

The Select Committee on Pension Policy

2007 INTERIM ISSUES



Office of the State Actuary

"Securing tomorrow's pensions today."

The Select Committee on Pension Policy

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2008 SSCP Request Legislation Summary

Request Legislation:

- 1. Public Education Experience Program-Waiting Period:** Reduces from five years to two years the amount of Teachers' Retirement System (TRS) Plan 2 or Plan 3 service credit a member must have in order to purchase service credit for public education experience in another state or with the federal government.
- 2. Plan 3 Vesting:** Changes the vesting requirements in TRS, the Public Employees' Retirement System (PERS), and the School Employees' Retirement System (SERS) Plans 3 to five years.
- 3. Indexed \$150,000 Death Benefit:** Indexes the amount of the \$150,000 death benefit to cumulative changes in the *Consumer Price Index for Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton*, with a maximum change of 3 percent per year. This death benefit is provided to all public employees who die from a duty-related cause.
- 4. Survivors of PERS 1 Inactives:** Provides the same optional survivor annuity for inactive members of PERS Plan 1 who die prior to retirement as is provided for active members of PERS Plan 1 who die prior to retirement.
- 5. TRS/SERS Half-Year Contracts:** Allows educational employees of TRS and SERS Plans 2 and Plans 3 who work 630 or more hours in five months of a six-month period within a school year to receive six months of service credit.
- 6. Military Death Benefits:** Provides an unreduced survivor annuity to qualifying survivors of members of all systems and plans who leave public employment due to service in the National Guard or Military Reserves and die while serving honorably during a period of war.
- 7. Interruptive Military Service Credit:** Eliminates the Plan 2 and Plan 3 member obligation to pay for interruptive military service credit if the member served during a period of war. Employers will still be required to pay the employer contributions on the service. In the case of a military death, the survivor

would also be relieved of paying the member cost for interruptive military service credit.

- 8. FRP (Pre-LEOFF) Survivor Benefits:** Provides an optional survivor benefit for spouses who are not currently eligible to receive survivor benefits, and allows survivor benefits to continue after remarriage.
- 9. Plan 2 Access to PEBB:** Provides retiree eligibility for insurance plans and contracts offered by the Public Employee Benefits Board to separated Plan 2 members of PERS, TRS and SERS who are at least age 55 and have at least 20 years of service credit.
- 10. PERS to SERS Auto-Transfer:** Discontinues the automatic transfer of prior PERS Plan 2 service to SERS Plan 2 upon SERS eligible employment. Also creates a three-month window for Plan 2 members auto-transferred after September 1, 2001, who had no prior education experience in PERS to restore their transferred service to PERS Plan 2.
- 11. Salary Bonuses in TRS:** Allows bonuses paid to teachers certified by the National Board for Professional Teaching Standards to be included in compensation used for retirement purposes.
- 12. Fish and Wildlife Service Credit Transfer:** Allows Fish and Wildlife Enforcement Officers to transfer their prior enforcement officer service in PERS Plan 2 into LEOFF Plan 2. The members would pay the difference in employee contributions plus interest, and the Department of Fish and Wildlife would pay an additional amount sufficient to ensure the LEOFF Plan 2 rates would not increase due to the transfer.
- 13. HECB Proposal:** Allows the Higher Education Coordinating Board (HECB) to offer higher education retirement plans to its employees; provided, however, that the HECB cannot offer these plans to retirees from the state administered retirement systems.
- 14. Second Chance PEBB Enrollment Window:** Allows certain previously retired or disabled school employees an opportunity to enroll in medical or dental plans offered by the PEBB.

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SCPP Request Legislation Fiscal Impact

2008-2009 Biennium

<i>(Cost in Millions)</i>	2008-9 GF-S	2008-9 Local	2008-9 Total ER
Public Education Experience Program-Waiting Period (Z-0659)			
TRs	\$0.0	\$0.0	\$0.0
Plan 3 Vesting*** (HB 1941)			
PERS	\$0.0	\$0.0	\$0.0
TRs	\$1.1	\$0.7	\$1.8
SERS	<u>\$0.2</u>	<u>\$0.4</u>	<u>\$0.6</u>
Total*****	\$1.3	\$1.1	\$2.4
Indexed \$150,000 Death Benefit (Z-0708)			
PERS	\$0.0	\$0.0	\$0.0
TRs	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	\$0.0	\$0.0	\$0.0
LEOFF	\$0.0	\$0.1	\$0.1
WSP	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.1	\$0.1
Survivors of PERS 1 Inactives (Z-0735)			
PERS	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
TRs/SERS Half-year contracts (Z-0769)			
TRs	\$0.0	\$0.0	\$0.0
SERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
Military Death Benefits (Z-0779)			
PERS	\$0.0	\$0.0	\$0.0
TRs	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	\$0.0	\$0.0	\$0.0
LEOFF	\$0.0	\$0.0	\$0.0
WSP	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0

<i>(Cost in Millions)</i>	2008-9 GF-S	2008-9 Local	2008-9 Total ER
Interruptive Military Service Credit (Z-0802)			
PERS	\$0.0	\$0.0	\$0.0
TRS	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	\$0.0	\$0.0	\$0.0
LEOFF	\$0.0	\$0.0	\$0.0
WSP	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
FRP (Pre-LEOFF) Survivor Benefits (Z-0765)			
Firemen's Relief and Pensions Plans		Indeterminate Cost	
Plan 2 Access to PEBB (S-3721.1)			
All Systems		No Fiscal Impact to Pension Funding.	
2nd Chance Enrollment Window (S-3738.2)			
All Systems		No Fiscal Impact to Pension Funding.	
PERS to SERS Auto-Transfer**** (Z-0764)			
PERS	\$0.0	\$0.0	\$0.0
SERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
Salary Bonuses in TRS (Z-0763)			
TRS	\$4.1	\$2.0	\$6.0
Fish and Wildlife Service Credit Transfer**** (Z-0766)			
PERS	\$0.0	\$0.0	\$0.0
LEOFF	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
HECB Proposal (Z-0637)			
PERS	\$0.0	\$0.0	\$0.0
TRS	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
Grand Total - All Proposals**			
All Systems	\$5.4	\$3.2	\$8.6

Note: Totals may not agree due to rounding.

**Forwarded without recommendation.*

***All other proposals are no fiscal impact.*

****Fiscal Dollars Calculated during 2007 Session*

*****No Fiscal Impact. Asset / Liability Transfer only.*

******Fiscal Dollars are for 2007-2009 Biennium*

2009-2011 Biennium

<i>(Cost in Millions)</i>	2009-11 GF-S	2009-11 Local	2009-11 Total ER
Public Education Experience Program-Waiting Period (Z-0659)			
TRS	\$0.0	\$0.0	\$0.0
Plan 3 Vesting*** (HB 1941)			
PERS	\$0.2	\$0.7	\$1.2
TRS	\$1.5	\$0.7	\$2.2
SERS	<u>\$0.2</u>	<u>\$0.4</u>	<u>\$0.6</u>
Total	\$1.9	\$1.8	\$4.0
Indexed \$150,000 Death Benefit (Z-0708)			
PERS	\$0.0	\$0.1	\$0.2
TRS	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	\$0.0	\$0.0	\$0.0
LEOFF	\$0.1	\$0.1	\$0.2
WSP	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.1	\$0.2	\$0.4
Survivors of PERS 1 Inactives (Z-0735)			
PERS	\$0.0	\$0.0	\$0.1
SERS	\$0.0	\$0.0	\$0.0
PSERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.1	\$0.1
TRS/SERS Half-year contracts (Z-0769)			
TRS	\$0.0	\$0.0	\$0.0
SERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
Military Death Benefits (Z-0779)			
PERS	\$0.0	\$0.0	\$0.0
TRS	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	\$0.0	\$0.0	\$0.0
LEOFF	\$0.0	\$0.0	\$0.0
WSP	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.1

<i>(Cost in Millions)</i>	2009-11 GF-S	2009-11 Local	2009-11 Total ER
Interruptive Military Service Credit (Z-0802)			
PERS	\$0.0	\$0.0	\$0.1
TRS	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	\$0.0	\$0.0	\$0.0
LEOFF	\$0.0	\$0.0	\$0.0
WSP	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.1	\$0.1
FRP (Pre-LEOFF) Survivor Benefits (Z-0765)			
Firemen's Relief and Pensions Plans			Indeterminate Cost
Plan 2 Access to PEBB (S-3721.1)			
All Systems			No Fiscal Impact to Pension Funding.
2nd Chance Enrollment Window (S-3738.2)			
All Systems			No Fiscal Impact to Pension Funding.
PERS to SERS Auto-Transfer**** (Z-0764)			
PERS	\$0.0	\$0.0	\$0.0
SERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
Salary Bonuses in TRS (Z-0763)			
TRS	\$8.4	\$4.0	\$12.4
Fish and Wildlife Service Credit Transfer**** (Z-0766)			
PERS	\$0.0	\$0.0	\$0.0
LEOFF	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
HECB Proposal (Z-0637)			
PERS	(\$0.0)	(\$0.2)	(\$0.3)
TRS	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	(\$0.0)	(\$0.2)	(\$0.3)
Grand Total - All Proposals**			
All Systems	\$10.4	\$6.0	\$16.8

Note: Totals may not agree due to rounding.

**Forwarded without recommendation.*

***All other proposals are no fiscal impact.*

****Fiscal Dollars Calculated during 2007 Session*

*****No Fiscal Impact. Asset / Liability Transfer only.*

2008-2033

<i>(Cost in Millions)</i>	2008-33 GF-S	2008-33 Local	2008-33 Total ER
Public Education Experience Program-Waiting Period (Z-0659)			
TRS	\$0.0	\$0.0	\$0.0
Plan 3 Vesting*** (HB 1941)			
PERS	\$9.4	\$38.2	\$62.9
TRS	\$38.3	\$18.7	\$57.0
SERS	<u>\$6.6</u>	<u>\$9.8</u>	<u>\$16.4</u>
Total	\$54.3	\$66.7	\$136.3
Indexed \$150,000 Death Benefit (Z-0708)			
PERS	\$0.3	\$1.3	\$1.2
TRS	\$0.2	\$0.1	\$0.3
SERS	\$0.2	\$0.2	\$0.4
PSERS	\$0.0	\$0.0	\$0.0
LEOFF	\$1.2	\$2.0	\$3.2
WSP	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.1</u>
Total	\$0.8	\$3.6	\$6.1
Survivors of PERS 1 Inactives (Z-0735)			
PERS	\$0.1	\$0.5	\$0.9
SERS	\$0.0	\$0.1	\$0.1
PSERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.2	\$0.6	\$1.0
TRS/SERS Half-year contracts (Z-0769)			
TRS	\$0.6	\$0.3	\$0.9
SERS	<u>\$0.0</u>	<u>\$0.1</u>	<u>\$0.1</u>
Total	\$0.7	\$0.4	\$1.0
Military Death Benefits (Z-0779)			
PERS	\$0.2	\$0.6	\$1.1
TRS	\$0.1	\$0.1	\$0.2
SERS	\$0.0	\$0.0	\$0.0
PSERS	\$0.0	\$0.0	\$0.0
LEOFF	\$0.1	\$0.2	\$0.3
WSP	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.5	\$1.0	\$1.7

<i>(Cost in Millions)</i>	2008-33 GF-S	2008-33 Local	2008-33 Total ER
Interruptive Military Service Credit (Z-0802)			
PERS	\$0.2	\$0.9	\$1.4
TRS	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.0	\$0.0
PSERS	\$0.0	\$0.0	\$0.0
LEOFF	\$0.4	\$0.5	\$0.9
WSP	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.6	\$1.4	\$2.4
FRP (Pre-LEOFF) Survivor Benefits (Z-0765)			
Firemen's Relief and Pensions Plans			Indeterminate Cost
Plan 2 Access to PEBB (S-3721.1)			
All Systems			No Fiscal Impact to Pension Funding.
2nd Chance Enrollment Window (S-3738.2)			
All Systems			No Fiscal Impact to Pension Funding.
PERS to SERS Auto-Transfer**** (Z-0764)			
PERS	\$0.0	\$0.0	\$0.0
SERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
Salary Bonuses in TRS (Z-0763)			
TRS	\$99.9	\$48.1	\$148.0
Fish and Wildlife Service Credit Transfer**** (Z-0766)			
PERS	\$0.0	\$0.0	\$0.0
LEOFF	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	\$0.0	\$0.0	\$0.0
HECB Proposal (Z-0637)			
PERS	(\$0.3)	(\$1.4)	(\$2.3)
TRS	\$0.0	\$0.0	\$0.0
SERS	\$0.0	\$0.1	\$0.1
PSERS	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Total	(\$0.3)	(\$1.3)	(\$2.2)
Grand Total - All Proposals**			
All Systems	\$156.6	\$120.4	\$294.3

Note: Totals may not agree due to rounding.

*Forwarded without recommendation.

**All other proposals are no fiscal impact.

***Fiscal Dollars Calculated during 2007 Session

****No Fiscal Impact. Asset / Liability Transfer only.

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Public Education Experience Program – Waiting Period

Background

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

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

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

Committee Activity

Presentations:

July 17, 2007 - Full Committee

August 14 - Full Committee

Proposal:

September 18, 2007 - Full Committee

Recommendation to Legislature

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

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In Brief

ISSUE

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

MEMBER IMPACT

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

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Public Education Experience Program – Waiting Period

Current Situation

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

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

Example

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

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

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

History

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

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

The original proposed public education experience program was designed as a recruitment tool for teachers to help implement Goal 2 of the SCPP's Goals for Washington State Pension Plans. Goal 2 is: "To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce."

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

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

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

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

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

Policy Analysis

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

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

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

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

direction of making the program more desirable to teachers.

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

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

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

Other States

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

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

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

Procedural History

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

STAKEHOLDER INPUT

Correspondence (attached) from:

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

Bill Draft

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

Draft Fiscal Note

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

O:\SCPP\2007\9-18-07 Full\6.Pub_Edu_Exp_Prog_Wait_Pd.doc

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0659.1/08

ATTY/TYPIST: LL:ean

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

--- END ---

DRAFT FISCAL NOTE

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

INTENDED USE

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

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

SUMMARY OF PROPOSAL

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

Assumed Effective Date: 90 days after session

CURRENT SITUATION

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

SUMMARY OF MEMBERS IMPACTED

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

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

ASSUMPTIONS

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

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

DATA

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

FISCAL IMPACT

Description

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

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

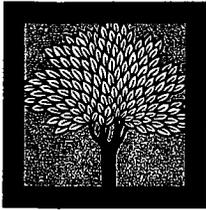
Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Present Value of Credited Projected Benefits (PVCBP): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

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

Unfunded Liability (Unfunded PVCBP): The excess, if any, of the Present Value of Credited Projected Benefits over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

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



WEA
WASHINGTON
EDUCATION
ASSOCIATION

Charles Hasse, President
David Scott, Vice President
Armand L. Tiberio, Executive Director
Miebeth Bustillo-Booth, Director of Public Policy

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MAY 22 2007

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The State Actuary

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May 22, 2007

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

Dear Executive Committee Members:

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

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

Old Business:

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

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

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

(Continued...)

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

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

Sincerely,



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

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

Laura Harper

Policy and Research Services Manager

360.786.6145

harper.laura@osa.leg.wa.gov

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
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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									

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Prepared by: Jane Sakson, OFM	Phone: 360-902-0549	Date Published: Final 2/12/2007
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

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:

- 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

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

	FY2008	FY2009	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

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

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:

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 2/3	\$16,997	\$4	\$17,001
	TRS 2/3	\$6,297	\$7	\$6,304
	SERS 2/3	\$2,473	\$3	\$2,476
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	\$3,567	\$0	\$3,567
	TRS 1	\$2,147	\$0	\$2,147
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 2/3	(\$2,611)	\$1	(\$2,610)
	TRS 2/3	(\$1,131)	\$4	(\$1,127)
	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	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	1.1	0.2	1.3
Local Government	<u>0.0</u>	<u>0.7</u>	<u>0.4</u>	<u>1.1</u>
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	<u>0.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.3</u>
Total State	0.5	1.5	0.2	2.2
Local Government	<u>0.7</u>	<u>0.7</u>	<u>0.4</u>	<u>1.8</u>
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	<u>15.3</u>	<u>0.0</u>	<u>0.0</u>	<u>15.3</u>
Total State	24.7	38.3	6.6	69.6
Local Government	<u>38.2</u>	<u>18.7</u>	<u>9.8</u>	<u>66.7</u>
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.

