89%	20%	14%-28%
17.44%	10%	6%-20%

The following table shows the best estimate range for the gain-sharing trigger for 10 percent, 20 percent, 30 percent and 40 percent of the cost of the current gain-sharing.

	Gain-sharing Trigger	
Percent of Current Gain-sharing	**Best Estimate**	**Best Estimate Range**
40%	13.67%	13.16%-14.34%
30%	14.44%	14.03%-15.61%
20%	15.89%	15.06%-17.40%
10%	17.44%	16.40%-20.62%

Appendix F

Statement of Intended Use and Limitations

The results of this letter were prepared for the Select Committee on Pension Policy (SCPP) during the 2006 Interim. The costs shown in this letter may change if the capital market assumptions used by the WSIB change.

This letter has been prepared for the SCPP for a specific and limited purpose as stated above. Any third party recipient of this work product is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in absence of such professional guidance. Any distribution of this letter must be in its entirety, unless prior consent is obtained from the Office of the State Actuary.

The extent that the WSIB rates of return vary from the projected rates of return will have an impact on the actual costs of gain-sharing.

Appendix F

Other Disclosures/Glossary

Statement of Data and Assumptions Used In Preparing the Fiscal Costs for This Letter:

The costs presented in this letter are based on our understanding of the request/proposed legislation 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 results of the Washington Public Employees', Teachers', and School Employees' Retirement Systems.

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

3. The analysis of this request/proposed legislation 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. These fiscal costs are intended for use only during the 2006 Interim.

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.

Appendix F

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.

October 11, 2006

Sent via email and hardcopy as meeting materials

Select Committee on Pension Policy

RE: Changing the Gain-Sharing Plan 1 COLA

Dear Members:

The policy established by the Select Committee on Pension Policy (SCPP) to address future gain-sharing liability was to repeal and replace gain-sharing with benefits valued at half that of gain-sharing. In the Public Employees' Retirement System and Teachers' Retirement System Plans 1 (PERS 1 and TRS 1, respectively), gain-sharing is used to enhance retirees' Uniform Cost of Living Adjustment (UCOLA). The projected liability for future gain-sharing benefits is equivalent to a $0.46 UCOLA increase. SCPP trade-off policy would replace gain-sharing in the Plans 1 with half that – a one-time increase of $0.23 in the UCOLA.

The question before the Office of the State Actuary (OSA) is what would the UCOLA amount be were it 10 percent, 20 percent, 30 percent, or 40 percent of the projected liability of future gain-sharing. The respective UCOLA increases would be $0.05, $0.09, $0.14, and $0.18.

PERS 1, TRS 1	
% of Gain Sharing	**UCOLA Increase**
100%	$0.46
50%	$0.23
40%	$0.18
30%	$0.14
20%	$0.09
10%	$0.05

It should be noted that while the projected liabilities of future gain-sharing benefits and the $0.46 UCOLA increase are equal, the one-time UCOLA increase is actually more valuable because the UCOLA payments are guaranteed, whereas the gain-sharing payments are only made if certain conditions are met. There is a value to the certainty of the UCOLA payments.

We estimate that increasing the Plans 1 UCOLA could potentially affect all 73,590 members of PERS Plan 1 and all 45,184 members of TRS Plan 1.

We have assumed that current gain sharing effectively reduces the expected rate of return on assets by 40 basis points from 8 percent to 7.60 percent. The lower discount rate results in a liability increase of approximately $508.7 million for PERS Plan 1 and $419.2 million for TRS Plan 1. We also have included projected mortality improvements, 50 percent of projection scale AA, in the current gain sharing and UCOLA liabilities. All other assumptions were the same as those disclosed in the preliminary 2005 Actuarial Valuation Report (AVR).

The results are sensitive to the estimate of the cost of future gain-sharing benefits. The interest rate reduction is in the range of 34 to 45 basis points, with the best estimate being an interest rate reduction of 40 basis points. The cost of gain-sharing is estimated to be equivalent to a UCOLA in the range of $0.41 to $0.51, with the best estimates being $0.46 for PERS 1 and TRS 1.

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

This letter has been prepared for use by the SCPP during the 2006 Interim. Any third-party recipient of this work product is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in absence such professional guidance. Any distribution of this letter must be in its entirety, unless prior consent is obtained from the Office of the State Actuary.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

We appreciate the opportunity to provide this information and would be happy to answer any questions you may have.

Sincerely,

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

Martin McCaulay, FSA, EA, MAAA
Senior Pension Actuary

Attachments:

- Appendix A – Actuarial Determinations
- Appendix B – Actuarial Methods
- Appendix C – Actuarial Assumptions
- Appendix D – Data
- Appendix E – Sensitivity Analysis
- Attachment Appendix F – Other Disclosures/Glossary

Appendix A

Actuarial Determinations

The uniform cost of living adjustment (UCOLA) increases for PERS Plan 1 and TRS Plan 1 equivalent to 10 percent, 20 percent, 30 percent, 40 percent, and 50 percent of the projected liability of future gain-sharing benefits are $0.05, $0.09, $0.14, $0.18, and $0.23 respectively. The entire projected liability for future gain-sharing benefits is equivalent to a $0.46 UCOLA increase.

