

Salary Bonuses in TRS

Background

In the 2007 Legislative session, a program was created to pay bonuses to teachers who are certified by the National Board for Professional Teaching Standards. The bonuses are \$5,000 annually while the certificate is valid, with an additional \$5,000 annually if the teacher teaches in a high needs school.

The enabling legislation specifically excluded these payments from being included in compensation used for retirement purposes. As an outcome of the deliberations on this issue by the Select Committee on Pension Policy, the Department of Retirement Systems evaluated this pay type and concluded that absent the specific statutory exclusion, these payments would meet the definition of compensation included in retirement reporting.

Committee Activity

Presentations:

October 16, 2007 - Full Committee

November 13, 2007 - Full Committee

Proposal:

December 18, 2007 - Full Committee

Recommendation to Legislature

Allow bonuses paid to teachers certified by the National Board for Professional Teaching Standards to be included in compensation used for retirement purposes.

Staff Contact

Dave Nelsen

Senior Policy Analyst

360.786.6144

nelsen.dave@osa.leg.wa.gov

In Brief

ISSUE

Teachers are authorized to receive up to \$10,000 annually for becoming certified by the National Board for Professional Teaching Standards. This payment is excluded by statute for retirement purposes. Stakeholders have asked the committee to study this issue and recommend legislation to allow the payment to be included in retirement reporting.

MEMBER IMPACT

This would impact members of the Teachers' Retirement System. There are approximately 67,000 teachers in Washington and nearly 2 percent (1,313 as of 2006) have received NBPTS certification.

Dave Nelsen
Senior Policy Analyst
360.786.6144
nelsen.dave@leg.wa.gov

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Current Situation

2 SHB 2262 was passed in the 2007 Legislative session and established a program to award an annual bonus to teachers who become certified by the National Board for Professional Teaching Standards (NBPTS). A teacher can receive a \$5,000 bonus each year they hold a valid NBPTS certificate, and an additional \$5,000 is awarded annually if they teach in a school where 70 percent of the students qualify for the free and reduced-price lunch program. The initial \$5,000 award is increased each year by inflation, and the certification lasts ten years. After that time, the certificate can be kept current by meeting annual requirements for continuing education. Both awards are excluded from the definition of earnable compensation for Teachers Retirement System (TRS) members.

History

Per their website, the NBPTS was founded in 1987 as a non-partisan, non-profit organization. There are 63 members on the board of directors, most of them classroom teachers. Their mission is:

- To maintain high and vigorous standards for what teachers should know and can do.
- To provide a national voluntary system to assess and certify teachers who meet these standards.
- To advocate related educational reforms to integrate National Board Certification in American education and to capitalize on the expertise of National Board Certified Teachers.

Since the 2001/2002 biennial budget, each biennial budget bill has contained authorization and funding for awarding bonuses to teachers who are certified by the NBPTS. This bonus was \$3,500 for each year of the biennium the teacher maintained an active certificate. There was no additional award for teaching in high-need schools. Each budget bill also excluded this bonus from qualifying for retirement reporting. The program was expanded and codified in the 2007 Legislative session.

Information from the Office for the Superintendent of Public Instruction shows that since the inception of the program through 2006, 1,313 Washington teachers have achieved this national certification. This is nearly 2 percent of the total number of teachers in Washington schools. The number of teachers certified annually has increased each year since 2001, to 409 teachers certified in 2006. There are currently 1,377 candidates applying for certification in 2007, the most teachers that have ever applied in a year.

Example

Inclusion of this annual award in the earnable compensation rules for teachers will increase retirement benefits accordingly. For example:

Allowing these payments to be reportable will increase the value of retirement benefits.

A TRS Plan 3 teacher retires at age 65 with 30 years of service and a final salary average of \$50,000 per year.

- Their defined benefit without including the annual bonus would be **\$15,000** per year.
- Their defined benefit with the \$5,000 annual bonus included would be **\$16,500** per year.
- Their benefit with the additional \$5,000 award included would be **\$18,000** per year.

