PERS to SERS Auto-Transfer

Background

The School Employees' Retirement System (SERS) was opened on September 1, 2001. On that day, all educational employees in eligible positions who were previously in the Public Employees' Retirement System (PERS) Plan 2 had their service and account history automatically transferred to SERS Plan 2.

Currently, there is a provision that performs the same PERS to SERS transfer for any PERS Plan 2 member who works in a SERS eligible position, regardless of the nature of the prior service in PERS Plan 2.

Committee Activity

Presentations:
- July 17, 2007 - Full Committee
- September 18, 2007 - Full Committee
- November 13, 2007 - Executive Committee

Proposal:
- December 18, 2007 - Full Committee

Recommendation to Legislature

Discontinue the automatic transfer of prior Public Employees' Retirement System (PERS) Plan 2 service to SERS Plan 2 upon SERS eligible employment. In addition, create a three-month window for Plan 2 members auto-transferred after 9/1/2001 who had no prior education experience in PERS to restore their transferred service to PERS Plan 2.

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In Brief

ISSUE

The membership and service credit of certain PERS 2 members is being automatically transferred to SERS. This transfer, which was designed to move classified school employees to SERS when the system was first opened, occurs even if the member's primary career is unrelated to school employment.

The statutes governing the transfer of PERS membership to SERS may be impacting members that the Legislature did not intend to impact. Further, the open-ended nature of the "auto-transfer" may lead to unintended consequences in future years.

MEMBER IMPACT

On average, nearly 50 PERS 2 members a month have their membership and service credit transferred to SERS.

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PERS to SERS "Auto-Transfer"

Current Situation

There are statutory provisions to automatically transfer the membership and service credit of certain Public Employees' Retirement System (PERS) Plan 2 members to the School Employees' Retirement System (SERS) Plan 2. Affected members have their PERS membership and service credit automatically transferred to SERS if they become employed in a SERS eligible position*. If the member has withdrawn any contributions, such contributions and the associated service credit may be restored to SERS. PERS 2 members currently being affected by the SERS "auto-transfer" provisions if they become employed in a SERS eligible position* include:

- Members who first entered PERS employment after SERS was opened.
- Members who were working for non-educational employers when SERS was opened.
- Members who left or retired from PERS employment prior to the opening of SERS.
- Members whose last employment was for a school district or educational district and who retired from PERS 2 prior to the opening of SERS and opt to re-establish membership.

A PERS 2 member's service and membership will only be automatically transferred to SERS one time – even if the member alternates between PERS and SERS positions throughout their career in public service.

**Or establish membership in SERS as a substitute employee*

History

The SERS system was created in 1998 and opened to membership on September 1, 2000. Initial membership was comprised of PERS 2 members who were employed by school districts and educational service districts on September 1, 2000.

The intent of the legislature in creating SERS was "to achieve similar retirement benefits for all educational employees by transferring the membership of classified school employees in [PERS 2] to [SERS 2]. The transfer of membership to [SERS 2] is not intended to cause a diminution or expansion of benefits for affected members. It is enacted solely to provide public employees working under the same conditions with the same options for retirement planning." See RCW 41.35.005.

SERS was created to allow classified school employees access to Plan 3 benefits.

When the SERS system was created, Plan 3 had been established for teachers, but not for public employees. At that time, classified school employees in PERS wanted the same Plan 3 benefits that were available to teachers. SERS was created to provide that option. SERS featured both a Plan 2 and a Plan 3 when it was created. SERS Plan 2 had the same benefit structure as PERS Plan 2, and SERS Plan 3 had the same benefit structure as the Teachers' Retirement System (TRS) Plan 3. PERS 2 members employed in SERS-eligible positions on the day SERS opened were initially transferred to SERS 2 - where they then had the opportunity to transfer to SERS 3. The transfer of all service, and corresponding contributions, from PERS 2 to SERS 2 provided members who were intending to transfer to SERS 3 the largest possible balance in their SERS Plan 3 defined contribution accounts.

The transfer of PERS 2 members to SERS 2 was extended beyond the initial opening date of SERS.

The transfer of PERS 2 members to SERS 2 was extended beyond the initial opening date of SERS. PERS 2 members who were not employed in a SERS-eligible position when SERS first opened have their PERS 2 membership and service transferred to SERS 2 if they later become employed in a SERS-eligible position. This transfer is accomplished through means of the "auto-transfer" statutes (see heading entitled "Current Situation" above for a complete description). In addition to returning school employees, the "auto-transfer" is impacting PERS members whose primary careers are unrelated to school employment.