These results are summarized in the following table:

PERS 1, TRS 1	
% of Gain Sharing	**UCOLA Increase**
100%	$0.46
50%	$0.23
40%	$0.18
30%	$0.14
20%	$0.09
10%	$0.05

It should be noted that while the projected liabilities of future gain-sharing benefits and the $0.46 UCOLA increase are equal, the UCOLA increase is actually more valuable because the UCOLA payments are guaranteed, whereas the gain-sharing payments are only made if certain conditions are met. There is a value to the certainty of the UCOLA payments.

Appendix B

Actuarial Methods

We first had to determine the liabilities associated with current gain-sharing and the current \$1.29 UCOLA. We found the gain-sharing liability from previous work (see assumptions) and found the UCOLA liability by taking the difference in present value of fully projected benefits between our base valuation results and a valuation run with no UCOLA benefits.

We determined what percentage the gain-sharing liability is compared to the current \$1.29 UCOLA. To determine what UCOLA increase would replace 100 percent of gain-sharing costs, we multiplied the percentage of gain-sharing liability by \$1.29.

$$\frac{\text{Gain-Sharing Liability}}{\text{UCOLA Liability}} = \frac{X}{\$1.29}$$

The UCOLA increases that are 10 percent to 50 percent of gain-sharing liabilities were found by prorating the liability for 100 percent of gain-sharing for the five respective percentages (for example, 50 percent of gain sharing cost in PERS Plan 1 is equal to \$0.46 x 0.5 = \$0.23).

Appendix C

Actuarial Assumptions

We have assumed that current gain-sharing effectively reduces the expected rate-of-return on assets by 40 basis points from 8 percent to 7.60 percent. The lower discount rate results in a liability increase of approximately $508,700,000 for PERS Plan 1 and $419,200,000 for TRS Plan 1. We also have included projected mortality improvements, 50 percent of projection scale AA, in the current gain-sharing and UCOLA liabilities. All other assumptions were the same as those disclosed in the preliminary 2005 AVR.

Appendix D

Data

We estimate that increasing the Plans 1 UCOLA could potentially affect all 73,590 members of PERS Plan 1 and all 45,184 members of TRS Plan 1.

We used our gain-sharing projections, which rely on data provided by the Washington State Investment Board (WSIB), to determine the present value of future gain-sharing benefits.

Appendix E

Sensitivity Analysis

The results are sensitive to the estimate of the cost of future gain-sharing benefits. Gain-sharing is equivalent to an interest rate reduction of 40 basis points. The interest rate reduction is in the range of 34 to 45 basis points, with the best estimate being an interest rate reduction of 40 basis points. The cost of gain-sharing is estimated to be equivalent to a UCOLA in the range of $0.41 to $0.51, with the best estimates being $0.46 for PERS 1 and TRS 1. The UCOLA associated with 50 percent of gain-sharing is expected to be in the range of $0.21 to $0.25; with a best estimate of $0.23. The UCOLA associated with 40 percent of gain-sharing is expected to be in the range of $0.16 to $0.20; with a best estimate of $0.18. The UCOLA associated with 30 percent of gain-sharing is expected to be in the range of $0.13 to $0.15; with a best estimate of $0.14. The UCOLA associated with 20 percent of gain-sharing is expected to be in the range of $0.08 to $0.10; with a best estimate of $0.09. The UCOLA associated with 10 percent of gain-sharing is expected to be in the range of $0.04 to $0.06; with a best estimate of $0.05.

Appendix F

Other Disclosures/Glossary

Statement Of Data And Assumptions Used In Preparing The Fiscal Costs For This Letter:

The costs presented in this letter are based on our understanding of the request/proposed legislation 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 retirement systems.

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

3. The analysis of this request/proposed legislation 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. These fiscal costs are intended for use only during the 2006 Legislative Interim.

5. These costs were also developed based on an assumed initial enrollment in the Public Safety Employees' Retirement System of 5,965 members. If that assumption is not realized, these costs may change.

Appendix F

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.

Gain-sharing Legislation

Sectional Analysis

In Brief

This bill repeals gain-sharing and annual contribution rate choice in TRS 3, and provides for the following benefits:

The PERS 1 and TRS 1 Uniform COLA is increased by 23 cents.

Plan 2/3 choice is added for new hires in TRS and SERS.

TRS 3 and SERS 3 members who have entered the system since their respective plans opened will have an opportunity to transfer prospectively to Plan 2.

Current members who chose to enter Plan 3 either through transfer, or through choice upon employment with a PERS employer, will be provided a one-time opportunity to participate prospectively in a 2 percent DB accrual with a 1 percent DC annuity offset in Plan 3.

Rule-of-90 for PERS, SERS, and TRS plans 2/3.

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Section	RCW Amended	Provision
1	41.32.010	TRS 1 23¢ increase in annual increase amount.
2	41.32.835	TRS Plan 2/3 choice for new members.
3	41.32.840	TRS 2% DB with DC annuity off-set in Plan 3.
4	New 41.32	TRS Member election to participate in contribution and benefit provisions under sections 3 and 6.
5	New 41.32	TRS Plan 3 to Plan 2 transfer for members mandated into Plan 3.
6	41.34.040	Establish minimum rates.
7	41.34.040	Remove Plan 3 annual contribution rate choice.
8	41.34.060	Self-directed investments for contributions above the minimum.
9	41.34.110	Re-entry and restoration of contributions to member account, plus interest.
10	41.35.610	SERS Plan 2/3 choice for new members.
11	41.35.620	SERS 2% DB with DC annuity off-set in Plan 3.
12	New 41.35	SERS Member election to participate in contribution and benefit provisions under sections 6 and 11.
13	New 41.35	SERS Plan 3 to Plan 2 transfer for members mandated into Plan 3.
14	41.40.010	PERS 1 23¢ increase in annual increase amount.
15	41.40.790	PERS 2% DB with DC annuity off-set in Plan 3.
16	New 41.40	PERS Member election to participate in contribution and benefit provisions under sections 6 and 15.