Including this bonus could create an increased pension obligation if the certification occurs later in a member's career. If this certification occurs early or throughout members' careers, the long term earnings on the additional contributions collected will somewhat offset the increased pension obligation.

Policy Analysis

In general, a payment qualifies as earnable compensation in TRS if it is paid by a TRS employer to a member as salary or wages for services provided. Other types of compensation to teachers, including some bonuses, are earnable compensation if they meet this standard. For example, bonuses for meeting performance goals or teaching in an overcrowded classroom are included in retirement reporting because they are paid for the work the teacher provides to the school. A bonus provided to a

Payments are generally reported for retirement if they are payments for services rendered over time.

teacher if they agree to retire is not reportable, since it is not based upon work performed.

There are some exceptions to this general rule. For example, a cash out of sick leave accrued is paid for the work of the teacher (they earned the sick leave by working for the employer), but it is specifically excluded from retirement reporting. Conversely, paid administrative leave is not accrued or earned for work provided, but it is reportable in some circumstances.

It is not certain this payment would be reportable if the statutory exclusion were removed.

The bonus provided for NBPTS certification has never been evaluated by the Department of Retirement Systems (DRS) as to whether it would be reportable if the specific statutory exclusion did not exist. Under this program, teachers are being paid additional salary for obtaining the skills and knowledge necessary to meet rigorous certification standards. This is similar in some ways to additional pay for obtaining advanced degrees, which is generally reportable. It is assumed that by obtaining this knowledge, the teacher would provide a higher level of work to the employer.

Allowing additional payments to be included in the retirement system can cause pension ballooning concerns. This occurs when significant additional payments are made only during an employee's final years. The long-term cost of the benefit is raised, but doesn't allow the system the benefit of investment earnings on the contributions throughout the member's career. The Legislature has put some safeguards in place to prevent pension ballooning, such as longer average final salary periods and provisions requiring employers to pay the cost to the retirement systems of excessive payments, called excess compensation provisions.

While this particular payment can significantly increase a retiree's pension amount, as demonstrated in the earlier example, this payment is provided annually throughout a member's career, as long as they hold a valid certificate. As mentioned previously, the initial certification lasts ten years and can be renewed thereafter. According to national data, 71 percent of teachers who have obtained this certification have less than 20 years experience teaching. If the certification occurs early enough in a member's career, the increased cost to the pension system will be balanced somewhat by the value of the additional

contributions collected and the associated long-term investment earnings. However, obtaining this certification only in the final years may raise concerns.

What policy is advanced by including these payments?

One question to consider is what would be the policy advantage of including this payment? Would this enhance teacher recruitment or retention? Would this encourage more teachers to become certified, thereby increasing the quality of K-12 instruction in the state? The enabling legislation for this program provided the following: "Teachers who attain national board certification should be acknowledged and rewarded in order to encourage more teachers to pursue certification for the benefit of Washington students." Does including this payment in the retirement systems help promote that policy?

Other States

Most other comparative states count bonuses for retirement purposes if they are for services rendered.

The practices of comparative states regarding earnable compensation are similar to Washington. In general, most systems include payments in their retirement systems if they are provided for services rendered. California, Ohio, and Wisconsin all generally include bonuses for services rendered, but did not specify whether NBPTS certification bonuses are for services rendered. Oregon, Idaho, and Florida all responded that these types of bonus payments are included in their systems for retirement purposes. In Florida, bonus payments are typically not creditable, but their legislature has specifically allowed NBPTS certification payments to be creditable since 2002. Ohio and Wisconsin disallow payments if their board determines them to be solely for the purposes of increasing a retirement benefit.

The amount of the payment and who authorizes it varies somewhat amongst the states that provided specific information about NBPTS bonuses. In Florida, Oregon, and California, it is a district choice to pay these bonuses and to determine what amount to pay. In Idaho, \$2,000 per year is provided for five years after certification. Colorado responded that no district had applied to their board to determine if this type of payment was reportable or not. Missouri reported that bonuses, awards, or retirement incentives in general are not reportable in their system, but were unaware if school districts in their state paid additional compensation based upon NBPTS certification.

