

Select Committee on Pension Policy

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

Regular Committee Meeting

November 21, 2006

10:00 a.m. - 12:30 p.m.
House Hearing Room A
Olympia

AGENDA

10:00 a.m. (1) **Approval of Minutes**

Possible Executive Session

10:05 a.m. (2) **\$150,000 Death Benefit**, Darren Painter, Research Analyst

10:15 a.m. (3) **Service Credit Purchase Due to Injury**, Robert Wm Baker, Senior Research Analyst

10:25 a.m. (4) **Post-Retirement Employment**, Laura Harper, Senior Research Analyst - Legal

Work Session

10:35 a.m. (5) **07-09 OSA Budget Amendment**, Matthew M. Smith, State Actuary
Public Testimony

11:00 a.m. (6) **Plan 1 Funding Method, Subgroup Recommendation**, Senator Pridemore, Chair

11:05 a.m. (7) **2005 Preliminary Valuation Report**, Matt Smith

11:30 a.m. (8) **PSERS Membership Report**, Darren Painter
Public Testimony

11:50 a.m. (9) **Gain-Sharing**, Robert Wm Baker
Public Testimony

12:30 p.m. (10) **Adjourn**

*Elaine M. Banks
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

*Representative Bill Fromhold,
Vice-Chair

Vacant
TRS and SERS Employers

Robert Keller
PERS Actives

*Sandra J. Matheson, Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

*Glenn Olson
PERS Employers

*Senator Craig Pridemore,
Chair

Diane Rae
TRS Actives

*J. Pat Thompson
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

* Executive Committee

(360) 786-6140

Fax: (360) 586-8135

TDD: 1-800-635-9993

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.

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
 November 20, 2006 - No meeting scheduled
 December 11, 2006 - No meeting scheduled

O:\SCPP\2006\11-21-06 Full\2006 Interim Calendar B&W Updated 10-06.doc

JANUARY						
M	T	W	T	F	S	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

FEBRUARY						
M	T	W	T	F	S	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28					

MARCH						
M	T	W	T	F	S	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

APRIL						
M	T	W	T	F	S	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

MAY						
M	T	W	T	F	S	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

JUNE						
M	T	W	T	F	S	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

JULY						
M	T	W	T	F	S	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

AUGUST						
M	T	W	T	F	S	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

SEPTEMBER						
M	T	W	T	F	S	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

OCTOBER						
M	T	W	T	F	S	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

NOVEMBER						
M	T	W	T	F	S	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

DECEMBER						
M	T	W	T	F	S	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Select Committee on Pension Policy

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.

Select Committee on Pension Policy

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

REGULAR COMMITTEE MEETING DRAFT MINUTES

October 17, 2006

The Select Committee on Pension Policy met in House Hearing Room A, Olympia, Washington on October 17, 2006.

Committee members attending:

Elaine Banks	Victor Moore
Lois Clement	Senator Mulliken
Representative Conway	Glenn Olson
Representative Crouse	Senator Pridemore
Senator Fraser	J. Pat Thompson
Representative Fromhold	Senator Schoesler
Robert Keller	David Westberg
Sandra Matheson	
Doug Miller	

Representative Fromhold, Vice-Chair, called the meeting to order at 10:00 a.m. Senator Pridemore, Chair, resumed the meeting at 11:05 a.m.

(1) Approval of Minutes

It was moved to amend and approve the September 19, 2006 Full Committee Draft Minutes noting the attendance of Lois Clement. Seconded.

MOTION CARRIED

(2) Pension Funding Council Update

Matthew Smith, State Actuary, reported on the "Pension Funding Council Update."

(3) OSA 07-09 Budget Request

Matthew Smith, State Actuary, reported on the "OSA 07-09 Budget Request." Discussion followed.

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

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

Vacant
TRS and SERS Employers

Robert Keller
PERS Actives

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

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Vacant

***Glenn Olson**
PERS Employers

***Senator Craig Pridemore,**
Chair

Diane Rae
TRS Actives

***J. Pat Thompson**
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

*** Executive Committee**

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

The following people testified:

Jim Justin, Association of Washington Cities

Sophia Byrd McSherry, Washington State Association of Counties

It was moved to approve the 2007-09 OSA Budget Request without the Decision Package for the 2006 National Conference of State Legislatures salary survey.

Seconded. Discussion followed.

It was moved to amend the 2007-09 OSA Budget Request by an additional \$25,000.00 for a LEOFF 1 post-retirement medical study. Seconded.

MOTION CARRIED

(4) Dual Membership

Darren Painter, Research Analyst, reported on "Dual Membership." Discussion followed. This issue will be placed on the November Executive Committee agenda.

(5) Gain-Sharing

Robert Baker, Senior Research Analyst, reported on "Gain-Sharing." Discussion followed.

The following people testified:

John Kvamme, Washington Association of School Administrators/Association of Washington School Principals

Dave Scott, Washington Education Association

Leslie Main, Washington State School Retirees' Association

Helen Carlstrom, Washington Education Association

Bob Warnecke, Washington State School Retirees' Association

Jim Justin, Association of Washington Cities

Tom Lopp, Public School Employees of Washington

Sophia Byrd McSherry, Washington State Association of Counties

Kathy Valentine, Washington Education Association - retired

(6) Post-Retirement Employment

Laura Harper, Senior Research Analyst, Legal, reported on "Post-Retirement Employment". Discussion followed.

The following people testified:

John Kvamme, Washington Association of School Administrators/Association of Washington School Principals

Wil Brannon, Self

Jean Backman, PERS 1 retiree

Don Carlson, Washington State School Retirees' Association

It was moved to approve SHB 2689 (2006) as the 2007 SCPP proposal on Post-Retirement Employment.

Seconded.

The Keller amendment to the 2007 SCPP proposal on Post-Retirement Employment was moved. Seconded. Discussion followed.

A Roll call vote was requested:

7 yea

6 nay

6 not attending

MOTION CARRIED

Staff is to prepare a Z-draft and a fiscal note with the Keller amendment and place it on the November Full Committee agenda.

The meeting adjourned at 12:55 p.m.

In Brief

PROPOSAL

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

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

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

MEMBER IMPACT

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

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

\$150,000 Death Benefit

Current Situation

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

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

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

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

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

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

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

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

Figure 1

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

**Length of reporting period varies among systems.*

Members Impacted

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

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

History

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

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

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

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

Figure 2

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

Policy Analysis

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

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

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

State Policy on Inflation Protection

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

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

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

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

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

Indexing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Survivors may receive a variety of death benefits.

Death Benefits for Public Employees

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

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

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

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

Figure 3

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

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

Figure 4

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

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

2. As of 7/01/2005.

Death Benefits in Comparative Systems

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

Figure 5

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

Plan Differences in the \$150,000 Death Benefit

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

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

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

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

Administration of Death from Duty-Related Illness Claims

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

An occupational disease arises from distinctive workplace conditions.

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

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

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

Technical Issue in VFF

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

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

Conclusions

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

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

Policy Questions

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

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

Options for Indexing \$150,000 Death Benefit

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

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

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

Fiscal Impact

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

Committee Action

Following the September meeting, the Executive Committee of the SCPP recommended the Option 4 proposal be forwarded to the full committee for their consideration. Staff were directed to prepare bill language and a fiscal note for possible executive action by the full committee at the November meeting.

Next Steps

The full committee will consider whether to forward the bill draft implementing Option 4 to the legislature for consideration during the 2007 session.

Bill Draft

Attached

Fiscal Note (Draft)

Attached

Stakeholder Correspondence

Kelly Fox, Chair, LEOFF 2 Board

Attachments

"\$150,000 Death Benefit Inflation Adjustment Initial Consideration", Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board, April 26, 2006.

Appendix A: Death Benefit Provided for Public Employees

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

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

2. Excludes optional COLAs purchased by recipient.

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

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

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

BILL REQUEST - CODE REVISER'S OFFICE

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

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Determining death benefits for public employees.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- 24 (i) The index for the 2005 calendar year, to be known as "index A";
- 25 (ii) The index for the calendar year prior to the date of
26 determination, to be known as "index B"; and
- 27 (iii) The ratio obtained when index B is divided by index A.

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

- 31 (i) Produce a benefit which is lower than one hundred fifty
32 thousand dollars;
- 33 (ii) Exceed three percent in the initial annual adjustment; or
- 34 (iii) Differ from the previous year's annual adjustment by more
35 than three percent.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

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

SUMMARY OF BILL:

This bill impacts the following retirement systems and public employees:

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

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

Effective Date: July 1, 2007

CURRENT SITUATION:

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

MEMBERS IMPACTED:

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

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

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

ASSUMPTIONS:

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

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

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

FISCAL IMPACT:

Description:

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

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below. This bill will increase the contribution rate for WSP, however, the liability increases in all other systems are insufficient to affect contribution rates. Liabilities for PSERS are included in the PERS totals.

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

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

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

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

Fiscal Budget Determinations:

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

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

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, and the Volunteer Fire Fighters' Relief and Pension Fund. We used counts of HIED membership as of October 2003 in estimating the number of members impacted. We relied upon the 2006 Key Facts published by the Higher Ed Coordinating board to obtain the counts of HIED membership.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

We relied on documentation of claims administration provided by the Department of Labor and Industries in setting our assumptions for increases in the rate of duty-related death.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2007 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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



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

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

March 9, 2006

RECEIVED

MAR 10 2006

Office of
The State Actuary

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

Dear Honorable Members of the Select Committee on Pension Policy:

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

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

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

Dual Membership

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

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

Service Credit Purchase for Duty-Related Injury

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

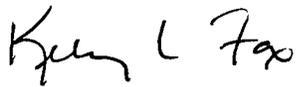
Inflationary Adjustment for \$150,000 Death Benefit

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

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

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

Sincerely,



Kelly Fox, Chair

cc: Matt Smith, State Actuary

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

\$150,000 Death Benefit Inflation Adjustment **Initial Consideration**

April 26, 2006

1. Issue

Currently, the \$150,000 lump-sum death benefit is a fixed amount. This report looks at the policy issues and costs related to adding an inflation factor to this benefit.

2. Staff

Greg Deam, Senior Research and Policy Manager
(360) 586-2325
greg.deam@leoff.wa.gov

3. Members Impacted

Any member who dies in the line of duty could potentially be impacted. According to the Office of the State Actuary, as of September 30, 2004 there were 14,754 active LEOFF Plan 2 members and 432 retirees.

4. Current Situation

The beneficiaries of members who die in the line of duty, either as a result of an injury or occupational illness, are entitled to a \$150,000 lump-sum payment. The amount is fixed and has been the same since the introduction of the lump-sum death benefit payment in 1996.

5. Background Information and Policy Issues

The Legislature passed an amendment to the \$150,000 Death Benefit during the 2006 session. The original bill included two amendments to existing statutes. The first added death due to an occupational illness as a qualified reason to receive the \$150,000 lump-sum death benefit. The second amendment added an annual inflation adjustment to increase the one-time \$150,000 amount over time. The proposed inflation adjustment was to be the same as the one members receive on their pensions.

The proposed inflation adjustment was removed from the version of the bill that was signed into law. Because all of the other plans also have the same \$150,000 lump-sum death benefit, the Legislature wanted to understand how the other plans would be affected before they set a precedent with LEOFF Plan 2.

During the original cost analysis performed by the Office of the State Actuary, the addition of the inflation adjustment did not create an increase in contribution rates. The Select Committee on Pension Policy (SCPP) has committed to work in coordination with the LEOFF 2 Board to study this matter during the 2006 Interim.

Of the eight states that provide a lump-sum death benefit of \$100,000 or more, three have an inflation adjustment. In addition to state provided lump-sum death benefits, the Public Safety Officers' Benefits (PSOB) Act, a federal death benefit, was enacted in 1976 to assist in the recruitment and retention of law enforcement officers and fire fighters by providing a lump-sum death benefit. This benefit has had an inflation adjustment since October 15, 1988. The benefit has been adjusted each year on October 1 to reflect the percentage of change in the Consumer Price Index. As of October 1, 2005, the amount is \$283,325

The Select Committee on Pension Policy



\$150,000 Death Benefit

Darren Painter, Research Analyst

November 21, 2006



History of Issue

- LEOFF 2 Board request
- Heard at June and September meetings
- Referred back with executive committee recommendation



\$150,000 Death Benefit

- \$150,000 lump sum for duty-related death
- Provided in all systems
- Eligibility determined by L&I
- Expect fewer than 13 duty-related deaths annually

OSA



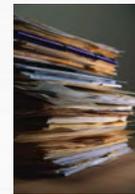
O:/SCPP/2006/11-21-06 Full/2. \$150 Thou Death Ben.ppt

2

Issues

- Amount doesn't adjust for inflation
- Different eligibility criteria between plans
 - *Injury* or *illness* in LEOFF 2 and VFF
 - *Injury* only in all other plans

OSA



O:/SCPP/2006/11-21-06 Full/2. \$150 Thou Death Ben.ppt

3

Executive Committee Recommendation

- Index benefit to CPI with 3% maximum annual change
 - Similar to Plan 2/3 COLA (cumulative CPI, floor)
 - LEOFF 2 Board recommendation
- Expand eligibility to include death from duty-related illness for all plans

Policy Impact: Maintains value if inflation averages 3% or less and provides consistent eligibility criteria across plans



Fiscal Impact

- Increase WSP contribution rates by .01%
 - No appreciable employer cost for 2007-2009
 - \$.4 million 25 year total employer cost
- Liability insufficient to increase rates in all other plans



Next Steps

- Possible executive action by the full committee

OSA



In Brief

PROPOSAL

The Law Enforcement Officers' and Fire Fighters' Plan 2 (LEOFF 2) Board is seeking to improve the provisions that allow members to purchase service credit for injury recovery periods. The Board recognizes that this issue crosses most public employee retirement systems and, because similar provisions were recently improved in the Public Employees' Retirement system (PERS), would likely be an issue before the SCPP this interim. As a result, the Board wishes to coordinate with the SCPP on this issue (see correspondence).

MEMBER IMPACT

Improvement in the provisions allowing the purchase of service credit for injury recovery periods could impact all members of PERS, SERS, PSERS, TRS, and LEOFF 2.

Robert Wm. Baker
 Senior Research Analyst
 (360) 786-6144
 Baker.Robert@leg.wa.gov

Service Credit Purchase Due to Injury

Current Situation

Provisions in the Public Employees' Retirement System (PERS) governing the purchase of service credit for injury recovery periods – also known as periods of temporary duty disability (TDD) – were improved under 2005 legislation. PERS members may now purchase up to twenty-four consecutive months of service credit for each period they are on TDD and receiving Workers' Compensation time-loss payments; they were formerly limited to purchasing twelve consecutive months of service credit for each TDD period. These improvements were exclusive to PERS; TDD provisions in the other retirement systems remained unchanged.

Earned Service Credit

In general, members of the retirement plans can acquire service credit by either earning it or purchasing it. PERS members earn service credit for each creditable month they are actively employed by a PERS employer or on paid leave of absence. Members earn service credit in increments based on how many hours they work in a month (Figure 1). This service credit is used in the formula for determining a member's retirement benefit.

Figure 1

PERS Service Credit Provisions	
Plan 1	70+ hours of work per month = 1 service credit month
	1-69 hours of work per month = ¼ service credit month
Plan 2/3	90+ hours of work per month = 1 service credit month
	70-89 hours of work per month = ½ service credit month
	1-69 hours of work per month = ¼ month service credit

Identical Plan 2 service credit provisions are found in the Public Safety Employees' Retirement System (PSERS) and LEOFF.

A service credit month is earned after 70 hours of work in the LEOFF 1 and Washington State Patrol (WSPRS) retirement systems. These plans do not award partial service credit because members are required to be in full-time fully compensated positions.

Members of the School Employees' Retirement System (SERS) and Teachers' Retirement System (TRS) earn service credit based on school-year activity. A TRS 1 member who works 144 days in a school year earns a full service credit year. SERS 2/3 or TRS 2/3 members earn twelve service credit months if they work nine months during the school year and are compensated for at least 810 hours during that period.

Purchased Service Credit

TRS has no provisions allowing the purchase of service credit for temporary duty disability recovery periods.

Members of State administered retirement plans may also purchase service credit. At retirement, a member may purchase up to five years of service credit to enhance their retirement annuity. Because the purchase of this service credit is not tied to a particular period of actual service it is commonly known as purchasing "air time." Members must pay the full actuarial cost to purchase such service credit.

Retirement system members may also purchase up to five years of service credit for interruptive military service. Interruptive military service occurs after a member establishes plan membership – which is distinct from military service that occurred prior to establishing plan membership. A member may purchase service credit for the period of interruptive military service by paying the member contributions; the employer will be billed for the employer contributions plus interest.

Members may also purchase service credit for periods where they have suffered an on-the-job injury and are unable to work; also known as a TDD. In order to qualify to receive service credit for these periods, members have to

be receiving or have received Workers' Compensation Time Loss benefits. Such a member may purchase the service credit for the disability period by paying the member contributions (plus interest if necessary); their employer will then be billed for the employer contributions (plus interest if necessary). Contributions will be based on the salary the member would have been making had they not been injured. PERS members may receive up to twenty-four months of such service for each TDD period.

Those on TDD may avoid the interest charges if their contribution payments are made during their disability period – this must be arranged with their employer. If a member on TDD waits until after returning to employment before making what would then be retroactive retirement contributions, they will be charged interest.

Currently, TRS has no statutory provisions allowing the purchase of service credit for on-the-job injury recovery periods. Current school district human resource practices, and contract provisions related to temporary duty disability situations, appear to have this issue covered for many TRS members. It is unknown whether all TRS members receive similar service credit coverage for TDD periods.

Example

The process for receiving service credit for periods of injury – TDD – is as follows:

Plan 3 members are charged their individual contribution rates without interest.

- ❖ After returning to work following a TDD period, the member will contact the Department of Retirement Systems (DRS).
- ❖ DRS will then contact the member's employer.
- ❖ The employer will confirm the member's TDD status and dates.
- ❖ The employer will provide DRS with the regular wage/salary the member would have received had they not been injured.

- ❖ DRS will bill the member for the appropriate contributions, plus interest (Plan 3 members are charged their individual contribution rates without interest).
- ❖ After the member has paid the contributions, DRS will bill the employer for the appropriate contributions, plus interest.
- ❖ After the employer has paid the contributions, DRS will credit the member's service.

Figure 2

Average TDD Billed Amounts by System and Plan Source: DRS		
System / Plan	Member	Employer
SERS 2	\$517.80	\$866.40
SERS 3	\$609.84	\$1,101.46
LEOFF 2	\$668.06	\$430.75
PERS 1	\$1,062.79	\$1,150.03
PERS 2	\$532.57	\$847.29
PERS 3	\$819.47	\$970.12
WSPRS 1	\$2,767.28	\$1,725.49
Total	\$730.84	\$838.86

Following all these steps can be a lengthy process. A member may be billed an amount they cannot pay all at once. The longer the member takes to pay, the more interest they are charged. Because the employer is billed after the member payments are completed, they will be billed more because of the longer interest period, administrative rate, and possible Unfunded Actuarial Accrued Liability (UAAL) rate. The DRS billing data in Figure 2 are the most recent figures for paid bills; other data are available for pending and cancelled bills.

History

SB 5522 and HB 1521 were introduced in the 2005 session. SB 5522 passed the legislature and was signed into law as Chapter 363, Laws of 2005. The legislation increased from twelve months to twenty-four months the allowable service credit PERS members could purchase for each period in which they were on TDD and were receiving workers' compensation payments. There was a cost to increasing the period members may purchase under this provision, but it was insufficient to increase the member or employer contribution rates.

This issue was not studied by the SCPP.

Policy Analysis

Provisional Differences in Washington Systems

The purchase of service credit for periods of TDD under PERS, SERS, PSERS, and LEOFF 2 is not provided as a contractual right.

The recent legislative change in the PERS provisions that govern the awarding of service credit for periods of on-the-job injury highlights the inconsistencies among the retirement systems administered by Washington State (Figure 3, below). The provisions related to the time that can be awarded vary from none in TRS to an unlimited amount in the WSPRS and LEOFF 1. The costs borne by members receiving such service credit range from *contributions plus interest* in PERS to a fully subsidized benefit in LEOFF 1.

The purchase of service credit for periods of TDD under PERS, SERS, PSERS, and LEOFF 2 is not provided as a contractual right.

Figure 3

Service Credit for Temporary Duty Disability in Washington Systems and Plans		
System	Time Limit	Cost to Member
PERS	24 consecutive months	Member contributions (plus interest if applicable)
SERS	12 consecutive months	Member contributions (plus interest if applicable)
TRS	No provision	No provision
PSERS	12 consecutive months	Member contributions (plus interest if applicable)
WSPRS	No limit	Member contributions
LEOFF 1	No limit	None
LEOFF 2	6 months per incident, 24 month total	Member contributions

Comparative Systems

There appears to be no particular consensus among the comparative systems on whether such a benefit should be available or what it should cost the member. The comparative systems show a range of provisions similar to that found in Washington systems (Figure 4). There are systems that do not allow members to purchase service credit for periods they were injured and not working (Colorado and Wisconsin), while others offer service credit for periods of injury (or leaves of absence) at no cost to the member (Missouri and Oregon).

Figure 4

Service Credit for Temporary Duty Disability In the Comparative Systems		
System	Time Limit	Cost to Member
California CalPERS	No limit	Member contributions plus interest
Colorado PERA	No provision	No provision
Florida FRS	No limit	Member contributions plus interest
Idaho PERSI	No limit	Full actuarial cost
Iowa IPERS	No limit	Full actuarial cost
Missouri MOSERS	12 month limit	None
Minnesota MSRS	No Limit	Member contributions plus interest if purchased at the conclusion of the leave period – full actuarial cost if paid later.
Ohio OPERS	3 year limit	None
Oregon OPSRS	No limit	None if member received workers' comp.
Seattle SCERS	No limit	20% of member contributions plus interest
Wisconsin WRS	No provision	No provision

Of the systems that do require member contributions, the Seattle City Employees' Retirement System (SCERS) requires the least expensive buy-in for the member. The City will cover 80 percent of normal contributions for a member on TDD. Upon returning to employment, employees have the option of accepting the prorated service credit or paying the remaining 20 percent of contributions to make it whole. If they choose to pay within five years of resuming

employment, they are charged 5.75 percent interest. If they choose to pay after five years of resuming employment, they are charged 7.75 percent interest.

Risk of Injury

A major factor driving a service credit purchase policy for TDD periods is the risk of becoming injured on-the-job and being unable to work. No job is free from the risk of injury, though some jobs are considerably less risky than others. Data from the Department of Labor and Industries in Figure 5 compares time-loss claims by select employers.

Figure 5

Workers Compensation Claims in Fiscal Year 2004 For Employers With Over 50 Employees Source: Labor and Industries	
Industry description	Claims per 200,000 Hours
Software Publishers	0.64
Elementary & Secondary Schools	6.51
Junior Colleges	3.27
Colleges, Universities, & Professional Schools	4.36
Executive Offices	6.09
Legislative Bodies	6.89
Public Finance Activities	1.38
Executive & Legislative Offices, Combined	9.69
Other General Government Support	9.39
Courts	1.15
Police Protection	13.32
Correctional Institutions	10.77
Fire Protection	12.42
Administration Of Education Programs	1.62
Administration Of Public Health Programs	5.18
Administration Of Human Resource Programs	5.03
Administration Of Veteran's Affairs	3.31
Administration Of Air & Water Resource & Solid Waste	4.82
Administration Of Conservation Programs	11.55
Administration Of Housing Programs	9.36
Administration Of Urban Planning & Community & Rural Programs	1.95
Regulation And Administration Of Transportation Programs	8.34
Regulation Of Agricultural Marketing And Commodities	6.21
Regulation, Licensing, And Inspection Of Miscellaneous Commodities	3.48

It is apparent that the frequency of claims is greater for public safety employees than for typical PERS, SERS, or TRS members, though there are some atypically high claims within the Administration of Conservation Programs because of the physical nature of many of those jobs.

The key difference between public safety employees and other public employees is the degree to which an injury can impede their job performance. A broken leg may be a painful inconvenience for a PERS member working in an office environment, but it would not necessarily stop that member from performing their job. In comparison, a broken leg would easily side-line a fire fighter. This sensitivity to injury requires a greater emphasis on physical fitness and safety procedures among members engaged in the public safety systems (PSERS, LEOFF, and WSPRS) than among members of other systems in general.