Section	RCW Amended	Provision
17	41.45.061	Plan 2 member contribution rate exemption and clean-up.
18	41,40.630	PERS 2 rule-of-90
19	41.40.820	PERS 3 rule-of-90
20	41.32.765	TRS 2 rule-of-90
21	41.32.875	TRS 3 rule-of-90
22	41.35.420	SERS 2 rule-of-90
23	41.35.680	SERS 3 rule-of-90
24	41.31 & 41.31A	Plan 1 and Plan 3 Gain-sharing repealer section.
25	New	Temporary non-contractual rights section
26	New	Federal compliance language
27	New	Effective date July 1, 2007, with emergency clause

Bill Draft

Attached

Fiscal Note (Draft)

Attached

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0243.2/07 2nd draft

ATTY/TYPIST: LL:ads

BRIEF DESCRIPTION: Changing certain plan 2 and plan 3 retirement benefits.

AN ACT Relating to public pensions; amending RCW 41.32.835, 41.32.840, 41.34.040, 41.34.040, 41.34.060, 41.34.110, 41.35.610, 41.35.620, 41.40.010, 41.40.790, 41.45.061, 41.40.630, 41.40.820, 41.32.765, 41.32.875, 41.35.420, and 41.35.680; reenacting and amending RCW 41.32.010; adding new sections to chapter 41.32 RCW; adding new sections to chapter 41.35 RCW; adding a new section to chapter 41.40 RCW; creating new sections; repealing RCW 41.31.010, 41.31.020, 41.31.030, 41.31A.010, 41.31A.020, 41.31A.030, and 41.31A.040; providing effective dates; and declaring an emergency.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

41.32.270 receive benefits proportional to those received by members who have received full-time service credit.

(v) "Earnable compensation" does not include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(22) "Regular contributions" means the amounts required to be

deducted from the compensation of a member and credited to the member's individual account in the member reserve. This subsection shall apply only to plan 1 members.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(36) "Substitute teacher" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 2. RCW 41.32.835 and 1995 c 239 s 105 are each amended to read as follows:

<u>(1)</u> All teachers who first become employed by an employer in an eligible position on or after ((~~July 1, 1996, shall be members of plan 3~~)) <u>July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3.</u>

<u>(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account</u>.

Sec. 3. RCW 41.32.840 and 1996 c 39 s 4 are each amended to read as follows:

(1) A member of the retirement system shall receive a retirement allowance equal to one percent of such member's average final compensation for each service credit year.

(2) In lieu of the retirement allowance under subsection (1) of this section, a member of the retirement system who elects to participate under section 4 of this act shall receive:

(a) A monthly retirement allowance equal to one percent of such member's average final compensation for each service credit year; and

(b) An additional retirement allowance equal to the excess, if any, of:

(i) One percent of such member's average final compensation for each service credit year from the date of election; over

(ii) The monthly annuity offset.

(A) The monthly annuity offset from the date of election shall be the actuarial equivalent value of the member's account under chapter 41.34 RCW, at separation, from the minimum contributions required under RCW 41.34.040 as if it were paid at normal retirement as a single-life annuity with a three percent annual cost-of-living adjustment commencing one year from the date of normal retirement.

(B) For the purposes of this subsection, "actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) A member who elects to participate under section 4 of this act must, after election, earn at least ten service credit years, or five service credit years including twelve service credit months after age forty-four, to be eligible for the benefit provided in subsection (2)(b) of this section.

(4) The retirement allowance payable under RCW 41.32.875 to a member who separates after having completed at least twenty service credit years shall be increased by twenty-five one-hundredths of one percent, compounded for each month from the date of separation to the date that the retirement allowance commences.

NEW SECTION. **Sec. 4.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 3" to read as follows:

Beginning July 1, 2007, and through June 30, 2008, members who exercised an irrevocable option to transfer to plan 3 prior to January 1, 2007, may make an irrevocable election, filed in writing with the department, to participate in the prospective contribution and benefit provisions under RCW 41.32.840(2) and 41.34.040.

NEW SECTION. **Sec. 5.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 3" to read as follows:

Beginning July 1, 2007, and through June 30, 2008, a member who established membership under RCW 41.32.835 may make a one-time irrevocable election, filed in writing with the department, to leave any service credit earned as a member of plan 3 in plan 3 and join plan 2. A member who makes such an election shall become a dual plan member and may combine service in each plan for the purpose of determining benefit eligibility. The benefits of such members shall be administered in the same manner as benefits administered under the provisions of chapter 41.54 RCW, with such members being treated as if they were members of different systems for portability purposes. The department shall adopt rules to ensure the portability of such members' plan 2 and plan 3 benefits.

