Select Committee on Pension Policy

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

Regular Committee Meeting

December 12, 2006

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

AGENDA

10:00 a.m.	**(1)**	**Approval of Minutes**
10:05 a.m.	**(2)**	**Review of Projected Contributions/Fiscal Notes,** Matt Smith, State Actuary

Executive Session

10:25 a.m.	**(3)**	**2007 Proposed Interim Schedule,** Kelly Burkhart, Executive Assistant
10:30 a.m.	**(4)**	**Age 66 COLA,** Darren Painter, Research Analyst
10:40 a.m.	**(5)**	**WSP Contribution Rates**, Darren Painter
10:50 a.m.	**(6)**	**Technical Corrections,** Laura Harper, Senior Research Analyst/Legal
11:00 a.m.	**(7)**	**Dual Membership,** Laura Harper
11:10 a.m.	**(8)**	**Contribution-Rate Adoption Process,** Laura Harper
11:20 a.m.	**(9)**	**Judges Benefit Multiplier,** Robert Wm. Baker, Senior Research Analyst
11:40 a.m.	**(10)**	**Gain-sharing,** Robert Wm. Baker
12:30 p.m.	**(11)**	**Adjourn**

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January

M	T	W	T	F	S	S
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16	**17**	18	19	20	21	22
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30	31					

February

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27	28					

March

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April

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May

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June

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26	27	28	29	30		

July

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August

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September

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18	**19**	20	21	22	23	24
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October

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16	**17**	18	19	20	21	22
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30	31					

November

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13	14	15	16	17	18	19
20	**21**	22	23	24	25	26
27	28	29	30			

December

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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

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
December 11, 2006 - No meeting scheduled

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Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

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

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

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

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

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

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

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Select Committee on Pension Policy

REGULAR COMMITTEE MEETING
DRAFT MINUTES - REVISED

November 21, 2006

The Select Committee on Pension Policy met in House Hearing Room A, Olympia, Washington on November 21, 2006.

Committee members attending:

Elaine Banks	Corky Mattingly
Representative Conway	Glenn Olson
Representative Crouse	Senator Pridemore
Randy Davis	Senator Schoesler
Representative Fromhold	J. Pat Thompson
Robert Keller	David Westberg

Senator Pridemore, Chair, called the meeting to order at 10:07 a.m.

(1) Plan 1 Funding Method Subgroup

Chair Pridemore advised the members that the Plan 1 Funding Method Subgroup agreed not to move forward at this time on the issue.

(2) 2005 Preliminary Valuation Report

Matthew Smith, State Actuary, reported on the "2005 Preliminary Valuation Report." Discussion followed.

(3) Approval of Minutes

It was moved to approve the October 17, 2006 Full Committee Draft Minutes. Seconded.

MOTION CARRIED

Chair Pridemore introduced and welcomed Randy Davis, the newly appointed Select Committee on Pension Policy member.

(4) $150,000 Death Benefit

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

It was moved that the $150,000 Death Benefit bill draft Z-0267.2/07 be submitted to the Legislature. Seconded.

MOTION CARRIED

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TDD: 1-800-635-9993

(5) Service Credit Purchase Due to Injury

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

It was moved that the Service Credit Purchase Due to Injury bill draft Z-0244.4/07 be submitted to the Legislature. Seconded.

MOTION CARRIED

(6) Post-Retirement Employment

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

It was moved that the legislature's amended version of last year's SCPP bill, including a 1900 hour cumulative lifetime limit for TRS 1, (Z-0059.1/07) be submitted to the legislature.

MOTION CARRIED

(7) 07-09 OSA Budget Amendment

Matthew Smith, State Actuary, reported on the "07-09 OSA Budget Amendment."

It was moved to approve the "07-09 OSA Budget Amendment."
Seconded.

MOTION CARRIED

(8) PSERS Membership Report

Darren Painter, Research Analyst, reported on "PSERS Membership Report." Discussion followed.

The following person testified:

Mike Ryherd, Teamsters

(9) Gain-Sharing

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

The following people testified:

Dave Scott, Washington Education Association
Leslie Main, Washington State School Retirees' Association
Mike Ryherd, Teamsters

John Kvamme, Washington Association of School Administrators/Association of Washington School Principals
Cassandra de la Rosa, Retired Public Employees Council
Tom Lopp, Retired Public Employees Council

It was moved to prospectively eliminate gain-sharing for new hires hired after July 1, 2007 and provide choice of plan 2 or 3. Current members would continue to receive gain-sharing benefits and future new hires would have a choice of plan 2 or 3. Seconded. Discussion followed.

It was moved to amend the current proposal adding a prospective rule of 90 with an age 60 minimum. Seconded. Discussion followed.

AMENDMENT PASSED

It was moved to forward the amended proposal to the December full committee meeting. Seconded.

MOTION CARRIED

The meeting adjourned at 12:15 p.m.

Select Committee on Pension Policy

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REGULAR EXECUTIVE COMMITTEE MEETING
DRAFT MINUTES

November 21, 2006

The Select Committee on Pension Policy met in House Hearing Room C, Olympia, Washington on November 21, 2006.

Executive Committee members attending:

Senator Pridemore, Chair	Elaine Banks
Representative Fromhold, Vice-chair	Glenn Olson

Other committee members attending:

Representative Conway	Robert Keller
Representative Crouse	Corky Mattingly
Randy Davis	Senator Schoesler

Senator Pridemore, Chair, called the meeting to order at 1:10 p.m.

(A) Approval of Minutes

It was moved to approve the September 19, 2006 and October 17, 2006 minutes. Seconded.

MOTION CARRIED

(B) Constituent Correspondence

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

(C) Possible 2007 Interim Meeting Schedule

Kelly Burkhart, Executive Assistant, reported on "Possible 2007 Interim Meeting Schedule." Discussion followed.

(D) State Actuary Evaluation

Glenn Olson reported on the progress of the State Actuary evaluation.

(E) Dual Membership

Laura Harper, Senior Research Analyst, Legal, reported on Dual Membership." Discussion followed.

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The following person testified.
Rick Jensen, Washington State Patrol Troopers Association

(F) Judges Benefit Multiplier

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

(G) Technical Corrections

Laura Harper, Senior Research Analyst, reported on "Technical Corrections." Discussion followed.

(H) Direction on Day's Agenda

- $150,000 Death Benefit
- Service Credit Purchase Due to Injury
- Post-Retirement Employment
- 07-09 OSA Budget Amendment
- Plan 1 Funding Method, Subgroup Recommendation
- 2005 Preliminary Valuation Report
- PSERS Membership Report
- Gain-Sharing

Discussion Followed.

(I) December Regular Committee Meeting Issues

- 2007 Proposed interim schedule
- Age 66 COLA
- WSP contribution rates
- Technical corrections
- Dual membership
- Contribution-rate adoption process
- Judges benefit multiplier
- Gain-sharing

Discussion Followed.

The meeting adjourned at 2:15 p.m.

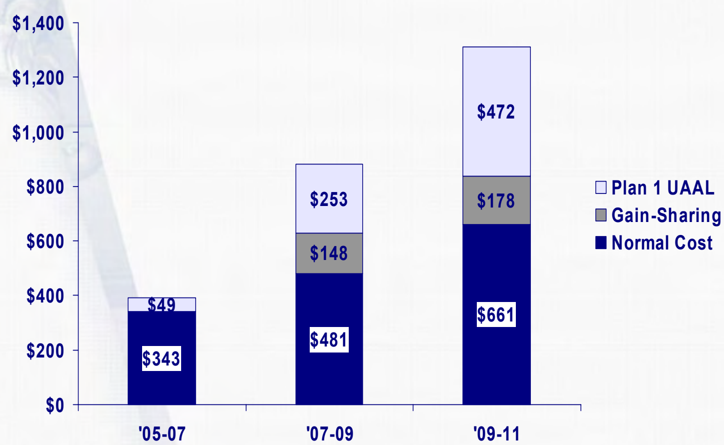
The Select Committee on Pension Policy

Review of Projected Contributions/Fiscal Notes

Matt Smith, FCA, EA, MAAA
State Actuary

December 12, 2006

Projected Employer Contributions*
(GF-S in Millions)



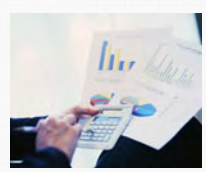
** From the results of the preliminary 2005 actuarial valuation.*

Fiscal Note Basics

- Actuarial determinations
- Fiscal budget determinations

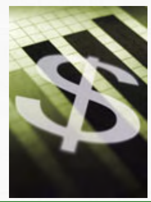
Actuarial Determinations

- Impact on the affected plan’s liability
  - Present value at 8% assumed interest rate
- Increase in contribution rates
  - Applied to future payroll of current members (depending on funding method)
  - Projected contributions = liability increase
  - Both calculated on a <u>present</u> value basis



Fiscal Budget Determinations

- Contribution rate increases applied to projected payroll
  - Includes payroll of future new entrants
  - Not a present value number
- Displayed by next two biennia and 25-year period
- Represents budget impact of rate increases on a future-value basis

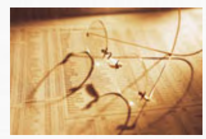


Example

- See Age 66 COLA fiscal note

Gain-Sharing Fiscal Notes

- 2007-09 gain-sharing costs are based on the 2005 actuarial valuation
  - A closed-group valuation
  - Does not include members hired after the valuation date
- Repealing gain-sharing for new hires does not decrease the cost of gain-sharing in 2007-09



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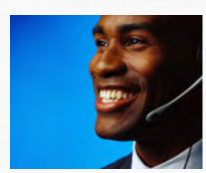
Gain-Sharing Fiscal Notes

- Savings from the repeal of gain-sharing for new hires start in 2009-11
- Similarly, the cost of “Plan 2/3 Choice” for new hires starts in 2009-11
- Cost of the modified “Rule of 90” for new hires starts in 2009-11
- Cost of the “Rule of 90” for current members would begin in 2007-09



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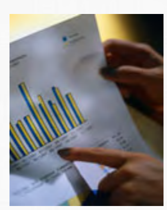
Gain-Sharing Fiscal Notes

- Projected 2008 gain-sharing distribution has a cost from an anticipated experience loss
  - Plan 1 only
- Experience loss is the difference between
  - The pre-funding of the event; and
  - The size of the actual event

Conclusion

- Projected employer contributions are increasing without gain-sharing
- Fiscal notes contain present and future value numbers
- Gain-sharing costs/savings differ depending on whether proposal impacts current or new hires only



Proposed 2007 SCPP Interim Dates

January - August 2007

JANUARY						
S	M	T	W	T	F	S
	Holiday	2	3	4	5	6
7	8	9	10	11	12	13
14	Holiday	SCPP	17	SIB?	19	20
21	22	23	L2B	25	26	27
28	29	30	31			

Session - January 8 - April 22
LEOFF 2 Board - Janaury 24th
SIB - January 18th

FEBRUARY						
S	M	T	W	T	F	S
				1	2	3
4	5	Election	7	8	9	10
11	SCPP	SCPP	14	15	16	17
18	19	Holiday	21	SIB?	23	24
25	26	27	L2B			

Election (Special District) - Feburary 6
LEOFF 2 Board - February 28th
SIB - February 22nd

MARCH						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	Election	14	15	16	17
18	SCPP	SCPP	21	SIB?	23	24
25	26	27	L2B	29	30	31

Elections (Special District) - March 13
LEOFF 2 Board - March 28th
SIB - March 22nd

APRIL						
S	M	T	W	T	F	S
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8	9	10	11	12	13	14
15	SCPP	SCPP	18	SIB?	20	21
22	23	Election	L2B	26	27	28
29	30					

Elections (Special District) - April 24
LEOFF 2 Board - April 25th
SIB - April 19th

MAY						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	Election	JLARC?	SIB?	18	19
20	SCPP	SCPP	23	24	25	26
27	Holiday	29	L2B	31		

Elections (Special District) - May 15
LEOFF 2 Board - May 30th
JLARC - May 16th
SIB - May 17th

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

SCPP / LEOFF 2 Board - June 19th
SIB - June 21st
JLARC - June 27th

JULY						
S	M	T	W	T	F	S
1	2	3	Holiday	5	6	7
8	9	10	11	12	13	14
15	SCPP	SCPP	JLARC?	SIB?	20	21
22	23	24	L2B	26	27	28
29	30	31				

LEOFF 2 Board - July 25th
JLARC - July 18th
SIB - July 19th

AUGUST						
S	M	T	W	T	F	S
			1	2	NCSL	NCSL
NCSL	NCSL	NCSL	NCSL	NCSL	10	11
12	SCPP	SCPP	JLARC?	SIB?	17	18
19	20	Election	L2B	23	24	25
26	27	28	29	30	31	

NCSL Conference - Boston, MA - August 3-9
Election (Primary) - August 21
LEOFF 2 Board - August 22nd
JLARC - August 15th
SIB - August 16th

September - December 2007

SEPTEMBER						
S	M	T	W	T	F	S
						1
2	Holiday	4	5	6	7	8
9	10	11	12	13	14	15
16	SCPP	SCPP	JLARC?	SIB?	21	22
23	24	25	L2B	27	28	29
30						

LEOFF 2 Board - September 26th
JLARC - September 19th
SIB - September 20th

OCTOBER						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	SCPP	SCPP	JLARC?	SIB?	19	20
21	22	23	L2B	25	26	27
28	29	30	31			

LEOFF 2 Board - October 24th
JLARC - October 17th
SIB - October 18th

NOVEMBER						
S	M	T	W	T	F	S
				1	2	3
4	5	Election	7	8	Holiday	10
11	Holiday	SCPP	SCPP	SIB?	16	17
18	19	20	21	Holiday	Holiday	24
25	26	27	JLARC / L2B	29	30	

Election (General) - November 6
JLARC / LEOFF 2 Board - November 28th
SIB - November 15th

DECEMBER						
S	M	T	W	T	F	S
						1
2	3	4	JLARC?	6	7	8
9	10	11	12	13	14	15
16	SCPP	SCPP	19	SIB?	21	22
23	24	Holiday	26	27	28	29
30	31					

SCPP / LEOFF 2 Board - December 18th
JLARC - December 5th
SIB - December 20th

Proposed 2007 SCPP Meeting Schedule

Full & Executive Meeting Dates (Tuesdays)
January 16th
February 13th
March 20th
April 17th
May 22nd
June19th
July 17th
August 14th
September 18th
October 16th
November 13th
December 18th

*Subgroup Dates (Mondays)**
January - No meeting scheduled
February 12th
March 19th
April 16th
May 21st
June 18th
July 16th
August 13th
September 17th
October 15th
November 14th* (Wednesday)
December 17th

In Brief

BILL

This bill changes the eligibility criteria for the Uniform COLA.

BILL DRAFT

Attached

FISCAL NOTE (DRAFT)

Attached

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

Age 66 COLA

Z-0061.1

Summary of Bill

This bill impacts the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1).

The bill amends Uniform Cost of Living Adjustment (COLA) eligibility criteria to provide the Uniform COLA increase to members who:

- Have been retired one year, and
- Will attain age 66 by December 31of the calendar year in which the Uniform COLA increase is given.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0061.1/07
ATTY/TYPIST:	LL:rmh
BRIEF DESCRIPTION:	Providing annual increases in certain retirement allowances.

AN ACT Relating to public employees' retirement system, plan 1 and teachers' retirement system, plan 1 age and retirement requirements for receipt of the annual increase amount; amending RCW 41.40.197 and 41.32.489; providing an effective date; and declaring an emergency.

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

Sec. 1. RCW 41.40.197 and 2005 c 327 s 8 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary who has received a retirement allowance for at least one year by July 1st in the calendar year in which the annual increase is given and has attained at least age sixty-six by ((~~July 1st~~)) December 31st in the calendar year in which the annual increase is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.40.1984.

(3) If otherwise eligible, those receiving an annual adjustment under RCW 41.40.188(1)(c) shall be eligible for the annual increase adjustment in addition to the benefit that would have been received absent this section.

(4) Those receiving a benefit under RCW 41.40.220(1), or a survivor of a disabled member under RCW 41.44.170(5) shall be eligible for the benefit provided by this section.

(5) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

Sec. 2. RCW 41.32.489 and 1995 c 345 s 2 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary who has received a retirement allowance for at least one year by July 1st in the calendar year in which the annual increase is given and has attained at least age sixty-six by ((~~July 1st~~)) December 31st in the calendar year in which the annual increase is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.32.4851.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.32.485; or

(b) A recipient of a survivor benefit on June 30, 1995, which has been increased by RCW 41.32.575.

(4) If otherwise eligible, those receiving an annual adjustment under RCW 41.32.530(1)(d) shall be eligible for the annual increase adjustment in addition to the benefit that would have been received absent this section.

(5) Those receiving a temporary disability benefit under RCW

41.32.540 shall not be eligible for the benefit provided by this section.

(6) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

NEW SECTION. **Sec. 3.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/5/06	Z-0061.1

SUMMARY OF BILL

This legislation impacts the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) by amending Uniform COLA eligibility requirements to include all retirees who have been retired one year and will have attained age 66 by December 31st of the calendar year in which the increase is given.

Effective Date: July 1, 2007.

CURRENT SITUATION:

The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1st to be eligible for the adjustment paid on July 1st. The Uniform COLA increase amount for 2007 will be $1.33 per month/per year of service. This amount increases by at least 3% per year.

MEMBERS IMPACTED:

This bill will impact half the members in PERS 1 and TRS 1 under age 65–approximately 15,735 PERS 1 and 10,928 TRS 1 members. The table below shows membership by age and status.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	12,169	35,264
Actives	8,386	8,592
Terminated & Vested	1,300	1,328

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	13,604	54,795
Actives	15,140	15,962
Terminated & Vested	2,725	2,833

A typical member impacted will receive the Uniform COLA one year earlier. In 2007, this amounts to an additional $399 for a retiree with 25 years of service.

