Select Committee on Pension Policy

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

Regular Committee Meeting

March 21, 2006

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

AGENDA

10:00 AM	**(1)**	**Approval of Minutes**
10:05 AM	**(2)**	**Election of Officers** - Darren Painter, Research Analyst
10:35 AM	**(3)**	**Session Review** - Laura Harper, Senior Research Analyst - Legal
11:15 AM	**(4)**	**Preliminary 2006 Interim Issues** - Matthew M. Smith, State Actuary
11:45 AM	**(5)**	**Public Testimony** • Preliminary 2006 Interim Issues
12:30 PM	**(6)**	**Adjourn**

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

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

Select Committee on Pension Policy

Rules of Procedure

(May 10, 2005)

RULE 1. Membership. The Committee shall consist of 20 members: two from each caucus of the legislature, four active members or representatives of active members of the state retirement systems, two retired members or representatives of retired members of the state retirement systems, four employer representatives, and the Directors of the Department of Retirement Systems and the Office of Financial Management.

The Directors of the Department of Retirement Systems and the Office of Financial Management may appoint alternates from their respective agencies for membership on the SCPP.

RULE 2. Meetings. The Select Committee on Pension Policy (SCPP) will typically meet once each month during the Legislative Interim. Additional meetings may be called by the Chair of the SCPP or Executive Committee as deemed necessary.

RULE 3. Rules of Order. All meetings of the SCPP, its Executive Committee, or any subcommittee created by the SCPP shall be governed by Reed's Parliamentary Rules, except as specified by applicable law or these Rules of Procedure.

RULE 4. Quorum. A majority of the 20 committee members shall constitute a quorum of the Full Committee (11 members). A majority of the members appointed to a subcommittee shall constitute a quorum of the subcommittee.

RULE 5. Voting. A majority of the 20 committee members must vote in the affirmative for an official action of the SCPP to be valid (11 members); a majority of those committee members present must vote in the affirmative on procedural matters (at least 6 members), unless provided otherwise in statute or these Rules of Procedure. A majority of the members appointed to a subcommittee must vote in the affirmative for an official action of a subcommittee to be valid; a majority of those subcommittee members present must vote in the affirmative on procedural matters, unless provided otherwise in statute or these Rules of Procedure.

RULE 6. Minutes. Minutes summarizing the proceedings of each SCPP meeting and subcommittee shall be kept. These minutes will include member attendance, official actions taken at each meeting, and persons testifying.

RULE 7. SCPP Chair, Vice Chair, Executive Committee and Subcommittees. An Executive Committee shall be established and shall include six members. Reorganization elections shall take place at the first meeting of the year as follows: First the Chair shall be elected and then the Vice Chair shall be elected. The Chair shall be a member of the Senate in even-numbered years and a member of the House of Representatives in odd-numbered years. The Vice Chair shall be a member of the House in even-numbered years and a member of the Senate in odd-numbered years.

Three members of the Executive Committee shall then be elected, one member representing active members, one member representing employers, and one member representing retirees. In addition, the Director of the Department of Retirement Systems shall serve on the Executive Committee.

Executive Committee members may designate an alternate to attend Executive Committee meetings in the event they cannot attend. Alternates shall be members of the SCPP who represent the same member group as the elected Executive Committee member.

Subcommittees of the SCPP may be formed upon recommendation of the Executive Committee. The creation of the subcommittee and appointment of members shall be voted on by the full SCPP.

RULE 8. Duties of Officers.

A. The Chair shall preside at all meetings of the SCPP and Executive Committee, except that the Vice Chair shall preside when the Chair is not present. In their absence, an Executive Committee member may preside.

B. The State Actuary shall prepare and maintain a record of the proceedings of all meetings of the SCPP Committee, Executive Committee, and SCPP Subcommittees.

C. The Executive Committee shall perform all duties assigned to it by these Rules of Procedure, such other duties delegated to it by the SCPP, and shall set meeting agendas and recommend actions to be taken by the SCPP.

D. A recommendation to refer an issue to the Assistant Attorney General will be approved by the Chair or by a majority vote of the Executive Committee. The Chair or the Committee will consider priorities of the SCPP of all legal issues and budget constraints in making this decision.

Advice from the Attorney General's Office to the Chair or the Committee may be subject to the attorney client privilege. When subject to the privilege, Committee members are advised to maintain the advice as confidential. The privilege may be waived only by vote of the Committee.

E. The State Actuary may refer requests for information or services by Select Committee on Pension Policy members that are directly related to current Committee projects or proposals and/or require a significant use of OSA resources to either the Chair of the SCPP or the Executive Committee. Such requests will be approved by either the Chair or by a majority vote of the Executive Committee prior to initiation and completion by the OSA. The Executive Committee will consider priorities of all current OSA projects and budget constraints in making this decision.

F. The State Actuary shall submit the following to the Executive Committee and the full SCPP for approval: the biennial budget submission for the OSA, and any personal services contract of $20,000 or more that is not described in the biennial budget submission.

G. The Chair and Vice Chair shall appoint four members of the SCPP to serve on the State Actuary Appointment Committee. At least one member shall represent state retirement systems' active or retired members, and one member shall represent state retirement system employers. The Chair and Vice Chair may designate an alternate for each appointee from the same category of membership.

RULE 9. Expenses. Legislators' travel expenses shall be paid by the member's legislative body; state employees' expenses shall be paid by their employing agency; other SCPP members' travel expenses shall be reimbursed by the Office of the State Actuary in accordance with RCW 43.03.050 and 43.03.060.

RULE 10. Staff. The OSA shall provide staff and technical assistance to the Committee. The State Actuary has the statutory authority to select and employ such research, technical, clerical personnel, and consultants as the State Actuary deems necessary. The State Actuary shall inform the Executive Committee of final personnel actions. Any employee terminated by the State Actuary shall have the right of appeal to the Executive Committee. The State Actuary has also implemented a grievance procedure within the OSA. Any employee who has followed the OSA grievance process and disagrees with the outcome may appeal to the Chair or Vice Chair for action by the Executive Committee.

Effective Date July 24, 2005.

Revised July 21, 2005 by the Select Committee on Pension Policy.

Charles W Fromhold | Karen Fraser

Chair – Representative | **Vice-Chair – Senator**

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

2006 Meeting Dates

Full, Executive and Subgroups
Location to be determined
8:00am – 5:00 pm - Tuesdays

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

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

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Select Committee on Pension Policy

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FULL COMMITTEE
DRAFT MINUTES

February 21, 2006

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

Committee members attending:

Senator Fraser, Vice-chair	Corky Mattingly
Elaine Banks	Senator Mulliken
Representative Conway	Glenn Olson
Representative Crouse	Senator Pridemore
Leland Goeke	J. Pat Thompson
Robert Keller	David Westberg

Senator Fraser, Vice-chair, called the meeting to order at 9:10 am.

(1) Approval of Minutes

It was moved to approve the December 13, 2005, Full and Revised Executive Committee Minutes and the January 10, 2006, Full and Executive Committee Minutes. Seconded.

MOTION CARRIED

(2) 2006 Session Update

Bob Baker, Senior Research Analyst, reported on the "2006 Retirement Legislation Summary." Discussion followed.

Darren Painter, Research Analyst, reported on the LEOFF 2 Retirement Board and the Volunteer Fire Fighters and Reserve Officers Relief and Pension bills.

Laura Harper, Senior Research Analyst, Legal, reported on the Other Retirement Bills and the "Governor's 2006 Supplemental Pension Budget Summary." Discussion followed.

(3) Public Testimony

The following people testified:

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

Jim Justin, Association of Washington Cities

The meeting adjourned at 9:55 am.

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SCPP 2006 Election of Officers

- Required Elections
  - Chair (member of Senate)
  - Vice Chair (member of House)
  - Executive Committee
    - Member, employer, and retiree representatives
    - Currently Keller, Goeke, and Banks

- State Actuary Appointment Committee
  - Four members jointly appointed by Chair and Vice Chair
  - No appointments required unless vacant
    - Current appointments: Fraser, Fromhold, Goeke, and Thompson

OSA Office of the State Actuary

Election of Officers

(March 13, 2006)

According to SCPP Rule 7, the SCPP's reorganization elections shall take place at the first meeting of the year. First the Chair and Vice Chair shall be elected, then members of the Executive Committee. Required appointments include members of the State Actuary Appointment Committee.

CHAIR

The Chair shall be a member of the Senate in even-numbered years. RCW 41.04.276 (3).

VICE CHAIR

The Vice Chair shall be a member of the House in even-numbered years. RCW 41.04.276(3).

EXECUTIVE COMMITTEE

The executive committee shall include the Chair, the Vice Chair, one member representative, one employer representative, one retiree representative, and the Director of the Department of Retirement Systems. RCW 41.04.276(4). Current members are: Banks*, Fraser, Fromhold, Goeke*, Keller*, and Matheson.

** Elected by full committee.*

STATE ACTUARY APPOINTMENT COMMITTEE

The Chair and Vice Chair of the SCPP shall jointly appoint four SCPP members to serve on the State Actuary Appointment Committee, at least one of which shall represent state retirement system active or retired members, and one member representing retirement system employers. RCW 44.44.013(1). Current Members are: Alexander, Fraser*, Fromhold*, Goeke*, Prentice, Sommers, Thompson*, and Zarelli.

** Appointed by Chair and Vice Chair of SCPP*

About the SCPP

Composition of the Select Committee:

- Four members of the Senate, appointed by the President of the Senate;
- Four members of the House of Representatives, appointed by the Speaker of the House;
- Four representatives of active members, appointed by the Governor;
- Two representatives of retired members, appointed by the Governor;
- Four employer representatives, appointed by the Governor; and
- The Directors of the Department of Retirement Systems and the Office of Financial Management.

Current Terms of Membership:

Legislative members serve from the close of the session in which they are appointed, until the close of the next regular session held in an odd-numbered year. If a successor is not appointed during a session, the member's term continues until the member is reappointed or a successor is appointed.

Member	Appointed	Expires
Representative Barbara Bailey	7/1/05	
Representative Steve Conway	6/23/03	
Representative Larry Crouse	3/29/04	
Senator Karen Fraser	7/7/03	
Representative Bill Fromhold	6/23/03	
Senator Joyce Mulliken	2/8/05	
Senator Craig Pridemore	6/1/05	
Senator Mark Schoesler	3/8/06	
Sandra J. Matheson	4/1/05	NA
Victor Moore	1/1/05	NA
Robert Keller	7/1/05	6/30/08
Diane Rae	7/1/03	6/30/06
J. Pat Thompson	7/1/05	6/30/07
David Westberg	7/1/03	6/30/06
Leland A. Goeke	7/1/05	6/30/08
Corky Mattingly	7/1/03	6/30/06
Doug Miller	7/1/04	6/30/07
Glenn Olson	7/1/05	6/30/08
Elaine M. Banks	7/1/03	6/30/08
Lois Clement	10/15/04	6/30/06

State Actuary Appointment Committee

Senator Margarita Prentice
JAC 419
P.O. Box 40411
Olympia, WA 98504-0411
(360) 786-7616

Senator Joseph Zarelli
JAC 316
P.O. Box 40418
Olympia, WA 98504-0418
(360) 786-7608

Representative Gary Alexander
JLOB 407
P.O. Box 40600
Olympia, WA 98504-0600
(360) 786-7814

Representative Helen Sommers
JLOB 204
P.O. Box 40600
Olympia, WA 98504-0600
(360) 786-7814

Senator Karen Fraser
JAC 417
P.O. Box 40422
Olympia, WA 98504-0422
(360) 786-7642

Representative Bill Fromhold
JLOB 239
P.O. Box 40600
Olympia, WA 98504-0600

Leland A. Goeke
Vancouver School District
2901 Falk Rd.
Vancouver, WA 98683

J. Pat Thompson
Washington State Council of County and City Employees
3305 Oakes Avenue
Everett, WA 98201

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updated 8/24/05

Select Committee on Pension Policy

Preliminary 2006 Interim Issues

(March 15, 2006)

Referred from 2005 SCPP

- **Plan 2/3 VEBA and PEBB eligibility** - Review VEBA and PEBB eligibility criteria for separated Plan 2/3 members.

- **PSERS eligibility** - Report on initial PSERS membership (transfer window closes on September 30, 2006). Review excluded groups and revisit PSERS membership policy.

- **Disability retirement** - Continue review of disability benefits and policies under the Washington State retirement systems.

- **Post-retirement employment** - Follow-up on memo to fiscal chairs and re-evaluate 2006 SCPP legislation. Determine strategy for the future.

- **Service credit purchases, Port Commissioners** - Revisit service credit policies and regulations for non-eligible service credit. Determine if optional service credit purchase is an appropriate legislative remedy.

SCPP Proposals that did not Pass

- **Age 66 COLA** - Amend the Uniform COLA eligibility requirements of the PERS and TRS Plans 1 to include all retirees who have been retired one year and will have attained age 66 by December 31 (instead of July 1) of the calendar year in which the increase is given.

- **Optional membership and distributions** - Create the ability to receive a pension and work without restriction after age 70½ in PERS, TRS, and SERS; allow state elected officials to, at the beginning of each term of office, opt to continue active retirement system membership or retiree and receive a pension.

- **Post-retirement employment** - Require employers utilizing the expanded retire-rehire program in the Plans 1 of PERS and TRS to hire retirees pursuant to a written policy; apply the following to TRS 1 to provide consistency with PERS 1: prohibition of prior agreements, documentation of need, and documentation of the hiring process. (Note: the 2006 SCPP bill was amended in the House to provide additional consistency between PERS 1 and TRS 1. The substitute bill passed the House.)

- **Rule of 90** - Provide unreduced retirement benefits to any vested member of TRS, SERS, and PERS Plans 2/3 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.

- **WSP contribution rates** - Change the cost-sharing formula from a fifty-fifty member to employer split (with a 2 percent member minimum) to an allocation formula by which members pay one-third with a 7 percent cap and employers pay the balance; also establish a minimum total contribution rate for the WSPRS.

- **Gain sharing** - Prospectively repeal and replace Plan 1 and Plan 3 gain-sharing benefits in PERS, TRS, and SERS with certain benefits.

Legislator/Member Requests

- **Reducing actuarial penalties (Senator Eide)** - Reduce actuarial penalties associated with state employees who retire due to medical reasons.

- **COLA purchase options (Glenn Olson, SCPP Member)** - Explore expanded options for members of PERS 1 and TRS 1 to purchase enhanced post-retirement cost-of-living adjustments (COLAs).

Coordination with LEOFF 2 Board

- **Service credit purchase for duty-related injury** - Increase the period of service credit that can be purchased by an employee who is on a leave of absence for an injury on the job.

- **Dual membership** - Revisit policies surrounding dual membership and consider legislative changes in the areas of: thirty-year cap, twenty-year indexing, and includable salary.

- **Inflationary adjustment for $150,000 death benefit** - Study the effect of adding an annual inflation adjustment to the existing $150,000 duty-death benefit.

Constituent/Stakeholder Requests

- **Washington state patrol issues (WSP Troopers' Association)** - Evaluate and make recommendations regarding contribution rates and employee/employer cost sharing, raising mandatory retirement age to 65, converting disabled Troopers to a normal retirement at age 60.

- **LEOFF 1 disability/retirement benefits (Randy Plain)** - Review policies concerning the interaction of federal disability benefits with LEOFF 1 retirement benefits.