Termination Scenarios					
		<i>Current Termination Rates</i>	<i>Number of Members Remaining Active</i>	<i>Termination Rates Increased in Years 5 - 9</i>	<i>Number of Members Remaining Active</i>
			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

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
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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
Agency Preparation: Jeff Wickman	Phone: (360) 664-7303	Date: 02/12/2007
Agency Approval: Marcie Frost	Phone: (360)664-7224	Date: 02/12/2007
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 02/12/2007

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

	FY2008	FY2009	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)	<u>\$2,902</u>
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:	\$750
Dual Membership, Request For Payment Booklet, Plan Highlights, Division of Benefits	
Third Party Record Keeper Internet and software	\$5,000
Communications Consultant 3 – 40 hours (salaries/benefits)	<u>\$1,189</u>
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)	<u>\$1,000</u>
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:

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

Indexed \$150,000 Death Benefit

Background

A \$150,000 lump sum death benefit is provided for public employees who die from duty-related causes. The benefit is payable upon death from duty-related injury or illness in all retirement systems. Eligibility for the benefit is determined by the Department of Labor and Industries. The amount of the benefit is not adjusted for inflation and has not changed since 1996.

An SCPP bill dealing with the \$150,000 death benefit was recommended by the Select Committee on Pension Policy (SCPP) and introduced during the 2007 Legislative session. HB 1266 expanded the eligibility for the death benefit to include members who die from occupational diseases and indexed the death benefit amount to inflation. The indexing provision was removed from the version of the bill that passed. During the 2007 interim, the Law Enforcement Officers' and Firefighters' (LEOFF) Plan 2 Retirement Board asked the SCPP to revisit the proposal to add an inflationary adjustment to the \$150,000 death benefit for all plans.

This is one of four issues being coordinated with the Law Enforcement Officers' and Firefighters' Plan 2 Retirement Board.

Committee Activity

Presentations:

July 17, 2007 - Full Committee

August 14, 2007 - Full Committee

October 16, 2007 - Executive Committee

Proposal:

November 13, 2007- Full Committee

Recommendation to Legislature

Index the amount of the \$150,000 death benefit to cumulative changes in the *Consumer Price Index for Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton*, with a maximum change of 3 percent per year.

Staff Contact

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0708.1/08

ATTY/TYPIST: LL:ean

BRIEF DESCRIPTION: Indexing the one hundred fifty thousand dollar death benefit for public employees.

1 AN ACT Relating to indexing the one hundred fifty thousand dollar
2 death benefit for public employees; amending RCW 41.04.017, 41.24.160,
3 41.26.048, 41.32.053, 41.35.115, 41.37.110, 41.40.0931, and 41.40.0932;
4 reenacting and amending RCW 43.43.285; and providing an effective date.

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

6 **Sec. 1.** RCW 41.04.017 and 2007 c 487 s 1 are each amended to read
7 as follows:

8 (1) A one hundred fifty thousand dollar death benefit shall be paid
9 as a sundry claim to the estate of an employee of any state agency, the
10 common school system of the state, or institution of higher education
11 who dies as a result of ~~((+1))~~ (a) injuries sustained in the course of
12 employment; or ~~((+2))~~ (b) an occupational disease or infection that
13 arises naturally and proximately out of employment covered under this
14 chapter, and is not otherwise provided a death benefit through coverage
15 under their enrolled retirement system under chapter 402, Laws of 2003.
16 The determination of eligibility for the benefit shall be made
17 consistent with Title 51 RCW by the department of labor and industries.
18 The department of labor and industries shall notify the director of the
19 department of general administration by order under RCW 51.52.050.

1 (2)(a) Beginning July 1, 2008, and every year thereafter, the
2 department of retirement systems shall determine the following
3 information:

4 (i) The index for the 2006 calendar year, to be known as "index A";

5 (ii) The index for the calendar year prior to the date of
6 determination, to be known as "index B"; and

7 (iii) The ratio obtained when index B is divided by index A.

8 (b) The value of the ratio obtained shall be the annual adjustment
9 to the original death benefit and shall be applied beginning every July
10 1st. In no event, however, shall the annual adjustment:

11 (i) Produce a benefit which is lower than one hundred fifty
12 thousand dollars;

13 (ii) Exceed three percent in the initial annual adjustment; or

14 (iii) Differ from the previous year's annual adjustment by more
15 than three percent.

16 (c) For the purposes of this section, "index" means, for any
17 calendar year, that year's average consumer price index -- Seattle,
18 Washington area for urban wage earners and clerical workers, all items,
19 compiled by the bureau of labor statistics, United States department of
20 labor.

21 **Sec. 2.** RCW 41.24.160 and 2001 c 134 s 2 are each amended to read
22 as follows:

23 (1)(a) Whenever a participant dies as the result of injuries
24 received, or sickness contracted in consequence or as the result of the
25 performance of his or her duties, the board of trustees shall order and
26 direct the payment from the principal fund of (i) the sum of one
27 hundred fifty-two thousand dollars to his widow or her widower, or if
28 there is no widow or widower, then to his or her dependent child or
29 children, or if there is no dependent child or children, then to his or
30 her dependent parents or either of them, or if there are no dependent
31 parents or parent, then the death benefit shall be paid to the member's
32 estate, and (ii)(A) the sum of one thousand two hundred seventy-five
33 dollars per month to his widow or her widower during his or her life
34 together with the additional monthly sum of one hundred ten dollars for
35 each child of the member, unemancipated or under eighteen years of age,
36 dependent upon the member for support at the time of his or her death,

1 (B) to a maximum total of two thousand five hundred fifty dollars per
2 month.

3 (b) Beginning on July 1, 2001, and each July 1st thereafter, the
4 compensation amount specified in (a)(ii)(B) of this subsection shall be
5 readjusted to reflect the percentage change in the consumer price
6 index, calculated as follows: The index for the calendar year
7 preceding the year in which the July calculation is made, to be known
8 as "calendar year A," is divided by the index for the calendar year
9 preceding calendar year A, and the resulting ratio is multiplied by the
10 compensation amount in effect on June 30th immediately preceding the
11 July 1st on which the respective calculation is made. For the purposes
12 of the calculation under this subsection (1)(b), "index" means the same
13 as the definition in RCW 2.12.037(1).

14 (c)(i) Beginning July 1, 2008, and every year thereafter, the state
15 board shall determine the following information:

16 (A) The index for the 2006 calendar year, to be known as "index A";

17 (B) The index for the calendar year prior to the date of
18 determination, to be known as "index B"; and

19 (C) The ratio obtained when index B is divided by index A.

20 (ii) The value of the ratio obtained shall be the annual adjustment
21 to the original death benefit specified in (a)(i) of this subsection
22 and shall be applied beginning every July 1st. In no event, however,
23 shall the annual adjustment:

24 (A) Produce a benefit which is lower than one hundred fifty-two
25 thousand dollars;

26 (B) Exceed three percent in the initial annual adjustment; or

27 (C) Differ from the previous year's annual adjustment by more than
28 three percent.

29 (iii) For the purposes of the calculation specified in this
30 subsection (1)(c), "index" means, for any calendar year, that year's
31 average consumer price index -- Seattle, Washington area for urban wage
32 earners and clerical workers, all items, compiled by the bureau of
33 labor statistics, United States department of labor.

34 (2) If the widow or widower does not have legal custody of one or
35 more dependent children of the deceased participant or if, after the
36 death of the participant, legal custody of such child or children
37 passes from the widow or widower to another person, any payment on
38 account of such child or children not in the legal custody of the widow

1 or widower shall be made to the person or persons having legal custody
2 of such child or children. Such payments on account of such child or
3 children shall be subtracted from the amount to which such widow or
4 widower would have been entitled had such widow or widower had legal
5 custody of all the children and the widow or widower shall receive the
6 remainder after such payments on account of such child or children have
7 been subtracted. If there is no widow or widower, or the widow or
8 widower dies while there are children, unemancipated or under eighteen
9 years of age, then the amount of one thousand two hundred seventy-five
10 dollars per month shall be paid for the youngest or only child together
11 with an additional one hundred ten dollars per month for each
12 additional of such children to a maximum of two thousand five hundred
13 fifty dollars per month until they become emancipated or reach the age
14 of eighteen years; and if there are no widow or widower, child, or
15 children entitled thereto, then to his or her parents or either of them
16 the sum of one thousand two hundred seventy-five dollars per month for
17 life, if it is proved to the satisfaction of the board that the
18 parents, or either of them, were dependent on the deceased for their
19 support at the time of his or her death. In any instance in
20 subsections (1) and (2) of this section, if the widow or widower, child
21 or children, or the parents, or either of them, marries while receiving
22 such pension the person so marrying shall thereafter receive no further
23 pension from the fund.

24 (3) In the case provided for in this section, the monthly payment
25 provided may be converted in whole or in part into a lump sum payment,
26 not in any case to exceed twelve thousand dollars, equal or
27 proportionate, as the case may be, to the actuarial equivalent of the
28 monthly payment in which event the monthly payments shall cease in
29 whole or in part accordingly or proportionately. Such conversion may
30 be made either upon written application to the state board and shall
31 rest in the discretion of the state board; or the state board is
32 authorized to make, and authority is given it to make, on its own
33 motion, lump sum payments, equal or proportionate, as the case may be,
34 to the value of the annuity then remaining in full satisfaction of
35 claims due to dependents. Within the rule under this subsection the
36 amount and value of the lump sum payment may be agreed upon between the
37 applicant and the state board.

1 **Sec. 3.** RCW 41.26.048 and 2007 c 487 s 2 are each amended to read
2 as follows:

3 (1) A one hundred fifty thousand dollar death benefit shall be paid
4 to the member's estate, or such person or persons, trust or
5 organization as the member shall have nominated by written designation
6 duly executed and filed with the department. If there be no such
7 designated person or persons still living at the time of the member's
8 death, such member's death benefit shall be paid to the member's
9 surviving spouse as if in fact such spouse had been nominated by
10 written designation, or if there be no such surviving spouse, then to
11 such member's legal representatives.

12 (2) The benefit under this section shall be paid only when death
13 occurs: (a) As a result of injuries sustained in the course of
14 employment; or (b) as a result of an occupational disease or infection
15 that arises naturally and proximately out of employment covered under
16 this chapter. The determination of eligibility for the benefit shall
17 be made consistent with Title 51 RCW by the department of labor and
18 industries. The department of labor and industries shall notify the
19 department of retirement systems by order under RCW 51.52.050.

20 (3)(a) Beginning July 1, 2008, and every year thereafter, the
21 department shall determine the following information:

22 (i) The index for the 2006 calendar year, to be known as "index A";

23 (ii) The index for the calendar year prior to the date of
24 determination, to be known as "index B"; and

25 (iii) The ratio obtained when index B is divided by index A.

26 (b) The value of the ratio obtained shall be the annual adjustment
27 to the original death benefit and shall be applied beginning every July
28 1st. In no event, however, shall the annual adjustment:

29 (i) Produce a benefit which is lower than one hundred fifty
30 thousand dollars;

31 (ii) Exceed three percent in the initial annual adjustment; or

32 (iii) Differ from the previous year's annual adjustment by more
33 than three percent.

34 (c) For the purposes of this section, "index" means, for any
35 calendar year, that year's average consumer price index -- Seattle,
36 Washington area for urban wage earners and clerical workers, all items,
37 compiled by the bureau of labor statistics, United States department of
38 labor.

1 **Sec. 4.** RCW 41.32.053 and 2007 c 487 s 3 are each amended to read
2 as follows:

3 (1) A one hundred fifty thousand dollar death benefit shall be paid
4 to the member's estate, or such person or persons, trust or
5 organization as the member has nominated by written designation duly
6 executed and filed with the department. If no such designated person
7 or persons are still living at the time of the member's death, the
8 member's death benefit shall be paid to the member's surviving spouse
9 as if in fact the spouse had been nominated by written designation, or
10 if there is no surviving spouse, then to the member's legal
11 representatives.

12 (2) The benefit under this section shall be paid only where death
13 occurs as a result of (a) injuries sustained in the course of
14 employment; or (b) an occupational disease or infection that arises
15 naturally and proximately out of employment covered under this chapter.
16 The determination of eligibility for the benefit shall be made
17 consistent with Title 51 RCW by the department of labor and industries.
18 The department of labor and industries shall notify the department of
19 retirement systems by order under RCW 51.52.050.

20 (3)(a) Beginning July 1, 2008, and every year thereafter, the
21 department shall determine the following information:

22 (i) The index for the 2006 calendar year, to be known as "index A";

23 (ii) The index for the calendar year prior to the date of
24 determination, to be known as "index B"; and

25 (iii) The ratio obtained when index B is divided by index A.

26 (b) The value of the ratio obtained shall be the annual adjustment
27 to the original death benefit and shall be applied beginning every July
28 1st. In no event, however, shall the annual adjustment:

29 (i) Produce a benefit which is lower than one hundred fifty
30 thousand dollars;

31 (ii) Exceed three percent in the initial annual adjustment; or

32 (iii) Differ from the previous year's annual adjustment by more
33 than three percent.

34 (c) For the purposes of this section, "index" means, for any
35 calendar year, that year's average consumer price index -- Seattle,
36 Washington area for urban wage earners and clerical workers, all items,
37 compiled by the bureau of labor statistics, United States department of
38 labor.

1 **Sec. 5.** RCW 41.35.115 and 2007 c 487 s 4 are each amended to read
2 as follows:

3 (1) A one hundred fifty thousand dollar death benefit shall be paid
4 to the member's estate, or such person or persons, trust or
5 organization as the member has nominated by written designation duly
6 executed and filed with the department. If no such designated person
7 or persons are still living at the time of the member's death, the
8 member's death benefit shall be paid to the member's surviving spouse
9 as if in fact the spouse had been nominated by written designation, or
10 if there is no surviving spouse, then to the member's legal
11 representatives.

12 (2) The benefit under this section shall be paid only where death
13 occurs as a result of (a) injuries sustained in the course of
14 employment; or (b) an occupational disease or infection that arises
15 naturally and proximately out of employment covered under this chapter.
16 The determination of eligibility for the benefit shall be made
17 consistent with Title 51 RCW by the department of labor and industries.
18 The department of labor and industries shall notify the department of
19 retirement systems by order under RCW 51.52.050.

20 (3)(a) Beginning July 1, 2008, and every year thereafter, the
21 department shall determine the following information:

22 (i) The index for the 2006 calendar year, to be known as "index A";

23 (ii) The index for the calendar year prior to the date of
24 determination, to be known as "index B"; and

25 (iii) The ratio obtained when index B is divided by index A.

26 (b) The value of the ratio obtained shall be the annual adjustment
27 to the original death benefit and shall be applied beginning every July
28 1st. In no event, however, shall the annual adjustment:

29 (i) Produce a benefit which is lower than one hundred fifty
30 thousand dollars;

31 (ii) Exceed three percent in the initial annual adjustment; or

32 (iii) Differ from the previous year's annual adjustment by more
33 than three percent.

34 (c) For the purposes of this section, "index" means, for any
35 calendar year, that year's average consumer price index -- Seattle,
36 Washington area for urban wage earners and clerical workers, all items,
37 compiled by the bureau of labor statistics, United States department of
38 labor.