Figure 6

Temporary Duty Disability Bills Compared to Total Membership By System and Plan Source: DRS			
System / Plan	Total Bills	Total Membership	TDD Rate
SERS 2	49	20,424	0.24%
SERS 3	33	29,430	0.11%
LEOFF 2	589	14,754	3.99%
PERS 1	658	17,829	3.69%
PERS 2	906	118572	0.76%
PERS 3	73	19,855	0.37%
WSPRS 1	4	997	0.40%
Total	2,312	221,861	1.04%

Based on the most recent information, there were a total of 2,312 total TDD bills administered by DRS (Figure 6). Comparing the TDD bills to total plan membership provides a reasonable “rate” of TDD injury (except for WSPRS). While injured State Patrol members are eligible for workers’ compensation time-loss benefits, they are also eligible for WSPRS disability benefits administered by the Chief of the State Patrol. Because WSPRS disability benefits are off-set by L&I benefits, the great majority of WSPRS members who experience an injury do not apply for L&I.

The TDD rates vary considerably between the systems and plans. The highest rate is found in LEOFF 2 at almost 4 percent. Close behind is PERS 1 with a rate of almost 3.7 percent; PERS 1 is a closed plan whose membership is rapidly aging and more susceptible to injury. Other plans tend to have TDD rates well below 1 percent.

Injury Period

A tertiary policy issue related to service credit purchases for TDD periods is how much TDD time members should be allowed to purchase. Were injuries commonplace, or

Figure 7

Average Service Credit Purchase for Temporary Duty Disability by System and Plan Source: DRS	
System/Plan	Average Months Purchased
SERS 2	7.1
SERS 3	7.2
LEOFF 2	2.2
PERS 1	4.4
PERS 2	4.4
PERS 3	4.5
WSPRS 1	10.3
Total	4.0

typically so severe as to require lengthy rehabilitation, then policy-makers may think it appropriate to allow members to purchase similar periods of service credit. Based on the TDD optional bill data from DRS, the average TDD period being purchased is 4.0 months (Figure 7). This average varies by system, but not much by plan. PERS members purchased between 4.4 and 4.5 months of service. SERS members purchase 7.1 to 7.2 months of service. LEOFF 2 members purchase an average of 2.2 months; this shorter period is likely due to the fact that lesser injuries may impede a LEOFF member's duties.

The question then becomes what are the extremes experienced by workers on TDD? While the average TDD recuperation period may be four months, there may be individuals with considerably longer recovery periods. Instances of members purchasing the maximum service credit may indicate that they were injured for a longer period and are limited by the maximum service credit purchase period. Based on the most recent records from the Department, 144 service credit purchase bills for injury

Figure 8

Temporary Duty Disability Bills Compared to Maximum Service Bills By System and Plan Source: DRS			
System / Plan	Total Bills	Maximum Service Bills	% Max Bills
SERS 2	49	12	24.5%
SERS 3	33	5	15.2%
LEOFF 2	589	44	7.5%
PERS 1	658	37	5.6%
PERS 2	906	44	4.9%
PERS 3	73	2	2.7%
Total	2,308	144	6.2%

periods were for the maximum allowed (Figure 8). Members of SERS have a relatively low number of total billings, but a significant share of those billings was for the maximum period allowed (twelve months).

Service and Service Credit

Any provision related to purchasing service credit is likely to raise policy maker's concerns about possible conflicts with Internal Revenue Service (IRS) regulations. However, unlike the purchasing of "air time" where the service credit in question is not tied to any particular period of employment (actual service), members who are

injured and receiving TDD benefits are still considered "employed." Under the current permissibility standards, the linkage between TDD periods and actual service is reasonably firm. As a result, purchasing service credit for TDD periods – limited periods where the member is still considered officially employed – is unlikely to draw the ire of the IRS.

Cost Sharing

Another policy issue related to service credit purchases for TDD periods revolves around how much of the cost of such a purchase should be borne by the member, and how much by the employer. In PERS, SERS, PSERS, and LEOFF 2 plans there is a common cost-sharing method. For the period of disability, the member and the employer each pay whatever the contributions would have been were the member active; interest is also charged, if necessary. The actual amounts billed the member and employer will not necessarily be equal because of the differing interest periods and the differences in member and employer contribution rates (employers pay an additional Plan 1 UAAL rate and an administrative expense rate).

While considering improving the provisions allowing service credit purchases for TDD periods, policy-makers may also want to ask whether the current cost sharing policy is appropriate in all on-the-job injury situations. Are there instances when more of the cost should be borne by the employer or by the member?

Plan Consistency

A broad policy concern is that of plan consistency. It is a statutory policy within the Retirement Systems chapter that the systems and plans provide similar benefits wherever possible (RCW 41.50.005[1]). This issue illustrates what occurs when one system is awarded a benefit improvement exclusive from the other systems and creates dissimilarity where none existed before. Members of other systems excluded from such legislation will inevitably request equal treatment, particularly if there is no discernable reason for the difference. This could be called the elastic band effect – one system stretches out a benefit “lead” and the other systems scramble to catch up.

There are always cost concerns in such a benefit situation. The cost of expanding the service credit purchase for injury provision in PERS was not sufficient to increase contribution rates. Recent pricing calculations for the other systems show similarly small fiscal impacts.

Policy Questions

To help the committee decide on a course of action, members may want to deliberate via the following questions:

- ❖ Are the service credit purchase provisions for injury periods in Washington's retirement systems adequate?
 - ◆ Is the period of coverage adequate, should there be a limit?
 - ◆ Is the cost-sharing appropriate?
- ❖ Are the differences in the service credit purchase for injury provisions in Washington's retirement systems significant enough to warrant a statutory remedy?
- ❖ If the committee wants to pursue a legislative remedy, would they want to include TRS in that remedy?

Possible Options

Option 1

Allow members of PSERS and SERS to purchase up to two years of service credit for periods of temporary duty disability.

Policy Impact: Expanding the service credit purchase provisions for periods temporary duty disability in PSERS, and SERS would provide these members benefits equal to those in the Public Employee's Retirement System (PERS), thus maintaining system and plan consistency as is a goal within statutory retirement policy.

Fiscal Impact: Because of the small number of members who would be eligible for this benefit, the impact on the retirement funds would be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 2

Allow members of SERS to purchase up to two years of service credit for periods of temporary duty disability, and allow members of PSERS to purchase up to four years of service credit for periods of temporary duty disability.

Policy Impact: Expanding the service credit purchase provisions for periods of temporary duty disability in SERS would provide these members benefits equal to those in PERS, thus maintaining system and plan consistency as is a goal within statutory retirement policy. Expanding the service credit purchase provisions for periods temporary duty disability in PSERS to four years would acknowledge the greater inherent risk in public safety occupations.

Fiscal Impact: The increase in number of members who would experience extended TDD periods is minimal. The share of members purchasing the maximum time currently allowed is only 6.2 percent of all those purchasing service credit for TDD periods. The share purchasing service credit for longer periods would be a subset of that group. As a result, the impact on the retirement funds would continue to be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 3

Allow members of PERS, SERS, and PSERS to purchase service credit for all periods of temporary duty disability.

Policy Impact: Allowing service credit to be purchased for all periods of temporary duty disability would provide members benefits equal to the injury risk inherent in each system, thus maintaining system and plan consistency as is a goal within statutory retirement policy.

Fiscal Impact: The increase in members eligible to purchase the additional TDD time is minimal. The number of members purchasing the maximum time

currently allowed is only 6.2 percent of all those purchasing service credit for TDD periods. As a result, the impact on the retirement funds would continue to be negligible and insufficient to increase contribution rates. There would be budgetary impacts, however, as employers would be responsible for contribution and interest payments for those employees making such a purchase.

Option 4

Include members of TRS in any proposal.

Policy Impact: Including TRS members in any service credit purchase proposal would be in keeping with maintaining system and plan consistency as is a goal with statutory retirement policy.

Fiscal Impact: Giving TRS members the statutory authority to purchase service credit for TDD periods would, in many instances, codify existing human resource and contractual practices. As there is no significant difference in injury frequency among school employees compared to other non-public safety employees, the cost to the retirement system would be similarly negligible and insufficient to increase contribution rates, be it for a two year statutory period or for an unlimited statutory period. As with the other systems, there would be budgetary impacts, as employers would continue to be responsible for contribution and interest payments for those employees making such a purchase.

Executive Committee Action

At the September 19, 2006 meeting, the Executive Committee of the SCPP recommended that a bill and fiscal note be prepared for Option 1 including LEOFF 2 and TRS – allowing members of PSERS, SERS, LEOFF 2 and TRS to purchase up to twenty-four consecutive months of service

credit for each period of temporary duty disability. The bill and fiscal note are to be forwarded to the full committee for possible executive action.

Bill Draft

Attached

Fiscal Note (Draft)

Attached

Stakeholder Correspondence

Kelly Fox, Chair
LEOFF Plan 2 Retirement Board

Attachments

[Service Credit Purchase for Injury, Preliminary Report](#)
LEOFF Plan 2 Retirement Board.

O:\SCPP\2006\11-21-06 Full\3.Service_Credit_Purchase_due_to_Injury.doc

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0244.4/07 4th draft

ATTY/TYPIST: LL:bat

BRIEF DESCRIPTION: Purchasing service credit for periods of temporary duty disability in the law enforcement officers' and fire fighters' retirement system plan 2, the teachers' retirement system, the school employees' retirement system, and the public safety employees' retirement system.

1 AN ACT Relating to purchasing service credit for periods of
2 temporary duty disability in the law enforcement officers' and fire
3 fighters' retirement system plan 2, the teachers' retirement system,
4 the school employees' retirement system, and the public safety
5 employees' retirement system; amending RCW 41.35.070 and 41.37.060;
6 adding a new section to chapter 41.26 RCW; adding a new section to
7 chapter 41.32 RCW; providing an effective date; and declaring an
8 emergency.

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

10 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.26 RCW
11 under the subchapter heading "plan 2" to read as follows:

12 Those members subject to this chapter who became disabled in the
13 line of duty on or after July 1, 2002, and who received or are
14 receiving benefits under Title 51 RCW or a similar federal workers'
15 compensation program shall receive or continue to receive service
16 credit subject to the following:

17 (1) No member may receive more than one month's service credit in
18 a calendar month.

1 (2) No service credit under this section may be allowed after a
2 member separates or is separated without leave of absence.

3 (3) Employer contributions shall be paid by the employer at the
4 rate in effect for the period of the service credited.

5 (4) Employee contributions shall be collected by the employer and
6 paid to the department at the rate in effect for the period of service
7 credited.

8 (5) State contribution shall be as provided in RCW 41.45.060 and
9 41.45.067.

10 (6) Contributions shall be based on the regular compensation which
11 the member would have received had the disability not occurred. If
12 contribution payments are made retroactively, interest shall be charged
13 at the rate set by the director on both employee and employer
14 contributions. Service credit shall not be granted until the employee
15 contribution has been paid.

16 (7) The service and compensation credit shall not be granted for a
17 period to exceed twenty-four consecutive months.

18 (8) This section does not abridge service credit rights granted in
19 RCW 41.26.470(3). However, members receiving service credit under RCW
20 41.26.470(3) may not receive service credit under this section.

21 (9) Should the legislature revoke the service credit authorized
22 under this section or repeal this section, no affected employee is
23 entitled to receive the credit as a matter of contractual right.

24 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW
25 under the subchapter heading "provisions applicable to plan 1, plan 2,
26 and plan 3" to read as follows:

27 Those members subject to this chapter who became disabled in the
28 line of duty and who received or are receiving benefits under Title 51
29 RCW or a similar federal workers' compensation program shall receive or
30 continue to receive service credit subject to the following:

31 (1) No member may receive more than one month's service credit in
32 a calendar month.

33 (2) No service credit under this section may be allowed after a
34 member separates or is separated without leave of absence.

35 (3) Employer contributions shall be paid by the employer at the
36 rate in effect for the period of the service credited.

1 (4) Employee contributions shall be collected by the employer and
2 paid to the department at the rate in effect for the period of service
3 credited.

4 (5) Contributions shall be based on the regular compensation which
5 the member would have received had the disability not occurred. If
6 contribution payments are made retroactively, interest shall be charged
7 at the rate set by the director on both employee and employer
8 contributions. Service credit shall not be granted until the employee
9 contribution has been paid.

10 (6) The service and compensation credit shall not be granted for a
11 period to exceed twenty-four consecutive months.

12 (7) Should the legislature revoke the service credit authorized
13 under this section or repeal this section, no affected employee is
14 entitled to receive the credit as a matter of contractual right.

15 **Sec. 3.** RCW 41.35.070 and 1998 c 341 s 8 are each amended to read
16 as follows:

17 Those members subject to this chapter who became disabled in the
18 line of duty and who received or are receiving benefits under Title 51
19 RCW or a similar federal workers' compensation program shall receive or
20 continue to receive service credit subject to the following:

21 (1) No member may receive more than one month's service credit in
22 a calendar month.

23 (2) No service credit under this section may be allowed after a
24 member separates or is separated without leave of absence.

25 (3) Employer contributions shall be paid by the employer at the
26 rate in effect for the period of the service credited.

27 (4) Employee contributions shall be collected by the employer and
28 paid to the department at the rate in effect for the period of service
29 credited.

30 (5) Contributions shall be based on the regular compensation which
31 the member would have received had the disability not occurred. If
32 contribution payments are made retroactively, interest shall be charged
33 at the rate set by the director on both employee and employer
34 contributions. No service credit shall be granted until the employee
35 contribution has been paid.

36 (6) The service and compensation credit shall not be granted for a
37 period to exceed (~~twelve~~) twenty-four consecutive months.

1 (7) Should the legislature revoke the service credit authorized
2 under this section or repeal this section, no affected employee is
3 entitled to receive the credit as a matter of contractual right.

4 **Sec. 4.** RCW 41.37.060 and 2004 c 242 s 9 are each amended to read
5 as follows:

6 Those members subject to this chapter who became disabled in the
7 line of duty and who received or are receiving benefits under Title 51
8 RCW or a similar federal workers' compensation program shall receive or
9 continue to receive service credit subject to the following:

10 (1) No member may receive more than one month's service credit in
11 a calendar month.

12 (2) No service credit under this section may be allowed after a
13 member separates or is separated without leave of absence.

14 (3) Employer contributions shall be paid by the employer at the
15 rate in effect for the period of the service credited.

16 (4) Employee contributions shall be collected by the employer and
17 paid to the department at the rate in effect for the period of service
18 credited.

19 (5) Contributions shall be based on the regular compensation which
20 the member would have received had the disability not occurred. If
21 contribution payments are made retroactively, interest shall be charged
22 at the rate set by the director on both employee and employer
23 contributions. Service credit shall not be granted until the employee
24 contribution has been paid.

25 (6) The service and compensation credit shall not be granted for a
26 period to exceed (~~twelve~~) twenty-four consecutive months.

27 (7) Should the legislature revoke the service credit authorized
28 under this section or repeal this section, no affected employee is
29 entitled to receive the credit as a matter of contractual right.

30 NEW SECTION. **Sec. 5.** This act is necessary for the immediate
31 preservation of the public peace, health, or safety, or support of the
32 state government and its existing public institutions, and takes effect
33 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	11/6/06	Z-0244.4

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2), the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS), and the Public Safety Employees' Retirement System (PSERS) by allowing members who were injured in the course of employment to receive up to twenty-four consecutive months of service credit for each injury recovery period. These periods are also known as temporary duty disability (TDD) periods. To receive this service credit, a member must have received benefits for the injury period under Title 51 (Industrial Insurance). The member must pay the required employee contributions for the TDD period; if the payments are retroactive, interest will be charged at a rate set by the Director of the Department of Retirement Systems. After the member contributions are made, the employer will then be billed for the employer contributions for the TDD period; if the payments are retroactive, interest will also be charged; in LEOFF 2, the State is also billed for contributions.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, members of LEOFF 2 may receive up to six consecutive months of service credit for each TDD period. To be eligible, members must have received the employer-provided "leave supplement" amount. Members may purchase the service credit for each TDD period by paying the member contributions for the period. The employer and State are also required to pay the appropriate contributions. Neither the member, employer, nor State are charged recovery interest. Members who are injured longer than six consecutive months may purchase the service credit for the period beyond six months by paying the member and employer contributions plus interest under the "leave of absence" provisions. If the employer is a city or town with a population of less than twenty-five hundred, or a county with a population of less than ten thousand, they are not required to pay the "leave supplement" amount; a member of such an employer may purchase service credit for a TDD period by paying the member and employer contributions plus interest under the "leave of absence" provisions.

Currently, members of SERS and PSERS may receive up to twelve consecutive months of service credit for each TDD period. Members must have received time-loss benefits under Title 51, and they must pay the member contributions plus interest for the TDD period. After the member pays their contributions plus interest, the member's employer is billed for the employer contributions plus interest.

Currently, members of TRS have no statutory provision allowing for the purchase of service credit for on-the-job injury periods.

MEMBERS IMPACTED:

We estimate that each year two members out of the 67,270 active TRS membership would become disabled by duty-related injuries (2.97 per 100,000 members).

We estimate that for a typical TRS member impacted by this bill, the increase in benefits would be \$172 per month if an extra assumed two years of service is purchased (service above the 0 months available for purchase under current law).

We estimate that each year less than one member out of an estimated 2,000 active PSERS membership would become disabled by duty-related injuries (10.6 per 100,000 members).

We estimate that for a typical PSERS member impacted by this bill, the increase in benefits would be \$49 per month if an extra assumed one year of service is purchased (service above the 12 months available for purchase under current law).

We estimate that each year five members out of the 50,350 active SERS membership would become disabled by duty-related injuries (9.9 per 100,000 members).

We estimate that for a typical SERS member impacted by this bill, the increase in benefits would be \$18 per month if an extra assumed one year of service is purchased (service above the 12 months available for purchase under current law).

We estimate that each year two members out of the 15,168 active LEOFF 2 membership would become disabled by duty-related injuries (13.2 per 100,000 members).

We estimate that for a typical LEOFF 2 member impacted by this bill, the increase in benefits would be \$159 per month if an extra assumed 1.5 years of service is purchased (service above the six months available for purchase under current law). See next section for assumptions.

Of the members assumed to have duty disabilities, not all are expected to return to work. It is further assumed that of those who do return to work, not all will elect to purchase and restore service credit.

ASSUMPTIONS:

We assume that all affected members will purchase their first full year of service and 25% will purchase their full second year of service. This assumption is in conjunction with a staff presentation to the SCPP at their June 20, 2006 meeting that showed the percentages of members that bought the maximum service under current law. We used the highest number to show a worst case scenario. We further assume that each affected member will remain employed and retire at his or her plan's average projected retirement age.

To estimate the number of members impacted each year, we applied the disability rates (includes duty and non-duty) in the 2005 Actuarial Valuation Report to our projections. We further assume that 10% of all disabilities are duty-related.

FISCAL IMPACT:

None.

While the bill would increase the liability in the affected systems, the cost of this bill is insufficient to increase the member or employer contribution rates in any of the affected systems.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
 4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2007 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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



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

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

March 9, 2006

RECEIVED

MAR 10 2006

Office of
The State Actuary

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

Dear Honorable Members of the Select Committee on Pension Policy:

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

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

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

Dual Membership

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

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

Service Credit Purchase for Duty-Related Injury

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

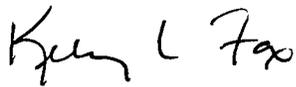
Inflationary Adjustment for \$150,000 Death Benefit

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

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

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

Sincerely,



Kelly Fox, Chair

cc: Matt Smith, State Actuary

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Service Credit Purchase for Injury Preliminary Report

November 16, 2005

1. Issue

During the June meeting of the Select Committee on Pension Policy there was discussion of extending to other plans, the policy from Senate Bill 5522 (2005), which increased the period of service credit that could be purchased by an employee who is on a leave of absence for an injury on the job.

2. Staff

Tim Valencia, Senior Research and Policy Manager
(360) 586-2326
tim.valencia@leoff.wa.gov

3. Members Impacted

Any active LEOFF Plan 2 member who is injured on the job may be affected. As of September 30, 2003 there were 14,560 active members as reported in *The Office of the State Actuary's 2003 LEOFF 2 Actuarial Valuation Report*.

4. Current Situation

The purchase of service credit for periods of temporary leave for a disability is accomplished through a two part process for LEOFF Plan 2 members. A member who is receiving a leave supplement or similar benefit can purchase service credit for a period up to 6 months through the provisions of temporary duty disability. A member may purchase service credit for periods of leave beyond the 6 months through the provisions of authorized leave of absence.

5. Background Information and Policy Issues

The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Washington State Patrol Retirement System (WSPRS) and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) provide retirement benefits to most Washington State and local government employees. Except for TRS, each of these systems include provisions for Plan 2 members to purchase service credit for periods of temporary leave related to a disability resulting from an injury on the job, commonly referred to as "Temporary Duty Disability" or "TDD". Each plan determines its requirements to complete such a purchase.

Under the current LEOFF Plan 2 provisions, some members may not be entitled to purchase service credit utilizing the temporary duty disability provisions because of the eligibility restrictions and service credit purchase limit. When compared to most other Plan 2 systems, LEOFF Plan 2 has stricter eligibility requirements and a lower service credit purchase limit. Members not qualified to purchase service credit under temporary duty disability provisions may purchase the service credit under authorized leave of absence provisions, which are more costly to the member.

The first section of this report provides a description of the temporary duty disability provisions in LEOFF Plan 2 and is followed by a comparison to other Washington Plan 2 systems in the second section. The third section provides a description of the authorized leave of absence service credit purchase provisions. Following the third section, Appendix A, provides a comparison table which summarizes the temporary duty disability and authorized leave of absence provisions in each of the Plan 2 systems.

Temporary Duty Disability – LEOFF Plan 2

If a member does not earn full service credit because of leave associated with a temporary duty disability, a member may have the option to purchase up to six months of service credit for each covered duty disability. To be eligible to purchase service credit for temporary duty disability, the member must be receiving a disability leave supplement or similar benefits provided by their employer and the disability must have occurred in the line of duty.

If a member's employer does not provide a disability leave supplement or similar benefits, the member is ineligible to purchase service credit under temporary duty disability provisions. A disability leave supplement must be provided by an employer if the employee is receiving temporary total disability benefits under Title 51 unless the employer is a city or town with a population of less than twenty-five hundred or a county with a population of less than ten thousand. If the member is not eligible under temporary duty disability, the member may be eligible to purchase the service credit under the authorized leave of absence provisions.

The member is responsible for payment of the employee contributions and the employer is responsible for payment of the employer contributions. Recovery interest is not charged on

LEOFF Plan 2 temporary duty disability billings. The purchase cost is based on the compensation the member would have earned had the member been working. While there is no statutory deadline for requests to purchase service credit for temporary duty disability, full payment for the purchase must be received prior to retirement.

The purchased service credit is includable in a member's service credit summary for retirement eligibility and pension computation purposes. The compensation information used to compute the cost of the purchase is includable within the Final Average Salary calculation.

Temporary Duty Disability in Other Washington Systems

Except for TRS Plan 2, all of the Plan 2 systems have a provision allowing for the purchase of temporary duty disability. While the basic provisions in each plan are similar, there are a couple of notable differences.

One difference is the amount of service credit that can be purchased for each incident of temporary duty disability. The table below shows the limits for each of the Plan 2 systems:

Plan	Purchase Limit
WSPRS Plan 2	No limit
PERS Plan 2	24 months per incident
SERS Plan 2	12 months per incident
TRS Plan 2	No TDD provision
LEOFF Plan 2	6 months per incident

Senate Bill 5522, passed by the 2005 Legislature, expanded the service credit purchase for temporary duty disability in PERS. Prior to Senate Bill 5522, members of PERS could only purchase up to 12 months of service credit for temporary duty disability. Senate Bill 5522, increased the period of unearned service credit that a member of PERS could purchase from 12 months to 24 months, doubling the per incident amount of service credit. During the June meeting of the Select Committee on Pension Policy, there was discussion of extending the policy from SB 5522 (2005) to other plans.

The second key difference between the LEOFF Plan 2 temporary duty disability and other Plan 2 temporary duty disability provisions is the eligibility criteria for a temporary duty disability purchase. In PERS and SERS, a person is eligible to purchase service credit for temporary duty disability if they are receiving benefits under Title 51 RCW or a similar federal workers' compensation program. In WSPRS, a member must be relieved from duty by the Chief of Washington State Patrol for an injury on the job. In LEOFF Plan 2, a person must be receiving a disability leave supplement or similar benefits provided by their

employer. As noted above, some cities and counties may not be required to provide a disability leave supplement, which means that a period of leave for an uncovered member could only be purchased through authorized leave of absence provisions.

Lastly, PERS and SERS charge both the member and employer recovery interest on temporary duty disability billings. The current recovery interest rate is 8%. LEOFF Plan 2 temporary duty disability billings do not currently charge interest.

Temporary Duty Disability in Comparison Systems

The comparison systems treat temporary duty disabilities in one of three ways. The comparison system either provides a process for keeping the member's account whole by allowing some form of service credit purchase, the comparison system pays out benefits during the period of disability and the member cannot recover the period of service, or there are no benefits extended for temporary leave of absence related to an on the job injury.