Conclusion

While DRS has not had to make a determination of whether this payment would be reportable to the retirement systems without the exclusion, the nature of the payment appears similar to other allowable payments in TRS. Allowing this award to be reported would increase retirement benefits, but preliminary analysis of past data indicates it may not raise significant concerns about pension ballooning in the TRS Plan 2/3 systems. The primary deliberation is this; what policy initiative or benefit to the state would be advanced by this action?

Possible Options

Continue current policy of excluding the payment:

- Would not add additional costs to the system.
- Would allow more time to assess the impacts of codification and the significant expansion of the program in 2007.
- Would allow DRS to ascertain whether this would be reportable without the current specific statutory restriction.

Change current policy to include payment:

- Would be consistent with comparative states.
- May encourage more teachers to become nationally certified.
- To limit the financial impact, the committee could recommend;
 - Allowing only some portion of the payment to be includable.
 - Allowing this only for TRS Plan 2/3.
 - Allowing the salary increase to only apply to service earned prospectively.

**STAKEHOLDER
INPUT**

*Correspondence from
Wendy Rader-Konofalski,
Washington Education
Association, is attached.*

Next Steps

The executive committee will provide further direction, including options for pricing.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0763.1/08

ATTY/TYPIST: LL:cro

BRIEF DESCRIPTION: Including salary bonuses for individuals certified by the national board for professional teaching standards as earnable compensation.

1 AN ACT Relating to salary bonuses for individuals certified by the
2 national board for professional teaching standards; amending RCW
3 28A.405.415; and reenacting and amending RCW 41.32.010.

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

5 **Sec. 1.** RCW 41.32.010 and 2007 c 398 s 3 and 2007 c 50 s 1 are
6 each reenacted and amended to read as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

35 (A) Retroactive payments to an individual by an employer on
36 reinstatement of the employee in a position, or payments by an employer
37 to an individual in lieu of reinstatement in a position which are
38 awarded or granted as the equivalent of the salary or wages which the

1 individual would have earned during a payroll period shall be
2 considered earnable compensation and the individual shall receive the
3 equivalent service credit.

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

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

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

34 (A) Remuneration for unused sick leave authorized under RCW
35 41.04.340, 28A.400.210, or 28A.310.490;

36 (B) Remuneration for unused annual leave in excess of thirty days
37 as authorized by RCW 43.01.044 and 43.01.041(†

1 ~~(C) Bonuses for certification from the national board for~~
2 ~~professional teaching standards authorized under RCW 28A.405.415)).~~

3 (b) "Earnable compensation" for plan 2 and plan 3 members, means
4 salaries or wages earned by a member during a payroll period for
5 personal services, including overtime payments, and shall include wages
6 and salaries deferred under provisions established pursuant to sections
7 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
8 shall exclude lump sum payments for deferred annual sick leave, unused
9 accumulated vacation, unused accumulated annual leave, (~~bonuses for~~
10 ~~certification from the national board for professional teaching~~
11 ~~standards authorized under RCW 28A.405.415,)) or any form of severance
12 pay.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32 (36) "Substitute teacher" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 **Sec. 2.** RCW 28A.405.415 and 2007 c 398 s 2 are each amended to
21 read as follows:

22 (1) Certificated instructional staff who have attained
23 certification from the national board for professional teaching
24 standards shall receive a bonus each year in which they maintain the
25 certification. The bonus shall be calculated as follows: The annual
26 bonus shall be five thousand dollars in the 2007-08 school year.
27 Thereafter, the annual bonus shall increase by inflation.

28 (2) Certificated instructional staff who have attained
29 certification from the national board for professional teaching
30 standards shall be eligible for bonuses in addition to that provided by
31 subsection (1) of this section if the individual is in an instructional
32 assignment in a school in which at least seventy percent of the
33 students qualify for the free and reduced-price lunch program.