ASSUMPTIONS:

PERS and TRS Plan 1 members under the age of 65 whose birth date falls between July 2 and December 31 will receive the Uniform COLA one year earlier under this bill. We assumed that one-half of the PERS 1 and TRS 1 members currently under the age of 65 fall into this group and will be eligible to receive the Uniform COLA one year earlier.

FISCAL IMPACT:

Description:

The benefit improvements in this bill will increase the required employer contribution rate for the PERS and TRS Plan 1 UAAL. Current funding policy requires SERS and PSERS employers to pay the PERS Plan 1 UAAL contribution rate, therefore, this bill will have a fiscal impact on SERS and PSERS.

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:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 1	$13,605	$36	$13,641
(The Value of the Total Commitment to all Current Members)	TRS 1	$10,823	$30	$10,853
Unfunded Actuarial Accrued Liability	PERS 1	$3,567	$36	$3,603
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	$2,147	$30	$2,177
Unfunded Liability (PBO)	PERS 1	$3,439	$32	$3,471
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 1	$2,100	$29	$2,129

Increase in Contribution Rates: (Effective 09/01/07 unless indicated otherwise)	PERS/ SERS/ PSERS	TRS
Employee	0.00%	0.00%
Employer State (Plan 1 UAAL)	0.03%	0.06%

Fiscal Budget Determinations:

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

Costs (in Millions):	PERS	PSERS	SERS	TRS	Total
2007-2009					
State:					
General Fund	$0.7	$0.2	$0.4	$3.2	$4.5
Non-General Fund	1.1	0.0	0.0	0.0	1.1
Total State	**1.8**	**0.2**	**0.4**	**3.2**	**5.6**
Local Government	2.7	0.0	0.6	2.0	5.3
Total Employer	4.5	0.2	1.0	5.2	10.9
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0
2009-2011					
State:					
General Fund	$0.8	$0.2	$0.4	$3.9	$5.3
Non-General Fund	1.4	0.0	0.0	0.0	1.4
Total State	**2.2**	**0.2**	**0.4**	**3.9**	**6.7**
Local Government	3.3	0.2	0.6	1.9	6.0
Total Employer	5.5	0.4	1.0	5.8	12.7
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0
2007-2032					
State:					
General Fund	$10.0	$2.1	$5.1	$45.8	$63.0
Non-General Fund	16.3	0.0	0.0	0.0	16.3
Total State	**26.3**	**2.1**	**5.1**	**45.8**	**79.3**
Local Government	40.1	1.5	7.6	22.5	71.7
Total Employer	66.4	3.6	12.7	68.3	151.0
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Teachers' Retirement System and Public Employees' Retirement System, except the rate increases which were based on the September 30, 2004 actuarial valuation.

2. As with the costs developed in the actuarial valuation, the emerging costs of the Systems 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. Benefit improvement rate increases are based on rates that exclude the cost of gain sharing.

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.

In Brief

BILL

This bill changes the contribution rate setting formula for WSP.

BILL DRAFT

Attached

FISCAL NOTE (DRAFT)

Attached

WSP Contribution Rates

Z-0299.1

Summary of Bill

This bill impacts the Washington State Patrol Retirement System (WSP).

The bill changes the WSP contribution rate setting formula as follows:

- The member contribution rate is one-third the total cost of the system (excluding certain employer-paid liabilities) not to exceed 7 percent.
- The employer contribution rate is the balance of the total required contribution rate.
- A minimum total contribution rate is established beginning July 1, 2009.

The bill sets the following contribution rates for the 2007-09 biennium:

- 4.47 percent member, and
- 9.98 percent employer.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0299.1/07

ATTY/TYPIST: LL:bat

BRIEF DESCRIPTION: Establishing contribution rates in the Washington state patrol retirement system.

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

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

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

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

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

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

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

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

NEW SECTION. **Sec. 2.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/5/06	Z-0299.1

SUMMARY OF BILL:

This bill impacts the Washington State Patrol (WSP) Retirement System by changing the contribution rate setting formula. This bill sets rates for the 2007-09 biennium at 4.47 percent for members and 9.98 percent for the employer. Beginning July 1, 2007, the member contribution rate is one-third of the difference between the total cost of the system and the rate attributed to disbursements made under RCW 43.43.270 (2) for survivors of members who became disabled under RCW 43.43.040 (2) prior to July 1, 2006 (the retroactive liability resulting from the Truman law suit, hence forth to be referred to as the "Truman liability") or 7 percent, whichever is less. The employer would then be responsible for the balance. The total contribution rate for the system is determined before the cost-sharing formula is applied. As part of the total contribution rate determination, a minimum total contribution rate is established beginning July 1, 2009. This floor is equal to 70 percent of the Washington State Patrol Retirement System's normal cost as calculated under the entry age normal cost method.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, the member contribution rate in WSP is set at half the cost of the system or 2 percent, whichever is greater. The employer is then responsible for the remaining costs of the system. Because of the funded status of the system, member contribution rates were 2 percent in 2001-2005 and there were no employer contributions during that period. Beginning July 1, 2005, both the employer and employee contribution rates were increased to 4.51 percent of pay. Beginning July 1, 2007, the employer contribution rate will be 7.75 percent of pay and the employee contribution rate will be 6.70 percent of pay.

MEMBERS IMPACTED:

All 1,022 active members of this system would be affected by this bill.

For members impacted by this bill, there would be no increase in benefits, but there would be a decrease in member contributions. The decrease in member contributions would be offset by an increase in employer contributions.

ASSUMPTIONS:

For the current 50/50 rate split after the Truman liability, the total rate minus 1.05 percent is divided by two and rounded to determine the member rate. The employer rate is the difference between the total rate and the member rate.

The one-third member, two-thirds employer split would apply for all years beginning July 1, 2007. The member contribution rate is rounded to two decimal places after multiplying the total rate less the Truman liability, which has been calculated as 1.05 percent, by one-third. This rate is then compared to the 7.00 percent maximum to get the final member rate. The state contribution rate would then be the difference between the total rate and the member rate. The minimum total contribution rate of 70 percent of the entry age normal cost rate is established beginning July 1, 2009. The previously described member and employer rate allocation formula is applied only after the calculation of the minimum total contribution rate. Here are some illustrative examples:

The total rate of 14.45 percent for the 2007-09 biennium would have 1.05 percent subtracted, yielding the rate to be split of 13.40 percent. This rate is split with 4.47 percent for the member and the remaining 9.98 percent of the original total rate for the employer, effective July 1, 2007.

- A total rate of 13.05 percent, after subtracting 1.05 percent, would result in a member contribution of 4.00 percent and the state contribution rate would be 9.05 percent.
- A total rate of 26.05 percent, after subtracting 1.05 percent, would result in a rounded member contribution of 8.33 percent, which would be limited to 7.00 percent. The state contribution rate would be 19.05 percent in this case.
- If the entry age normal cost rate were 20 percent, the minimum total contribution rate would be 14 percent. After subtracting 1.05 percent and dividing by three, the member and employer allocations would be 4.32 percent and 9.68 percent respectively.
- With a total rate of 12 percent under the aggregate method and a floor of 70 percent of a 20 percent entry age normal cost rate, or 14 percent, the floor would apply. The member contribution would be 4.32 percent and the state contribution rate would be 9.68 percent.
- With a total rate of 26.05 percent under the aggregate method and a floor of 70 percent of a 20 percent entry age normal cost rate, or 14 percent, the floor would not apply. The member contribution would be 7.00 percent and the state contribution rate would be 19.05 percent.
- With a total rate of 20 percent under the aggregate method and a floor of 70 percent of a 32 percent entry age normal cost rate, or 22.40 percent, the floor would apply before subtracting 1.05 percent and applying the one-third, two-thirds split and the 7 percent member minimum rate. The member contribution would be 7.00 percent and the state contribution rate would be 15.40 percent.

The projected contribution rates for the current six-year period under the current formula, proposed formula and proposed minimum are shown in the following table:

	Current Formula with Floor		Proposed Formula with Floor	
Year	50.00% Member	50.00% Employer	33.33% Member	66.67% Employer
2006-2007	4.51%	4.51%	N/A	N/A
2007-2008	6.70%	7.75%	4.47%	9.98%
2008-2009	6.70%	7.75%	4.47%	9.98%
2009 & Beyond	7.50%	8.54%	5.00%	11.04%

We did not include any cost impact related to the establishment of a floor contribution rate. A floor, or minimum, contribution rate would not be expected to impact rates in the long run. The short term increase in rates in years in which the floor applied would be offset by lower rates in future years. A floor could actually result in a long-term savings to the extent that investment earnings from the extra contributions due to the floor are used to reduce future contribution requirements. We considered but did not include any cost impact for any issues related to market timing and when the extra contributions from the floor are invested.

The determination that a floor would result in no additional cost and possibly a savings is based on the assumption that any reserve or cushion that is built up from a floor is used to reduce future contribution requirements and not used to provide for benefit increases. If the extra contributions from a floor are used for benefit increases, then there would be a cost to having a floor.

FISCAL IMPACT:

Description:

This proposal would not change the liabilities of the current plan. On average, it would shift one-sixth of the total contributions net of the Truman liability from members to employers. It would also change the cost allocation of any future benefit improvements so that the members would only be paying for one-third instead of one-half and the employer would be responsible for two-thirds of the cost instead of one-half.

Actuarial Determinations:

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

	System: Washington State Patrol		
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to All Current Members)	$803	$0	$803
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$0	$0	$0
Unfunded Liability (PBO) (The Value of the Total Commitment to All Current Members Attributable to Past Service)	($80)	$0	($80)
Increase in Contribution Rates: (Effective 9/1/2007)	2007-09	2009-11 & Beyond	
Member	(2.23%)	(2.50%)	
Employer/State	2.23%	2.50%	

Fiscal Budget Determinations:

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

Costs (in Millions):	WSP
2007-2009	
State:	
General Fund	$0.3
Non-General Fund	3.0
Total State:	3.3
Local Government	0.0
Total Employer	3.3
Total Employee	($3.3)
2009-2011	
State:	
General Fund	$0.4
Non-General Fund	4.1
Total State:	4.5
Local Government	0.0
Total Employer	4.5
Total Employee	($4.5)
2007-2032	
State:	
General Fund	$10.0
Non-General Fund	93.7
Total State:	103.7
Local Government	0.0
Total Employer	103.7
Total Employee	($103.7)

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

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

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

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

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

4. This draft fiscal note is intended for use only during the 2007 Legislative session.

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

6. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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

Technical Corrections

Z-0300.1

Sectional Analysis

Section	RCW Amended	Provision
1	6.15.020	Re: Personal property exemptions: add reference to PSERS.
2	41.32.835	Re: Consolidation of local government unit and first class city retirement system: add references to PSERS.
3	41.04.440	Re: Employer pick-up of member contributions: add references to SERS and PSERS.
4	41.04.445	Re: Employer pick-up of member contributions: add reference to PSERS.
5	New 41.04.450	Re: Employer pick-up of member contributions: add reference to PSERS.
6	41.05.320	Re: Benefits contribution plan, HCA: add references to SERS and PSERS.
7	41.24.400	Re: Enrollment of reserve officers: add references to SERS and PSERS.
8	41.26.195	Re: LEOFF service credit transfers from other retirement systems: add reference to PSERS.
9	41.31A.020	Re: Plan 3 Gain-sharing: update vesting requirements for consistency with new law.
10	41.37.010	Re: PSERS definitions: correct an error in a cross-reference under (6)(b)(iv) and update definition of “eligible position” under (22) for consistency with definition of member.
11	41.45.203	Re: TRS contribution rates for justices and judges: update for consistency.

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In Brief

BILL

The corrections, which have been identified by the Department of Retirement Systems (DRS), are necessitated by changes to Washington’s public pension law in recent years. They include the addition of appropriate cross-references and other updates needed for consistency with the recent changes. The majority of corrections concern implementation of the new Public Safety Employees’ Retirement System (PSERS).

BILL DRAFT

Attached

FISCAL NOTE (DRAFT)

Attached

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0300.1/07

ATTY/TYPIST: LL:ads

BRIEF DESCRIPTION: Making technical corrections in the public retirement systems.

AN ACT Relating to technical corrections in the public retirement systems; amending RCW 41.04.410, 41.04.440, 41.04.445, 41.04.450, 41.05.320, 41.24.400, 41.26.195, 41.31A.020, 41.37.010, and 41.45.203; reenacting and amending RCW 6.15.020; and creating a new section.

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

Sec. 1. RCW 6.15.020 and 1999 c 81 s 1 and 1999 c 42 s 603 are each reenacted and amended to read as follows:

(1) It is the policy of the state of Washington to ensure the well-being of its citizens by protecting retirement income to which they are or may become entitled. For that purpose generally and pursuant to the authority granted to the state of Washington under 11 U.S.C. Sec. 522(b)(2), the exemptions in this section relating to retirement benefits are provided.

(2) Unless otherwise provided by federal law, any money received by any citizen of the state of Washington as a pension from the government of the United States, whether the same be in the actual possession of such person or be deposited or loaned, shall be exempt from execution, attachment, garnishment, or seizure by or under any legal process whatever, and when a debtor dies, or absconds, and leaves his or her

family any money exempted by this subsection, the same shall be exempt to the family as provided in this subsection. This subsection shall not apply to child support collection actions issued under chapter 26.18, 26.23, or 74.20A RCW, if otherwise permitted by federal law.

(3) The right of a person to a pension, annuity, or retirement allowance or disability allowance, or death benefits, or any optional benefit, or any other right accrued or accruing to any citizen of the state of Washington under any employee benefit plan, and any fund created by such a plan or arrangement, shall be exempt from execution, attachment, garnishment, or seizure by or under any legal process whatever. This subsection shall not apply to child support collection actions issued under chapter 26.18, 26.23, or 74.20A RCW if otherwise permitted by federal law. This subsection shall permit benefits under any such plan or arrangement to be payable to a spouse, former spouse, child, or other dependent of a participant in such plan to the extent expressly provided for in a qualified domestic relations order that meets the requirements for such orders under the plan, or, in the case of benefits payable under a plan described in sections 403(b) or 408 of the internal revenue code of 1986, as amended, or section 409 of such code as in effect before January 1, 1984, to the extent provided in any order issued by a court of competent jurisdiction that provides for maintenance or support. This subsection shall not prohibit actions against an employee benefit plan, or fund for valid obligations incurred by the plan or fund for the benefit of the plan or fund.

(4) For the purposes of this section, the term "employee benefit plan" means any plan or arrangement that is described in RCW 49.64.020, including any Keogh plan, whether funded by a trust or by an annuity contract, and in sections 401(a) or 403(a) of the internal revenue code of 1986, as amended; or that is a tax-sheltered annuity described in section 403(b) of such code or an individual retirement account described in section 408 of such code; or a Roth individual retirement account described in section 408A of such code; or a medical savings account described in section 220 of such code; or an education individual retirement account described in section 530 of such code; or a retirement bond described in section 409 of such code as in effect before January 1, 1984. The term "employee benefit plan" also means any rights accruing on account of money paid currently or in advance for purchase of tuition units under the advanced college tuition

payment program in chapter 28B.95 RCW. The term "employee benefit plan" shall not include any employee benefit plan that is established or maintained for its employees by the government of the United States, by the state of Washington under chapter 2.10, 2.12, 41.26, 41.32, 41.34, 41.35, 41.37, 41.40, or 43.43 RCW or RCW 41.50.770, or by any agency or instrumentality of the government of the United States.

(5) An employee benefit plan shall be deemed to be a spendthrift trust, regardless of the source of funds, the relationship between the trustee or custodian of the plan and the beneficiary, or the ability of the debtor to withdraw or borrow or otherwise become entitled to benefits from the plan before retirement. This subsection shall not apply to child support collection actions issued under chapter 26.18, 26.23, or 74.20A RCW, if otherwise permitted by federal law. This subsection shall permit benefits under any such plan or arrangement to be payable to a spouse, former spouse, child, or other dependent of a participant in such plan to the extent expressly provided for in a qualified domestic relations order that meets the requirements for such orders under the plan, or, in the case of benefits payable under a plan described in sections 403(b) or 408 of the internal revenue code of 1986, as amended, or section 409 of such code as in effect before January 1, 1984, to the extent provided in any order issued by a court of competent jurisdiction that provides for maintenance or support.

(6) Unless contrary to applicable federal law, nothing contained in subsection (3), (4), or (5) of this section shall be construed as a termination or limitation of a spouse's community property interest in an individual retirement account held in the name of or on account of the other spouse, the account holder spouse. At the death of the nonaccount holder spouse, the nonaccount holder spouse may transfer or distribute the community property interest of the nonaccount holder spouse in the account holder spouse's individual retirement account to the nonaccount holder spouse's estate, testamentary trust, inter vivos trust, or other successor or successors pursuant to the last will of the nonaccount holder spouse or the law of intestate succession, and that distributee may, but shall not be required to, obtain an order of a court of competent jurisdiction, including a nonjudicial dispute resolution agreement ((~~entered into pursuant to RCW 11.96.170~~)) or other order entered under chapter 11.96A RCW, to confirm the distribution. For purposes of subsection (3) of this section, the

distributee of the nonaccount holder spouse's community property interest in an individual retirement account shall be considered a person entitled to the full protection of subsection (3) of this section. The nonaccount holder spouse's consent to a beneficiary designation by the account holder spouse with respect to an individual retirement account shall not, absent clear and convincing evidence to the contrary, be deemed a release, gift, relinquishment, termination, limitation, or transfer of the nonaccount holder spouse's community property interest in an individual retirement account. For purposes of this subsection, the term "nonaccount holder spouse" means the spouse of the person in whose name the individual retirement account is maintained. The term "individual retirement account" includes an individual retirement account and an individual retirement annuity both as described in section 408 of the internal revenue code of 1986, as amended, a Roth individual retirement account as described in section 408A of the internal revenue code of 1986, as amended, and an individual retirement bond as described in section 409 of the internal revenue code as in effect before January 1, 1984. As used in this subsection, an order of a court of competent jurisdiction includes an agreement, as that term is used under RCW 11.96A.220.