Out of the twelve comparison systems, seven systems provide for the recovery of lost service credit through some sort of purchase mechanism. Among these seven systems that allow for the recovery of service credit, two allow the recovery of five years, two allow the recovery of two years, one allows the recovery of one year, and two have no limit on the amount of service that can be recovered.

In the remaining comparison systems, three provide disability benefits payments and two systems do not provide any benefits. See Appendix C.

Authorized Leave of Absence

If a member is not eligible to purchase a period of service credit under temporary duty disability provisions, the member may purchase the service under authorized leave of absence provisions. This could occur for a LEOFF Plan 2 member if they were not receiving a disability leave supplement or if the temporary duty disability period exceeded the 6-month temporary duty disability purchase limit. The following key provisions apply to all of the Plan 2 systems, except WSPRS Plan 2 which does not have an authorized leave of absence provision.

A member may request to purchase service after returning to work from an authorized leave of absence. Requests for recovery of service credit and payment must be received within five years from the initial date of return to work, or prior to retirement, whichever occurs first.

A member is only allowed to purchase a maximum of twenty-four months of service credit for an authorized leave of absence during his or her entire working career.

The member is responsible for payment of both the employee and employer contributions, plus applicable interest. This makes an authorized leave of absence service credit purchase more expensive than a temporary duty disability service credit purchase. The purchase cost

is based on the average of the member's compensation earnable at the time the authorized leave was granted, and the time the member resumed employment.

The purchased service credit is includable in a member's service credit summary for retirement eligibility and pension computation purposes. The compensation information used to compute the cost of the purchase is not includable within the Final Average Salary calculation.

6. Policy Options

Option 1: Adopt policy from Senate Bill 5522 (2005)

Adopting the policy from Senate Bill 5522, passed in 2005 for the Public Employees' Retirement System (PERS) would make two changes to the current LEOFF Plan 2 policy. First, the new policy would increase the per incident amount of service credit a member could purchase, for absence from an injury incurred in the line of duty, from 6 months to 24 months. Second, the new policy would change the eligibility requirement from receiving a leave supplement from an employer to receiving benefits under state workers' compensation (Title 51 RCW) or a similar federal workers' compensation program.

These changes would create consistency with the PERS policy established in 2005, allows the purchase of a longer period of service for LEOFF Plan 2 members, and eliminates the possibility that a member will not qualify to purchase such service credit due to working for an employer that does not provide a leave supplement.

7. Supporting Information

- **Appendix A:** Temporary Duty Disability & Authorized Leave of Absence Comparison
- **Appendix B:** Leave Supplement Statutes
- **Appendix C:** Temporary Duty Disability Provisions in Comparison Systems

Appendix A: Temporary Duty Disability & Authorized Leave of Absence Comparisons

Temporary Duty Disability Comparison

Plan	Eligibility	Purchase Limits	Computation	Payment	Include In FAS
LEOFF Plan 2	Receiving a disability leave supplement or similar benefits provided by their employer	6 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions through employer Employer pays employer contributions. State pays state contributions	Yes
PERS Plan 2	Receiving benefits under Title 51 RCW or a similar federal workers' compensation program	24 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes
SERS Plan 2	Receiving benefits under Title 51 RCW or a similar federal workers' compensation program	12 months for each time-loss incident	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes
TRS Plan 2	No temporary duty disability provision	NA	NA	NA	NA
WSPRS Plan 2	Relieved from duty by the Chief of Washington State Patrol for an injury on the job	No statutory limit	Based on regular compensation member would have earned	Member pays member contributions plus interest Employer pays employer contributions plus interest	Yes

Authorized Leave of Absence Comparison

System	Eligibility	Purchase Limits	Cost Computation	Payment	Include In FAS
LEOFF Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays member, employer, and state contributions, plus interest	No
PERS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
SERS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
TRS Plan 2	Return to work in an eligible position following unpaid authorized leave of absence Deadline: 5 years from return to employment	24 months in a working career	Based on average of compensation earnable at the time leave granted and the time employment resumed	Member pays both member and employer contributions, plus interest	No
WSPRS Plan 2	No authorized leave of absence provision	NA	NA	NA	NA

Appendix B: Leave Supplement Statutes

<p>RCW 41.04.500 Disability leave supplement for law enforcement officers and fire fighters.</p>	<p>County, municipal, and political subdivision employers of full-time, commissioned law enforcement officers and full-time, paid fire fighters shall provide a disability leave supplement to such employees who qualify for payments under RCW 51.32.090 due to a temporary total disability.</p>
<p>RCW 41.04.505 Disability leave supplement for law enforcement officers and fire fighters -- Amount.</p>	<p>The disability leave supplement shall be an amount which, when added to the amount payable under RCW 51.32.090 will result in the employee receiving the same pay he or she would have received for full time active service, taking into account that industrial insurance payments are not subject to federal income or social security taxes.</p>
<p>RCW 41.04.510 Disability leave supplement for law enforcement officers and fire fighters -- Payment.</p>	<p>The disability leave supplement shall be paid as follows:</p> <p>(1) The disability leave supplement shall begin on the sixth calendar day from the date of the injury or illness which entitles the employee to benefits under RCW 51.32.090. For the purposes of this section, the day of injury shall constitute the first calendar day.</p> <p>(2) One-half of the amount of the supplement as defined in RCW 41.04.505 shall be charged against the accrued paid leave of the employee. In computing such charge, the employer shall convert accumulated days, or other time units as the case may be, to a money equivalent based on the base monthly salary of the employee at the time of the injury or illness. "Base monthly salary" for the purposes of this section means the amount earned by the employee before any voluntary or involuntary payroll deductions, and not including overtime pay.</p> <p>(3) One-half of the amount of the supplement as defined in RCW 41.04.505 shall be paid by the employer.</p> <p>If an employee has no accrued paid leave at the time of an injury or illness which entitles him to benefits under RCW 51.32.090, or if accrued paid leave is exhausted during the period of disability, the employee shall receive only that portion of the disability leave supplement prescribed by subsection (3) of this section.</p>
<p>RCW 41.04.515 Disability leave supplement for law enforcement officers and fire fighters -- Time limitation.</p>	<p>The disability leave supplement provided by RCW 41.04.500 through 41.04.530 shall continue as long as the employee is receiving benefits under RCW 51.32.090, up to a maximum of six months from the date of the injury or illness.</p>

<p>RCW 41.04.520 Disability leave supplement for law enforcement officers and fire fighters -- Employee to perform light duty tasks.</p>	<p>While an employee is receiving disability leave supplement, the employee, subject to the approval of his or her treating physician, shall perform light duty tasks in the employee's previous department as the employer may require, with no reduction in the disability leave supplement.</p>
<p>RCW 41.04.525 Disability leave supplement for law enforcement officers and fire fighters -- Continuation of employee insurance benefits.</p>	<p>The disability leave supplement provided in RCW 41.04.510(3) shall not be considered salary or wages for personal services: PROVIDED, That the employee shall also continue to receive all insurance benefits provided in whole or in part by the employer, notwithstanding the fact that some portion of the cost of those benefits is paid by the employee: PROVIDED FURTHER, That the portion of the cost not paid by the employer continues to be paid by the employee.</p>
<p>RCW 41.04.530 Disability leave supplement for law enforcement officers and fire fighters -- Exhaustion of accrued sick leave.</p>	<p>If an employee's accrued sick leave is exhausted during the period of disability, the employee may, for a period of two months following return to active service, draw prospectively upon sick leave the employee is expected to accumulate up to a maximum of three days or three work shifts, whichever is greater. Any sick leave drawn prospectively as provided in this section shall be charged against earned sick leave until such time as the employee has accrued the amount needed to restore the amount used. In the event an employee terminates active service without having restored the sick leave drawn prospectively, the employer shall deduct the actual cost of any payments made under this section from compensation or other money payable to the employee, or otherwise recover such payments.</p>
<p>RCW 41.04.535 Disability leave supplement for law enforcement officers and fire fighters -- Greater benefits not precluded.</p>	<p>Nothing in RCW 41.04.500 through 41.04.530 shall preclude employers of law enforcement officers and fire fighters and such employees from entering into agreements which provide benefits to employees which are greater than those prescribed by RCW 41.04.500 through 41.04.530, nor is there any intent by the legislature to alter or in any way affect any such agreements which may now exist.</p>
<p>RCW 41.04.540 Disability leave supplement for law enforcement officers and fire fighters -- Supplement not required in smaller cities, towns, and counties.</p>	<p>Cities and towns with a population of less than twenty-five hundred and counties with a population of less than ten thousand shall not be required to provide a disability leave supplement to their commissioned law enforcement officers and full-time paid fire fighters who qualify for payments pursuant to RCW 51.32.090, due to temporary total disability.</p>

<p>RCW 41.04.545 Disability leave supplement for law enforcement officers and fire fighters -- Vested right not created.</p>	<p>Chapter 462, Laws of 1985 neither grants employees a vested right to receive a disability leave supplement nor creates a contractual obligation on behalf of the state or its political subdivisions to provide a disability leave supplement.</p>
<p>RCW 41.04.550 Disability leave supplement for law enforcement officers and fire fighters -- Not subject to interest arbitration.</p>	<p>Disability leave supplement payments for employees covered by chapter 462, Laws of 1985 shall not be subject to interest arbitration as defined in RCW 41.56.430 through 41.56.905.</p>

Appendix C: Temporary Duty Disability provisions in comparison systems

Alaska	<p>Service Credit Recovery: An employee who takes more than 10 days leave of absence without pay in a calendar year because the employee is unable to work due to an on-the-job injury or occupational illness for which the employee is receiving benefits under Alaska Statute 23.30 (Workers' Compensation) may elect to receive credited service for the time on leave of absence without pay status. There is <u>no limit</u> on the amount of time that may be purchased.</p>
Arizona	<p>Disability Benefit: A member may receive benefits for Total and presumably temporary disability, incurred in performance of duty, prior to normal retirement, preventing performance of a reasonable range of duties within the employee's department. The monthly pension is one-twelfth of 50% of annual compensation at time of disability. Payments terminate after <u>twelve months</u> or return to work. The member must terminate employment to receive this benefit.</p>
Arkansas	<p>No Benefit: LOPFI does not offer or extend benefits for temporary disabilities and does not have any service credit purchase provisions that this type of service can be purchased under.</p>
Colorado	<p>Disability Benefit: A member injured on the job may be entitled to a Temporary Occupational Disability that is 40% of base salary. Once granted, benefits are payable from the day following the member's last day on the employer's payroll. Minimum of 1 year. Maximum of <u>five years</u>. At the end of five years the member either returns to employment, upgrades to Permanent Occupational or Total Disability status, or benefits are discontinued.</p> <p>If the member is restored to active service with his/her former employer, FPPA will transfer from the D&D fund the contributions required to fund the money purchase plan (or component) or fund service credit under the defined benefit plan (or component) while the member was on Temporary Disability (up to 16%). If the mandatory contribution amount is above 16%, the employer will make the additional contributions.</p> <p>If the disability is expect to be less than 12 months, short term disability benefits may be provided by the employer. No benefits will be provided by the Statewide defined benefit plan.</p>
Delaware	<p>Service Credit Recovery: A member may purchase service credit for a medical leave if the member subsequently accrues at least 1 year of credited service and pays into the Fund prior to the issuance of his or her 1st pension check, contributions determined by multiplying the rates in effect at the time of payment for member contributions and employer contributions times the average of the 60 months of creditable compensation used to calculate the member's pension benefit times the months or fractions thereof so credited. Any credited service purchased for medical leave shall not be used to determine eligibility for benefits.</p>

Kansas	<p>Disability Benefit: If you cannot perform duties related to your job due to an injury or illness, you can apply for disability benefits. You receive an annual benefit of 50 percent of your final average salary in on-going monthly payments. There is no child's benefit. If you return to work with any KP&F participating employer, your disability benefits will automatically stop.</p> <p>Participating Service is any service after your membership date. You will automatically receive this type of service credit while you work in a covered position and make contributions to the Retirement System. For Tier II members, this type of service will be credited during any period of approved disability if you qualify for disability benefits.</p>
Maryland	<p>Authorized leave of absence purchase: A member who goes on an approved leave of absence due to an injury or illness may purchase up to two years of service credit for the period of leave. The member pays the member contributions that would have been paid if not on leave, plus interest.</p>
Nevada	<p>Service Credit Purchase: If a member has five years of creditable service they may purchase up to a maximum of five years of service credit. The cost to purchase service is based on the average compensation times the number of months purchased times the actuarial percentage based on the member's age.</p>
New Jersey	<p>Service Credit Recovery: Members are eligible to purchase credit for time spent on official, authorized leaves of absence without pay. Members may purchase up to two years of service credit for leave for personal illness, and up to 3 months for leave for personal reasons. The cost of the purchase is shared equally between the member and the employer.</p>
New York	<p>No Benefit: New York does not provide any temporary disability leave purchase, authorized leave of absence purchase, or service credit purchase provisions.</p>
Ohio	<p>Service Credit Recovery: If a member is placed on a medical leave of absence due to a medical disability, the member may purchase credit for such a break in service, up to one year per event.</p>
South Carolina	<p>Service Credit Recovery: Members may establish service credit for various types of previous employment and leaves of absence, and up to five years of non-qualified service. A member may establish service credit for a period while on leave of absence and receiving Workers' Compensation benefits. The cost is based on contributions plus interest using your earnable compensation at the time of injury.</p>

The Select Committee on Pension Policy



Service Credit Purchase Due to Injury

Robert Wm. Baker, Senior Research Analyst

November 21, 2006



Issue Review

- Members must purchase service credit for on-the-job injury periods
 - Also known as temporary duty disability (TDD)
- PERS TDD provisions were improved in 2005
- LEOFF 2 Board requested coordination



Current Provisions

- Member received Workers' Compensation
- May purchase service credit for injury period
 - 12 months per incident in SERS and PSERS
 - 24 months per incident in PERS
 - 6 months per incident in LEOFF 2
- Members pay employee contributions plus interest
- Employers pay employer contributions plus interest



O:/SCPP/2006/11-21-06 Full/3.service_credit_purchase.ppt

2

Executive Committee Recommendation

- Allow PSERS, SERS, TRS, and LEOFF 2 members to purchase up to 24 months of service credit per TDD incident
 - Receipt of L&I time-loss benefits required
- Maintains system and plan consistency
- Impact insufficient to increase contribution rates



O:/SCPP/2006/11-21-06 Full/3.service_credit_purchase.ppt

3

Next Steps

- Possible executive action by the full committee



In Brief

ISSUE

The proposed bill does the following:

- *Creates an exception to the PERS 1 hour limits for retirees who return to a different employer.*
- *Creates PERS-TRS parity with respect to procedural safeguards and penalties.*
- *Does not alter current waiting periods.*

Post-Retirement Employment

Background

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

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 SCPP Member Bob Keller.

On October 17, 2007, the SCPP voted to recommend legislation as proposed by Member Keller by adopting the so-called Keller Amendment. Staff was instructed to bring the bill and draft fiscal note to the November SCPP meeting. These documents are attached.

Current Proposal

The elements of Member Keller’s proposal would ease restrictions for PERS 1 retirees who return to work with a different employer. This would be accomplished by lifting

Laura Harper
Senior Research Analyst,
Legal
360.786.6145
harper.laura@leg.wa.gov

the PERS 1 cumulative lifetime limit (1900 hours) on hours worked past 867 for these individuals. The Keller proposal 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 Keller proposal also applies procedural safeguards to the program that are identical to those set forth in SHB 2689 (2006), and adds the misdemeanor penalty from PERS 1 to TRS 1.

Last Year's Proposal, SHB 2689 (2006)

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

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

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

The following table summarizes the basic differences between current law, last year's 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

Next Steps

This is the last hearing scheduled for this issue during the 2006 interim. The issue before the SCPP is whether to forward the attached bill draft to the legislature for consideration in the 2007 legislative session.

O:\SCPP\2006\11-21-06 Full\4.Post-Retirement_employment 11-21-06.doc

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0059.2/07 2nd draft

ATTY/TYPIST: LL:bat

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32 (36) "Substitute teacher" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26 (c) Whose employer retains records of the procedures followed and
27 the decisions made in hiring the retired teacher or retired
28 administrator and provides those records in the event of an audit;
29 shall cease to receive pension payments while engaged in that service
30 after the retiree has rendered service for more than one thousand five
31 hundred hours in a school year.

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

36 ((+3)) (5) The department shall collect and provide the state
37 actuary with information relevant to the use of this section for the
38 select committee on pension policy.

1 (~~(4)~~) (6) The legislature reserves the right to amend or repeal
2 this section in the future and no member or beneficiary has a
3 contractual right to be employed for more than five hundred twenty-five
4 hours per year without a reduction of his or her pension.

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

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

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

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

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

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

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

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

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

2 (a) Any person who became a member of the system prior to April 1,
3 1949;

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

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

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

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

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

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

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

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

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

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

17 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
18 72.09.240;

19 (D) Compensation that a member would have received but for a
20 disability occurring in the line of duty only as authorized by RCW
21 41.40.038;

22 (E) Compensation that a member receives due to participation in the
23 leave sharing program only as authorized by RCW 41.04.650 through
24 41.04.670; and

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

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

31 (A) Remuneration for unused sick leave authorized under RCW
32 41.04.340, 28A.400.210, or 28A.310.490;

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

35 (b) "Compensation earnable" for plan 2 and plan 3 members, means
36 salaries or wages earned by a member during a payroll period for
37 personal services, including overtime payments, and shall include wages
38 and salaries deferred under provisions established pursuant to sections

1 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
2 shall exclude nonmoney maintenance compensation and lump sum or other
3 payments for deferred annual sick leave, unused accumulated vacation,
4 unused accumulated annual leave, or any form of severance pay.

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

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

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

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

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

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

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

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

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

1 (9)(a) "Service" for plan 1 members, except as provided in RCW
2 41.40.088, means periods of employment in an eligible position or
3 positions for one or more employers rendered to any employer for which
4 compensation is paid, and includes time spent in office as an elected
5 or appointed official of an employer. Compensation earnable earned in
6 full time work for seventy hours or more in any given calendar month
7 shall constitute one service credit month except as provided in RCW
8 41.40.088. Compensation earnable earned for less than seventy hours in
9 any calendar month shall constitute one-quarter service credit month of
10 service except as provided in RCW 41.40.088. Only service credit
11 months and one-quarter service credit months shall be counted in the
12 computation of any retirement allowance or other benefit provided for
13 in this chapter. Any fraction of a year of service shall be taken into
14 account in the computation of such retirement allowance or benefits.
15 Time spent in standby status, whether compensated or not, is not
16 service.

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

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

29 (iii) A school district employee may count up to forty-five days of
30 sick leave as creditable service solely for the purpose of determining
31 eligibility to retire under RCW 41.40.180 as authorized by RCW
32 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW
33 28A.400.300 is equal to two service credit months. Use of less than
34 forty-five days of sick leave is creditable as allowed under this
35 subsection as follows:

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

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

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

3 (b) "Service" for plan 2 and plan 3 members, means periods of
4 employment by a member in an eligible position or positions for one or
5 more employers for which compensation earnable is paid. Compensation
6 earnable earned for ninety or more hours in any calendar month shall
7 constitute one service credit month except as provided in RCW
8 41.40.088. Compensation earnable earned for at least seventy hours but
9 less than ninety hours in any calendar month shall constitute one-half
10 service credit month of service. Compensation earnable earned for less
11 than seventy hours in any calendar month shall constitute one-quarter
12 service credit month of service. Time spent in standby status, whether
13 compensated or not, is not service.

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

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

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

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

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

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

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

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

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

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

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

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

14 (13) "Membership service" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 (25) "Eligible position" means:

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

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

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

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

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

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

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

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

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

35 (33) "Plan 1" means the public employees' retirement system, plan
36 1 providing the benefits and funding provisions covering persons who
37 first became members of the system prior to October 1, 1977.

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

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

7 (a) First become a member on or after:

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

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

13 (b) Transferred to plan 3 under RCW 41.40.795.

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

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

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

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

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

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

28 (42) "Separation from service" occurs when a person has terminated
29 all employment with an employer. Separation from service or employment
30 does not occur, and if claimed by an employer or employee may be a
31 violation of RCW 41.40.055, when an employee and employer have a
32 written or oral agreement to resume employment with the same employer
33 following termination. Mere expressions or inquiries about
34 postretirement employment by an employer or employee that do not
35 constitute a commitment to reemploy the employee after retirement are
36 not an agreement under this subsection.

37 (43) "Member account" or "member's account" for purposes of plan 3

1 means the sum of the contributions and earnings on behalf of the member
2 in the defined contribution portion of plan 3.

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

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

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

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

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

24 (i) Is hired pursuant to a written policy into a position for which
25 the employer has documented a justifiable need to hire a retiree into
26 the position;

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

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

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

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

15 (c) A retiree from plan 1 who enters employment with a different
16 employer as determined by the department, at least three calendar
17 months after his or her accrual date, and:

18 (i) Is hired pursuant to a written policy into a position for which
19 the employer has documented a justifiable need to hire a retiree into
20 the position;

21 (ii) Is hired through the established process for the position with
22 the approval of: A school board for a school district; the chief
23 executive officer of a state agency employer; the secretary of the
24 senate for the senate; the chief clerk of the house of representatives
25 for the house of representatives; the secretary of the senate and the
26 chief clerk of the house of representatives jointly for the joint
27 legislative audit and review committee, the select committee on pension
28 policy, the legislative evaluation and accountability program, the
29 legislative systems committee, and the statute law committee; or
30 according to rules adopted for the rehiring of retired plan 1 members
31 for a local government employer; and

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

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

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

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

11 (3) If the retiree opts to reestablish membership under RCW
12 41.40.023(12), he or she terminates his or her retirement status and
13 becomes a member. Retirement benefits shall not accrue during the
14 period of membership and the individual shall make contributions and
15 receive membership credit. Such a member shall have the right to again
16 retire if eligible in accordance with RCW 41.40.180. However, if the
17 right to retire is exercised to become effective before the member has
18 rendered two uninterrupted years of service, the retirement formula and
19 survivor options the member had at the time of the member's previous
20 retirement shall be reinstated.

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

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

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

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	11/13/06	Z-0059.2

SUMMARY OF BILL:

This bill impacts Plan 1 of the Public Employees' Retirement System (PERS 1) and Plan 1 of the Teachers' Retirement System (TRS 1). This bill creates an exception to the PERS 1 cumulative lifetime limit of 1,900 hours applicable to members who seek to return to work for more than 867 hours and up to 1,500 hours annually. The exception would apply to such members when they return to work with a different employer (as determined by the Department of Retirement Systems) than the employer they worked for when they retired.

The bill also adds some of the same general hiring qualifications and procedural safeguards 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.

Effective Date: July 1, 2007

CURRENT SITUATION:

A cumulative lifetime limit of 1,900 hours is currently applicable to PERS 1 members who seek to return to work for more than 867 hours and up to 1,500 hours annually. Once the 1,900 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 not currently subject to a cumulative lifetime limit on the number of hours worked.)

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 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 67,293 PERS 1 and 42,689 TRS 1, active, terminated vested, and retired members.

ASSUMPTIONS:

1. We assumed the changes made to the PERS 1 post-retirement provisions under this bill would potentially double the utilization of the program in PERS 1.
2. We assumed the changes made to the TRS 1 post-retirement provisions under this bill would not affect future retirement behavior in TRS 1.
3. We assumed different retirement rates to determine the fiscal impact of this bill. We developed one set of retirement rates for PERS 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 PERS 1 retirement rates for the program as modified by this bill. These rates were developed using double 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. When a member retires earlier than expected, there is a loss of expected member contributions to the system.

This bill would change the retirement experience in PERS 1 by making it more likely that members would retire earlier to participate in the Post-Retirement Employment Program. The effect of this change would be to increase the liabilities of the plan. However, the expected liability increase is insufficient to increase contribution rates.

The cost of this bill is sensitive to the assumed increase in PERS program utilization. The best-estimate assumption of a doubling of the existing utilization rate produces a cost that is insufficient to increase contribution rates. A 67% increase in the utilization rate would produce a 0.01% increase in the PERS employer contribution rate.

Actuarial Determinations:

The costs of the Post-Retirement Employment Program are currently recognized in the liabilities and contribution rates of PERS 1 and TRS 1 for the 2007-09 biennium. The change in liabilities, contribution rates, and fiscal budget determinations presented in this fiscal note have been calculated assuming the costs of the current program are reflected in both the base liabilities and contribution rates before considering the effects of this bill.