34 (3) The amount of the additional bonus under subsection (2) of this
35 section for those meeting the qualifications of subsection (2) of this
36 section is five thousand dollars.

1 (4) The bonuses provided under this section are in addition to
2 compensation received under a district's salary schedule adopted in
3 accordance with RCW 28A.405.200 and shall not be included in
4 calculations of a district's average salary and associated salary
5 limitations under RCW 28A.400.200.

6 (5) The bonuses provided under this section shall be paid in a lump
7 sum amount (~~(and shall not be included in the definition of "earnable~~
8 ~~compensation" under RCW 41.32.010(10))~~).

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	12/6/07	Z-0763.1

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

Teachers who become certified by the National Board for Professional Teaching Standards (the Board) receive an annual bonus. This proposal would make that bonus includable in salary for pension calculations and subject to collection of contribution rates.

Increase in Actuarial Liabilities			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$17,638	\$82	\$17,720
Unfunded Actuarial Accrued Liability	1,976	6	1,982
Unfunded Liability (PVC PB)	\$1,232	\$35	\$1,267

Total Increase in Contribution Rates	
Current Biennium	TRS
Employee (Plan 2)	0.14%
Employer	0.15%

Fiscal Costs			
<i>(Dollars in Millions)</i>	2008-2009	2009-2011	25-Year
General Fund-State	\$4.1	\$8.4	\$99.9
Total Employer	\$6.0	\$12.4	\$148.0

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

SUMMARY OF PROPOSAL

This proposal impacts the Teachers' Retirement System (TRS) Plans 1, 2, and 3 by:

Amending RCW 41.32.010 to remove from the definition of earnable compensation the statutory exclusion of bonuses paid to teachers certified by the National Board for Professional Teaching Standards.

Assumed Effective Date: 90 days after session

CURRENT SITUATION

All teachers who obtain certification by the National Board for Professional Teaching Standards are entitled to:

- A lump sum annual payment of \$5,000 for the 2007-2008 school year, which shall be annually increased by inflation,
- an additional \$5,000 annual payment if they teach in a school where 70 percent of the students qualify for the free or reduced lunch program.

These payments are statutorily excluded from the definition of earnable compensation for retirement purposes. To be eligible to apply for the National certificate, teachers must have at least three years of teaching experience. Once certified, the certificate is valid for ten years. Teachers must apply for the recertification program and receive recertification prior to the expiration of the certificate. If the certificate expires prior to recertification, the teacher must go through the certification program again.

SUMMARY OF MEMBERS IMPACTED

We estimate that all 67,736 current active and all future members of TRS could be affected by this proposal through improved benefits. There are currently 1,313 teachers certified by the Board. Of those, 409 were approved who applied in 2006 (the most approvals in any single year to date). An additional 1,377 teachers have applied for certification in 2007 (the most applied in a single year to date).

We estimate that for a typical member impacted by this proposal, the increase in benefits would be the inclusion of the bonus in their Average Final Compensation (AFC). This would result in higher pension benefits for teachers certified by the Board. Certified teachers and their employers would have to pay contributions on the bonus.

Additionally, the 6,983 current active and all future Plan 2 members of TRS would be affected by this proposal through increased contribution rates.

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

PURPOSE

The purpose of this pricing proposal is to increase the salaries of teachers who have been certified by the Board and determine what effects those increases may have on TRS. The increase in salaries would result in an increase in liabilities since the majority of TRS benefits are based on the members' AFC. The increase in salary would also increase the Present Value of Future Salaries (PVFS) for TRS. In general, increases in liability increase contribution rates and increases in PVFS decrease contribution rates.

Under this proposal, the increase in contribution rates attributable to increases in liability would be partially offset by the decrease in contribution rates attributable to increases in PVFS. The increase in contribution rates would be completely offset if the salary increases only occurred at the beginning of a teacher's career. Since this bonus is potentially included in all teachers' salaries (any teacher could apply for this certification as long as they have been teaching three years), regardless of how long they have been teaching, this proposal would result in an increase in contribution rates.