1 **Sec. 6.** RCW 41.37.110 and 2007 c 487 s 5 are each amended to read
2 as follows:

3 (1) A one hundred fifty thousand dollar death benefit shall be paid
4 to the member's estate, or the person or persons, trust, or
5 organization the member has nominated by written designation duly
6 executed and filed with the department. If the designated person or
7 persons are not still living at the time of the member's death, the
8 member's death benefit shall be paid to the member's surviving spouse
9 as if in fact the spouse had been nominated by written designation, or
10 if there is no surviving spouse, then to the member's legal
11 representatives.

12 (2) The benefit under this section shall be paid only where death
13 occurs as a result of (a) injuries sustained in the course of
14 employment; or (b) an occupational disease or infection that arises
15 naturally and proximately out of employment covered under this chapter.
16 The determination of eligibility for the benefit shall be made
17 consistent with Title 51 RCW by the department of labor and industries.
18 The department of labor and industries shall notify the department of
19 retirement systems by order under RCW 51.52.050.

20 (3)(a) Beginning July 1, 2008, and every year thereafter, the
21 department shall determine the following information:

22 (i) The index for the 2006 calendar year, to be known as "index A";

23 (ii) The index for the calendar year prior to the date of
24 determination, to be known as "index B"; and

25 (iii) The ratio obtained when index B is divided by index A.

26 (b) The value of the ratio obtained shall be the annual adjustment
27 to the original death benefit and shall be applied beginning every July
28 1st. In no event, however, shall the annual adjustment:

29 (i) Produce a benefit which is lower than one hundred fifty
30 thousand dollars;

31 (ii) Exceed three percent in the initial annual adjustment; or

32 (iii) Differ from the previous year's annual adjustment by more
33 than three percent.

34 (c) For the purposes of this section, "index" means, for any
35 calendar year, that year's average consumer price index -- Seattle,
36 Washington area for urban wage earners and clerical workers, all items,
37 compiled by the bureau of labor statistics, United States department of
38 labor.

1 **Sec. 7.** RCW 41.40.0931 and 2007 c 487 s 6 are each amended to read
2 as follows:

3 (1) A one hundred fifty thousand dollar death benefit for members
4 who had the opportunity to transfer to the law enforcement officers'
5 and firefighters' retirement system pursuant to chapter 502, Laws of
6 1993, but elected to remain in the public employees' retirement system,
7 shall be paid to the member's estate, or such person or persons, trust,
8 or organization as the member has nominated by written designation duly
9 executed and filed with the department. If there is no designated
10 person or persons still living at the time of the member's death, the
11 member's death benefit shall be paid to the member's surviving spouse
12 as if in fact the spouse had been nominated by written designation, or
13 if there is no surviving spouse, then to the member's legal
14 representatives.

15 (2) Subject to subsection (3) of this section, the benefit under
16 this section shall be paid only where death occurs as a result of (a)
17 injuries sustained in the course of employment as a general authority
18 police officer; or (b) an occupational disease or infection that arises
19 naturally and proximately out of employment covered under this chapter.
20 The determination of eligibility for the benefit shall be made
21 consistent with Title 51 RCW by the department of labor and industries.
22 The department of labor and industries shall notify the department of
23 retirement systems by order under RCW 51.52.050.

24 (3) The benefit under this section shall not be paid in the event
25 the member was in the act of committing a felony when the fatal
26 injuries were suffered.

27 (4)(a) Beginning July 1, 2008, and every year thereafter, the
28 department shall determine the following information:

29 (i) The index for the 2006 calendar year, to be known as "index A";
30 (ii) The index for the calendar year prior to the date of
31 determination, to be known as "index B"; and
32 (iii) The ratio obtained when index B is divided by index A.

33 (b) The value of the ratio obtained shall be the annual adjustment
34 to the original death benefit and shall be applied beginning every July
35 1st. In no event, however, shall the annual adjustment:

36 (i) Produce a benefit which is lower than one hundred fifty
37 thousand dollars;

38 (ii) Exceed three percent in the initial annual adjustment; or

1 (iii) Differ from the previous year's annual adjustment by more
2 than three percent.

3 (c) For the purposes of this section, "index" means, for any
4 calendar year, that year's average consumer price index -- Seattle,
5 Washington area for urban wage earners and clerical workers, all items,
6 compiled by the bureau of labor statistics, United States department of
7 labor.

8 **Sec. 8.** RCW 41.40.0932 and 2007 c 487 s 7 are each amended to read
9 as follows:

10 (1) A one hundred fifty thousand dollar death benefit shall be paid
11 to the member's estate, or such person or persons, trust or
12 organization as the member has nominated by written designation duly
13 executed and filed with the department. If no such designated person
14 or persons are still living at the time of the member's death, the
15 member's death benefit shall be paid to the member's surviving spouse
16 as if in fact the spouse had been nominated by written designation, or
17 if there is no surviving spouse, then to the member's legal
18 representatives.

19 (2) The benefit under this section shall be paid only where death
20 occurs as a result of (a) injuries sustained in the course of
21 employment; or (b) an occupational disease or infection that arises
22 naturally and proximately out of employment covered under this chapter.
23 The determination of eligibility for the benefit shall be made
24 consistent with Title 51 RCW by the department of labor and industries.
25 The department of labor and industries shall notify the department of
26 retirement systems by order under RCW 51.52.050.

27 (3)(a) Beginning July 1, 2008, and every year thereafter, the
28 department shall determine the following information:

29 (i) The index for the 2006 calendar year, to be known as "index A";

30 (ii) The index for the calendar year prior to the date of
31 determination, to be known as "index B"; and

32 (iii) The ratio obtained when index B is divided by index A.

33 (b) The value of the ratio obtained shall be the annual adjustment
34 to the original death benefit and shall be applied beginning every July
35 1st. In no event, however, shall the annual adjustment:

36 (i) Produce a benefit which is lower than one hundred fifty
37 thousand dollars;

1 (ii) Exceed three percent in the initial annual adjustment; or
2 (iii) Differ from the previous year's annual adjustment by more
3 than three percent.

4 (c) For the purposes of this section, "index" means, for any
5 calendar year, that year's average consumer price index -- Seattle,
6 Washington area for urban wage earners and clerical workers, all items,
7 compiled by the bureau of labor statistics, United States department of
8 labor.

9 **Sec. 9.** RCW 43.43.285 and 2007 c 488 s 1 and 2007 c 487 s 9 are
10 each reenacted and amended to read as follows:

11 (1) A one hundred fifty thousand dollar death benefit shall be paid
12 to the member's estate, or such person or persons, trust or
13 organization as the member shall have nominated by written designation
14 duly executed and filed with the department. If there be no such
15 designated person or persons still living at the time of the member's
16 death, such member's death benefit shall be paid to the member's
17 surviving spouse as if in fact such spouse had been nominated by
18 written designation, or if there be no such surviving spouse, then to
19 such member's legal representatives.

20 (2)(a) The benefit under this section shall be paid only where
21 death occurs as a result of (i) injuries sustained in the course of
22 employment; or (ii) an occupational disease or infection that arises
23 naturally and proximately out of employment covered under this chapter.
24 The determination of eligibility for the benefit shall be made
25 consistent with Title 51 RCW by the department of labor and industries.
26 The department of labor and industries shall notify the department of
27 retirement systems by order under RCW 51.52.050.

28 (b) The retirement allowance paid to the spouse and dependent
29 children of a member who is killed in the course of employment, as set
30 forth in RCW 41.05.011(14), shall include reimbursement for any
31 payments of premium rates to the Washington state health care authority
32 under RCW 41.05.080.

33 (3)(a) Beginning July 1, 2008, and every year thereafter, the
34 department shall determine the following information:

35 (i) The index for the 2006 calendar year, to be known as "index A";

36 (ii) The index for the calendar year prior to the date of
37 determination, to be known as "index B"; and

1 (iii) The ratio obtained when index B is divided by index A.

2 (b) The value of the ratio obtained shall be the annual adjustment
3 to the original death benefit and shall be applied beginning every July
4 1st. In no event, however, shall the annual adjustment:

5 (i) Produce a benefit which is lower than one hundred fifty
6 thousand dollars;

7 (ii) Exceed three percent in the initial annual adjustment; or

8 (iii) Differ from the previous year's annual adjustment by more
9 than three percent.

10 (c) For the purposes of this section, "index" means, for any
11 calendar year, that year's average consumer price index -- Seattle,
12 Washington area for urban wage earners and clerical workers, all items,
13 compiled by the bureau of labor statistics, United States department of
14 labor.

15 NEW SECTION. Sec. 10. This act takes effect July 1, 2008.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	10/4/07	Z-0708.1

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

This proposal would index the amount of the \$150,000 death benefit to changes in the CPI. The death benefit is provided for all state retirement system members and other public employees who die from duty-related causes.

Increase in Actuarial Liabilities			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$64,274	3	\$64,277
Unfunded Actuarial Accrued Liability	4,470	0	4,470
Unfunded Liability (PVC PB)	\$960	3	\$963

Total Increase in Contribution Rates						
Current Biennium	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Employer	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
State					0.00%	

Fiscal Costs			
<i>(Dollars in Millions)</i>	2008-2009	2009-2011	25-Year
General Fund-State	\$0.0	\$0.1	\$0.8
Total Employer	\$0.1	\$0.4	\$6.1

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

SUMMARY OF PROPOSAL

This proposal impacts the following retirement systems and public employees:

- Public Employees' Retirement System (PERS),
- Teachers' Retirement System (TRS),
- School Employees' Retirement System (SERS),
- Public Safety Employees' Retirement System (PSERS),
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF),
- Washington State Patrol Retirement System (WSP),
- Volunteer Firefighters' Relief and Pension Fund (VFF),
- Members of the Judicial Retirement System (JRS),
- Members of the Higher Education Retirement Plans (HIED),
- And state, school district, and higher education employees who are not members of a state retirement system.

The proposal indexes the amount of the \$150,000 duty-death lump sum benefit to changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers, Seattle-Tacoma-Bremerton (CPI-W). The index is calculated based on cumulative changes in the CPI-W with a maximum annual change of no more than 3%. The amount of the death benefit is not allowed to decrease below the original amount in periods of deflation.

Assumed Effective Date: July 1, 2008

CURRENT SITUATION

Survivors of public employees who die as a result of injuries sustained or illnesses contracted in the course of employment are eligible to receive a lump-sum death benefit of \$150,000. The benefit amount does not adjust for inflation. This benefit is provided for all members of PERS, TRS, SERS, PSERS, LEOFF, WSP, VFF, JRS, HIED, and to state, school district and higher education employees who are not members of a state retirement system. The amount of the lump-sum death benefit is \$152,000 in VFF.

SUMMARY OF MEMBERS IMPACTED

We estimate that all 16,314 active members of LEOFF Plans 1 and 2, all 155,027 active members of PERS Plans 1, 2 and 3, all 2,073 active members of PSERS Plan 2, all 50,818 active members of SERS Plans 2 and 3, all 67,736 active members of TRS Plans 1, 2 and 3, all 1,022 active members of WSP Plans 1 and 2, all 15,591 active members of VFF, and all 11 active members of JRS could be affected by this proposal through improved benefits. However, we only expect this to happen to approximately 1 in 22,500 people per year.

We estimate that for a typical member impacted by this proposal, the increase in benefits would be any accumulated inflation amounts above the original \$150,000 death benefit. For example, if the CPI in the next year increased by 3%, the beneficiary of a public employee who dies from duty-related causes would receive a lump sum in the amount of \$154,500 whereas without the an indexed death benefit the survivor would receive the standard lump-sum benefit of \$150,000.

Additionally, Plan 2 members will have increased contribution rates in future biennia.

METHODS

We adjusted the results of the 2006 AVR to include liabilities for SHB 1266 which passed in 2007 which was the starting point for our pricing. Utilizing pension valuation software, we projected the increase in the \$150,000 death benefit amount due to the proposed indexing and discounted for interest to determine the actuarial present value of the liability. An index of 3 percent per year was applied to the \$150,000 death benefit and this assumption will be outlined in the following section. The ultimate cost of this increased benefit is presented below with all future payments discounted to present day dollars.

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 rate of duty-related deaths will not change because the death benefit is indexed. An index based upon the CPI-W with a 3% yearly maximum will be applied each year to the \$150,000 death benefit. We assumed the maximum 3% increase for this pricing to produce results that would outline the highest possible increases in contribution rates. Therefore, actual experience in the future may cost less than the increases outlined here.

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

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

FISCAL IMPACT

Description

This proposal has a cost because it increases the benefit amount payable in future years to survivors of duty related deaths.

We excluded JRS because we do not expect anyone to receive this benefit. The cost of indexing the proposed benefit for survivors of LEOFF inactive members who die within five years of separation from service is not included in this preliminary fiscal note. Additionally, SHB 1266 (Chapter 487 Laws of 2007), has not been included in the base liability for LEOFF 1. Including deaths as a result of occupational diseases for LEOFF 1 members would increase the liabilities in this fiscal note, although the additional liability would not be sufficient to take LEOFF 1 out of a surplus. Furthermore, the costs attributable to ESHB 1833, which passed in 2007, have not been included in the base liabilities, thus understating the LEOFF liability increase due to this proposal by not including the additional occupational diseases defined in ESHB 1833. However, we do not expect this exclusion to affect the supplemental rate increase provided in this draft fiscal note. The increase in the present value future benefits for VFF is approximately \$420,000. We do not have data on the higher education retirement plans.

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:

<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>			
PERS 1	\$13,723	\$0.0	\$13,723
PERS 2/3	<u>18,966</u>	<u>0.8</u>	<u>18,967</u>
PERS Total	32,689	0.8	32,690
TRS 1	10,834	0.0	10,834
TRS 2/3	<u>6,804</u>	<u>0.1</u>	<u>6,804</u>
TRS Total	17,638	0.1	17,638
SERS 2/3	2,610	0.2	2,610

PSERS 2	169	0.0	169
LEOFF 1	4,316	0.0	4,316
LEOFF 2	<u>6,004</u>	<u>1.7</u>	<u>6,006</u>
LEOFF Total	10,320	1.7	10,322
WSPRS 1/2	\$848	\$0.1	\$848

Unfunded Actuarial Accrued Liability

(The Portion of the Plan 1 Liability that is Amortized at 2024)

PERS 1	\$3,196	\$0.0	\$3,196
TRS 1	1,976	\$0.0	1,976
LEOFF 1	(\$702)	\$0.0	(\$702)

Unfunded Liability (PVCBP)

(The Value of the Total Commitment to all Current Members Attributable to Past Service)

PERS 1	\$3,750	\$0.0	\$3,750
PERS 2/3	<u>(2,338)</u>	<u>\$0.8</u>	<u>(2,337)</u>
PERS Total	1,412	\$0.8	1,413
TRS 1	2,348	\$0.0	2,348
TRS 2/3	<u>(1,116)</u>	<u>\$0.1</u>	<u>(1,116)</u>
TRS Total	1,232	\$0.1	1,232
SERS 2/3	(336)	\$0.2	(336)
PSERS 2	0	\$0.0	0
LEOFF 1	(738)	\$0.0	(738)
LEOFF 2	<u>(521)</u>	<u>\$1.7</u>	<u>(519)</u>
LEOFF Total	(1,259)	\$1.7	(1,257)
WSPRS 1/2	(\$89)	\$0.1	(\$89)

Note: Totals may not agree due to rounding.

LEOFF is the only system with a rate impact for the current biennium. For the other systems, the un-rounded increase in the required actuarial contribution rate does not round-up to the minimum supplemental contribution rate of 0.01%; therefore the proposal will not affect contribution rates in the current biennium. However, the un-rounded rate increase shown below is applied to all subsequent biennia.