Since the initial transfer of PERS 2 classified school employees to SERS 2, over 5,000 PERS 2 members who became employed in SERS eligible positions have had their PERS membership and service credit automatically transferred to SERS. It is unknown how many of these members' PERS service was related to school employment. The Department of Retirement Systems has received complaints from some members who have had their PERS 2 service automatically transferred to SERS 2 when their primary career was not in SERS.

During the 2004 Legislative session a bill was introduced that would have removed the provisions for the automatic transfer of PERS 2 members into SERS 2 upon employment in a SERS eligible position. This bill (SB 6610) did not go through the SCPP and did not receive a hearing.

Examples

Example 1: School employee with break in service

A PERS 2 member employed by a school district leaves employment after five years of service and prior to the opening of SERS. Two years later the member returns to an eligible position in a school district. The member's five years of prior PERS 2 service are automatically transferred to SERS 2.

Example 2: County employee taking a part-time SERS job

PERS members taking a part-time SERS job for the first time have their PERS membership automatically transferred to SERS.

A county employee with 15 years of service in PERS 2 takes an additional part-time job with a school district to earn extra money. This is the first time the member has held a SERS-eligible position. Because the member is now employed in a SERS-eligible position, his PERS membership and 15 years of PERS service are automatically transferred to SERS. Any future service rendered for the county remains in PERS.

Policy Analysis

Possible Inconsistency with SERS Intent

The PERS to SERS "auto-transfer" allows classified school employees who experienced a break in service when SERS first opened to transfer their past service into SERS if they become re-employed in a SERS-eligible position. This is in keeping with the Legislature's stated intent to "provide public employees working under the same conditions with

The Legislature may not have intended the "auto-transfer" statutes to impact PERS members whose primary careers are unrelated to school employment.

the same options for retirement planning". See RCW 41.35.005. However, the "auto-transfer" also transfers the membership and service credit of PERS members whose primary careers are unrelated to school employment. This appears to be inconsistent with the original intent of the Legislature in creating SERS. It is possible that the "auto-transfer" was designed around career school employees. Little consideration may have been given to PERS members who take part-time SERS positions in addition to their primary PERS career. The Legislature may not have intended the "auto-transfer" statutes to impact PERS members whose primary careers are unrelated to school employment.

Clarifying the language in the existing statutes so the "auto-transfer" only impacts former school employees would be more consistent with the Legislature's original intent. Such a fix would likely eliminate most, if not all, of the member complaints about the "auto-transfer" process. However, even if the "auto-transfer" statutes were amended to only impact this group, there are still policy concerns with having an open-ended "auto-transfer".

Continuing the PERS to SERS "auto-transfer" may not make as much sense today.

Implications of Continuing "Auto-Transfer"

While it may have made sense when SERS was first opened to transfer members' service over from PERS, it may not make as much sense to continue that policy today. Transferring prior PERS service into SERS would have simplified the initial transfer process from both the member's and plan administrator's perspective. From the member's perspective, having all of one's service in a single plan makes retirement planning less complicated. Transferring the prior PERS service provided SERS members the same opportunity that teachers had to move their Plan 2 service into Plan 3 and maximize their Plan 3 defined contribution accounts. This was consistent with the Legislative intent to achieve similar retirement benefits for all educational employees. See RCW 41.35.005. From the administrator's perspective, a one-time transfer may have been preferable to maintaining over 40,000 new dual-members.

The advantages of the "auto-transfer" have diminished since the initial creation of SERS.

The advantages of the "auto-transfer", however, have diminished since the initial creation of SERS. The number of former classified school employees returning to service and being impacted by the "auto-transfer" is relatively small compared to the initial number who transferred to SERS. Some of these members have already experienced a fairly long break in service - nearly seven years – or transitioned to public employment outside of a school district. This raises the question of whether special accommodations should be made for these members if they return to classified school employment. Since PERS now has a Plan 3 and experience has shown that members are generally less interested in transferring from Plan 2 to Plan 3 today, there is likely less need to provide a mechanism for members to transfer prior PERS 2 service into SERS 3. Additionally, it is not guaranteed that benefits will be the same in PERS 2 and SERS 2 in the future, which may result in unintended consequences.

