Plan 3 Vesting

Background

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their plan after ten years of service or after five years of service if 12 months of that service is earned after attaining age 44. Plan 3 members are immediately vested in the defined contribution portion of their plan.

This issue was addressed legislatively in the 2006 Legislative session, where SHB 2684 reduced the five-year age and service qualifier from at least 12 months of service after age 54 to 12 months of service after age 44. In 2007, HB 1941 was introduced but did not receive a hearing. This bill would have standardized the vesting period for the Plans 3 at five years of service.

Committee Activity

Presentation:
- October 16, 2007 - Executive Committee

Proposal:
- November 13, 2007 - Full Committee

Recommendation to Legislature

Create parity with the Plan 1 and Plan 2 systems by changing the vesting requirements in the Teachers' Retirement System, the Public Employees' Retirement System, and the School Employees' Retirement System Plans 3 to five years.

Staff Contact

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0767.1/08

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Providing for vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3.

AN ACT Relating to vesting after five years of service in the defined benefit portion of the public employees' retirement system, the school employees' retirement system, and the teachers' retirement system plan 3; and amending RCW 41.32.875, 41.35.680, and 41.40.820.

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

Sec. 1. RCW 41.32.875 and 2007 c 491 s 4 are each amended to read as follows:

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

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

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

~~(c)~~)) or completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817((~~;~~)), shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member

retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT.

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

(b) On or after September 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced as follows:

Retirement Age	Percent Reduction
55	20%
56	17%
57	14%
58	11%
59	8%
60	5%
61	2%
62	0%
63	0%
64	0%

Any member who retires under the provisions of this subsection is ineligible for the postretirement employment provisions of RCW 41.32.862(2) until the retired member has reached sixty-five years of age. For purposes of this subsection, employment with an employer also includes any personal service contract, service by an employer as a temporary or project employee, or any other similar compensated relationship with any employer included under the provisions of RCW 41.32.860(1).

The subsidized reductions for alternate early retirement in this subsection as set forth in section 4, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection is noncontractual, and the legislature reserves the right to amend or repeal this subsection. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection, and upon receipt of the first installment of a retirement allowance computed under this subsection, the resulting benefit becomes contractual for the recipient. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then retirement benefits for any member who has completed at least thirty service credit years and has attained age fifty-five but has not yet received the first installment of a retirement allowance under this subsection shall be computed using the reductions in (a) of this subsection.

Sec. 2. RCW 41.35.680 and 2007 c 491 s 8 are each amended to read as follows:

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

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

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

~~(c)~~)) or completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510((~~:~~)), shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) EARLY RETIREMENT. Any member who has attained at least age

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

(3) ALTERNATE EARLY RETIREMENT.

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

(b) On or after September 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced as follows:

Retirement Age	Percent Reduction
55	20%
56	17%
57	14%
58	11%
59	8%
60	5%
61	2%
62	0%
63	0%
64	0%

Any member who retires under the provisions of this subsection is ineligible for the postretirement employment provisions of RCW 41.35.060(2) until the retired member has reached sixty-five years of age. For purposes of this subsection, employment with an employer also includes any personal service contract, service by an employer as a temporary or project employee, or any other similar compensated relationship with any employer included under the provisions of RCW 41.35.230(1).

The subsidized reductions for alternate early retirement in this subsection as set forth in section 8, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection is noncontractual, and the legislature reserves the right to amend or repeal this subsection. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection, and upon receipt of the first installment of a retirement allowance computed under this subsection, the resulting benefit becomes contractual for the recipient. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then retirement benefits for any member who has completed at least thirty service credit years and has attained age fifty-five but has not yet received the first installment of a retirement allowance under this subsection shall be computed using the reductions in (a) of this subsection.

Sec. 3. RCW 41.40.820 and 2007 c 491 s 10 are each amended to read as follows:

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

~~(a)~~)) completed ((~~ten~~)) five service credit years((~~; or~~

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

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

41.40.795((~~;~~)), shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

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

(3) ALTERNATE EARLY RETIREMENT.

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

(b) On or after July 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced as follows:

Retirement Age	Percent Reduction
55	20%
56	17%
57	14%
58	11%
59	8%
60	5%
61	2%
62	0%

63	**0%**
64	**0%**

Any member who retires under the provisions of this subsection is ineligible for the postretirement employment provisions of RCW 41.40.037(2)(d) until the retired member has reached sixty-five years of age. For purposes of this subsection, employment with an employer also includes any personal service contract, service by an employer as a temporary or project employee, or any other similar compensated relationship with any employer included under the provisions of RCW 41.40.850(1).