Sec. 2. RCW 41.04.410 and 1984 c 184 s 24 are each amended to read as follows:

If a consolidated employer is a participating member in the public employees' retirement system under chapter 41.40 RCW prior to the consolidation or in the public safety employees' retirement system under chapter 41.37 RCW prior to the consolidation:

(1) All existing employees of the consolidated employer who are active members of the public employees' or public safety employees' retirement system immediately prior to the consolidation shall continue to be members of that retirement system while employed by the consolidated employer.

(2) All existing employees of the consolidated employer who are active members of a first class city retirement system under chapter 41.28 RCW immediately prior to the consolidation shall cease to be members of that system at the time of the consolidation and, if eligible, shall immediately become members of the public employees' or public safety employees' retirement system. However, any such active

member may, by a writing filed with the consolidated employer within thirty days after the consolidation or within thirty days after March 15, 1984, whichever is later, irrevocably elect instead to continue to be a member of the first class city retirement system, thereby forever waiving any rights under the public employees' or public safety employees' retirement system based upon employment with the consolidated employer.

(3) Only prospective periods of qualifying service under the public employees' or public safety employees' retirement system may be established under this section.

Sec. 3. RCW 41.04.440 and 2000 c 247 s 1101 are each amended to read as follows:

(1) The sole purpose of RCW 41.04.445 and 41.04.450 is to allow the members of the retirement systems created in chapters 2.10, 2.12, 41.26, 41.32, 41.35, 41.37, 41.40, 41.34, and 43.43 RCW to enjoy the tax deferral benefits allowed under 26 U.S.C. 414(h). Chapter 227, Laws of 1984 does not alter in any manner the provisions of RCW 41.45.060, 41.45.061, and 41.45.067 which require that the member contribution rates shall be set so as to provide fifty percent of the cost of the respective retirement plans.

(2) Should the legislature revoke any benefit allowed under 26 U.S.C. 414(h), no affected employee shall be entitled thereafter to receive such benefit as a matter of contractual right.

Sec. 4. RCW 41.04.445 and 2000 c 247 s 1102 are each amended to read as follows:

(1) This section applies to all members who are:

(a) Judges under the retirement system established under chapter 2.10, 2.12, or 2.14 RCW;

(b) Employees of the state under the retirement system established by chapter 41.32, 41.37, 41.40, or 43.43 RCW;

(c) Employees of school districts under the retirement system established by chapter 41.32 or 41.40 RCW, except for substitute teachers as defined by RCW 41.32.010;

(d) Employees of educational service districts under the retirement system established by chapter 41.32 or 41.40 RCW; or

(e) Employees of community college districts under the retirement system established by chapter 41.32 or 41.40 RCW.

(2) Only for compensation earned after the effective date of the implementation of this section and as provided by section 414(h) of the federal internal revenue code, the employer of all the members specified in subsection (1) of this section shall pick up only those member contributions as required under:

(a) RCW 2.10.090(1);

(b) RCW 2.12.060;

(c) RCW 2.14.090;

(d) RCW 41.32.263;

(e) RCW 41.32.350;

(f) RCW 41.40.330 (1) and (3);

(g) RCW 41.45.061 and 41.45.067;

(h) RCW 41.34.070;

(i) RCW 43.43.300; and

(j) RCW 41.34.040.

(3) Only for the purposes of federal income taxation, the gross income of the member shall be reduced by the amount of the contribution to the respective retirement system picked up by the employer.

(4) All member contributions to the respective retirement system picked up by the employer as provided by this section, plus the accrued interest earned thereon, shall be paid to the member upon the withdrawal of funds or lump-sum payment of accumulated contributions as provided under the provisions of the retirement systems.

(5) At least forty-five days prior to implementing this section, the employer shall provide:

(a) A complete explanation of the effects of this section to all members; and

(b) Notification of such implementation to the director of the department of retirement systems.

Sec. 5. RCW 41.04.450 and 2003 c 294 s 1 are each amended to read as follows:

(1) Employers of those members under chapters 41.26, 41.34, 41.35, 41.37, and 41.40 RCW who are not specified in RCW 41.04.445 may choose to implement the employer pick up of all member contributions without exception under RCW 41.26.080(1)(a), 41.26.450, 41.40.330(1),

41.45.060, 41.45.061, and 41.45.067 and chapter 41.34 RCW. If the employer does so choose, the employer and members shall be subject to the conditions and limitations of RCW 41.04.445 (3), (4), and (5) and RCW 41.04.455.

(2) An employer exercising the option under this section may later choose to withdraw from and/or reestablish the employer pick up of member contributions only once in a calendar year following forty-five days prior notice to the director of the department of retirement systems.

Sec. 6. RCW 41.05.320 and 1995 1st sp.s. c 6 s 13 are each amended to read as follows:

(1) Elected officials and all permanent employees of the state are eligible to participate in the benefits contribution plan and contribute amount(s) by agreement with the authority. The authority may adopt rules to permit participation in the plan by temporary employees of the state.

(2) Persons eligible under subsection (1) of this section may enter into benefits contribution agreements with the state.

(3)(a) In the initial year of the medical flexible spending arrangement or cafeteria plan, if authorized, an eligible person may become a participant after the adoption of the plan and before its effective date by agreeing to have a portion of his or her gross salary contributed and deposited into a health care and other benefits account to be used for reimbursement of expenses covered by the plan.

(b) After the initial year of the medical flexible spending arrangement or cafeteria plan, if authorized, an eligible person may become a participant for a full plan year, with annual benefit selection for each new plan year made before the beginning of the plan year, as determined by the authority, or upon becoming eligible.

(c) Once an eligible person elects to participate and the amount of gross salary that he or she shall contribute and the benefit for which the funds are to be used during the plan year is determined, the agreement shall be irrevocable and may not be amended during the plan year except as provided in (d) of this subsection. Prior to making an election to participate in the ((~~benefit[s]~~)) benefits contribution plan, the eligible person shall be informed in writing of all the benefits and contributions that will occur as a result of such election.

(d) The authority shall provide in the benefits contribution plan that a participant may enroll, terminate, or change his or her election after the plan year has begun if there is a significant change in a participant's status, as provided by 26 U.S.C. Sec. 125 and the regulations adopted under that section and defined by the authority.

(4) The authority shall establish as part of the benefits contribution plan the procedures for and effect of withdrawal from the plan by reason of retirement, death, leave of absence, or termination of employment. To the extent possible under federal law, the authority shall protect participants from forfeiture of rights under the plan.

(5) Any contribution under the benefits contribution plan shall continue to be included as reportable compensation for the purpose of computing the state retirement and pension benefits earned by the employee pursuant to chapters 41.26, 41.32, 41.35, 41.37, 41.40, and 43.43 RCW.

Sec. 7. RCW 41.24.400 and 1999 c 148 s 31 are each amended to read as follows:

(1) Except as provided in subsection (2) of this section, any municipality may make provision by appropriate legislation and payment of fees required by RCW 41.24.030(1) solely for the purpose of enabling any reserve officer to enroll under the retirement pension provisions of this chapter or fees required under RCW 41.24.030(1) to pay for the costs of extending the relief provisions of this chapter to its reserve officers.

(2) A reserve officer is not eligible to receive a benefit under the retirement provisions of this chapter for service under chapter 41.26, 41.32, 41.35, 41.37, or 41.40 RCW.

(3) Every municipality shall make provisions for the collection and payment of the fees required under this chapter, and shall continue to make provisions for all reserve officers who come under this chapter as long as they continue to be employed as reserve officers.

(4) Except as provided under RCW 41.24.450, a reserve officer is not eligible to receive a benefit under the relief provisions of this chapter.

Sec. 8. RCW 41.26.195 and 2003 c 294 s 2 are each amended to read as follows:

Any member of the teachers' retirement system plans 1, 2, or 3, the public employees' retirement system plans 1, 2, or 3, <u>the public safety employees' retirement system plan 2,</u> the school employees' retirement system plans 2 or 3, or the Washington state patrol retirement system plans 1 or 2 who has previously established service credit in the law enforcement officers' and fire fighters' retirement system plan 1 may make an irrevocable election to have such service transferred to their current retirement system and plan subject to the following conditions:

(1) If the individual is employed by an employer in an eligible position, as of July 1, 1997, the election to transfer service must be filed in writing with the department no later than July 1, 1998. If the individual is not employed by an employer in an eligible position, as of July 1, 1997, the election to transfer service must be filed in writing with the department no later than one year from the date they are employed by an employer in an eligible position.

(2) An individual transferring service under this section forfeits the rights to all benefits as a member of the law enforcement officers' and fire fighters' retirement system plan 1 and will be permanently excluded from membership.

(3) Any individual choosing to transfer service under this section will have transferred to their current retirement system and plan: (a) All the individual's accumulated contributions; (b) an amount sufficient to ensure that the employer contribution rate in the individual's current system and plan will not increase due to the transfer; and (c) all applicable months of service, as defined in RCW 41.26.030(14)(a).

(4) If an individual has withdrawn contributions from the law enforcement officers' and fire fighters' retirement system plan 1, the individual may restore the contributions, together with interest as determined by the director, and recover the service represented by the contributions for the sole purpose of transferring service under this section. The contributions must be restored before the transfer can occur and the restoration must be completed within the time limitations specified in subsection (1) of this section.

(5) Any service transferred under this section does not apply to

the eligibility requirements for military service credit as defined in RCW 41.40.170(3) or 43.43.260(3).

(6) If an individual does not meet the time limitations of subsection (1) of this section, the individual may elect to restore any withdrawn contributions and transfer service under this section by paying the amount required under subsection (3)(b) of this section less any employee contributions transferred.

Sec. 9. RCW 41.31A.020 and 2003 c 294 s 4 are each amended to read as follows:

(1) On January 1, 2004, and on January 1st of even-numbered years thereafter, the member account of a person meeting the requirements of this section shall be credited by the extraordinary investment gain amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) Any member of the teachers' retirement system plan 3, the Washington school employees' retirement system plan 3, or the public employees' retirement system plan 3 who earned service credit during the twelve-month period from September 1st to August 31st immediately preceding the distribution and had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution; or

(b) Any person in receipt of a benefit pursuant to RCW 41.32.875, 41.35.680, or 41.40.820; or

(c) Any person who is a retiree pursuant to RCW 41.34.020(8) and who:

(i) Completed ten service credit years; or

(ii) Completed five service credit years, including twelve service months after attaining age ((~~fifty-four~~)) forty-four; or

(d) Any teacher who is a retiree pursuant to RCW 41.34.020(8) and who has completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817; or

(e) Any classified employee who is a retiree pursuant to RCW 41.34.020(8) and who has completed five service credit years by September 1, 2000, and who transferred to plan 3 under RCW 41.35.510; or

(f) Any public employee who is a retiree pursuant to RCW 41.34.020(8) and who has completed five service credit years by March 1, 2002, and who transferred to plan 3 under RCW 41.40.795; or

(g) Any person who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who:

(i) Completed ten service credit years; or

(ii) Completed five service credit years, including twelve service months after attaining age ((~~fifty-four~~)) <u>forty-four</u>; or

(h) Any teacher who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817; or

(i) Any classified employee who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by September 1, 2000, and who transferred to plan 3 under RCW 41.35.510; or

(j) Any public employee who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by March 1, 2002, and who transferred to plan 3 under RCW 41.40.795.

(3) The extraordinary investment gain amount shall be calculated as follows:

(a) One-half of the sum of the value of the net assets held in trust for pension benefits in the teachers' retirement system combined plan 2 and 3 fund, the Washington school employees' retirement system combined plan 2 and 3 fund, and the public employees' retirement system combined plan 2 and 3 fund at the close of the previous state fiscal year not including the amount attributable to member accounts;

(b) Multiplied by the amount which the compound average of investment returns on those assets over the previous four state fiscal years exceeds ten percent;

(c) Multiplied by the proportion of:

(i) The sum of the service credit on August 31st of the previous year of all persons eligible for the benefit provided in subsection (1) of this section; to

(ii) The sum of the service credit on August 31st of the previous year of:

(A) All persons eligible for the benefit provided in subsection (1) of this section;

(B) Any person who earned service credit in the teachers' retirement system plan 2, the Washington school employees' retirement system plan 2, or the public employees' retirement system plan 2 during the twelve-month period from September 1st to August 31st immediately preceding the distribution;

(C) Any person in receipt of a benefit pursuant to RCW 41.32.765, 41.35.420, or 41.40.630; and

(D) Any person with five or more years of service in the teachers' retirement system plan 2, the Washington school employees' retirement system plan 2, or the public employees' retirement system plan 2;

(d) Divided proportionally among persons eligible for the benefit provided in subsection (1) of this section on the basis of their service credit total on August 31st of the previous year.

(4) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this distribution not granted prior to that time.

Sec. 10. RCW 41.37.010 and 2006 c 309 s 2 are each amended to read as follows:

The definitions in this section apply throughout this chapter, unless the context clearly requires otherwise.

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

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

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

(4) "Employer" means the Washington state department of corrections, the Washington state parks and recreation commission, the Washington state gambling commission, the Washington state patrol, and the Washington state liquor control board; any county corrections

department; any city corrections department not covered under chapter 41.28 RCW; or other employers employing statewide elective officials.

(5) "Member" means any employee employed by an employer on a full-time basis:

(a) Who is in a position that requires completion of a certified criminal justice training course and is authorized by their employer to arrest, conduct criminal investigations, enforce the criminal laws of the state of Washington, and carry a firearm as part of the job;

(b) Whose primary responsibility is to ensure the custody and security of incarcerated or probationary individuals as a corrections officer, probation officer, or jailer;

(c) Who is a limited authority Washington peace officer, as defined in RCW 10.93.020, for an employer; or

(d) Whose primary responsibility is to supervise members eligible under this subsection.

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

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

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

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

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

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

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

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW ((~~41.37.070~~)) 41.37.060;

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

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

(7) "Service" means periods of employment by a member on or after July 1, 2006, for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

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

(a) Service in any state elective position shall be deemed to be full-time service.

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

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

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

(10) "Membership service" means all service rendered as a member.

(11) "Beneficiary" means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

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

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

(14) "Average final compensation" means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.37.290.

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

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

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

(18) "Retirement allowance" means monthly payments to a retiree or beneficiary as provided in this chapter.

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

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

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

(22) "Eligible position" means any permanent, full-time((~~, fully compensated~~)) position included in subsection (5) of this section.

(23) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (22) of this section.

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

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

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

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

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

(29) "Plan" means the Washington public safety employees' retirement system plan 2.

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

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

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

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

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

Sec. 11. RCW 41.45.203 and 2006 c 189 s 18 are each amended to read as follows:

(1) The required employer contribution rate in support of teachers' retirement system members employed as supreme court justices, court of appeals judges, and superior court judges who elect to participate under RCW 41.32.584(1), or who are newly elected or appointed after January 1, 2007, shall equal the teachers' retirement system employer contribution rate established under this chapter.

(2) The required contribution rate for members of the teachers' retirement system plan 1 employed as supreme court justices, court of appeals judges, and superior court judges who elect to participate under RCW 41.32.584(1), or who are newly elected or appointed after January 1, 2007, shall be the deductions established under RCW 41.50.235 plus ((~~six and twenty-six~~)) three and seventy-six one-hundredths percent of pay.

NEW SECTION. **Sec. 12.** Section 9 of this act is null and void, if legislation is enacted during 2007 repealing RCW 41.31A.020.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/5/06	Z-0300.1

SUMMARY OF BILL:

This bill impacts the public employee retirement systems by adding appropriate cross-references and updates needed for consistency with recent changes to the Washington state retirement system laws. The following changes are included: References to PSERS are added to statutes concerning personal property exemptions, treatment of employees under consolidation of local government units and first class city retirement systems, employer pick-up provisions for member contributions, reportability of deferrals into Health Savings Accounts (HSAs), the role of service credit in benefits for reserve officers, and LEOFF service credit transfers from other retirement systems. References to SERS are added to an employer pick-up provision as well as to provisions regarding deferrals into HSAs and the role of service credit in benefits for reserve officers. Plan 3 gain-sharing provisions are updated to be consistent with last year's plan 3 vesting law. An error is corrected in a cross-reference in one PSERS definition, and another PSERS definition (of "eligible position") is updated for consistency with the definition of "member. " Finally, TRS Plan 1 contribution rates for justices and judges who opt into the increased multiplier program are updated for consistency with PERS Plan 1 rates.

Effective Date: 90 days after the end of session

CURRENT SITUATION:

Current laws are missing the essential cross-references, updates and corrections identified above. These omissions involve oversights associated with the implementation of relatively recent changes in the retirement system laws. Without the technical corrections, there would be unintended omissions, disparate treatment of certain plan members as well as possible inconsistent applications of retirement system laws.

FISCAL IMPACT:

None.

Dual Membership

Z-0317.2

In Brief

BILL

This bill amends the portability chapter to mitigate several adverse impacts on public employees who change retirement systems one or more times during their careers.

BILL DRAFT

Attached

FISCAL NOTE (DRAFT)

Attached

Summary of Bill

This bill impacts dual members by making the following changes to the portability chapter:

- The definition of "base salary" would be amended to include payments (such as overtime) that are reportable in both of a dual member's retirement systems.
- Portability's "maximum benefit rule," which was designed to protect Plan 1 benefit caps, would be lifted for members with less than 15 years of service in one capped plan <u>and</u> service in one uncapped plan.
- LEOFF Plan 2 would be added to the list of retirement plans whose members can combine service under portability in order to receive indexing of the term-vested benefit available to those with at least 20 years of service.

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Laura Harper
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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0317.2/07 2nd draft

ATTY/TYPIST: LL:bat

BRIEF DESCRIPTION: Addressing the portability of public retirement benefits.