When SERS was first created, the benefit provisions of SERS 2 and PERS 2 were identical. Thus, members did not experience either a diminution or expansion of benefits by having their PERS 2 membership and service transferred to SERS 2. However, the more time that passes following the creation of SERS, the greater the likelihood that the benefit provisions of PERS 2 and SERS 2 will start to diverge. Divergent benefits often result from pension legislation that does not go through a policy committee like the SCPP. If the differences in the plans were to become substantial enough, members may actually begin to experience a diminution or expansion of benefits by having their PERS membership automatically transferred to SERS. Such an outcome was likely not envisioned as a possibility at that time and was clearly not part of the Legislature's original intent in transferring members to SERS. See RCW 41.35.005. If benefits were to diverge to the point that some members were being inadvertently harmed by the "auto-transfer," it may create potential legal risk for the state.

In the future, there could be increased legal risk.

Given the diminished benefits of the "auto-transfer" today and the potential legal risk that may arise from a mandatory transfer of membership in the future, it may be preferable from both a policy and administrative perspective to discontinue the "auto-transfer." Policy-makers may wish to consider making the transfer of prior PERS 2 service to SERS optional for returning educational employees, or as an alternative, allowing such employees to become dual-members.

Implications for Dual-Membership

Transferring service credit between systems is counter to the policy of dual-membership which is codified within the "portability" chapter of state law. See RCW 41.54. Dual-membership allows members to combine service from all their systems to qualify for benefits and use the highest salary from any system to determine their benefits. Each system then pays out benefits based on that system's provisions and the service in that system. Dual-membership is designed to ensure that members are neither advantaged nor disadvantaged by changing public careers – even when the underlying benefits of the systems differ.

Members may still receive full value for past school employment under dual-membership provisions.

While dual-membership will effectively make "whole" the retirement benefits for classified school employees whose service crosses from PERS to SERS, it is not an exact substitute for transferring service. Members may still receive full value for their past school employment in PERS under the dual-membership provisions; however, they would not be able to transfer their prior Plan 2 service into Plan 3 as they would under the "auto-transfer" provisions*. Currently, very few active members opt to transfer from Plan 2 to Plan 3 under the annual transfer window. Cases where a returning classified school employee would wish to transfer all their past Plan 2 service to Plan 3 will likely be the exception.

The PERS to SERS "auto-transfer" is an exception to the basic policy of dual-membership. Maintaining such an exception may, in rare cases, benefit a few members. However, policy-makers may wish to weigh the potential benefits against the potential legal risk.

**The member's PERS 2 service would be transferred to SERS 2 and the member could later opt to transfer that service to SERS 3.*

Implications for Optional Transfer

An optional transfer may result in a cost to other plan members or employers.

Making the "auto-transfer" optional instead of mandatory would reduce the risk of the exposure to one kind of liability while increasing the risk of exposure to another. Making the transfer optional would likely eliminate the potential legal risk of members being harmed by the transfer. However, members may be able to take advantage of an optional transfer to increase their benefits while passing the cost of those benefits on to others. This situation could occur if the benefits in SERS were to become more generous than the benefits in PERS. Members electing to transfer their service would essentially be able to "buy" the more expensive SERS benefits using cheaper PERS service. This would result in a cost to the SERS system which would be subsidized by all plan members and/or employers.

Other States

Due to the narrow focus and technical nature of this issue, the experience of other states, if any, would be of limited value to policy-makers and would be impractical to obtain.

Policy Questions

Policy-makers may wish to consider the following questions when deliberating on this issue:

- Should the "auto-transfer" statutes be amended so that they only impact members whose prior PERS service was rendered for a school or educational service district?
- Should the PERS to SERS "auto-transfer" be made optional? Discontinued? If discontinued, what is the appropriate date to discontinue it?

Conclusion

The PERS to SERS "auto-transfer" was designed to facilitate the initial creation of the SERS system for classified school employees. The "auto-transfer" was extended beyond the initial opening date of SERS, and is impacting both returning school employees and PERS members whose primary careers are unrelated to school employment. The Legislature may not have intended to impact this latter group of PERS members.