- **TRS 2/3 service credit (WASA and AWSP)** - Review interaction of state contract law for teachers and school administrators and TRS 2/3 retirement benefits/service credit in the final year of employment.

- **PERS 2 disability benefits (Jeffry Graves)** - Review policies concerning non-duty disability benefits for PERS 2.

- **PERS 2 military service credit (John Carlton)** - Review policies concerning retirement service credit in PERS 2 for military service credit earned prior to establishing membership in PERS.

Statutory Obligations

- **Recommendation to the PFC -** Study and make recommendations on changes to the 2007-09 contribution rates to the Pension Funding Council (PFC) prior to the September 30, 2006, adoption (required under RCW 41.04.281).

2006 Session Review

Laura Harper, Senior Research Analyst – Legal

March 21, 2006

SCPP Directions, 2006 Session

Funding

Benefit Improvements

Member Flexibility

Housekeeping

Pension Funding in the Forefront

- Thirty-eight pension bills
- Nine bills re: funding
- Two funding bills passed
  - Minimum Contribution Rates
  - Pension Funding Bill

Pension Funding Policy

- Minimum Contribution Rates
  - SCPP's rate floor bill
  - Contribution rate adequacy
- Plan 1 UAAL Rates
  - ESSB 6896, Pension Funding Bill
  - Uses SCPP recommendations

Relationship to SCPP Goals

- Contribution Rate Setting
  - Adequate, predictable, and stable rates
- Consistency with Statutory Goals (an SCPP goal)
  - Dependable and systematic funding
  - Amortize Plan 1 UAAL by 2024

Benefit Enhancements

- Plan 3 Vesting
  - Five years, 45 and older
- $1,000 Minimum Benefit in the Plans 1
  - Twenty YOS/25 Years
  - Three percent escalator for 20/25 and 25/20
- LEOFF 1 Benefit Cap Removed

Member Flexibility at Member's Cost

- TRS 2/3 Out-of-State Service Credit – seven years
- "Air-time" in all plans to enhance benefit – five years
- Judges' Benefit Multiplier
  - Choice to use JRA contributions to enhance defined benefits in PERS and TRS 1

Relationship to SCPP Goals

- Part of "balanced long-term management?"
  - Human resource policies
  - Adaptability of pension plans
  - Flexibility for members

Refining Eligibility for A New Plan

- PSERS effective 7/1/2006
  - Timing allowed for refinements
  - Eligibility focus moved - job titles to job duties
  - Clarification added - inclusion of probation officers
  - Collaboration with DRS - practical effects

SCPP Proposals that Did Not Pass

- Rule of 90
- Gain-sharing Trade-off
- Post-retirement Employment
- WSP Contribution Rates
- Age 66 COLA
- Optional Membership and Distributions

LEOFF 2 Bills That Passed

- LEOFF 2 Catastrophic Disability
- LEOFF 2 $150,000 Death Benefit
- LEOFF 2 Survivor Health Care

Other Pension Bills that Passed

- Vol. Fire Relief and Pension Performance of Duty Definition
- Vol. Fire Relief and Pension Personnel
- WSP Survivor Benefits (clarification in response to litigation)

Items for Further Study

- LEOFF 1 task force with two missions
  - Funding vehicles for post-retirement medical benefits
  - LEOFF 1 contributions

Resources for Further Information

- Session Review (Handout)
  - Status of all pension bills at sine die
- Legislature's Supplemental Pension Budget (Handout)
  - Summary of pension funding bill and resulting contribution rates
- Tracking Sheets (Handout)
- Staff, websites

Select Committee on Pension Policy
Session Review
(March 9, 2006)

** Note: The initial description of each bill is as of its introduction. The information in italics pertains to amendment activity after introduction. Bills that were amended since February's SCPP session update are marked with an asterisk.*

SCPP Request Legislation

1. **HB 2687 / SB 6453 — $1,000 Minimum Benefit (Bailey - Mulliken):** Establishes a $1,000 minimum benefit in the Plans 1 of PERS and TRS for those with at least 20 years of service and who have been retired at least 25 years; provides a 3 percent escalator for both $1,000 minimum benefits (the other being the $1,000 minimum benefit already available to those with 25 years of service and who have been retired 20 years).

   Status at sine die: This bill passed the House and the Senate without amendment and was delivered to the Governor.

2. **HB 2686 / SB 6454 — Age 66 COLA (Bailey - Mulliken):** Amends the Uniform COLA eligibility requirements of the PERS and TRS Plans 1 to include all retirees who have been retired one year and will have attained age 66 by December 31 (instead of July 1) of the calendar year in which the increase is given.

   Status at sine die: This bill passed the Senate without amendment. It received a hearing in House Appropriations but was not forwarded from the committee.

3. **HB 2681 / SB 6452 — Contribution Rate Floors (Conway - Fraser):** Beginning July 1, 2009, establishes minimum employer contribution rates for the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) in PERS and TRS, as well as minimum employer and member contribution rates for the Plans 2/3 normal cost in PERS, TRS, and SERS.

   Status at sine die: This bill passed the House and the Senate without amendment and was delivered to the Governor.

4. **SHB 2691 and SSB 6455 — Judges Benefit Multiplier (Crouse - Fraser):** Allows judges to discontinue participation in the judicial retirement account plan and use their contributions to enhance their benefits in the Plans 1, 2, and 3 of PERS and Plan 1 of TRS. *The substitute bills in the House and the Senate removed language related to optional local employer contributions.*

   Status at sine die: This bill passed the House and the Senate with amendments and was delivered to the Governor.

*5. **SHB 2688 and SB 6447 — LEOFF Plan 1 (Fromhold - Pridemore):** Repeals the LEOFF 1 benefit cap as of July 1, 2006; reinstates contribution rates July 1, 2007, (6 percent member and 6 percent employer); forms a work group led by DRS working in concert with HCA to select and implement one or more funding vehicles for post-retirement medical benefits. *The bill was first amended in the House to require the work group to submit its recommendations for proposed legislation to the appropriate committees by September 1, 2006, and its final report to the Governor and Legislature by December 1, 2006. This was a shorter time frame than under the original bill. The Senate then amended the bill to strike the section requiring contribution rates from members and employers and directing the joint task force to study the matter of LEOFF 1 contributions.*

   Status at sine die: The bill passed the House and the Senate with amendments.

6. **HB 2692 / SB 6456 — Optional Membership and Distributions (Fromhold - Pridemore):** Allows members to receive a pension and work without restriction after age 70½ in PERS, TRS, and SERS; allows state elected officials to, at the beginning of each term of office, opt to continue active retirement system membership or retire and receive a pension.

   Status at sine die: This bill did not receive a hearing in the House or the Senate.

7. **HB 2683 / SB 6451 — Plan 1 Unfunded Liability (Fromhold - Fraser):** Reinstates contribution rates for the Plan 1 UAAL in PERS and TRS beginning July 1, 2006, and uses a three-year phase-in schedule for rates.

   Status at sine die: This bill did not receive a hearing in the House or the Senate, but essentially, its content was incorporated into the pension funding bill, ESSB 6896, which passed the House and the Senate and was delivered to the Governor. This bill (among other things) reinstated contribution rates for the Plan 1 UAAL using a three-year phase-in with no "catch-up."

8. **SHB 2684 / SB 6450 — Plan 3 Vesting (Fromhold - Pridemore):** Establishes five-year vesting for the defined benefit portion of the Plans 3 of PERS, SERS, and TRS. *The House's substitute bill lowered the vesting period from ten to five years only for those members who are age 45 and older.*

   Status at sine die: The substitute bill passed the House and the Senate and was delivered to the Governor.

9. **SHB 2689 and SB 6448 — Post-retirement Employment (Bailey - Mulliken):** Requires employers utilizing the expanded retire-rehire program in the Plans 1 of PERS and TRS to hire retirees pursuant to a written policy; applies the following to TRS 1 to provide consistency with PERS 1: prohibition of prior agreements, documentation of need, and documentation of the hiring process. *The substitute bill provided additional consistency with PERS 1 by further amending TRS 1. It extended the break in service requirement for TRS 1 members participating in the expanded retire-rehire program from one month to one and one-half months, and imposes a prospective 1,900-hour cumulative lifetime limit on hours that a TRS 1 retiree may work in excess of 867 hours annually without suspension of retirement benefits.*

   Status at sine die: The bill passed the House with amendments, but was not heard in the Senate.

*10. **ESHB 2685 and SB 6449 — PSERS Eligibility (Fromhold - Fraser):** Redefines PSERS eligibility in a manner that is based on job duties rather than job titles; adds two new PSERS employers (DNR and DSHS).

The substitute bill removed DNR and DSHS from the list of eligible employers. The engrossed substitute bill added clarifying language to ensure that probation officers would be eligible for membership in PSERS. The Senate amendment added DNR and DSHS back into the list of eligible employers. The House asked the Senate to recede and it agreed.

Status at sine die: The bill passed the House with amendments and the House version passed in the Senate.

11. **HB 2690 / SB 6457 — Purchasing Additional Service Credit (Crouse - Pridemore):** Authorizes retirement system members in all plans to make a one-time purchase at retirement of up to five years of "air time" at full actuarial cost in order to obtain an additional annuity.

    Status at sine die: This bill passed the House and the Senate without amendment and was delivered to the Governor.

12. **HB 2679 / SB 6445 — Rule of 90 (Conway - Fraser):** Provides unreduced retirement benefits to any vested member of the TRS, SERS, and PERS Plans 2/3 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 90 or more.

    Status at sine die: This bill did not receive a hearing in the House or the Senate.

*13. **ESHB 2680a and SB 6458 — TRS Out-of-State Service Credit (Conway - Pridemore):** Authorizes members of TRS Plans 2 and 3 with between five and ten years of TRS service credit to purchase up to seven years of membership service credit for education experience in another state or with the federal government. The member pays less than full actuarial cost. *This bill was first amended in House Appropriations. The substitute bill would have required employers to cover the cost of the bill. The bill was amended again on the floor of the House, shifting 100 percent of the bill's cost to members by requiring that they pay the full actuarial value of the resulting increase in their benefit. The intent of the floor amendment was to apply this to both Plan 2 and Plan 3, but as written it only applied to Plan 3. This bill was further amended by Senate Ways and Means so as to shift the cost to Plan 2 members. In addition, the Senate removed two of the eligibility criteria that had been present in all previous* *versions of the bill and which had been originally inserted into the bill by the SCPP to control cost: 1) the requirement that the member have less than ten creditable years in the retirement system; and, 2) the requirement that the purchase not result in a purchase of total service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.*

Status at sine die: This bill passed with amendments in both the House and the Senate.

14. **HB 2682 / SB 6446 — Washington State Patrol Contribution Rates (Conway - Fraser):** Changes the cost-sharing formula from a fifty-fifty member to employer split (with a 2 percent member minimum) to a formula in which members pay one-third with a 7 percent cap and employers pay the balance; also establishes a minimum total contribution rate for the WSPRS.

    Status at sine die: This bill passed the House without amendment. It received a hearing in Senate Ways and Means but was not forwarded from the committee.

15. **HB 3183 / SB 6795 — Gain-sharing Trade-off (Fromhold - Fraser):** Repeals Plan 1 gain-sharing and provides a $0.24 increase in the Uniform Increase Amount used in calculating Plan 1 members' Uniform COLA. Repeals Plan 3 gain-sharing, eliminates TRS 3 annual contribution rate choice, provides Plans 2/3 choice in TRS and SERS for new hires, provides an option to move to Plan 2 for TRS and SERS members mandated into Plan 3, and provides an optional 2 percent defined benefit accrual with an annuity offset for TRS, SERS, and PERS members who chose to be in Plan 3.

    Status at sine die: This bill did not receive a hearing in the House or the Senate.

LEOFF 2 Board Request Legislation

1. **HB 2890 / SB 6585 — Fish and Wildlife Service Credit Transfer (Simpson - Doumit):** Allows a five-year window for LEOFF 2 members to elect to transfer PERS 2 service credit into LEOFF 2 for periods employed as enforcement officers for the Department of Fish and Wildlife prior to the 2003 legislative change allowing LEOFF 2 coverage of such employment. Members must pay the difference, plus interest, between the contributions they made to PERS 2 and the contributions they would have paid had they been members of LEOFF 2. The Department of Fish and Wildlife would pay, no later than June 30, 2012, an amount sufficient to ensure that LEOFF 2 contribution rates will not increase due to these transfers.

   Status at sine die: This bill received hearings in House Appropriations and Senate Ways and Means but was not forwarded from either committee.

2. **HB 2932 / SB 6722 — Catastrophic Disability (Darneille - Franklin):** Provides a total disability retirement allowance for LEOFF 2 members equal to 70 percent of the member's final average salary (FAS), with offsets for Workers' Compensation wage-replacement or permanent total disability benefits, as well as Federal Social Security benefits. The combined benefits may not exceed 100 percent of the member's FAS, and in no case would the offsets reduce the allowance below the member's accrued LEOFF 2 benefit.

   Applies a total disability standard of “unable to perform substantial gainful activity,” defined as average earnings in excess of $860 per month in 2006 (social security standards). Totally disabled members would be subject to comprehensive medical examinations to determine continued eligibility. For members with an employer-provided total disability benefit from Fish and Wildlife, this new benefit would offset the Fish and Wildlife benefit.

   Status at sine die: This bill passed the House and the Senate without amendment and was delivered to the Governor.

*3. **SHB 2933 and SSB 6724 — $150,000 Death Benefit (P. Sullivan - Parlette):** Provides a $150,000 death benefit to the survivor of a LEOFF 2 member who died as a result of an illness sustained in the course of employment. Beginning July 1, 2006, the $150,000 death benefit will be indexed in the same manner as LEOFF 2 retirement benefits -- to changes in the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) to a maximum of 3 percent per year. *The House's substitute bill made technical changes to the language identifying occupational illness and removed the annual adjustment to the $150,000 death benefit. The Senate proposed to makes the same technical changes but retain the annual adjustment. The Senate ultimately passed the House's version.*

Status at sine die: This bill passed the House with amendments and the House's version passed the Senate.

4. **SHB 2934 and SB 6723 — Survivor Health Care (Simpson - Eide):** Provides additional benefits to the surviving spouse and dependent children of LEOFF 2 members killed in the line of duty. Health insurance premiums paid to the Washington State Health Care Authority pursuant to RCW 41.05.080 would be reimbursed by increasing the survivors' benefit allowances by the amount of the premiums. (Note: RCW 41.05.080 already allows for continued participation in insurance plans and contracts through the Public Employees' Benefits Board [PEBB] for surviving spouses and dependent children of members killed in the line of duty.) *The substitute bill added language to clarify that eligibility for coverage shall be as determined in rules governing benefits offered by PEBB.*

Status at sine die: ***Note: An error in the bill history in the original meeting material has been corrected.*** The bill passed the House with an amendment, the companion passed the Senate without amendment, the Senate version passed the House without amendment, and the bill was delivered to the Governor.

Other Pension Legislation

1. **SB 6218 — Domestic Partner Retirement Benefits (Prentice):** Allows domestic partners to be treated as spouses for pension purposes in all of the Washington State Retirement Systems except those for first-class cities and the Washington State Patrol. Spouses may currently receive survivor benefits upon the death of a member. They may also collect refunds of accumulated contributions of deceased members.