AN ACT Relating to the portability of public retirement benefits; amending RCW 41.54.010, 41.54.030, and 41.54.070; providing an effective date; and declaring an emergency.

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

Sec. 1. RCW 41.54.010 and 2004 c 242 s 58 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Base salary" means salaries or wages earned by a member of a system during a payroll period for personal services and includes wages and salaries deferred under provisions of the United States internal revenue code, but shall exclude overtime payments, nonmoney maintenance compensation, and lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave, or any similar lump sum payment<u>; except that forms of payment that are excluded under this subsection shall be included in base salary when reportable to the department in all of a dual member's retirement systems</u>.

(2) "Department" means the department of retirement systems.

(3) "Director" means the director of the department of retirement systems.

(4) "Dual member" means a person who (a) is or becomes a member of a system on or after July 1, 1988, (b) has been a member of one or more other systems, and (c) has never been retired for service from a retirement system and is not receiving a disability retirement or disability leave benefit from any retirement system listed in RCW 41.50.030 or subsection (6) of this section.

(5) "Service" means the same as it may be defined in each respective system. For the purposes of RCW 41.54.030, military service granted under RCW 41.40.170(3) or 43.43.260 may only be based on service accrued under chapter 41.40 or 43.43 RCW, respectively.

(6) "System" means the retirement systems established under chapters 41.32, 41.40, 41.44, 41.35, 41.37, and 43.43 RCW; plan 2 of the system established under chapter 41.26 RCW; and the city employee retirement systems for Seattle, Tacoma, and Spokane.

Sec. 2. RCW 41.54.030 and 2003 c 294 s 13 are each amended to read as follows:

(1) A dual member may combine service in all systems for the purpose of:

(a) Determining the member's eligibility to receive a service retirement allowance; and

(b) Qualifying for a benefit under RCW <u>41.26.530(2),</u> 41.32.840(2), 41.35.620, or 41.40.790.

(2) A dual member who is eligible to retire under any system may elect to retire from all the member's systems and to receive service retirement allowances calculated as provided in this section. Each system shall calculate the allowance using its own criteria except that the member shall be allowed to substitute the member's base salary from any system as the compensation used in calculating the allowance.

(3) The service retirement allowances from a system which, but for this section, would not be allowed to be paid at this date based on the dual member's age may be received immediately or deferred to a later date. The allowances shall be actuarially adjusted from the earliest age upon which the combined service would have made such dual member eligible in that system.

(4) The service retirement eligibility requirements of RCW 41.40.180 shall apply to any dual member whose prior system is plan 1 of the public employees' retirement system established under chapter 41.40 RCW.

Sec. 3. RCW 41.54.070 and 1996 c 55 s 6 are each amended to read as follows:

(1) The benefit granted by this chapter shall not result in a total benefit less than would have been received absent such benefit.

(2) The total sum of the retirement allowances received under this chapter shall not exceed the largest amount the dual member would receive if all the service had been rendered in any one system. When calculating the maximum benefit a dual member would receive: ((~~(1)~~)) (a) Military service granted under RCW 41.40.170(3) or 43.43.260 shall be based only on service accrued under chapter 41.40 or 43.43 RCW, respectively; and ((~~(2)~~)) (b) the calculation shall be made assuming that the dual member did not defer any allowances pursuant to RCW 41.54.030(3). When a dual member's combined retirement allowances would exceed the limitation imposed by this ((~~section~~)) subsection, the allowances shall be reduced by the systems on a proportional basis, according to service. The limitation imposed by this subsection shall not apply to a dual member with:

(i) Less than fifteen years of service credit in a plan with a retirement benefit cap as defined by the department; and

(ii) Service credit in a plan with no retirement benefit cap.

NEW SECTION. **Sec. 4.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/6/06	Z-0317.2

SUMMARY OF BILL:

This bill impacts the teachers' retirement system (TRS), the public employees' retirement system (PERS), the statewide city employees' retirement system, the school employees' retirement system (SERS), the public safety employees' retirement system (PSERS), the Washington state patrol retirement system (WSPRS), plan 2 of the law enforcement officers and firefighters' retirement system (LEOFF2), and the city employee retirement systems for Seattle, Tacoma and Spokane. The bill amends the chapter providing portability of pubic employee retirement benefits to remove certain adverse impacts on public employees who change retirement systems during the course of their careers:

1. Overtime - Allows previously excluded forms of payment that are reportable (for contribution purposes) in each of a dual member's retirement systems to be included within the portability chapter's "base salary" definition. As a practical matter, this will mostly apply to overtime. The change will allow certain members to use more of their compensation to determine their final retirement benefit.

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

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

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently the portability chapter limits the definition of "base salary" that is used to calculate a dual member's final retirement benefit. Portability's definition excludes overtime payments, non-money maintenance compensation, lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave or any similar lump sum payment. See RCW 41.54.010.

Currently, all dual members are subject to the "maximum benefit rule." This limit on a dual member's total retirement benefit is found in RCW 41.54.070. It provides: "The total sum of the retirement allowances received under this chapter shall not exceed the largest amount the dual member would receive if all the service had been rendered in any one system." When a dual member's combined retirement allowances would exceed this limitation, the allowances are reduced by the systems on a proportional basis, according to service.

Currently, LEOFF Plan 2 is omitted from the list of plans whose members can combine service under portability for the purpose of receiving indexing of the term-vested benefit for members with at least 20 years of service. See RCW 41.54.030 (1)(b).

MEMBERS IMPACTED:

We estimate that 11,754 active dual members out of the total 290,111 active members of LEOFF, PERS, TRS, SERS, and WSPRS as of September 30, 2005 would be affected by this bill.

The following table provides counts of dual members within Washington State's retirement systems. Not all dual members would be impacted by the each provision. The provision on overtime may impact all dual members, the provision on the service cap would only impact dual members with service in a Plan 1 and Plan 2/3, and the provision on indexing would only impact LEOFF Plan 2 dual members.

Summary of Active Dual Members
As of 9/30/2005

Active System	Dual Member System					
	LEOFF	PERS	TRS	SERS	WSPRS	Total
LEOFF		1,545	32	17	23	1,617
PERS	266		361	757	6	1,390
PSERS (*Estimated)*		1,857				1,857
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Total	320	8,997	548	1,859	30	11,754

Dual members not active in either dual system.	1,502
Estimated Dual Plan 1/Plan 2,3 Members active in one system.	1,000
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The bill would also impact all PSERS members who elected to transfer from PERS. We received preliminary counts of the PERS members who chose to transfer into PSERS from DRS indicating that 1,857 members elected to transfer.

We estimate that for a typical member impacted by this bill, the increase in benefits would be a 1 percent to 11 percent increase in the benefit from the dual member system.

METHODS AND ASSUMPTIONS:

Actuarial Methods

Overtime

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

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

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

Service Cap

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

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

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

Indexing of Terminated Vested Benefits

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

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

The methods chosen are reasonable for the purpose of the actuarial calculations presented in this fiscal note. Use of another set of methods may also be reasonable and might produce different results.

Actuarial Assumptions

In determining the costs of these proposals we identified dual members from the 2005 valuation data and studied the amount of overtime earned by active members. We then developed assumptions on how many dual members would be impacted by each proposal and how much the liability would increase for members impacted.

- For all provisions we assumed there would be no change in retirement behavior resulting from the passing of any single proposal or combination of these proposals into law.

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

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

- We assumed that 20 percent of dual members would benefit from lifting the “maximum benefit rule” (the service cap) and that the average increase in benefits would be 7.5 percent.

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

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

The assumptions chosen are reasonable for the purpose of the actuarial calculations presented in this fiscal note. Use of another set of assumptions may also be reasonable and might produce different results.

Data

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

FISCAL IMPACT:

Description:

The provision on overtime would have a cost and impact on contribution rates. The provisions on the service cap and indexing would have a cost, but the new plan changes would apply to so few members that the costs would not impact contribution rates.

Actuarial Determinations:

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

(Dollars in Millions)	System/Plan	Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS	$31,601	$8	$31,609
(The Value of the Total Commitment to all Current Members)	TRS	$17,119	$0	$17,119
	SERS	$2,473	$1	$2,474
	LEOFF	$9,700	$0	$9,700
	WSPRS	$803	$0	$803
Unfunded Actuarial Accrued Liability	PERS	$3,567	$0	$3,567
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS	$2,147	$0	$2,147
	LEOFF	($584)	$0	($584)
Unfunded Liability (PBO)	PERS	$828	$8	$836
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS	$969	$0	$969
	SERS	($315)	$1	($314)
	LEOFF	($974)	$0	($974)
	WSPRS	($80)	$0	($80)

Increase in Contribution Rates (Effective 9/1/2007)		
System/Plan	PERS	WSPRS
Current Members		
Employee	0.01%	0.02%
Employer	0.01%	0.02%
New Entrants		
Employee	0.01%	0.02%
Employer	0.01%	0.02%

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

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

**Totals may not match due to rounding.*

Sensitivity Analysis

For the benefit improvement related to overtime, if the experience of Average Final Compensation (AFC) increase from overtime were 50 percent higher than we assumed for all active systems, the contribution rates would increase as follows:

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

For the benefit improvements related to the service cap and indexing, assuming a 50 percent higher than expected increase in benefits still had no impact on 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, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, and the Washington State Patrol Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the 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.

In Brief

BILL

This bill amends the portability chapter to mitigate several adverse impacts on public employees who change retirement systems one or more times during their careers.

BILL DRAFT

Attached

FISCAL NOTE (DRAFT)

Attached

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

Dual Membership

Z-0318.2

Summary of Bill

This bill impacts dual members by making the following changes to the portability chapter:

- The definition of "base salary" would be amended to include payments (such as overtime) that are reportable in both of a dual member's retirement systems. **This version excludes members of the Washington State Patrol Retirement System from participation in this benefit.**
- Portability's "maximum benefit rule," which was designed to protect Plan 1 benefit caps, would be lifted for members with less than 15 years of service in one capped plan <u>and</u> service in one uncapped plan.
- LEOFF Plan 2 would be added to the list of retirement plans whose members can combine service under portability in order to receive indexing of the term-vested benefit available to those with at least 20 years of service.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0318.2/07 2nd draft

ATTY/TYPIST: LL:bat

BRIEF DESCRIPTION: Addressing the portability of public retirement benefits.

AN ACT Relating to the portability of public retirement benefits; amending RCW 41.54.010, 41.54.030, and 41.54.070; providing an effective date; and declaring an emergency.

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

Sec. 1. RCW 41.54.010 and 2004 c 242 s 58 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Base salary" means salaries or wages earned by a member of a system during a payroll period for personal services and includes wages and salaries deferred under provisions of the United States internal revenue code, but shall exclude overtime payments, nonmoney maintenance compensation, and lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave, or any similar lump sum payment<u>; except that forms of payment which are excluded under this subsection shall be included in base salary when reportable to the department in all of a dual member's</u>

retirement systems, and when none of the dual member's retirement systems are the Washington state patrol retirement system.

(2) "Department" means the department of retirement systems.

(3) "Director" means the director of the department of retirement systems.

(4) "Dual member" means a person who (a) is or becomes a member of a system on or after July 1, 1988, (b) has been a member of one or more other systems, and (c) has never been retired for service from a retirement system and is not receiving a disability retirement or disability leave benefit from any retirement system listed in RCW 41.50.030 or subsection (6) of this section.

(5) "Service" means the same as it may be defined in each respective system. For the purposes of RCW 41.54.030, military service granted under RCW 41.40.170(3) or 43.43.260 may only be based on service accrued under chapter 41.40 or 43.43 RCW, respectively.

(6) "System" means the retirement systems established under chapters 41.32, 41.40, 41.44, 41.35, 41.37, and 43.43 RCW; plan 2 of the system established under chapter 41.26 RCW; and the city employee retirement systems for Seattle, Tacoma, and Spokane.

Sec. 2. RCW 41.54.030 and 2003 c 294 s 13 are each amended to read as follows:

(1) A dual member may combine service in all systems for the purpose of:

(a) Determining the member's eligibility to receive a service retirement allowance; and

(b) Qualifying for a benefit under RCW 41.26.530(2), 41.32.840(2), 41.35.620, or 41.40.790.

(2) A dual member who is eligible to retire under any system may elect to retire from all the member's systems and to receive service retirement allowances calculated as provided in this section. Each system shall calculate the allowance using its own criteria except that the member shall be allowed to substitute the member's base salary from any system as the compensation used in calculating the allowance.

(3) The service retirement allowances from a system which, but for this section, would not be allowed to be paid at this date based on the dual member's age may be received immediately or deferred to a later

date. The allowances shall be actuarially adjusted from the earliest age upon which the combined service would have made such dual member eligible in that system.

(4) The service retirement eligibility requirements of RCW 41.40.180 shall apply to any dual member whose prior system is plan 1 of the public employees' retirement system established under chapter 41.40 RCW.

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(i) Less than fifteen years of service credit in a plan with a retirement benefit cap as defined by the department; and

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NEW SECTION. **Sec. 4.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007.

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RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
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1. Overtime - Allows previously excluded forms of payment that are reportable (for contribution purposes) in each of a dual member's retirement systems to be included within the portability chapter's "base salary" definition with the following exception: neither of the dual member's retirement systems can be the Washington state patrol retirement system. As a practical matter, this will mostly apply to overtime. The change will allow certain members to use more of their compensation to determine their final retirement benefit.

2. Service Cap - Lifts portability's "maximum benefit rule" for dual members who have (a) less than 15 years of service in one capped plan; and (b) service in one uncapped plan.

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

Service Cap

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

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

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

Indexing of Terminated Vested Benefits

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

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

The methods chosen are reasonable for the purpose of the actuarial calculations presented in this fiscal note. Use of another set of methods may also be reasonable and might produce different results.

Actuarial Assumptions

In determining the costs of these proposals we identified dual members from the 2005 valuation data and studied the amount of overtime earned by active members. We then developed assumptions on how many dual members would be impacted by each proposal and how much the liability would increase for members impacted.

- For all provisions we assumed there would be no change in retirement behavior resulting from the passing of any single proposal or combination of these proposals into law.

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

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

- We assumed that 20 percent of dual members would benefit from lifting the “maximum benefit rule” (the service cap) and that the average increase in benefits would be 7.5 percent.

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

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

The assumptions chosen are reasonable for the purpose of the actuarial calculations presented in this fiscal note. Use of another set of assumptions may also be reasonable and might produce different results.

Data

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

FISCAL IMPACT:

Description:

The provision on overtime would have a cost and impact on contribution rates. The provisions on the service cap and indexing would have a cost, but the new plan changes would apply to so few members that the costs would not impact contribution rates.

Actuarial Determinations:

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

(Dollars in Millions)	System/Plan	Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS	$31,601	$8	$31,609
(The Value of the Total Commitment to all Current Members)	TRS	$17,119	$0	$17,119
	SERS	$2,473	$1	$2,474
	LEOFF	$9,700	$0	$9,700
	WSPRS	$803	$0	$803
Unfunded Actuarial Accrued Liability	PERS	$3,567	$0	$3,567
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS	$2,147	$0	$2,147
	LEOFF	($584)	$0	($584)
Unfunded Liability (PBO)	PERS	$828	$8	$836
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS	$969	$0	$969
	SERS	($315)	$1	($314)
	LEOFF	($974)	$0	($974)
	WSPRS	($80)	$0	($80)

Increase in Contribution Rates (Effective 9/1/2007)	
System/Plan	PERS
Current Members	
Employee	0.01%
Employer	0.01%
New Entrants	
Employee	0.01%
Employer	0.01%

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

Dual Membership - Projected Costs	
Costs (in Millions)*	PERS
2007-2009	
State:	
General Fund	$0.2
Non-General Fund	0.3
Total State	0.5
Local Government	0.7
Total Employer	1.2
Total Employee	$1.0
2009-2011	
State:	
General Fund	$0.2
Non-General Fund	0.3
Total State	0.5
Local Government	0.8
Total Employer	1.3
Total Employee	$1.0
2007-2032	
State:	
General Fund	$1.7
Non-General Fund	2.7
Total State	4.4
Local Government	6.8
Total Employer	11.2
Total Employee	$9.2

Sensitivity Analysis

For the benefit improvement related to overtime, if the experience of Average Final Compensation (AFC) increase from overtime were 50 percent higher than we assumed for all active systems, the contribution rates would increase as follows:

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

For the benefit improvements related to the service cap and indexing, assuming a 50 percent higher than expected increase in benefits still had no impact on 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, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, and the Washington State Patrol Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the 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.

WASHINGTON STATE LEGISLATURE
Office of the State Actuary

December 8, 2006

Via e-mail and SCPP Meeting Handout

TO: **Members, Select Committee on Pension Policy (SCPP)**

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

SUBJECT: **Contribution Rate Adoption Process**

This memo is provided as additional background information for the December 12, 2006, agenda item entitled "Contribution Rate Adoption Process." The item is before you based on the SCPP Executive Committee's November 21, 2006, approval of the December 12, 2006, agenda.

The draft bill in your e-mail packet is request legislation from the Office of the State Actuary (OSA). You have several procedural options available to you with respect to this proposal: sponsor the bill, endorse the bill, or treat the item as informational only.

I am briefing you in this memo for several reasons. First, this item was not part of your interim work plan, and therefore not an item that you have studied – although you are all somewhat familiar with the contribution rate adoption process, having made your most recent recommendation to the Pension Funding Council (PFC) in September of this year. Also, knowing that your December agenda is very full and that there will be very little time for each agenda item, I wanted to make sure you have an opportunity to understand my reasons for the bill and for bringing it forward at this time.

The most significant change proposed in the bill is one of timing. I am proposing that the PFC's decision on contribution rates be made two months earlier than it is now. There are several reasons why I am recommending this change now. First, the valuation process is a very long one and involves a lot of advance planning. I felt that the advantages of moving forward with my proposal this session outweighed the advantages associated with waiting for further study or discussion.