System/Plan	Increase in Contribution Rates: (Effective 9/1/2008)						
	PERS	TRS	SERS	PSERS	LEOFF	WSPRS	
Current Members							
Employee (Plan 2)	0.001%	0.000%	0.002%	0.001%	0.006%	0.003%	
Employer	0.001%	0.000%	0.002%	0.001%	0.004%	0.003%	
State					0.002%		
New Entrants*							
Employee (Plan 2)	0.000%	0.000%	0.001%	0.000%	0.003%	0.002%	
Employer	0.000%	0.000%	0.001%	0.000%	0.002%	0.002%	
State					0.001%		

**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

(Dollars in Millions)	Fiscal Costs						Total
	PERS	TRS	SERS	PSERS	LEOFF	WSPRS	
2008-2009							
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.1</u>
Total Employer	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.1
2009-2011							
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.1
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.1	0.0	0.2
Local Government	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.2</u>
Total Employer	0.2	0.0	0.0	0.0	0.2	0.0	0.4
Total Employee	\$0.1	\$0.0	\$0.0	\$0.0	\$0.2	\$0.0	\$0.3
2008-2033							
General Fund	\$0.3	\$0.2	\$0.2	\$0.0	\$1.2	\$0.0	\$0.8
Non-General Fund	<u>0.5</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.6</u>
Total State	0.8	0.2	0.2	0.0	1.2	0.1	1.1
Local Government	<u>1.3</u>	<u>0.1</u>	<u>0.2</u>	<u>0.0</u>	<u>2.0</u>	<u>0.0</u>	<u>3.6</u>
Total Employer	1.2	0.3	0.4	0.0	3.2	0.1	6.1
Total Employee	\$1.5	\$0.0	\$0.2	\$0.0	\$3.2	\$0.1	\$5.0

Note: Totals may not agree due to rounding.

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 number of members expected to have a duty-related death would have to increase for this proposal to impact rates in systems besides LEOFF. The table below shows the multiple of how many more assumed duty-related deaths are required before the rate impact would reach 0.005% for each system. For example, in WSP, the employee rate impact would reach 0.005% if 2 times as many members as expected had a duty-related death.

System	Multiple
PERS	7
TRS	15
SERS	3
PSERS	7
LEOFF	1
WSP	2

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

DRAFT

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.



STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD

P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

June 5, 2007

RECEIVED

JUN 5 - 2007

Office of
The State Actuary

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to thank you for all of your help during 2006.

I want to bring several topics to your attention as you begin preparations for the 2007 interim. It is my hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to develop legislation. I have provided a brief summary of each topic for your reference:

Deferred Compensation

The Board studied the need for a clear definition of what is included in "basic salary" in regard to employer contributions to 457 Deferred Compensation Plans.

Under current law, member contributions to 401(a) defined benefit plan such as LEOFF Plan 2 are includable in basic salary and are mandatory. Employer contributions are also mandatory, but are not included in basic salary. Member contributions to a 457 Deferred Compensation Plan are included in basic salary, however, employer contributions to a 457 Deferred Compensation Plan are not always treated the same. The Board will be further studying under what circumstances employer contributions to deferred compensation plans should be considered "basic salary".

Purchase of Annuity

The Board studied whether to permit LEOFF Plan 2 retirees to purchase an actuarially equivalent life annuity from the LEOFF Plan 2 retirement fund. Currently, Federal law provides that defined contribution assets can be used to purchase increased defined benefits. The following questions will need to be explored further:

- Can defined contribution assets be used to purchase additional defined benefits that would exceed the equivalent value of purchasing five years of service credit?
- Should all other Washington State pension plans be provided a similar enhancement?



Inflationary Adjustment for \$150,000 Death Benefit

As you may be aware, the Board endorsed legislation recommended by the SCPP on this topic (SHB 1266 - Addressing death benefits for public employees), which was passed with an amendment removing the annual inflation increase. The Board is interested in working with the SCPP to further study the effect of adding this inflationary adjustment to all the state retirement plans which provide the \$150,000 death benefit.

Military Service Death Benefit

The Legislature passed a bill in the 2007 session (SHB 1266 - Addressing death benefits for public employees), which included an amendment providing the survivor of a Public Employees' Retirement System Plan 2 member that left public employment and died while serving in the uniformed services in Operation Enduring Freedom (Afghanistan) or Persian Gulf, Operation Iraqi Freedom after January 1, 2007, a withdrawal benefit of 200 percent of accumulated member's contributions. The Board would like to study extending a military service death benefit to the other pension plans, including LEOFF Plan 2.

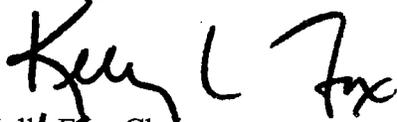
Fish and Wildlife Enforcement Officer Service Credit Transfer

The Board has studied permitting Department of Fish and Wildlife Enforcement Officers to transfer service credit earned in the Public Employees' Retirement System (PERS) Plan 2 as enforcement officers prior to July 2003 into the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. Prior groups that have been allowed membership to LEOFF Plan 2 have had the option of transferring their previous service credit. Other systems have also had the opportunity to make similar transfers when changing systems.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or like any additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) 943-3030 or pres@wscff.org.

We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,



Kelly Fox, Chair

cc: Matt Smith, State Actuary

Survivors of PERS 1 Inactives

Background

Survivor annuities are provided for members of the Public Employees' Retirement System Plan 1 who die prior to retirement while in active service. Once a member leaves active service, however, the only benefit available to the survivor is a refund of accumulated contributions – even if the member was eligible to collect a retirement pension at the time. This is the only Washington State plan with service-based survivor benefits that makes such a distinction.

Committee Activity

Presentations:

July 17, 2007 - Full Committee

September 18, 2007 - Full Committee

Proposal:

November 13, 2007 - Full Committee

Recommendation to Legislature

Provide the same optional survivor annuity for inactive members of PERS Plan 1 who die prior to retirement as is provided for active members of PERS Plan 1 who die prior to retirement.

Staff Contact

Darren Painter

Policy Analyst

360.786.6155

painter.darren@osa.leg.wa.gov

In Brief

ISSUE

PERS 1 provides different pre-retirement death benefits for inactive members than for active members. PERS 1 is the only Washington State plan with service-based survivor benefits that makes such a distinction.

Survivor annuities are provided for PERS 1 members who die prior to retirement while in active service. Once a member leaves active service, however, the only benefit available to the survivor is a refund of accumulated contributions - even if the member was eligible to collect a retirement pension at the time of death.

MEMBER IMPACT

There are 2,675 PERS 1 terminated vested members. Of these, at least 200 are eligible for immediate retirement.

Darren Painter
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Survivors of PERS 1 Inactive Members

Current Situation

The pre-retirement death benefits provided for Public Employees' Retirement System Plan 1 (PERS 1) members differ depending on whether the member was active or inactive at the time of death.

Survivors of active PERS 1 members who die prior to retirement may generally choose between a refund of the member's accumulated contributions or a survivor annuity. To qualify for the survivor annuity, the member must have been eligible for retirement or had ten or more years of service at the time of death. The survivor annuity is calculated as if the member chose to retire and elected a joint and 100 percent survivorship option. The annuity is actuarially reduced for the difference between the age when the member would have qualified for a service retirement and the age of death.

In contrast, survivors of PERS 1 members who die after leaving service but prior to retirement only receive a refund of the member's accumulated contributions.* The survivor is not allowed to receive a continuing survivor benefit – even if the member was eligible for retirement at the time of death.

**Accumulated contributions include interest.*

Example

Example 1: Short career, long absence

A PERS 1 member leaves service after ten years. The member does not withdraw their contributions and becomes a terminated vested member. Twenty years later the member dies.

Example 2: Full career, short absence

A PERS 1 member leaves service after thirty years. The member is eligible to retire, but chooses to defer retirement for tax purposes. Three months

after separating from service, and before applying for retirement, the member dies.

A survivor annuity is often more valuable than a return of contributions.

In both cases, the survivor only receives a refund of the member's accumulated contributions. Had the member been in active service at the time of death, the survivor would have been allowed to receive a survivor annuity based on the member's earned pension. In the case of the member who was retirement eligible at the time of death, the survivor annuity would be worth far more than the refund of the member's contributions.

Policy Analysis

Active members who die are viewed as early retirements while inactive members are viewed as withdrawals.

The current policy for pre-retirement death benefits in PERS 1 takes different views of death prior to retirement based on the employment status of the member. Members who die while in service are viewed as early retirements while members who die after leaving service are viewed as withdrawals from membership. Being treated as a withdrawn member means the employer-funded portion of the member's retirement benefit is forfeited. Such a policy runs counter to the basic earned benefit design of the PERS system. Under an earned benefit design, a member receives the value of the benefit they have accrued or "earned" based on the service rendered. Under current policy, members who leave employment and become vested after long careers lose much of the value of the service they have rendered if they die prior to retirement.

Providing lesser benefits for members who leave active service may be seen as a way to encourage members to remain active in the system until retirement. This is more of a "golden-handcuffs" approach to pension plan design that places less emphasis on member flexibility in changing careers.

The practice of providing different pre-retirement death benefits to members who die in active service as opposed to members who die after leaving service is inconsistent with the practice in other Washington plans that provide service-based survivor benefits.

Reasons for Differences

The PERS 1 differences in pre-retirement death benefits for active and inactive members may be the result of an oversight or a deliberate policy decision.

Differences may be an oversight or a deliberate policy decision.

When PERS 1 was first created, it did not provide a vested retirement benefit to members who separated from service prior to retirement. When the vested benefit was later added, the survivor benefit for vested members may have been overlooked.

Policy reasons for providing different and less generous benefits for members who leave active service include:

- Encouraging members to stay active in the plan until retirement.
- Reducing costs.
- Lack of a perceived need to provide survivor benefits on behalf of members who left the system.

Other Washington State Plans

PERS 1 is unique among Washington plans providing service-based survivor benefits in that it differentiates between active and inactive members for purposes of pre-retirement death benefits. In contrast, the Plans 2/3 and the Teachers' Retirement System Plan 1 (TRS 1) do not differentiate between active and inactive members. These plans provide the same pre-retirement death benefits for active and inactive members: Survivors of eligible members in these plans, whether active or inactive at time of death, may choose between a survivor annuity or a refund of the member's accumulated contributions.

Other plans provide the same benefits for both active and inactive members.

Comparative Systems

Washington's comparative systems are split on the policy of differentiating between active and inactive members for pre-retirement death benefits. Among the systems covering general government employees, six distinguish between active and inactive members for the purpose of providing pre-retirement death benefits and five do not. Oregon, Wisconsin, Ohio, Florida, Colorado, and California provide different pre-retirement death benefits for inactive

The comparative systems are split on the policy of differentiating between active and inactive members.

members than for active members. Generally, these systems provide a refund of member contributions for inactive members while providing a survivor annuity or an additional employer match of member contributions for active members. Seattle, Minnesota, Missouri, Idaho, and Iowa provide the same pre-retirement death benefits for both active and inactive members. California and Ohio treat members who have separated within a specified timeframe as active for purposes of receiving the pre-retirement death benefits: four months in California, and thirty months in Ohio.

Policy Questions

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

- Should the same pre-retirement death benefits be provided for inactive PERS 1 members that are provided for active PERS 1 members (choice of annuity or refund of contributions)?
- Should the same eligibility criteria for a survivor annuity apply to both inactive members and active members (retirement eligible or ten or more years of service at time of death)?

Implications of Changes to Current Policy

Providing the same pre-retirement death benefits for active and inactive members is consistent with the approach in other Washington plans.

Providing the same pre-retirement death benefits and eligibility for inactive members as for active members is consistent with the earned benefit design and with the approach taken in the Plans 2/3 and TRS 1.

Providing different eligibility criteria for inactive members may lower costs and could be used to target the improvement to those survivors most adversely affected by the current policy. For example, the survivor annuity could be limited to inactive members who were retirement eligible at the time of death or who had worked substantial careers before leaving service. These members generally lose the most by not having an annuity option available. However, any time a line is drawn, some members will fall outside of it. This may lead to calls for additional expansions later (i.e., an inactive member dies one day prior to retirement eligibility).

Benefit improvements are unlikely to be fully funded over the working lives of members.

Changing current policy regarding pre-retirement death benefits in PERS 1 may have funding policy implications as well. Since PERS 1 is a closed plan and most members are near the end of their working careers, any benefit improvements are unlikely to be funded over the working lifetime of the current members. This is inconsistent with the current statutory funding policy goal of intergenerational equity. Intergenerational equity calls for benefit improvements to be funded over the working lives of the members receiving the benefits so that the costs of those benefits are paid for by the taxpayers who receive the benefit of the members' services.

Executive Committee Recommendation

At the September meeting, the Executive Committee recommended that the same pre-retirement death benefits be provided for PERS 1 inactive members as for active members. The effect of this is to allow an optional survivor annuity to be provided for inactive PERS 1 members who die prior to retirement.

STAKEHOLDER INPUT

***Correspondence from:
Dave Nelsen, DRS***

Procedural History / Next Steps

The full SCPP received a briefing on this issue on September 17, 2007. The Executive Committee, at its meeting immediately following, made a recommendation on this issue and directed staff to prepare a bill draft and fiscal note for the consideration of the full SCPP. The full committee will be briefed on the Executive Committee's recommendation at the November meeting.

Bill Draft

A Code Reviser draft of the bill (Z-0735.1/08) is attached.

Draft Fiscal Note

Attached.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0735.1/08

ATTY/TYPIST: LL:rls

BRIEF DESCRIPTION: Extending the survivor annuity option for preretirement death in plan 1 of the public employees' retirement system to members who die after leaving active service.

1 AN ACT Relating to extending the survivor annuity option for
2 preretirement death in plan 1 of the public employees' retirement
3 system to members who die after leaving active service; amending RCW
4 41.40.270; and providing an effective date.

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

6 **Sec. 1.** RCW 41.40.270 and 2003 c 155 s 6 are each amended to read
7 as follows:

8 (1) Except as specified in subsection (4) of this section, should
9 a member die before the date of retirement the amount of the
10 accumulated contributions standing to the member's credit in the
11 employees' savings fund, less any amount identified as owing to an
12 obligee upon withdrawal of accumulated contributions pursuant to a
13 court order filed under RCW 41.50.670, at the time of death:

14 (a) Shall be paid to the member's estate, or such person or
15 persons, trust, or organization as the member shall have nominated by
16 written designation duly executed and filed with the department; or

17 (b) If there be no such designated person or persons still living
18 at the time of the member's death, or if a member fails to file a new
19 beneficiary designation subsequent to marriage, remarriage, dissolution

1 of marriage, divorce, or reestablishment of membership following
2 termination by withdrawal or retirement, such accumulated
3 contributions, less any amount identified as owing to an obligee upon
4 withdrawal of accumulated contributions pursuant to a court order filed
5 under RCW 41.50.670, shall be paid to the surviving spouse as if in
6 fact such spouse had been nominated by written designation as
7 aforesaid, or if there be no such surviving spouse, then to the
8 member's legal representatives.

9 (2) Upon the death (~~((in service, or while on authorized leave of~~
10 ~~absence for a period not to exceed one hundred and twenty days from the~~
11 ~~date of payroll separation,))~~) of any member who is qualified but has
12 not applied for a service retirement allowance or has completed ten
13 years of service at the time of death, the designated beneficiary, or
14 the surviving spouse as provided in subsection (1) of this section, may
15 elect to waive the payment provided by subsection (1) of this section.
16 Upon such an election, a joint and one hundred percent survivor option
17 under RCW 41.40.188, calculated under the retirement allowance
18 described in RCW 41.40.185 or 41.40.190, whichever is greater,
19 actuarially reduced, except under subsection (5) of this section, by
20 the amount of any lump sum benefit identified as owing to an obligee
21 upon withdrawal of accumulated contributions pursuant to a court order
22 filed under RCW 41.50.670 shall automatically be given effect as if
23 selected for the benefit of the designated beneficiary. If the member
24 is not then qualified for a service retirement allowance, such benefit
25 shall be based upon the actuarial equivalent of the sum necessary to
26 pay the accrued regular retirement allowance commencing when the
27 deceased member would have first qualified for a service retirement
28 allowance.