   Domestic partners must be 18 years or older, mentally competent to consent to contract when the domestic partnership began, not related by blood closer than would bar marriage in the state of Washington, and not married to anyone. Further, a domestic partnership involves two persons in a "close personal" relationship who are "each other's sole domestic partner and are responsible for each other's common welfare." Domestic partners must share the same "regular and permanent residence," and be "jointly responsible for basic living expenses" as defined in the act.

   Status at sine die: This bill received a hearing in Senate Ways and Means but was not forwarded from the committee.

2. **HB 2503 / SB 6444 — Pension Funding Stabilization (Sommers - Prentice):** Creates a pension funding stabilization account in the state treasury. Moneys in the account may be spent only after appropriation and may be used only for payment of the UAAL in PERS Plan 1 and TRS Plan 1 that exist on July 1, 2005. The account cannot be used to pay for any new benefit or for any benefit increase that takes effect after July 1, 2005. (An increase that is provided in accordance with a formula in existence on July 1, 2005, is not considered a benefit increase for this purpose.)

   Status at sine die: This bill received a hearing in House Appropriations but was not forwarded from the committee.

3. **HB 2472 — Creating the Department of Public Safety (Campbell):** Establishes a new classification of peace officers within a new Washington Bureau of Investigation (WBI) under a new Washington State

Department of Public Safety. These peace officers would be "commissioned agents" of the WBI and members of the Washington State Patrol Retirement System.

Status at sine die: This bill received a hearing in State Government Operations and Accountability but was not forwarded from the committee.

4. **SHB 2608 — VFFRO Relief and Pension Performance of Duty (DeBolt):** The original bill expanded the definition of "performance of duty" or "performance of service" in the Volunteer Fire System to include any participation in community or charitable events sanctioned by the chief or another officer. *The substitute bill expands the definition to include other officially assigned duties that are secondary to duties as a fire fighter, emergency worker, or reserve officer including maintenance, public education, inspections, investigations, court testimony, and fund-raising for the benefit of the department. Performance of duty or service also includes being on call or standby under the orders of the chief or designated officer, except at the individual's home or place of business.*

   Status at sine die: This bill was Amended in House Appropriations. The substitute bill passed the House and the Senate and was delivered to the Governor.

5. **HB 2677 / SB 6443 — Economic Stability Account (Sommers - Fraser):** Creates an economic stability account in the state treasury. Moneys in the account may be spent only after appropriation and may be used for several purposes, including pensions.

   Status at sine die: This bill received a hearing in House Appropriations, but was not forwarded from the committee.

6. **HB 2674 — Pension Stabilization Account (Sommers):** Creates a pension stabilization account in the state treasury. Moneys in the account may only be spent after appropriation and expenditures from the account may be used for "amortizing unfunded accrued actuarial liability in the state pension systems." The bill also clarifies that transfers from the general fund to the pension stabilization account would not trigger action by the state expenditure limit committee to lower the state expenditure limit to reflect the shift.

Status at sine die: This bill received a hearing in House Appropriations but was not forwarded from the committee.

7. **HB 2606 — VFFRO Relief and Pension Personnel (DeBolt):** Allows elected or appointed public officials in a city or fire district to begin or resume membership in a volunteer department and participate in the pension and relief plans provided by the fund. (Currently they are barred from participation.) The provisions of the bill would not apply to volunteer members who serve as the fire chief for a department.

   Status at sine die: This bill passed the House and the Senate without amendment and was delivered to the Governor.

8. **SHB 3137 — WSP Survivor Benefits (Lovick):** Clarifies the definition of final average salary for the purpose of providing an eligible survivor of a disabled member with a benefit upon the member's death. The bill also provides that member contribution rates will not increase as a result of any distributions to survivors of members who became disabled prior to July 1, 2006. *The substitute bill provides for retroactive survivor benefit adjustments and also provides that no supplemental contribution rate be charged.*

   Status at sine die: This bill was amended in House Appropriations. The substitute bill passed the House and the Senate and was delivered to the Governor.

9. **SHB 2527 — State Employee Return to Work (Nixon):** Adds a new section to the state civil service law to provide that state employees called to active duty with any branch of the U.S. military shall return to work with credit for the "periodic increment date" for that time served on active military duty. Periodic increment date is currently defined as the date upon which an employee is scheduled to receive an increment increase by moving to a higher salary step within the salary range for his/her current class. *The substitute bill amends the civil service law directly rather than requiring the Director of DOP to direct the agencies through rules.*

Status at sine die: This bill was heard in the Government Operations committees of the Senate. It was heard and amended in the House's State Government Operations and Accountability committee, and the substitute bill passed the House.

10. **HB 2909 — Plan 1 Unfunded Liability (Bailey):** Establishes a three-year phase-in of contribution rates to be used for the sole purpose of paying the UAAL in TRS 1 and PERS 1. The phase-in rates are in addition to the phase-in rates established pursuant to RCW 41.45.062. They incorporate both the required rates to fund the Plan 1 UAAL recommended by the Pension Funding Council for payment during the 2003-05 and 2005-07 fiscal biennia, which were suspended by the legislature, and the projected payments for the 2007-2009 biennium.

    Status at sine die: This bill did not receive a hearing.

11. **SHB 2833 — VFFRO Relief and Pension Board Membership (Haigh):** Adds two new positions to the State Board for Volunteer Fire Fighters and Reserve Officers; requires that at least three of the board members are not receiving relief or pension benefits from the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund; and directs the Governor to "consider participants who are recommended for appointment by the appropriate state associations." *The substitute bill allows rather than requires the Governor to consider participants who are recommended for appointment by the appropriate state associations.*

    Status at sine die: The bill was amended in House Appropriations. The substitute bill passed the House but not was not heard in a Senate committee.

12. **HB 2896 / SB 6702 — Supplemental Pension Programs (Fromhold - Fraser):** Amends the public sector collective bargaining provisions of state law. Under current law, employers are forbidden to bargain over "retirement plans and retirement benefits." This bill would create an exception to this prohibition by allowing collective bargaining over "supplemental pension programs that are provided other than by the state, and purchased entirely through collectively bargained employee contributions." (Note: Payroll deductions for "employee benefit programs" through labor or employee organizations are already allowed under RCW 41.04.230[6].)

Status at sine die: This bill was heard in Senate Ways and Means but was not forwarded from the committee.

13. **HB 2927 / SB 6655 — Judicial Retirement Account (JRA) (Fromhold - Fraser):** Allows membership in the plan for any state-employed justice or judge who is not a member of the now-closed Judicial Retirement System. Removes options for the Administrator of the Courts to manage contributions, leaving investment of the principal account with the State Investment Board. Exempts JRA accounts from judicial process, including attachment and the operation of bankruptcy insolvency laws, except for domestic relations orders and federal income tax levies. Subjects distribution of JRA accounts to the operation of state community property laws upon a member's death. Additional sections of the bill provide for technical corrections such as incorrect references to non-codified sections.

    Status at sine die: This bill was forwarded from House Appropriations and Senate Judiciary without amendment.

14. **SB 6847 — Reducing Unfunded Liability (Finkbeiner):** Forbids the suspension of those portions of the basic employer contribution rates that are necessary to pay for the UAAL in the Plans 1 until 2009. It also makes up the actuarially required payments for the Plan 1 UAAL that were suspended in the first year of the current biennium and reinstates UAAL contribution rates beginning in the 2007 fiscal year. In 2009, minimum basic contribution rate floors with a target funding ratio would be established for the UAAL in the affected retirement systems.

    Redirects Plan 1 gain-sharing so that beginning January 1, 2008, it will no longer be used for benefit improvements, but rather, to shorten the amortization period for paying the Plan 1 UAAL. Repeals Plan 3 gain-sharing.

    Status at sine die: This bill did not receive a hearing.

15. **HB 3063 — Plan 1 SIB Stabilization (Bailey):** Creates unfunded liability stabilization accounts within both the PERS Plan 1 fund and TRS Plan 1 fund. Expenditures from the accounts may be used only for the payment of unfunded liabilities of the respective Plans 1 and may not be used to pay for any new benefit or for any benefit increase that takes

effect after July 1, 2005. (An increase that is provided in accordance with a formula in existence on July 1, 2005, is not considered an increase for the purpose of this bill.)

Status at sine die: This bill did not receive a hearing.

16. **HB 3224 — PERS 1 Military Service Credit (Haigh):** Expands eligibility for PERS Plan 1 interruptive military service credit by amending the definition of military service to be consistent with the definition in RCW 73.16.031, the chapter that guarantees employment rights to those who are called to active duty. The amended definition picks up several categories of service that are not currently included. Secondly, the bill eliminates the general requirement that a member on military leave of absence must return to employment in order to receive service credit for the period of military leave. Finally, the bill would terminate military service credit for members who receive a dishonorable or bad conduct discharge, or who separate under other than honorable conditions, or are dismissed or dropped from the rolls.

    Status at sine die: This bill was heard in State Government Operations and Accountability but was not forwarded from the committee.

17. **SB 6873 — Director of Fire Protection (Keiser):** Allows persons employed as the Director of the Fire Protection Bureau to continue membership in LEOFF 2 if, under an earlier employer, they had established membership in LEOFF 2.

    Status at sine die: This bill was forwarded from Senate Ways and Means without amendment.

18. **HB 3280 — PERS/WSP 1 Military Service Credit (Ericks):** Includes service credit transferred from LEOFF 1 in the determination of eligibility for military service credit in the Plans 1 of PERS and the WSPRS.

    Status at sine die: This bill did not receive a hearing.

19. **SB 6893 — UAAL Stabilization with Appropriations (Mulliken):** Creates unfunded liability stabilization accounts within the PERS 1 and TRS 1 funds; appropriates $506.9 million from the state's general fund

into the accounts; authorizes payments from the accounts to be used for the 2005-2007 general fund state required payments, with the balance remaining in the accounts to be used after authorization for 2007-2009; authorizes the SIB to invest money within the accounts; and establishes a local employer UAAL contribution rate for PERS and PSERS of 3.44 percent for the 2007 fiscal year.

Status at sine die: This bill did not receive a hearing.

2006 Session

Bill # Companion		Brief Title	Sponsor	Legislative Status
ESHB	2680a	TRS Out-of-State Service Credit (SCPP)	Conway	Del to Gov
HB	2681	Contribution Rate Floors (SCPP)	Conway	Del to Gov
SHB	2684	Plan 3 Vesting (SCPP)	Fromhold	C 33 L 06
ESHB	2685	PSERS Eligibility (SCPP)	Fromhold	Del to Gov
SB	6453	$1,000 Minimum Benefit (SCPP)	Mulliken	Del to Gov
SHB	2688	LEOFF Plan 1 (SCPP)	Fromhold	Del to Gov
HB	2690	Purchasing Additional Service Credit (SCPP)	Crouse	Del to Gov
SHB	2691	Judges Benefit Multiplier (SCPP)	Crouse	Del to Gov
SHB	2608	Reserve Officers Relief	DeBolt	C 26 L 06
HB	2606	Vol Fire Personnel	DeBolt	Del to Gov
SHB	3137	WSP Survivor Benefits	Lovick	Gov Signed
HB	2932	Catastrophic Disability (LEOFF 2)	Darneille	C 39 L 06
SHB	2933	$150,000 Death Benefit (LEOFF 2)	P. Sullivan	Del to Gov
SB	6723	Survivor Health Care (LEOFF 2)	Eide	Del to Gov
ESSB	6896	Pension Funding Bill (Budget)	Prentice	C 56 L 06

Final Passage - All Pension Bills

15 bills

Status	Bill	Companion Bills	Original Sponsor	Title	Date
Del to Gov	HB 2606		Curtis	Volunteer fire personnel	03/08/2006
C 26 L 06	SHB 2608		Curtis	VFF&RO's relief & pension	03/09/2006
Del to Gov	ESHB 2680	SB 6458(SWays & Means)	Conway	TERS service credit	03/08/2006
Del to Gov	HB 2681	SB 6452(SWays & Means)	Conway	Retirement contribution rate	03/08/2006
C 33 L 06	SHB 2684	SB 6450(SWays & Means)	Fromhold	Vesting after 5 years	03/14/2006
Del to Gov	ESHB 2685	SB 6449(SRules 2)	Fromhold	Public safety employees' ret	03/08/2006
Del to Gov	SHB 2688	SB 6447(SWays & Means)	Fromhold	LEOFFRS plan 1	03/08/2006
Del to Gov	HB 2690	SB 6457(SRules 2G)	Crouse	Additional service credit	03/06/2006
Del to Gov	SHB 2691	SB 6455(SRules 2)	Crouse	Retirement for justices	03/06/2006
C 39 L 06	HB 2932	SB 6722(SRules 2G)	Darneille	LEOFFRS disability allowance	03/14/2006
Del to Gov	SHB 2933	SB 6724(SRules 2)	Sullivan, P.	LEOFFRS death benefit	03/08/2006
Gov signed	SHB 3137		Lovick	State patrol officers	03/17/2006
Del to Gov	SB 6453	HB 2687(HRules 3C)	Mulliken	Minimum monthly benefit	03/08/2006
Del to Gov	SB 6723	HB 2934(Hsubst for)	Eide	LEOFFRS killed at work	03/07/2006
C 56 L 06	ESSB 6896		Prentice	State funding stabilization	03/15/2006

SCPP Sponsored

30 bills

Status	Bill	Companion Bills	Original Sponsor	Title	Date
H Approp	HB 2679	SB 6445(SWays & Means)	Conway	Retirement plans 2 and 3	01/12/2006
Del to Gov	ESHB 2680	SB 6458(SWays & Means)	Conway	TERS service credit	03/08/2006
Del to Gov	HB 2681	SB 6452(SWays & Means)	Conway	Retirement contribution rate	03/08/2006
H Rules 3C	HB 2682	SB 6446(SWays & Means)	Conway	State patrol retirement	03/08/2006
H Approp	HB 2683	SB 6451(SWays & Means)	Fromhold	Actuarial accrued liability	01/12/2006
C 33 L 06	SHB 2684	SB 6450(SWays & Means)	Fromhold	Vesting after 5 years	03/14/2006
Del to Gov	ESHB 2685	SB 6449(SRules 2)	Fromhold	Public safety employees' ret	03/08/2006
H Approp	HB 2686	SB 6454(SRules 3)	Bailey	Retirement annual increase	01/12/2006
H Rules 3C	HB 2687	SB 6453(Del to Gov)	Bailey	Minimum monthly benefit	03/08/2006
Del to Gov	SHB 2688	SB 6447(SWays & Means)	Fromhold	LEOFFRS plan 1	03/08/2006
H Rules 3C	SHB 2689	SB 6448(SWays & Means)	Bailey	Public employment of retiree	03/08/2006
Del to Gov	HB 2690	SB 6457(SRules 2G)	Crouse	Additional service credit	03/06/2006
Del to Gov	SHB 2691	SB 6455(SRules 2)	Crouse	Retirement for justices	03/06/2006
H Approp	HB 2692	SB 6456(SWays & Means)	Fromhold	Optional membership	01/12/2006
H Approp	HB 3183	SB 6795(SWays & Means)	Fromhold	Pension gain-sharing	01/24/2006
S Ways & Means	SB 6445	HB 2679(HApprop)	Fraser	Retirement plans 2 and 3	01/12/2006
S Ways & Means	SB 6446	HB 2682(HRules 3C)	Fraser	State patrol retirement	01/12/2006
S Ways & Means	SB 6447	HB 2688(Hsubst for)	Pridemore	LEOFFRS plan 1	01/12/2006
S Ways & Means	SB 6448	HB 2689(Hsubst for)	Mulliken	Public employment of retiree	01/12/2006
S Rules 2	SB 6449	HB 2685(Hsubst for)	Fraser	Public safety employees' ret	03/08/2006
S Ways & Means	SB 6450	HB 2684(Hsubst for)	Pridemore	Vesting after 5 years	01/12/2006
S Ways & Means	SB 6451	HB 2683(HApprop)	Fraser	Actuarial accrued liability	01/12/2006
S Ways & Means	SB 6452	HB 2681(Del to Gov)	Fraser	Retirement contribution rate	01/12/2006
Del to Gov	SB 6453	HB 2687(HRules 3C)	Mulliken	Minimum monthly benefit	03/08/2006
S Rules 3	SB 6454	HB 2686(HApprop)	Mulliken	Retirement annual increase	03/08/2006
S Rules 2	SSB 6455	HB 2691(Hsubst for)	Fraser	Retirement for justices	03/08/2006
S Ways & Means	SB 6456	HB 2692(HApprop)	Pridemore	Optional membership	01/12/2006
S Rules 2G	SB 6457	HB 2690(Del to Gov)	Pridemore	Additional service credit	02/10/2006
S Ways & Means	SB 6458	HB 2680(Hsubst for)	Pridemore	TERS service credit	01/12/2006
S Ways & Means	SB 6795	HB 3183(HApprop)	Fraser	Pension gain-sharing	01/24/2006