Secondly, adjusting the timing for the next rate-setting valuation would allow the OSA to use the audited financial information and assets of the retirement systems as of the end of the fiscal year, making the valuation date June 30 instead of September 30. This change would be responsive to a consideration mentioned in the last two actuarial audits, which pointed out the preferred practice of consistency between audited financial statements and the valuation date.

Thirdly, there was discussion at the September PFC meeting concerning a perceived lack of synchronicity between the pension contribution rate adoption process, which now happens in the fall, and collective bargaining, which happens earlier. This discussion and the concerns mentioned above prompted me to meet with members of the PFC workgroup to discuss how the timing of the contribution rate process could work more smoothly for all involved.

Another timing change in the bill is a new requirement that the PFC submit preliminary actuarial audit results to the SCPP at least thirty (30) days prior to taking action on contribution rates. This change is proposed so that the SCPP will have more time to use this information in developing its recommendation to the PFC.

Finally, the review of economic assumptions would be shifted to the fall of odd-numbered years instead of every four years in the spring. This timing change is more in harmony with the schedule for other statutory requirements such as experience studies and the valuation schedule, as well as my professional obligations under the actuarial standards of practice. It also gives the PFC more flexibility in the event, for example, of a major policy change by the legislature or a new asset allocation strategy by the Washington State Investment Board.

There are several other changes in the bill that are designed to further clarify the contribution rate adoption process in a manner that is more consistent with existing practice. I would be happy to discuss any of the changes in more detail with you, and answer any questions you may have.

Thank you for your consideration.

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Contribution Rate Adoption Process

Z-0319.1

In Brief

BILL

This bill amends the contribution rate adoption process described in the actuarial funding chapter. Most significantly, it provides that contribution rate-setting will occur two months earlier than it does now.

BILL DRAFT

Attached

FISCAL NOTE (DRAFT)

Attached

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

Summary of Bill

- The PFC would adopt rates by July 31 of even-numbered years instead of by September 30.
- The State Actuary would submit both preliminary and final valuation results. Preliminary results would be submitted before the Pension Funding Council (PFC) adopts rates and would be based on existing mandates. Final valuation results would be submitted after the PFC acts and would incorporate the latest PFC actions.
- The PFC would submit preliminary audit results to the SCPP at least 30 days prior to taking action on contribution rates.
- Concurrently with PFC adoption of employer rates, the State Actuary would calculate the resulting member rates and notify the appropriate agencies.
- PFC audits would cover preliminary and final valuations, and both employer and member rates.
- The PFC would have the flexibility to adopt annual rate changes.
- Long-term economic assumptions would be evaluated in the fall of odd-numbered years instead of every four years in the spring. The State Actuary would be specifically required to make recommendations to the PFC regarding these assumptions.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0319.1/07

ATTY/TYPIST: LL:mos

BRIEF DESCRIPTION: Adopting contribution rates for the actuarial funding of the state retirement systems.

AN ACT Relating to the process for adopting contribution rates for the actuarial funding of the state retirement systems; amending RCW 41.45.030, 41.45.060, 41.45.061, 41.45.0631, and 41.45.110; providing an effective date; and declaring an emergency.

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

Sec. 1. RCW 41.45.030 and 2001 2nd sp.s. c 11 s 5 are each amended to read as follows:

(1) Beginning ((~~April 1, 2004~~)) September 1, 2007, and every four years thereafter, the state actuary shall submit to the council information regarding the experience and financial condition of each state retirement system, and make recommendations regarding the long-term economic assumptions set forth in RCW 41.45.035. The council shall review this and such other information as it may require.

(2) By ((~~May 31, 2004~~)) October 31, 2007, and every ((~~four~~)) two years thereafter, the council, by affirmative vote of four councilmembers, may adopt changes to the long-term economic assumptions established in RCW 41.45.035. Any changes adopted by the council shall be subject to revision by the legislature.

The council shall consult with the economic and revenue forecast supervisor and the executive director of the state investment board, and shall consider long-term historical averages, in reviewing possible changes to the economic assumptions.

(3) The assumptions and the asset value smoothing technique established in RCW 41.45.035, as modified in the future by the council or legislature, shall be used by the state actuary in conducting all actuarial studies of the state retirement systems, including actuarial fiscal notes under RCW 44.44.040. The assumptions shall also be used for the administration of benefits under the retirement plans listed in RCW 41.45.020, pursuant to timelines and conditions established by department rules.

Sec. 2. RCW 41.45.060 and 2005 c 370 s 2 are each amended to read as follows:

(1) The state actuary shall provide preliminary actuarial valuation results based on the economic assumptions and asset value smoothing technique included in RCW 41.45.035 or adopted ((~~by the council~~)) under RCW 41.45.030 or 41.45.035.

(2) Not later than ((~~September 30, 2002~~)) July 31, 2008, and every two years thereafter, consistent with the economic assumptions and asset value smoothing technique included in RCW 41.45.035 or adopted under RCW 41.45.030 or 41.45.035, the council shall adopt and may make changes to:

(a) A basic state contribution rate for the law enforcement officers' and fire fighters' retirement system plan 1;

(b) Basic employer contribution rates for the public employees' retirement system, the teachers' retirement system, and the Washington state patrol retirement system ((~~to be used in the ensuing biennial period~~)); and

(c) ((~~A~~)) Basic employer contribution rates for the school employees' retirement system and the public safety employees' retirement system for funding both those systems and the public employees' retirement system plan 1.

The council may adopt annual rate changes for any plan for any rate-setting period. The contribution rates adopted by the council shall be subject to revision by the legislature.

(3) The employer and state contribution rates adopted by the council shall be the level percentages of pay that are needed:

(a) To fully amortize the total costs of the public employees' retirement system plan 1, the teachers' retirement system plan 1, and the law enforcement officers' and fire fighters' retirement system plan 1 not later than June 30, 2024; and

(b) To fully fund the public employees' retirement system plans 2 and 3, the teachers' retirement system plans 2 and 3, the public safety employees' retirement system plan 2, and the school employees' retirement system plans 2 and 3 in accordance with RCW 41.45.061, 41.45.067, and this section.

(4) The aggregate actuarial cost method shall be used to calculate a combined plan 2 and 3 employer contribution rate and a Washington state patrol retirement system contribution rate.

(5) The council shall immediately notify the directors of the office of financial management and department of retirement systems of the state and employer contribution rates adopted. The rates shall be effective for the ensuing biennial period, subject to any legislative modifications.

(6) The director shall collect those rates adopted by the council. The rates established in RCW 41.45.062, or by the council, shall be subject to revision by the legislature.

<u>(7) The state actuary shall prepare final actuarial valuation results based on the economic assumptions, asset value smoothing technique, and contribution rates included in or adopted under RCW 41.45.030, 41.45.035, and this section.</u>

Sec. 3. RCW 41.45.061 and 2004 c 242 s 40 are each amended to read as follows:

(1) The required contribution rate for members of the plan 2 teachers' retirement system shall be fixed at the rates in effect on July 1, 1996, subject to the following:

(a) Beginning September 1, 1997, except as provided in (b) of this subsection, the employee contribution rate shall not exceed the employer plan 2 and 3 rates adopted under RCW 41.45.060, 41.45.054, and 41.45.070 for the teachers' retirement system;

(b) In addition, the employee contribution rate for plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after July 1, 1996;

(c) In addition, the employee contribution rate for plan 2 shall not be increased as a result of any distributions pursuant to section 309, chapter 341, Laws of 1998 and RCW 41.31A.020.

(2) The required contribution rate for members of the school employees' retirement system plan 2 shall equal the school employees' retirement system employer plan 2 and 3 contribution rate adopted under RCW 41.45.060, 41.45.054, and 41.45.070, except as provided in subsection (3) of this section.

(3) The member contribution rate for the school employees' retirement system plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after September 1, 2000.

(4) The required contribution rate for members of the public employees' retirement system plan 2 shall be set at the same rate as the employer combined plan 2 and plan 3 rate.

(5) The required contribution rate for members of the law enforcement officers' and fire fighters' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

(6) The employee contribution rates for plan 2 under subsections (3) and (4) of this section shall not include any increase as a result of any distributions pursuant to RCW 41.31A.020 and 41.31A.030.

(7) The required plan 2 and 3 contribution rates for employers shall be adopted in the manner described in RCW 41.45.060, 41.45.054, and 41.45.070.

(8) The required contribution rate for members of the public safety employees' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

(9) Concurrently with the adoption of employer contribution rates, the state actuary shall calculate the required contribution rates for plan 2 members, which are fixed in accordance with this section. Upon adoption of employer contribution rates, the state actuary shall immediately notify the directors of the office of financial management and department of retirement systems of the required contribution rates for members, which shall be effective for the ensuing rate-setting period.

Sec. 4. RCW 41.45.0631 and 2006 c 94 s 2 are each amended to read as follows:

Beginning July 1, 2001, the required contribution rate for members of the Washington state patrol retirement system shall be two percent or equal to the employer rate adopted under RCW 41.45.060 and 41.45.070 for the Washington state patrol retirement system, whichever is greater. The employee contribution rate shall not, however, include any increase as a result of distributions under RCW 43.43.270(2) for survivors of members who became disabled under RCW 43.43.040(2) prior to July 1, 2006. Concurrently with the adoption of the employer contribution rate for the Washington state patrol retirement system, the state actuary shall calculate the required contribution rate for members, which is fixed in accordance with this section. The state actuary shall immediately notify the directors of the office of financial management and department of retirement systems of the required contribution rate for members, which shall be effective for the ensuing rate-setting period.

Sec. 5. RCW 41.45.110 and 2003 c 295 s 10 are each amended to read as follows:

The pension funding council shall solicit and administer a biennial actuarial audit of the preliminary and final actuarial valuations used for employer and member rate-setting purposes. This audit will be conducted concurrent with the actuarial valuation performed by the state actuary. At least once in each six-year period, the pension funding council shall solicit and administer an actuarial audit of the results of the experience study required in RCW 41.45.090. Upon receipt of the results of the preliminary actuarial audits required by this section, and at least thirty days prior to adopting contribution rates, the pension funding council shall submit the results to the select committee on pension policy.

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

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/6/06	Z-0319.1

SUMMARY OF BILL:

This bill impacts the public employees' retirement system (PERS), the school employees' retirement system (SERS), the teachers' retirement system (TRS), the law enforcement officers' and fire fighters' retirement system plan 1 (LEOFF 1), the public safety employee's retirement system (PSERS), and the Washington state patrol retirement system (WSPRS) by amending and clarifying the process for adopting the contribution rates used to help fund the retirement systems. The following changes are proposed:

1. More specific requirements would be set forth related to the actuarial valuations, in that the state actuary would submit both preliminary and final valuation results. Preliminary results would be submitted before the Pension Funding Council (PFC) rate-adoption process, based on existing mandates. Final results would be submitted after the PFC acts and would incorporate the PFC actions.

2. The PFC would be required to submit preliminary audit results to the SCPP at least thirty days prior to the PFC's action on contribution rates.

3. The State Actuary would be required to calculate member rates based on the employer rates adopted by the PFC. The current statutory approach to member rates, i.e. that they are "fixed" as a by-product of the adopted employer rates and statutory cost-sharing formulae, would continue; however, the State Actuary would have a new obligation to notify DRS and OFM of the resulting member rates.

4. Both the preliminary and final valuations, including employer and resulting member rates, would be audited. The PFC would maintain full control over the actuarial audit process.

5. The PFC would adopt rates by 7/31 of even-numbered years instead of by 9/30.

6. The PFC would have the flexibility to require annual rate changes instead of fixed rates for any rate-setting period.

7. Economic assumptions would be evaluated in odd-numbered years instead of every four years, in the fall instead of the spring, beginning in the fall of 2007. (This does not mean they would change each time - just that they would be examined more often.) The State Actuary would have a new obligation to make recommendations regarding the long-term economic assumptions.

8. The PFC would retain its authority to adopt rates which may or may not include the demographic assumptions recommended by the State Actuary. The PFC would also retain its authority to audit the experience studies (which form the basis for many of the demographic assumptions).

Effective Date: July 1, 2007

CURRENT SITUATION:

Current law references actuarial valuations, but makes no distinction between preliminary and final valuations. The proposed distinction is made for administrative clarity and convenience. Preliminary valuation results would contain the recommendations of the State Actuary based on existing mandates. Final results would be based on the rates actually adopted by the PFC . The requirement that preliminary audit results be submitted to the SCPP at least thirty days prior to rate adoption is new, as current law does not specify a time frame. Currently there is broad authority in the PFC to conduct actuarial audits of the valuations used for rate-setting purposes, however, new language would clarifiy that this includes both the preliminary and final valuations and the calculation of both member and employer rates. Current law requires that contribution rates be adopted by September 30th; the proposed law would require that they be adopted two months earlier. Current law provides for biennial rate setting. The proposed law adds rate-setting flexibility: the ability to set rates that change annually. Current law does not specify who notifies DRS and OFM of member contribution rates. The proposed law would require the State Actuary to do so. Currently economic assumptions are evaluated every four years. The proposed law would provide for evaluation of these assumptions every two years, and the State Actuary would be required to make recommendations on economic assumptions.

MEMBERS IMPACTED:

We estimate that the members of the retirement systems would not be affected by this bill.

FISCAL IMPACT:

None.

STATE ACTUARY'S COMMENTS:

To meet the rate adoption timetable in the bill the actuarial valuation date would be changed from September 30th to June 30th for PERS, TRS, SERS, LEOFF 1, and WSPRS.

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 retirement systems.

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.

In Brief

BILL

This legislation would change the cost for participating Judges to buy the higher benefit multiplier for past judicial service.

BILL DRAFT

Attached

FISCAL NOTE (DRAFT)

Attached

Judges Benefit Multiplier

Z-0320.1

Bill Summary

This bill allows Judges who elect to contribute a higher percent of pay and earn a higher benefit multiplier, to buy the higher benefit multiplier for past judicial service:

- PERS 1, PERS 2, and TRS 1 Judges would pay 5 percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased.
- PERS 3 Judges would pay 2.5 percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased.
- Judges would also pay interest as determined by the Director of the Department of Retirement Systems – 8.0 percent compounded annually.

O:\SCPP\2006\12-12-06 Full\9.Judges_benefit_multiplier.doc

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0320.1/07
ATTY/TYPIST:	LL:rmh
BRIEF DESCRIPTION:	Granting an optional retirement benefit to certain judges.

AN ACT Relating to purchasing an increased benefit multiplier for past judicial service for judges in the public employees' retirement system and the teachers' retirement system; amending RCW 41.40.124, 41.40.127, 41.40.870, 41.40.873, and 41.32.584; adding new sections to chapter 41.40 RCW; adding a new section to chapter 41.32 RCW; providing an effective date; and declaring an emergency.

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

Sec. 1. RCW 41.40.124 and 2006 c 189 s 5 are each amended to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 1 or plan 2 employed as a supreme court justice, court of appeals judge, or superior court judge may make a one-time irrevocable election, filed in writing with the member's employer, the department, and the administrative office of the courts, to accrue an additional benefit equal to one and one-half percent of average final compensation for each year of future service credit from the date of the election in lieu of future employee and employer contributions to the judicial retirement account plan under chapter 2.14 RCW.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by an additional one and one-half percent per year of service for the period in which the member served as a justice or judge prior to the election. The member may purchase the higher benefit multiplier for all or part of the member's prior judicial service beginning with the most recent judicial service. The member shall pay((~~, for the applicable period of service,~~)) five percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased, plus interest as determined by the director. The purchase price shall not exceed the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier ((~~as determined by the director~~)). This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

Sec. 2. RCW 41.40.127 and 2006 c 189 s 6 are each amended to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 1 or plan 2 employed as a district court judge or municipal court judge may make a one-time irrevocable election, filed in writing with the member's employer and the department, to accrue an additional benefit equal to one and one-half percent of average final compensation for each year of future service credit from the date of the election.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by one and one-half percent per year of service for the period in which the member served as a judge prior to the election. The member may purchase the higher benefit multiplier for all or part of the member's prior judicial service beginning with the most recent judicial service. The member shall pay((~~, for the applicable period of service,~~)) five percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased, plus interest as determined by the director. The purchase price shall not exceed the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier ((~~as determined by the director~~)). This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

Sec. 3. RCW 41.40.870 and 2006 c 189 s 8 are each amended to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 3 employed as a supreme court justice, court of appeals judge, or superior court judge may make a one-time irrevocable election, filed in writing with the member's employer, the department, and the administrative office of the courts, to accrue an additional plan 3 defined benefit equal to six-tenths percent of average final compensation for each year of future service credit from the date of the election in lieu of future employer contributions to the judicial retirement account plan under chapter 2.14 RCW.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by six-tenths percent per year of service for the period in which the member served as a justice or judge prior to the election. The member may purchase the higher benefit multiplier for all or part of the member's prior judicial service beginning with the most recent judicial service. The member shall pay((~~, for the applicable period of service,~~)) two and one-half percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased, plus interest as determined by the director. The purchase price shall not exceed the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier ((~~as determined by the director~~)). This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(3) A member who chooses to make the election under subsection (1) of this section shall contribute a minimum of seven and one-half percent of pay to the member's defined contribution account.

Sec. 4. RCW 41.40.873 and 2006 c 189 s 9 are each amended to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 3 employed as a district court judge or municipal court judge may make a one-time irrevocable election, filed in writing with the member's employer and the department, to accrue an additional plan 3 defined benefit equal to six-tenths percent of average final compensation for each year of future service credit from the date of the election.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by six-tenths percent per year of service for the period in which the member served as a judge prior to the election. <u>The member may purchase the higher benefit multiplier for all or part of the member's prior judicial service beginning with the most recent judicial service.</u> The member shall pay((~~, for the applicable period of service,~~)) <u>two and one-half percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased, plus interest as determined by the director. The purchase price shall not exceed</u> the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier ((~~as determined by the director~~)). This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(3) A member who chooses to make the election under subsection (1) of this section shall contribute a minimum of seven and one-half percent of pay to the member's defined contribution account.