29 (3) Subsection (1) of this section, unless elected, shall not apply
30 to any member who has applied for service retirement in RCW 41.40.180,
31 as now or hereafter amended, and thereafter dies between the date of
32 separation from service and the member's effective retirement date,
33 where the member has selected a survivorship option under RCW
34 41.40.188. In those cases the beneficiary named in the member's final
35 application for service retirement may elect to receive either a cash
36 refund, less any amount identified as owing to an obligee upon
37 withdrawal of accumulated contributions pursuant to a court order filed

1 under RCW 41.50.670, or monthly payments according to the option
2 selected by the member.

3 (4) If a member dies within sixty days following application for
4 disability retirement under RCW 41.40.230, the beneficiary named in the
5 application may elect to receive the benefit provided by:

6 (a) This section; or

7 (b) RCW 41.40.235, according to the option chosen under RCW
8 41.40.188 in the disability application.

9 (5) The retirement allowance of a member who is killed in the
10 course of employment, as determined by the director of the department
11 of labor and industries, is not subject to an actuarial reduction. The
12 member's retirement allowance is computed under RCW 41.40.185.

13 NEW SECTION. **Sec. 2.** This act takes effect July 1, 2008.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	10/29/07	Z-0735.1

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

This proposal impacts the Public Employees' Retirement System (PERS) Plan 1 by providing an optional survivor annuity for certain inactive members who die prior to retirement.

Increase in Actuarial Liabilities			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$32,689	0	\$32,689
Unfunded Actuarial Accrued Liability	3,196	0	3,196
Unfunded Liability (PVCBP)	\$1,412	0	\$1,412

Total Increase in Contribution Rates			
Current Biennium	PERS	SERS	PSERS
Employee (Plan 2)	0.00%	0.00%	0.00%
Employer (UAAL)	0.00%	0.00%	0.00%

Fiscal Costs			
<i>(Dollars in Millions)</i>	2008-2009	2009-2011	25-Year
General Fund-State	\$0.0	\$0.0	\$0.2
Total Employer	\$0.0	\$0.1	\$1.0

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

SUMMARY OF PROPOSAL

This proposal impacts the Public Employees' Retirement System (PERS) Plan 1 by providing the same optional survivor annuity for inactive members who die prior to retirement as is provided for active members who die prior to retirement.

Assumed Effective Date: July 1, 2008

CURRENT SITUATION

Survivors of active PERS 1 members who die prior to retirement may generally choose between a refund of the member's accumulated contributions with interest or a survivor annuity. To qualify for the survivor annuity, the member must have been eligible for retirement or had ten or more years of service at the time of death. The survivor annuity is calculated as if the member chose to retire and elected a joint and 100 percent survivorship option. The annuity is actuarially reduced for the difference between the age when the member would have qualified for a service retirement and the age of death.

In contrast, survivors of inactive PERS 1 members who die after leaving service but prior to retirement only receive a refund of the member's accumulated contributions with interest.

SUMMARY OF MEMBERS IMPACTED

There are currently 2,675 terminated and vested members in PERS Plan 1. Of those, 1,752 have at least ten years of membership service. We would expect to see about 9 deaths in the first year among those 1,752 members. The ratio of members with survivors who collect annuities is assumed to vary by age, but we estimate that approximately 5 survivors per year would receive an annuity in place of the current return of member contributions.

Currently, the average inactive member with ten or more years of service has an accumulated account balance of about \$65,000. Under this proposal, a beneficiary could receive a monthly annuity payment instead of an account refund. In most cases, the annuity would be more valuable.

Additionally, there are 14,213 PERS Plan 1 active members who could be impacted in the future. An active member who terminates with at least ten years of service sometime in the future could also die and leave a beneficiary to collect a monthly annuity under this proposal.

METHODS

To estimate the cost of the proposed benefit improvement, we measured the difference in cost between refunding account balances for all terminated vested deaths and paying annuities to those members assumed to have spouses that would elect to receive an annuity. To these survivors, we paid a joint and 100 percent benefit, actuarially reduced from the member's normal retirement age.

Normal retirement age for terminated and vested members varies as follows. Members who terminate after December 31, 2001, who are at least age 50 upon termination, and who have at least 20 years of service may retire without an actuarial reduction at age 60. All other terminated vested members have a normal retirement age of 65, regardless of service.

Members who die with less than 10 years of service, and members whose survivors do *not* select an annuity, continue to receive a refund of member contributions.

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

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

ASSUMPTIONS

We used the same assumed ratio of survivors selecting annuities as was used in determining the costs for annuities resulting from active deaths. We developed a weighted average single-point ratio of members whose beneficiaries would *not* select an annuity to find the cost of this proposal for currently terminated members. Among currently terminated PERS 1 members with at least ten years of membership service, we expect 43 percent will receive a refund of contributions instead of a monthly annuity.

Otherwise, all 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

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

FISCAL IMPACT

Description

The proposed benefit has a cost since a survivor annuity is generally more valuable than a refund of accumulated contributions.

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 un-rounded increase in the required actuarial contribution rate increase does not round up to the minimum supplemental contribution rate of 0.01%. Therefore, the proposal will not affect contribution rates in the current biennium. However, the un-rounded rate increase shown below is applied to all 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>			
PERS 1	\$13,723	\$0.5	\$13,723
PERS 2/3	<u>18,966</u>	<u>0.0</u>	<u>18,966</u>
PERS Total	\$32,689	\$0.5	\$32,689
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>			
PERS 1	\$3,196	\$0.5	\$3,196
Unfunded Liability (PVCBP)			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
PERS 1	\$3,750	\$0.5	\$3,750
PERS 2/3	<u>(2,338)</u>	<u>0.0</u>	<u>(2,338)</u>
PERS Total	\$1,412	\$0.5	\$1,412

Note: Totals may not agree due to rounding.

Increase in Contribution Rates: (Effective 09/01/2008)			
System/Plan	PERS	SERS	PSERS
Current Members			
Employee (Plan 2)	0.0000%	0.0000%	0.0000%
Employer (UAAL) State	0.0004%	0.0004%	0.0004%
New Entrants*			
Employee (Plan 2)	0.0000%	0.0000%	0.0000%
Employer State	0.0000%	0.0000%	0.0000%

**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

<i>(Dollars in Millions)</i>	Fiscal Costs			
	PERS	SERS	PSERS	Total
2008-2009				
General Fund	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011				
General Fund	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>
Total Employer	0.1	0.0	0.0	0.1
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0
2008-2033				
General Fund	\$0.1	\$0.0	\$0.0	\$0.2
Non-General Fund	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>
Total State	0.4	0.0	0.0	0.4
Local Government	<u>0.5</u>	<u>0.1</u>	<u>0.0</u>	<u>0.6</u>
Total Employer	0.9	0.1	0.0	1.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0

Note: Totals may not agree due to rounding.

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

In determining the cost of this proposal, we used the same assumed ratio of survivors selecting annuities that we use in estimating the cost of annuities for survivors of active deaths. If instead, we assumed a higher ratio of terminated vested members who die will leave survivors taking annuities, the cost of this proposal would be higher.

To set an upper bound on the price of this benefit improvement, we assumed all terminated vested members eligible for the proposed benefit would leave survivors selecting annuities. That is, for all inactive members with at least ten years of service, we assumed 100 percent of those who died would leave survivors electing to receive annuities, regardless of the member's age.

Using this assumption, the increase in the UAAL changed from around \$500,000 to about \$1,000,000, and the UAAL contribution rate increase went from 0.0004% to 0.0009%.

If, on the other hand, we were to assume that fewer eligible inactive members leave survivors who select an annuity, then we would arrive at a cost even closer to zero than is our expected cost.

In any case, the cost of this proposal is insufficient to result in a supplemental contribution rate increase in the first biennium. Any subsequent costs would be realized with actual experience.

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.

Winner, Charlene

From: Harper, Laura
Sent: Monday, May 21, 2007 4:36 PM
To: Winner, Charlene
Subject: FW: Interim Issues list

For scanning, adding to log and including in the interim issues file. Thanks.

-----Original Message-----

From: Smith, Matt
Sent: Monday, May 21, 2007 4:11 PM
To: Harper, Laura
Subject: FW: Interim Issues list

---- Original Message ----

From: "Nelsen, Dave (DRS)" <DaveN@DRS.WA.GOV>
Date: 5/21/07 3:10 pm
To: "Smith, Matt" <Smith.Matt@leg.wa.gov>
Cc: "Wickman, Jeff (DRS)" <JeffW@DRS.WA.GOV>
Subj: Interim Issues list
Matt,

Per our discussion on Friday and based upon our meeting with Laura, the following is a list of issues that has come to our attention that may be of interest to the Select Committee. We are not pursuing these as initiatives for DRS through the executive request legislation process, but we have learned about them through our administrative role and are providing them to the Select committee for consideration.

- * Expanding the Plan 1 Post 30 year contribution program to include an annual window for opting in prospectively, rather than just the one time chance upon reaching 30 years. This has been requested by Plan 1 members. Often, circumstances change after 30 years of service, and what may not have made sense at that time may become an attractive option, even an incentive to retain valuable Plan 1 employees. With the rising cost of healthcare, many Plan 1 members find they cannot afford to retire at an early age, but have missed their deadline to participate in this program.

- * Death while retirement eligible. In PERS Plan 1, if an active member with more than 10 years of service dies, their surviving spouse can choose either to receive a monthly benefit at the option 2 level, or a refund of contributions and interest. However, if a Plan 1 member who is inactive, regardless of years of service or even eligibility to retire, passes away, their survivor only can receive the contributions and interest. This doesn't occur often, but when it does, it can be devastating for survivors. Some individuals may separate when retirement eligible, but don't want to begin drawing their monthly benefits right away. Some are inactive for a time and have forgotten to retire when they first became eligible. In these situations, if the member were to die before applying for their benefit, the spouse would not be eligible for an on going monthly payment.

- * Veterans Benefits. The amendment to the \$150k bill to allow twice the contributions to surviving spouses of members killed while on military duty affects PERS Plan 2 only. This creates a benefit inequity with the other systems.

- * Additionally, the Department would like to bring a proposal to the committee for endorsement that deals with inactive, non-vested members. Currently, a member who separates is not required to withdraw, whether they are vested or not. However, the IRS requires the Department to pay the members when they turn age 70 ½, or pay their beneficiaries when they die. Often, funds can sit in an account for many years, even decades, after employment before reaching these milestones. The Department is then required to locate individuals at significant administrative expense, if it is even

possible. There are currently approximately 50,000 inactive, non-vested members. We are consulting with peers in other systems and evaluating proposals to address this situation and would like to bring a recommendation to the committee.

Thank you for your consideration and let me know if you have any questions about these items.

Sincerely,

Dave Nelsen

DRS

TRS/SERS Half-Year Contracts

Background

Currently, the service credit statutes and rules accommodate teachers and school employees who work half-time for a full school year by awarding them a half-year (six months) of service credit. However, there is no provision to accommodate the school employees who work full time for one-half of the school year. Such school employees earn service credit based upon the hours worked in each month. A typical school employee with a half-year contract will earn five months of service credit.

Committee Activity

Presentations:

July 17, 2007- Full Committee

September 18, 2007 - Executive Committee

November 13, 2007 - Full Committee

Proposal:

November 13, 2007 - Full Committee

Recommendation to Legislature

Allow educational employees of the Teachers' Retirement System and the School Employees' Retirement System Plans 2 and Plans 3 who work 630 or more hours in five months of a six-month period within a school year to receive six months of service credit.

Staff Contact

Laura Harper

Policy and Research Services Manager

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In Brief

ISSUE

Should service credit statutes be changed to better accommodate educational employees who work full time for half of a school year?

MEMBERS IMPACTED

This proposal would impact approximately 68 members in TRS and 75 members in SERS per year.

TRS and SERS 2/3 “Half-Year Contracts”

Current Situation

Currently service credit for educational employees in Plans 2 and 3 of the Teachers' Retirement System (TRS) and School Employees' Retirement System (SERS) is handled with more flexibility than for most PERS members due to the differences in scheduling for employees working in public education. In TRS and SERS, service credit for educational employees is awarded based on the following methods:

1. Twelve-month method (full-time teachers):
810 hours and 9 months = 12 months of service
2. Six-month method (half-time teachers):
630 hours and 9 months = 6 months of service
3. Month-by-month method:
Less than 9 months = up to 1 month of service for each month worked

The current system bases service credit on both the number of hours and the number of months worked. In no instance are members allowed to receive more than one service credit month in any calendar month. Also, in order to receive service credit, the member must be employed. Teachers who do not come to work during every month of the calendar year are still considered to be employed because they have a contract for the entire year.

Service credit is awarded as it is earned, not as salary is paid. Thus a teacher whose salary is not annualized and who does not come to work in July and August can still earn service credit for July and August as long as the teacher is under contract for those months. Most teacher contracts expire at the end of August.

Currently, the service credit statutes and rules accommodate teachers who work half-time for an entire school year by awarding them six months of service credit. However, there is no current provision to accommodate teachers who work full time for one-half of the school year – such teachers can only use the “month-to-month” method for determining their service credit.

Laura Harper
Policy and Research
Services Manager
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360-786-6145

Example

A teacher works for five months in a full time “job-share” that lasts for one-half of the school year. During the five-month period the teacher works more than 630 hours, but because she only works for five months, the constituent does not fit the criteria for receiving six months of service credit under the six-month method. This is because the method was only designed to accommodate employees working less than full time for an entire school year. This constituent must therefore use the month-by-month method to receive five months of service credit, i.e. one for each month worked.

Under the proposal, this teacher would receive six months of service credit.

Procedural History

This proposal was brought before the SCPP by Senator Kilmer on behalf of a constituent. The SCPP received a short briefing on this proposal at its July 17, 2007, meeting. The Executive Committee further discussed the matter at its August 14, 2007, meeting. At that time, Member Representative Cuzzetto expressed the view that it would be useful to accommodate job-sharing in the service credit provisions. The Chair asked Representative Fromhold, DRS Director Matheson, and Member Representative Cuzzetto to look at this issue in more depth and bring back a recommendation. Staff from DRS and OSA met to develop suggested language that would accommodate the goals of the work group. The work group agreed upon an approach in a conference call on September 4, 2007.

An update was provided to the Executive Committee on September 18, 2007.

Recommendation

The work group recommended adding statutory language that would accommodate Senator Kilmer's constituent, facilitate job-sharing and half-year contracts, and maintain consistency with existing service credit statutes and rules. The work group recommended the following:

Allow a member employed in an eligible position or as a substitute teacher for five months of a six-month period between September through August of the following year who earns earnable compensation for 630 or more hours to receive one service credit month for each month of the six-month period.

The result of this approach would be to create an alternative six-month method (in bold):

630 hours in nine months of a twelve-month period

OR

630 hours in five months of a six-month period

The proposal would give full-time employees working for one-half of the school year the same amount of service credit as half-time employees working the entire school year.

The new language would accommodate full-time employees working for one-half of the school year and give them the same amount of service credit as half-time employees working the entire school year.

Policy Discussion

The proposal is consistent with the current policy of providing flexibility in awarding service credit to employees working in educational settings. Service credit rules for teachers already recognize that teachers do not necessarily come to work during each month of their contract period. While current rules provide flexibility under contracts lasting for a full year, they do not currently address contracts for a term of one-half year. The proposal would address such contracts, thereby facilitating job-sharing as well as "single-semester" contracts.

Offering six months service credit for five months worked could be an incentive for some members who are currently working six months of a school year to find a way to work five months instead. At this point in time, there is no way of knowing if or how offering this benefit would change employee behavior. Employees who are reaching the end of their careers would not likely seek to change their behavior due to the negative impact on their final average salary, which in turn reduces their monthly pension benefit. For other employees, however, if this benefit did change behavior, the result would be a savings to the retirement systems.

Other States

In Washington's comparative retirement systems, the following are approaches that are specific to educational employees who work less than a full school year:

CalSTERS: The district establishes the hour requirements for an FTE. A part-time educator's hours are compared to the FTE requirements, and service credit is awarded on a percentage basis. Extra service credit can be included for the school year, but no more than one service credit year can be awarded.

