

Public Education Experience Program – Waiting Period

Background

The public education experience program was created with the passage of ESHB 2680 in the 2006 Legislative session. This SCPP recommended legislation allowed teachers to purchase service credit in the Teachers' Retirement System (TRS) Plan 2 or Plan 3 for time spent as a teacher in another state or with the federal government.

The original proposal had the member pay an amount less than the full cost of the out-of-state service being purchased, with the remainder of the full cost subsidized through increased contribution rates for the plan. To limit that subsidized cost, the proposal included a five year waiting period before being able to purchase the service. During the 2006 Legislative session, the proposal was amended to require members pay the full actuarial cost of the out-of-state credit. The amended proposal passed the legislature and was signed into law.

With the change to require members to pay the full cost, the need for a five-year waiting period to reduce the subsidized costs was unnecessary. Teachers' stakeholders contacted the Select Committee on Pension Policy to request legislation to reduce the waiting period.

Committee Activity

Presentations:

July 17, 2007 - Full Committee

August 14 - Full Committee

Proposal:

September 18, 2007 - Full Committee

Recommendation to Legislature

Reduce from five years to two years the amount of TRS Plan 2 or Plan 3 service credit a member must have in order to purchase service credit for public education experience in another state or with the federal government.

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In Brief

ISSUE

Stakeholders have asked the SCPP to recommend legislation to decrease the waiting period from five to two years for teachers who choose to purchase service credit for out-of-state public education experience at full actuarial cost.

MEMBER IMPACT

This proposal impacts certain active members of Plans 2 and 3 of the Teachers' Retirement System (TRS) who have qualifying public education experience outside of the Washington State Retirement System. There are currently 501 out of 7,025 active Plan 2 members and 17,597 out of 51,473 active Plan 3 members with less than five years of service in TRS who could benefit from the proposed change in the waiting period if they have qualifying out-of-state service.

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Current Situation

As of January 1, 2007, members of Teachers' Retirement System (TRS) Plans 2 and 3 may purchase service credit for public education experience outside the Washington State Retirement Systems as follows:

1. **The member must have five years of TRS service credit to participate.** *The proposal is to change this waiting period to two years instead of five.*
2. The member may make a one-time purchase of up to seven years of service credit for public education experience (state and/or federal) outside the Washington State Retirement Systems.
3. The public education experience must be earned in a teaching position covered by a governmental retirement or pension plan. A member may not purchase public education experience for which the member is currently receiving a benefit or is currently eligible to receive an unreduced retirement benefit.
4. Participating members pay the full actuarial value of the resulting increase in their TRS benefit; however employers of members may pay part or all of member costs.
5. The purchased service credit becomes membership service in TRS and may be used to qualify for a benefit and increase the benefit amount.

Example

A teacher is recruited to work in Vancouver, Washington. This teacher has five years of teaching experience in Oregon and three years of teaching experience with the federal government in Fort Bragg, North Carolina. After five years of being a member of TRS 3, this member can make a one-time purchase of seven years of out-of-state public education experience at full actuarial cost. Under

the proposal before the committee, this member could make the purchase after two years in TRS 3.

See the attached DRS publication "Using Service Credit Earned Outside the Washington State Teachers' Retirement System" for other examples.

History

The "public education experience program" was designed by a subgroup of the Select Committee on Pension Policy (SCPP) in the 2004 interim. The SCPP's version of the program was substantially identical to the current one, except that the cost to members was less than the full actuarial value of the increase in their benefits. Under the original program design, members would have paid the following: 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 compound interest for the period for which the service credit is purchased, at a rate equal to the current investment rate of return assumption [(employer rate + employee rate) x salary x years of service + compounded interest at 8 percent].

This service credit purchase program was designed by the SCPP as a recruitment tool for teachers; however it did not pass the Legislature until after the Senate amended the bill to require members to pay the full actuarial cost.

The original proposed public education experience program was designed as a recruitment tool for teachers to help implement Goal 2 of the SCPP's Goals for Washington State Pension Plans. Goal 2 is: "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."

In the 2005 session the SCPP's bill was introduced as HB 3122/SB 5489. The bill did not move from House Appropriations and did not receive a hearing in Senate Ways and Means. The 2005 fiscal note indicated a 25-year employer cost of \$130 million.