Sec. 5. RCW 41.32.584 and 2006 c 189 s 7 are each amended to read as follows:

(1) Between January 1, 2007, and December 31, 2007, a member of plan 1 employed as a supreme court justice, court of appeals judge, or superior court judge may make a one-time irrevocable election, filed in writing with the member's employer, the department, and the administrative office of the courts, to accrue an additional benefit equal to one and one-half percent of average final compensation for each year of future service credit from the date of the election.

(2)(a) A member who chooses to make the election under subsection (1) of this section may apply to the department to increase the member's benefit multiplier by one and one-half percent per year of service for the period in which the member served as a justice or judge prior to the election. The member may purchase the higher benefit multiplier for all or part of the member's prior judicial service beginning with the most recent judicial service. The member shall pay((~~, for the applicable period of service,~~)) five percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased, plus interest as determined by the director. The purchase price shall not exceed the actuarially equivalent value of the increase in the member's benefit resulting from the increase in the benefit multiplier ((~~as determined by the director~~)). This payment must be made prior to retirement.

(b) Subject to rules adopted by the department, a member applying to increase the member's benefit multiplier under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

NEW SECTION. **Sec. 6.** A new section is added to chapter 41.40 RCW under the subchapter heading "provisions applicable to plan 1, plan 2, and plan 3" to read as follows:

A member who purchased the higher benefit multiplier for prior judicial service prior to the effective date of this act may, between July 1, 2007, and December 31, 2007, apply to the department to have the higher benefit multiplier cost recalculated under RCW 41.40.124 and 41.40.127. Any difference in the cost in favor of the member shall be remitted to the member.

<u>NEW SECTION.</u> **Sec. 7.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 3" to read as follows:

A member who purchased the higher benefit multiplier for prior judicial service prior to the effective date of this act may, between July 1, 2007, and December 31, 2007, apply to the department to have the higher benefit multiplier cost recalculated under RCW 41.40.870 and 41.40.873. Any difference in the cost in favor of the member shall be remitted to the member.

<u>NEW SECTION.</u> **Sec. 8.** A new section is added to chapter 41.32 RCW under the subchapter heading "plan 1" to read as follows:

A member who purchased the higher benefit multiplier for prior judicial service prior to the effective date of this act may, between July 1, 2007, and December 31, 2007, apply to the department to have the higher benefit multiplier cost recalculated under RCW 41.32.584. Any difference in the cost in favor of the member shall be remitted to the member.

<u>NEW SECTION.</u> **Sec. 9.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/5/06	Z-0320.1

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System (PERS) by allowing Judges who elect to contribute a higher percent of pay to earn a 3.5 percent per year of service benefit multiplier, to buy the higher benefit multiplier for past judicial service for 5 percent of the salary earned for each month of service for which the higher benefit multiplier is being purchased, plus interest as determined by the Director of the Department of Retirement Systems (DRS):

This bill also allows a member who purchased the higher benefit multiplier for past judicial service prior to the effective date of this act, to have the cost of the purchase recalculated and any difference remitted to the member.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, Judges who elect to contribute a higher percent of pay to earn a 3.5 percent per year of service benefit multiplier, may purchase the higher benefit multiplier for past judicial service if they pay the actuarially equivalent value of the increase in the member's benefit resulting from the higher multiplier.

MEMBERS IMPACTED:

We estimate that 334 members out of the 155,578 total PERS members could be impacted by this bill. We estimate that approximately 225 of the 334 eligible members would actually benefit from this bill.

The majority of the Judges eligible for this benefit are State-employed Judges (Superior Court, Court of Appeals, and Supreme Court), with lesser numbers of District and Municipal Court Judges also eligible. Of the 199 State-employed Judges eligible, 142 would benefit from purchasing the higher multiplier for their past judicial service. Of the 108 District Court Judges also eligible for this provision, 64 would benefit from making such a purchase. Municipal Court Judges make up the smallest cohort with 27 being eligible; of these, 19 would benefit from a service purchase.

Past Judicial Service Purchase Analysis	Judges eligible	Benefitting from a service purchase	Not benefiting from a service purchase
State Employed Judges	199	142	57
Plan 1	57	49	8
Plan 2	131	88	43
Plan 3	11	5	6
District Judges	108	64	44
Plan 1	20	15	5
Plan 2	86	47	39
Plan 3	2	2	0
Municipal Judges	27	19	8
Plan 1	4	3	1
Plan 2	20	14	6
Plan 3	3	2	1
Total	334	225	109

We estimate that for a typical member who would benefit from this bill, the value of the increase in benefits would average about $51,000 per person. The distribution of benefit increases per judge, however, tends to be much higher for older judges and much lower for younger judges.

ASSUMPTIONS:

We assumed all judges who were eligible would elect to earn the higher benefit multiplier prospectively beginning January 1, 2007. We assumed only judges for whom the actuarially equivalent cost was greater than the cost of the proposed buy-back would participate in the buy-back. We assumed that everyone who could increase their benefit multiplier up to the 75 percent cap would do so and would purchase the higher multiplier for as many years as they had eligible judicial service prior to hitting the cap to do so. We assumed that eligible members who would not need to purchase the higher benefit multiplier to reach the cap would not participate in the buy-back. We assumed that those members who would only need to purchase a portion of their previous service at the higher multiplier would only purchase the higher multiplier for the most recent years of eligible service when the cost would be the lowest. For those members who entered PERS as a judge after September 30, 2005, we assumed their salaries were consistent with those of superior court judges at the valuation date.

We assumed that all Plan 1 judges retire at age 64 and all Plans 2/3 judges retire at age 66 or we assumed the judges retire immediately if their current age is greater than the given retirement ages. We assumed the judges received 3 percent salary inflation per year. We assumed DRS would charge 8 percent interest per year. These assumptions are consistent with those used to develop the annuity purchase factors associated with the current law (Chapter 189, Laws of 2006).

These assumptions are based on our best judgement, past experience and our beliefs about future behavior. In the case of the assumptions taken from the development of the annuity purchase factors, full descriptions for their selection can be found in our communication with DRS dated July 6, 2006.

METHODS:

We projected service as a judge, total PERS service, age, and salary forward to December 31, 2006, the day before the date when the higher benefit multiplier could first be purchased for past service; future service from this date would be earned at the higher benefit multiplier. After calculating the increase in liabilities to the system we discounted those liabilities to the valuation date, September 30, 2005, to calculate the change in contribution rates.

To calculate the liability to PERS resulting from judges buying the higher benefit multiplier for their prior judicial service at a subsidized rate, we first calculated the actuarial value of the service credit accrual purchase under the provisions of the current law (Chapter 189, Laws of 2006) for each member. From this value, on a member to member basis, we subtracted the total cost of purchasing the higher accrual for each year of service at 5 percent of the member's salary at the time the service credit was earned. To estimate the member's salary at previous years, we discounted their current salary by 3 percent per year. Plan 3 members were charged 2.5 percent of salary per year instead of 5.0 percent per year. For all plans, we accumulated the cost associated with the purchase of the extra accrual for individual years of service credit with 8 percent interest per year to find the present value of the service credit buy-back.

For example, a judge purchasing the higher accrual rate for their two most recent years of service (whether they could purchase more years of service is not relevant to this example) would have the present value of those years calculated under the buy-back method as follows. Given a salary of $125,000 for the last 12 months, the present value of the first year would be 0.05 times $125,000, or $6,250. The value of the second year would be 0.05 times $121,359, or $6,067.95. The present value of this amount would be 1.08 times $6,067.95, or $6,553.39, which is the original value accumulated with interest at 8.0 percent. The salary for the second year was calculated as the salary for the first year discounted at 3.0 percent: $125,000 divided by 1.03, or $121,359. The total cost to the given judge for purchasing the higher accrual rate for their two most recent years of service would be the sum of the present values for the individual years, or $12,803.39.

The cost to PERS, in this example, would be determined using the purchase factor, which corresponds to the age of the given judge in years and months, times the judge's final average salary times the 24 months for which the higher accrual rate was purchased. From this value would be subtracted the amount charged to the member - $12,803.39 in this example. The remainder would be liability paid by PERS. The total liability is the sum of the individual liabilities and is paid by PERS employers and Plan 2 members. Under current funding policy, for PERS 1 members this liability would be spread over the salaries of all PERS, SERS and PSERS members. For members of Plan 2 or Plan 3, the liability would be spread over the salaries of just PERS members.

To determine if a given judge would purchase the higher benefit multiplier we calculated their accrual rate at retirement both with and without making the purchase. If a given judge would not reach the 75 percent cap (37.5 percent for Plan 3) without purchasing the higher multiplier for some or all of their eligible years of service we determined how many years they would purchase to reach the cap. To calculate the number of years purchased we calculated the difference between the cap and the individual's accrual rate at retirement without purchasing the higher benefit multiplier. This number was divided by 0.015 for Plan 1 and 2 members and 0.006 for Plan 3 members. The result of the division is the number of years for which, if the higher benefit multiplier were purchased, would result in the maximum benefit accrual rate for the given member at their assumed retirement age. This number and the eligible purchasable service were compared; the minimum of the two was used as the amount of service purchased by that member.

DATA:

We relied on data from DRS. They provided 2005 valuation data for 334 judges who would be eligible to purchase the higher benefit multiplier for their eligible past service credit. We believe this to be a comprehensive list of eligible judges. Judges who enter PERS after January 1, 2007 will have the option to pay higher contribution rates to receive the 3.5 percent multiplier and will not have any eligible prior service to purchase at the higher multiplier. There was one judge with eligible service who was a member of the Teachers' Retirement System prior to becoming a judge. We included the TRS judge in the computation and treated the TRS judge as if all the non-eligible service were PERS service.

We also used the annuity purchase factors developed to implement Chapter 189, Laws of 2006.

FISCAL IMPACT:

Description:

The liability increase is relative to the current law where the value of the service credit purchase is calculated using annuity purchase factors on an individual member basis and is paid completely by the member receiving the benefit. The members who would not benefit from the buy-back or who would reach the cap without utilizing the buy-back did not contribute any liability to our calculations. Under this proposal, the liability for purchasing the higher multiplier is shared by the member receiving the benefit and the entire PERS population, both members and employers. The average cost to the PERS population per member receiving a benefit is approximately $55,000. This is based on 334 judges eligible to purchase the higher accrual rate and 225 judges who would actually receive a benefit from participating in the buy-back. While the average cost to the system per judge is about $55,000 for the total purchase, the distribution of costs to the system per year of service credit purchased tends to be much higher for older judges and much lower for younger judges. The change in liability for Plan 1 is not enough to increase contribution rates, but the increase in liability for Plans 2/3 is significant enough to increase contribution rates for Plan 2 members and all PERS employers.

Actuarial Determinations:

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

System: Public Employees' Retirement System			
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$30,601	$11	$30,612
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$3,567	$4	$3,571
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$828	$11	$839

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

Current Members	
Plan 2 Employees	0.01%
PERS Employers	0.01%
New Entrants*	
Plan 2 Employees	0.00%
PERS Employers	0.00%

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

Fiscal Budget Determinations:

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

Costs (in Millions):	PERS
2007-2009	
State:	
General Fund	$0.2
Non-General Fund	0.4
Total State	0.6
Local Government	0.9
Total Employer	1.5
Total Employee	$1.1
2009-2011	
State:	
General Fund	$0.2
Non-General Fund	0.4
Total State	0.6
Local Government	0.8
Total Employer	1.4
Total Employee	$1.0
2007-2032	
State:	
General Fund	$1.8
Non-General Fund	2.9
Total State	4.7
Local Government	6.9
Total Employer	11.6
Total Employee	$9.3

State Actuary's Comments:

These liabilities, rate changes, and resulting fiscal impacts are estimations based on the data available at the time the calculations were performed. The calculations were developed using assumptions based on past experience and our best judgment. DRS will perform the actual calculations using complete individual data.

Sensitivity Analysis:

The current proposal, with the member paying 5 percent per year of service or 2.5 percent per year of service in Plan 3, results in a cost sharing of 51 percent for the judge and 49 percent for PERS 2 members and all PERS employers. The resulting liability increases would be about $4 million to the Plan 1 UAAL and about $7 million to the Plan 2/3 present value of future benefits (PVFB). If the 5 percent assumption were decreased to 4 percent per year of service for Plan 1 and 2 members, and 2 percent per year of service for Plan 3 members, the cost sharing would be about 41 percent for the judge and 59 percent for PERS 2 members and all PERS employers. The resulting liability increases would be about $5 million to the Plan 1 UAAL and about $9 million to the Plan 2/3 PVFB. If the 5 percent assumption were increased to 6 percent per year of service for Plan 1 and 2 members, and 3 percent per year of service for Plan 3 members, the cost sharing would be about 61 percent for the judge and 39 percent for PERS 2 members and all PERS employers. The resulting liability increases would be about $3 million to the Plan 1 UAAL and about $6 million to the Plan 2/3 PVFB.

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

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

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

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

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

4. This draft fiscal note is intended for use only during the 2007 Legislative session.

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

6. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

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

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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

In Brief

BILL

This bill would eliminate gain-sharing for new hires in the Plans 3, provide Plan 2/3 choice for new hires in TRS and SERS, and establish a prospective Rule-of-90 with a minimum age of 60 for all Plan 2/3 members of TRS, SERS, and PERS.

BILL DRAFT

Attached

FISCAL NOTE (DRAFT)

Attached

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Gain-Sharing

Z-0321.1

Bill Summary

This bill would impact the Teachers' (TRS), School Employees' (SERS), and Public Employees' (PERS) Retirement Systems Plans 2 and Plans 3 by:

- Limiting gain-sharing benefits to Plan 3 members hired prior to July 1, 2007,
- Providing for Plan 2/3 choice for new hires in the TRS and SERS, and
- Establishing a prospective Rule-of-90 with a minimum age of 60 for all Plan 2 and Plan 3 members.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0321.1/07
ATTY/TYPIST:	LL:mos
BRIEF DESCRIPTION:	Repealing gain-sharing benefits for new hires in the teachers', school employees', and public employees' retirement systems plans 3 and providing alternative benefits for all members of the teachers', school employees', and public employees' retirement systems plans 2 and plans 3.

AN ACT Relating to repealing gain-sharing benefits for new hires in the teachers', school employees', and public employees' retirement systems plans 3 and providing alternative benefits for all members of the teachers', school employees', and public employees' retirement systems plans 2 and plans 3; amending RCW 41.31A.020, 41.32.835, 41.35.610, 41.32.765, 41.32.875, 41.35.420, 41.35.680, 41.40.630, and 41.40.820; decodifying RCW 41.31A.030 and 41.31A.040; providing an effective date; and declaring an emergency.

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

Sec. 1. RCW 41.31A.020 and 2003 c 294 s 4 are each amended to read as follows:

(1) On January 1, 2004, and on January 1st of even-numbered years thereafter, the member account of a person meeting the requirements of this section shall be credited by the extraordinary investment gain amount.

(2) The following persons<u>, if hired prior to July 1, 2007,</u> shall be eligible for the benefit provided in subsection (1) of this section:

(a) Any member of the teachers' retirement system plan 3, the Washington school employees' retirement system plan 3, or the public employees' retirement system plan 3 who earned service credit during the twelve-month period from September 1st to August 31st immediately preceding the distribution and had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution; or

(b) Any person in receipt of a benefit pursuant to RCW 41.32.875, 41.35.680, or 41.40.820; or

(c) Any person who is a retiree pursuant to RCW 41.34.020(8) and who:

(i) Completed ten service credit years; or

(ii) Completed five service credit years, including twelve service months after attaining age fifty-four; or

(d) Any teacher who is a retiree pursuant to RCW 41.34.020(8) and who has completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817; or

(e) Any classified employee who is a retiree pursuant to RCW 41.34.020(8) and who has completed five service credit years by September 1, 2000, and who transferred to plan 3 under RCW 41.35.510; or

(f) Any public employee who is a retiree pursuant to RCW 41.34.020(8) and who has completed five service credit years by March 1, 2002, and who transferred to plan 3 under RCW 41.40.795; or

(g) Any person who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who:

(i) Completed ten service credit years; or

(ii) Completed five service credit years, including twelve service months after attaining age fifty-four; or

(h) Any teacher who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817; or

(i) Any classified employee who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by September 1, 2000, and who transferred to plan 3 under RCW 41.35.510; or

(j) Any public employee who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by March 1, 2002, and who transferred to plan 3 under RCW 41.40.795.

(3) The extraordinary investment gain amount shall be calculated as follows:

(a) One-half of the sum of the value of the net assets held in trust for pension benefits in the teachers' retirement system combined plan 2 and 3 fund, the Washington school employees' retirement system combined plan 2 and 3 fund, and the public employees' retirement system combined plan 2 and 3 fund at the close of the previous state fiscal year not including the amount attributable to member accounts;

(b) Multiplied by the amount which the compound average of investment returns on those assets over the previous four state fiscal years exceeds ten percent;

(c) Multiplied by the proportion of:

(i) The sum of the service credit on August 31st of the previous year of all persons eligible for the benefit provided in subsection (1) of this section; to

(ii) The sum of the service credit on August 31st of the previous year of:

(A) All persons eligible for the benefit provided in subsection (1) of this section;

(B) Any person who earned service credit in the teachers' retirement system plan 2, the Washington school employees' retirement system plan 2, or the public employees' retirement system plan 2 during the twelve-month period from September 1st to August 31st immediately preceding the distribution;

(C) Any person in receipt of a benefit pursuant to RCW 41.32.765, 41.35.420, or 41.40.630; and

(D) Any person with five or more years of service in the teachers' retirement system plan 2, the Washington school employees' retirement system plan 2, or the public employees' retirement system plan 2;

(d) Divided proportionally among persons eligible for the benefit provided in subsection (1) of this section on the basis of their service credit total on August 31st of the previous year.