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

System: Public Employees' Retirement System Plan 1			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	\$13,605	\$5	\$13,610
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	\$3,567	\$5	\$3,572
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	\$3,439	\$5	\$3,444

Increase in Contribution Rates:

PERS 1

Current Members

Employee	0.00%
Employer State	0.00%

New Entrants

Employee	0.00%
Employer State	0.00%

Fiscal Budget Determinations:

The cost of this bill is insufficient to increase contribution rates.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Public Employees' Retirement System.
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:

PERS Plan 1 Retirement Rates For Post-Retirement Employment Program

Age	Current Provisions		Proposed Changes	
	Male	Female	Male	Female
50*	0.66	0.41	0.68	0.43
51	0.59	0.44	0.61	0.46
52	0.54	0.38	0.55	0.39
53	0.54	0.34	0.55	0.35
54	0.54	0.54	0.55	0.55
55	0.23	0.27	0.23	0.28
56	0.23	0.19	0.23	0.19
57	0.23	0.18	0.23	0.19
58	0.23	0.23	0.23	0.23
59	0.22	0.38	0.23	0.38
60	0.22	0.18	0.23	0.19
61	0.22	0.22	0.23	0.23
62*	0.41	0.38	0.41	0.38

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

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2007 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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

The Select Committee on Pension Policy



Post-Retirement Employment

Laura Harper, Senior Research Analyst

November 21, 2006



Status

- Full SCPP: July and October, 2006
- Executive committee: August and September, 2006
- Issue also studied in 2000, 2002, 2003, 2004, and 2005
- Today's materials based on last month's vote of the full committee:
 - Bill draft
 - Draft fiscal note



Bill Draft

- New exception in PERS 1: no cumulative lifetime limit when retiree returns to different employer
 - Cumulative lifetime limit applies to PERS 1
 - TRS 1 has no cumulative lifetime limit
- Procedural safeguards: like last year's bill
- Waiting periods: no change from current law



OSA

Draft Fiscal Note

- Cost increase due to liberalizing provisions in PERS 1
- Cost is insufficient to change employer contribution rates



OSA

Next Steps?

- SCPP decides whether to forward the bill to the legislature

OSA





WASHINGTON STATE LEGISLATURE
Office of the State Actuary

November 13, 2006

TO: Select Committee on Pension Policy (SCPP) Members
FROM: Matthew M. Smith, FCA, MAAA, EA, State Actuary
SUBJECT: 2007-09 OSA BUDGET REQUEST AMENDMENT

Enclosed please find a copy of the 2007-09 budget request for the Office of the State Actuary (OSA). This budget request includes a proposed amendment to the budget you approved at last month's full committee meeting.

The budget you approved last month represents an increase of \$315,000 above the current 2005-07 biennial budget (a 10.4% increase). This increase is comprised of a \$31,000 increase to the agency's maintenance level budget and \$284,000 to facilitate performance level changes.

The \$284,000 increase to facilitate performance level changes includes funding to perform a LEOFF 1 retiree medical study and the addition of a full-time Associate Pension Actuary to the OSA staff.

Proposed Amendment

An additional \$39,000 is requested to increase the salary range for the Senior Pension Actuary position within the OSA to the equivalent salary range for the comparable position within the Executive Branch (Actuary 3). Requested funding would offset the cost of salary, wages, and employee benefits to achieve parity with the comparable actuarial position in the Executive Branch.

A recent salary survey performed by the National Conference of State Legislatures (NCSL) identified the position of Actuary 3 as directly comparable to the Senior Pension Actuary position within the OSA (a Legislative Branch agency). A copy of the Actuary 3 job description is attached for your reference.

O:\OSA\BUDGET\07-09\07-09 Budget Memo Amendment.wpd

2100 Evergreen Park Drive S.W., Suite 150
P.O. Box 40914
Olympia, WA 98504-0914
(360) 786-6140

FAX: (360) 586-8135
TDD: 1-800-635-9993

E-MAIL: actuary.state@leg.wa.gov 125

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

035 - Office of State Actuary

A001 Actuarial Analysis for Pensions and Investments

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

	FY 2008	FY 2009	Biennial Total
FTE's	12.5	12.5	12.5
GFS	\$0	\$0	\$0
Other	\$1,733,562	\$1,643,215	\$3,376,777
Total	\$1,733,562	\$1,643,215	\$3,376,777

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

Expected Results

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

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

Grand Total

	FY 2008	FY 2009	Biennial Total
FTE's	12.5	12.5	12.5
GFS	\$0	\$0	\$0
Other	\$1,733,562	\$1,643,215	\$3,376,777
Total	\$1,733,562	\$1,643,215	\$3,376,777

**State of Washington
Recommendation Summary**

Agency: 035

7:49:09AM
11/8/2006

Dollars in Thousands	Annual Average FTEs	General		
		Fund State	Other Funds	Total Funds
2005-07 Current Biennium Total	11.5		3,022	3,022
CL 0I Merit Pay Increases			16	16
CL 2B Central Service Agency Charges			(2)	(2)
CL 2I Pension Rate Biennialization			32	32
CL 2L Non-represented Salary COLA			(8)	(8)
CL 2M Nonrepresented Health Benefits			13	13
CL BB Actuarial Valuation System			(120)	(120)
Total Carry Forward Level	11.5		2,953	2,953
Percent Change from Current Biennium			(2.3)%	(2.3)%
Carry Forward plus Workload Changes	11.5		2,953	2,953
Percent Change from Current Biennium			(2.3)%	(2.3)%
M2 8L Lease Rate Adjustments			10	10
M2 98 General Inflation (OFM only)			7	7
M2 AD Merit Pay Increases			57	57
M2 BC Actuarial Valuation System			26	26
Total Maintenance Level	11.5		3,053	3,053
Percent Change from Current Biennium			1.0%	1.0%
PL DD Associate Pension Actuary	1.0		259	259
PL EE LEOFF 1 Retiree Medical Study			25	25
PL FF Actuarial Salary Survey			39	39
Subtotal - Performance Level Changes	1.0		323	323
2007-09 Total Proposed Budget	12.5		3,376	3,376
Percent Change from Current Biennium	8.7%		11.7%	11.7%

M2 8L Lease Rate Adjustments

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

M2 98 General Inflation (OFM only)

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

M2 AD Merit Pay Increases

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

M2 BC Actuarial Valuation System

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

**State of Washington
Recommendation Summary**

Agency: 035

7:49:09AM
11/8/2006

Dollars in Thousands	Annual Average FTEs	General		
		Fund State	Other Funds	Total Funds

PL DD Associate Pension Actuary

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

PL EE LEOFF 1 Retiree Medical Study

Funding is requested to perform an actuarial study of local government liabilities for Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) post-retirement medical benefits.

PL FF Actuarial Salary Survey

Funding is requested to increase the salary range for the Senior Pension Actuary position within the Office of the State Actuary to the equivalent salary range for the comparable position within the Executive Branch.

State of Washington
Agency Budget Request Decision Package Summary

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

Agency: **035 Office of State Actuary**

11/8/2006
7:55:09AM

Budget Period: **2007-09**

Decision Package

<u>Code</u>	<u>Decision Package Title</u>
PL-DD	Associate Pension Actuary
PL-FF	Actuarial Salary Survey
PL-EE	LEOFF 1 Retiree Medical Study

State of Washington
Decision Package

FINAL

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

Recommendation Summary Text:

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

Fiscal Detail

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

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

Package Description:

Please see Recommendation Summary Text above.

Narrative Justification and Impact Statement

How contributes to strategic plan:

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Reason for change:

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

Legislative program changes

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

October 11, 2006

New services/responsibilities

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

Existing services

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

Impact on clients and services:

Improved client service and timeliness of deliverables.

Impact on other state programs:

None

Relationship to capital budget:

None

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

None

Alternatives explored by agency:

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

Budget impacts in future biennia:

On-going cost

Distinction between one-time and ongoing costs:

On-going

Effects of non-funding:

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

Expenditure Calculations and Assumptions:

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

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

State of Washington
Decision Package

DRAFT

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

Recommendation Summary Text:

Funding is requested to increase the salary range for the Senior Pension Actuary position within the Office of the State Actuary to the equivalent salary range for the comparable position within the Executive Branch.

Fiscal Detail

Operating Expenditures	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	19,394	19,394	38,788
Total Cost	19,394	19,394	38,788

Package Description:

Funding is requested to increase the current salary range for the position of Senior Pension Actuary, currently \$111,264 per year (range 27, step 22 on the Senate Salary Grid), to \$129,048 (range 30, step 22; comparable to range 88, step K on the Executive Branch Salary Schedule for the position of Actuary 3).

Narrative Justification and Impact Statement

How contributes to strategic plan:

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Reason for change:

Achieve salary parity with comparable position in the Executive Branch.

Impact on clients and services:

November 7, 2006

None

Impact on other state programs:

None

Relationship to capital budget:

None

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

None

Alternatives explored by agency:

None

Budget impacts in future biennia:

On-going cost

Distinction between one-time and ongoing costs:

On-going

Effects of non-funding:

Potential negative consequences on staff retention and future recruitment.

Expenditure Calculations and Assumptions:

<u>Object Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
A Salaries And Wages	17,784	17,784	35,568
B Employee Benefits	1,610	1,610	3,220
Total Objects	19,394	19,394	38,788

State of Washington
Decision Package

FINAL

Agency: 035 Office of State Actuary
Decision Package Code/Title: EE LEOFF 1 Retiree Medical Study
Budget Period: 2007-09
Budget Level: PL - Performance Level

Recommendation Summary Text:

Funding is requested to perform an actuarial study of local government liabilities for Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) post-retirement medical benefits.

Fiscal Detail

Operating Expenditures	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	25,000		25,000
Total Cost	25,000		25,000

Package Description:

Funding is requested to perform an actuarial study of LEOFF Plan 1 post-retirement medical benefits. The last study was performed in 2000. Under current law, employers are required to pay for the "necessary medical services" of their LEOFF 1 retirees - including the cost of long-term care. Recent accounting changes enacted by the Government Accounting Standards Board (GASB) now require local government employers that follow Generally Accepted Accounting Principles (GAAP) to disclose the cost of LEOFF 1 retiree medical benefits on their financial statements. A 2007/2008 study is proposed to identify this liability on a state-wide basis and to provide a tool for local government employers to estimate their individual GASB liability. A one-time \$25,000 appropriation is requested to offset the cost of performing the study including the cost to contract with an outside health care actuary for assumption-setting purposes.

Narrative Justification and Impact Statement

How contributes to strategic plan:

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

November 9, 2006

Reason for change:

This study was recommended by the Select Committee on Pension Policy in response to a request from the Association of Washington Cities and the Washington State Association of Counties.

Impact on clients and services:

This request will not impact existing clients and services if the request for an additional position (see other decision package) is also approved.

Impact on other state programs:

None

Relationship to capital budget:

None

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

None

Alternatives explored by agency:

None

Budget impacts in future biennia:

One time cost.

Distinction between one-time and ongoing costs:

One time cost.

Effects of non-funding:

Study will not be performed.

Expenditure Calculations and Assumptions:

One-time appropriation of \$25,000

<u>Object Detail</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Total</u>
C Personal Service Contracts	25,000		25,000

WASHINGTON STATE DEPARTMENT OF PERSONNEL

ACTUARY

OCCUPATIONAL CATEGORY

Category Concept

Positions in this occupational category resolve complex actuarial problems. Researches, develops and designs new and alternative actuarial methods for use by staff. Some positions manage the department's actuarial unit, supervising and directing actuarial staff. Provides training, support, and assistance to actuarial analysts. Reviews and analyzes benefits, reserves, rating plans, underwriting procedures and statistical plans. Performs analysis in rate-making for classification ratings, experience rating, retrospective rating and scheduled rating.

Note: The examples of work listed in the class specifications are not necessarily descriptive of any one position in the class. The omission of specific statements does not preclude management from assigning specific duties not listed. The intent of the listed examples is to give a general indication of the levels of difficulty and responsibility common to all positions in the class.

ACTUARY 2

(504B)

Distinguishing Characteristics

Performs full range of actuarial analyses and interprets calculations for rate-making, reserving, management reporting, and special studies. Full range of actuarial analyses includes reserving and accounting in estimating liabilities, rate-making, loss adjustment, underwriting expenses, performance analysis of groups of insured, rate level of funds, and financial analysis of insurance entities which involve forecasting, cash flow analysis, and asset liability matching.

Examples of Work

- ◆ Performs actuarial analysis in reserving and accounting for losses, loss adjustment expenses, retrospective rating return premiums and pensions;
- ◆ Performs actuarial analysis of overall rate level of funds;
- ◆ Develops and tests actuarial methodologies;
- ◆ Develops methods to test the quality of data;
- ◆ Evaluates actuarial impact of proposed legislation;
- ◆ Presents actuarial analysis to external customers;

- ◆ Consults and coordinates actuarial activities with units and staff;
- ◆ Testifies in court and commission hearings;
- ◆ May supervise lower level staff.

ACTUARY 3

(504C)

Distinguishing Characteristics

Positions in this level serve as the actuary for life, disability and/or health, or property and/or casualty insurance; review insurance policy provisions and rate filings. Positions provide training, support and assistance to actuarial analysts. Researches, develops and designs new and alternative actuarial methods for use by staff. Positions are also responsible for final completion and presentation of actuarial staff's analyses in rate-making, reserving, management reporting and special studies.

Examples of Work

- ◆ Reviews and analyzes benefits, reserves, rating plans, underwriting procedures, statistical plans, and other facets of insurance company operations;
- ◆ Participates in departmental hearings in connection with appeals of consumers;
- ◆ Assists in the drafting and review of legislation and departmental regulations, develop and implement regulations;
- ◆ Performs statistical analysis of rating plans and reports of insurance experience applicable to specific regulatory issues;
- ◆ Performs analysis in reserving and accounting for losses, loss adjustment expenses, retrospective rating return premiums, and pensions;
- ◆ Performs analysis in rate-making for classification ratings, experience rating, retrospective rating, scheduled rating, overall rate level of funds;
- ◆ Performs actuarial research; develops and tests actuarial methodologies; develops methods to test quality of data;
- ◆ Evaluates actuarial impact of proposed legislation;
- ◆ Provides input in creating department policy;
- ◆ May supervise lower level staff.

Distinguishing Characteristics

Positions in this level manage the department's actuarial unit, supervising and directing actuarial staff. Functions as the department Senior Level Actuary responsible for all of the department's actuarial insurance functions. Positions present analytical findings to the Governor, employers, legislators, labor organizations, and other stakeholder groups. Defends findings through Public Hearings process including Court Proceedings and Legislative Hearings.

Examples of Work

- ◆ Resolves complex actuarial problems;
- ◆ Testifies before legislative hearings, public rate hearings and other court proceedings;
- ◆ Manages the financial statements on projection of agency's assets which includes expenditure claims liabilities, industrial insurance premiums collectibles and uncollectibles, trust fund and reserve components comprised of medical aid, accident, pension and supplemental pensions;
- ◆ Develops data requirements for tracking agency's revenues and expenditures; develops methodologies to test quality of data;
- ◆ Evaluates actuarial impact of proposes legislation;
- ◆ Manages and directs the department's retrospective rating plans and other premium discount plans;
- ◆ Directs staff in calculation of dividends and reserves;
- ◆ Manages other actuarial studies as required;
- ◆ May supervise lower level staff.

Legal Requirement

There may be instances where individual positions must have additional licenses or certification. It is the employer's responsibility to ensure the appropriate licenses/certifications are obtained for each position.

Desirable Qualifications and Competencies

The desirable qualifications listed in this section are provided for use as a guide only. Specific position qualifications will vary on a position by position basis. For additional information regarding desired competencies, please reference the qualifications catalog.

There are no legal requirements for these classes. Individual positions may have specific skill and competency or minimum requirements.

ACTUARY 2:

Positions typically require a Bachelor's degree.

And, associate (ACAS) of the Casualty Actuarial Society (CAS) with successful completion of seven CAS exams and four years of property and/or casualty actuarial experience.

Or, for life and disability or health care positions, must be an associate (ASA) of the Society of Actuaries (SOA) with successful completion of six SOA courses and four years of actuarial experience in their appropriate specialties.

ACTUARY 3:

Positions typically require a Bachelor's degree involving major study in actuarial science, insurance, mathematics, accounting, or allied field and a member of the American Academy of Actuaries with specialization in the property/casualty, life, disability, and/or health field.

And, seven years of experience in one or more of the following categories: (a) As an actuarial officer whose duties included formulation of actuarial policies in an insurance company, health care service contractor, or health maintenance organization; or (b) As a consultant providing actuarial management services to insurance companies, health care service contractors, or health maintenance organizations, with duties equivalent to those indicated in (a) above; or (c) In an actuarial position not lower than the second-in-charge of actuarial practice of a government agency, including those regulating insurance company operations.

Or, fellow (FCAS) of the Casualty Actuarial Society (CAS) and six years of property and/or casualty actuarial experience.

ACTUARY 4:

Positions typically require a Bachelor's degree and membership in the American Academy of Actuaries.

And, fellow (FCAS) of the Casualty Actuarial Society (CAS) with ten years of property and/or casualty actuarial experience.

Or, fellow (FSA) of the Society of Actuaries with ten years of life, disability, and/or health actuarial experience.

New classes effective: January 1, 2006

This occupational group and series replaces the following classes and levels:

Actuary 2 (replaces 05070 Actuary Associate.)

Actuary 3 (replaces 04980 Actuary - Insurance Policy and Rate Regulation and 05071 Actuary.)

Actuary 4 (replaces 05050 Actuary Senior.)

Select Committee on Pension Policy

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.

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

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

Vacant
TRS and SERS Employers

Robert Keller
PERS Actives

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

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

***Glenn Olson**
PERS Employers

***Senator Craig Pridemore,**
Chair

Diane Rae
TRS Actives

***J. Pat Thompson**
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

*** Executive Committee**

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

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

The meeting adjourned at 3:48 p.m.

O:\SCPP\2006\Plan 1 Funding Method Subgroup\9-18-06\Draft Minutes 9-18-06 mtg.wpd



2005 Preliminary Valuation Report

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



State of Washington
Office of the State Actuary

November 21, 2006

Purpose of Valuation



- Determine contribution requirements for plans as of the valuation date September 30, 2005
 - Assumes completion of phase-in schedule
 - Includes cost of 2006 legislation
 - Assumes plans are on-going
- Results should not be used for other purposes
- Results are preliminary until the report is published in December



O:\SCPP\2006\11-21-06 Full\7. Preliminary val report.ppt

1

Employer Contribution Rates Before Completion of Phase-In*

System	9/30/2004	9/30/2005
PERS	5.65%	7.11%
TRS	5.96%	9.19%
SERS	5.64%	8.57%
LEOFF 1	0.00%	0.00%
WSP	5.22%	7.75%

* Excludes current administrative expense rate of 0.18%.



Plan 2 Member Contribution Rates Before Completion of Phase-In

System	9/30/2004	9/30/2005
PERS	3.42%	3.92%
TRS	2.65%	3.41%
SERS	3.41%	3.82%
LEOFF 1	N/A	N/A
WSP*	5.22%	6.70%

* Rate for all plan members.



Employer Contribution Rates to Complete Phase-In*

System	Current**	2007-08	2008-09
PERS	3.51%	6.46%	8.02%
TRS	4.56%	7.38%	9.15%
SERS	4.67%	7.76%	9.06%
LEOFF 1	0.00%	0.00%	0.00%
WSP	4.51%	7.75%	7.75%

*Excludes current administrative expense rate of 0.18%.

** PERS rate increases to 5.28% on 1/1/2007. Excludes administrative expense rate.



Plan 2 Member Contribution Rates to Complete Phase-In

System	Current	2007-08	2008-09
PERS	3.50%	4.15%	4.83%
TRS	3.01%	2.90%	3.39%
SERS	3.79%	3.89%	4.31%
LEOFF 1	N/A	N/A	N/A
WSP*	4.51%	6.70%	6.70%

* Rate for all plan members.



Comments on 2005 Results



- 17.23% ROR on market value of assets
- ROR on actuarial value of assets
 - Less than 8% for PERS, TRS, and SERS
 - Greater than 8% for LEOFF and WSP
- Inclusion of future gain-sharing liability
- Conversion to new valuation software
 - Associated assumption and method changes
- Combined funded status dropped from 105% to 99%



Comments on 2005 Results



- Plan 1 funding method may present an unreasonable payment schedule for employers under some economic scenarios in the future
- Future improvement in assumed mortality represents a material liability that has been excluded from this valuation
 - The Pension Funding Council (PFC) did not adopt contribution rates with the OSA recommended assumption change
 - PFC will review this assumption change during the next six-year experience study



Actuarial Liabilities

All Systems	9/30/2004 (\$ in millions)	9/30/2005 (\$ in millions)
PV of fully projected benefits	\$55,710	\$60,697
Unfunded actuarial accrued liability*	\$3,634	\$5,130**
PV of credited projected benefits	\$41,870	\$45,841
Valuation interest rate	8.00%	8.00%

* For PERS 1, TRS 1, and LEOFF 1.

** \$5.7 billion if you exclude LEOFF 1.



Assets

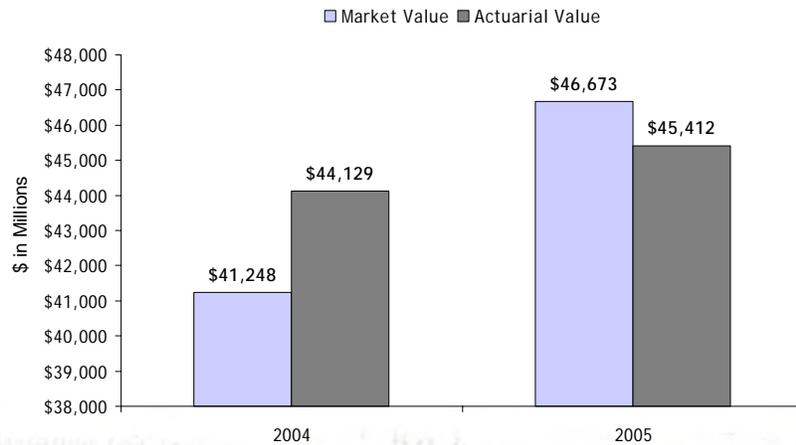
All Systems	9/30/2004 (\$ in millions)	9/30/2005 (\$ in millions)
Actuarial value (AV)	\$44,129	\$45,412
Market value (MV)	\$41,248	\$46,673
Ratio (AV ÷ MV)	107%	97%
Contributions less Disbursements*	-\$1,590	-\$1,648
Investment return	\$5,015	\$7,074
Return on assets**	13.73%	17.23%

* Includes transfers, restorations, payables

** Time-weighted return on market value of assets



Comparison of Asset Values



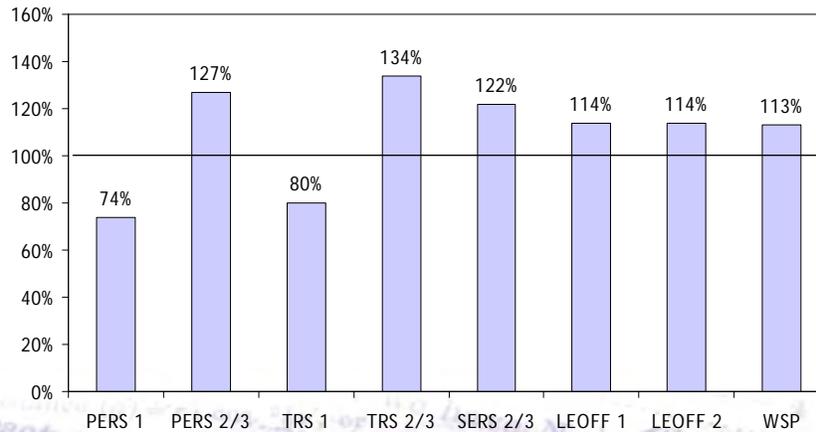
Combined Funded Status

All Systems	9/30/2004 (\$ in millions)	9/30/2005 (\$ in millions)
Actuarial value of assets	\$44,129	\$45,412
PV of credited projected benefits	\$41,870	\$45,841
Unfunded credited projected benefits	-\$2,258	\$429
Funded ratio*	105%	99%

* All plans combined.



Funded Status by Plan



O:/SCPP/2006/11-21-06 Full/7. Preliminary val report.ppt

12

Participant Data

All Systems	9/30/2004	9/30/2005
Number of actives	289,403	290,111
Average annual salary	\$44,551	\$45,671
Average attained age	45.6	45.9
Average service	10.5	10.7
Number of annuitants	114,070	117,576



O:/SCPP/2006/11-21-06 Full/7. Preliminary val report.ppt

13

Key Assumptions

Valuation interest rate	8.00%
Salary increase (general)	4.50%
Inflation	3.50%
Growth in membership*	1.25%

* 0.90% for TRS.