Sec. 6. RCW 41.34.040 and 2003 c 156 s 1 are each amended to read as follows:

(1) A member shall contribute from his or her compensation according to one of the following rate structures in addition to the mandatory minimum five percent:

Option A	Contribution Rate
All Ages	0.0% fixed
Option B	
Up to Age 35	0.0%
Age 35 to 44	1.0%
Age 45 and above	2.5%
Option C	
Up to Age 35	1.0%
Age 35 to 44	2.5%
Age 45 and above	3.5%
Option D	
All Ages	2.0%
Option E	
All Ages	5.0%
Option F	
All Ages	10.0%

(2) The board shall have the right to offer contribution rate options in addition to those listed in subsection (1) of this section, provided that no significant additional administrative costs are created. All options offered by the board shall conform to the requirements stated in subsections (3) and (5) of this section.

(3)(a) For members of the teachers' retirement system entering plan 3 under RCW 41.32.835 or members of the school employees' retirement system entering plan 3 under RCW 41.35.610, within ninety days of becoming a member he or she has an option to choose one of the above contribution rate structures. If the member does not select an option within the ninety-day period, he or she shall be assigned option A.

(b) For members of the public employees' retirement system entering plan 3 under RCW 41.40.785, within the ninety days described in RCW 41.40.785 an employee who irrevocably chooses plan 3 shall select one of the above contribution rate structures. If the member does not select an option within the ninety-day period, he or she shall be assigned option A.

(c) For members of the teachers' retirement system transferring to plan 3 under RCW 41.32.817, members of the school employees' retirement system transferring to plan 3 under RCW 41.35.510, or members of the public employees' retirement system transferring to plan 3 under RCW 41.40.795, upon election to plan 3 he or she must choose one of the above contribution rate structures.

(d) Within ninety days of the date that an employee changes employers, he or she has an option to choose one of the above contribution rate structures. If the member does not select an option within this ninety-day period, he or she shall be assigned option A.

(4) Each year, members may change their contribution rate option by notifying their employer in writing during the month of January.

(5) Contributions shall begin the first day of the pay cycle in which the rate option is made, or the first day of the pay cycle in which the end of the ninety-day period occurs.

<u>(6) A member of the teachers' retirement system who elects to participate under section 4 of this act shall contribute a minimum of six percent of compensation which shall be directed to the Washington state investment board investment program.</u>

<u>(7) A member of the school employees' retirement system who elects</u>

to participate under section 12 of this act shall contribute a minimum of five percent of compensation which shall be directed to the Washington state investment board investment program.

(8) A member of the public employees' retirement system who elects to participate under section 16 of this act shall contribute a minimum of five percent of compensation which shall be directed to the Washington state investment board investment program.

Sec. 7. RCW 41.34.040 and 2007 c ... s 6 (section 6 of this act) are each amended to read as follows:

(1) A member shall contribute from his or her compensation according to one of the following rate structures in addition to the mandatory minimum five percent:

Option A	Contribution Rate
All Ages	0.0% fixed
Option B	
Up to Age 35	0.0%
Age 35 to 44	1.0%
Age 45 and above	2.5%
Option C	
Up to Age 35	1.0%
Age 35 to 44	2.5%
Age 45 and above	3.5%
Option D	
All Ages	2.0%
Option E	
All Ages	5.0%
Option F	
All Ages	10.0%

(2) The board shall have the right to offer contribution rate options in addition to those listed in subsection (1) of this section, provided that no significant additional administrative costs are created. All options offered by the board shall conform to the requirements stated in subsections (3) and ((~~(5)~~)) (4) of this section.

(3)(a) For members of the teachers' retirement system entering plan 3 under RCW 41.32.835 or members of the school employees' retirement system entering plan 3 under RCW 41.35.610, within ninety days of becoming a member he or she has an option to choose one of the above contribution rate structures. If the member does not select an option within the ninety-day period, he or she shall be assigned option A.

(b) For members of the public employees' retirement system entering plan 3 under RCW 41.40.785, within the ninety days described in RCW 41.40.785 an employee who irrevocably chooses plan 3 shall select one of the above contribution rate structures. If the member does not select an option within the ninety-day period, he or she shall be assigned option A.

(c) For members of the teachers' retirement system transferring to plan 3 under RCW 41.32.817, members of the school employees' retirement system transferring to plan 3 under RCW 41.35.510, or members of the public employees' retirement system transferring to plan 3 under RCW 41.40.795, upon election to plan 3 he or she must choose one of the above contribution rate structures.

(d) Within ninety days of the date that an employee changes employers, he or she has an option to choose one of the above contribution rate structures. If the member does not select an option within this ninety-day period, he or she shall be assigned option A.

(4) ((~~Each year, members may change their contribution rate option by notifying their employer in writing during the month of January.~~

~~(5)~~)) Contributions shall begin the first day of the pay cycle in which the rate option is made, or the first day of the pay cycle in which the end of the ninety-day period occurs.

((~~(6)~~)) (5) A member of the teachers' retirement system who elects to participate under RCW 41.32.--- (section 4 of this act) shall contribute a minimum of six percent of compensation which shall be directed to the Washington state investment board investment program.

((~~(7)~~)) (6) A member of the school employees' retirement system who elects to participate under RCW 41.35.--- (section 12 of this act) shall contribute a minimum of five percent of compensation which shall be directed to the Washington state investment board investment program.

((~~(8)~~)) (7) A member of the public employees' retirement system who elects to participate under RCW 41.40.--- (section 16 of this act) shall contribute a minimum of five percent of compensation which shall be directed to the Washington state investment board investment program.