The subsidized reductions for alternate early retirement in this subsection as set forth in section 10, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection is noncontractual, and the legislature reserves the right to amend or repeal this subsection. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection, and upon receipt of the first installment of a retirement allowance computed under this subsection, the resulting benefit becomes contractual for the recipient. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then retirement benefits for any member who has completed at least thirty service credit years and has attained age fifty-five but has not yet received the first installment of a retirement allowance under this subsection shall be computed using the reductions in (a) of this subsection.

Multiple Agency Fiscal Note Summary

Bill Number: 1941 HB	Title: Vesting after five years

Estimated Cash Receipts

Agency Name	2007-09		2009-11		2011-13	
	GF- State	Total	GF- State	Total	GF- State	Total
Total $						

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	1,300,000	1,300,000	.0	1,900,000	2,200,000	.0	2,300,000	2,700,000
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Total	0.0	$1,300,000	$1,300,000	0.0	$1,900,000	$2,200,000	0.0	$2,300,000	$2,700,000

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

Prepared by: Jane Sakson, OFM	Phone: 360-902-0549	Date Published: Final 2/12/2007

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID: 15915

Individual State Agency Fiscal Note

Bill Number: 1941 HB	Title: Vesting after five years	Agency: 035-Office of State Actuary

Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
Fund					
All Other Funds-State 000-1	0	0	0	300,000	400,000
General Fund-State 001-1	600,000	700,000	1,300,000	1,900,000	2,300,000
Total $	600,000	700,000	1,300,000	2,200,000	2,700,000

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[X] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 02/09/2007
Agency Preparation: Darren Painter	Phone: 360-786-6155	Date: 02/09/2007
Agency Approval: Matthew M. Smith	Phone: 360-786-6140	Date: 02/09/2007
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/09/2007

Request # -1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. BILL NUMBER:
Office of the State Actuary	**035**	**2/9/07**	**HB 1941**

INTENDED USE

This actuarial fiscal note was prepared by the Office of the State Actuary in accordance with RCW 44.44.040(4) and is intended to support the legislative process during the 2007 Legislative Session only.

Any third party recipient of this 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 options and analysis presented in this fiscal note should be read as a whole. Distributing or relying on only portions of this fiscal note could result in misuse and may be misleading to others.

SUMMARY OF BILL

This bill impacts the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS) Plans 3 by changing the vesting period for the defined benefit portion of these plans to five years of service.

Effective Date: 90 days after session

CURRENT SITUATION

New Plan 3 members of PERS, TRS, and SERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 44. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of June 1, 2003, July 1, 1996, and September 1, 2000, for PERS, TRS, and SERS respectively.

SUMMARY OF MEMBERS IMPACTED

The members impacted are the non-vested Plan 3 members with hire ages below age 40 and less than 10 years of service. This bill impacts 8,947 out of 21,216 active members in PERS 3, an additional 22,537 out of 51,473 active members in TRS 3, and 9,174 out of 30,963 active members in SERS 3; for a total of 40,658 out of 103,652 active Plan 3 members.

We estimate that for a typical member impacted by this bill, the increase in benefits would be a deferred retirement benefit at age 65 if the member terminates with more than five, but less than ten, years of service and is not vested by virtue of the 12 months of service after age 44.

Additionally, all 7,205 active members in TRS 2, and all 19,387 active members in SERS 2 would be affected by this bill through increased contribution rates.

METHODS

We calculated the liability for this bill by first determining the liability for vesting under current plan provisions, then determining the liability for lowering vesting eligibility to five years of service for all Plan 3 members, and finally, taking the difference in the two as the liability for this bill. We considered, but did not include any increase in liabilities for terminated non-vested members who might become re-employed in the future.

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

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

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

We assumed that members hired after age 40 would not be impacted because they would have at least five years of service by age 45 and would be vested by age 45 under current law. We assumed that this bill would not affect termination rates because our study of terminations over time show that there is no jump in terminations around year ten. If a significant number of members were choosing to defer termination until they had earned ten years of service, we would expect to see an increase in the termination rates in years ten and eleven. However, our experience shows that termination rates decrease almost linearly from year five past year ten.