(4) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this distribution not granted prior to that time.

Sec. 2. RCW 41.32.835 and 1995 c 239 s 105 are each amended to read as follows:

(1) All teachers who first become employed by an employer in an eligible position on or after ((~~July 1, 1996, shall be members of plan 3~~)) July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

Sec. 3. RCW 41.35.610 and 1998 c 341 s 202 are each amended to read as follows:

(1) All classified employees who first become employed by an employer in an eligible position on or after ((~~September 1, 2000, shall be members of plan 3~~)) July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

Sec. 4. RCW 41.32.765 and 2000 c 247 s 902 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years of service who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760.

(2) UNREDUCED RETIREMENT. Any member who has completed at least five service credit years and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire. For the portion of the member's benefit that is based on service credit earned beginning July 1, 2007, the member shall receive an unreduced retirement allowance computed according to the provisions of RCW 41.32.760. For the portion of the member's benefit that is based on service credit earned prior to July 1, 2007, the retirement allowance shall be reduced under subsection (3) or (4) of this section as applicable.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years of service who has attained at least age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 5. RCW 41.32.875 and 2006 c 33 s 1 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) UNREDUCED RETIREMENT. Any member who has completed the number of service credit years required in subsection (1) of this section and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire. For the portion of the member's benefit that is based on service credit earned beginning July 1, 2007, the member shall receive an unreduced retirement allowance computed according to the provisions of RCW 41.32.840. For the portion of the member's benefit that is based on service credit earned prior to July 1, 2007, the retirement allowance shall be reduced under subsection (3) or (4) of this section as applicable.

(3) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 6. RCW 41.35.420 and 2000 c 247 s 905 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service

credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400.

(2) UNREDUCED RETIREMENT. Any member who has completed at least five service credit years and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire. For the portion of the member's benefit that is based on service credit earned beginning July 1, 2007, the member shall receive an unreduced retirement allowance computed according to the provisions of RCW 41.35.400. For the portion of the member's benefit that is based on service credit earned prior to July 1, 2007, the retirement allowance shall be reduced under subsection (3) or (4) of this section as applicable.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 7. RCW 41.35.680 and 2006 c 33 s 2 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) UNREDUCED RETIREMENT. Any member who has completed the number of service credit years required in subsection (1) of this section and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire. For the portion of the member's benefit that is based on service credit earned beginning July 1, 2007, the member shall receive an unreduced retirement allowance computed according to the provisions of RCW 41.35.620. For the portion of the member's benefit that is based on service credit earned prior to July 1, 2007, the retirement allowance shall be reduced under subsection (3) or (4) of this section as applicable.

(3) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 8. RCW 41.40.630 and 2000 c 247 s 901 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible

to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620.

(2) UNREDUCED RETIREMENT. Any member who has completed at least five service credit years and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire. For the portion of the member's benefit that is based on service credit earned beginning July 1, 2007, the member shall receive an unreduced retirement allowance computed according to the provisions of RCW 41.40.620. For the portion of the member's benefit that is based on service credit earned prior to July 1, 2007, the retirement allowance shall be reduced under subsection (3) or (4) of this section as applicable.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 9. RCW 41.40.820 and 2006 c 33 s 3 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by the transfer payment

date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795;
shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) UNREDUCED RETIREMENT. Any member who has completed the number of service credit years required in subsection (1) of this section and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire. For the portion of the member's benefit that is based on service credit earned beginning July 1, 2007, the member shall receive an unreduced retirement allowance computed according to the provisions of RCW 41.40.790. For the portion of the member's benefit that is based on service credit earned prior to July 1, 2007, the retirement allowance shall be reduced under subsection (3) or (4) of this section as applicable.

(3) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

NEW SECTION. **Sec. 10.** RCW 41.31A.030 and 41.31A.040 are decodified.

NEW SECTION. **Sec. 11.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/6/06	Z-0321.1

SUMMARY OF BILL:

This bill impacts the Teachers' (TRS), School Employees' (SERS), and Public Employees' Retirement System (PERS) plans 2 and plans 3 by:

- Limiting gain-sharing benefits to Plan 3 members hired prior to July 1, 2007,
- Providing for plan 2/3 choice for new hires in the Teachers' and School Employees' Retirement Systems, and
- Establishing a prospective rule-of-90 with a minimum age of 60 for all Plan 2 and Plan 3 members.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, upon a gain-sharing event, distributions are available to all plan 3 members who have at least $1,000 in their member accounts as of August 31st of the year immediately preceding the distribution.

Currently, new members of TRS and SERS automatically become members of their respective plans 3 upon hire. New members of PERS can choose to join either PERS 2 or PERS 3.

Currently, plan 2/3 members of TRS, SERS, and PERS are eligible for an unreduced retirement benefit when they reach age 65. Members may retire with a benefit reduced by 3 percent per year at age 55 if they have at least 30 years of service. Plan 2 members may also retire with an actuarially reduced benefit at age 55 if they have at least 20 years of service. Plan 3 members may retire with an actuarially reduced benefit at age 55 if they have at least 10 years of service.

MEMBERS IMPACTED:

Because most provisions of this bill are prospective in nature, current members of PERS, TRS, and SERS might only be affected by the rule of 90 provision. Otherwise, only future members are impacted.

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.

All members of PERS, TRS, and SERS would be impacted by the rule of 90 provision. In addition to the new entrant counts for TRS and SERS shown above, we expect that there will be 15,272 new members of PERS Plan 2 and PERS Plan 3 for the year ended September 30, 2008.

Not every member will benefit from the rule of 90 provision. For example, a new Plan 2 member who enters at age 50 will not be able to accrue enough service to retire early under a rule of 90. A new Plan 2 member who is age 40 at the time of entry could qualify for early retirement as early as age 60, but will not qualify for an unreduced benefit under the rule of 90 until age 65, when he or she is also eligible for normal retirement. Members who enter before age 40 will benefit in some way if they work full-time until retirement and if they retire after the effective date of this bill. The table below shows the number of current members impacted by the prospective rule of 90:

	PERS 2	PERS 3	TRS 2	TRS 3	SERS 2	SERS 3
Number of Affected - Active	79,970	15,748	4,459	40,361	10,134	16,834
Total Active Members	118,400	21,216	7,205	51,473	19,387	30,963

Below is a table showing a sample of entry ages and their corresponding earliest rule of 90 retirement ages.

Hire Age	Service at Eligibility Age*	Rule of 90 Eligibility Age*	Rule of 90 Retirement Age*
20	35	55	60
22	34	56	60
24	33	57	60
26	32	58	60
28	31	59	60
30	30	60	60
32	29	61	61
34	28	62	62
36	27	63	63
38	26	64	64
40	25	65	65

**Under this proposal, there is a minimum unreduced retirement age of 60, regardless of eligibility age.*

For a member impacted by the Rule of 90 portion of the bill, the increase in benefits would be the removal of benefit reduction for early retirement without the Rule of 90 for service accrued after the effective date of the act. For example, a member hired after the effective date retiring at age 60 with 30 years of service would be entitled to an unreduced benefit instead of a benefit with a 15% reduction. A member age 45 with 15 years of service as of the effective date retiring at age 60 with 30 years of service would be entitled to a benefit with a 7.5% reduction instead of a benefit with a 15% reduction (one-half of the 15% reduction, since 15 years out of 30, or one-half, of the service would have been credited before the effective date).

This bill would also slightly increase the number of retirees eligible for subsidized medical benefits from the Public Employees' Benefit Board (PEBB).

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.

We assumed that there would be an increase in retirement rates for members due to the rule of 90. The additional rates or “kickers” are provided at the end of this fiscal note. The additional rates at age 60 are higher to reflect the pent-up demand for the benefit from the members who satisfy the rule of 90 before the minimum age of 60. Since the portion of the benefit without reduction for early commencement would apply to prospective service only, we determined the price of this benefit using the increase in the Entry Age Normal Cost rate (EANC) for current members and for new entrants.

FISCAL IMPACT:

Most 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. Contribution rate increases for current members also appear for the rule of 90 provision of this bill. 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 are effective September 1, 2009 for TRS and SERS 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 25^{th} to 75^{th} 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 25^{th} to 75^{th} 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

	Reduction in Funded Status	*Less Contributions*	*Net Impact*
Plan 1			
PERS	$200.1	$78.9	$121.2
TRS	168.4	65.4	103.0
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	35.9	49.9	(14.0)
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 systems by increasing/decreasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Systems: *Public Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System*

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS	$30,601	$209	$30,810
(The Value of the Total Commitment to all Current Members)	TRS	$17,119	$137	$17,256
	SERS	$2,473	$24	$2,497
Unfunded Actuarial Accrued Liability	PERS	$3,567	$0	$3,567
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS	$2,147	$0	$2,147
Unfunded Liability (PBO)	PERS	$828	$0	$828
(The Value of the Total Commitment to all Current Members	TRS	$969	$0	$969
Attributable to Past Service)	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 unless noted otherwise)

	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%
Rule of 90, Minimum Age 60 (Effective 9/1/2007)			
Employee	0.18%	0.34%	0.17%
Employer State (Plan 2/3 normal cost)	0.18%	0.34%	0.17%
Total Change, Current Members			
Employee	0.18%	0.34%	0.17%
Employer State	0.28%	0.54%	0.27%
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%

Rule of 90, Minimum Age 60 (Effective 9/1/2007)

Employee	0.18%	0.34%	0.17%
Employer State	0.18%	0.34%	0.17%

Total Change, New Entrants

Employee	0.18%	0.49%	0.32%
Employer State	(0.08)%	(0.34)%	(1.67)%

**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):	PERS	PSERS	TRS	SERS	Total
2007-2009					
State:					
General Fund	$4.1	$0.0	$18.4	$2.0	$24.5
Non-General Fund	6.8	0.0	0.0	0.0	6.8
Total State	**10.9**	**0.0**	**18.4**	**2.0**	**31.3**
Local Government	16.6	0.0	11.3	3.1	31.0
Total Employer	27.5	0.0	29.7	5.1	62.3
Total Employee	$20.2	$0.0	$5.0	$2.0	$27.2
2009-2011					
State:					
General Fund	$5.6	$0.6	$25.2	($4.7)	$26.7
Non-General Fund	9.1	0.0	0.0	0.0	9.1
Total State	**14.7**	**0.6**	**25.2**	**(4.7)**	**35.8**
Local Government	22.7	0.4	12.2	(6.9)	28.4
Total Employer	37.4	1.0	37.4	(11.6)	64.2
Total Employee	$23.9	$0.0	$8.3	$3.4	$35.6
2007-2032					
State:					
General Fund	$24.2	$6.5	$3.5	($401.3)	($367.1)
Non-General Fund	39.9	0.0	0.0	0.0	39.9
Total State	**64.1**	**6.5**	**3.5**	**(401.3)**	**(327.2)**
Local Government	98.0	4.0	4.8	(587.4)	(480.6)
Total Employer	162.1	10.5	8.3	(988.7)	(807.8)
Total Employee	$451.5	$0.0	$347.0	$113.2	$911.7

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, and the School Employees' Retirement System. The contribution rate increases developed for the rule of 90 benefit provision were based on the membership data, methods, assets and assumptions used for the September 30, 2004 valuations for the above systems.

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:

Rule of 90

Kicker Added to Retirement Probability for Future Members

Age	PERS Male	PERS Female	SERS Male	SERS Female	TRS Male	TRS Fema
60	0.29	0.22	0.30	0.30	0.30	0.30
61	0.29	0.22	0.25	0.30	0.30	0.30
62	0.29	0.16	0.25	0.20	0.30	0.20
63	0.11	0.16	0.25	0.20	0.25	0.20
64	0.11	0.16	0.25	0.20	0.25	0.20

The kicker (additional retirement rate) is added to the retirement probability at the age when a member is first eligible for the Rule of 90. For each year after the year first eligible, 25% of the kicker is added.

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.

Gain-Sharing

Z-0322.1

In Brief

BILL

This bill eliminates gain-sharing for new hires in the Plans 3, provides Plan 2/3 choice for new hires in TRS and SERS, and establishes a Rule-of-90 with a minimum age of 60 for new Plan 2/3 members.

BILL DRAFT

Attached

FISCAL NOTE (DRAFT)

Attached

Bill Summary

This bill would impact the Teachers' (TRS), School Employees' (SERS), and Public Employees' (PERS) Retirement Systems Plans 2 and Plans 3 by:

- Limiting gain-sharing benefits to Plan 3 members hired prior to July 1, 2007,
- Providing for Plan 2/3 choice for new hires in the TRS and SERS,
- Establishing a Rule-of-90 with a minimum age of 60 for new Plan 2 and Plan 3 members, and
- Preventing Plan 2 contribution rates from increasing for existing members as a result of the Rule-of-90 benefit for new Plan 2/3 members.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0322.1/07
ATTY/TYPIST:	LL:mos
BRIEF DESCRIPTION:	Repealing gain-sharing benefits for new hires in the teachers', school employees', and public employees' retirement systems plans 3, and providing alternative benefits for new members of the teachers', school employees', and public employees' retirement systems plans 2 and plans 3.

AN ACT Relating to repealing gain-sharing benefits for new hires in the teachers', school employees', and public employees' retirement systems plans 3, and providing alternative benefits for new members of the teachers', school employees', and public employees' retirement systems plans 2 and plans 3; amending RCW 41.31A.020, 41.32.835, 41.35.610, 41.32.765, 41.32.875, 41.35.420, 41.35.680, 41.40.630, 41.40.820, and 41.45.061; decodifying RCW 41.31A.030 and 41.31A.040; providing an effective date; and declaring an emergency.

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

Sec. 1. RCW 41.31A.020 and 2003 c 294 s 4 are each amended to read as follows:

(1) On January 1, 2004, and on January 1st of even-numbered years thereafter, the member account of a person meeting the requirements of this section shall be credited by the extraordinary investment gain amount.

(2) The following persons, if hired prior to July 1, 2007, shall be eligible for the benefit provided in subsection (1) of this section:

(a) Any member of the teachers' retirement system plan 3, the Washington school employees' retirement system plan 3, or the public employees' retirement system plan 3 who earned service credit during the twelve-month period from September 1st to August 31st immediately preceding the distribution and had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution; or

(b) Any person in receipt of a benefit pursuant to RCW 41.32.875, 41.35.680, or 41.40.820; or

(c) Any person who is a retiree pursuant to RCW 41.34.020(8) and who:

(i) Completed ten service credit years; or

(ii) Completed five service credit years, including twelve service months after attaining age fifty-four; or

(d) Any teacher who is a retiree pursuant to RCW 41.34.020(8) and who has completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817; or

(e) Any classified employee who is a retiree pursuant to RCW 41.34.020(8) and who has completed five service credit years by September 1, 2000, and who transferred to plan 3 under RCW 41.35.510; or

(f) Any public employee who is a retiree pursuant to RCW 41.34.020(8) and who has completed five service credit years by March 1, 2002, and who transferred to plan 3 under RCW 41.40.795; or

(g) Any person who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who:

(i) Completed ten service credit years; or

(ii) Completed five service credit years, including twelve service months after attaining age fifty-four; or

(h) Any teacher who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817; or

(i) Any classified employee who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by September 1, 2000, and who transferred to plan 3 under RCW 41.35.510; or

(j) Any public employee who had a balance of at least one thousand dollars in their member account on August 31st of the year immediately preceding the distribution and who has completed five service credit years by March 1, 2002, and who transferred to plan 3 under RCW 41.40.795.

(3) The extraordinary investment gain amount shall be calculated as follows:

(a) One-half of the sum of the value of the net assets held in trust for pension benefits in the teachers' retirement system combined plan 2 and 3 fund, the Washington school employees' retirement system combined plan 2 and 3 fund, and the public employees' retirement system combined plan 2 and 3 fund at the close of the previous state fiscal year not including the amount attributable to member accounts;

(b) Multiplied by the amount which the compound average of investment returns on those assets over the previous four state fiscal years exceeds ten percent;

(c) Multiplied by the proportion of:

(i) The sum of the service credit on August 31st of the previous year of all persons eligible for the benefit provided in subsection (1) of this section; to

(ii) The sum of the service credit on August 31st of the previous year of:

(A) All persons eligible for the benefit provided in subsection (1) of this section;

(B) Any person who earned service credit in the teachers' retirement system plan 2, the Washington school employees' retirement system plan 2, or the public employees' retirement system plan 2 during the twelve-month period from September 1st to August 31st immediately preceding the distribution;

(C) Any person in receipt of a benefit pursuant to RCW 41.32.765, 41.35.420, or 41.40.630; and

(D) Any person with five or more years of service in the teachers' retirement system plan 2, the Washington school employees' retirement system plan 2, or the public employees' retirement system plan 2;

(d) Divided proportionally among persons eligible for the benefit provided in subsection (1) of this section on the basis of their service credit total on August 31st of the previous year.

(4) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this distribution not granted prior to that time.

Sec. 2. RCW 41.32.835 and 1995 c 239 s 105 are each amended to read as follows:

(1) All teachers who first become employed by an employer in an eligible position on or after ((~~July 1, 1996, shall be members of plan 3~~)) July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

Sec. 3. RCW 41.35.610 and 1998 c 341 s 202 are each amended to read as follows:

(1) All classified employees who first become employed by an employer in an eligible position on or after ((~~September 1, 2000, shall be members of plan 3~~)) July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

Sec. 4. RCW 41.32.765 and 2000 c 247 s 902 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years of service who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760.

(2) UNREDUCED RETIREMENT. Any member, hired on or after July 1, 2007, who has completed at least five service credit years and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years of service who has attained at least age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 5. RCW 41.32.875 and 2006 c 33 s 1 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) UNREDUCED RETIREMENT. Any member, hired on or after July 1, 2007, who has completed the number of service credit years required in subsection (1) of this section and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire.

(3) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 6. RCW 41.35.420 and 2000 c 247 s 905 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400.