Summary
Legislature's 2006 Supplemental Pension Budget

Legislative Changes to Implement Pension Budget

- ESSB 6896 Sections 1-2: Creates a Pension Funding Stabilization Account in the state treasury. Moneys in the account will be invested by the Washington State Investment Board (with earnings retained by the account less expenses) and used only for the payment of the state government employer contributions for members of PERS, TRS, SERS, and PSERS.
- ESSB 6896 Section 3: Re-instates contribution rates for the Unfunded Actuarial Accrued Liability in the Plans 1 of PERS (effective January 1, 2007), and TRS (effective September 1, 2006), using a three-year phase-in approach.
- ESSB 6896 Section 4: Appropriates $350 million from the State General Fund to the Pension Funding Stabilization Account.

Comparison of Total Employer Contribution Rates*

System	Current Rates	Current Policy 2006-07**	Supplemental Budget 2006-07***
PERS	2.25%	3.50%	5.27%
TRS	2.73%	3.25%	4.54%
SERS	2.75%	3.75%	4.62%

** Excludes the administrative expense rate.*
****** *Excludes the cost of future gain-sharing benefits. Effective 7/1/2006 for PERS; 9/1/2006 for TRS and SERS.*
******* *Excludes the cost of future gain-sharing benefits. Effective 1/1/2007 for PERS; 9/1/2006 for TRS and SERS.*

Projected Employer Pension Contributions **(Preliminary Estimate; GF-S in millions)***

The table below compares projected employer contributions from the State General Fund under current policy, with and without the cost of future gain-sharing benefits, to projected employer contributions under the 2006 Supplemental Pension Budget.

Period	Current Policy without Gain-sharing	Current Policy with Gain-sharing	Supplemental Budget**
2006-07	$212	$212	$265
2007-08	$416	$507	$449
2008-09	$471	$566	$565
2009-10	$569	$670	$670
2010-11	$601	$707	$707

** Includes preliminary estimates for LEOFF, WSP, and PSERS.*
*** Includes cost of future gain-sharing beginning 7/1/2007 (not specified in the supplemental pension budget).*
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FN	Bill # Companion		TS	Brief Title	Sponsor
X	**ESHB**	**2680a**	**X**	TRS Out-of-State Service Credit (SCPP)	Conway
X	HB	**2681**	**X**	Contribution Rate Floors (SCPP)	Conway
X	SHB	**2684**	**X**	Plan 3 Vesting (SCPP)	Fromhold
X	ESHB	**2685**	**X**	PSERS Eligibility (SCPP)	Fromhold
X	SB	**6453**	**X**	$1,000 Minimum Benefit (SCPP)	Mulliken
X	**SHB**	**2688**	**X**	LEOFF Plan 1 (SCPP)	Fromhold
X	HB	**2690**	**X**	Purchasing Additional Service Credit (SCPP)	Crouse
X	**SHB**	**2691**	**X**	Judges Benefit Multiplier (SCPP)	Crouse
X	**SHB**	**2608**	**X**	Reserve Officers Relief	DeBolt
X	HB	**2606**	**X**	Vol Fire Personnel	DeBolt
X	SHB	**3137**	**X**	WSP Survivor Benefits	Lovick
X	HB	**2932**	**X**	Catastrophic Disability (LEOFF 2)	Darneille
X	SHB	**2933**	**X**	$150,000 Death Benefit (LEOFF 2)	P. Sullivan
X	SB	**6723**	**X**	Survivor Health Care (LEOFF 2)	Eide
X	ESSB	**6896**	**X**	Pension Funding Bill (Budget)	Prentice

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	3/13/06	ESHB 2680a

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System (TRS) by allowing members of Plans 2 and 3 to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience claimed must have been covered by a governmental retirement or pension plan, and the member must not be receiving a benefit or eligible to receive an unreduced retirement benefit that includes the service to be purchased. All or part of the cost of purchasing this out-of-state service credit may be paid by a rollover or transfer from an eligible retirement plan, and the employer may pay all or a portion of the member's cost. The service credit purchased is membership service and may be used to qualify the member for retirement.

In the original bill, a member choosing to purchase out-of-state service credit would pay the product of the sum of the applicable employer and employee contribution rates multiplied by the member's salary at the time of purchase, and further multiplied by the total number of years of service credit to be purchased, plus compounded interest for the period for which the service credit is purchased at a rate equal to the investment rate of return assumption set forth in the actuarial funding chapter, Chapter 41.45 RCW. The applicable employer and employee contribution rates would be based on the member's age at entry into TRS and calculated under the entry age normal cost method. Under this approach the member would pay less than the full actuarial cost because the interest is based on the date of purchase, not on the adjusted date of hire.

The bill was first amended in House Appropriations. SHB 2680 required the employer to pay an amount sufficient to ensure that the contribution level to the teachers' retirement system would not increase due to the purchase of out-of-state service credit. The bill was amended again on the floor of the House. ESHB 2680 provided that all cost of the service credit would be borne by the member, in that the member would pay the full actuarial value of the resulting increase in the member's benefit. The calculation would be done in same manner as the Department of Retirement System's method for calculating payments for reestablishing service credit under RCW 41.50.165. That method includes the application of factors that would account for the actuarial impact of early retirement. As written, the floor amendment shifting the full cost to the member in ESHB 2680 applies to members of Plan 3 but not Plan 2; however, this office's previous fiscal note assumed that the intent of the amendment was to apply to all members of TRS Plans 2 and 3.

ESHB 2680 was further amended by Senate Ways and Means. The Senate amendment shifted the full cost to the member in Plan 2, which made this version consistent with the original intent of the House floor amendment. The Senate amendment also removed the following eligibility criteria from all previous versions of the bill: the requirement that the member have less than ten creditable years in the retirement system, and the requirement that the purchase not result in the purchase of service credit years that exceed the member's total years of creditable service in the retirement system at the time of purchase.

Effective Date: January 1, 2007

CURRENT SITUATION:

Currently members of TRS may use out-of-state service credit solely for the purpose of determining the time at which the member may retire. The service credit is not purchased and it is not membership service. The member's monthly benefit is actuarially reduced to recognize the difference between the age the member would have first been able to retire based on service in the State of Washington and the member's retirement age using the out-of-state service credit.

MEMBERS IMPACTED:

We estimate that 1,236 TRS 2 members out of 7,470 active TRS 2 members, and 26,803 TRS 3 members out of 49,302 active TRS 3 members could be affected by this bill if they have qualifying out of state service credit.

We estimate that a typical member impacted by this bill could purchase 1.15 years of out-of-state service.

ASSUMPTIONS:

We have assumed that this benefit proposal will not change future retirement behavior in the affected retirement systems since existing members currently have access to private-sector annuity providers that currently provide similar annuity products. We have also assumed that the full actuarial cost will include the cost of any adverse selection that may develop due to mortality experience and/or interest rate timing by the member.

We estimated that the average member might buy 1.15 years of service based on a sample of out-of-state service for 6,850 members. These members had a total of 10,815 years of out-of-state service, or an average of 1.58 years per member. When the service was limited to seven years, the members in the sample had a total of 7,910 years, or an average of 1.15 years.

We assumed that the member would pay the full actuarial value of the service purchase. The contributions to purchase Plan 2 service would be included with the regular and refundable Plan 2 member contributions. The contributions to purchase Plan 3 service would not be refundable but would be used to determine the Plan 3 defined benefit. We assumed the liability increase for the value of the service credit purchase would be completely offset by member contributions, so there would be no impact on contribution rates.

FISCAL IMPACT:

None. There would be no impact on rates if the member pays the full actuarial value of the service credit purchase.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Teachers' 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: None.

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

5. This fiscal note is intended for use only during the 2006 Legislative Session.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	1/18/06	HB 2681/SB 6452 - REVISED

SUMMARY OF BILL:

This bill impacts the Plans 1 of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) by providing minimum contribution rates for paying the unfunded actuarial accrued liability (UAAL) in those plans. These minimum rates would become effective in 2009, and would remain in effect until the target funding ratio of 125% is achieved or the amortization date of June 30, 2024 is reached, whichever comes first.

The proposed legislation would also impact the Plans 2 and 3 of PERS, TRS and the School Employees' Retirement System (SERS) by establishing minimum employer contribution rates for the Plan 2/3 normal cost. These minimum contribution rates would equal the total contribution rate required to fund eighty percent of the Plan 2/3 employer normal cost as calculated under the entry age normal cost method. Similarly, minimum contribution rates would be established for Plan 2 members of PERS, TRS and SERS. These rates would equal the total contribution rate required to fund eighty percent of the Plan 2/3 employee normal cost as calculated under the entry age normal cost method. [It should be noted that this calculation does not change the underlying cost method for the Plans 2/3, which remains the aggregate funding method. Also, it should be noted that the Public Safety Employees' Retirement System (PSERS) is not included due to the fact that it is not effective until July 1, 2006, and it is too soon to reliably establish minimum contribution rates for that plan.]

The bill adds the definition of "normal cost" to the actuarial funding chapter. "Normal cost" is defined as "the portion of the actuarial present value of projected benefits and expenses that is allocated to a period, typically twelve months, under the actuarial cost method."

Effective Date: July 1, 2009

CURRENT SITUATION:

Payments to amortize the Plan 1 UAAL are normally collected as a component of employer contribution rates. According to current funding policy, unfunded liability for the Plans 1 is spread among all PERS, TRS, SERS and PSERS employers. This unfunded liability is also spread over time. Current funding policy requires that the UAAL be fully amortized by June 30, 2024. Payments for the Plan 1 UAAL have been suspended for the current biennium, and were suspended in the previous biennium. Regular payments are scheduled to resume July 1, 2007.

The Plan 2/3 normal cost is not currently subject to minimum contribution rates (or rate "floors"). It is collected as a component of Plan 2 and 3 employer contribution rates and Plan 2 member contribution rates.

MEMBERS IMPACTED:

The bill would impact all members of PERS, TRS and SERS by establishing minimum employer contribution rates in 2009. Similarly, minimum contribution rates would be established for Plan 2 members of PERS, TRS and SERS in 2009.

PERS Members	Plan 1	Plan 2	Plan 3	Total
Receiving a Benefit	54,568	12,106	222	66,896
Actives	17,829	118,572	19,855	156,256
Terminated & Vested	2,993	16,754	1,284	21,031

TRS Members	Plan 1	Plan 2	Plan 3	Total
Receiving a Benefit	34,624	1,127	541	36,292
Actives	9,862	7,470	49,302	66,634
Terminated & Vested	1,475	2,510	2,761	6,746

SERS Members	Plan 1	Plan 2	Plan 3	Total
Receiving a Benefit	0	1,097	481	1,578
Actives	0	20,424	29,430	49,854
Terminated & Vested	0	2,428	2,035	4,463

ASSUMPTIONS:

Based on participant and asset data through September 30, 2004, we project that the contribution rates for the amortization of the PERS and TRS Plan 1 UAAL and the normal cost rates for PERS, TRS and SERS Plans 2 and 3 beginning in 2009, will exceed the minimum rates, or floors in the bill throughout the remainder of the amortization period.

	Minimum Contribution Rate (or Floor)			
	Member	Employer	Employer	Total Employer
	Plan 2	*Normal Cost*	*Plan 1 UAAL*	
PERS	3.57%	3.57%	2.68%	6.25%
TRS	4.34%	4.34%	4.71%	9.05%
SERS	3.77%	3.77%	2.68%	6.45%

The floor for Plan 2/3 is 80% of the Entry Age Normal Cost based on the 2004 actuarial valuation.

FISCAL IMPACT:

None.

There is no fiscal impact for a minimum contribution rate or floor because any additional contributions due to a floor would be offset by reduced contributions in future years.

The floor or minimum contribution rates would not 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.

State Actuary's Comments:

The determination that a floor would result in no additional cost and possibly a savings is based on the assumption that any temporary 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 any extra contributions from a floor are used for benefit increases, then there would be a cost to having a floor.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Public Employees' Retirement System Retirement System, the Teachers' Retirement System, and the School Employees' Retirement System.

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

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report, or within the body of this fiscal note, include the following: None

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

5. This fiscal note is intended for use only during the 2006 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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	2/17/2006	SHB 2684

SUMMARY OF BILL:

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five for those who are age 45 and older. Under the terms of the substitute bill, Plan 3 members would be vested after ten years of service, or after five years if 12 months of that service is earned after attaining age 44.

Effective Date: 90 days after session.

CURRENT SITUATION:

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000, and June 1, 2003, for TRS, SERS and PERS respectively.

MEMBERS IMPACTED:

This bill would impact 23,225 out of 98,587 active Plan 3 members. Members impacted are the non-vested Plan 3 members with hire ages between 35 and 50. There are 4,894 members who would be impacted immediately because they are over age 44 with at least 5 but less than 10 years of service. An additional 18,331 members would be impacted at a later date because they are projected to attain between 5 and 10 years of service after age 44, but before age 55.

The counts of vested actives, non-vested actives, and impacted actives are shown in the table below. Not included in these counts are terminated non-vested members who would add to the total should they become re-employed.

System / Plan	Vested Total	Non-Vested Total	Non-Vested Total Impacted	Non-Vested Impacted Immediately	Non-Vested Impacted in Future
PERS 3	9,447	10,408	3,605	340	3,265
TRS 3	19,979	29,323	8,895	2,792	6,103
SERS 3	11,060	18,370	10,725	1,762	8,963
TOTAL	40,486	58,101	23,225	4,894	18,331

ASSUMPTIONS:

We assumed that members hired before age 35 are not impacted because they would have at least 10 years of service by age 45 and would be vested by age 45 under current law. We assumed that members hired after age 50 are not impacted because they would be at least age 55 by the time they have 5 years of service and would be vested at the same time as under current law. We did not include any assumption for terminated non-vested members who become re-employed.