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 fiscal note. Use of another set of assumptions may also be reasonable and might produce different results.

DATA

Costs were developed using the same data and assets as those disclosed in the AVR.

FISCAL IMPACT

Description

This bill increases the liabilities in PERS 2/3, TRS 2/3, and SERS 2/3 by granting a benefit to a select group of people who currently do not qualify.

Actuarial Determinations

The bill 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:

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 2/3	$16,997	$4	$17,001
(The Value of the Total Commitment to all Current Members)	TRS 2/3	$6,297	$7	$6,304
	SERS 2/3	$2,473	$3	$2,476
Unfunded Actuarial Accrued Liability	PERS 1	$3,567	$0	$3,567
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	$2,147	$0	$2,147
Unfunded Liability (PBO)	PERS 2/3	($2,611)	$1	($2,610)
(The Value of the Total Commitment to all Current Members	TRS 2/3	($1,131)	$4	($1,127)
Attributable to Past Service)	SERS 2/3	($315)	$1	($314)

Increase in Contribution Rates:
(Effective 09/01/2007 unless indicated otherwise)

	PERS	TRS	SERS
Current Members			
Employee (Plan 2)	0.00%	0.02%	0.02%
Employer/State (Plan 1 UAAL)	0.00%	0.00%	0.00%
Employer/State (Plan 2/3 normal cost)	0.00%	0.02%	0.02%
New Entrants*			
Employee (Plan 2)	0.02%	n/a	n/a
Employer/State (Plan 1 UAAL)	0.00%	0.00%	0.00%
Employer/State (Plan 2/3 normal cost)	0.02%	0.03%	0.02%

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

Fiscal Budget Determinations:

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

Costs (in Millions):	**PERS**	**TRS**	**SERS**	**Total**
2007-2009				
General Fund	$0.0	$1.1	$0.2	$1.3
Non-General Fund	0.0	0.0	0.0	0.0
Total State	0.0	1.1	0.2	1.3
Local Government	0.0	0.7	0.4	1.1
Total Employer	0.0	1.8	0.6	2.4
Total Employee	$0.0	$0.2	$0.2	$0.4
2009-2011				
General Fund	$0.2	$1.5	$0.2	$1.9
Non-General Fund	0.3	0.0	0.0	0.3
Total State	0.5	1.5	0.2	2.2
Local Government	0.7	0.7	0.4	1.8
Total Employer	1.2	2.2	0.6	4.0
Total Employee	$0.5	$0.2	$0.2	$0.9
2007-2032				
General Fund	$9.4	$38.3	$6.6	$54.3
Non-General Fund	15.3	0.0	0.0	15.3
Total State	24.7	38.3	6.6	69.6
Local Government	38.2	18.7	9.8	66.7
Total Employer	62.9	57.0	16.4	136.3
Total Employee	$31.3	$1.3	$1.3	$33.9

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

Sensitivity Analysis

We believe that termination rates could increase slightly in years five through nine due to the fact that a member with five to nine years of service was not eligible for a deferred retirement benefit before, but they would now be eligible under this bill. However, we also believe that this bill does not change the long-term retention of these members and the total amount of members that terminate in years five through ten under current law will equal the total amount of members that terminate in years five through ten under this bill. This is illustrated in the Termination Scenarios table on the following page. As can be seen from the table, termination rates can be increased significantly in years five through nine and decreased in year ten--ultimately terminating the same number of people in the five year period. This effect changes the liabilities, but only minutely.

		Current Termination Rates	*Number of Members Remaining Active*	*Termination Rates Increased in Years 5 - 9*	*Number of Members Remaining Active*
			100		100
Years of Service	5	0.053100	94.69	0.055755	94.42
	6	0.043500	90.57	0.045675	90.11
	7	0.040700	86.88	0.042735	86.26
	8	0.037300	83.64	0.039165	82.88
	9	0.035400	80.68	0.037170	79.80
	10	0.032500	78.06	0.021815	78.06

Termination Scenarios

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 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.