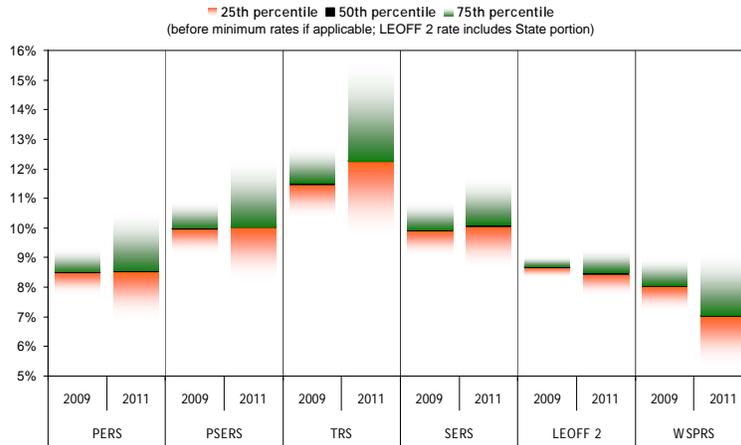
Next Steps



- Rates from this valuation match the rates recommended by the SCPP and adopted by the PFC
- Rates are subject to revision by the Legislature
- Rates will increase/decrease for the cost/savings of any 2007 legislation
- Rates are effective
 - July 1, 2007, for PERS, LEOFF, and WSP
 - September 1, 2007, for TRS and SERS
- Minimum contribution rates are effective in 2009

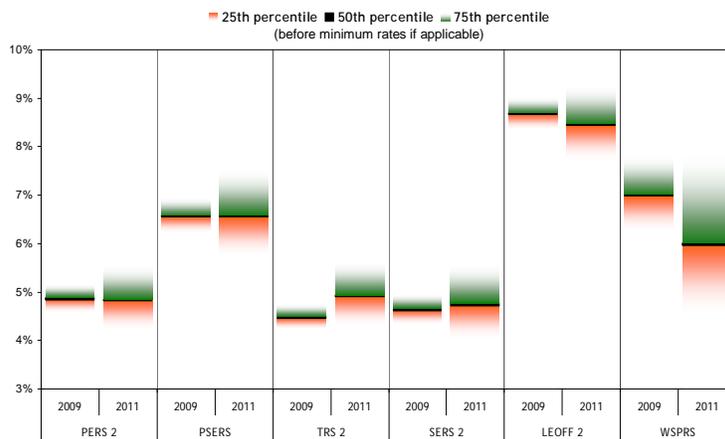


Projected Employer Contribution Rate Simulations



O:/SCPP/2006/11-21-06 Full/7. Preliminary val report.ppt 16

Projected Plan 2 Member Contribution Rate Simulations



O:/SCPP/2006/11-21-06 Full/7. Preliminary val report.ppt 17

The Select Committee on Pension Policy



PSERS Membership

Darren Painter, Research Analyst

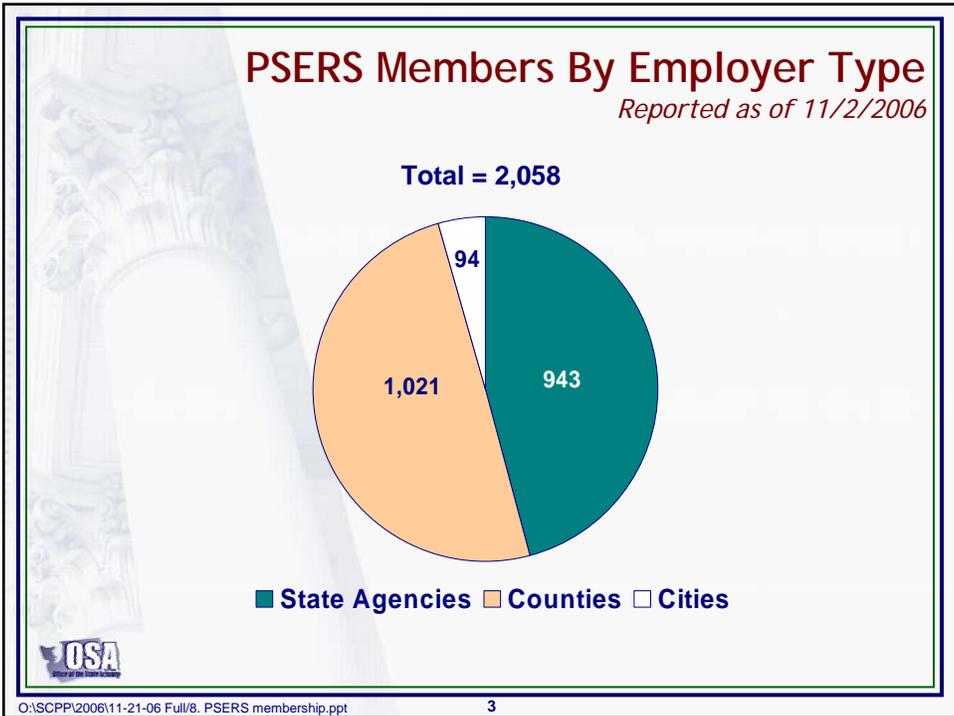
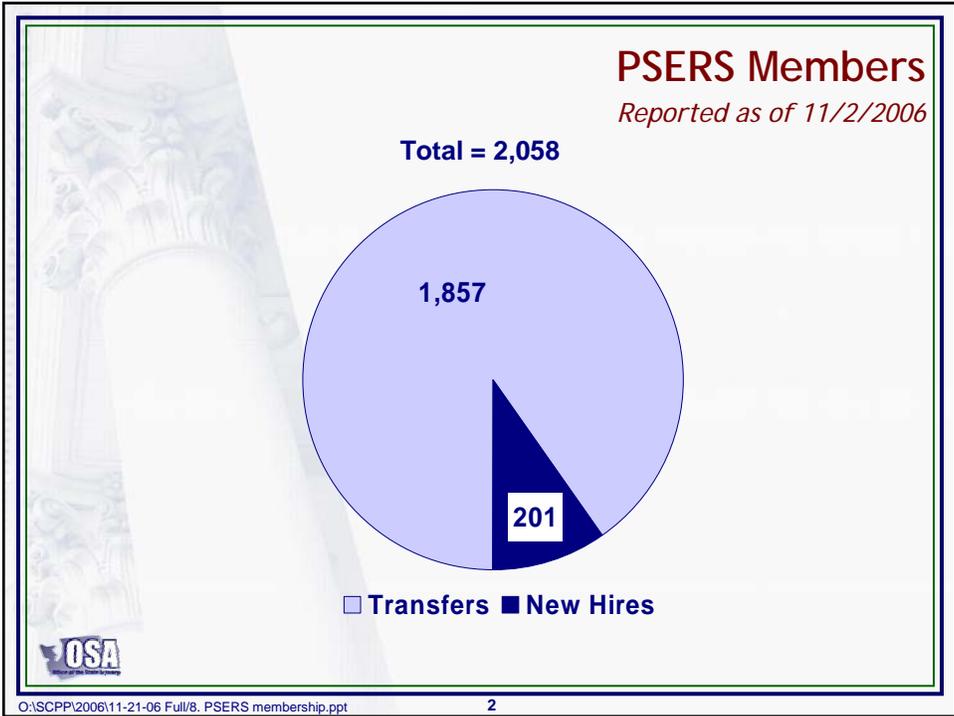
November 21, 2006

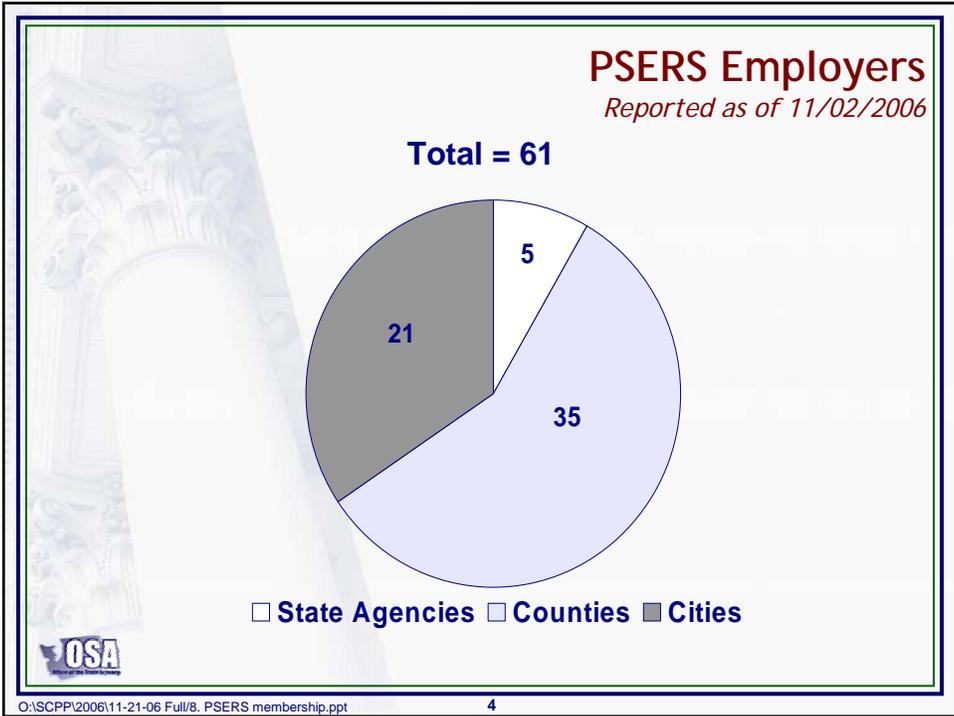


History Of PSERS

- Created in 2004 by SCPP
 - Corrections officers
 - Limited authority law enforcement officers
- Opened July 1, 2006
 - Mandatory for new hires
 - Optional for current employees
- Transfer window for current employees
 - Become dual PERS/PSERS members
 - Window closed September 30, 2006







PSERS Members By Employer

(Top Ten Employers as of 11/02/2006)

	Transfers	New Hires	Total
Dept of Corrections	679	70	749
King County	194	23	217
Parks and Recreation	130	1	131
Pierce County	123	7	130
Snohomish County	75	15	90
Spokane County	61	5	66
Benton County	45	6	51
Yakima County	40	10	50
Kitsap County	47	2	49
Cowlitz County	43	4	47

O:\SCPP\2006\11-21-06 Full\8. PSERS membership.ppt 5

PSERS Transfer Rates

Employer	Estimated Potential Transfers*	Actual Transfers	Transfer Rate
Corrections	3,385	679	20%
County	2,105	912	43%
Parks and Recreation	170	130	76%
City	130	79	61%
Gambling Commission	70	28	40%
Liquor Control Board	55	24	44%
State Patrol	50	5	10%
Total	5,965	1,857	31%

*Excludes members unable to earn 10 years of PSERS service before attaining age 65



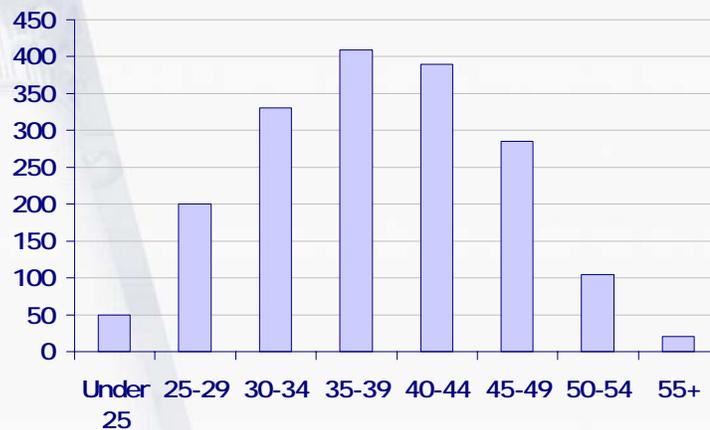
O:\SCPP\2006\11-21-06 Full\8. PSERS membership.ppt

6

PSERS Members* By Age

Age as of 9/30/2005

Median = 39

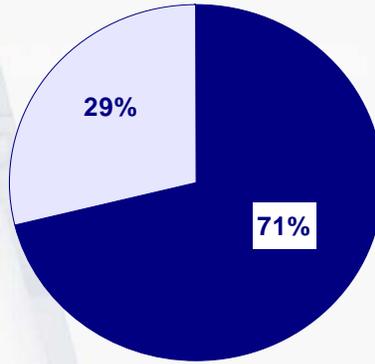


*Hired before 10/1/2005 and transferred by 11/02/2006

O:\SCPP\2006\11-21-06 Full\8. PSERS membership.ppt

7

PSERS Members* By Gender



■ Male □ Female

**Hired before 10/1/2005 and transferred by 11/02/2006*



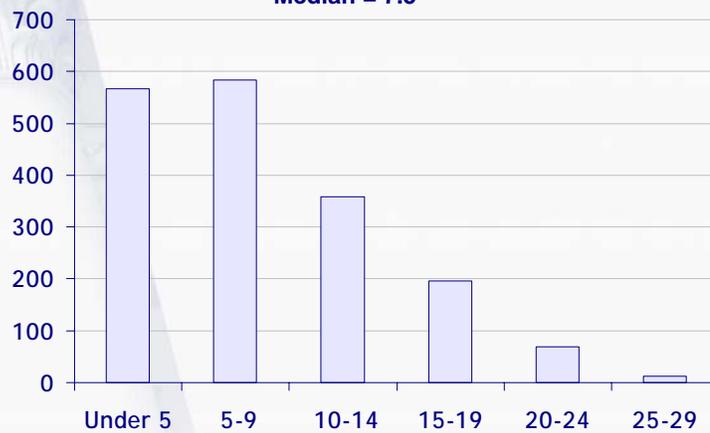
O:\SCPP\2006\11-21-06 Full\8. PSERS membership.ppt

8

PSERS Members* By PERS Service

Service as of 9/30/2005

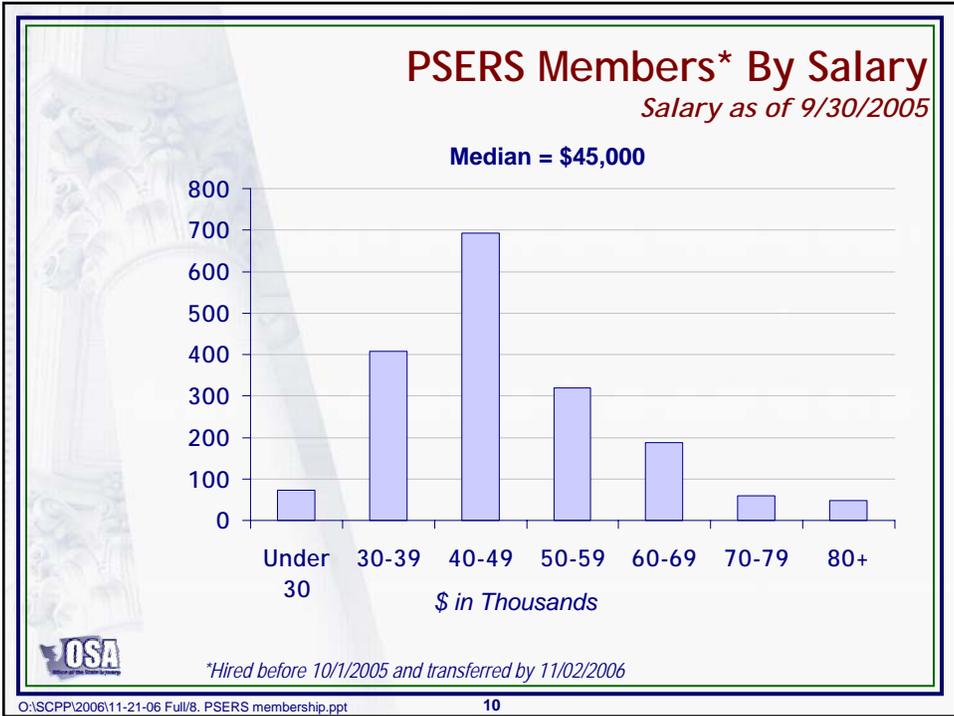
Median = 7.5



**Hired before 10/1/2005 and transferred by 11/02/2006*

O:\SCPP\2006\11-21-06 Full\8. PSERS membership.ppt

9



Comparisons

As of 9/30/05	LEOFF 2	PSERS*	PERS 2/3
Count	15,168	1,787	139,616
Percent Male	92%	71%	48%
Median			
Age	40.1	38.8	46.0
Service	10.7	7.5	7.8
Salary	\$ 71,187	\$ 45,351	\$ 42,789

*PSERS members hired before 10/1/2005 and transferred by 11/02/2006

O:\SCPP\2006\11-21-06 Full\8. PSERS membership.ppt 11

Conclusion

- OSA will monitor PSERS data
- First PSERS valuation in 2006 AVR



In Brief

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

SCPP efforts during the 2004 and 2005 interims resulted in trade-off bills for the 2005 and 2006 sessions; neither passed. The SCPP also produced a gain-sharing study and forwarded it to the fiscal committees in December of 2005.

At the October executive committee meeting of the SCPP, members agreed to forward a discussion proposal to the full committee that would eliminate gain-sharing for new hires, and provide Plan 2/3 choice for new hires in TRS and SERS.

Robert Wm. Baker
Senior Research Analyst
(360) 786-6144
Baker.robert@leg.wa.gov

Gain-sharing: SCPP 2006 Interim Background

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

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

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

July Hearing

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

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

August Hearing

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

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

calculate the standard gain-sharing trigger using various percentages of the cost of future gain-sharing.

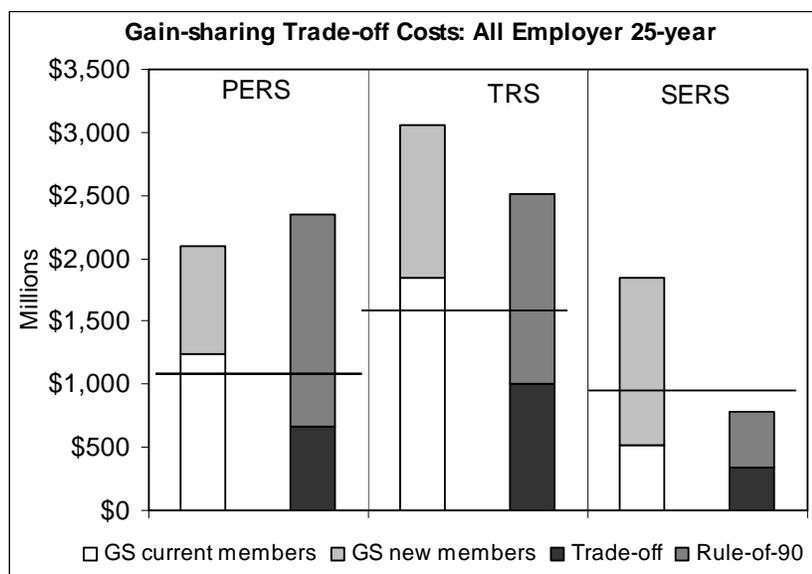
October Hearing

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

Interactive Spreadsheet and Graph

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

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



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

Proposal for Discussion

The executive committee of the SCPP proposed changing the gain-sharing provision to exclude new hires from eligibility. In addition, the executive committee proposed allowing new hires in TRS and SERS to choose membership in either Plan 2 or Plan 3 of their respective systems.

Bill Draft

Attached

Fiscal Note (Draft)

Attached

O:\SCPP\2006\11-21-06 Full\9. Gain-sharing 2006 SCPP background.doc

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0259.3/07 3rd draft

ATTY/TYPIST: LL:bat

BRIEF DESCRIPTION: Addressing retirement system gain-sharing and certain replacement benefits.

1 AN ACT Relating to retirement system gain-sharing and certain
2 replacement benefits; amending RCW 41.31A.020, 41.32.835, and
3 41.35.610; decodifying RCW 41.31A.030 and 41.31A.040; providing an
4 effective date; and declaring an emergency.

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

6 **Sec. 1.** RCW 41.31A.020 and 2003 c 294 s 4 are each amended to read
7 as follows:

8 (1) On January 1, 2004, and on January 1st of even-numbered years
9 thereafter, the member account of a person meeting the requirements of
10 this section shall be credited by the extraordinary investment gain
11 amount.

12 (2) The following persons, if hired prior to July 1, 2007, shall be
13 eligible for the benefit provided in subsection (1) of this section:

14 (a) Any member of the teachers' retirement system plan 3, the
15 Washington school employees' retirement system plan 3, or the public
16 employees' retirement system plan 3 who earned service credit during
17 the twelve-month period from September 1st to August 31st immediately
18 preceding the distribution and had a balance of at least one thousand

1 dollars in their member account on August 31st of the year immediately
2 preceding the distribution; or
3 (b) Any person in receipt of a benefit pursuant to RCW 41.32.875,
4 41.35.680, or 41.40.820; or
5 (c) Any person who is a retiree pursuant to RCW 41.34.020(8) and
6 who:
7 (i) Completed ten service credit years; or
8 (ii) Completed five service credit years, including twelve service
9 months after attaining age fifty-four; or
10 (d) Any teacher who is a retiree pursuant to RCW 41.34.020(8) and
11 who has completed five service credit years by July 1, 1996, under plan
12 2 and who transferred to plan 3 under RCW 41.32.817; or
13 (e) Any classified employee who is a retiree pursuant to RCW
14 41.34.020(8) and who has completed five service credit years by
15 September 1, 2000, and who transferred to plan 3 under RCW 41.35.510;
16 or
17 (f) Any public employee who is a retiree pursuant to RCW
18 41.34.020(8) and who has completed five service credit years by March
19 1, 2002, and who transferred to plan 3 under RCW 41.40.795; or
20 (g) Any person who had a balance of at least one thousand dollars
21 in their member account on August 31st of the year immediately
22 preceding the distribution and who:
23 (i) Completed ten service credit years; or
24 (ii) Completed five service credit years, including twelve service
25 months after attaining age fifty-four; or
26 (h) Any teacher who had a balance of at least one thousand dollars
27 in their member account on August 31st of the year immediately
28 preceding the distribution and who has completed five service credit
29 years by July 1, 1996, under plan 2 and who transferred to plan 3 under
30 RCW 41.32.817; or
31 (i) Any classified employee who had a balance of at least one
32 thousand dollars in their member account on August 31st of the year
33 immediately preceding the distribution and who has completed five
34 service credit years by September 1, 2000, and who transferred to plan
35 3 under RCW 41.35.510; or
36 (j) Any public employee who had a balance of at least one thousand
37 dollars in their member account on August 31st of the year immediately

1 preceding the distribution and who has completed five service credit
2 years by March 1, 2002, and who transferred to plan 3 under RCW
3 41.40.795.

4 (3) The extraordinary investment gain amount shall be calculated as
5 follows:

6 (a) One-half of the sum of the value of the net assets held in
7 trust for pension benefits in the teachers' retirement system combined
8 plan 2 and 3 fund, the Washington school employees' retirement system
9 combined plan 2 and 3 fund, and the public employees' retirement system
10 combined plan 2 and 3 fund at the close of the previous state fiscal
11 year not including the amount attributable to member accounts;

12 (b) Multiplied by the amount which the compound average of
13 investment returns on those assets over the previous four state fiscal
14 years exceeds ten percent;

15 (c) Multiplied by the proportion of:

16 (i) The sum of the service credit on August 31st of the previous
17 year of all persons eligible for the benefit provided in subsection (1)
18 of this section; to

19 (ii) The sum of the service credit on August 31st of the previous
20 year of:

21 (A) All persons eligible for the benefit provided in subsection (1)
22 of this section;

23 (B) Any person who earned service credit in the teachers'
24 retirement system plan 2, the Washington school employees' retirement
25 system plan 2, or the public employees' retirement system plan 2 during
26 the twelve-month period from September 1st to August 31st immediately
27 preceding the distribution;

28 (C) Any person in receipt of a benefit pursuant to RCW 41.32.765,
29 41.35.420, or 41.40.630; and

30 (D) Any person with five or more years of service in the teachers'
31 retirement system plan 2, the Washington school employees' retirement
32 system plan 2, or the public employees' retirement system plan 2;

33 (d) Divided proportionally among persons eligible for the benefit
34 provided in subsection (1) of this section on the basis of their
35 service credit total on August 31st of the previous year.

36 (4) The legislature reserves the right to amend or repeal this
37 section in the future and no member or beneficiary has a contractual
38 right to receive this distribution not granted prior to that time.

1 **Sec. 2.** RCW 41.32.835 and 1995 c 239 s 105 are each amended to
2 read as follows:

3 (1) All teachers who first become employed by an employer in an
4 eligible position on or after July 1, ((1996, shall be members of plan
5 3)) 2007, shall have a period of ninety days to make an irrevocable
6 choice to become a member of plan 2 or plan 3. At the end of ninety
7 days, if the member has not made a choice to become a member of plan 2,
8 he or she becomes a member of plan 3.