Half of Washington's comparative systems provide flexibility for educational employees working less than a full school year.

Missouri: Service credit for educational employees serving full time for less than a full year is calculated on a "salary over salary" basis and credited in tenths of a year. Service credit is determined by dividing the salary earned during a school year by the full-time annual base salary the member would have earned for the complete term of the position.

Ohio: If a teacher's total full-time service is fewer than 120 days, the teacher's service credit is determined as if the service were part-time. The member would receive service credit under one of two methods, whichever provides the greater service credit: 1) number of days of actual paid teaching service divided by 180; or 2) if the member taught for one employer for at least 90 days or 500 hours and maintained an employment relationship equal to at least 120 days of the school year, service credit is calculated by dividing actual compensation by the first step of the state minimum salary schedule.

Oregon: Oregon's plan for employee's hired on or after August 29, 2003, provides that a pro rata credit is given for years where the teacher works between 600 hours and the full-time equivalent for their school district.

Wisconsin: Teachers must work 1,320 hours in a fiscal year (July 1 – June 30) to earn a full year of service credit, so 1,320 is the divisor used to calculate the decimal fraction of a year of service credited for a teacher who works part-time.

Correspondence

Stakeholder correspondence from Senator Kilmer is attached. Senator Kilmer's original correspondence

included a bill draft; however, the work group has taken a slightly different approach in order to avoid unintended consequences to members.

**STAKEHOLDER
INPUT**

A copy of the letter from Senator Kilmer to the SCPP dated June 5, 2007, is attached.

Executive Committee Recommendation

At its September 18, 2007, meeting, the Executive Committee agreed with the recommendation of the informal work group and recommended that the proposed statutory changes be forwarded to the full SCPP.

Bill Draft

An internal OSA bill draft is attached. It incorporates the changes to TRS and SERS Plans 2/3 that were recommended by the work group and the Executive Committee.

Draft Fiscal Note

Attached.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0769.1/08

ATTY/TYPIST: LL:ean

BRIEF DESCRIPTION: Addressing service credit for members working a partial year in plans 2 and 3 of the teachers' retirement system and the school employees' retirement system.

AN ACT Relating to service credit for members working a partial year in plans 2 and 3 of the teachers' retirement system and the school employees' retirement system; amending RCW 41.35.180; and reenacting and amending RCW 41.32.010.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the

equivalent service credit.

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

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

(v) "Earnable compensation" does not include:

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

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

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

(b) "Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include

wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, bonuses for certification from the national board for professional teaching standards authorized under RCW 28A.405.415, or any form of severance pay.

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

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

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

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

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

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

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

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

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

(15) "Member" means any teacher included in the membership of the

retirement system who has not been removed from membership under RCW 41.32.878 or 41.32.768. Also, any other employee of the public schools who, on July 1, 1947, had not elected to be exempt from membership and who, prior to that date, had by an authorized payroll deduction, contributed to the member reserve.

(16) "Membership service" means service rendered subsequent to the first day of eligibility of a person to membership in the retirement system: PROVIDED, That where a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered.

The provisions of this subsection shall apply only to plan 1 members.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Any other member employed in an eligible position or as a substitute who earns earnable compensation during the period from September through August shall receive service credit according to one of the following methods, whichever provides the most service credit to the member:

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

((~~iii~~)) (B) If a member is employed in an eligible position or as a substitute teacher for at least five months of a six-month period between September through August of the following year and earns earnable compensation for six hundred thirty or more hours within the

six-month period, he or she will receive a maximum of six service credit months for the school year, which shall be recorded as one service credit month for each month of the six-month period;

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

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

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

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

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

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

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

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

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

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

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

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

~~((vii))~~ (vi) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining

eligibility to retire under RCW 41.32.470.

~~((viii))~~ (vii) The department shall adopt rules implementing this subsection.

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

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

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

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

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

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

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

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

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

(36) "Substitute teacher" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(46) "Annual increase" means, initially, fifty-nine cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(47) "Member account" or "member's account" for purposes of plan 3

means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

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

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

Sec. 2. RCW 41.35.180 and 1998 c 341 s 19 are each amended to read as follows:

(1) Except for any period prior to the member's employment in an eligible position, a plan 2 or plan 3 member who is employed by a school district or districts or an educational service district:

(a) Shall receive a service credit month for each month of the period from September through August of the following year if he or she is employed in an eligible position, earns compensation earnable for eight hundred ten hours or more during that period, and is employed during nine months of that period;

(b) Who earns earnable compensation in an eligible position during the period from September through August, except under (a) of this subsection, shall receive service credit according to one of the following methods, whichever provides the most service credit to the member:

(i) If a member in an eligible position for each month of the period from September through August of the following year does not meet the hours requirements of (a) of this subsection, the member is entitled to one-half service credit month for each month of the period if he or she earns earnable compensation for at least six hundred thirty hours but less than eight hundred ten hours during that period, and is employed nine months of that period;

~~((e))~~ (ii) A member employed in an eligible position for at

least five months of a six-month period between September through August of the following year who earns earnable compensation for six hundred thirty or more hours within the six-month period will receive a maximum of six service credit months for the school year, recorded as one service credit month for each month of the six-month period;

(iii) In all other instances, a member in an eligible position is entitled to service credit months as follows:

~~((i))~~ (A) One service credit month for each month in which compensation is earned for ninety or more hours;

~~((ii))~~ (B) One-half service credit month for each month in which compensation is earned for at least seventy hours but less than ninety hours; and

~~((iii))~~ (C) One-quarter service credit month for each month in which compensation is earned for less than seventy hours.

(2) The department shall adopt rules implementing this section.

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	10/30/2007	Z-0769.1

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

This proposal allows educational employees who work 630 hours or more in five months of a six month period within a school year to receive six months of service credit.

Increase in Actuarial Liabilities			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$20,248	0	\$20,248
Unfunded Actuarial Accrued Liability	4,470	0	4,470
Unfunded Liability (PVC PB)	\$896	0	\$896

Total Increase in Contribution Rates		
Current Biennium	TRS	SERS
Employee (Plan 2)	0.00%	0.00%
Employer	0.00%	0.00%
State		

Fiscal Costs			
<i>(Dollars in Millions)</i>	2008-2009	2009-2011	25-Year
General Fund-State	\$0.0	\$0.0	\$0.7
Total Employer	\$0.0	\$0.0	\$1.0

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

SUMMARY OF PROPOSAL

This proposal impacts Plans 2 and 3 of the Teachers' Retirement System (TRS) and the School Employees' Retirement System (SERS). It allows educational employees who work 630 or more hours in five months of a six month period within a school year to receive six months of service credit.

Assumed Effective Date: 90 days after session

CURRENT SITUATION

Currently service credit for educational employees is handled with more flexibility than for most retirement system members due to differences in scheduling for employees working in public education. In the Plans 2 and 3 of TRS and SERS, service credit is currently awarded based on the following methods:

1. Twelve-month method (full-time teachers working the entire school year):
810 hours and 9 months = 12 months of service
2. Six-month method (half-time teachers working the entire school year):
630 hours and 9 months = 6 months of service (one-half service credit for each of 12 months)
3. Month-by-month method:
All others – 1 month (or partial month) for each month worked, based on the number of hours worked within each month. A member who works 90 or more hours in a month will receive one month of service credit, a member who works at least 70 hours but less than 90 hours will receive one-half service credit month, and a member who works some but less than 70 hours will receive one-fourth service credit month.

Currently there is no method to accommodate teachers who work full time for one-half of the school year other than the month-by-month method.

Example: A teacher has a half-year contract to work full time. During a five-month period the teacher works more than 630 hours, but because she only works for five calendar months, service credit is awarded only for those months using the month-by-month method. The most this teacher can earn is five service credit months.

The proposed new method would award this teacher six months of service credit.

SUMMARY OF MEMBERS IMPACTED

We estimate that 68 active members out of the total 60,354 active members of TRS Plans 2/3 and 75 active members out of the total 50,818 active members of SERS Plans 2/3 would be affected annually by this proposal through improved benefits.

We estimate that for a member impacted by this proposal who would have retired with a final average salary of \$40,000 and 10 years of service, the increase in benefits would be an additional 5 months of service credit upon retirement (10 years of accruing an additional half month on average). This translates into an increase in annual pension from \$8,000 to \$8,333.

Additionally, 6,983 TRS Plan 2 members and 18,464 SERS Plan 2 members would be affected by this proposal through increased contribution rates.

METHODS

Currently, our valuation projects all members forward as if they will accrue one full service credit per year and will earn a full year's salary every year in the future. As a result, we first had to create a base run where all members, except new entrants, were projected forward using the amount of service that they accrued in the prior year with the salary that they earned in the prior year. Next, we increased the projected service credit accrual rate to six months for all members who accrued between five and six months in the last year and worked between 630 and 810 hours. We then compared these results to the base run to determine the cost of this proposal.

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 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

We assumed that service credit and salary will be projected forward as they were in the last year for each member. We realize that these same members may or may not remain part time, but the assumption is based on the idea that the same percent of the population will remain part time from year to year. Also, we assumed that members who work five months under a “half year contract” and then work additional months will not receive extra service credit under this proposal.

We also assumed that members who currently work six months and receive six service credit months would not choose to only work five months and receive the full six service credit months in the future. For the sensitivity analysis we assumed that all members who currently receive six months of service credit will only work five months per year in the future.

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

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

FISCAL IMPACT

Description

This proposal would increase the liabilities in TRS and SERS because it would give a small number of members more service credit per year than is allowed under current law.

Actuarial Determinations

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

The un-rounded increase in the required actuarial contribution rate does result 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	\$0	\$10,834
TRS 2/3	<u>6,804</u>	<u>0</u>	<u>6,804</u>
TRS Total	\$17,638	\$0	\$17,638
SERS 2/3	\$2,610	\$0	\$2,610
Unfunded Liability (PVCPB)			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
TRS 1	\$2,348	\$0	\$2,348
TRS 2/3	<u>(1,116)</u>	<u>0</u>	<u>(1,116)</u>
TRS Total	\$1,232	\$0	\$1,232
SERS 2/3	(\$336)	\$0	(\$336)

Note: Totals may not agree due to rounding.

Increase in Contribution Rates: (Effective 9/1/2008)		
System/Plan	TRS	SERS
Current Members		
Employee (Plan 2)	0.000%	0.000%
Employer	0.000%	0.000%
State		
New Entrants*		
Employee (Plan 2)	0.001%	0.000%
Employer	0.001%	0.000%
State		

*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

<i>(Dollars in Millions)</i>	Fiscal Costs		
	TRS	SERS	Total
2008-2009			
General Fund	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0
2009-2011			
General Fund	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0

2008-2033

General Fund	\$0.6	\$0.0	\$0.7
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.6	0.0	0.7
Local Government	<u>0.3</u>	<u>0.1</u>	<u>0.4</u>
Total Employer	0.9	0.1	1.0
Total Employee	\$0.4	\$0.0	\$0.5

Note: Totals may not agree due to rounding.

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 cost of the proposal could change based on whether members who currently work six months changed their behavior and only worked five months in the future. This would affect an additional 1,567 members in TRS and 1,316 members in SERS. This would decrease the liability and reduce the present value of future salaries. The table below shows the results:

	Expected		Sensitivity	
	TRS	SERS	TRS	SERS
Present Value of Projected Benefits Liability Increase	\$156,000	\$63,000	(\$9,362,000)	(\$2,343,000)
Present Value of Future Salaries Increase	\$31,000	\$18,000	(\$85,742,000)	(\$17,952,000)
Total Current Member Contribution Rate Increase	0.0008%	0.0009%	-0.0330%	-0.0206%
Total New Entrant Contribution Rate Increase	0.0026%	0.0003%	0.0048%	-0.0010%

This sensitivity does not include the scenario where a member increases their time worked in their last 5 years of employment in order to increase their final average salary and thus increase their retirement annuity.

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.

Burkhart, Kelly

From: Kilmer, Sen. Derek
Sent: Tuesday, June 05, 2007 9:20 AM
To: Office State Actuary, WA
Subject: Select Committee on Pension Policies - Interim Planning
Attachments: S-3642.1.doc; S-3125.1.pdf

RECEIVED

JUN 6 - 2007

Office of
The State Actuary

Select Committee on Pension Policy
Executive Committee
P.O. Box 40914
Olympia, WA 989504-0914

Dear Members of the Executive Committee:

Attached is a bill which I am requesting that the Select Committee on Pension Policies take up in their interim planning. I am hoping that your committee will accept it as request legislation in the 2008 legislative session.

A teacher at one of the schools in my district contacted me with a problem which other education employees may share. There is a provision in law that says a person who is working a certain minimum number of hours half-time must work nine months out of the year in order to receive one-half of retirement service credit per month. But if someone works the requisite hours but in half a year period, he/she receives only a quarter-service credit per month.

So, in the case of the constituent who brought the issue to me, she works a total of well over the required 630 hours which would qualify her for a one-half service credit per month, but because she does a job share with another employee and works only five or six months out of the year, she is "shortchanged" you might say by the technicality of the law that sets nine months as a criterion.

This bill would change the requirement from nine months to five months, all other criteria being met. Since education employees often have a ten month contract, five months is a half-year increment. It does not appear that this change would harm anyone else, but it might allow some of our hardworking education employees the kind of flexibility that working half time allows without penalizing them for it.

I had the bill drafted up at the very end of session and did not drop it. But attached is the bill and a fiscal note. The fiscal note was done on language that referred to "five consecutive months". In the meantime, we have removed the word consecutive and in talking with the Actuary's office, it is felt that the note would not be significantly, if at all, different with that change. I'm hoping the actuary's office can confirm that through your exploration process.

I hope that the committee will look favorably on this bill and recommend it to you.

Best,

Derek Kilmer

Olympia Office:
Derek Kilmer
State Senator - 26th District
P.O. Box 40426
Olympia, WA 98504
(360) 786 - 7650

District Office:
5246 Olympic Dr. NW Suite 201
Gig Harbor, WA 98335
(253) 858 - 6716

<http://www.sdc.wa.gov/kilmer.htm>

Military Death Benefits

Background

Death benefits are provided to survivors of deceased members based upon system and plan-specific eligibility and benefit amounts. Prior to the passage of SHB 1266 in the 2007 Legislative session, no distinction was made in the survivor eligibility or benefit amount in any system or plan between members who died while no longer working for a public employer for any reason and members who died while fulfilling interruptive military service obligations.

SHB 1266 authorized a qualifying survivor of a Public Employees' Retirement System Plan 2 member who died on military duty in Iraq or Afghanistan a choice between 200 percent of the member's account balance or a monthly annuity reduced for each year of the member's age at death prior to age 65. The survivors of members who separate from employment for any other reason get the choice between a 100 percent withdrawal option or a reduced monthly annuity.

This is one of four issues being coordinated with the Law Enforcement Officers' and Firefighters' Plan 2 Retirement Board.

Committee Activity

Presentations:

July 17, 2007 - Full Committee

October 16, 2007 - Executive Committee

December 18, 2007 - Full Committee

Proposal:

December 18, 2007 - Full Committee

Recommendation to Legislature

Provide an unreduced survivor annuity to qualifying survivors of members of all systems and plans who leave public employment due to service in the National Guard or Military Reserves and die while serving honorably during a period of war.

Staff Contact

Dave Nelsen

Senior Policy Analyst

360.786.6144

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In Brief

ISSUE

The issue before the SCPP is whether to provide additional benefits to survivors of members who die while serving on active duty with the United States' military.

MEMBER IMPACT

This could impact survivors of members in each system and plan who die while on military duty.

The Federal government also provides survivor benefits for spouses and families of members who die while on military service.

Dave Nelsen
Senior Policy Analyst
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Military Death Benefits

Current Situation

Death benefits are provided to survivors of deceased members based upon system and plan-specific eligibility and benefit amounts. Prior to the passage of SHB 1266 in the 2007 Legislative session, no distinction was made in the survivor eligibility or benefit amount in any system or plan between members who died while no longer working for a public employer for any reason and members who died while fulfilling interruptive military service obligations.