Sec. 8. RCW 41.34.060 and 2001 c 180 s 2 are each amended to read as follows:

(1) Except as provided in subsection (3) of this section, the member's account shall be invested by the state investment board. In order to reduce transaction costs and address liquidity issues, based upon recommendations of the state investment board, the department may require members to provide up to ninety days' notice prior to moving funds from the state investment board portfolio to self-directed investment options provided under subsection (3) of this section.

(a) For members of the retirement system as provided for in chapter 41.32 RCW of plan 3, investment shall be in the same portfolio as that of the teachers' retirement system combined plan 2 and 3 fund under RCW 41.50.075(2).

(b) For members of the retirement system as provided for in chapter 41.35 RCW of plan 3, investment shall be in the same portfolio as that of the school employees' retirement system combined plan 2 and 3 fund under RCW 41.50.075(4).

(c) For members of the retirement system as provided for in chapter 41.40 RCW of plan 3, investment shall be in the same portfolio as that of the public employees' retirement system combined plan 2 and 3 fund under RCW 41.50.075(3).

(2) The state investment board shall declare monthly unit values for the portfolios or funds, or portions thereof, utilized under subsection (1)(a), (b), and (c) of this section. The declared values shall be an approximation of portfolio or fund values, based on internal procedures of the state investment board. Such declared unit values and internal procedures shall be in the sole discretion of the state investment board. The state investment board may delegate any of the powers and duties under this subsection, including discretion, pursuant to RCW 43.33A.030. Member accounts shall be credited by the department with a rate of return based on changes to such unit values.

(3)(a) Members may elect to self-direct their investments as set forth in RCW 41.34.130 and 43.33A.190.

(b) Members who elect to participate under sections 4, 12, and 16 of this act may elect to self-direct their investments for only that portion of their investments related to contributions above the minimum rates established under RCW 41.34.040.

Sec. 9. RCW 41.34.110 and 1996 c 39 s 12 are each amended to read as follows:

(1) A member who separates from service and then reestablishes membership may restore contributions to the member account.

(2) A member electing to participate under section 4, 12, or 16 of this act, who separates from service and then reestablishes membership, may continue to be eligible for benefits under RCW 41.32.840(2)(b), 41.35.620(2)(b), or 41.40.790(2)(b) by restoring all contributions to the member account made after the election, plus interest as determined by the director.

Sec. 10. RCW 41.35.610 and 1998 c 341 s 202 are each amended to read as follows:

(1) All classified employees who first become employed by an employer in an eligible position on or after ((~~September 1, 2000, shall be members of plan 3~~)) July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

Sec. 11. RCW 41.35.620 and 1998 c 341 s 203 are each amended to read as follows:

(1) A member of the retirement system shall receive a retirement allowance equal to one percent of such member's average final compensation for each service credit year.

(2) In lieu of the retirement allowance under subsection (1) of this section, a member of the retirement system who elects to participate under section 12 of this act shall receive:

(a) A monthly retirement allowance equal to one percent of such member's average final compensation for each service credit year; and

(b) An additional retirement allowance equal to the excess, if any, of:

(i) One percent of such member's average final compensation for each service credit year from the date of election; over

(ii) The monthly annuity offset.

(A) The monthly annuity offset from the date of election shall be the actuarial equivalent value of the member's account under chapter 41.34 RCW, at separation, from the minimum contributions required under RCW 41.34.040 as if it were paid at normal retirement as a single-life annuity with a three percent annual cost-of-living adjustment commencing one year from the date of normal retirement.

(B) For the purposes of this subsection, "actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) A member who elects to participate under section 12 of this act must, after election, earn at least ten service credit years, or five service credit years including twelve service credit months after age forty-four, to be eligible for the benefit provided in subsection (2)(b) of this section.

(4) The retirement allowance payable under RCW 41.35.680 to a member who separates after having completed at least twenty service credit years shall be increased by twenty-five one-hundredths of one percent, compounded for each month from the date of separation to the date that the retirement allowance commences.

NEW SECTION. **Sec. 12.** A new section is added to chapter 41.35 RCW under the subchapter heading "plan 3" to read as follows:

Beginning July 1, 2007, and through June 30, 2008, members who exercised the irrevocable option to transfer to plan 3 prior to January 1, 2007, may make an irrevocable election, filed in writing with the department, to participate in the prospective contribution and benefit provisions under RCW 41.34.040 and 41.35.620(2).

NEW SECTION. **Sec. 13.** A new section is added to chapter 41.35 RCW under the subchapter heading "plan 3" to read as follows:

Beginning July 1, 2007, and through June 30, 2008, a member who established membership under RCW 41.35.610 may make a one-time irrevocable election, filed in writing with the department, to leave any service credit earned as a member of plan 3 in plan 3 and join plan 2. A member who makes such an election shall become a dual plan member and may combine service in each plan for the purpose of determining benefit eligibility. The benefits of such members shall be administered in the same manner as benefits administered under the provisions of chapter 41.54 RCW, with such members being treated as if they were members of different systems for portability purposes. The department shall promulgate rules to ensure the portability of such members' plan 2 and plan 3 benefits.

Sec. 14. RCW 41.40.010 and 2004 c 242 s 53 are each amended to read as follows:

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

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

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

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

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

(b) "Employer" for plan 2 and plan 3 members, means every branch, department, agency, commission, board, and office of the state, and any political subdivision and municipal corporation of the state admitted into the retirement system, including public agencies created pursuant to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 2000, school districts and educational service districts will no longer be employers for the public employees' retirement system plan 2.