The SCPP recommended this legislation again in 2006 as HB 2680. The bill was successful, but only after the Senate amended the proposal to eliminate its cost by requiring TRS members to pay the full actuarial value of the increased benefit attributed to the service credit. After session,

stakeholders indicated that leaving the five-year waiting period alone after the cost provisions were amended was an oversight. In their view, the five-year waiting period made sense when members were paying less than actuarial cost, as the five years would have demonstrated commitment to the State of Washington; however, with members paying the full actuarial cost, there is no public "investment" in the service credit and therefore the waiting period should have been shorter (i.e. two years) in order to make the program more attractive to teachers.

A bill to reduce the waiting period was introduced in the 2007 session as HB 1200. The bill was not part of the SCPP's recommended legislation for 2007. The bill passed the House but not the Senate. The House also amended SB 5174 (Technical Corrections) to reduce the waiting period, but the Senate did not concur and the House receded from the amendment.

Now that members are paying the full actuarial cost, the need for a five-year waiting period may no longer exist.

Policy Analysis

Because the proposal is a narrow one – limited to changing only the length of the waiting period for participating in the optional "public educational experience program," the policy implications of the change are also narrow.

According to the stakeholder point of view, it should make little difference to state or local governments whether the waiting period is reduced, as public employers have no money "invested" in the purchase of service credit for members. Also, because members must pay the full actuarial cost, the program is less attractive to new teachers than it was originally.

The two-year waiting period may at least encourage more teachers to see value in the program. For most members, the earlier in their career they purchase out-of-state service credit, the lower the purchase price.

The stakeholder views seem consistent with the SCPP subgroup's original desire to offer the public education experience program as a recruitment tool for teachers working outside the Washington State Retirement Systems. The program clearly became less attractive to teachers when the purchase subsidy was removed. Perhaps reducing the waiting period would at least be a step in the

direction of making the program more desirable to teachers.

At least one SCPP member has raised the question of whether decreasing the waiting period would increase teacher retention. This is a possibility. For some teachers, a shorter waiting period may offer teachers more opportunity to “invest” in TRS membership. The program may also support teachers’ desires to consolidate their retirement assets. Thus, in some instances, the program may support teacher retention.

In other instances, however, teachers may see the ability to purchase this service credit as a factor that supports their decision to retire earlier. The possible link to earlier retirement is based on the fact that the service credit purchased under this program is treated as membership service that may be used to qualify for a retirement benefit.

The program became effective January 1, 2007, so at this time there is no meaningful data concerning utilization of the program.

Other States

When this program was originally designed by the SCPP, a complete policy discussion and comparative analysis was available to the committee. See 2005 Interim Issues, “TRS Out-of-State Service Credit,” December 15, 2005. As reported at that time, half of the SCPP’s ten comparative states charged “actuarial cost” for out-of-state service credit purchases: Colorado, Idaho, Iowa, Oregon and Wisconsin.

Staff recently examined the websites of those five states to determine what kind of waiting period (if any) is required for members to participate in those service credit purchase programs. As of July 23, 2007, retirement system website materials for those states indicated great variability in the waiting periods, from “none” to “within 90 days of retirement.” The results are summarized in the following table:

Waiting Periods for Purchasing Out-of-State Service at Actuarial Cost	
Colorado	1 year
Idaho	None
Iowa	Must be vested with 4 years of service, or a contributing member and age 55.
Oregon	Purchase can only occur within 90 days of member's effective retirement date
Wisconsin	None

Procedural History

The full SCPP received an initial briefing on this issue at its regular meeting on July 17, 2007. Following the meeting, the Executive Committee recommended that the proposal to change in the waiting period from five to two years be placed on the full committee agenda and set for public hearing on August 14, 2007. The matter was heard on August 14, 2007; no action was taken by the full SCPP at that time.

STAKEHOLDER INPUT

Correspondence (attached) from:

- 1. Washington Association of School Administrators (WASA) and Washington Association of School Principals (WASP).*
- 2. Washington Education Association (WEA).*

Bill Draft

A Code Reviser copy of the proposed bill language is attached.

Draft Fiscal Note

A draft fiscal note (showing no fiscal impact) is attached.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0659.1/08

ATTY/TYPIST: LL:ean

BRIEF DESCRIPTION: Purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government.

1 AN ACT Relating to purchasing service credit in plan 2 and plan 3
2 of the teachers' retirement system for public education experience
3 performed as a teacher in a public school in another state or with the
4 federal government; and amending RCW 41.32.813 and 41.32.868.