FISCAL IMPACT:

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 2/3	$	15,280	$	3	$	15,283
(The Value of the Total Commitment to all Current Members)	TRS 2/3	$	5,256	$	6	$	5,262
	SERS 2/3	$	2,126	$	5	$	2,131
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)			N/A		N/A		N/A
Unfunded Liability (PBO)	PERS 2/3	$	(2,927)	$	1	$	(2,926)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 2/3	$	(1,427)	$	3	$	(1,424)
	SERS 2/3	$	(439)	$	2	$	(437)

Increase in Contribution Rates:
(Effective 9/1/06)

	PERS	TRS	SERS
Current Members			
Employee (Plan 2)	0.00%	0.01%	0.04%
Employer State	0.00%	0.01%	0.04%
New Entrants*			
Employee (Plan 2)	0.01%	N/A	N/A
Employer State	0.01%	0.02%	0.11%

**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	TRS	SERS	Total
2006-2007				
State:				
General Fund	$0.0	$0.3	$0.3	$0.6
Non-General Fund	$0.0	$0.0	$0.0	$0.0
Total State	**$0.0**	**$0.3**	**$0.3**	**$0.6**
Local Government	$0.1	$0.2	$0.4	$0.7
Total Employer	$0.1	$0.5	$0.7	$1.3
Total Employee	$0.1	$0.0	$0.2	$0.3
2007-2009				
State:				
General Fund	$0.0	$0.7	$0.8	$1.5
Non-General Fund	$0.2	$0.0	$0.0	$0.2
Total State	**$0.2**	**$0.7**	**$0.8**	**$1.7**
Local Government	$0.2	$0.4	$1.2	$1.8
Total Employer	$0.4	$1.1	$2.0	$3.5
Total Employee	$0.2	$0.0	$0.4	$0.6
2006-2031				
State:				
General Fund	$5.5	$23.7	$30.6	$59.8
Non-General Fund	$10.6	$0.0	$0.0	$10.6
Total State	**$16.1**	**$23.7**	**$30.6**	**$70.4**
Local Government	$14.8	$11.7	$45.9	$72.4
Total Employer	$30.9	$35.4	$76.5	$142.8
Total Employee	$15.6	$0.0	$2.4	$18.0

State Actuary's Comments:

This bill does not modify the employee/employer level of cost sharing as defined in the actuarial funding chapter – Chapter 41.45 RCW. As a result, the cost of this Plan 3 benefit enhancement is shared equally among Plan 2/3 employers and Plan 2 employees.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teacher's Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Fiscal Budget Determinations were based on preliminary 2004 data.

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 fiscal note is intended for use only during the 2006 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. Rate increases are based on rates that exclude the cost of future gain-sharing benefits.

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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	3/3/06	ESHB 2685 - Revised

SUMMARY OF BILL:

The original bill impacted the Public Safety Employees' Retirement System (PSERS) by amending the definition of employer to include the Washington State Department of Natural Resources and the Washington State Department of Social and Health Services. The member definition was also amended to replace the statutory list of job titles with job duties and activities to form a criteria basis for membership.

Though job titles were no longer listed, it was expected that the new language would have allowed for the inclusion of 10 Natural Resource Investigators and 330 Juvenile Rehabilitation Security Officers and supervisors into membership.

The new *job duties and activities* membership criteria under the original bill may exclude an indeterminate number of local government community corrections (parole) officers who do not have the authority to carry a firearm on the job; all local government (PERS) community corrections (parole) officers were included in membership in the original legislation.

The substitute bill removes both the Washington State Department of Natural Resources and the Washington State Department of Social and Health Services from the definition of eligible employers. As a result, Natural Resource Investigators and Juvenile Rehabilitation Security Officers would not be eligible for inclusion in PSERS.

The engrossed substitute bill adds clarifying language to ensure that probation officers would be eligible for membership in PSERS. The original legislation included probation officer job titles.

Effective Date: Immediately upon signing.

CURRENT SITUATION:

Currently PSERS eligible employers and members are based on statutory lists. The Department of Natural Resources and the Department of Social and Health Services are not among the eligible employers. Natural Resource Investigators and Juvenile Security Officers are not among the eligible members. Probation officers are on the current statutory list under such job titles as county probation officers and probation counselors, and community corrections officers.

MEMBERS IMPACTED:

We estimate that no new members out of the total 132,448 members in PERS Plans 2/3 would be affected by this bill. The original pricing of the substitute bill assumed probation officers would be included in PSERS; therefore the clarifying language does not affect any new members.

Fiscal note detail for Chapter 242, Laws of 2004

We had previously estimated that approximately 7,200 members out of the total 132,448 members in PERS plans 2/3 would be eligible to transfer. However, since the enhanced PSERS retirement and disability benefit require at least 10 years of service credit, we estimate that 1,200 members would opt not to transfer from PERS to PSERS. This reduced the estimated initial PSERS population to about 6,000.

Demographic information for the group of PERS Plan 2/3 employees that will likely transfer to PSERS is summarized in the following tables:

Estimated Initial PSERS Population - 2004 Fiscal Note

Job Class	Estimated Count*	GF-S Percentage	Local Government Percentage	Average Annual Salary
State Park Rangers	170	100%	0%	$39,800
Gambling Commission Enforcement Officers	70	0%	0%	$48,500
Liquor Enforcement Officers	55	17%	0%	$44,500
Commercial Vehicle Enforcement Officers	50	6%	0%	$45,200
State Correction Officers	2,800	100%	0%	$38,400
State Community Correction Officers	585	100%	0%	$41,300
County Correction Officers	1,765	0%	100%	$35,100
City Correction Officers**	130	0%	100%	$34,700
Local Community Correction Officers	340	0%	100%	$41,300
Total	5,965	60%	36%	$38,100

** Estimated counts increased by a 5% load due to uncertainty in the data and to reflect general conservatism*
*** Does not include employees covered under the first-class cities retirement system which are ineligible for membership*

ASSUMPTIONS:

We assumed probation officers were included in PSERS based on the original and substitute bill language. The clarifying language has no affect on our current assumptions.

FISCAL IMPACT:

None.

State Actuary's Comments:

We have estimated that there will be no new members eligible for PSERS under this bill.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Public Employees Retirement System.

   We also relied upon demographic data compiled in the Washington City and County Employee 2003 Salary and Benefit survey for the local government job classes where individual PERS member data is unavailable at this time.

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

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

   We relied upon comparable state agency data as an estimate for local government job classes where individual member data was unavailable.

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

5. This fiscal note is intended for use only during the 2006 Legislative Session.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	3/10/06	SHB 2688a

SUMMARY OF BILL:

This bill would impact the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by removing the provision that limits the retirement allowance for those who became members on or after February 19, 1974, to 60% of their final average salary.

The bill would also form a joint executive task force to select and implement one or more appropriate funding vehicles for the LEOFF 1 post-retirement medical obligation. In the original bill, member and employer contributions were to resume July 1, 2007; but as provided in the Senate amendment, the task force would instead evaluate the suspension of employer and member contributions in LEOFF 1 using the most recent valuation report. The task force would be required to make recommendations to the fiscal committees by September 1, 2006, and submit a final report to the governor and appropriate committees by December 1, 2006.

Effective Dates: The cap removal becomes effective July 1, 2006. The task force provisions become effective on the date of enactment and expire December 1, 2006.

CURRENT SITUATION:

Currently, the maximum retirement allowance for those who became members of LEOFF 1 on or after February 19, 1974, is 60% of their final average salary. Those who became members before February 19, 1974, have no such limit on their retirement allowance.

Currently, local employers are responsible for providing post-retirement medical benefits to LEOFF 1 retirees. Currently there is no government-sponsored multi-employer funding vehicle being used for this obligation.

State contributions to LEOFF 1 ceased in 1999 when the plan's assets exceeded the plan's fully projected liabilities. Member and employer contributions ceased in 2000. Funding provisions require the resumption of contributions when the most recent valuation indicates the plan has unfunded liabilities.

MEMBERS IMPACTED:

We estimate that 454 active members hired on or after February 19, 1974, out of the total 848 active members of this plan could be affected by the 60% cap portion of this bill. Additional members could be affected if they return to work and earn over 30 years of service.

Each year of additional service credit beyond 30 years would result in an increase of about $125 in monthly pension payments per person (based on a current annual salary of $75,222).

ASSUMPTIONS:

We assumed that members with at least 30 years of service, who may be eligible for a disability retirement, will elect the proposed service retirement benefit with no cap in lieu of the 50% of pay tax-free disability benefit. The cost of this proposal was based on the change in the liability after this disability assumption change. We assumed that this proposed benefit change would also alter future retirement behavior in the plan. We subtracted 0.01 from the retirement rates from age 50 to 54 and subtracted 0.02 from the rates from age 55 to 59. The impact of the retirement assumption change is reflected in the cost of this proposal. We assumed that formation of the work group would have no impact on contribution rates or the administrative expense rate.

FISCAL IMPACT:

Description:

Removal of the 60% cap causes no immediate fiscal impact while the plan remains in a surplus, or fully funded, position. The current plan is expected to remain fully funded because the market value of assets exceed the liabilities by $365 million. The proposal to remove the cap would reduce the surplus, but as long as there is still a surplus on a market value basis, we would not expect the plan to come out of full funding. However, if there is some adverse experience due to the assumptions not being realized, the plan would be more likely to come out of full funding as a result of the proposed benefit increase. Also, if the plan does come out of full funding, the plan would be projected to resume funding earlier and at a higher rate.

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: LEOFF 1		
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,330	$22	$4,352
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$(336)	$22	$(314)
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(385)	$22	$(363)

Increase in Contribution Rates:

Employee	0.00%
Employer	0.00%
State	0.00%

Fiscal Budget Determinations:

None. The cost of this bill is insufficient to increase projected funding expenditures.

State Actuary's Comments:

We have projected that this bill would use up part of the plan's surplus, but that it would not increase the plan's future funding requirements. This projection reflects the future recognition of prior asset gains and losses and the impact of this proposed plan change. The plan's actual funded status will vary depending on the plan's actual experience and could easily be different than projected over the short-term.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004, actuarial valuation report of the Law Enforcement Officers' and Firefighters' 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:

Reduced Retirement Rates										
Age	50	51	52	53	54	55	56	57	58	59
Retirement Rate*	0.08	0.06	0.07	0.07	0.09	0.14	0.14	0.14	0.21	0.21

*Male and female

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

5. This fiscal note is intended for use only during the 2006 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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	1/20/06	SB 6453/HB 2687

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:

- Establishing a $1,000 alternative minimum benefit for members with 20 years of service who have been retired 25 years.
- Establishing a 3% annual escalator for both $1,000 alternative minimum benefit provisions.

Effective Date: July 1, 2006

CURRENT SITUATION:

The current $1,000 alternative minimum benefit was established in 2004. PERS 1 and TRS 1 members with 25 years of service who have been retired 20 years are eligible for this benefit. The benefit has no automatic escalator and, as a result, will effectively cease in 2010 when the original minimum benefit, which increases each year by the Annual Increase Amount, will produce a benefit greater than $1,000 for a retired member with 25 years of service.

MEMBERS IMPACTED:

The new eligibility requirements for the $1,000 minimum will impact 561 out 54,568 PERS 1 retirees , and 497 out of 34,624 TRS 1 retirees. Indexing the $1,000 will impact an additional 391 PERS 1 members and 338 TRS 1 members.

A typical member newly eligible for the alternative minimum under this bill will see their monthly benefit in 2006 increase from $821 to $1,030 before voluntary reductions. Due to the new indexing provision, members currently receiving the alternative minimum in 2006 will see their monthly benefit increase from $1,000 to $1,030 before voluntary reductions. Thereafter, the alternative minimum will continue to increase by 3% a year for all members receiving the benefit.

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 employers to pay the PERS Plan 1 UAAL contribution rate, therefore, this bill will have a fiscal impact on SERS 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:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 1	$12,818	$11	$12,829
(The Value of the Total Commitment to all Current Members)	TRS 1	$10,360	$3	$10,363
Unfunded Actuarial Accrued Liability	PERS 1	$2,563	$11	$2,574
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	$1,415	$3	$1,418
Unfunded Liability (PBO)	PERS 1	$2,254	$11	$2,265
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 1	$1,192	$3	$1,195

Increase in Contribution Rates: (Effective 09/01/06 unless indicated otherwise)	PERS/ SERS	TRS
Employee	0.00%	0.00%
Employer State	0.01%	0.01%

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	TRS	SERS	Total
2006-2007				
State:				
General Fund	$0.1	$0.3	$0.1	$0.5
Non-General Fund	$0.2	$0.0	$0.0	$0.2
Total State	**$0.3**	**$0.3**	**$0.1**	**$0.7**
Local Government	$0.3	$0.1	$0.1	$0.5
Total Employer	$0.6	$0.4	$0.2	$1.2
Total Employee	$0.0	$0.0	$0.0	$0.0
2007-2009				
State:				
General Fund	$0.4	$0.6	$0.2	$1.2
Non-General Fund	$0.6	$0.0	$0.0	$0.6
Total State	**$1.0**	**$0.6**	**$0.2**	**$1.8**
Local Government	$0.8	$0.3	$0.2	$1.3
Total Employer	$1.8	$0.9	$0.4	$3.1
Total Employee	$0.0	$0.0	$0.0	$0.0
2006-2031				
State:				
General Fund	$4.9	$8.0	$1.9	$14.8
Non-General Fund	$8.1	$0.0	$0.0	$8.1
Total State	**$13.0**	**$8.0**	**$1.9**	**$22.9**
Local Government	$11.3	$4.0	$2.6	$17.9
Total Employer	$24.3	$12.0	$4.5	$40.8
Total Employee	$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 September 30, 2004 actuarial valuation report of the Teachers' Retirement System and Public Employees' Retirement System.

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 fiscal note is intended for use only during the 2006 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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	1/16/06	HB 2690/SB 6457

SUMMARY OF BILL:

This bill impacts all plans within the Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Public Employees' Retirement System (PERS), Public Safety Employee's Retirement System (PSERS), and Washington State Patrol Retirement System (WSPRS), as well as the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by permitting members who are eligible for normal or unreduced retirement to make a one-time purchase of up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. A member 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 bill directs the department of retirement systems to promulgate rules to ensure IRS compliance. The additional service credit purchased under these provisions would not be membership service and would be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Effective Date: July 1, 2006

CURRENT SITUATION:

Under current law, the opportunity to purchase additional service credit (or "air time") is limited. Only TRS, SERS, and PERS Plan 2/3 members who are eligible for early or alternate early retirement (age 55 with required service) may purchase up to 5 years of additional service credit at the time of retirement. The member pays the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement. The service credit is not membership service and cannot be used to qualify the member for early or alternate early retirement; rather, the service credit enhances the benefit and serves as an "offset" to the early retirement reductions in those plans. Under current law, LEOFF Plan 2 members can purchase additional service credit at early, alternate early or normal retirement to enhance their benefits.