9 (2) For administrative efficiency, until a member elects to become
10 a member of plan 3, or becomes a member of plan 3 by default under
11 subsection (1) of this section, the member shall be reported to the
12 department in plan 2, with member and employer contributions. Upon
13 becoming a member of plan 3 by election or by default, all service
14 credit shall be transferred to the member's plan 3 defined benefit, and
15 all employee accumulated contributions shall be transferred to the
16 member's plan 3 defined contribution account.

17 **Sec. 3.** RCW 41.35.610 and 1998 c 341 s 202 are each amended to
18 read as follows:

19 (1) All classified employees who first become employed by an
20 employer in an eligible position on or after ((September 1, 2000, shall
21 be members of plan 3)) July 1, 2007, shall have a period of ninety days
22 to make an irrevocable choice to become a member of plan 2 or plan 3.
23 At the end of ninety days, if the member has not made a choice to
24 become a member of plan 2, he or she becomes a member of plan 3.

25 (2) For administrative efficiency, until a member elects to become
26 a member of plan 3, or becomes a member of plan 3 by default under
27 subsection (1) of this section, the member shall be reported to the
28 department in plan 2, with member and employer contributions. Upon
29 becoming a member of plan 3 by election or by default, all service
30 credit shall be transferred to the member's plan 3 defined benefit, and
31 all employee accumulated contributions shall be transferred to the
32 member's plan 3 defined contribution account.

33 NEW SECTION. **Sec. 4.** RCW 41.31A.030 and 41.31A.040 are each
34 decodified.

1 NEW SECTION. **Sec. 5.** This act is necessary for the immediate
2 preservation of the public peace, health, or safety, or support of the
3 state government and its existing public institutions, and takes effect
4 July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	11/7/06	Z-0259.3

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System Plans 2 and 3 (TRS 2/3), the School Employees' Retirement System Plans 2 and 3 (SERS 2/3), and the Public Employees' Retirement System Plan 3 (PERS 3) by limiting Plan 3 gain-sharing benefits to those members hired prior to July 1, 2007, and by providing newly hired TRS and SERS members the choice of joining either Plan 2 or Plan 3 in their respective systems.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, all plan 3 members, regardless of date of hire, who have a minimum of \$1,000 in their defined contribution accounts are eligible for a distribution into those accounts upon a gain-sharing event.

Currently, newly hired members of PERS are allowed to choose between joining PERS 2 or PERS 3. Newly hired members of TRS and SERS automatically become members of their respective Plans 3.

MEMBERS IMPACTED:

Because both provisions of this bill are prospective in nature, no current members of PERS, TRS, or SERS are affected.

New members of TRS and SERS who begin employment July 1, 2007 or later would not be eligible for gain-sharing benefits, but would have a choice of joining either Plan 2 or Plan 3. We estimate that for the year ended September 30, 2008, there will be approximately 4,691 new entrants in TRS and 5,512 new entrants in SERS. The number of new members is expected to increase each year. It is estimated that 50% of these new members would elect to join Plan 2 and 50% would elect Plan 3.

ASSUMPTIONS:

Since gain-sharing benefits are repealed for future entrants only under this bill, we assume that the contribution rates attributable to gain-sharing for current members would continue. Therefore, we show no rate change or fiscal impact for the current members in the affected plans for the repeal of gain-sharing.

There will very likely be a gain-sharing event in 2008. Members of the affected plans who enter prior to July 1, 2007 and who qualify under existing gain-sharing provisions would benefit from this event. We have preliminarily estimated that the Plan 1 Uniform COLA will increase by \$0.18 on January 1, 2008. We have also estimated a Plan 3 defined contribution account payment of \$133 per year of service for those who are eligible. These projected values are the expected values from a probability distribution based on actual investment returns through August 30, 2006 supplied by the Washington State Investment Board. The actual Uniform COLA increase and defined contribution payment, if any, will not be known until after the completion of the fiscal year ending June 30, 2007. The contribution rate increases associated with this gain-sharing event have been included here to show the projected fiscal effect of the existing law. See the Fiscal Impact section of this document for a discussion of expected future liability impacts.

The best estimate range for the Plan 1 value of the 2008 gain-sharing event is \$172 million to \$534 million, based on the 25th to 75th percentiles. The best estimate range for the Plan 3 value of the 2008 gain-sharing event is \$61 million to \$189 million, based on the 25th to 75th percentiles. The Plan 1 2007-09 gain-sharing contributions of \$144.3 million are outside of this range. The Plan 3 2007-09 gain-sharing contributions of \$182 million are within this range. If the contributions were outside of the range, we estimated the experience gain or loss for gain-sharing based on the expected value minus the contributions.

To calculate the cost of plan choice at hire, we determined the Entry Age Normal Cost rate (EANC) for Plan 2 as if every active Plan 2 and Plan 3 member were in Plan 2, and we determined the EANC for Plan 3 as if every active Plan 2 and Plan 3 member were in Plan 3. We calculated the excess of the employer portion of the EANC for Plan 2 over the EANC for Plan 3 and then took 50% of the difference to reflect our assumption that 50% of new members in TRS and SERS would elect to join Plan 2 and 50% would elect Plan 3. Since the choice would only apply to new members, we assumed no rate increase for choice for the current members, and applied the rate increase for choice to the projected payroll for new entrants only. The EANC rates exclude the cost of future gain-sharing benefits due to the proposed repeal.

We considered making an adjustment for the cost of plan choice based on the age of members who would elect Plan 2 compared to the age of members who would elect Plan 3, however, after reviewing the choices made by new members in PERS over an 18-month period, there was no significant difference in choice based on age.

FISCAL IMPACT:

Both of the proposed benefit changes under this bill affect only future entrants. The increases in the contribution rates for current members arise out of the very likely gain-sharing event that will occur on January 1, 2008. Neither the gain-sharing repeal nor the 2008 gain-sharing event result in a projected fiscal impact until the 2009-11 biennium. The Public Safety Employees' Retirement System (PSERS) shows a fiscal impact under this bill because PSERS employers pay the PERS Unfunded Actuarial Accrued Liability (UAAL) rate.

The contribution rate increases for the plan choice provision have an effective date of September 1, 2009 since the September 30, 2007 actuarial valuation will be the first rate-setting valuation to reflect SERS and TRS membership data with plan choice.

While a 2008 gain-sharing payment is expected to impact unfunded liabilities when it occurs in the future, there is no immediate effect on plan funding. Additionally, contribution rates in effect for the 2007-09 biennium will include rates to pre-fund the cost of gain-sharing benefits. These contributions will serve to

mitigate the reduction in funded status that result from the gain-sharing payments to members. Contributions that help to pre-fund Plan 3 gain-sharing are within the 25th to 75th percentile range of the expected cost of the 2008 event. Therefore, we show no fiscal impact below for this in Plan 3. The estimated UAAL contributions for Plan 1 gain-sharing, however, are outside of the 25th to 75th percentile range of the expected impact of the 2008 event for Plan 1. The net shortfall results in projected UAAL rate increases for PERS and TRS starting in 2009.

The table below shows preliminary estimates of projected reductions in funded status for the 2008 event. Also displayed are the expected contributions to pre-fund gain-sharing costs along with the preliminary expected net impact of the 2008 event.

Preliminary Expected Impact of January 1, 2008 Gain-Sharing Event			
	<i>Reduction in Funded Status</i>	<i>Less Contributions</i>	<i>Net Impact</i>
Plan 1			
PERS	\$200.1	\$78.9	\$121.2
TRS	<u>168.4</u>	<u>65.4</u>	<u>103.0</u>
Plan 1 Total	\$368.5	\$144.3	\$224.2
Plan 3			
PERS	\$25.8	\$35.1	(\$9.3)
TRS	68.9	97.1	(28.2)
SERS	<u>35.9</u>	<u>49.9</u>	<u>(14.0)</u>
Plan 3 Total	\$130.6	\$182.1	(\$51.5)
All Plans	\$499.1	\$326.4	\$172.7

Preliminary estimates only. Dollars are in millions.

Actuarial Determinations:

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

Systems: *Public Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System*

<i>(Dollars in Millions)</i>		Current	Increase*	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS	\$30,601	\$0	\$30,601
	TRS	\$17,119	\$0	\$17,119
	SERS	\$2,473	\$0	\$2,473
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS	\$3,567	\$0	\$3,567
	TRS	\$2,147	\$0	\$2,147
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS	\$828	\$0	\$828
	TRS	\$969	\$0	\$969
	SERS	(\$315)	\$0	(\$315)

**Liability increases for the expected experience loss due to the 2008 gain-sharing event and Plan 2/3 choice are not yet accrued. Projected contribution rate increases are provided in the following section of the fiscal note.*

Increase in Contribution Rates: (Effective 7/1/2009 for PERS and PSERS, 9/1/2009 for TRS and SERS)

	PERS	TRS	SERS
Current Members			
2008 Gain-Sharing Event			
Employee	0.00%	0.00%	0.00%
Employer State (Plan 1 UAAL)	0.10%	0.20%	0.10%
New Entrants*			
Repeal Gain-Sharing for New Entrants			
Employee	0.00%	0.00%	0.00%
Employer State	(0.26)%	(0.83)%	(1.99)%
Prospective Plan 2/3 Choice			
Employee	0.00%	0.15%	0.15%
Employer State	0.00%	0.15%	0.15%
Total Change, New Entrants			
Employee	0.00%	0.15%	0.15%
Employer State	(0.26)%	(0.68)%	(1.84)%

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

Fiscal Budget Determinations:

As a result of the higher/(lower) required contribution rates, the increase/(decrease) in funding expenditures is projected to be:

Costs (in Millions):	<u>PERS</u>	<u>PSERS</u>	<u>TRS</u>	<u>SERS</u>	<u>Total</u>
2007-2009					
State:					
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	0.0	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
State:					
General Fund	\$0.6	\$0.6	\$3.0	(\$7.2)	(\$3.0)
Non-General Fund	<u>0.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.9</u>
Total State	1.5	0.6	3.0	(7.2)	(2.1)
Local Government	2.5	0.4	1.5	(10.4)	(6.0)
Total Employer	4.0	1.0	4.5	(17.6)	(8.1)
Total Employee	\$0.0	\$0.0	\$1.6	\$0.9	\$2.5
2007-2032					
State:					
General Fund	(\$91.5)	\$6.5	(\$489.8)	(\$458.0)	(\$1,032.8)
Non-General Fund	<u>(149.5)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(149.5)</u>
Total State	(241.0)	6.5	(489.8)	(458.0)	(1,182.3)
Local Government	(369.1)	4.0	(235.6)	(670.1)	(1,270.8)
Total Employer	(610.1)	10.5	(725.4)	(1,128.1)	(2,453.1)
Total Employee	\$0.0	\$0.0	\$98.9	\$47.7	\$146.6

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, and the School Employees' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
 4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This draft fiscal note is intended for use only during the 2007 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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

TO: Joint Committee on Pension Policy

November 20, 2006

FROM: Ed Montermini, Pers 1 retiree

SUBJECT: Gain Sharing

I can appreciate the complexity of issues you face surrounding gain sharing having actively studied the States public pension systems for some 20 years, testified many times at past legislative sessions and participated in several formal and informal committee meetings during that time.

My comments essentially relate to PERS1 & TRS1. I am not too conversant with the other plans that are subject to gain sharing since there are different cost drivers. However, some of my comments may very well relate to them.

Gain sharing is impacted by several sets of numbers that have primary relevant value:

1. The long term cost for gain sharing that is projected to 2024, the funding life for plans 1.
2. The short term biannual cost.
3. The investment return on the employer's portion of gain sharing.

The projected long term gain sharing cost for PERS1 is 509 million. For TRS1 419 million. It should be recognized these projections cover a period of 18 years. The employer's share of gain sharing amounting to 499 million remains with the trust funds so they will generate investment returns over the same time frame. This creates a fiscal balance and a logical conclusion that long term costs will be significantly diminished by those returns if the State Investment Board's record for past investment returns are considered.

The short term cost is another matter. It is projected that the costs for gain sharing for the plan 1 systems during the 2007-2009 biennium are 17 million for PRS1 and 42 million for TRS1. While these amounts are paid as contributions from the state general fund, the actual funds for them will probably be taken from the trust funds creating a revenue neutral situation. I do recognize this may cause actuarial adjustments to the funding formula but I wouldn't think that would be a major problem.

There is another factor that I believe should be given great weight. These extra ordinary gains result from investments of the pension trust funds. Those trust funds belong solely to current and future retirees. No one else has ownership of them.

In my opinion, given the facts outlined above, retirees have an unquestionable right to benefit from gain sharing and the formula should be left as is.

Thank you.


Ed Montermini



**Washington State
School Retirees Association**

4726 Pacific Ave. SE

Lacey, WA 98503-1216

• PHONE (360) 413-5496

Testimony before the Select Committee on Pension Policy

Re: Gain Sharing

November 21, 2006

The Washington State School Retirees' Association (WSSRA) thanks you for the opportunity to testify on this Gain Sharing trade-off proposal. As WSSRA's previous testimony this Interim has indicated, our primary objective is to retain Gain Sharing for members of TRS/PERS 1 and both current and future members of TRS/SERS/PERS 3. A major step towards this objective has been taken with the proposal before us.

WSSRA strongly supports provisions of this proposal which maintain Gain Sharing into the future for members of TRS/PERS 1 and current members of TRS/SERS/PERS 3. Gain Sharing is particularly critical to Plan 1 retirees who experience severe declines in the value of their pension benefit throughout their retirement years. This proposal recognizes the need for the generally inadequate Uniform COLA to be enhanced in order to help with recovery of lost purchasing power, especially for long-time TRS/PERS 1 retirees.

Importantly, this proposal also acknowledges the understanding of current Plan 3 members that Gain Sharing is a key component of Plan 3 that should be maintained. **However, WSSRA has significant concerns regarding the Gain Sharing benefits being traded-off for future members of TRS/SERS/PERS 3.** With well over half of the long-term cost of future Gain Sharing attributed to new hires, it is the position of WSSRA that something more is needed for this population of future school employees and retirees than just providing new hires in TRS and SERS with the choice between Plan 2 and Plan 3 (without Gain Sharing). Any replacement benefits for this or any segment of retirement system membership should provide a benefit of a value commensurate to that of future Gain Sharing.

Gain Sharing was used as an instrument of recruitment and retention for school employees when it was first developed. The issue of recruitment and retention is still a major concern, particularly regarding the need for options as to eligibility for an unreduced retirement benefit prior to age 65. The SCPP is encouraged to take this opportunity to put forth a proposal that would provide increased flexibility in the timing of retirement in the Plan 2/3 systems. Such a proposal could address the anticipated interests of new hires as well as concerns of many current Plan 2/3 members regarding eligibility for normal retirement.

In summary, it is the position of WSSRA that in order to protect the value of Plan 1 and Plan 3 pension benefits, the issue of Gain Sharing can be most equitably addressed in one of the following three ways:

1. Retention of Gain Sharing into the future for members of TRS/PERS 1 and both current and future members of TRS/SERS/PERS 3.
2. Adoption of today's proposal, with the concerns noted above addressed; or
3. Replacement of future Gain Sharing with benefits of an equal, dollar-for-dollar, value.

Thank you once again for the opportunity to testify on this important proposal. As always, WSSRA looks forward to working with you in bringing this issue to a fair resolution.

Respectfully,

Leslie Main

WSSRA Legislative Coordinator

cc: Robert Rhule, WSSRA Legislative Committee Chair
Ed Gonion, WSSRA Executive Director
Don Carlson, WSSRA Lobbyist

For more information, contact WSSRA at 1-800-544-5219, 4726 Pacific Avenue SE, Lacey, WA 98503-1216, www.wssra.org.

The Select Committee on Pension Policy



Gain-Sharing

Robert Wm. Baker, Senior Research Analyst

November 21, 2006



Presentation

- Review SSCP 2006 gain-sharing activities
- Executive committee proposal for discussion
 - Not a formal recommendation



2006 SCPP Gain-sharing Activities

- July hearing
 - Review 2006 legislative proposal
- August hearing
 - Public testimony
- October hearing
 - Interactive spreadsheet/graph
- November hearing
 - Proposal for discussion



Proposal For Discussion

- Eliminate gain-sharing for new hires
- Provide plan 2/3 choice for new hires in SERS and TRS



Contribution Rate Impacts: Proposal + 2008 Event

	PERS	TRS	SERS
2008 Event (employer)	0.10%	0.20%	0.10%
Repeal for New Hires (employer)	(0.26%)	(0.83%)	(1.99%)
Plan 2/3 Choice (employer)	0.00%	0.15%	0.15%
Plan 2/3 Choice (employee)	0.00%	0.15%	0.15%

*Effective dates:
PERS rates effective 7/1/2009
TRS & SRS rates effective 9/1/2009*



Total Fiscal Impacts: Proposal + 2008 Event

	2009-2011	2007-2032
State:		
General Fund	(\$3.0)	(\$1,032.8)
Non-General Fund	<u>0.9</u>	<u>(149.5)</u>
Total State	(2.1)	(1,182.3)
Local Government	<u>(6.0)</u>	<u>(1,270.8)</u>
Total Employer	(8.1)	(2,453.1)
Total Employee	\$2.5	\$146.6



Next Steps

- Executive committee direction
- Scheduled for December





Pensions and Retirement Plan Enactments in 2006 State Legislatures

Ronald K. Snell
October, 2006

Introduction

This report summarizes selected pensions and retirement legislation that state legislatures enacted in 2006, some 2005 legislation not reported last year, and a few items of particular interest that failed to pass or were vetoed. Bills summarized below have been enacted into law unless there is a specific indication to the contrary. Not all legislation had been chaptered at the time this report was compiled. Some legislatures remain in session at the time of writing.

The sources of this report are retirement systems' Web sites, state legislatures' reports of enacted legislation, and information provided by legislative and retirement system staff. I am indebted to the many legislative staff who write and share summaries of their Legislatures' acts, the many retirement system staff throughout the United States who have posted legislative summaries on their web sites, and the staff of Legislatures and retirement systems who have taken time to identify and explain legislation and its context to me.

The goal of this report is to help researchers and policy makers know how other states have addressed issues that could arise in any state. In keeping with that goal, I have excluded most clean-up legislation, cost-of-living adjustments, administrative procedures and technical amendments. This report is organized according to the topics that legislatures addressed in 2006, listed at the end of this introduction. The remainder of the introduction takes note of the main issues of 2006, which are described in more detail under the topical headings in the main part of this paper.

Major Issues in 2006. The long-term security of defined benefits was the issue of broadest concern to state legislatures in 2006 as it was in 2005. Action on it took many forms, including, among others:

- Reduction of future benefits for new employees, and caps on future cost-of-living adjustments
- Increases in employer and employee contribution levels,
- Modification of provisions for service purchase to ensure that the purchaser bear the cost,
- Very limited benefit enhancements.

Benefit Changes

The most dramatic development of 2006 was that West Virginia members of the defined contribution Teachers' Retirement Plan voted to merge it with the newly-reopened defined benefit teachers' plan. The General Assembly had provided that a favorable vote would mean that all active members of the defined contribution plan would be transferred to the defined benefit plan, with no provision for individual choice. An immediate legal challenge has delayed the actual consolidation.

Colorado enacted a comprehensive package of benefit reductions to address long-range Public Employee Retirement Association funding concerns. They affect employees who become members on or after January 1, 2007. The new package replaces the Rule of 80 with the Rule of 85; institutes a lower limit on salary growth for the purpose of calculating retirement benefits; restricts annual COLAs; and requires an additional member contribution to help fund COLAs. Louisiana extended the period over which final average salary is calculated for members of the School Employees' Retirement System (for new employees) and added new anti-spiking provisions. Iowa added a "spiking control" for members of the Public Employee Retirement System, and Illinois fine-tuned the anti-spiking provision it created in 2005 to provide a number of exemptions.

Legislated benefit increases were few and modest. Georgia increased benefits for members who retired before mid-1987; Washington increased benefits for members who had been retired for 25 years or more. Maryland enacted long-sought increases in benefits for state employees and teachers as an optional program that requires additional employee contributions for participation. Oklahoma enacted legislation that enhances benefits for teachers who stay on past the normal retirement age (62 or the Rule of 90 for members who joined since mid-1992). Washington enacted some reductions in vesting requirements.

Contribution Levels

In contrast to the relative scarcity of changes in benefit provisions, a substantial number of states enacted increases in contribution levels.

At least three states, Connecticut, New Mexico and West Virginia, made large lump-sum contributions to their retirement plans to address unfunded liabilities. The West Virginia appropriation was \$718 million. Washington created a \$350 million pension stabilization fund, a reserve for future appropriation to the state retirement systems. Illinois also created a pension stabilization fund, to which the state comptroller is to transfer a share of general fund revenues when they grow by more than a specified percentage from year to year.

In various ways and with various controls, Iowa, Kentucky, Minnesota and Nebraska increased both employer and employee contribution rates for pension systems. A number of states, as shown below, increased minimum required contribution rates for employers.

Early Retirement Incentives

Illinois enacted another in its series of offers that allow employees to withdraw from employment and retirement system membership in return for a lump sum payment, in this case in an amount equal to twice their contributions (plus interest) to the system. These programs, effective in reducing public employment in the state in absolute numbers, have apparently not been emulated in any other state. Louisiana adopted a traditional early retirement plan aimed at reducing the number of state employees (it provides that vacated positions must be abolished). A widely-attacked early retirement plan for New York teachers was vetoed by Governor Pataki. These three were the only early retirement incentive plans for broad categories of state employees or teachers to come to notice.

Governance and Investment Policy

The second significant system merger of 2006 occurred in Minnesota, where the financially-troubled Minneapolis Teachers' Retirement Fund was consolidated with the state Teachers' Retirement Association. Colorado restructured the board of trustees of the Public Employee Retirement Association, reducing its membership by one (the State Auditor) and replacing three trustees elected by association members with three to be appointed by the governor, with Senate confirmation, who are required to have relevant experience. Missouri legislation that would have required continuing education for retirement systems' trustees did not pass in 2006 but is expected to reappear in 2007. California, Connecticut and Maine provided for withdrawal of investments in Sudan. The South Carolina General Assembly sent the voters a question on further broadening the investment authority of its retirement systems.

The Oklahoma Legislature emulated Georgia in providing a delay before any legislation with a fiscal impact on a retirement system can be enacted. According to the Oklahoma law, such legislation must be introduced in the first year of a legislative session, subjected to actuarial evaluation, and reconsidered in the second year of the session.

List Of Topics

- [Benefit Calculation and Eligibility](#)
- [Contribution Rates and Funding Issues](#)
- [Cost of Living Adjustments](#)
- [Defined Benefit Plan Changes](#)
- [Defined Contribution Plans](#)
- [Disability](#)
- [DROP and related issues](#)
- [Early Retirement Incentives](#)
- [Forfeiture of Benefits](#)
- [Governance and Investment Policy](#)
- [Health Coverage](#)
- [Legislative Review of Retirement Policy](#)
- [Legislative Retirement Plans](#)
- [Military Service](#)
- [Re-employment after Retirement](#)
- [Service Credit/ Purchase of Service](#)
- [Social Security and Medicare Coverage](#)
- [Studies](#)
- [Taxation of Retirement Benefits](#)
- [Vesting](#)

Benefit Calculation and Eligibility

California. Chapter 418, Statutes of 2005 (SB 973), allows members who retired before the establishment of the domestic partnership registry to qualify their domestic partners for survivor continuance benefits. The bill also clarifies the administration of domestic partner community property settlements to ensure compliance with federal law, and it eliminates PEMHCA provisions that discriminate against domestic partners in the provision of health benefits.

Colorado. Chapter 259, Session Laws of 2006 (SB 235) increased the age requirements for regular service retirement (other than for state troopers) to the Rule of 85 for those who become members of the Public Employee Retirement Association (PERA) after January 1, 2007, to the Rule of 85; any age with 35 years of service; or 65/5. The minimum retirement age and service requirements are age 55 with five years of service. The former general rule was the Rule of 80; or, any age/35; or, 65/5.

For those who are members on December 31, 2006 and who retire on or after January 1, 2009, annual salary for the purposes of

calculating benefits can increase no more than 15 percent a year. For those who join PERA after December 31, 2006, the cap on salary growth will be eight percent per year. The multiplier remains at 2.5 percent (PERA members are not covered by Social Security).

For those who join PERA after December 31, 2006, retirement benefit COLAs will be effective with July benefit payments, only after the retired member has received a benefit for a full calendar year, and only for members whose age and service credits equal 85 or who have attained the age of 60. No age and service requirements apply for disability retirees.