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

6 **Sec. 1.** RCW 41.32.813 and 2006 c 257 s 1 are each amended to read
7 as follows:

8 (1) An active member who has completed a minimum of (~~five~~) two
9 years of creditable service in the teachers' retirement system may,
10 upon written application to the department, make a one-time purchase of
11 up to seven years of service credit for public education experience
12 outside the Washington state retirement system, subject to the
13 following limitations:

14 (a) The public education experience being claimed must have been
15 performed as a teacher in a public school in another state or with the
16 federal government; (~~and~~)

17 (b) The public education experience being claimed must have been
18 covered by a retirement or pension plan provided by a state or
19 political subdivision of a state, or by the federal government; and

1 (c) The member is not currently receiving a benefit or currently
2 eligible to receive an unreduced retirement benefit from a retirement
3 or pension plan of a state or political subdivision of a state or the
4 federal government that includes the service credit to be purchased.

5 (2) The service credit purchased shall be membership service, and
6 may be used to qualify the member for retirement.

7 (3) The member shall pay the actuarial value of the resulting
8 increase in the member's benefit calculated in a manner consistent with
9 the department's method for calculating payments for reestablishing
10 service credit under RCW 41.50.165.

11 (4) The member may pay all or part of the cost of the service
12 credit to be purchased with a lump sum payment, eligible rollover,
13 direct rollover, or trustee-to-trustee transfer from an eligible
14 retirement plan. The department shall adopt rules to ensure that all
15 lump sum payments, rollovers, and transfers comply with the
16 requirements of the internal revenue code and regulations adopted by
17 the internal revenue service. The rules adopted by the department may
18 condition the acceptance of a rollover or transfer from another plan on
19 the receipt of information necessary to enable the department to
20 determine the eligibility of any transferred funds for tax-free
21 rollover treatment or other treatment under federal income tax law.

22 (5) The employer also may pay all or a portion of the member's cost
23 of the service credit purchased under this section.

24 **Sec. 2.** RCW 41.32.868 and 2006 c 257 s 2 are each amended to read
25 as follows:

26 (1) An active member who has completed a minimum of (~~five~~) two
27 years of creditable service in the teachers' retirement system may,
28 upon written application to the department, make a one-time purchase of
29 up to seven years of service credit for public education experience
30 outside the Washington state retirement system, subject to the
31 following limitations:

32 (a) The public education experience being claimed must have been
33 performed as a teacher in a public school in another state or with the
34 federal government;

35 (b) The public education experience being claimed must have been
36 covered by a retirement or pension plan provided by a state or
37 political subdivision of a state, or by the federal government; and

1 (c) The member is not currently receiving a benefit or currently
2 eligible to receive an unreduced retirement benefit from a retirement
3 or pension plan of a state or political subdivision of a state or the
4 federal government that includes the service credit to be purchased.

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6 may be used to qualify the member for retirement.

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14 retirement plan. The department shall adopt rules to ensure that all
15 lump sum payments, rollovers, and transfers comply with the
16 requirements of the internal revenue code and regulations adopted by
17 the internal revenue service. The rules adopted by the department may
18 condition the acceptance of a rollover or transfer from another plan on
19 the receipt of information necessary to enable the department to
20 determine the eligibility of any transferred funds for tax-free
21 rollover treatment or other treatment under federal income tax law.

22 (5) The employer also may pay all or a portion of the member's cost
23 of the service credit purchased under this section.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	9/4/07	Z-0659.1/08

INTENDED USE

This draft actuarial fiscal note was prepared by the Office of the State Actuary. The changes in liability, contribution rates, and fiscal costs are based on our understanding of the proposal as of the date of this draft fiscal note. Liabilities, contribution rates, and fiscal costs presented herein are subject to change should actual bill language for this proposal be introduced as legislation in the upcoming Legislative Session. This draft fiscal note is intended to be used by the Select Committee on Pension Policy during the 2007 Interim only.

Any third party recipient of this draft fiscal note is advised to seek professional guidance concerning its content and interpretation and should not rely upon this communication in the absence of such professional guidance. The analysis presented in this draft fiscal note should be read as a whole. Distributing or relying on only portions of this draft fiscal note could result in misuse and may be misleading to others.

SUMMARY OF PROPOSAL

The bill draft impacts the Teachers' Retirement System (TRS) Plans 2 and 3. The bill would reduce from five years to two years the amount of TRS service credit a member must have in order to purchase service credit for public education experience in another state or with the federal government.