TRS, SERS, and PERS members who are eligible for normal or unreduced retirement do not currently have the option to purchase additional service credit. Also, the option to purchase additional service credit or "air time" is not available to members of LEOFF Plan 1, WSPRS and PSERS. (Note: There are no provisions for early or alternate early retirement in LEOFF 1 or WSPRS). Members of any of these retirement plans could, however, purchase an equivalent annuity through a private sector annuity provider. The cost of the annuity would vary from provider to provider and would be based on the particular annuity product offered. This bill provides the opportunity for members of the affected systems to enhance their normal or unreduced retirement benefits by purchasing additional service credit or "air time" through the Department of Retirement Systems.

MEMBERS IMPACTED:

Any future retiree from TRS, SERS, PERS, PSERS, WSPRS or LEOFF 1 could potentially be impacted by this bill, however, we do not expect a majority of members will choose to purchase additional service credit under this bill. The table below shows the active and terminated vested membership counts for the affected plans as of September 30, 2004.

System	Active	Term Vested
TRS	66,634	6,746
SERS	49,854	4,463
PERS*	156,256	21,031
WSPRS	1,057	39
LEOFF Plan 1	848	7

**Includes members who will transfer to PSERS.*

ASSUMPTIONS:

We have assumed that the member will pay the full "actuarial equivalent value of the resulting increase in the member's benefit" which includes the increase in benefit from additional years of service.

We have further assumed that this benefit proposal will not change future retirement behavior in the affected retirement systems since existing members currently have access to private-sector annuity providers that currently provide similar annuity products. We have also assumed that the full actuarial cost will include the cost of any adverse selection that may develop due to mortality experience and/or interest rate timing by the member.

FISCAL IMPACT:

None.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	2/1/06	SHB 2691

SUMMARY OF BILL:

This bill impacts the Public Employees Retirement System (PERS) and the Judicial Retirement Account Plan (JRA).

The bill allows State-employed judges – Supreme Court Justices, Court of Appeals Judges, and Superior Court Judges -- the option to cease participation in the JRA Plan and establish a prospective 3.5% per year benefit multiplier within PERS 1 and PERS 2 with a maximum retirement allowance of 75% of average final compensation. Plan 3 justices and judges would also have the option to cease participation in the JRA Plan and establish a prospective 1.6% per year multiplier within PERS 3 with a maximum retirement allowance of 37.5% of average final compensation.

The contribution rate for PERS 2 State-employed Judges who elect to participate in these provisions would be 250% of the Plan 2 member contribution rate less 2.5% of pay. PERS 3 member Judges would be required to contribute at least 7.5% of pay to their member accounts. PERS 1 member Judges would be required to contribute an additional 3.76% of pay beyond the current 6.0% statutory rate.

As an employer, the State would be responsible for the existing employer contributions, plus an additional 2.5% of pay. Former contributions to the JRA would be redirected to support these benefits.

The bill also allows District Court and Municipal Court judges, who do not participate in the JRA, the option to establish a prospective 3.5% per year benefit multiplier within PERS 1 and PERS 2 with a maximum retirement allowance of 75% of average final compensation. Plan 3 District and Municipal judges would also have the option to establish a prospective 1.6% per year multiplier within PERS 3 with a maximum retirement allowance of 37.5% of average final compensation.

District and Municipal Judge members who elect to participate in these benefit enhancements would be responsible for all additional contributions above the existing employer contributions.

PERS 1 and PERS 2 members would also be allowed to purchase the 3.5% benefit multiplier for their past service as judges, and Plan 3 members would be allowed to purchase the 1.6% benefit multiplier for their past service as judges, using lump-sum payments, eligible rollover, direct rollover, or trustee-to-trustee transfers from eligible retirement plans.

Newly elected or appointed Supreme Court Justices, Court of Appeals Judges, Superior Court Judges, District Court Judges, and Municipal Court Judges would become members of PERS 2 and be eligible for the 3.5% per year benefit multiplier and a maximum retirement benefit of 75% of average final compensation. Newly elected judges with prior PERS service would also participate in these provisions.

Effective Date: January 1, 2007

CURRENT SITUATION:

Since July 1, 1988, newly elected or appointed judges have become members of the PERS Plan 2. Since March 1, 2002, newly elected or appointed judges have had the choice to enter either PERS 2 or PERS 3.

In addition to a PERS benefit, state-employed judges (Supreme Court Justices, Court of Appeals Judges, and Superior Court Judges) are also eligible for a supplemental benefit from the Judicial Retirement Account Plan (JRA) — a defined contribution (DC) plan. To fund the JRA benefit, members and their employer (the state) each contribute 2.5 percent of pay. Upon retirement, member judges are eligible for their PERS benefits, plus a JRA distribution. That distribution may be in the form of a lump-sum or other payment option as adopted by the Administrator for the Courts.

MEMBERS IMPACTED:

We estimate that 210 Superior Court Judges, Court of Appeals Judges, and Supreme Court Justices; and 230 District and Municipal Court judges, out of the total 156,256 active members of PERS would be affected by this bill.

Increasing the benefit accrual formula from 2.0% to 3.5% in PERS 1 and PERS 2 represents a 75% increase in accrued benefits for every year of service earned under the new formula. We estimate that for a typical member impacted by this bill, the maximum increase in annual benefits would be between $30,000 and $48,000 a year.

Increasing the benefit accrual formula from 1.0% to 1.6% in PERS 3 represents a 60% increase in accrued benefits for every year of service earned under the new formula. We estimate that for a typical member impacted by this bill, the maximum increase in annual benefits would be between $12,000 and $20,000 a year.

ASSUMPTIONS:

We assumed that all judges have the same demographic, salary, and plan membership profile, and cost, as the Superior Court Judges. We assumed that all eligible judges will elect to receive the enhanced benefits. We assumed the increase in benefit formula would not change retirement behavior. In determining required member and state contributions, we assumed all JRA contributions are redirected to the pension trust fund to fund the benefit improvements. We assume that the increased contribution rates specified in the bill are sufficient to pay for the increased liabilities for the judges.

FISCAL IMPACT:

Description:

This bill would increase retirement benefits by changing the 2% benefit accrual rate per year of service in PERS 1 and PERS 2 to 3.5% and by changing the 1.0% benefit accrual rate per year of service in PERS 3 to 1.6% for service earned after the effective date of the bill. This bill would also increase contributions to the system by redirecting contributions currently being made to the JRA to the PERS trust funds and requiring judges to pay a higher contribution rate to fully fund the increased benefits. Judges who do not participate in the JRA would need to make an additional contribution of at least 5% to cover the cost of the benefit improvement. Employer contribution rates do not change since members' are fully funding the cost of benefit improvements not covered by redirecting the JRA contributions.

Provisions allowing PERS 1 and PERS 2 members to purchase the 3.5% benefit multiplier and PERS 3 members to purchase the 1.6% benefit multiplier for past service are assumed to have no fiscal impact since the member is charged the full actuarial cost.

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)		System: PERS			
		Current	Increase Superior Court Judges*	Increase District & Municipal Court Judges	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)					
	PERS 1	$12,818	$2	$2	$12,822
	PERS 2/3	$15,288	$12	$14	$15,314
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)					
	PERS 1	$2,563	$0	$0	$2,563
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)					
	PERS 1	$2,254	$0	$0	$2,254
	PERS 2/3	($2,927)	$0	$0	($2,927)

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

	Superior Court Judges*	District & Municipal Court Judges
Current Members		
Employee (Plan 1)	3.76%	6.26%
Employee (Plan 2)	2.75%	5.25%
Employer State	0.00%	0.00%
New Entrants* **		
Employee**	4.19%	6.69%
Employer State	0.00%	0.00%

**Includes Supreme Court Justices and Court of Appeals Judges. Rates do not reflect 2.5 percent member contribution to JRA.*
***Projected long-term contribution rates beginning in 2013.*
****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 member contribution rates, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS Superior Court Judges	PERS District & Municipal Court Judges	Total
2006-2007			
State:			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	$0.0	$0.0	$0.0
Total State	$0.0	$0.0	$0.0
Local Government	$0.0	$0.0	$0.0
Total Employer	$0.0	$0.0	$0.0
Total Employee	$0.4	$0.9	$1.3
2007-2009			
State:			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	$0.0	$0.0	$0.0
Total State	$0.0	$0.0	$0.0
Local Government	$0.0	$0.0	$0.0
Total Employer	$0.0	$0.0	$0.0
Total Employee	$2.4	$4.6	$7.0

Costs (in Millions):	PERS Superior Court Judges	PERS District & Municipal Court Judges	Total
2006-2031			
State:			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	$0.0	$0.0	$0.0
Total State	$0.0	$0.0	$0.0
Local Government	$0.0	$0.0	$0.0
Total Employer	$0.0	$0.0	$0.0
Total Employee	$60.7	$107.7	$168.4

State Actuary's Comments:

The amendment removes the optional local government employer 2.5 percent of pay contribution, and we had already assumed that local government employers would not opt to make the additional contribution.

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, and assumptions as those used in preparing the September 30, 2003 & 2004 actuarial valuation reports of the Public Employee's Retirement System. Additional data for the current number and salaries of judges was provided by the Office of the Administrator of the Courts and was not audited.

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 fiscal note is intended for use only during the 2006 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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**2/7/06**	**SHB 2608 - Revised**

SUMMARY OF BILL:

This bill impacts the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund by expanding the definition of performance of duty to include performing other officially assigned duties such as maintenance, public education, inspections, investigations, court testimony, fund-raising for the department, and being on call or stand by.

Effective Date: 90 days after session

CURRENT SITUATION:

Members covered under the relief plan are eligible to receive, at no expense to the member, medical, death, and disability benefits for injury, sickness, disability, or death arising from the performance of duties. Performance of duty is generally defined as work in and around a fire station, law enforcement office, or similar work place; responding to, working at, or returning from a fire or other emergency call; drill or training; or other work of an emergency nature in accordance with fire department or local law enforcement agency regulations.

There are currently 16 members receiving disability benefits and 14 beneficiaries receiving survivor benefits. There were 252 medical claims paid during 2004.

MEMBERS IMPACTED:

Although any of the 15,844 members covered for relief benefits may be affected by this bill, we expect between 0 and 126 members a year would actually receive benefits under the expanded provisions of this bill.

We estimate that for a typical member impacted by this bill, the increase in benefits would be at least $17,000 annually for long-term disability and survivor benefits, and $4,000 for medical payments.

ASSUMPTIONS:

Data provided by the Board for Volunteer Fire Fighters suggested that additional coverage could increase by an average of 2 hours per week (from 15 hours to 17 hours), a 13% increase. The risk attached to additional hours of coverage is uncertain so we have analyzed the effect of a range of increases from 0% (lower end) to 50% (higher end).

Based on the analysis above, we have assumed that more likely than not, relief claims would increase as little as 0% in a given year to no more than 50% per year.

FISCAL IMPACT:

Description:

Pension and relief benefits for the Volunteer Fire Fighters' Relief and Pension Fund are paid out of a single fund. The pension costs are pre-funded under an actuarial funding method. Relief benefits are funded on a pay as you go basis. If the current assets and income are insufficient to cover pension and relief benefits, the additional relief cost is paid by the employer or the state. Under these circumstances, the funding mechanism may need to be clarified and determined by the Board of Volunteer Fire Fighters' and Reserve Officers and the Legislature.

Actuarial Determinations:

Currently, the annual income from the fire insurance premium tax and the member and employer fees exceed the combined annual cost of pension benefits and the most recent annual relief claims by $0.9 million. This is based on the 2004 actuarial valuation using the 7% interest rate adopted by the Board of Volunteer Fire Fighters' and Reserve Officers.

The current annual relief claims rate is $1.8 million. The estimated 0% to 50% increase in annual relief claims rate is $0.0 to $0.9 million, and the current annual surplus of $0.9 million is sufficient to avoid an additional funding requirement.

The bill would not impact the funding of the system as long as the actual increase in relief claims does not exceed 50% ($0.9 million).

State Actuary's Comments:

The actual medical claims in any single year can vary significantly. There is no reinsurance or stop-loss coverage available to limit the fund's risk exposure. A single catastrophic claim in one year could result in total claims that are several times higher than the claims from the previous year.

Based on the assumption of a 0% to 50% increase in relief costs, the additional annual cost of this bill would be covered by the current annual surplus of $0.9 million.

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 December 31, 2004 actuarial valuation report of the Volunteer Fire Fighters' Relief and Pension Fund. In addition, we relied upon data provided by the Board for Volunteer Fire Fighters in regard to the number of hours for relief eligibility.

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:

    The interest rate assumption is 7% as adopted by the board on October 14, 2005.

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

5. This fiscal note is intended for use only during the 2006 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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	1/31/06	HB 2606

SUMMARY OF BILL:

The bill amends statutes governing cities and towns and statutes governing fire protection districts. It does not directly amend pension statutes, however, it does impact the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund by allowing members who are not fire chiefs to serve in an elective or appointed public office in a city or fire district. Members who are currently barred from volunteer service in a fire department because they hold public office would be allowed to resume volunteer service and participate in the pension and relief plans provided by the fund. This bill would also allow elected officials who are ineligible for membership because they are prohibited from serving as a volunteer to become volunteer members of a fire department and begin participating in the pension and relief plans. The provisions of this bill do not apply to volunteer members of a fire department who serve as the fire chief for the department.

Effective Date: 90 days after session

CURRENT SITUATION:

Elected officials who serve in the legislative body of a city or town, or on a board of fire commissioners are prohibited from becoming volunteer members of a fire department and participating in the relief and pension plans provided by the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund. Volunteer members of a fire department who are elected or appointed to the legislative body of a city or town, or a board of fire commissioners, are prohibited from continuing to serve as a volunteer member and may no longer participate in the relief and pension plans. Members who are suspended from participation will stop accruing pension benefits and will no longer be covered for relief benefits. Members may resume work as a volunteer and participation in the pension and relief plans upon leaving office, or upon receiving an authorizing vote from the legislative body or board on which they serve. A two-thirds majority vote is required for authorization in the legislative body of a city or town, and a unanimous vote is required for authorization in a board of fire commissioners.

MEMBERS IMPACTED:

Although any active or inactive member may potentially benefit from this bill, the State Board for Volunteer Fire Fighters and Reserve Officers estimates that no more than 150 members would actually be affected. There are currently 15,844 members active in either the relief or pension plan, and 4,657 inactive vested members.

A typical member affected by this bill would be covered by the relief provisions of the plan at no cost to the member, and would be allowed to accrue benefits in the pension plan by making the required member contribution. The mandatory relief plan provides medical, death, and disability benefits for injury, sickness, disability, or death arising from the performance of duties. The optional pension plan provides a monthly pension based on the number of years of service for which the member has made the required contribution. Each additional year of service in the pension plan will increase a member's monthly pension by $10 before reductions

ASSUMPTIONS:

- We assume that no more than 150 members are currently prohibited from participation in the relief and pension plans because they hold a public office, and we further assume all these members will resume participation in the event this bill passes.
- We assume that elected officials who are newly allowed to serve as volunteers under this bill will replace existing volunteers who are leaving service so there will be little, if any, overall growth in the number of active members as a result of this bill.
- We assume that any inactive member who returns to active membership as a result of this bill will have the same demographics and liability as the average active member.

FISCAL IMPACT:

Description:

This bill would impact the fund by reducing the savings that occur when a member's pension benefit accrual is stopped because they are elected or appointed to a public office. This bill could also impact the fund by increasing the number of active members who are covered under the relief plan.