The valuation data does not contain any information regarding teachers who are certified. We were not provided any data identifying exactly which teachers are currently certified. We were provided information regarding certification counts and historical approval rates for teachers who apply to be certified. Since we cannot identify specific teachers as being certified we have developed an average increase in salary per member and applied this increase to all teachers. We have modeled the increase in certified teachers as a percent of all teachers into the future as well as the growth of the bonus with inflation.

METHODS

We replaced every TRS member's current salary in our valuation data with the average assumed increase in salary resulting from the inclusion of the bonus in pensionable earnings. In the base valuation (before the proposed change) we apply the assumed 4.5 percent general salary assumption and TRS merit scale assumption (a service based salary growth assumption) to the current salary. The bonus for being certified by the Board is indexed to inflation, but we have not assumed a service based growth assumption. Instead, we have assumed growth in the number of certified teachers as a percent of all teachers using a select and ultimate growth model as described in the Assumptions section below.

Another modification we made from our base valuation was the method used to allocate salaries in the first year of the valuation. In the base valuation we use the previous year's salary for a given member to project the salaries in the first valuation year. This assumes we have a historical salary and do not know the exact salary for members after the valuation date. Since the bonus for being certified is known for the first valuation year (\$5,000 or \$10,000) we have ensured that the salary in the first year matches the assumed average bonus per member. Since, in the pricing valuation, each person has the same

salary and expected growth in salary, we were able to isolate the impact on both the liabilities and present value of future salaries of this proposal.

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.

Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Rate increases calculated under the aggregate actuarial cost method are used to determine the increase in funding expenditures for current plan members.

ASSUMPTIONS

The factor driving the cost of this pricing exercise is the average salary applied to each member. We had to make assumptions to answer the following questions:

1. Which teachers are likely to apply for certification?
2. How many of the 1,377 teachers who applied for certification in 2007 would actually be granted certifications at the end of 2007?
3. Would the number of certified teachers grow as a percent of all teachers in the future?
4. If the answer to question 3 is yes, in what way would this growth occur? How long would we expect this growth to continue?
5. The bonus is indexed to inflation. Which measurement of inflation will be used?
6. What percent of certified teachers will qualify for the additional bonus (total bonus of \$10,000 per year)?

The following assumptions were used to develop the average salary per member:

1. Which teachers are likely to apply for certification? We know that teachers must have three years of teaching experience to apply for certification. We also have a distribution of currently certified teachers by years of service as of December of 2006 (please see Table 2 in the Data section). New certifications will be announced in December of 2007. As Table 3 shows, teachers who have been certified have evenly distributed service levels; therefore, we have assumed that

any teacher, regardless of plan, age, or years of service would potentially apply for certification.

2. How many of the 1,377 teachers who applied for certification in 2007 would actually be granted certifications at the end of 2007? The Office of the Superintendent of Public Instruction (OSPI) provided us with the historical rate of approval for teachers applying for certification. OSPI indicated that approximately 60 percent of teachers who apply for certification in a given year receive certification in that year. We assumed that 60 percent of the 1,377 teachers who applied in 2007 will receive certification in December of 2007. That is, we assumed 826 ($1377 \times 60\% = 826.2$) new certifications would be granted in 2007 to bring the total number of certified TRS members to 2,139 ($1,313 + 826 = 2,139$). That is a growth rate of 62.9 percent in 2007.
3. Would the number of certified teachers grow as a percent of all teachers in the future? We believe the number of teachers who are certified by the Board will increase as a percent of all teachers. We have reached this conclusion for several reasons. First, the value of the certification in terms of guaranteed salary has drastically increased with the passage of SHB 2262 during the 2007 Legislative Session. This bill set the bonus level at \$5,000 for the life of the certificate (ten years) and provided for the additional \$5,000 for teachers employed in schools with more than 70 percent of the students in the Free or Reduced Lunch Program (referred to in the remainder of this draft fiscal note as the additional bonus). Previously the bonus was \$3,500 a year for the current biennium without any guarantee of future bonuses. Therefore, the initial cost of applying for the certificate – \$2,500 on average – was only going to pay up to \$7,000. After the passage of SHB 2262, the \$2,500 initial outlay would pay between \$50,000 and \$100,000, guaranteed, prior to the renewal date of the certificate. This proposal would further increase the value of the bonus by including it in the definition of earnable compensation, thereby increasing the value of a certified teacher's pension benefit.