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

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

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

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

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

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

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

(f) Any member who has been a contributor under the system for two or more years and who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement has rendered five or more years of service for the state or any political subdivision prior to the time of the admission of the employer into the system; except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member.

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

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

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

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

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

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

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

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

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

(ii) "Compensation earnable" does not include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

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

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

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

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

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

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

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

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

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

(13) "Membership service" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(25) "Eligible position" means:

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

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

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

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

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

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

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

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

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

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

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

(35) "Plan 3" means the public employees' retirement system, plan 3 providing the benefits and funding provisions covering persons who:

(a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

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

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

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

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

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

(41) "Annual increase" means((~~, initially, fifty-nine~~)) one dollar

and fifty-six cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(42) "Separation from service" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination.

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

Sec. 15. RCW 41.40.790 and 2000 c 247 s 303 are each amended to read as follows:

(1) A member of the retirement system shall receive a retirement allowance equal to one percent of such member's average final compensation for each service credit year.

(2) In lieu of the retirement allowance under subsection (1) of this section, a member of the retirement system who elects to participate under section 16 of this act shall receive:

(a) A monthly retirement allowance equal to one percent of such member's average final compensation for each service credit year; and

(b) An additional retirement allowance equal to the excess, if any, of:

(i) One percent of such member's average final compensation for each service credit year from the date of election; over

(ii) The monthly annuity offset.

(A) The monthly annuity offset from the date of election shall be the actuarial equivalent value of the member's account under chapter 41.34 RCW, at separation, from the minimum contributions required under RCW 41.34.040 as if it were paid at normal retirement as a single-life annuity with a three percent annual cost-of-living adjustment commencing one year from the date of normal retirement.

(B) For the purposes of this subsection, "actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) A member who elects to participate under section 16 of this act must, after election, earn at least ten service credit years, or five service credit years including twelve service credit months after age forty-four, to be eligible for the benefit provided in subsection (2)(b) of this section.

(4) The retirement allowance payable under RCW 41.40.820 to a member who separates after having completed at least twenty service credit years shall be increased by twenty-five one-hundredths of one percent, compounded for each month from the date of separation to the date that the retirement allowance commences.

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

Beginning July 1, 2007, and through June 30, 2008, members who exercised an irrevocable option to transfer to plan 3 prior to January 1, 2007, may make an irrevocable election, filed in writing with the department, to participate in the prospective contribution and benefit provisions under RCW 41.34.040 and 41.40.790(2).

Sec. 17. RCW 41.45.061 and 2004 c 242 s 40 are each amended to read as follows:

(1) The required contribution rate for members of the ((~~plan 2~~)) teachers' retirement system plan 2 shall be ((~~fixed at the rates in effect on July 1, 1996, subject to the following:~~

~~(a) Beginning September 1, 1997, except as provided in (b) of this subsection, the employee contribution rate shall not exceed the employer plan 2 and 3 rates adopted under RCW 41.45.060, 41.45.054, and 41.45.070 for the teachers' retirement system;~~

~~(b) In addition, the employee contribution rate for plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after July 1, 1996;~~

~~(c) In addition, the employee contribution rate for plan 2 shall not be increased as a result of any distributions pursuant to section 309, chapter 341, Laws of 1998 and RCW 41.31A.020~~)) set at the same rate as the employer combined plan 2 and plan 3 rate.

(2) The required contribution rate for members of the school employees' retirement system plan 2 shall ((~~equal the school employees'~~

~~retirement system employer plan 2 and 3 contribution rate adopted under RCW 41.45.060, 41.45.054, and 41.45.070, except as provided in subsection (3) of this section.~~

~~(3) The member contribution rate for the school employees' retirement system plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after September 1, 2000~~)) be set at the same rate as the employer combined plan 2 and plan 3 rate.

((~~(4)~~)) (3) The required contribution rate for members of the public employees' retirement system plan 2 shall be set at the same rate as the employer combined plan 2 and plan 3 rate.

((~~(5)~~)) (4) The required contribution rate for members of the law enforcement officers' and fire fighters' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

(5) The required contribution rates for members of the teachers' retirement system plan 2 shall not include any increase as a result of section 3, chapter . . ., Laws of 2007 (section 3 of this act) and section 5 of this act.

(6) The ((~~employee~~)) required contribution rates for members of the school employees' retirement system plan 2 ((~~under subsections (3) and (4) of this section~~)) shall not include any increase as a result of ((~~any distributions pursuant to RCW 41.31A.020 and 41.31A.030~~)) section 11, chapter . . ., Laws of 2007 (section 11 of this act) and section 13 of this act.

(7) The required contribution rates for members of the public employees' retirement system plan 2 shall not include any increase as a result of section 15, chapter . . ., Laws of 2007 (section 15 of this act).

(8) The required plan 2 and 3 contribution rates for employers shall be adopted in the manner described in RCW 41.45.060((~~, 41.45.054,~~)) and 41.45.070.

((~~(8)~~)) (9) The required contribution rate for members of the public safety employees' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

Sec. 18. RCW 41.40.630 and 2000 c 247 s 901 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service

credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620.