Actuarial Determinations:

The increase in liabilities to the pension plan due to inactive members returning to active status will be realized as an experience loss to the plan. To the extent that this loss is not offset by other experience gains, there will be a reduction in the fund's surplus (currently $900,000 on an annual basis). There will be no additional liability to the relief plan if the overall active membership does not increase as a result of this bill.

Based on our assumptions, the annual surplus of the fund would be reduced by about $10,000 a year under this bill. However, even if 150 new members were added to the system with a significantly higher liability than the average active member, the added cost would still be significantly lower than the current annual surplus. Any new liabilities resulting from this bill would be insufficient to bring the fund out of current surplus status and will not impact the required member or employer 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 September 30, 2004 actuarial valuation report of the Volunteer Fire Fighters' Relief and Pension Fund. In addition, we relied upon data provided by the Board for Volunteer Fire Fighters in regard to the number of members who have been suspended from participation because they are holding a public office.

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: The interest rate assumption is 7% as adopted by the board on October 14, 2005.

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

5. This fiscal note is intended for use only during the 2006 Legislative Session.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	2/21/06	SHB 3137

SUMMARY OF BILL:

This bill impacts the Washington State Patrol Retirement System (WSPRS) by providing that the surviving spouse of a disabled member receive a benefit based on the "final average salary" (FAS) of current active members of the same rank at which the member became disabled. For members commissioned prior to January 1, 2003, the final average salary is based on the period two years prior to the death of the member. For members commissioned on or after January 1, 2003, the final average salary is based on the period five years prior to the death of the member.

The bill also provides that the member contribution rates would not increase as a result of any distributions for survivors of members who became disabled prior to July 1, 2006.

The substitute bill provides for retroactive benefit adjustments for all current survivors in the form of future benefit payments, as well as lump-sum payments based on the difference between the survivor benefits previously received by the member, and those the member would have received under the new FAS definitions.

The substitute bill also provides that no supplemental contribution rate shall be charged to pay for the cost of additional benefits granted to members and survivors under this bill.

Effective Date: 90 days after session. Section 3 takes effect July 1, 2006.

CURRENT SITUATION:

Currently spouses of disabled WSPRS members are eligible for a survivor benefit based the final average salary at the time the member became disabled.

MEMBERS IMPACTED:

Surviving spouses of any of the 1,057 active members could benefit from this bill, however, we expect very few will actually be affected. This bill would affect most of the 58 currently disabled members and all 13 current survivors of disabled members. We estimate that for the current survivors of disabled members affected by this bill, the increase in benefits would be $14,300 a year.

ASSUMPTIONS:

- We assume that “survivors of members who became disabled prior to July 1, 2006", as stated in the bill, refers to the current survivors of disabled members and to all future survivors of members who are currently disabled or who become disabled prior to July 1, 2006.

- We assume that the retroactive payments to the current survivors will be completely retroactive to the date of the member's death, and that there would be no limit on the number of years worth of retroactive payments made.

- We assume disability rates will not change as a result of this bill.

FISCAL IMPACT:

Actuarial Determinations:

The costs of this bill for the current group of disabled members and current survivors of disabled members is entirely paid for by the employer. The costs for future disabled members is split equally between the employer and member. About 10% of the liability increase is due to retroactive payments to current survivors.

The language in the substitute bill directing the Department of Retirement Systems to make retroactive payments to survivors does not change the fiscal impact since we had already assumed such payments in pricing the original bill. However, the language prohibiting the collection of a supplemental rate would increase both the long term cost and the required contribution rate increase under this bill. The long term cost would increase to the extent that investment earnings on the supplemental contributions are not realized, and the contribution rates would increase because the liability must be spread out over fewer years and over a smaller projected payroll.

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)	$739	$8	$747
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	N/A	N/A	N/A
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	($100)	$8	($92)

Increase in Contribution Rates: (Effective 07/01/2007)

Current Members	
Employee	0.06%
Employer State	1.11%
New Entrants*	
Employee	0.04%
Employer State	0.04%

**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):	WSP
2006-2007	
State:	
General Fund	$0.0
Non-General Fund	$0.0
Total State	$0.0
Local Government	$0.0
Total Employer	$0.0
Total Employee	$0.0
2007-2009	
State:	
General Fund	$0.0
Non-General Fund	$1.6
Total State	$1.6
Local Government	$0.0
Total Employer	$1.6
Total Employee	$0.0
2006-2031	
State:	
General Fund	$0.0
Non-General Fund	$14.4
Total State	$14.4
Local Government	$0.0
Total Employer	$14.4
Total Employee	$2.2

State Actuary's Comments:

This bill would alter the current funding policy for the system by requiring the employer to bear the entire liability for distributions made to survivors of members who became disabled prior to July 1, 2006. Under the current funding policy, both the employer and member share equally in the cost of benefit improvements. This bill would also specifically prohibit the collection of a supplemental contribution rate for any plan changes under this bill.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Washington State Patrol Retirement System. The Department of Retirement Systems provided additional data on the increased benefits that would be paid to current survivors of disabled members and data on the salary that would be used to calculate future survivor benefits for disabled members.

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: None.

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

5. This fiscal note is intended for use only during the 2006 Legislative Session.

6. WSP Plan 1/2 utilizes the Aggregate Funding Method. The cost of Plan 1/2 is spread over the average working lifetime of the current active Plan 1/2 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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	1/20/06	HB 2932/SB 6722

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) by providing a total disability retirement allowance equal to seventy percent of the member's final average salary (FAS). This total disability retirement allowance shall be offset by Workers' Compensation wage-replacement or permanent total disability benefits, and Federal Social Security benefits so that the combined benefits do not exceed one hundred percent of the member's FAS. In addition, the offsets shall not, in any case, reduce the allowance below the member's accrued retirement allowance.

A member's total disability status is contingent upon being unable to perform substantial gainful activity – average earnings in excess of $860 per month in 2006 (social security standards). A member able to perform substantial gainful activity will only be eligible for a line-of-duty disability benefit.

A member receiving a total disability retirement allowance is subject to comprehensive medical examinations in order to determine continued eligibility for such an allowance.

The employer-provided disability benefit for Fish and Wildlife officers injured in the performance of their official duties is offset by the proposed LEOFF 2 disability retirement allowance provisions.

Effective Date: Immediately

CURRENT SITUATION:

Currently, a LEOFF 2 member disabled in the line of duty is eligible for a minimum retirement allowance equal to 10 percent of their FAS plus two percent of their FAS for each year of service beyond five.

There is no total disability retirement benefit within the LEOFF 2 plan. Benefits for a LEOFF 2 member who is totally and permanently disabled are provided by the Department of Labor and Industries; those benefits are based on 60-75 percent of a member's gross income (depending on family status) to a maximum of 120 percent of the state average wage – about $46,500 in 2005. These benefits are tax-free.

A LEOFF 2 member who is totally and permanently disabled may also be eligible for Social Security benefits. About 50 percent of police officers and 10 percent of fire fighters participate in Social Security.

Fish and Wildlife officers who are injured in the performance of their official duties, and incapable of active service, shall receive one-half of their salary less any compensation received through Fish and Wildlife officers compensation insurance.

MEMBERS IMPACTED:

We estimate that all 14,754 active members of the system would be affected by this bill, as well as all future members. We assume it does not affect the inactive members of the system.

We estimate that for a typical member impacted by this bill, the duty related total disability benefits would increase from $15,616 per year to $28,330 per year. As of September 30, 2004, the average active member in LEOFF 2 earns $69,098 per year and has 11.3 years of membership service. According to current LEOFF 2 plan provisions, a typical member who is disabled in the line of duty is entitled to a benefit that is not actuarially reduced from the normal retirement age of 53 on account of early commencement. For example, if a typical member goes out on a duty-disability, he or she could expect to receive approximately $69,098 x 2% x 11.3 = $15,616 per year in benefits during the first year.

Under the bill, the same member, if totally disabled, could expect an annual benefit of around $69,098 x 70% = $48,369, without offsets. With offsets, this total disability recipient might receive benefits as follows:

Benefit Source	Annual Benefit	Percent of Benefit
L&I Offset only	$40,768	59%
LEOFF 2	$28,330	41%
Total	$69,098	100%
L&I and SSA Offsets	$55,278	80%
LEOFF 2*	$13,820	20%
Total	$69,098	100%

**Twenty percent benefit is tax-free and is more valuable than the taxed 22 percent benefit of $15,616. See assumptions section.*

Of the 59 duty-related disabilities we expect each year (total and occupational), we assume that 18 percent, or about 11, will be totally disabled under the definition above.

ASSUMPTIONS:

The Department of Labor and Industries (L&I) pays its disability recipients 60 to 75 percent of salary, depending on marital status and number of minor dependents up to an indexed maximum salary of 120 percent of Washington state's average wage. The 2004 state average wage was $38,794 and 120 percent of this salary is $46,553. For each active member, we compared 60 percent of their annual salary to this maximum value and chose the lesser of the two. The resulting 60 percent salary figure with cap was $40,954, which is 59 percent of the average LEOFF 2 annual salary. To adjust for the L&I maximum limit, we assumed members disabled under this proposal would receive 59 percent of FAS based on the 2004 pay for LEOFF 2 active members.

The Social Security Administration also provides disability benefits for those members whose employers participate. We assume that for a typical member who is covered by Social Security, disability benefits paid by SSA would be approximately 30 percent of salary, or for our average LEOFF 2 member, $20,729 per year. According to the SSA website, most disability claims are processed within about three months. We assume for pricing purposes that the Social Security offset is effective immediately.

In his presentation to the LEOFF 2 Retirement Board on September 28, 2005, Shawn Merchant, Deputy Director reported that 58.53 percent of law enforcement officers and 6.48 percent of firefighters in Washington state contribute to Social Security. Using this information, we assumed that as of September 30, 2004, 55 percent of the 8,533 active law enforcement officers are covered by Social Security. Similarly, we used a 5 percent assumption of Social Security coverage for the 6,221 active fire fighters.

According to the Labor and Industries' web site, disability benefits for L&I are offset by Social Security disability benefits in such a way that the sum of L&I benefits and SSA benefits may not exceed 80 percent of the member's salary at disablement. Therefore, we assumed that time-loss and permanent L&I benefits, plus Social Security benefits represent 80 percent of FAS for those members totally disabled in the line of duty who are covered by Social Security. With a maximum of 100 percent of FAS, this would provide a maximum benefit of 20 percent of FAS from LEOFF 2 for these members.

Members who receive permanent L&I total disability benefits do not necessarily receive these benefits immediately. In some cases, it can take years for L&I to make a final determination about eligibility. However, employees injured on the job are entitled to time-loss benefits that begin after the employee has missed three days of work. These time-loss benefits are structured in the same way as the permanent total disability benefits, paying 60-75 percent of salary, subject to the same maximum amount and linked to the number of dependents. Therefore, we assume that for members not covered by Social Security, all offsets combined, namely temporary and permanent L&I benefits, equal 59 percent of FAS as described above, with no waiting period. With a maximum of 100 percent of FAS, this would provide a maximum benefit of 41 percent of FAS from LEOFF 2.

We also assume that the member will elect the better of the taxed unreduced duty-disability benefit and this proposed tax-free total disability benefit with offsets. We used a 15 percent tax rate in making this comparison, regardless of the size of the taxed benefit. We assume that, on average, members with only an L&I offset would receive a 59 percent total offset, or a 41 percent tax-free benefit. Therefore, members with 41 percent/85 percent/2 percent = 24 or more years of service would benefit more from the unreduced occupational disability benefit than from a tax-free total disability benefit with offsets. In other words, a member would choose a taxable benefit of 48 percent over a tax-free benefit of 41 percent and would choose a tax-free benefit of 41 percent over a taxable benefit of less than 48 percent. This assumption slightly reduced the cost.

We assume that 18 percent of all duty-related disabilities will be total disabilities. For the total disability benefit, we changed our disability assumption to use rates based on the disability rates used by the Colorado Fire and Police Pension Association Death and Disability Fund for their January 1, 2004, valuation prepared by Mellon. We assume that the probability that a disability is duty related decreases with age.

Age	Disability Rate	Duty Related Probability	Totally Disabled
20	0.001011	0.9500	0.18
25	0.001138	0.9247	0.18
30	0.001280	0.9000	0.18
35	0.001780	0.8746	0.18
40	0.002473	0.8500	0.18
45	0.003366	0.8000	0.18
50	0.011830	0.7500	0.18

For example, a 40-year-old member has a 0.2473 percent chance of becoming disabled in a year (about one out of 400). Furthermore, there is an 85 percent chance the disability would be duty related and an 18 percent chance it would be a total disability.

We considered but did not include any assumptions about the possibility of a member recovering from total disability status and returning to active duty. While the proposal allows for this possibility, any reduction in liabilities resulting from this inclusion would not be material.

We also considered but did not include an assumption about liability increases that might occur if these totally disabled members choose a joint and survivor option. The factors used to reduce benefits for the selection of these options are considered actuarially equivalent to a single life benefit if the member making the selection is healthy. Mortality rates are slightly higher for disabled members. Therefore this possibility could increase costs, but as with recovery, the change would not be material.

All other assumptions are consistent with the assumptions disclosed in the 2004 LEOFF 2 Actuarial Valuation Report.

FISCAL IMPACT:

Description:

This bill will enhance the cost of the duty related total disability benefit from the 2005 legislation. The 2005 legislation removed the early retirement reduction factor for all duty related disabilities.

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)	System: LEOFF 2		
	Current	Increase*	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,800	$5	$4,805
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	NA	NA	NA
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	($426)	$2	($424)

**After assumption Change.*

Increase in Contribution Rates: (Effective 9/1/2006)

Current Members	
Employee	0.02%
Employer	0.01%
State	0.01%
New Entrants	
Employee	0.03%
Employer	0.02%
State	0.01%

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

Fiscal Budget Determinations:

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

Costs (in Millions):	LEOFF 2
2006-2007	
State:	
General Fund	$0.1
Non-General Fund	$0.0
Total State	**$0.1**
Local Government	$0.1
Total Employer	$0.2
Total Employee	$0.2

Costs (in Millions):	LEOFF 2
2007-2009	
State:	
General Fund	$0.2
Non-General Fund	$0.0
Total State	**$0.2**
Local Government	$0.4
Total Employer	$0.6
Total Employee	$0.6
2006-2031	
State:	
General Fund	$6.9
Non-General Fund	$0.0
Total State	**$6.9**
Local Government	$11.5
Total Employer	$18.4
Total Employee	$18.4

State Actuary's Comments:

These costs are based on assumptions about rates of duty related total disabilities and amounts of offsets. To the extent that experience varies from assumptions, the actual costs will be different

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2.

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 fiscal note is intended for use only during the 2006 Legislative Session.

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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**2/7/06**	**SHB 2933**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) by providing a $150,000 death benefit to the survivor of a member who died as a result of an illness sustained in the course of employment. Beginning July 1, 2006, the $150,000 death benefit will be indexed in the same manner as LEOFF 2 retirement benefits -- to changes in the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) to a maximum of 3% per year.

The substitute bill makes technical changes to the language identifying occupational illness, and removes the annual adjustment to the $150,000 death benefit.

Effective Date: 90 days after session

CURRENT SITUATION:

Currently, a $150,000 death benefit is provided to the survivor of a LEOFF 2 member whose death is the result of injuries sustained in the course of employment. The $150,000 death benefit amount is not currently indexed.