The following information was provided by OSPI and further support our assumption that the percent of certified teachers will increase: school districts are offering more scholarships and mentoring programs to help teachers become certified, the bonus will increase annually with inflation, continuing education requirements for the certificate issued by the Board satisfy the requirements for continuing education of a teacher's normal teaching certificate, and being certified by the Board is recognized by Master's programs; that is, a teacher certified by the Board can receive credit hours towards their Master's Degree at some institutions. Finally, we expect the number of certified teachers to increase because Master's Programs in certain institutions (University of Washington) are incorporating this certification into the curriculum of their programs. Teachers participating in these programs could receive their Master's Degree and their Board certification while enrolled in a participating institution.

4. If the answer to question 3 is yes, in what way would this growth occur? How long would we expect this growth to continue? As indicated above, we believe the answer to question 3 is yes. The salary scale for teachers in 2006 shows a difference in salaries of approximately \$7,000 between teachers who have a Master's Degree and teachers who have a Bachelor's Degree. This represents the permanent base salary increase for earning a Master's Degree in the teaching profession. The base salary increase for becoming certified is either \$5,000 or \$10,000 guaranteed for ten years prior to renewal. In general, the cost and investment of time in earning a Master's Degree is greater than becoming certified by the Board, but the increase in base salary for earning a Master's Degree is also greater than becoming certified by the Board. Therefore, we believe the percent of teachers who are certified by the Board will grow to approximately the same level as the percent of teachers who earn their Master's Degree after they have been teaching for a few years. We believe 20-25 percent of teachers get their Master's Degree after they begin their teaching careers. We requested data from OSPI regarding this percentage, but had not received any by the date of this draft fiscal note. We have assumed a long-term expected certification ratio of 25 percent for this pricing exercise. Assuming a lower percent would result in a lower cost.

We believe it will take 10 to 15 years for the percent of teachers certified to increase to 25 percent of all teachers. In actuarial terms, the growth period is referred to as the select period. After the select period we expect the percent of certified teachers to remain constant. This period of no growth is referred to as the ultimate period. For this pricing we have assumed a 15 year select period beginning in 2007. A shorter select period would result in a larger cost. The annual growth rate during the select period that results in the desired 25 percent target in 2021 is 15.82 percent per year. The annual growth rate during the ultimate period that results in a constant rate of 25 percent of teachers being certified is 0.90 percent. We set this ultimate growth rate equal to the annual system growth rate of TRS. The assumed annual growth rates are summarized in Table 1 below.

5. The bonus is indexed to inflation. Which measurement of inflation will be used? The definition of how the certification bonus will grow by inflation is not specified in statute. Furthermore, the statute is not clear about whether or not the additional bonus will be indexed with inflation. We assumed that both the base bonus amount of \$5,000 and the additional bonus amount of \$5,000 would be indexed by 3.5 percent annual inflation. This assumption is consistent with the assumed rate of annual inflation in the 2006 AVR. The assumed annual growth rates with inflation are summarized in Table 1 below.
6. What percent of certified teachers will qualify for the additional bonus (total bonus of \$10,000 per year)? The OSPI provided us with the fact that 6 percent of the 1,313 certified teachers as of December 2006 qualify for the additional bonus. This percentage represents the historical ratio of teachers who become qualified

for the additional bonus when the additional bonus did not exist. That is, the 6 percent of teachers who are certified by the Board and who teach in schools where more than 70 percent of the students are enrolled in the Free or Reduced Lunch Program (the Program) did not have any additional incentive to become certified than teachers who taught in schools with fewer than 70 percent of the students in the Program. Because of SHB 2262, there is additional incentive for these teachers to become certified at a higher rate than historically observed. We assumed that 10 percent of all teachers in the future would be employed by schools with more than 70 percent of the students in the Program and be eligible for the additional bonus.