The annual COLA was preserved at 3 percent (grandfathering those who were members on 6/30/05 at 3.5 percent) but for those who join PERA after December 31, 2006, the actual increase will be calculated annually based on an actuarial valuation of the division (such as state employees or teachers). The act creates a new Annual Increase Reserve for each such division and provides for its funding, consisting of an annual payment of 1 percent of the salaries of members eligible for retirement benefit increases from the reserve, certain other revenues and interest earnings. The annual COLA is to be the least of (1) 3 percent of benefits; (2) the CPI-U; and (3) the amount that would exhaust 10 percent of the year-end market value of the reserve fund. The change may not be negative.

Georgia. HB 400 (on governor's desk 4/28/06) increases retirement benefits for those who retired before July 1, 1987: 10% for those who retired before July 1, 1974; 6% for those who retired from July 1, 1974 through June 30, 1982, and 2% for those who retired from July 1, 1982 through June 30, 1987. The full increase applies only to retirees who had 20 or more years of service, and is reduced by 5% for each year of service less than 20.

Illinois. Public Law 94-1057 (Senate Bill 49) modifies Public Act 94-0004 from 2005, which requires school districts to fund pension benefits based upon salary increases over 6 percent used in the determination of final average salary. As a result, the liability associated with these salary increases will be partially paid for by the school districts instead of the state of Illinois. This calculation is applied to any compensation that is paid to members during their average salary period.

- Salary increases paid to a teacher who is 10 or more years from retirement eligibility.
- The transfer of a teacher from one employer to another caused by school consolidation or annexation.
- Earning increases that are the result of overload work and summer school.
- Earning increases due to promotions when the member is required to hold a certificate or supervisory endorsement. This exemption only applies if the certificate or supervisory endorsement is different than the member's previous position.
- Payment to a teacher from the state of Illinois or the State Board of Education when the employer does not have discretion.
- Other exemptions apply to employees of higher education such as promotion to a tenure-track position or compensation for overload teaching (such as summer school).

The school district must provide an affidavit attesting a member's final average salary exemption for an increase over 6 percent. Exemptions apply to contracts entered into, amended, or renewed after June 1, 2005 but before July 1, 2011. Exemptions for these contracts continue until July 1, 2014. All of the exemptions end after June 30, 2014.

Iowa. HF 729 reduced the vesting requirement for members of the Judicial Retirement System from six years to four; provided that a judge is eligible for an unreduced annuity after 20 years of service (current law, 25) if the judge is at least 50 years of age, increased the multiplier for benefits from 3.0% to 3.25%, and increased the maximum percentage of judges' salary that payments are based on from 60% to 65%.

HF 729 also provided a "spiking control" that limits how much of a wage increase applies when calculating pensions. IPERS will compare the average of the highest three years, or the final average salary, to the fourth highest year's salary. If the final average salary is more than 121 percent of the fourth highest wage, the final average wage is adjusted. This approach allows for a wage increase of approximately 10 percent in each of the highest three years.

Louisiana. Act 647 of 2006 (SB 88) provides that for members of the School Employees' Retirement System hired after June 30, 2006, the period used for calculating final average compensation is extended from 36 months to 60 months. It also provides an anti-spiking measure: for the calculation of final average salary, the figure used for a 12-month period after the first 12-month period cannot increase by more than 10 percent from the previous period, except for legislatively-enacted increases.

Maryland. Chapter 110, Laws of 2006 (HB 1737), the "State Employees' and Teachers' Retirement Enhancement Benefit Act of 2006," provides teachers and employees hired after 1998 with a benefit that equals 54% of salary after 30 years service instead of the current 42% of salary. It increases the multiplier used to calculate a retiree's annual payment from its current level of 1.4% to 1.8%. To help pay for the enhanced benefit, teachers and employees will contribute 5% of their annual compensation, up from the current level of 2%. This increase will be phased in over a three-year period. The bill also allows the 120 local governments who participate in the employee pension system to opt in to the enhanced benefits by June 30, 2007.

The 1.8% multiplier applies only to service earned from July 1, 1998 forward. The act provides no additional benefit to those who retire

before July 1, 2006; and is effective for those who retire on that date and thereafter. Formula remains 1.2% (or former non-contributory formula of .8%/1.5%, if greater) of average final compensation times service credit to June 30, 1998.

Oklahoma. House Bill 1179, enacted during the 2006 Special Legislative Session, provides that members of the Oklahoma Teachers' Retirement System ("TRS"), who joined TRS prior to July 1, 1995, and who work one or more years beyond "normal retirement age", will qualify for an improved benefit formula at retirement. "Normal retirement age" is when a TRS member reaches age 62, or when age plus total service equal 80 (90 if the member first joined TRS after June 30, 1992). TRS members working in four-year universities do not qualify for EESIP coverage.

The current retirement formula for members who joined TRS before July 1, 1995, is a two-tiered formula:

- 2% x Final Average Salary not to exceed \$40,000* x service performed prior to 7/1/1995 plus
- 2% x Final Average Salary x service performed after 7/1/1995

The new formula will allow members working beyond normal retirement age to move pre-1995 service to a higher salary. For each year a member works past normal retirement age, the member may move two years of service performed prior to July 1995, to the higher tier of the formula.

For members who retire between July 1, 2006, and June 30, 2007, the maximum average salary that can be used for the moved service is \$60,000. For members who retire between July 1, 2007, and June 30, 2008, the maximum average salary increases to \$80,000, for moved service. For members who retire on or after July 1, 2008, the member's final average salary, regardless of amount, can be used to calculate the benefit for moved service that was performed before July 1, 1995.

South Dakota. SB 7 provides a level-payment benefit option to members of the South Dakota Retirement System who retire before being eligible for Social Security retirement benefits. They may elect to receive initial retirement benefit payments from the system in an amount greater than the standard benefit payments computed on the basis of the member's age and earnings at retirement. The greater amount, in conjunction with a later reduced amount, will be the actuarial equivalent of the normal retirement allowance computed on the basis of age at retirement. The greater amount shall be paid until the member reaches the age of 62, at which time the payment from the system will be the reduced amount so that, as far as possible, the member's combined monthly retirement income from the system and social security shall approximately equal the greater amount paid prior to age 62.

Utah. HB 209 provided for a lump-sum benefit for members of the Utah State Retirement System. The benefit may equal either 12 or 24 months' value of the member's retirement benefit, for which the subsequent monthly benefit is actuarially reduced. No member to receive more than one lump-sum benefit.

Washington. Chapter 244, Laws of 2006 (SB 6453) adjusts the minimum monthly benefit for Public Employee Retirement System and Teachers Retirement System Plan 1 retirees. In 2004, the Legislature established a minimum monthly benefit of \$1,000 for PERS and TRS Plan 1 retirees who have at least 25 years of service and have been retired 20 years or more. The legislation increases that minimum benefit by three percent annually. This bill would also extend the minimum monthly benefit, with the three percent annual increase, to PERS and TRS Plan 1 retirees who have at least 20 years of service and have been retired 25 years or more.

Contribution Rates And Funding Issues

Alaska. Authorization for cities to issue pension obligation bonds to finance their retirement liabilities passed the House of Representatives in the 2006 regular session, but died in the Senate (HB 278). According to the GFOA *Pensions and Benefits Update* (17:2, March-May 2006) municipal retirement and health benefit liabilities are \$6.9 billion statewide.

In September, 2006, the Alaska Retirement Management Board set the employer contribution rate for the Public Employees Retirement System at 39.76 percent and the employer's contribution rate for the Teachers' Retirement System at 54.03 percent. According to the *Anchorage Daily News*, the previous year's rates were 18.65 percent and 26 percent, respectively. According to the same report, the purpose of the increased employer contribution rates is to amortize the entire UAAL of the Alaska systems, some \$6.9 billion, over 25 years. In 2005 the two plans at issue were closed to additional enrollments in favor of creating defined contribution plans for new hires. Governor Murkowski, whose term ends this year, recommends that the state appropriate one billion dollars from surplus to soften the blow of the increased contribution rates. *Anchorage Daily News*, September 14, 2006; http://www.revenue.state.ak.us/treasury/ARMB/contribution_rates.asp

Arizona. Chapter 251, Laws of 2006 (SB 1351) revises funding and amortization provisions for several state retirement plans. Currently, the contribution rates for employers participating in the Public Safety Personnel Retirement System (PSPRS), the Corrections Officer Retirement Plan (CORP) and the Elected Officials' Retirement Plan (EORP) are calculated based on normal cost plus an amount required to amortize unfunded actuarial accrued liability (UAAL) over a rolling 20-year period. S.B. 1357 changes the length of the amortization period to a maximum of 30 years, as determined by the Fund Manager. The act:

1. Lengthens the time period for amortizing unfunded actuarial accrued liability of PSPRS, CORP and EORP from a 20-year rolling period to a rolling period of between 20 and 30 years, as determined by the Fund Manager.
2. Increases, from 5 percent to 8 percent, the minimum required contribution rate for employers participating in PSPRS, except that employers with an FY 2006-2007 contribution rate of less than 8 percent have a minimum contribution rate of at least 5 percent, but more than the employer's actual rate.
3. Increases, from 5 percent to 6 percent, the minimum required contribution rate for employers participating in CORP. For employers with an FY 2006-2007 contribution rate of less than 6 percent, the minimum contribution rate is at least 5 percent, but more than the employer's actual rate.
4. Establishes stabilization reserve accounts within PSPRS, CORP and EORP.
5. Requires the Fund Manager to deposit 50 percent of each fund's excess valuation assets in the respective stabilization reserve account for each fund that is more than 100 percent funded. This requirement only applies to excess assets in an employer's account as of FY 2004-2005.
6. Requires, if the actuary determines a valuation asset deficiency and an UAAL, the Fund Manager to use the valuation assets in the stabilization reserve accounts to limit the decline in the funds' funding ratio.

According to PSPRS, if the amortization period for UAAL is changed from a 20-year rolling period to a 30-year rolling period, the FY 2006-2007 aggregate contribution requirement would decline from 17.1 percent to 15.77 percent. For CORP, the employer rate would decline from 7.01 percent to 6.89 percent. For EORP, the employer rate would decline from 24.27 percent to 23.58 percent.

Colorado. Chapter 259, Session Laws of 2006 (SB 235) reduces the amortization period for each of the divisions of the Public Employee Retirement Association (PERA) from 40 years to 30 years. (The divisions are state, schools, local government and judicial.)

The Act provides for what it calls "supplemental amortization equalization disbursements" (SAEDs), which is to say, additional payments to PERA above the statutory employee and employer contribution rates. The SAEDs are to be paid by the employer--state or local--on behalf of the employee. The beginning rate is 0.5 percent of payroll for calendar 2008, and it will increase by the same amount for each of the following calendar years through 2013, for a total of 6 percent for that year. The SAED is to be funded from money "otherwise available for use as employee compensation increases prior to award as salary or other compensation to employees." If a division of PERA reaches 100 percent of actuarially-required funding, the SAED terminates for that division.

Connecticut. SB 5845, the Appropriations Act, appropriated \$245 million for anticipated FY 2006 general fund surplus for the Teachers Retirement System.

Florida.

Enrolled HB 5025

Approved, Chapter No. 2006-35

Effective July 1, 2006, this act revises payroll contribution rates for the membership classes of the FRS. Rates scheduled to take effect on July 1, 2006, are

Regular Class	8.69%
Special Risk Class	19.76%
Special Risk Administrative Support Class	11.39%
Elected Officers' Class:	
Legislators, Governor, Lt. Governor, Cabinet Officers, State Attorneys, and Public Defenders	13.32%
Justices and Judges	18.40%
County Elected Officers	15.37%
Senior Management Service Class	11.96%
Deferred Retirement Option Program (DROP)	9.80%

Illinois. P.A. 94-0839(SB 1977) creates an additional funding source for the five state-funded pension systems by establishing the Pension Stabilization Fund (PSF) as a special fund in the state treasury. When general funds revenues grow by more than 4 percent over the previous year's general funds revenues, the Comptroller is to transfer 0.5 percent of the estimated general funds revenues to the PSF. If such growth continues for two years in succession, the transfer is to be 1 percent. Funds are to be transferred from the PSF to the five state-funded retirement systems. Transfers to each are to be in proportion to each system's share of the total unfunded liability of the five systems. Transfers cannot be counted toward the contributions required by P.A. 88-593, which calls for achieving a 90 percent funded ratio by FY 2045. In addition to these amounts, the Governor has the authority to deposit up to \$25 million in the PSF on or before August 31, 2006.

Iowa. House File 729 increased maximum employer and employee contribution rates for the Iowa Public Employee Retirement System (IPERS) and for the Judicial Retirement System.

The act defines "fully funded" for IPERS as follows:

"Fully funded" means a funded ratio of at least one hundred percent using the most recent actuarial valuation. For purposes of this subsection, "funded ratio" means the ratio produced by dividing the lesser of the actuarial value of the system's assets or the market value of the system's assets, by the system's actuarial liabilities, using the actuarial method adopted by the investment board pursuant to section 97B.8A, subsection 3. The act allows employees' and employers' contribution rates to rise gradually from 3.7% and 5.75% of salary, respectively, for FY2006 to 4.5% and 6.95%, respectively, in FY2012, for a total increase from 9.45% to 11.45%. The increases are permissive. IPERS is given authority to increase the rates only if the prior year's combined contribution is insufficient to amortize the UAAL of IPERS within 10 years. IPERS does not have authority to reduce the contribution rate. No funds are to be credited to the Favorable Experience Dividend Fund until the system meets the definition of fully funded. The act provides that no benefit increases will be enacted unless contribution rates are increased to pay fully for the increased benefit or unless the system would remain fully funded in the wake of a benefit increase. The act also defines "fully funded" for the Judicial Retirement System as meeting 90% of that system's UAAL. Until the system is fully funded, contribution rates for judges are increased from 5% of salary to 6% of salary, so long as the state contributes the required 23.7% of covered payroll. If the state fails fully to meet its requirement, the judges' required contribution will be reduced to the proportion of 6% that the state's contribution is of its required contribution. The bill also reduced vesting and service requirements for judges' eligibility for retirement annuities, and increased the multiplier.

The act also restricts IPERS from transferring money into the Favorable Experience Dividend (FED) Reserve Account based on favorable actuarial experience, unless IPERS is fully funded. The transfer also must not bring IPERS below fully funded status. The Legislature created the thirteenth, or FED, check for retirees, recognizing that pensions lose their buying power over time. IPERS does not have a traditional cost-of-living adjustment. The Legislature established a reserve account with money transferred from the general IPERS Fund to pay the checks. The Legislature allowed for additional transfers to replenish the reserve account when IPERS has favorable actuarial experience. Favorable actuarial experience occurs when long-term assets and liabilities are better than predicted.

Under HF 729, IPERS can transfer additional money from the general IPERS Fund to the reserve account only when assets fully fund all pension liabilities. However, IPERS continues to credit investment earnings to the reserve account.

Kentucky. HB 380 of 2006, the appropriations act, increased contribution rates for the Kentucky Employee Retirement System for both non-hazardous and hazardous employees and for the State Police Retirement Board, although not to the level requested by KERS on the basis of actuarial calculations. The KERS request for non-hazardous employees was a contribution rate of 17.13% for FY 2007 and 20.15% for FY 2008. The General Assembly approved 7.75% and 8.5%, respectively. The enacted increases of 22% and 24.25% for hazardous employees are slightly below the request. Enacted increases of 25.5% and 28% for the Police Retirement Board compare with requests of 42.3% and 47.06%. The increases in contribution amounted to approximately \$101 million. KERS notes that the legislature has also required KERS to fund certain subsidies for retiree dependent health insurance coverage from this additional funding, a departure from previous practice. **Louisiana.** Act 563 of 2006 provides that if an employer out sources, privatizes, or contracts out for workers who would ordinarily be covered by membership in the School Employees' Retirement System, the employer will remain liable for payment of its share of the UAAL attributable to the positions so eliminated. The amount owed will be amortized over 10 years.

Act 642 (HB 1208) appropriates \$13,600,000 towards the State Employee Retirement System initial unfunded accrued liability and \$26,400,000 to the Teachers Retirement System for the same purpose.

Minnesota. Chapter 271, Laws of 2005-2006 (SF 2239) provides for increases in employer and employee contributions to several Minnesota state retirement plans, and provides a method for alternations in the contribution rates depending upon whether, after July 1, 2011, the statutory contribution is smaller or larger than the amount normal cost, the administrative expenses, and the amortization contribution of the retirement plan as reported in the most recent actuarial valuation of the retirement plan. If the executive director of the affected plan determines that a rate adjustment is required, after a deficiency or surplus exists in two consecutive fiscal years, he or she is to report a recommended change to the Legislative Commission on Pensions and Retirement. If the commission does not recommend to the contrary or does not recommend a different rate adjustment, the adjustment will be put into effect, but no annual adjustment can be more than 0.25% of payroll. Employer and employee rates must both be adjusted. No subsequent change can be made until two years shall have passed. The rate increases set in Chapter 271 are as follows. All are phased in over specified periods. The increases will begin in July 2007:

- General plan employer and employee contributions: From 4% to 5%. Phased in over four years.
- Correctional plan employee contribution: from 5.69% to 8.6%. Phased in over four years.
- Correctional plan employer contribution: from 7.98% to 12.1%. Phased in over four years.
- State patrol employee contribution: from 8.4% to 10.4%. Phased in over three years.
- State patrol employer contribution: from 12.6% to 15.6%. Phased in over three years.

Missouri. The Missouri General Assembly considered sweeping pension reform legislation that reportedly would have passed both chambers and been signed into law by the governor except for scheduling glitches on the last night of the legislative session. The sponsor, Representative Todd Smith, Chair of the Joint Committee on Public Employee Retirement and of the corresponding House committee, intends to reintroduce the legislation in 2007. Its provisions would apply to all Missouri state and local retirement plans. Regarding funding issues:

- Prohibit benefit enhancements, including COLAs and DROPs, for plans that are less than 80 percent funded
- Allow such enhancements for plans that are greater than 80 percent funded provided the funded ratio will remain at 75 percent or more after adoption.
- Require 20-year amortization of any benefit increases.
- Require funds that are less than 60 percent funded to have an actuary prepare an accelerated contribution schedule. If such plans fail to make the entire required contribution for three successive plan years, state funds will be withheld from the plan.
- UAALs must be amortized over a maximum period of 30 years.

Nebraska. LB 366 provides that the state and county plans employee contribution rate will be 4.8% of compensation. Currently, employees contribute 4.33% on the first \$19,954 of annual compensation and 4.8% of compensation thereafter.

Because the state matches the employee contribution at a rate of 156 percent, the increased contribution level also results in a higher state contribution.

The higher contribution rate is partly the result of a consultant's study of the state's pension system, conducted by the Public Employees Retirement Board and completed in 2000. The study concluded that total annual contributions to a state employee's retirement account should equal approximately 12 percent of his or her salary to provide an adequate retirement benefit. With the passage of LB 366, the total contribution to an employee's account will exceed 12 percent. LB 366 passed 46-0 but was vetoed by the Governor. The motion to override the Governor's veto passed 30-14 on April 13, 2006.

LB 1019 changes the actuarial valuation in the School, Judges and State Patrol plans. Beginning July 1st, 2006, changes in the funded actuarial accrued liability shall be measured and amortized over a 30 year period. Previously the liability was amortized over a 25 year period.

New Mexico. HB 2, the General Appropriation Act of 2006, included an appropriation of \$13,555,000 to provide a 0.75 percent increase in the employer contribution to the education retirement fund to be transferred in fiscal year 2007 to the educational retirement board to provide in advance for the fiscal year 2008 cost of the employer share of contribution increases for public education employees. The appropriation was vetoed.

Washington. Chapter 365, 2006 Laws (HB 2681) provides minimum employer contribution rates for amortizing the UAAL beginning July 1, 2009, for PERS Plan 1 at 2.68 percent, and beginning September 1, 2009 for TRS Plan 1 at 4.71 percent. These minimum contribution rates remain in effect until the actuarial value of assets in either PERS Plan 1 or TRS Plan 1 equal 125 percent of actuarial liabilities, or June 30, 2024, whichever comes first. A process for determining minimum contribution rates for employers and employees in PERS, TRS, and SERS Plans 2 and 3 is established. The contribution rate for the normal cost portion of these Plans 2 and 3 is set at 80 percent of employer or employee normal cost calculated under the entry age normal cost method. Upon completion of each biennial actuarial valuation, the State Actuary shall review the appropriateness of the minimum contribution rates and recommend changes to the Legislature, if needed. The term "normal cost" is defined as the portion of the cost of benefits allocated to a period of time under the actuarial method, typically twelve months.

Chapter 56 (ESSB 6896) creates a pension funding stabilization account in the state treasury. The account will be used to pay state government employer contributions for members of PERS, TRS, SERS and PSERS, and appropriates \$350 million to the Stabilization Account. The fund is subject to appropriation and is not to be used to fund any benefit increase or new benefit.

The act also increased employer contribution rates for various state retirement plans in order to amortize UAALs:

Teachers Retirement System, 1.29% of salary, effective September 1, 2006

School Employees Retirement Fund, 0.87% of salary, effective September 1, 2006

Public Employees Retirement Plan and public safety plan, 1.77% of salary, effective January 1, 2007.

These rate increases will be effective through June 30, 2007.

Cost of Living Adjustments

This section does not attempt to report all cost of living adjustments. Its purpose is to report on structural changes, such as the ways colas are determined or capped.

Minnesota. Chapter 277, Laws of 2005-2006 (SF 1057) caps future post-retirement adjustments. Under the old law, effective in 2010, post-retirement adjustments are based on two components: (1) a cost-of-living adjustment, of up to 2.5 percent per year; and (2) an investment-based adjustment, which is not capped. Under the new law, if investment earnings (combined with the cost-of-living adjustment) would cause the total increase to exceed 5 percent in any year, the adjustment will be capped at 5 percent, with excess investment earnings being retained and made available to support adjustments in future years. An annual cap, also effective in 2010, was also placed on COLAs paid by the St. Paul Teachers' Retirement Fund.

Chapter 277 reduced the amount that deferred pensions are adjusted annually until the annuity is taken. Under the old law, when a person leaves public employment but does not yet begin to draw a pension, the amount of the deferred pension is augmented by 3 percent per year until the employee reaches age 55, and by 5 percent per year after that until the person begins to draw a pension. For people first hired after June 30, 2006, this article changes the augmentation rate to a flat 2.5 percent for each year the pension is deferred. The changes affect funds administered by the Minnesota State Retirement system, the Public Employees Retirement Association, teacher funds, and combined service annuities.

West Virginia. The Legislature appropriated \$718 million to the Teachers' Retirement System in 2006 -- the scheduled \$334 million for amortization of its UAAL plus an additional \$385 million that would otherwise have been deposited in the state rainy day fund. -- *Final Wrapup*, May 2006, and *Budget Digest*, 2005-2006.

Wyoming. Enrolled Act No. 32 caps firefighters' annual COLA at 3 percent.

Defined Benefit Plan Changes

Nebraska. LB 366 provides that state and county employees will begin participation in their respective retirement plans immediately upon permanent full-time employment rather than waiting 12 months. Full-time elected county officials will also begin immediate participation upon taking office.

Permanently employed part-time state and county employees who have attained the age of 20 may exercise the option to begin immediate participation in the retirement plan. All part-time elected county officials may exercise the option to begin immediate participation upon taking office. Changes vesting language to reflect immediate plan participation. Prior language stipulated three years to vest, which included the 12 months of eligibility and 24 months of plan participation. New language clarifies vesting as three years of plan participation.

Washington. Chapter 189, Laws of 2006 (HB 2691), allows current judges in PERS Plans 1 and 2 to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5% multiplier. The benefit would be capped at 75% of average final salary. Judges in PERS Plan 3 can elect a 1.6 % of pay per year of service benefit, capped at 37.5% of average final salary.

Chapter 350, Laws of 2006 (HB 2688), removes the current retirement benefit cap of 60 percent of a member's final average salary for members of LEOFF Plan 1 enrolled on or after February 19, 1974.

Chapter 309, Laws of 2006 (HB 2685) replaces the list of job classes in the statutes governing eligibility requirements for the Public Safety Employees' Retirement System (PSERS), established in 2004, with a duty-based set of membership criteria. To be eligible for membership, employees must work full-time and hold a position that requires completion of a certified criminal justice training course and which has the authority to arrest, investigate crimes, enforce the law, and carry a firearm; in which the primary duty is to ensure the custody and security of incarcerated individuals as a probation officer, corrections officer or jailer; that is a limited authority Washington Peace Officer; or in which the primary responsibility is to supervise employees who are eligible for membership under one of the previously listed membership criteria.

West Virginia. The Consolidated Public Retirement Board reported on April 3, 2006, that 12,747 (56.1%) of the 22,707 teachers eligible to vote on consolidating the teachers' defined contribution plan with the teachers' defined benefit plan had cast valid ballots. Of those voting, 61.4% voted in favor of the consolidation (7,821-4,926). Under West Virginia law, the vote is valid and the consolidation was scheduled to occur on July 1, 2006. A legal challenge to the consolidation has brought a postponement of the merger; the hearing on the challenge is scheduled for July 28, 2006.