SHB 1266 authorized a survivor of a Public Employees' Retirement System (PERS) Plan 2 member who was eligible to retire or had at least ten years of service, and who is killed in the current Iraq or Afghanistan conflict, a choice between 200 percent of the member's account balance or a monthly annuity reduced for each year of the member's age at death prior to age 65. The survivors of members who separate from employment for any other reason do not get the 200 percent option. They receive a choice between 100 percent of the account balance and the reduced survivor annuity.

Spouses and/or qualifying dependants are also eligible for benefits from the federal government if their spouse dies while on military duty. They receive a one time tax-free \$100,000 payment and a monthly stipend of \$1,067, increased by Consumer Price Index (CPI) based adjustments, with an additional \$265 per month provided for each dependant. Additionally, military employees are automatically enrolled in group life insurance in the amount of \$250,000. Employees can opt out, reduce or increase this coverage up to \$400,000. The cost for the full amount is \$29 monthly.

Policy Analysis

The primary policy in question is whether survivors of members who die while serving on military duty should receive additional pension benefits not available to survivors of members who left employment for other reasons.

The chart below outlines some general arguments for or against providing additional or special benefits to military personnel.

No Additional Special Benefits	Additional Special Benefits
Members serve voluntarily; no draft requires them to leave employment	Encourage military service; help avoid need for a draft
Members already receive adequate federal compensation and benefits for military service	Support ability to recruit more military personnel into state service and more state personnel into military service
Other members and employers would not have to absorb extra costs for these members	Support view that all WA citizens benefit, directly or indirectly, from military service rendered by public employees
More favorable service credit treatment is already given to these members via federal law (no interest, 5 years to repay)	Recognize that members who serve in conflicts are at higher risk for injury or death; pension plans typically offer extra support for high risk occupations that serve the public at large
Military service is unrelated to the service rewarded by state pension plans	Supplement federal benefits, which may not be viewed as adequate

Should survivor benefits of members who die while on military service differ from survivor benefits of members who die in other situations, such as in the line of duty?

If it is desirable to provide additional pension survivor benefits, the next question is: What additional survivor benefits? State pension benefits typically distinguish between duty-related death and non-duty related death.

Survivors whose spouses die from duty-related causes receive the most benefit from the state pensions. These spouses or dependants may be eligible for both a lump sum (\$150,000 death benefit) and annuity (unreduced survivor annuity based upon salary and service credit). Survivors whose spouses die from non-duty related causes, whether as active employees or as separated members, typically only receive either a refund of contributions or a survivor annuity that is actuarially reduced for each year prior to the normal retirement age.

To provide enhanced survivor benefits, something greater than a refund of member contributions or an actuarially reduced annuity would need to be provided. Examining the benefits provided by the federal government and attempting to provide a benefit from the pension system that supplements the total benefits received may be a logical approach. In looking at the federal death benefits provided, given the likelihood of large lump sum payments (\$100,000 guaranteed with up to \$400,000 additional in

Should the eligibility for and calculation of survivor benefits of members be standard across all systems and plans, or standard with other survivor benefits within the systems and plans?

insurance) but limited monthly annuity amounts for income replacement (\$1,067 per month with additional amounts for dependants), perhaps enhanced annuity payments from the state pensions would be most valuable.

One question that arises if providing an enhanced benefit is whether the eligibility and calculation method should be standard across systems and plans, or standardized with other survivor benefits within the system and plans. For example, Plan 1 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) retirement system has different eligibility for survivor benefits based upon whether the member is active or inactive, while the Plans 2/3 have different eligibility based upon years of service but don't distinguish between active and inactive. As for the benefit calculations, the Plan 1 systems have different methods of providing post-retirement adjustments or cost-of-living-adjustments (COLA) than the Plans 2/3 systems.

If the eligibility and calculation methodology are standardized across plans, it would ensure two survivors would receive similar benefits regardless of plan membership. However, this may cause concerns with non-military death related survivors if their eligibility or calculation methodology is not as generous. Conversely, the other option would be to standardize the benefit according to the current plan methods. This would provide consistent benefits within each plan, but may lead to similarly situated survivors receiving different benefits. Currently, for survivor benefits within the state retirement systems, the eligibility for and the benefit provided is generally based upon plan specific methodology, regardless of the reason for the member's death.

What type of uniformed service should qualify for enhanced survivor benefits?

The final question faced when providing enhanced benefits for military service is what type of military or uniformed service. If the committee chooses to provide enhanced military survivor benefits, should the benefits be provided for deaths during:

- Participation in all military service? Such as in times of conflict, active duty training, and peace-time.
- Service only in current conflicts?
- Service only in current and future conflicts?

- Service only in conflicts specifically identified for this benefit?

The federal government requires the same reemployment rights whether the person served in a conflict, a period of war, or in a time of peace. Within the state pension systems, free interruptive service credit is granted to members of PERS Plan 1, LEOFF Plan 1, and the Washington State Patrol Retirement System (WSPRS) Plan 1, but only if the member served during a period of war.

Other States

What type of uniformed service should qualify for enhanced survivor benefits?

Research into our comparative states indicated that only three states provide enhanced survivor benefits to spouses of members who die while serving in the military; Idaho, California, and Iowa. Idaho provides a choice of a refund equaling twice the member's contributions or a reduced survivor annuity. California and Iowa provide more generous survivor benefits when the member dies while an active employee, and in both those states, members who die while serving in the military are treated as active employees. Both of these states also provide enhanced benefits for "public safety" members who die in the line of duty, but survivors of members who die while serving in the military do not qualify for this benefit in either state.

Prior Executive Committee Action

The Executive Committee asked OSA to price two general options and bring the information back for further consideration:

- Expand the 200 percent option currently in PERS Plan 2 to all systems and plans.
- Provide an option for an unreduced survivor annuity.

After discussing the possible alternatives, the Executive Committee recommended the following proposal be presented to the full committee and draft legislation be prepared:

Survivors of a member who dies while serving honorably in the uniformed services will have the same eligibility and survivor benefit options within each system and plan as the

survivor of a member who dies in the line of duty. In general, this would provide an unreduced survivor annuity to those who qualify.

Possible Options

A first option is to endorse the Executive committee proposal. This proposal provides an enhanced benefit in the form of an unreduced survivor annuity, but does not provide lesser eligibility standards or a greater benefit than what currently exists within the systems and plans, maintaining equity with other survivor benefits, such as line of duty deaths. This proposal is also the most expansive possible regarding the nature of the uniformed services in that it does not distinguish between periods of war or peace.

Other options to the committee include the following:

- Provide a lump sum amount in lieu of or addition to the unreduced survivor annuity.
- Alter the pension-based eligibility standards for the benefit.
- Limit the eligibility for the benefit based upon the type of uniformed service provided, such as only during a time of war.

STAKEHOLDER INPUT

1. *LEOFF Plan 2 Board*
2. *Washington State Patrol Troopers' Association*
3. *Members via Department of Retirement Systems*

Copies of the above requests are attached.

Bill Draft

A copy of Code Reviser bill draft (Z-0779.1) is attached.

Fiscal Note

Attached.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0913.1/08

ATTY/TYPIST: LL:cro

BRIEF DESCRIPTION: Addressing the survivor benefits of employees who die while honorably serving in the national guard or military reserves during a period of war.

AN ACT Relating to the survivor benefits of employees who die while honorably serving in the national guard or military reserves during a period of war; and amending RCW 41.26.160, 41.26.510, 43.43.270, 43.43.295, 41.32.520, 41.32.805, 41.32.895, 41.35.460, 41.35.710, 41.37.250, 41.40.270, 41.40.700, and 41.40.835.

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

Sec. 1. RCW 41.26.160 and 2005 c 62 s 1 are each amended to read as follows:

(1) In the event of the duty connected death of any member who is in active service, or who has vested under the provisions of RCW 41.26.090 with twenty or more service credit years of service, or who is on duty connected disability leave or retired for duty connected disability, or upon the death of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, the surviving spouse shall become entitled, subject to RCW 41.26.162, to receive a monthly allowance equal to fifty percent of the final average salary at the date of death if active, or the amount of retirement allowance the vested member would have received at age

fifty, or the amount of the retirement allowance such retired member was receiving at the time of death if retired for duty connected disability. The amount of this allowance will be increased five percent of final average salary for each child as defined in RCW 41.26.030(7), subject to a maximum combined allowance of sixty percent of final average salary: PROVIDED, That if the child or children is or are in the care of a legal guardian, payment of the increase attributable to each child will be made to the child's legal guardian or, in the absence of a legal guardian and if the member has created a trust for the benefit of the child or children, payment of the increase attributable to each child will be made to the trust.

(2) If at the time of the duty connected death of a vested member with twenty or more service credit years of service as provided in subsection (1) of this section or a member retired for duty connected disability, or at the time of the death of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, the surviving spouse has not been lawfully married to such member for one year prior to retirement or separation from service if a vested member, the surviving spouse shall not be eligible to receive the benefits under this section: PROVIDED, That if a member dies as a result of a disability incurred in the line of duty or while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, then if he or she was married at the time he or she was disabled or left the employ of an employer due to service in the national guard or military reserves during a period of war as defined in RCW 41.04.005, the surviving spouse shall be eligible to receive the benefits under this section.

(3) If there be no surviving spouse eligible to receive benefits at the time of such member's duty connected death, then the child or children of such member shall receive a monthly allowance equal to thirty percent of final average salary for one child and an additional ten percent for each additional child subject to a maximum combined payment, under this subsection, of sixty percent of final average salary. When there cease to be any eligible children as defined in RCW 41.26.030(7), there shall be paid to the legal heirs of the member the excess, if any, of accumulated contributions of the member at the time of death over all payments made to survivors on his or her behalf under this chapter: PROVIDED, That payments under this subsection to

children shall be prorated equally among the children, if more than one. If the member has created a trust for the benefit of the child or children, the payment shall be made to the trust.

(4) In the event that there is no surviving spouse eligible to receive benefits under this section, and that there be no child or children eligible to receive benefits under this section, then the accumulated contributions shall be paid to the estate of the member.

(5) If a surviving spouse receiving benefits under this section remarries after June 13, 2002, the surviving spouse shall continue to receive the benefits under this section.

(6) If a surviving spouse receiving benefits under the provisions of this section thereafter dies and there are children as defined in RCW 41.26.030(7), payment to the spouse shall cease and the child or children shall receive the benefits as provided in subsection (3) of this section.

(7) The payment provided by this section shall become due the day following the date of death and payments shall be retroactive to that date.

Sec. 2. RCW 41.26.510 and 2006 c 345 s 1 are each amended to read as follows:

(1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) If a member who is eligible for retirement or a member who has

completed at least ten years of service dies, the surviving spouse or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW 41.26.430, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 41.26.460 and if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.26.430; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated as herein provided making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

(b) (i) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670; or

(ii) If the member dies on or after July 25, 1993, one hundred fifty percent of the member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670. Any accumulated contributions attributable to restorations made under RCW 41.50.165(2) shall be refunded at one hundred percent.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies after October 1, 1977, and is not survived by a spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To an estate, a person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living

at the time of the member's death, then to the member's legal representatives.

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, or the retirement allowance of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction. The member's retirement allowance is computed under RCW 41.26.420.

(5) The retirement allowance paid to the spouse and dependent children of a member who is killed in the course of employment, as set forth in RCW 41.05.011(14), shall include reimbursement for any payments of premium rates to the Washington state health care authority pursuant to RCW 41.05.080.

Sec. 3. RCW 43.43.270 and 2006 c 94 s 1 are each amended to read as follows:

For members commissioned prior to January 1, 2003:

(1) The normal form of retirement allowance shall be an allowance which shall continue as long as the member lives.

(2) If a member should die while in service, or a member leaves the employ of the employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, the member's lawful spouse shall be paid an allowance which shall be equal to fifty percent of the average final salary of the member. If the member should die after retirement the member's lawful spouse shall be paid an allowance which shall be equal to the retirement allowance then payable to the member or fifty percent of the final average salary used in computing the member's retirement allowance, whichever is less. The allowance paid to the lawful spouse shall continue as long as the spouse lives: PROVIDED, That if a surviving spouse who is receiving benefits under this subsection marries another member of this retirement system who subsequently predeceases such spouse, the spouse shall then be entitled to receive the higher of the two survivors' allowances for which eligibility requirements were met, but a surviving spouse shall not receive more than one survivor's allowance from this system at the same time under this subsection. To be eligible for an allowance the lawful surviving

spouse of a retired member shall have been married to the member prior to the member's retirement and continuously thereafter until the date of the member's death or shall have been married to the retired member at least two years prior to the member's death. The allowance paid to the lawful spouse may be divided with an ex spouse of the member by a dissolution order as defined in RCW 41.50.500(3) incident to a divorce occurring after July 1, 2002. The dissolution order must specifically divide both the member's benefit and any spousal survivor benefit, and must fully comply with RCW 41.50.670 and 41.50.700.

(3) If a member should die, either while in service or after retirement, the member's surviving unmarried children under the age of eighteen years shall be provided for in the following manner:

(a) If there is a surviving spouse, each child shall be entitled to a benefit equal to five percent of the final average salary of the member or retired member. The combined benefits to the surviving spouse and all children shall not exceed sixty percent of the final average salary of the member or retired member; and

(b) If there is no surviving spouse or the spouse should die, the child or children shall be entitled to a benefit equal to thirty percent of the final average salary of the member or retired member for one child and an additional ten percent for each additional child.

The combined benefits to the children under this subsection shall not exceed sixty percent of the final average salary of the member or retired member. Payments under this subsection shall be prorated equally among the children, if more than one.

(4) If a member should die in the line of duty while employed by the Washington state patrol, or a member leaves the employ of the employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, the member's surviving children under the age of twenty years and eleven months if attending any high school, college, university, or vocational or other educational institution accredited or approved by the state of Washington shall be provided for in the following manner:

(a) If there is a surviving spouse, each child shall be entitled to a benefit equal to five percent of the final average salary of the member. The combined benefits to the surviving spouse and all children shall not exceed sixty percent of the final average salary of the member;

(b) If there is no surviving spouse or the spouse should die, the

unmarried child or children shall be entitled to receive a benefit equal to thirty percent of the final average salary of the member or retired member for one child and an additional ten percent for each additional child. The combined benefits to the children under this subsection shall not exceed sixty percent of the final average salary.

Payments under this subsection shall be prorated equally among the children, if more than one; and

(c) If a beneficiary under this subsection reaches the age of twenty-one years during the middle of a term of enrollment the benefit shall continue until the end of that term.

(5)(a) The provisions of this section shall apply to members who have been retired on disability as provided in RCW 43.43.040 if the officer was a member of the Washington state patrol retirement system at the time of such disability retirement.

(b) For the purposes of this subsection, average final salary as used in subsection (2) of this section means:

(i) For members commissioned prior to January 1, 2003, the average monthly salary received by active members of the patrol of the rank at which the member became disabled, during the two years prior to the death of the disabled member; and

(ii) For members commissioned on or after January 1, 2003, the average monthly salary received by active members of the patrol of the rank at which the member became disabled, during the five years prior to the death of the disabled member.

(c) The changes to the definitions of average final salary for the survivors of disabled members in this subsection shall apply retroactively. The department shall correct future payments to eligible survivors of members disabled prior to June 7, 2006, and, as soon as administratively practicable, pay each survivor a lump sum payment reflecting the difference, as determined by the director, between the survivor benefits previously received by the member, and those the member would have received under the definitions of average final salary created in chapter 94, Laws of 2006.

Sec. 4. RCW 43.43.295 and 2004 c 171 s 1 are each amended to read as follows:

(1) For members commissioned on or after January 1, 2003, except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the

retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW 43.43.260, actuarially reduced, except under subsection (4) of this section, by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 43.43.278 and if the member was not eligible for normal retirement at the date of death a further reduction from age fifty-five or when the member could have attained twenty-five years of service, whichever is less; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated under this section making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

(b) (i) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670; or

(ii) If the member dies, one hundred fifty percent of the member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670. Any accumulated contributions attributable to restorations made under RCW 41.50.165(2) shall be refunded at one hundred percent.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, and is not survived by a spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To an estate, a person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, or the retirement allowance of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction.