Assumed Effective Date: 90 days after session

CURRENT SITUATION

Currently, members of TRS Plans 2 and 3 who have five years of TRS service credit may 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 systems. The public education experience must be earned in a teaching position covered by a governmental retirement or pension plan. Public education experience for which the member is currently receiving a benefit or is currently eligible to receive an unreduced retirement benefit may not be purchased. The member pays the full actuarial value of the resulting increase in their TRS benefit; however, the employer of the member may also pay part or all of the member's cost. The purchased service credit becomes membership service in TRS and may be used to qualify for benefits and to determine the benefit amount.

SUMMARY OF MEMBERS IMPACTED

This bill would affect active members with less than five years of service credit in TRS who have qualifying public education experience outside of the Washington State Retirement System. There are currently 478 out of 6,983 active TRS Plan 2 members and 17,698 out of 53,371 active TRS Plan 3 members with less than five years of service in the retirement system. Note that not all of these members will be impacted since they do not all have out-of-state service. We have not developed an estimate of how many members have out-of-state service. However, it does not impact the cost since members pay the full actuarial cost of their additional service under this bill.

We estimate that a typical member impacted by this bill could purchase out-of-state service up to three years earlier under this bill.

ASSUMPTIONS

1. We assume that lowering the number of years a teacher must wait before purchasing out-of-state service credit will not change the number of members who elect to purchase out-of-state service or change future retirement behavior.
2. We assume that members who elect to purchase out-of-state service credit will not separate before they are vested in the retirement system.

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

DATA

The estimate of members impacted was developed using the same data as disclosed in the preliminary September 30, 2006 actuarial valuation report.

FISCAL IMPACT

Description

None. There would be no impact on contribution rates since the member pays the full actuarial value of the service credit purchased and the proposed changes would not alter expected retirement behavior for the plan.

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.

Present Value of Credited Projected Benefits (PVCBP): 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 PVCBP): The excess, if any, of the Present Value of Credited Projected Benefits 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.



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May 22, 2007

Select Committee on Pension Policy
Executive Committee Members
P.O. Box 40914
Olympia, WA 98504-0914

Dear Executive Committee Members:

On behalf of the Washington Education Association, I would like to submit requests for your consideration as you plan your interim issues in preparation for the 2008 Legislative Session.

There are several important items which we pursued this year in the Legislature which we would like to see the Committee take up in the interim for follow through in the 2008 session.

Old Business:

- 1.) **HB 1200: TRS Out of State Service Credit**—simple, no-cost-to-the-state amendment to policy bill requested by SCPP which passed the Legislature in 2006.
- 2.) **HB 1941: Vesting after five years of service in the defined benefit portion of PERS, SERS AND TRS Plan 3.**
- 3.) **HB 1199: Rule of 85**

There are also several new items which we would like the Executive Committee to consider.

- 1.) Allow the additional salary bonuses that were awarded this session to the National Board Certified Teachers to be included in their pension calculations.
- 2.) Allow retirees in all plans to continue paying health care benefits on a pre-tax basis. Currently, active state employees get their health care contributions taken out of their salary and sent to the HCA on a pre-tax basis. But when employees retire, the health care cost, rising as it does well in excess of any increases in retirement benefits, is subject to taxes. We would like to request the SCPP to look into some form of tax deferral for health care premiums for retirees of SERS, PERS, TRS Plans 1, 2, and 3. This was of particular interest to our Plan 1 members concerned about a meaningful improvement for retirees who do not receive a COLA until age 66.

(Continued...)

- 3.) Amend RCW 41.32.010 to allow TRS and SERS Plan 2 and 3 employees who work half-time for at least five months of the year, to receive a full .5 or half credit per month of employment. Currently, such employees receive less than half a service credit per month if they do not work at least 9 months of the year, thus, arguably, getting "shortchanged" because the law doesn't recognize half-year contracts, even with requisite hours of employment. We think this will have little to no cost to the state or increase on contribution rates.
- 4.) Resolve a new issue that has emerged for certain categories of education employees such as speech language pathologists and other educational staff associates. Those who had careers in their fields in other state employment who come to work in school districts have been mandated into TRS Plan 3 for many years now. Many of them would prefer to return to the PERS plan they were in as employees of a different state system. We would like to see this option opened up for the 25 – 50 people whom this concerns.

We will be happy to discuss these and other issues with you in more detail and to help in determining the best way to achieve these ends. Thanks for your consideration.

Sincerely,



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