(2) UNREDUCED RETIREMENT. Any member who has completed at least five service credit years and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more shall be eligible to retire and receive a retirement allowance computed according to the provisions of RCW 41.40.620.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 19. RCW 41.40.820 and 2006 c 33 s 3 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) UNREDUCED RETIREMENT. Any member who has completed the number of service credit years required in subsection (1) of this section and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more shall be eligible to retire and receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(3) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 20. RCW 41.32.765 and 2000 c 247 s 902 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years of service who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760.

(2) UNREDUCED RETIREMENT. Any member who has completed at least five service credit years and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more shall be eligible to retire and receive a retirement allowance computed according to the provisions of RCW 41.32.760.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years of service who has attained at least age fifty-five shall be eligible to retire and to receive a retirement allowance

computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 21. RCW 41.32.875 and 2006 c 33 s 1 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) UNREDUCED RETIREMENT. Any member who has completed the number of service credit years required in subsection (1) of this section and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more shall be eligible to retire and receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(3) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number

of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 22. RCW 41.35.420 and 2000 c 247 s 905 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400.

(2) UNREDUCED RETIREMENT. Any member who has completed at least five service credit years and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more shall be eligible to retire and receive a retirement allowance computed according to the provisions of RCW 41.35.400.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 23. RCW 41.35.680 and 2006 c 33 s 2 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) UNREDUCED RETIREMENT. Any member who has completed the number of service credit years required in subsection (1) of this section and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more shall be eligible to retire and receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(3) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

NEW SECTION. **Sec. 24.** The following acts or parts of acts are each repealed:

(1) RCW 41.31.010 (Annual pension increases--Increased by gain-sharing increase amount) and 1998 c 340 s 1;

(2) RCW 41.31.020 (Gain-sharing increase amount calculated) and 1998 c 340 s 2;

(3) RCW 41.31.030 (Contractual right to increase not granted) and 1998 c 340 s 3;

(4) RCW 41.31A.010 (Definitions) and 2000 c 247 s 407 & 1998 c 341 s 311;

(5) RCW 41.31A.020 (Extraordinary investment gain--Credited to member accounts--Persons eligible--Calculation of amount--Contractual right not granted) and 2003 c 294 s 4, 2000 c 247 s 408, & 1998 c 341 s 312;

(6) RCW 41.31A.030 (Retroactive extraordinary investment gain--Credited to member accounts--Persons eligible--Calculation of amount--Contractual right not granted) and 1998 c 341 s 313; and

(7) RCW 41.31A.040 (Retroactive extraordinary investment gain--Credited to member accounts--Persons eligible--Calculation of amount--Contractual right not granted) and 2000 c 247 s 409.

NEW SECTION. **Sec. 25.** The benefits provided under this act are not provided to employees as a matter of contractual right prior to July 1, 2007. The legislature retains the right to alter or abolish these benefits at any time prior to July 1, 2007.

NEW SECTION. **Sec. 26.** If any part of this act is found to be in conflict with a final determination by the federal internal revenue service that is a prescribed condition to favorable tax treatment of one or more of the retirement plans, the conflicting part of this act is inoperative solely to the extent of the conflict and with respect to the individual members directly affected. This finding does not affect the operation of the remainder of this act in its application to the members concerned. The legislature reserves the right to amend or repeal this act in the future as may be required to comply with a final federal determination that amendment or repeal is necessary to maintain the favorable tax treatment of a plan.

NEW SECTION. **Sec. 27.** Except for section 7 of this act which takes effect July 1, 2008, 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 ---

The Select Committee on Pension Policy

Gain-Sharing

Robert Wm. Baker, Senior Research Analyst
Martin McCaulay, Senior Pension Actuary

October 17, 2006

Presentation

- SCPP Gain-sharing Policy
- Current SCPP Trade-off Proposal
- Fiscal Impact
- Trade-off Options Spreadsheet

2005 SCPP Policy

- Repeal and replace
  - Replace with benefits about half the projected cost of future gain-sharing
- Include Plan 2
  - Reasons for excluding from gain-sharing re-examined

Current SCPP Proposal

- Repeal Plan 1 and Plan 3 gain-sharing
- Repeal Plan 3 member rate flexibility
- 23¢ increase in Uniform COLA
- Plan 2/3 choice for SERS and TRS new hires
- Plan 2 transfer window for those mandated into TRS 3 and SERS 3
- Plan 3-plus: 2 percent benefit guarantee for Plan 3 members (prospective)
- Plan 2/3 Rule-of-90

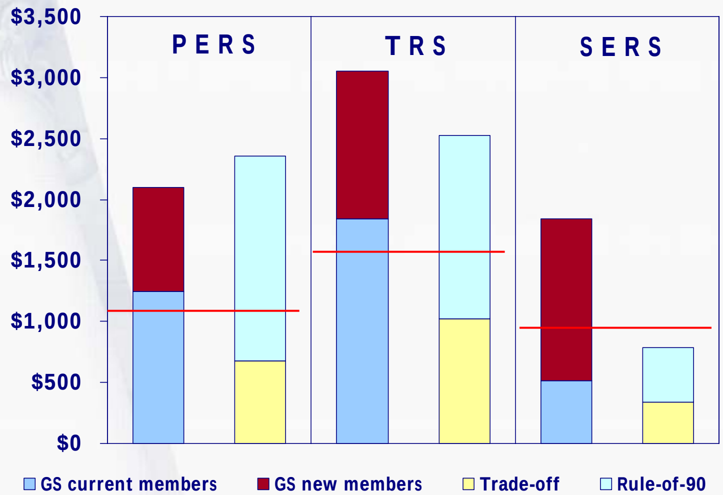
Gain-sharing and Current SCPP Proposal: Employer Contribution Rates