MEMBERS IMPACTED:

We estimate that all 14,754 active members of the system would be impacted by this bill. We assume the bill could affect 934 inactive members of the system as well.

We estimate that for a typical survivor impacted by this bill, the increase in benefits would come from a duty related death caused by an injury or disease that was not previously recognized as duty related. The increase in benefit would be the $150,000 lump-sum to a beneficiary.

The addition of occupational diseases to allowable causes of duty-related deaths would impact all 14,754 active members, as well as future members. It could also impact 934 inactive members. We would expect it would impact about one survivor per year. The survivors of a member impacted as a result of a death from an occupational disease that would be classified as duty-related would receive a $150,000 lump-sum payment. The annuity benefit payable to the surviving spouse or children would not be subject to the actuarial reduction for early retirement.

Our current assumed duty-related death rate is 0.0002 for all ages; or two duty-related deaths for every 10,000 active members. We expect approximately three duty-related deaths per year under our current assumptions.

ASSUMPTIONS:

To estimate the cost of expanding the definition of duty-related death to include all occupational diseases, we used an assumed duty-related death rate of 0.00028 (40 percent increase) for all ages and we would expect one additional duty-related death per year. The total number of expected deaths would not change.

We considered the impact of providing the benefit to past survivors of duty related deaths who did not previously qualify for the benefit and determined there would not be a significant difference in the fiscal impact and contribution rates provided below.

FISCAL IMPACT:

Description:

This bill will increase existing and future survivor benefits in LEOFF 2.

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: LEOFF 2		
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,800	$2	$4,802
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	NA	NA	NA
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	($426)	$1	($425)

Increase in Contribution Rates: (Effective 9/1/2006)

Current Members	
Employee	0.01%
Employer	0.01%
State	0.00%

New Entrants*

Employee	0.01%
Employer	0.01%
State	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):	**LEOFF 2**
2006-2007	
State:	
General Fund	$0.0
Non-General Fund	$0.0
Total State	**$0.0**
Local Government	$0.1
Total Employer	$0.1
Total Employee	$0.1
2007-2009	
State:	
General Fund	$0.0
Non-General Fund	$0.0
Total State	**$0.0**
Local Government	$0.2
Total Employer	$0.2
Total Employee	$0.2
2006-2031	
State:	
General Fund	$2.7
Non-General Fund	$0.0
Total State	**$2.7**
Local Government	$4.0
Total Employer	$6.7
Total Employee	$6.7

State Actuary's Comments:

These costs are based on assumptions about rates of duty related deaths caused by diseases which can be linked directly to active duty. To the extent that experience varies from assumptions in this fiscal note, the actual costs of this bill will be different.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2.

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 fiscal note is intended for use only during the 2006 Legislative Session.

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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	2/6/06	SB 6723/HB 2934 - Revised

SUMMARY OF BILL:

This bill impacts Plan 2 of the Law Enforcement Officers' and Fire Fighters' Retirement System. It provides additional benefits by reimbursing the surviving spouse and dependent children of members who are killed in the line of duty for payments of premium rates to the Washington State Health Care Authority pursuant to RCW 41.05.080. RCW 41.05.080 allows for continued participation in insurance plans and contracts through the Public Employees' Benefits Board (PEBB) for surviving spouses and dependent children of members killed in the line of duty.

Effective Date: 90 days after session

CURRENT SITUATION:

Currently, surviving spouses and dependent children of members killed in the line of duty have access to medical and dental benefits through PEBB at their own expense. This proposal would provide 100 percent of the PEBB medical and dental premiums for duty-death survivors for life, and dependents while eligible.

MEMBERS IMPACTED:

We estimate that all 14,754 active members could potentially be affected by this bill. We expect approximately three duty-related deaths per year. Our current assumed duty-related death rate is 0.0002 for all ages; or two duty-related deaths for every 10,000 active members. We assume that there are approximately 24 current survivors as the result of prior duty-related deaths. A typical survivor impacted by this bill would receive medical benefits with a current value of $308 to $859 per month plus dental benefits with a current value of $44 to $87 per month depending on age and family status.

ASSUMPTIONS:

We assumed the eligibility requirement would be the same as the current eligibility requirement for the $150,000 duty-death benefit. We assumed 100% of active members were married. We assumed that survivors would elect the most expensive medical plan under PEBB, which is currently Regence Blue Shield. We assumed survivors would elect the most expensive dental plan, which is currently Regence Blue Shield: Columbia Dental Plan. We assumed that PEBB premiums would decrease at age 65 because survivors would be enrolled in Medicare at age 65. We assumed that future survivors and half of the survivors in pay status would elect coverage for the subscriber and children for the first ten years and the subscriber only thereafter. We assumed the other half of the survivors in pay status would elect coverage for the subscriber only.

2006 PEBB Retiree Monthly Rates: Regence Blue Shield*			
	Medical		Dental
	Pre-Medicare	Enrolled in Medicare	Before/After Medicare
Subscriber Only	$493.87 /month	$308.45 / month	$43.46 / month
Subscriber and Children	$858.54 / month	$673.12 / month	$86.92 / month

**Full dental plan name is Regence Blue Shield: Columbia Dental Plan.*

We assumed that the trend rate for medical inflation is 13.5% the first year, decreasing by 1.0% per year to an ultimate rate of 3.5%. The remaining assumptions were the same as in the 2004 actuarial valuation report.

To approximate the number of current duty-death survivors, we estimated the number using two methods to develop a best-estimate range of 9 to 42 survivors, and selected the number 24 near the midpoint of the range as our best estimate. The low end of the range was based on the number of survivors currently in PEBB. The high end of the range was estimated from retroactively applying our duty-death assumption since the inception of the plan. Additionally, our data shows 19 survivors receiving annuities from the pension plan. To calculate the liability for the estimated five unknown current duty-death survivors, we took the ratio of the (24/19 - 1) times the liabilities for medical benefits in PEBB for the 19 known survivors in the data. We assumed that the medical benefits would be paid for the surviving spouse and dependent children and not for future spouses if surviving spouses remarry.

FISCAL IMPACT:

Description:

This bill will increase existing and future survivor benefits in LEOFF 2.

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: LEOFF 2		
(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,800	$8	$4,808
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	NA	NA	NA
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	($426)	$6	($420)

Increase in Contribution Rates: (Effective 09/01/2006)

Current Members	
Employee	0.03%
Employer State	0.02%
State	0.01%
New Entrants*	
Employee	0.02%
Employer	0.01%
State	0.01%

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

Fiscal Budget Determinations:

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

Costs (in Millions):	LEOFF 2
2006-2007	
State:	
General Fund	$0.1
Non-General Fund	$0.0
Total State	**$0.1**
Local Government	$0.2
Total Employer	$0.3
Total Employee	$0.3
2007-2009	
State:	
General Fund	$0.2
Non-General Fund	$0.0
Total State	**$0.2**
Local Government	$0.6
Total Employer	$0.8
Total Employee	$0.8
2006-2031	
State:	
General Fund	$6.3
Non-General Fund	$0.0
Total State	**$6.3**
Local Government	$9.6
Total Employer	$15.9
Total Employee	$15.9

State Actuary's Comments:

These costs are based on assumptions regarding the current number of duty-related survivors, the medical plans selected, the number of dependents covered, and future health care inflation. The actual cost of this bill will vary to the extent that actual experience differs from that projected under these assumptions.

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

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

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2.

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 fiscal note is intended for use only during the 2006 Legislative Session.

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.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	3/13/06	ESSB 6896

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS), and the Public Safety Employees' Retirement System (PSERS) by creating and appropriating moneys to a Pension Funding Stabilization Account (PFSA) in the State Treasury. Expenditures from the account may be used only for payment of state government employer contributions for members of PERS, TRS, SERS, and PSERS. The account may not be used to pay for any new benefit or benefit increase that takes effect after July 1, 2005. Moneys in the account are to be invested by the State Investment Board (SIB); earnings from this account shall stay within the account.

The original bill also re-establishes funding of the Plan 1 unfunded accrued actuarial liabilities (UAAL) by establishing a 1.29 percent contribution rate in TRS, a 1.75% contribution rate in SERS, and a 1.80% contribution rate in PERS and PSERS. The TRS and SERS contribution rates are effective from September 1, 2006, through August 31, 2007. The PERS and PSERS contribution rate is effective from January 1, 2007, through June 30, 2007.

Appropriations to the PFSA are to be included in the expenditure limit calculations under the State Expenditures Limitations Chapter (RCW 43.135). In addition, expenditures from the PFSA shall not be considered a state program cost shift from the state general fund to another account.

The substitute bill changed the contribution rate for SERS to 0.87%, and for PERS and PSERS to 1.77%. The substitute also provided for a $350 million appropriation to the PFSA.

The engrossed bill added language to assure that the PFSA shall be considered a public pension or retirement fund within the meaning of Article XXIX, Section 1 of the State Constitution for the purpose of determining eligible investment and deposits of the moneys therein. The engrossed bill also added language to provide, upon completion of the 2005 actuarial valuation, for the Pension Funding Council (PFC) and the state actuary to review the contribution rates for the Plan 1 UAAL for fiscal years 2008 and 2009; by September 30, 2006, the PFC shall adopt contribution rates to complete the three-year phase-in schedule, adjusted for any material changes in benefits or actuarial assumptions, methods, and experience.

Effective Date: Immediately, except for Section 10 of the act which becomes effective July 1, 2006.

CURRENT SITUATION:

Currently there is no separate account for holding state moneys that are subject to appropriation for payment of employer contributions to the retirement systems or for making specific contributions to the UAAL in the Plans 1. These liabilities are simply paid from collections pursuant to the policies and procedures set forth in the actuarial funding chapter. This bill would allow the state to actually set aside money in a special account reserved solely for retirement system payments.

Payments to amortize the Plan 1 UAAL are normally collected as a component of employer contribution rates. According to current funding policy, liability for the Plans 1 is spread among all PERS, TRS, SERS an PSERS employers. This liability is also spread over time. Current funding policy requires that the UAAL be fully amortized by June 30, 2024.

Payments for the Plan 1 UAAL have been suspended for the current biennium, and were suspended in the previous biennium. Regular payments are scheduled to resume July 1, 2007.

MEMBERS IMPACTED:

The bill would impact all 75,390 members of PERS 1 and all 45,961 members of TRS 1 by recommencing employer contributions for amortizing the unfunded liability in 2006-07 instead of 2007-08.

PERS Plan 1	Members
Receiving a Benefit	54,568
Actives	17,829
Terminated & Vested	2,993

TRS Plan 1	Members
Receiving a Benefit	34,624
Actives	9,862
Terminated & Vested	1,475

Member contributions would not change as a result of this bill.

ASSUMPTIONS:

We assume that the $350 million appropriation to the pension funding stabilization account would not impact the retirement system rates until the funds are transferred to the retirement system. While the appropriation is in the stabilization account, we expect that it would generate annual investment earnings of about 8%, which would reduce the future contribution requirements from other sources, but we assume that it would not result in additional advance funding for the retirement system.

The bill establishes a schedule of smoothed or phased-in contribution rates for 2006-2009. The rates for 2006-07 are specified in the bill. We assume that the 2007-2009 Plan 1 UAAL rates will be adjusted so that the expected present value of the contributions over 2006-2009 would be the same with or without the phase-in.

We assumed that the difference in the PERS 1 rate for SERS employers compared to the PERS 1 rate for PERS and PSERS employers would apply for 2006-07 only, and that starting in 2007-09, the PERS 1 rates would be the same for all PERS employers. We calculated the PERS 1 rate, effective 1/1/2007 to 6/30/2007, to be equal in present value to the SERS rate that is effective for the entire 2006-2007 fiscal year. To do so, we assumed that 50% of the PERS payroll for a fiscal year is earned from 1/1 to 6/30. We assumed that 7.28% of the SERS payroll for a fiscal year is earned between 7/1 and 8/31.

FISCAL IMPACT:

Description:

The rates under the three-year phase-in will be higher in the 2006-07 fiscal year than required under current law, and will be lower in the 2007-08 fiscal year than required under the projected 2005 actuarial valuation.

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	$28,098	$0	$28,098
(The Value of the Total Commitment to all Current Members)	TRS	$15,616	$0	$15,616
	SERS	$2,126	$0	$ 2,126
Unfunded Actuarial Accrued Liability	PERS 1	$2,563	$0	$2,563
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	$1,415	$0	$1,415
Unfunded Liability (PBO)	PERS	($673)	$0	($673)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS	($235)	$0	($235)
	SERS	($439)	$0	($439)

Increase in Contribution Rates:

We determined that the following adjustments to the Plan 1 UAAL rates would result in the same present value of contributions as the required rates under the current law. The rates are effective 7/1/07 for PERS and PSERS, and 9/1/06 for TRS and SERS:

Year	PERS / PSERS	SERS	TRS
2006-2007*	1.77%	0.87%	1.29%
2007-2008	-0.88%	-0.88%	-1.30%
2008-2009	0.00%	0.00%	-0.02%
2009-2010 & thereafter	0.00%	0.00%	0.00%

**The PERS/PSERS rate for 2006-2007 is effective from 1/1/2007-6/30/2007*

There is no change to the member rates.

Fiscal Budget Determinations:

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

Costs (in Millions):	PERS*	TRS	SERS	Total
2006-2007				
State:				
General Fund	$14.3	$34.2	$4.5	$53.0
Non-General Fund	$23.5	$0.0	$0.0	$23.5
Total State	**$37.8**	**$34.2**	**$4.5**	**$76.5**
Local Government	$33.5	$18.8	$6.8	$59.1
Total Employer	$71.3	$53.0	$11.3	$135.6
Total Employee	$0.0	$0.0	$0.0	$0.0
2007-2009				
State:				
General Fund	($15.0)	($38.4)	($5.6)	($59.0)
Non-General Fund	($24.8)	$0.0	$0.0	($24.8)
Total State	**($39.8)**	**($38.4)**	**($5.6)**	**($83.8)**
Local Government	($35.3)	($19.2)	($8.4)	($62.9)
Total Employer	($75.1)	($57.6)	($14.0)	($146.7)
Total Employee	$0.0	$0.0	$0.0	$0.0
2006-2031				
State:				
General Fund	($0.7)	($4.2)	($1.1)	($6.0)
Non-General Fund	($1.3)	$0.0	$0.0	($1.3)
Total State	**($2.0)**	**($4.2)**	**($1.1)**	**($7.3)**
Local Government	($1.8)	($0.4)	($1.6)	($3.8)
Total Employer	($3.8)	($4.6)	($2.7)	($11.1)
Total Employee	$0.0	$0.0	$0.0	$0.0

* Includes PSERS effective 7/1/06

State Actuary's Comments:

This fiscal note involves calculations that require assumptions about future economic events and acts of future Legislatures. It assumes that the cost of future gain-sharing will not be recognized under the phase-in schedule, that the contribution rates for 2007-2009 will be adjusted to complete the 3-year phase-in schedule, and that the Plan 1 amortization payments will resume in 2006 with no change in the amortization date. If any of these events occur differently than assumed, then the long term cost of this bill will change.

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

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

1. Costs were developed using the same membership data, methods, assets, and assumptions as those used in preparing the September 30, 2004, actuarial valuation report of the Public Employees' Retirement System Retirement System, the Teachers' Retirement System, and the School Employees' Retirement System.

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

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: None.

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

5. This fiscal note is intended for use only during the 2006 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.