The automatic transfer of PERS 2 membership and service to SERS 2 at the initial opening of SERS was advantageous for both members and the plan administrator. The advantages of the "auto-transfer;" however, have diminished since the initial creation of SERS. Continuing the mandatory "auto-transfer" indefinitely may expose the state to potential legal risk if the benefits in SERS 2 and PERS 2 diverge in the future. Making the "auto-transfer" optional would eliminate one source of potential liability, but it may result in costs being shifted to other SERS members or employers. In the absence of transfer provisions, SERS members may still receive full value for any past school employment in the PERS system under dual-membership provisions.

Policy-makers may wish to weigh the potential benefits against the potential risks of continuing the "auto-transfer" in its present form.

Next Steps

The Executive Committee will provide further direction on this issue including possible options for pricing.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0764.2/08 2nd draft

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Transferring public employees' retirement system plan 2 members to the school employees' retirement system plan 2.

AN ACT Relating to the transfer of public employees' retirement system plan 2 members to the school employees' retirement system plan 2; and amending RCW 41.40.750.

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

Sec. 1. RCW 41.40.750 and 2001 2nd sp.s. c 10 s 13 are each amended to read as follows:

(1) Effective September 1, 2000, the membership of all plan 2 members currently employed in eligible positions in a school district or educational service district and all plan 2 service credit for such members, is transferred to the Washington school employees' retirement system plan 2. Plan 2 members who have withdrawn their member contributions for prior plan 2 service may restore contributions and service credit to the Washington school employees' retirement system plan 2 as provided under RCW 41.40.740.

(2)(a) The membership and previous service credit of a plan 2 member not employed in an eligible position on September 1, 2000, will be transferred to the Washington school employees' retirement system plan 2 when he or she becomes employed in an eligible position <u>prior to July 1, 2008</u>. Plan 2 members not employed in an eligible position on September 1, 2000, who have withdrawn their member contributions for prior plan 2 service may restore contributions and service credit to the Washington school employees' retirement system plan 2 as provided under RCW 41.40.740, if they first establish eligibility in the Washington school employees' retirement system plan 2 prior to July 1, 2008.

(b) The membership and previous service credit of a plan 2 member last employed by a school district or educational service district and retired prior to September 1, 2000, will be transferred to the Washington school employees' retirement system plan 2 if the member opts to reestablish membership prior to July 1, 2008.

(3) Members who restore contributions and service credit under subsection (1) or (2) of this section shall have their contributions and service credit transferred to the Washington school employees' retirement system.

(4) From September 1, 2008, through November 30, 2008, upon written request to the department, active and inactive members transferred under subsection (2) of this section who did not establish membership and earn service credit for employment with a school district or educational service district prior to the transfer, and who have not transferred to plan 3 of the Washington school employees' retirement system or plan 3 of the public employees' retirement system, may restore their transferred membership and previous service credit to plan 2. All previously transferred contributions and interest, and additional interest as determined by the department, shall be returned to plan 2. An additional amount shall be transferred from the Washington school employees' retirement system sufficient to offset the liabilities returned to plan 2 under this subsection, as determined by the state actuary.

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**12/5/2007**	**Z-0764.2**

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.

EXECUTIVE SUMMARY

This proposal gives certain PERS members who were automatically transferred to SERS the option to move their service and associated savings funds back to PERS. This proposal specifies that there will be an additional transfer of assets from SERS to PERS to offset the liability transferred to PERS.

This proposal would result in liabilities of about $21.2 million being transferred from PERS to SERS. The increase in liability would be offset by corresponding transfers of savings funds and additional assets from SERS to PERS totaling $9.6 million and $11.6 million, respectively. This proposal will not affect the contribution rates of either PERS or SERS because the liabilities transferred are fully offset by the assets transferred.

See the Actuarial Determinations section of this Draft Fiscal Note for additional detail.

SUMMARY OF PROPOSAL

This proposal impacts the Public Employees' Retirement System (PERS) Plan 2 and the School Employees' Retirement System (SERS) Plan 2 by amending RCW 41.40.750 to do the following:

- Discontinue the automatic transfer of prior PERS Plan 2 service to SERS Plan 2 upon employment in a SERS eligible position. Prior PERS Plan 2 members hired into SERS eligible positions after the effective date of the proposal will be dual members under the provisions of Chapter 41.54 RCW.