	PERS	TRS	SERS
Gain-sharing	0.62%	1.94%	2.18%
SCPP Proposal	1.10%	1.88%	1.64%

Gain-sharing and Current SCPP Proposal: Total Employer Fiscal Impact

	PERS	TRS	SERS	Total
2007-2009				
Gain-sharing	$107.8	$165.7	$68.4	$341.9
SCPP Proposal	$151.5	$154.4	$45.6	$351.5
25-Year				
Gain-sharing	$2,099.7	$3,052.5	$1,843.8	$6,996.0
SCPP Proposal	$2,343.7	$2,510.2	$781.6	$5,635.6

25-Year Total Employer Cost by System (Dollars in Millions)

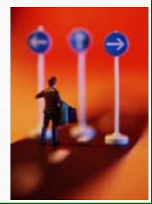


Trade-off Options Spreadsheet

- Gain-sharing trade-off options (see handout)
- Interactive spreadsheet/graph
  - Choose various options and display graph of results

Next Steps

- Executive Committee direction
- Scheduled for November



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

Washington State
School Retirees Association

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Testimony before the Select Committee on Pension Policy

Re: Gain Sharing

October 17, 2006

Honorable Chair and Committee members, my name is Leslie Main. On behalf of the Washington State School Retirees' Association (WSSRA) I would like to express appreciation to you for the opportunity to once again offer testimony on the important issue of Gain Sharing.

In light of the long-awaited projected 2008 Gain Sharing distribution, it is the position of WSSRA that current Gain Sharing statute should be maintained. The need for Gain Sharing continues:

- Members of TRS/PERS 1 look forward to future Gain Sharing occasions to improve the Uniform Plan 1 COLA. The modest increases Gain Sharing provides to the Uniform COLA helps Plan 1 retirees, especially long-time retirees, with recovery of lost purchasing power and prevention of further erosion in the value of their pensions.
- Members of Plan 3 look forward to future Gain Sharing occasions to augment the value of their Defined Contribution accounts. When Plan 3 was established, Gain Sharing was represented as an integral component of the Plan 3 benefit design and was a major factor that prompted many members of Plan 2 to transfer to Plan 3.

As the SCPP considers development of another proposal for Gain Sharing replacement benefits, it is the position of WSSRA that any trade-off ratio proposed for the Plan 3 replacement benefits in excess of $0.50 on the $1 should also be used as the trade-off ratio for Plan 1 Gain Sharing replacement benefits. Additionally, WSSRA requests that, as with the SCPP's previous Gain Sharing replacement benefit proposals, any new proposal for Gain Sharing replacement benefits for Plan 1 should focus on improvement to the Uniform Plan 1 COLA.

WSSRA appreciates the SCPP's continuing consideration of issues related to Gain Sharing and looks forward to working with Committee members on this issue during the rest of this Interim and through the 2007 Session. Once again, thank you for the opportunity to testify on this important issue.

Washington State Legislature

The Joint Committee on Pension Policy

Nov. 20, 1997

RE: ***Increase in bonus*** **for switching from TRS 2 to TRS 3**

Dear TRS 2 member.

On behalf of the Joint Committee on Pension Policy (JCPP), we would like to advise you of some important news if you are considering a transfer from the Teachers' Retirement System Plan 2 to the Teachers' Retirement System Plan 3. This letter is to inform you of two proposals being considered by the JCPP that would enhance benefits in the TRS 3 system. To become law, these proposals must be approved by the state Legislature.

The first JCPP proposal would provide an additional payment to a TRS 3 member's defined contribution account. **The JCPP-proposed payment may be as high as 65 percent of their employee contributions. TRS 2 members who choose to transfer to TRS 3 by the Dec. 31, 1997, deadline would receive this total potential payment of 65 percent of their employee contributions rather than the 40 percent currently specified in state law.** (The 40 percent amount was approved by the state Legislature during the 1997 session.)

The deadline to transfer from TRS 2 to TRS 3 is approaching quickly, so if you're thinking about making this transfer, you'll need to decide soon. You must make the transfer to TRS 3 by Dec. 31, 1997, if you want to be eligible for the potential increase in the additional payment.

The other proposal being considered by the JCPP could bring even more good news for TRS 3 members. It would allow TRS 3 members to share in extraordinary investment gains made by the State Investment Board. When investment earnings on the pension funds average more than 10 percent during a previous four-year period, TRS 3 members would receive a portion of these gains through a payment to their defined contribution account. The gain-sharing payment would be calculated and paid once each biennium. The proposal would provide members with about $150 per year of service credit for the 1997-99 biennium. The gain-sharing benefit would be offered to all members of TRS 3, regardless of when they transfer from TRS 2.

Please note that these proposals must be passed by the 1998 Legislature and signed into law by the governor for them to go into effect.

If you have questions about TRS Plan 3 or other benefits for retired teachers, contact the state Department of Retirement Systems at (360) 709-4700 or the TRS Plan 3 Information Line at (360) 664-4298. Or visit its web site at **http://www.wa.gov/DRS/drs.html**.

Sincerely,

Don M. Carlson

DON CARLSON
Chair, Joint Committee on Pension Policy

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