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

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

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

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

Individual State Agency Fiscal Note

Bill Number: 1941 HB	Title: Vesting after five years	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
Fund					
Total $					

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/09/2007
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Agency Approval:	Marcie Frost	Phone: (360)664-7224	Date: 02/12/2007
OFM Review:	Doug Jenkins	Phone: 360-902-0563	Date: 02/12/2007

Request # 07-038-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

To qualify for a guaranteed monthly defined benefit in Plan 3 of the Teachers' Retirement System (TRS), School Employees' Retirement System (SERS) or Public Employees' Retirement System (PERS), a member must meet specific age and service credit requirements, which is commonly referred to as being "vested" within the plan. There are currently three ways a Plan 3 member can become vested and thus eligible for an unreduced retirement benefit:

- **Be age 65 or older with at least 10 years of service credit;**
- **Be age 65 or older with at least five years of service credit, including 12 months after age 44; or**
- **Be age 65 or older and transferred from TRS, SERS or PERS Plan 2 to TRS, SERS or PERS Plan 3 with at least five years of service credit in Plan 2 at the time of transfer.**

This bill modifies the first requirement and eliminates the second requirement shown above leaving two ways a Plan 3 member can become vested:

- **Be age 65 or older with at least 5 years of service credit; or**
- **Be age 65 or older and transferred from TRS, SERS or PERS Plan 2 to TRS, SERS or PERS Plan 3 with at least five years of service credit in Plan 2 at the time of transfer.**

Because service credit is a fundamental component of the benefit formula, this change would impact DRS' Member Information and Benefit Systems, Web-based applications, and the TRS, SERS and PERS Plan 3 financial modeling software. In addition, modifications to member publications would be required.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

See attached.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No impact.

II. C - Expenditures

Administrative Assumptions

- **Due to the effective date of the bill and the type of the work required, all of the costs will occur in Fiscal Year 2007.**
- All TRS, SERS and PERS Plan 3 members who have five years of service will have the same vesting requirement whether newly hired or transferred from Plan 2 to Plan 3.
- Gain sharing vesting rules are not affected by this bill.

The assumptions above were used in developing the following workload impacts and cost estimates.

Benefits/Customer Service

The proposed legislation changes business and system rules currently used to determine a member's eligibility for retirement. To implement this change, staff would need to complete the following tasks:

- Define business requirements for the Member Information and Benefits Systems
- Define business requirements for Plan 3 financial modeling software
- Perform required updates to DRS Online Web site.
- Create test cases and conduct user acceptance testing of system modifications
- Update the Retirement Services Division Online Operations Manual
- Update policies and procedures

Information Tech Specialist 4 – 80 hours (salaries/benefits)	$2,902
Total Estimated Benefits/Customer Service Costs	**$2,902**

Member Communications

References to the vesting requirements are included in many written, video and Internet-based TRS, SERS and PERS Plan 3 member communications. An insert would be developed that can be included in appropriate publications when they are sent to members. In addition, Internet-based planning tools were developed specifically to assist members with making an informed plan choice and projecting current and future benefits. All Internet-based publications would be updated, including the DRS Internet site and the site maintained by the third party record keeper for TRS, SERS and PERS Plan 3. The Internet-based Financial Modeling Software application, used to compare Plan 2 and Plan 3 benefits, would be updated to include the new vesting requirement.

Printing of inserts for the following TRS, SERS and PERS publications: Dual Membership, Request For Payment Booklet, Plan Highlights, Division of Benefits	$750
Third Party Record Keeper Internet and software	$5,000
Communications Consultant 3 – 40 hours (salaries/benefits)	$1,189
Total Estimated Member Communications Costs	**$6,939**

Automated Systems

The following tasks would be performed to complete the necessary modifications to the Member Information and Benefits Systems:

- Identify business requirements and conduct system analysis
- Modify the Benefits System to include the new vesting rules
- Modify the benefit estimate letters and process to include the new vesting rules
- Conduct integration and regression testing
- Create test plans and conduct user acceptance testing

- Create system documentation
- Provide post-implementation system support

Programmer time of 100 hours @ $95 per hour	$9,500
DIS cost* of $500 per week per programmer (for 2 weeks)	$1,000
Total Estimated Systems Modifications Costs	**$10,500**

**cost for mainframe computer processing time and resources at the Department of Information Services*

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	FY 2007	2007-09	2009-11
BENEFITS/CUSTOMER SERVICE	**$2,902**	**$0**	**$0**
MEMBER COMMUNICATIONS	**$6,939**	**$0**	**$0**
AUTOMATED SYSTEMS	**$10,500**	**$0**	**$0**
ESTIMATED TOTAL COSTS	**$20,341**	**$0**	**$0**