- Discontinue the requirement to restore withdrawn prior PERS Plan 2 service within the SERS Plan 2 system. Restorations for members hired after the effective date of the proposal will occur under the dual membership provisions of Chapter 41.54 RCW.
- Discontinue the automatic transfer of prior PERS Plan 2 service to SERS Plan 2 for former educational PERS Plan 2 members who retired prior to 9/1/2000 and opted into membership upon return to work in a SERS eligible position.
- Provide a three month window for current and former SERS Plan 2 members to choose to reverse the transfer of prior PERS Plan 2 service and member account if they had only non-educational PERS Plan 2 service and member account automatically transferred after September 1, 2000. An additional transfer of funds from the SERS Plan 2 fund to the PERS Plan 2 fund will occur to offset the liability transferred to PERS under this proposal.

Assumed Effective Date: 90 days following session

CURRENT SITUATION

The provisions of RCW 41.40.750 provide the following:

- All prior PERS Plan 2 members hired into SERS eligible positions after 9/1/2000 have their PERS Plan 2 membership automatically transferred to SERS Plan 2.
- SERS Plan 2 members who have withdrawn prior PERS Plan 2 service must restore that service in SERS Plan 2.
- Educational PERS Plan 2 members that retired prior to 9/1/2000 and opt into membership upon employment in a SERS eligible system will have their prior service in PERS Plan 2 transferred to SERS Plan 2.

SUMMARY OF MEMBERS IMPACTED

We estimate that of the 5,342 PERS members who have had service transferred to SERS after 9/1/2000, 3,068 would be affected by this proposal by having the ability to move their service and associated savings funds back to PERS. These members could be actives, terminated vested members or Terminated Non-Vested (TNV) members. TNV members are only entitled to receive their contributions with interest.
We estimate that for a typical member impacted by this proposal, there would not be an increase in benefits because the benefits for Plan 2 members in PERS and SERS are virtually identical. The only difference between the benefits in PERS 2 and SERS 2 is the availability of a 200 percent refund of contributions benefit for PERS 2 members who interrupt their PERS service to join the uniformed services and are subsequently killed while on active duty.

See the Data section of this draft fiscal note for more details.

PURPOSE

The purpose of this pricing exercise is to estimate the amount of the additional transfer of funds from SERS 2 to PERS 2. This amount should be enough to ensure that contribution rates remain constant in both plans as a result of this proposal. The transfer of service from SERS 2 to PERS 2 will result in a liability decrease in SERS and a liability increase in PERS. This liability is the value in today's dollars of all the future benefit payments expected to be paid as a result of the service transferred. Also transferred from SERS 2 to PERS 2 is the accumulated value of the member contributions paid at the time the transferred service was earned. This asset transfer will result in a decrease in SERS assets and an increase in PERS assets.

The difference between the liability transferred and the assets transferred will be positive. That is, the liability transferred will be more valuable than the assets transferred. There are a couple of reasons for this. First, only the member contributions are being transferred and not the employer contributions. Also, the interest credited to the savings funds is 5.5 percent whereas the liabilities are calculated assuming 8 percent interest. This difference in credited and assumed interest implies that the assets will never accumulate in the member's saving fund at a high enough rate to cover the projected liabilities.

The positive difference between the transferred liability and assets is the additional amount that is required from the SERS assets to ensure that contribution rates are not affected in either plan. The next section explains the methods used to calculate the value of the transferred liability and assets.

METHODS

We used an individual annuity factor model to determine the liability associated with the service being transferred from SERS to PERS. The total liability being transferred is the sum of the individual liabilities. The data used to calculate the liability was received from the Department of Retirement Systems (DRS) listing all the members who have had service transferred since 9/1/2000. For a description of the evaluation of the data please see the Data section below. For each member we determined their current age, their current total service and salary, and their projected service at retirement. The number of months of service credit transferred, the savings fund, and the date of transfer were provided in the data.

We used the SERS salary inflation, salary merit, AFC calculation, and mortality assumptions described below to create the following factors:

- Pay Factor – based on the member's current service earned to date.
- Average Final Compensation (AFC) Factor – based on the member's projected service at retirement.
- Annuity Factors – deferred to age 65 life-annuity factors with a 3 percent cost of living adjustment after the deferral period.

- Credited Projected Benefits (CPB) Factor – calculated using the other factors as follows:

  (AFC Factor x Annuity Factor) / Pay Factor

The liability for each individual is the product of their service transferred times the 2 percent plan accrual rate times their current salary times their calculated CPB factor.