(2) UNREDUCED RETIREMENT. Any member, hired on or after July 1, 2007, who has completed at least five service credit years and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible

to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 7. RCW 41.35.680 and 2006 c 33 s 2 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) UNREDUCED RETIREMENT. Any member, hired on or after July 1, 2007, who has completed the number of service credit years required in subsection (1) of this section and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire.

(3) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement

allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 8. RCW 41.40.630 and 2000 c 247 s 901 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620.

(2) UNREDUCED RETIREMENT. Any member, hired on or after July 1, 2007, who has completed at least five service credit years and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 9. RCW 41.40.820 and 2006 c 33 s 3 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) UNREDUCED RETIREMENT. Any member, hired on or after July 1, 2007, who has completed the number of service credit years required in subsection (1) of this section and has attained age sixty, and for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more, is eligible to retire.

(3) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

((~~(3)~~)) (4) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

Sec. 10. RCW 41.45.061 and 2004 c 242 s 40 are each amended to read as follows:

(1) The required contribution rate for members of the plan 2 teachers' retirement system shall be fixed at the rates in effect on July 1, 1996, subject to the following:

(a) Beginning September 1, 1997, except as provided in (b) of this subsection, the employee contribution rate shall not exceed the employer plan 2 and 3 rates adopted under RCW 41.45.060, 41.45.054, and 41.45.070 for the teachers' retirement system;

(b) In addition, the employee contribution rate for plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after July 1, 1996;

(c) In addition, the employee contribution rate for plan 2 shall not be increased as a result of any distributions pursuant to section 309, chapter 341, Laws of 1998 and RCW 41.31A.020.

(2) The required contribution rate for members of the school employees' retirement system plan 2 shall equal the school employees' retirement system employer plan 2 and 3 contribution rate adopted under RCW 41.45.060, 41.45.054, and 41.45.070, except as provided in subsection (3) of this section.

(3) The member contribution rate for the school employees' retirement system plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after September 1, 2000.

(4) The required contribution rate for members of the public employees' retirement system plan 2 shall be set at the same rate as the employer combined plan 2 and plan 3 rate.

(5) The required contribution rate for members of the law enforcement officers' and firefighters' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

(6) The employee contribution rates for plan 2 under subsections (3) and (4) of this section shall not include any increase as a result of any distributions pursuant to RCW 41.31A.020 and 41.31A.030.

(7) The required plan 2 and 3 contribution rates for employers shall be adopted in the manner described in RCW 41.45.060, 41.45.054, and 41.45.070.

(8) The required contribution rate for members of the public safety employees' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

(9) The required contribution rates for members of the teachers' retirement system plan 2, the school employees' retirement system plan 2, and the public employees' retirement system plan 2, who are hired prior to July 1, 2007, shall not include any increase as a result of the unreduced retirement provisions under RCW 41.32.765, 41.32.875, 41.35.420, 41.35.680, 41.40.630, and 41.40.820.

NEW SECTION. **Sec. 11.** RCW 41.31A.030 and 41.31A.040 are decodified.

NEW SECTION. **Sec. 12.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2007.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/6/06	Z-0322.1

SUMMARY OF BILL:

This bill impacts the Teachers' (TRS), School Employees' (SERS), and Public Employees' Retirement System (PERS) plans 2 and plans 3 by:

- Limiting gain-sharing benefits to Plan 3 members hired prior to July 1, 2007,
- Providing for plan 2/3 choice for new hires in the Teachers' and School Employees' Retirement Systems, and
- Establishing a rule-of-90 with a minimum age of 60 for new Plan 2 and Plan 3 members.

This bill also amends the funding chapter so that the cost of the rule-of-90 benefit would only impact the member contribution rates for those hired on or after July 1, 2007.

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, upon a gain-sharing event, distributions are available to all plan 3 members who have at least $1,000 in their member accounts as of August 31st of the year immediately preceding the distribution.

Currently, new members of TRS and SERS automatically become members of their respective plans 3 upon hire. New members of PERS can choose to join either PERS 2 or PERS 3.

Currently, plan 2/3 members of TRS, SERS, and PERS are eligible for an unreduced retirement benefit when they reach age 65. Members may retire with a benefit reduced by 3 percent per year at age 55 if they have at least 30 years of service. Plan 2 members may also retire with an actuarially reduced benefit at age 55 if they have at least 20 years of service. Plan 3 members may retire with an actuarially reduced benefit at age 55 if they have at least 10 years of service.

MEMBERS IMPACTED:

Because all 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.

New members of PERS, TRS, and SERS entering employment on or after July 1, 2007 could be eligible for the rule of 90 provision. In addition to the new entrant counts for TRS and SERS shown above, we expect that there will be 15,272 new members of PERS Plan 2 and PERS Plan 3 for the year ended September 30, 2008.

Not every new member will benefit from the rule of 90 provision. For example, a new Plan 2 member who enters at age 50 will not be able to accrue enough service to retire early under a rule of 90. A new Plan 2 member who is age 40 at the time of entry could qualify for early retirement as early as age 60, but will not qualify for an unreduced benefit under the rule of 90 until age 65, when he or she is also eligible for normal retirement. Members who enter before age 40 will benefit in some way if they work full-time until retirement. Below is a table showing a sample of entry ages and their corresponding earliest rule of 90 retirement ages.

Hire Age	Service at Eligibility Age*	Rule of 90 Eligibility Age*	Rule of 90 Retirement Age*
16	37	53	60
18	36	54	60
20	35	55	60
22	34	56	60
24	33	57	60
26	32	58	60
28	31	59	60
30	30	60	60
32	29	61	61
34	28	62	62
36	27	63	63
38	26	64	64
40	25	65	65

**Under this proposal, there is a minimum unreduced retirement age of 60, regardless of eligibility age.*

For a member impacted by this bill, the increase in benefits would be the removal of benefit reduction for early retirement without the Rule of 90. As an example, a future Plan 2 member who retires at age 62 with 28 years of service under current provisions would receive a benefit with a three year actuarial reduction of 27%. With an average final compensation of $50,000, this member would receive an annual benefit of about ($50,000 x 2% x 28 x 73%) = $20,440 under current benefit provisions. Under the rule of 90 proposal in this bill, the same member could get an unreduced annual benefit of ($50,000 x 2% x 28) = $28,000.

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 25^{th} to 75^{th} 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 25^{th} to 75^{th} 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.

We assumed that there would be an increase in retirement rates for future members due to the rule of 90. The additional future rates or "kickers" are provided as information only at the end of this fiscal note. However, since these increased rates apply only to future entrants, the additional liabilities have not yet accrued. The result is that no liability increase for this benefit improvement is shown. Instead, the fiscal cost of this proposed improvement appears in the form of projected contribution rate increases.

FISCAL IMPACT:

All 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 and rule of 90 provisions have an effective date of July 1, 2009 for PERS and September 1, 2009 for TRS and SERS since the September 30, 2007 actuarial valuation will be the first rate-setting valuation to reflect SERS and TRS membership data with plan choice. The 2007 valuation will also be the first to show membership data including those who will eventually be eligible for unreduced retirement under the rule of 90.

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

	Reduction in Funded Status	*Less Contributions*	*Net Impact*
Plan 1			
PERS	$200.1	$78.9	$121.2
TRS	168.4	65.4	103.0
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	35.9	49.9	(14.0)
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 systems by increasing/decreasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Systems: *Public Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System*

(Dollars in Millions)		Current	Increase*	Total
Actuarial Present Value of Projected Benefits	PERS	$30,601	$0	$30,601
(The Value of the Total Commitment to all Current Members)	TRS	$17,119	$0	$17,119
	SERS	$2,473	$0	$2,473
Unfunded Actuarial Accrued Liability	PERS	$3,567	$0	$3,567
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS	$2,147	$0	$2,147
Unfunded Liability (PBO)	PERS	$828	$0	$828
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS	$969	$0	$969
	SERS	($315)	$0	($315)

**Liability increases for the expected experience loss due to the 2008 gain-sharing event, rule of 90 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)

Current Members	PERS	TRS	SERS
2008 Gain-Sharing Event			
Employee	0.00%	0.00%	0.00%
Employer State (Plan 1 UAAL)	0.10%	0.20%	0.10%
Rule of 90, Minimum Age 60			
Employee	0.00%	0.00%	0.00%
Employer State (Plan 2/3 Normal Cost)	0.15%	0.25%	0.15%
Total Changes, Current Members			
Employee	0.00%	0.00%	0.00%
Employer State	0.25%	0.45%	0.25%
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%
Rule of 90, Minimum Age 60			
Employee	0.15%	0.25%	0.15%

Employer State	0.15%	0.25%	0.15%
Total Change, New Entrants			
Employee	0.15%	0.40%	0.30%
Employer State	(0.11)%	(0.43)%	(1.69)%

**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):	PERS	PSERS	TRS	SERS	Total
2007-2009					
State:					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0
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	$4.7	$0.6	$19.4	($5.9)	$18.8
Non-General Fund	7.7	0.0	0.0	0.0	7.7
Total State	12.4	0.6	19.4	(5.9)	26.5
Local Government	19.4	0.4	9.4	(8.5)	20.7
Total Employer	31.8	1.0	28.8	(14.4)	47.2
Total Employee	$4.2	$0.0	$4.3	$1.8	$10.3
2007-2032					
State:					
General Fund	$1.4	$6.5	($140.2)	($415.9)	($548.2)
Non-General Fund	2.7	0.0	0.0	0.0	2.7
Total State	4.1	6.5	(140.2)	(415.9)	(545.5)
Local Government	6.5	4.0	(67.2)	(608.2)	(664.9)
Total Employer	10.6	10.5	(207.4)	(1,024.1)	(1,210.4)
Total Employee	$235.7	$0.0	$263.6	$95.4	$594.7

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Public Employees' Retirement System, the Teachers' Retirement System, and the School Employees' Retirement System. The contribution rate increases developed for the rule of 90 benefit provision were based on the membership data, methods, assets and assumptions used for the September 30, 2004 valuations for the above systems.

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:

Rule of 90

Kicker Added to Retirement Probability for Future Members

Age	PERS Male	PERS Female	SERS Male	SERS Female	TRS Male	TRS Female
60	0.29	0.22	0.30	0.30	0.30	0.30
61	0.29	0.22	0.25	0.30	0.30	0.30
62	0.29	0.16	0.25	0.20	0.30	0.20
63	0.11	0.16	0.25	0.20	0.25	0.20
64	0.11	0.16	0.25	0.20	0.25	0.20

This table is for future entrants and is provided as information only. The kicker (additional retirement rate) is added to the retirement probability at the age when a member is first eligible for the Rule of 90. For each year after the year first eligible, 25% of the kicker is added.

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.

From: Stu Turner [stut@shorelinewater.org]

Sent: Wednesday, November 29, 2006 11:51 AM

To: Office State Actuary, WA

Subject: PERS 2 Benefits

Dear Committee Members:
I have just received the most recent "Retirement Outlook" from DRS and have several comments. It seems like every time I receive an "update" from DRS it mentions increases or improvement in benefits for teachers, judges, firefighters and police. I can't help but think they have strong unions or strong legal backing and therefore, strong representation with our legislators and with the DRS. While the rank and file Pers 2 membership receives no increases or options for accelerated retirement benefits. For example, firefighters have now the ability to retire at age 53 (if I am correct in my understanding). Also as I understand, the reason for this accelerated retirement is the physical demands of being a firefighter – in other words they get older and do not have the same physical stamina as they do when they are young firefighters. Isn't that also the case with Pers 2 employees that do physical labor such as construction and maintenance workers? Why is it that they are expected to work until age 65 yet firefighters (and police?) can retire much earlier? The early retirement for firefighters (I am not sure if the same rules apply to police and state patrol) does not seem to account for those firefighters that are administrative in nature such as fire marshals, chiefs and other non-firefighting persons. Why would they be allowed to retire at age 53?

I do not understand the retirement computation for judges either. Why do they get such an increased benefit over the rank and file Pers 2 employees? Why doesn't Pers 2 allow for increased contribution rates that would allow either additional or earlier benefits so we could also retire before age 65? For example – why can't I get credit for my military time before I became part of the Pers 2 system? It seems like I fell between the cracks as far as timing after my time during the Viet Nam conflict. Do current Pers 2 members (current military veterans) serving in the military get credit for their service time? Can they therefore double dip with both a federal and state retirement credit for the same time worked?

The recent Retirement Outlook mentions that Ters 2 teachers can purchase up to 7 years of service credit earned outside of Washington State. I do not understand the logic of this, but why isn't this available for Pers 2 employees as well? I feel that we should have a retirement system that is equal and has the same opportunities for all persons that are members. DRS seems to be creating a system of "haves and have nots" by creating special programs that benefit selected classes of employees. I don't think this is fair or reasonable. What can I do as a member to make us all equal? Who do I talk to?

I would appreciate any advice you can give. Thank you.

Stuart E. Turner, P.E.
District Manager
Shoreline Water District
206-362-8100
stut@shorelinewater.org

Burkhart, Kelly

From: Harper, Laura
Sent: Wednesday, December 06, 2006 8:41 AM
To: Stuart Turner (stut@shorelinewater.org)
Cc: Thompson, J. Pat
Subject: Your Letter to the Select Committee on Pension Policy (SCPP)

Follow Up Flag: Follow up
Flag Status: Flagged

Dear Mr. Turner:

The Office of the State Actuary (OSA) has received your e-mail correspondence directed to committee members. As staff to the SCPP, the OSA will assure that a copy of your letter is included with the materials provided to all committee members prior to their next regularly scheduled meeting, which will be held on December 12, 2006.

Your observation that there are different pension benefits for different groups is correct. Also, you have correctly identified the SCPP as the legislative committee that addresses pension policy. It is unclear from your letter, however, whether you wish to focus the SCPP's attention on particular issues mentioned in your letter, or whether you are more interested in addressing the legislature's general policy of providing similar benefits whenever possible. Since you are a member of PERS, and in order to more specifically discuss your concerns, you may wish to contact SCPP member J. Pat Thompson individually, as he represents active PERS employees. He is with the Washington State Council of County and City Employees and can be reached at patt@council2.com.

As you may know, the SCPP is very active during the period between legislative sessions known as the "interim." During that time, the SCPP studies a number of pension issues. The December agenda usually represents the culmination of the committee's interim work. Issues which were studied during the interim may result in specific legislative proposals that are voted upon in December for possible recommendation to the legislature. You can track the progress of these issues by checking the SCPP's website, http://www.leg.wa.gov/SCPP/default.htm.

The interim generally starts in May and ends in December. Usually, there are many more topics suggested for study than the SCPP is able to accommodate within its interim work plan. The topics for interim study are selected by the SCPP Executive Committee, usually very early in the interim after the membership of the Executive Committee has been determined.

If you are interested in advancing a proposal to the legislature for the upcoming session, it would be necessary for you to pursue legislation outside of the SCPP process. You can use the legislature's website, http://www.leg.wa.gov/legislature/, to find your district and the contact information for your legislators. If you wanted to encourage the SCPP to study one or more issues raised in your letter during the next interim, it would make sense to contact the new Chair and Vice-Chair of the SCPP when they are elected at the beginning of the 2007 interim.

If you have any questions about the SCPP process, please feel free to contact me.

Sincerely,

Laura Harper

Laura Harper
Office of the State Actuary
Senior Research Analyst - Legal
360-786-6145

<u>NEW SECTION.</u> **Sec. 1.** A new section is added to chapter 41.32 RCW under the subchapter heading "provisions applicable to plan plan 2" to read as follows:

(1) A member eligible to retire under RCW 41.32.765(2) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of an additional benefit equivalent to all or a portion of the amount of the reduction in the member's benefit under RCW 41.32.765(3) or RCW 41.32.765(4).

(2) To purchase the additional benefit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing an additional benefit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

<u>NEW SECTION.</u> **Sec. 2.** A new section is added to chapter 41.32 RCW under the subchapter heading "provisions applicable to plan plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.32.875(2) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of an additional benefit equivalent to all or a portion of the amount of the reduction in the member's benefit under RCW 41.32.875(3) or RCW 41.32.875(4).

(2) To purchase the additional benefit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing an additional benefit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.35 RCW under the subchapter heading "provisions applicable to plan 2" to read as follows:

(1) A member eligible to retire under RCW 41.35.420(2) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of an additional benefit equivalent to all or a portion of the amount of the reduction in the member's benefit under RCW 41.35.420(3) or RCW 41.35.420(4).

(2) To purchase the additional benefit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing an additional benefit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any

transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

<u>NEW SECTION.</u> **Sec. 4.** A new section is added to chapter 41.35 RCW under the subchapter heading "provisions applicable to plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.35.680(2) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of an additional benefit equivalent to all or a portion of the amount of the reduction in the member's benefit under RCW 41.35.680(3) or RCW 41.35.680(4).

(2) To purchase the additional benefit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing an additional benefit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

<u>NEW SECTION.</u> **Sec. 5.** A new section is added to chapter 41.40 RCW under the subchapter heading "provisions applicable to plan 2" to read as follows:

(1) A member eligible to retire under RCW 41.40.630(2) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of an additional benefit equivalent to all or a portion of the amount of the reduction in the member's benefit under RCW 41.40.630(3) or RCW 41.40.630(4).

(2) To purchase the additional benefit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing an additional benefit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

NEW SECTION. **Sec. 6.** A new section is added to chapter 41.40 RCW under the subchapter heading "provisions applicable to plan 3" to read as follows:

(1) A member eligible to retire under RCW 41.40.820(2) may, at the time of filing a written application for retirement with the department, apply to the department to make a one-time purchase of an additional benefit equivalent to all or a portion of the amount of the reduction in the member's benefit under RCW 41.40.820(3) or RCW 41.40.820(4).

(2) To purchase the additional benefit under this section, a member shall pay the actuarial equivalent value of the resulting increase in the member's benefit.

(3) Subject to rules adopted by the department, a member purchasing an additional benefit under this section may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any

transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

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