Table 1 – Assumed Select and Ultimate Annual Growth Rates		
	Rates without Inflation	Rates with Inflation*
Growth during Select Period (15 years)**	15.82%	19.88%
Growth during Ultimate Period**	0.90%	4.43%

**3.5 percent annual inflation has been included in the growth rates. We assumed the growth rates would have a multiplicative relationship with inflation. That is, Growth during select and ultimate period with inflation equals growth without inflation times 1.035.*

***From question 4 above*

The average annual salary was computed using the following assumptions:

- (1) = 2,139 currently certified teachers in 2006.
- (2) = 67,736 active members in TRS in 2006.
- (3) = \$5,000 bonus amount.
- (4) = 1.1 – factor representing 90 percent of teachers receiving the base bonus plus 10 percent receiving both base and additional bonus (2 times bonus; $0.9 + 2*0.1 = 1.1$).

The average initial annual salary was assumed to be \$173.70 for each active TRS member. This amount was calculated as follows:

$$(1) * (3) * (4) / (2) = \$173.70$$

We have assumed that once a teacher becomes certified by the Board they remain certified for the remainder of their career. We feel this is reasonable because the renewal process is much simpler than the initial certification process.

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

We do not have any data identifying which teachers are currently certified by the Board. Most of the data used to set assumptions in this draft fiscal note were found on the OSPI website (<http://www.k12.wa.us/certification/nbpts/default.aspx>) or were provided to us by OSPI staff. We were unable to verify any of the information we received from OSPI via independent sources and have subsequently relied on this information as accurate. We have requested more information regarding the breakdown of certified teachers by plan. We have also requested information regarding the number of teachers who pursue a Master's Degree after they begin their teaching careers.

We are aware that only teachers and counselors are eligible to be certified by the Board. OSPI has suggested that there are approximately 63,000 teachers and counselors in TRS as of the end of the 2006 school year. Administrators and other TRS members are not eligible to be certified by the Board. Our 2006 valuation data contains 67,736 active members. We have calculated the amount of the average annual salary increase due to the bonus based on total active TRS membership. To be consistent with this calculation we have applied the calculated average annual salary to all active TRS members. This is potentially overstating the average annual salary increase, but we do not have any way to identify administrators in our active valuation data.

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

The following information was provided by OSPI:

Years of Service**	Percent of Certified Teachers
3-10	30%
11-15	23%
15-20	19%
More than 20	27%

**The Board began certifying teachers in 1989. There are 1,313 teachers certified in TRS. Of these 409 (over 31 percent) were certified in 2006.*

***The average years of service for the 1,313 certified teachers is 16.*

FISCAL IMPACT

Description

The inclusion of the annual bonus paid to teachers who are or become certified by the Board in the definition of earnable compensation results in an actuarial cost to TRS because the contributions collected on the additional salary will not be sufficient to fund the additional pension benefits entirely. This is because the average certified teacher has 16 years of service and does not have their entire career to pay contributions on the certification bonus (nor does their employer).

Actuarial Determinations

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

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown below that will be applied in the current biennium. However, the un-rounded rate increase will be used to determine the fiscal costs in subsequent biennia.