For Terminated Non-Vested (TNV) members the result of the calculation just described is a liability of zero. This is because these members are not reported with a salary. Their liability was set equal to the value of their transferred contributions with interest accumulated to September 30, 2006, the most recent valuation date.

The value of the assets transferred from SERS 2 to PERS 2 is the sum of the individual member savings funds with interest. The original savings fund values transferred to SERS from PERS were reported in the data from DRS along with the dates the individual transfers took place. We applied the 5.5 percent interest rate to determine the savings fund values as of the valuation date. The data file from DRS was prepared after the valuation date; therefore, some of the members had their savings funds discounted back to the valuation date.

Otherwise, costs were developed using the same methods as those disclosed in the September 30, 2006 actuarial valuation report (AVR).

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

ASSUMPTIONS

We assumed no pre-retirement terminations or disability. That is, we assumed that each member would retire at age 65, or if the member is older than age 65, we assumed they would retire immediately. The deferred annuity factors were calculated using SERS 2 mortality regardless of whether the member had previously resumed employment in PERS. This would only affect female members. Male members are assumed to have the same mortality in PERS and SERS, whereas female members in SERS are assumed to have the same mortality as female PERS members who are two years older. For example a 37 year old SERS female is expected to have the same mortality as a 35 year old PERS female.

We assumed that all members would elect to transfer their eligible service from SERS back to PERS.

Otherwise, costs were developed using the same assumptions as those disclosed in the AVR.

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

DATA

DRS provided a data file containing records for the 5,342 members who have been automatically transferred from PERS to SERS since 9/1/2000. This data file contained the months of service, the savings fund balance transferred for each member, the date the service and savings funds transferred, and some additional fields identifying the plans in both PERS and SERS the members were in and whether or not the member had prior service in PERS for an educational employer. We relied upon this data as complete and accurate. We merged this data file with the PERS and SERS 2006 valuation data to determine the current status, current salary, and total service of each employee in the data file.

Of the 5,342 records in the data file, 2,274 were excluded from this pricing for the following reasons:

- One of the members plans transferred to or from was a Plan 3.
- The member had previous service in PERS under an educational employer.
- The member did not have any current data in the PERS or SERS 2006 valuation data. This implies the member either terminated and withdrew their service, or transferred to a different system, or entered the PERS and was automatically transferred to SERS after the valuation date. In any case we did not include these members because we could not accurately value their liability or savings funds.

The following table summarizes the number of records excluded by cause. Some of the records were identified as not being eligible for more than one reason; therefore, the counts in the table total to more than the 2,274 records excluded from this pricing.

Table 1 – Summary Counts of Excluded Records by Cause of Exclusion

Reason for exclusion	Total Count Excluded by Reason	Additional Records Excluded when Reasons are Taken in Order (top to bottom)
Member of a Plan 3	413	413
Prior PERS Educational Service	1,877	1,687
No data in any system	256	183
Total	2,546	2,274

Otherwise, costs were developed using the same data and assets as those disclosed in the AVR.

FISCAL IMPACT

Description

The total liability estimated to transfer from SERS to PERS under this proposal exceeds the estimated total savings funds. Therefore there will be an additional transfer of assets from SERS to PERS to ensure contribution rates in both systems are unaffected by this proposal.

Actuarial Determinations

The total liability we expect to be transferred to PERS from SERS is $21.2 million. The total savings funds we expect to be transferred are $9.6 million. The resulting difference of $11.6 million is the amount that would need to be transferred from SERS to PERS to ensure liabilities transferred are offset. The following table summarizes these results.

Table 2 – Summary of Liabilities and Assets Expected to be Transferred

	System/Plan	
(Dollars in millions)	**PERS 2**	**SERS 2**
Liability change	$21.2	-$21.2
Savings Fund asset change	9.6	-9.6
Additional asset change	11.6	-11.6
Change in Unfunded Liability	$0.0	$0.0

The analysis of this proposal 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.

Sensitivity Analysis

Specific sensitivity tests were not performed for this pricing. The liabilities and assets calculated for this draft fiscal note are heavily dependent on the number of members transferring service from SERS back to PERS. If half of the 2,274 members elect to transfer service back to PERS, we would expect the liabilities and assets to be about half of the values displayed in Table 2.

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

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 (PVCPB): 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 PVCPB): 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.