Defined Contribution Plans For Broad Categories of Employees

Alaska. The legislature considered but did not pass legislation that would have amended its 2005 creation of DC plans for state employees and teachers to increase the likelihood that the plans would qualify for tax-exempt status under IRS rules. The legislation

as passed by the House of Representatives would also have delayed the closure of DB plans and their replacement by DC plans for one year. Senate refusal to agree with the delay brought about the death of the bill at the end of session.

Colorado. Chapter 259, Session Laws of 2006 (SB 235) extended Colorado's menu of defined contribution plans to new employees of institutions of higher education, as of January 1, 2008.

Disability

Louisiana. Act 578 of 2006 (SB 183) provides that members of the School Employees' Retirement system hired after June 30, 2006, are required to earn 10 years of service credit to be eligible for disability benefits, an increase of five years from previous law. The factor for calculating the benefit is increased from 2.5 percent to 3.0 percent of final average salary.

South Dakota. SB 10 provides conditions for the termination of disability benefits:

A member's disability allowance shall terminate one year after the earliest of the following:

1. The member no longer is disabled;
2. The member no longer is subject to the medical condition that caused the disability;
3. The member refuses to undergo a medical examination requested by the system for the purpose of reviewing the medical condition that caused the disability;
4. The member returns to continuous employment in the position the member held prior to becoming disabled; or
5. The member returns to continuous employment in a position of comparable level to the position the member held prior to becoming disabled.

However, a member's disability allowance shall terminate immediately if the member's disability allowance is converted to a service retirement allowance.

DROP And Related Issues

Utah. Chapter 305, Laws of 2006 (HB 209) allows a member of a Utah State Retirement System to elect to receive either 12 or 24 months of the member's retirement allowance in a lump-sum payment upon retirement; provides for an actuarial reduction of the members allowance to reflect the lump-sum payment; prohibits more than one lump-sum payment per member; and allows the Retirement Board to make rules to implement the provisions of the bill.

Early Retirement Incentives

Illinois. Public Act 94-0839 allows state employees to receive an Alternative Retirement Cancellation Payment (ARCP) consisting of a lump sum payment of their contributions with regular interest, times two. Five hundred Group 1 employees, those in executive branch agencies under the governor, are eligible (the first 500 to apply before August 31, 2006). Group 2 -- all employees of legislative and constitutional officers, including the courts, and all legislative agency employees -- are all eligible, and must apply before September 30, 2006. All applicants must have been hired before January 1, 2006, be on payroll on June 1, 2006, and must terminate employment within one month of application or by the terminal date for their group to apply. Anyone who returns to covered employment for more than 75 days a year must repay the amount by which the ARCP exceeded the employee's original contributions, within 60 days of re-employment.

Louisiana. Act 672 of 2006 (HB 45), the "Early Retirement and Payroll Reduction Act" allows LASERS members 50 years of age with at least 10 years of service credit to receive an annual, actuarially reduced, retirement allowance. The position vacated by the person taking early retirement is abolished, except those positions excluded by the Act or reestablished in accordance with the Act.

New York. A11805/S8408 (vetoed by Governor Pataki) would have provided two 90-day periods (the first beginning on June 3, 2006 and one next year) in which eligible Tier 2, 3 and 4 members of the New York State Teachers Retirement System aged 55 or older with 25 or more years of service would be permitted to retire without a benefit reduction. For these members, the current requirements for retiring without a reduction are age 55 with 30 years of service, or age 62 with five years of service.

Forfeiture Of Benefits

Missouri. HJR 55 submits to the voters a proposed constitutional amendment that provides that any public official who is convicted in any court of a felony which occurred while in office or who has been removed from office for misconduct or following impeachment shall be disqualified from receiving any pension from the state of Missouri, effective January 1, 2007.

Governance and Investment Policy

California. Chapter 442, Statutes of 2006 (AB 2941) prohibits the California State Teachers' Retirement System and the Public Employees' Retirement System from investing in companies with business operations in Sudan that meet specified criteria, and establishes procedures for identifying, engaging and divesting from such companies. Indemnifies from the General Fund all past, present, future board members, officers, employees and investment managers from liability sustained by reason of any decision not to invest in companies with business operations in Sudan.

AB 2570 (vetoed) would have required large public pension funds to report annually to the Controller on investments made in California's emerging domestic markets. Also stated legislative intent that local retirement systems invest in those emerging domestic markets within the state.

Colorado. Chapter 259, Session Laws of 2006 (SB 235) revised the composition of the board of trustees of the Public Employee Retirement Association, effective January 1, 2007. The number of trustees was reduced from 16 to 15 with the removal of the State Auditor from membership. Three elective member positions (one each from the state division, the school division, and the local government division) were replaced with three members to be appointed by the governor, subject to Senate confirmation, no more than two of whom are to be from one political party, each of whom is to have relevant expertise (with various possibilities such as investment management, finance, banking, actuarial analysis, and so forth). The elected appointees will hold staggered three-year appointments.

Connecticut. Public Act 06-51 (HB5632) provides for Sudan divestment. While federal Executive Order 13067 is in effect, this act (1) allows the state treasurer to divest, or decide against further or future investments of, state funds in any company doing business in Sudan and (2) requires her to divest and halt further investments in any security or instrument issued by Sudan. A "company" is any corporation, utility, partnership, joint venture, franchisor, franchisee, trust, entity investment vehicle, financial institution, or its wholly-owned subsidiary. It is doing business when it maintains equipment, facilities, personnel, or other business apparatus in Sudan.

Maine. Public Law 2005, chapter 537 requires the Board of Trustees of the Maine State Retirement System to review the extent to which assets of state pension and annuity funds are invested in companies doing business in or with the nation of Sudan or its instrumentalities and to divest itself of any such holdings.

The law also prohibits the Board of Trustees from investing any assets in Sudan or such companies and cites extreme human rights abuses in that country. The law allows the Board to divest in accordance with sound investment criteria and consistent with its fiduciary obligations, and requires divestment to be complete by January 1, 2008. It provides an exemption for short-term investment funds that commingle commercial paper or futures and for other commingled investment or index funds.

The law requires the board to report annually to the Legislature on the progress of divestment and the implementation of the statutory section and provides for the repeal of the section on July 1, 2009. It also repeals statutory provisions relating to shareholder initiatives by state officials on state investments in Northern Ireland.

Minnesota. Chapter 277, Laws of 2005-2006 (SF 1057) merged the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association (TRA). The article also increases the formula used to calculate TRA benefits for coordinated members, in most cases from 1.7 to 1.9 percent of high-five salary for each year of service. The formula increase applies only to service after July 1, 2006. Increases employer and employee contributions to TRA by .5 percent of pay each, with the increased employer contribution not taking effect until July 2007. Increases state aid to school districts by the amount of the school districts' increase in the TRA contribution. Details can be found in the Minnesota House of Representatives Research Department Act Summaries: <http://www.house.leg.state.mn.us/hrd/as/84/as277.html>.

Missouri. The Missouri General Assembly considered sweeping pension reform legislation that reportedly would have passed both chambers and been signed into law by the governor except for scheduling glitches on the last night of the legislative session. The sponsor, Representative Todd Smith, Chair of the Joint Committee on Public Employee Retirement and of the House Retirement Committee, intends to reintroduce the legislation in 2007. Its provisions would apply to all Missouri state and local retirement plans. Regarding Boards of Trustees:

- Board members may not receive gains or profit from any fund or plan transaction
- Board members may not accept political contributions or compensation intended to influence an action with respect to plan investments
- Retirement benefits would be forfeited upon conviction for a plan-related felony committed after passage of the act
- Plans must implement education programs for new members including fiduciary responsibilities and sunshine law requirements
- Members who have served one year or more must annually attend at least two continuing education programs.

New Mexico. HB 212, vetoed by Governor Richardson, would have created the State Investment and Retirement Systems Oversight Committee as a joint interim legislative committee. It would have included five voting members from each legislative house and five nonvoting members; one each from the State Investment Office, PERA, Secretary of Finance and Administration, State Treasurer's office and the Educational Retirement Board. The committee's responsibilities were:

- To create a plan for oversight of the retirement fund activities of the organizations represented by the five nonvoting members.
- Analyze the financial status of those funds and develop recommendations for improved investment practices to ensure the financial soundness of those funds.

The bill requested that all future legislation affecting state investment practices, the permanent funds or the retirement funds be presented to the committee for review and analysis prior to the session in which that legislation will be introduced. The bill appropriated \$150,000 to the Legislative Council Service for technical and legal assistance to the committee through the end of fiscal year 2007.

The governor provided no reason for his veto, a pocket veto at the end of the session.

South Carolina. R225 and S617, a joint resolution, submits to the voters proposed constitutional amendments to repeal the constitutional restrictions on retirement systems' investments in equities and to abolish the State Retirement Systems Investment Panel. The effect of the repeal of the restrictions on investments would be to allow investments in foreign equities.

Wisconsin. Act 316 of the 2005 Session (SB 527), transfers the statutory functions of the Legislature's Retirement Research Committee to the staff of the Legislative Council and eliminates the vacant positions of Retirement Research Director and staff. The staff of the Council will be responsible for the legal and research staff services for the Joint Survey Committee on Retirement Systems and will prepare fiscal estimates on bills referred to that committee. The staff of the Council will also be responsible under the statutes for preparation of the comparative study of major public employee retirement systems in the country. Readers will remember the late Blair Testin's long history with the Retirement Research Committee.

Wyoming. Act No. 35 makes the administrative budget developed by the trustees of the Wyoming Retirement system subject to legislative approval.

Health Coverage

Maine. Public Law 2005, chapter 636 allows retired county and municipal law enforcement officers and retired municipal firefighters who are enrolled in a county or municipal self-insurance health coverage plan to join the state group health plan under certain circumstances and provides a state premium subsidy.

The law also creates the Retired County and Municipal Law Enforcement Officers and Municipal Firefighters Health Insurance Program, which provides for health insurance coverage when the retiree is at least 50 years of age, is eligible for a retirement benefit under certain conditions and participated in the county or municipal health plan while employed. The program provides for a state premium subsidy, beginning July 1, 2007, equal to 45% of the cost of insurance premiums, or dollar equivalents, for each eligible retiree. Health insurance coverage under the program is not effective until July 1, 2007 or the date of retirement, whichever occurs later.

Each participant must contribute 1.5 % of gross wages to a fund to offset the costs of the program. An enrollee must make contributions to the fund for 60 months, or pay a lump sum dollar equivalent that is computed based on the enrollee's age, in order to be eligible for coverage under the program. Members of volunteer or call firefighters' associations in this State, as well as persons serving as county or municipal law are also eligible for the plan.

North Carolina. Session Law 2006-174 (SB 837) Retired teachers, state employees, members of the General Assembly, and retired State law enforcement officers who first take office on and after February 1, 2007, health care coverage as retired employees and retired members of the General Assembly is subject to a requirement that the future retiree have 20 or more years of retirement service credit in order to be covered. Except that, employees and members of the General Assembly with 10 but less than 20 years of retirement service credit shall be eligible for coverage on a partially contributory basis, provided the employees were first hired on or after October 1, 2006, and the members first took office on or after February 1, 2007. For such future retirees, the state will pay 50% of the plan's total noncontributory premiums. Individual retirees will pay the balance.

Utah. Chapter 276, Laws of 2006, requires the Public Employees' Benefit and Insurance Program (PEHP) to offer a high deductible health plan with a federally qualified health savings account; prohibits the program from allowing an employee to change from the high deductible health plan to another health plan more frequently than every three years; and requires the high deductible health plan to include a health savings account for each covered individual with certain contributions made by the employer and optional contributions made by the employee.

Virginia. Chapter 622, Laws of 2006 (HB 59), removes a limit on subsidies for health insurance for retirees. It retains the monthly health insurance credits provided to retired state employees at \$4 per year of creditable service, and removes the maximum monthly cap of \$120. Subject to appropriation of required funds.

Legislative Review of Retirement Policy

Oklahoma. Senate Bill 1894 provides for extended view of legislation that carries a fiscal impact on a retirement plan. Any legislation with a fiscal impact on a retirement plan must be introduced in the first legislative session and cannot be passed until the second legislative session. Any measure with a fiscal impact must be assigned to the State Auditor and Inspector and an actuarial impact statement provided before the Legislature acts on the measure.

Legislative Retirement Plans

Georgia. Act No. 580 (House Bill 644) allows up to 10 years of creditable service to any member who rendered temporary, full-time service in the legislative branch of state government prior to July 1, 2006. Member must make application by January 1, 2007 and pay employer and employee contributions that would have been paid during such period, plus regular interest thereon.

New Mexico. SB 20 (vetoed by Governor Richardson) would have revised the method for calculating legislators' and lieutenant governors' retirement benefits. Under existing law, the benefit is a multiple of the per diem rate allowed legislators in the year a legislator or the Lt. gov. retires. This law would have based the calculation on the average of the three highest rates in effect during the official's service, and would probably have resulted, on average, in higher retirement benefits because of the fluctuation of per diem rates from year to year. The governor vetoed the bill because the retirement provision had been added to a bill concerning mileage reimbursement rates in a way that the governor contended altered the original purpose of the bill in an unconstitutional manner.

Tennessee. Chapter 982, Public Acts of 2006 (SB 3178), provides a annual cost of living increase for legislative pensions, which statute sets at a dollar amount per year of service, and makes the COLA, though not the underlying benefit, optional at a legislator's written request.

Utah. Chapter 143, Laws of 2006 (HB 346) allows the following at-will employees to be excluded, upon written request, from coverage under the Public Employees' Contributory Retirement System and the Public Employees' Noncontributory Retirement System: a person appointed by the speaker of the House of Representatives, the House of Representatives minority leader, the president of the Senate, or the Senate minority leader; or an employee of the Governor's Office of Economic Development who has been hired directly from a position not covered by a system.

Military Service

Kentucky. Chapter 85, Acts of 2006 (HB 79) requires the Commonwealth of Kentucky to pay the member's contribution to the Teachers Retirement System for all certified staff employed in local school districts who are members of a state national guard or reserve component ordered to active service by the president of the United States and who return to their former employment in a timely fashion upon release from active duty, so the member can receive service credit for the time spent in active duty.

Maryland. Chapter 277, Laws of 2006 (SB 866) provides that members or former members with 10 years of credited service in a state system who are entitled to a vested retirement allowance may apply for service credit in a state system for military service; prohibiting retirees from applying for service credit in a State system for military service; and providing that the military service that specified members or former members of a State system who are entitled to a vested retirement allowance receive is applied toward their retirement allowance using a specified accrual rate.

Vermont. Act 163 of the 2005-2006 session (H 238) provides a one-time military service stipend for beneficiaries of the Vermont state retirement system and the state teachers' retirement system who retired prior to July 1, 2006 and who, prior to retirement, would have been otherwise eligible for credit for military service in what is now the Republic of Vietnam between February 28, 1961 and August 4, 1964. Upon a determination that the beneficiary was eligible prior to retirement for a grant of military service credit for service under this section, the beneficiary shall be entitled to a stipend of \$500.00 for each year served, up to a maximum of \$1,500.00. The stipend shall be pro-rated for partial years of service.

Re-Employment After Retirement

Connecticut. Public Act 06-192 provides that a former teacher receiving retirement benefits from the system may be reemployed by a local board of education or by any constituent unit of the state system of higher education in a position designated by the Commissioner of Education as a subject shortage area for the school year in which the former teacher is being employed. Such employment may be for up to one full school year but may, with prior approval by the board, be extended for an additional school year.

Idaho. Chapter 185, Laws of 2006, (SB 1345) allows a retired member of the Public Employee Retirement System to continue receiving retirement benefits from the system after election to office, provided the person does not return to an office from which he or she retired, has been retired at least six months, and retired with an unreduced retirement benefit. Previous law limited continuation of benefits to retirees elected to offices that required less than 20 hours per week employment.

Illinois. Public Act 94-0914 (House Bill 5331), extends existing return-to-work provisions until June 30, 2011 and allows retired teachers to return to work for 120 days or 600 hours without entering into active service.

Kansas. Senate Bill 270 (signed 4/18/2006) addresses several issues:

The bill raises the working after retirement salary limitation from \$15,000 to \$20,000 for retired Kansas Public Employee Retirement System (KPERS) members who return to work after retirement for the same participating employer from which they retired. There is no salary limitation if a retiree returns to work for a different KPERS participating employer. For local elected officials and legislators who retire from a KPERS participating employer while serving in elected office and participating in KPERS as an elected official with a different participating employer, the bill raises the salary limitation from \$15,000 to \$20,000 per year while serving in public office and drawing a KPERS retirement benefit.

The bill requires any KPERS participating employer who hires a KPERS retired member to pay the KPERS actuarially-determined employer and employee contributions on behalf of the retired member. There is no payment required if a KPERS retiree returns to work for the same KPERS participating employer that employed the individual before retirement. The fiscal note indicates that this provision would increase contributions to KPERS, with the following FY 2007 (CY 2007 for the local group) rates attributed the members of the three principal KPERS groups of participating employers: Participating employers from all groups will pay the statutory employee rate of 4.0 percent. For FY 2007, those employers in the state group will pay an employer rate of 5.84 percent, the school group 9.75 percent, and the local group 7.69 percent.

Another provision in the bill changes the statutory definition of a professional employee to exclude, beginning in the 2006-2007 school year, any person who retires from school employment as a KPERS member, regardless of whether an agreement on terms and conditions of professional service between a board of education and an exclusive representative of professional employees provides to the contrary. Another provision in the bill changes the statutory definition of teacher to exclude, beginning in the 2006-2007 school year, any person who retires from school employment as a KPERS member. No fiscal note is available for this provision.

New York. Chapter 74, Laws of 2006, allows a retired member of the New York State and Local Employees' Retirement System and the Police and Fire Retirement System to earn \$30,000 a year in public employment without diminution of retirement benefits, in 2007 and thereafter. The cap was increased from \$27,500 for 2005 and 2006.

Virginia. Chapter 513, Laws of 2006 (SB 99) allows persons who retired as other than a teacher to teach in a critical shortage position while continuing to receive a retirement allowance, provided the person becomes licensed by the Board of Education to serve as a local school board instructional or administrative employee. Under current law, only those retired persons who served as teachers are eligible to teach in critical shortage positions while continuing to receive a retirement allowance.

Service Credit/ Purchase Of Service/ Transfer Of Credit

Colorado. Chapter 259, Session Laws of 2006 (SB 235) requires that purchases of service credit be at full actuarial cost.

Utah. HB 11 provides for the purchase of service credit in the Utah State Retirement System for employment in a private school based in the U.S., including employment in a U.S. territory, if the purchaser was eligible for an employer-paid retirement benefit for the employment. Requires that the payments be made to the retirement system of which the purchaser is currently a member.

Virginia. Chapter 635, Laws of 2006 (HB 406) permits any member of the Virginia Retirement System to purchase prior service credit for creditable service at a private

institution of higher education if the private institution is merged with a public institution of higher education and graduates of the private institution are then issued new degrees from the public institution.

Washington. Chapter 214, Laws of 2006 (HB 2690), permits members of the Teachers', School Employees', and Public Employees' Plans 1, 2 and 3, the Public Safety Employees' Retirement System Plan 2, the Law Enforcement Officers' and Fire Fighters' Plan 1, and the Washington State Patrol Retirement System to purchase up to five years of service credit at time of normal or early retirement. The service credit purchased is not regular membership service and may not be used for purposes such as qualifying for improved early retirement benefits, such as the 3 percent per year reduction available to members of the PERS, TRS, and SERS Plans 2 and 3 with 30 years of service. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. The member may pay all or part of the cost of the additional service with an eligible transfer from a qualified

retirement plan. The DRS must adopt rules to ensure that all purchases and transfers comply with the requirements of the federal Internal Revenue Code and regulations.

Chapter 257, Laws of 2006 (HB 2680) provides that members of the Teachers Retirement System's Tiers 2 and 3 may make a one-time purchase of up to seven years of service credit for public education experience outside Washington's retirement systems. The education experience must have been covered by a government retirement plan, and the member must have earned at least five years of service credit in TRS 2/3. In addition, the member must not be receiving, or be eligible to receive, a retirement benefit from the other plan. The service credit purchased is considered membership service in TRS 2/3, and it thus may be used to qualify the member for retirement or early retirement. The member must pay a cost for the service credit equal to the actuarial value of the increase in value of the member's benefits. A member that purchases out-of-state service credit may not use credit in other state's retirement systems for the purposes of qualifying for retirement in Washington. A member may pay for all or part of the cost of a service credit purchase with an eligible rollover from an eligible qualified retirement plan.

Wyoming. Enrolled Act No. 47 (SF 91) allows any vested member of the Wyoming Retirement System a one-time purchase of up to five years at actuarial cost, for any prior FICA-covered employment or in the cases of law enforcement personnel or firefighters, under rules that the WRS board may establish.

Social Security and Medicare Coverage

Minnesota. Chapter 271, Laws of 2005-2006 (SF 2239) amends laws governing Social Security coverage for public employees. These laws are administered by PERA for all Minnesota public employees. This article allows each local government unit to determine whether to provide Social Security coverage to its elected officials who are members of the PERA defined contribution plan. This article also allows retirement plans to conduct Medicare-only referendums to allow public employees who have not previously been covered by Medicare to be covered. This applies only people hired before 1986, as people hired since then all are covered by Medicare

Studies

Iowa. HF 729 Requires the Public Retirement Systems Committee to report to the Legislature by October 1, 2007, on alternatives to the current IPERS plan. The committee will review pension flexibility, including defined contribution, supplemental, and hybrid retirement plans, and cost-of-living adjustments.

Louisiana. HSR1 requests the Louisiana House Committee on Retirement to study the actuarial soundness, liabilities, and benefits of the DROP programs of the state retirement systems and to report its findings to the legislature prior to the convening of the 2007 regular session.

HSR8 requests the Louisiana House Committee on Appropriations to study methods of funding the unfunded accrued liability of the state retirement systems.

Minnesota. Chapter 277, Laws of 2005-2006 (SF 1057) requires the Legislative Commission on Pensions and Retirement to study structure and implication of procedures used by major Minnesota public pension plans to provide investment performance based postretirement increases. Requires a report by December 1, 2006.

The act also requires the commission to study the structure of the Minnesota combined investment funds and the Minnesota postretirement fund. Requires a report by December 1, 2006.

Taxation of Retirement Benefits

Maryland. Chapter 226, Laws of 2006 (SB 22/HB 35), provides an exclusion of \$5,000 of military retirement income for people retired from the U.S. armed forces or Maryland National Guard and specified other federal agencies after July 1, 1991, effective for tax year 2006 and thereafter. This exclusion cannot be taken in addition to the maximum pension exclusion generally available to Maryland residents.

Iowa. S.F. 2408 progressively reduces the amount of Social Security benefits taxable under Iowa law from tax years 2008 through 2014, at which time no Social Security benefits will be taxable under Iowa law. The act also provides a tax exclusion of \$18,000 for a single taxpayer and \$24,000 for married couples filing jointly or separately on a joint reform for tax years 2007 and 2008. The exclusion will increase to \$24,000/\$32,000 for tax year 2009 and following years. Social Security income is included in net income for the purposes of calculating the effect of the tax exclusions on Iowa tax liability.

West Virginia. SB 786 added an additional income tax modification for the tax year 2006 only of as much as \$30,000 of severance wages for permanent termination through reduction in force and through no fault of employee. Reduction in force is defined as a net reduction of employees employed by the employer in WV, determined based on the total West Virginia employment of the employer's controlled group. The new provision also defines severance wages, controlled group and corporation for purposes of this limited 188

modification.

W.Va. Code §11-21-12(c)(11)(i),(ii),(iii) & (iv). (SB786 (2006RS)-effective from passage).

Vesting

Iowa. HF 729 reduced the vesting requirement for members of the Judicial Retirement System from six years to four.

Washington. Chapter 33, Laws of 2006 (HB 2684) reduces the vesting requirement for the defined benefit portion of the benefit plans for members of the Public Employee Retirement System, School Employees Retirement System and the Teachers Retirement System Plan 3, from 10 years or five years with one year after age 54 to 10 years or five years of service with one year after age 44.

See also: [Pensions and Retirement Plan Enactments](#)

Posted October 2006.

Before you email statetax-info@ncsl.org for more information, please know that NCSL does not advise individuals on tax matters.

[Visitor counts for this page.](#)

© 2006 National Conference of State Legislatures, All Rights Reserved

Denver Office: Tel: 303-364-7700 | Fax: 303-364-7800 | 7700 East First Place | Denver, CO 80230 | [Map](#)

Washington Office: Tel: 202-624-5400 | Fax: 202-737-1069 | 444 North Capitol Street, N.W., Suite 515 | Washington, D.C. 20001