<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
<i>(The Value of the Total Commitment to all Current Members)</i>			
TRS 1	\$10,834	\$9	\$10,843
TRS 2/3	<u>6,804</u>	<u>73</u>	<u>6,877</u>
TRS Total	\$17,638	\$82	\$17,720
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>			
TRS 1	\$1,976	\$6	\$1,982
Unfunded Liability (PVCPB)			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
TRS 1	\$2,348	\$8	\$2,356
TRS 2/3	<u>(1,116)</u>	<u>27</u>	<u>(1,089)</u>
TRS Total	\$1,232	\$35	\$1,267

Note: Totals may not agree due to rounding.

Increase in Contribution Rates:	
<i>(Effective 9/1/2008)</i>	
System/Plan	TRS
Current Members	
Employee (Plan 2)	0.141%
Employer	0.155%
New Entrants*	
Employee (Plan 2)	0.055%
Employer	0.055%

**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

Fiscal Costs	
<i>(Dollars in Millions)</i>	TRS
2008-2009	
General Fund	\$4.1
Non-General Fund	<u>0.0</u>
Total State	4.1
Local Government	<u>2.0</u>
Total Employer	6.0
Total Employee	\$0.8
2009-2011	
General Fund	\$8.4
Non-General Fund	<u>0.0</u>
Total State	8.4
Local Government	<u>4.0</u>
Total Employer	12.4
Total Employee	\$1.4
2008-2033	
General Fund	\$99.9
Non-General Fund	<u>0.0</u>
Total State	99.9
Local Government	<u>48.1</u>
Total Employer	148.0
Total Employee	\$25.2

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

The liability increases, contribution rate increases and corresponding fiscal costs are sensitive to the average annual salary we applied to each TRS member and to the growth rate of certified teachers.

We tested the effects of changes in the various assumptions used to develop the average annual salary associated with this proposal. We varied the percent of teachers eligible for the additional bonus and the assumed percent of teachers who applied in 2007 (1,377) that will be certified in December of 2007. The following table summarizes the assumptions for each test and the resulting liability increase and total employer rate increase. If an assumption was left the same as disclosed previously in the fiscal note, then that assumption is listed as “Base” in the table below.

Percent Eligible for Additional Bonus	Select Growth Rate	2007 Approval Rate	Assumed Average Annual Salary	Liability Increase – All Plans (\$ in millions)	Total Employer Rate Increase
Base	Base	Base	\$173.70	\$82	0.16%
0%	Base	50%	\$147.74	\$70	0.13%
25%	Base	70%	\$210.09	\$99	0.19%

In addition, we performed sensitivity analysis on the growth rate of certified teachers. We looked at two key assumptions used to determine this growth rate. The first assumption is the length of the select period. The select period determines how fast we get to the long term expected certification ratio. The second assumption is the long term expected certification ratio. This ratio reflects the number of teachers certified as a percent of all teachers in TRS. The table below shows the sensitivity of the assumption changes in relation to the Base assumptions used in pricing this fiscal note.

Select Period	Select Growth Rate with Inflation	Ultimate Growth Rate with Inflation	Long Term Expected Certification Ratio	Liability Increase - All Plans (\$ in millions)	Total Employer Contribution Rate Increase
15 *	19.88% *	4.43% *	25% *	\$82	0.15%
10	28.43%	Base	Base	\$99	0.18%
20	15.81%	Base	Base	\$70	0.13%
Base	18.11%	Base	20%	\$69	0.13%
Base	21.34%	Base	30%	\$95	0.18%

**Base Assumptions used to price this fiscal note.*

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.

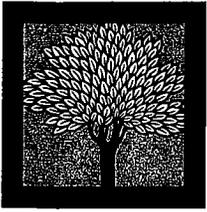
Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Present Value of Credited Projected Benefits (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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Armand L. Tiberio, Executive Director
Miebeth Bustillo-Booth, Director of Public Policy

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Office of
The State Actuary

724 Columbia St. N.W., #220
Olympia, WA 98501

telephone: 360-943-3150
fax: 360-352-3986

www.washingtonea.org

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,



Wendy Rader-Konofalski
WEA Lobbyist
(360) 943-3150 X7152
(206) 300-1682 (cell)