Sec. 5. RCW 41.32.520 and 2003 c 155 s 1 are each amended to read as follows:

(1) Except as specified in subsection (3) of this section, upon receipt of proper proofs of death of any member before retirement or before the first installment of his or her retirement allowance shall become due his or her accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, and/or other benefits payable upon his or her death shall be paid to his or her estate or to such persons, trust, or organization as he or she shall have nominated by written designation duly executed and filed with the department. If a member fails to file a new beneficiary designation subsequent to marriage, divorce, or reestablishment of membership following termination by withdrawal,

lapsation, or retirement, payment of his or her accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, and/or other benefits upon death before retirement shall be made to the surviving spouse, if any; otherwise, to his or her estate. If a member had established ten or more years of Washington membership service credit or was eligible for retirement, the beneficiary or the surviving spouse if otherwise eligible may elect, in lieu of a cash refund of the member's accumulated contributions, the following survivor benefit plan actuarially reduced, except under subsection (4) of this section, by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670:

(a) A widow or widower, without a child or children under eighteen years of age, may elect a monthly payment of fifty dollars to become effective at age fifty, provided the member had fifteen or more years of Washington membership service credit. A benefit paid under this subsection (1)(a) shall terminate at the marriage of the beneficiary.

(b) The beneficiary, if a surviving spouse or a dependent (as that term is used in computing the dependent exemption for federal internal revenue purposes) may elect to receive a joint and one hundred percent retirement allowance under RCW 41.32.530.

(i) In the case of a dependent child the allowance shall continue until attainment of majority or so long as the department judges that the circumstances which created his or her dependent status continue to exist. In any case, if at the time dependent status ceases, an amount equal to the amount of accumulated contributions of the deceased member has not been paid to the beneficiary, the remainder shall then be paid in a lump sum to the beneficiary.

(ii) If at the time of death, the member was not then qualified for a service retirement allowance, the benefit shall be based upon the actuarial equivalent of the sum necessary to pay the accrued regular retirement allowance commencing when the deceased member would have first qualified for a service retirement allowance.

(2) If no qualified beneficiary survives a member, at his or her death his or her accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to his or her estate, or his or her dependents may qualify for survivor

benefits under benefit plan (1)(b) in lieu of a cash refund of the members accumulated contributions in the following order: Widow or widower, guardian of a dependent child or children under age eighteen, or dependent parent or parents.

(3) If a member dies within sixty days following application for disability retirement under RCW 41.32.550, the beneficiary named in the application may elect to receive the benefit provided by:

(a) This section; or

(b) RCW 41.32.550, according to the option chosen under RCW 41.32.530 in the disability application.

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, or the retirement allowance of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction. The member's retirement allowance is computed under RCW 41.32.480.

Sec. 6. RCW 41.32.805 and 2003 c 155 s 2 are each amended to read as follows:

(1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, at the time of such member's death shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse or

eligible children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW 41.32.765, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 41.32.785 and, except under subsection (4) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.32.765; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated as herein provided making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

(b) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies after October 1, 1977, and is not survived by a spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To an estate, a person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, or a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably

serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction under RCW 41.32.765. The member's retirement allowance is computed under RCW 41.32.760.

Sec. 7. RCW 41.32.895 and 2003 c 155 s 3 are each amended to read as follows:

(1) If a member dies prior to retirement, the surviving spouse or eligible child or children shall receive a retirement allowance computed as provided in RCW 41.32.851 actuarially reduced to reflect a joint and one hundred percent survivor option and, except under subsection (2) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.32.875.

If the surviving spouse who is receiving the retirement allowance dies leaving a child or children under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority.

If there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance, share and share alike. The allowance shall be calculated with the assumption that the age of the spouse and member were equal at the time of the member's death.

(2) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, or a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction under RCW 41.32.875. The member's retirement allowance is computed under RCW 41.32.840.

Sec. 8. RCW 41.35.460 and 2003 c 155 s 4 are each amended to read as follows:

(1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's

credit in the retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW 41.35.420, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 41.35.220 and, except under subsection (4) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.35.420; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance, share and share alike, calculated as herein provided making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

(b) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies and is not survived by a spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To a person or persons, estate, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, or a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction under RCW 41.35.420. The member's retirement allowance is computed under RCW 41.35.400.

Sec. 9. RCW 41.35.710 and 2003 c 155 s 5 are each amended to read as follows:

(1) If a member dies prior to retirement, the surviving spouse or eligible child or children shall receive a retirement allowance computed as provided in RCW 41.35.620 actuarially reduced to reflect a joint and one hundred percent survivor option and, except under subsection (2) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.35.680.

If the surviving spouse who is receiving the retirement allowance dies leaving a child or children under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority.

If there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance, share and share alike. The allowance shall be calculated with the assumption that the

age of the spouse and member were equal at the time of the member's death.

(2) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, or a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction under RCW 41.35.680. The member's retirement allowance is computed under RCW 41.35.620.

Sec. 10. RCW 41.37.250 and 2005 c 327 s 7 are each amended to read as follows:

(1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to that member's credit in the retirement system at the time of the member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or the person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there is no designated person or persons still living at the time of the member's death, the member's accumulated contributions standing to the member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse as if in fact that spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW 41.37.210, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 41.37.170 and, except under subsection (4) of this section, if the member was not eligible for normal retirement

at the date of death a further reduction as described in RCW 41.37.210; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then the child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until the child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, the member's child or children under the age of majority shall receive an allowance, share and share alike, calculated under this section making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

(b) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies and is not survived by a spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To a person or persons, estate, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, or a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to reduction under RCW 41.37.210. The member's retirement allowance is computed under RCW 41.37.190.

Sec. 11. RCW 41.40.270 and 2003 c 155 s 6 are each amended to read as follows:

(1) Except as specified in subsection (4) of this section, should a member die before the date of retirement the amount of the

accumulated contributions standing to the member's credit in the employees' savings fund, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, at the time of death:

(a) Shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there be no such designated person or persons still living at the time of the member's death, or if a member fails to file a new beneficiary designation subsequent to marriage, remarriage, dissolution of marriage, divorce, or reestablishment of membership following termination by withdrawal or retirement, such accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the surviving spouse as if in fact such spouse had been nominated by written designation as aforesaid, or if there be no such surviving spouse, then to the member's legal representatives.

(2) Upon the death in service, or while on authorized leave of absence for a period not to exceed one hundred and twenty days from the date of payroll separation, of any member who is qualified but has not applied for a service retirement allowance or has completed ten years of service at the time of death, the designated beneficiary, or the surviving spouse as provided in subsection (1) of this section, may elect to waive the payment provided by subsection (1) of this section. Upon such an election, a joint and one hundred percent survivor option under RCW 41.40.188, calculated under the retirement allowance described in RCW 41.40.185 or 41.40.190, whichever is greater, actuarially reduced, except under subsection (5) of this section, by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 shall automatically be given effect as if selected for the benefit of the designated beneficiary. If the member is not then qualified for a service retirement allowance, such benefit shall be based upon the actuarial equivalent of the sum necessary to pay the accrued regular retirement allowance commencing when the deceased member would have first qualified for a service retirement allowance.

(3) Subsection (1) of this section, unless elected, shall not apply to any member who has applied for service retirement in RCW

41.40.180, as now or hereafter amended, and thereafter dies between the date of separation from service and the member's effective retirement date, where the member has selected a survivorship option under RCW 41.40.188. In those cases the beneficiary named in the member's final application for service retirement may elect to receive either a cash refund, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, or monthly payments according to the option selected by the member.

(4) If a member dies within sixty days following application for disability retirement under RCW 41.40.230, the beneficiary named in the application may elect to receive the benefit provided by:

(a) This section; or

(b) RCW 41.40.235, according to the option chosen under RCW 41.40.188 in the disability application.

(5) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, or the retirement allowance of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction. The member's retirement allowance is computed under RCW 41.40.185.

Sec. 12. RCW 41.40.700 and 2007 c 487 s 8 are each amended to read as follows:

(1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW

41.50.670, shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse or eligible child or children shall elect to receive one of the following:

(a) A retirement allowance computed as provided for in RCW 41.40.630, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 41.40.660 and, except under subsection (4) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.40.630; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated as herein provided making the assumption that the ages of the spouse and member were equal at the time of the member's death;

(b) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670; or

(c) For a member who leaves the employ of an employer to enter the uniformed services of the United States and who dies after January 1, 2007, while honorably serving in the uniformed services of the United States in Operation Enduring Freedom or Persian Gulf, Operation Iraqi Freedom, an amount equal to two hundred percent of the member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies after October 1, 1977,

and is not survived by a spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To a person or persons, estate, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, or a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction under RCW 41.40.630. The member's retirement allowance is computed under RCW 41.40.620.

Sec. 13. RCW 41.40.835 and 2003 c 155 s 8 are each amended to read as follows:

(1) If a member dies prior to retirement, the surviving spouse or eligible child or children shall receive a retirement allowance computed as provided in RCW 41.40.790 actuarially reduced to reflect a joint and one hundred percent survivor option and, except under subsection (2) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.40.820.

If the surviving spouse who is receiving the retirement allowance dies leaving a child or children under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority.

If there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance, share and share alike. The allowance shall be calculated with the assumption that the age of the spouse and member were equal at the time of the member's

death.

(2) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, or a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction under RCW 41.40.820. The member's retirement allowance is computed under RCW 41.40.790.

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	1/3/08	Z-0913.1

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

This proposal would provide an unreduced joint and survivor annuity to the survivor of a member who dies in war while serving in the National Guard or Military Reserves.

Increase in Actuarial Liabilities			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$64,274	1	\$64,275
Unfunded Actuarial Accrued Liability	4,470	0	4,470
Unfunded Liability (PVCPB)	\$960	0	\$960

Total Increase in Contribution Rates						
Current Biennium	PERS	PSERS	TRS	SERS	LEOFF	WSPRS
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employer	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State					0.00%	

Fiscal Costs			
<i>(Dollars in Millions)</i>	2007-2009	2009-2011	25-Year
General Fund-State	\$0.0	\$0.0	\$0.5
Total Employer	\$0.0	\$0.1	\$1.7

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

SUMMARY OF PROPOSAL

This proposal impacts the Public Employees' Retirement System (PERS) Plan(s) 1, 2 and 3, the Teachers' Retirement System (TRS) Plan(s) 1, 2, and 3, the School Employees' Retirement System (SERS) Plan(s) 2 and 3, the Public Safety Employees' Retirement System (PSERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan(s) 1 and 2, and the Washington State Patrol Retirement System (WSPRS) by increasing the benefits offered to survivors of members who leave the employment of their employer due to service in the National Guard or Military Reserves and die while serving honorably during a period of war. Period of war is defined in RCW 41.04.005. Under this proposal, a military survivor who met the existing eligibility standard for a monthly annuity option is now entitled to receive a survivor annuity that is *not* actuarially reduced for each year of retirement prior to the normal retirement age of the specific system and plan.

Assumed Effective Date: 90 days after session.

CURRENT SITUATION

Death benefits are provided to qualifying survivors of deceased members in all systems and plans. The eligibility for and the value of those survivor benefits differs according to the specific statutory language contained in each section of retirement law. Except in PERS Plan 2, the survivor benefits statutes of each system and plan do not provide different death benefits or eligibility standards for survivors of members who separate from employment for any type of military service and die while performing that service. In these systems and plans, military death survivors are treated the same as a survivor of a deceased member who separated for any other reason.

With the passage of 2SHB 1266 in the 2007 legislative session, a qualifying survivor of a PERS Plan 2 member who separates from employment to enter the uniformed services of the United States and dies while serving in the Iraq and Afghanistan conflicts on or after January 1, 2007 is entitled to the following:

- A refund of 200% of the member's retirement account balance; *or*
- A survivor annuity actuarially reduced to reflect the difference in age between the age of the member at the time of death and age 65.

The survivor annuity portion of the benefit provided is typically actuarially reduced for each year of retirement prior to the normal age of that system/plan.

SUMMARY OF MEMBERS IMPACTED

We estimate that all 16,314 active members of LEOFF Plans 1 and 2, all 155,027 active members of PERS Plans 1, 2 and 3, all 2,073 active members of PSERS Plan 2, all

50,818 active members of SERS Plans 2 and 3, all 67,736 active members of TRS Plans 1, 2 and 3, and all 1,022 active members of WSP Plans 1 and 2 could be affected by this proposal through improved benefits. However, we only expect this to happen to approximately 1 in 240,000 PERS members per year.

We estimate that for a typical survivor impacted by this proposal, the increase in benefits would be an unreduced annuity versus a reduced annuity. For example, the 30 year old beneficiary of a 33 year old male with 6 years of service in PERS 2 and a \$44,000 average final salary would annually receive a \$400 reduced 100% joint and survivor annuity whereas the annual unreduced benefit would be a \$4,000 joint and survivor annuity.

Additionally, Plan 2 members would have increased contribution rates in future biennia.

METHODS

The pricing method utilized in determining the actuarial cost was through the use of a simplified valuation, where members were grouped by age and projected to retirement. For each year, the probability of a military related death was assumed and directly affected the assumption for the probability of the new benefit being paid. The process for developing these probabilities will be described in the assumptions section. The assumptions from the 2006 AVR were used to project the member's salary into the future to determine the annuity that their beneficiary would receive. The ultimate cost of this increased benefit is presented below with all future payments discounted to present day dollars.

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

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

ASSUMPTIONS

The primary assumption formulated for this pricing was approximating the probability of a military related death for an individual at each age. According to a Washington Post article based on Department of Defense records and dated August 23, 2006, the annual death rate for military personnel in Iraq is 3.92 deaths per 1,000 people. The article further explains the fact that troops aged 17-19 are 4.6 times more likely to die than those age 50 and older. Therefore, we approximated the probability of death in the military using these two facts. The overall probability of death was maintained while significantly weighting those with higher probabilities to younger ages. Furthermore, the

addition of accounting for non-combat related deaths will increase the overall assumption rate to approximately 4.4 deaths per 1,000 people.

The final component of this assumption is to approximate the probability that an individual within each retirement system will have a break in state employment and enter the uniformed services. After looking at the percentage of the population that is in the military compared to the percentage of state workers that purchase interruptive military service, we approximated 1 out of every 1,000 employees from PERS will enter the uniformed service and adjusted this general population number by system using our best judgment: 1 out of every 2,000 employees from SERS and TRS will enter the uniformed service, 1 out of every 750 employees from the PSERS will enter the uniformed service, and 1 out of every 500 employees from LEOFF and WSP will enter the uniformed service. Two other assumptions that have been utilized include an assumed 100 percent male population and the assumption that the rate of those breaking service from state employment for the uniformed services will decrease by 20 percent after age 42 due to military age restrictions. We assumed that all members leaving State service to serve in the military will be in the National Guard or Military Reserves during wartime.

The product of the probability of a military related death for an individual at each age and the probability that an individual will have a break in service from state employment for uniformed service will produce the primary assumption for pricing this benefit. The table below shows those assumptions for select ages.

Age	Probability of Interruptive Military Service	Probability of a Military Death	Probability of Receiving Survivor Benefit
20	0.00100	0.009667	0.0000097
25	0.00100	0.008406	0.0000084
30	0.00100	0.007145	0.0000071
35	0.00100	0.005884	0.0000059
40	0.00100	0.004623	0.0000046
45	0.00080	0.003362	0.0000027
50	0.00080	0.002102	0.0000017
55	0.00080	0.002102	0.0000017
60	0.00080	0.002102	0.0000017
65	0.00080	0.002102	0.0000017
70	0.00080	0.002102	0.0000017

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.

All other assumptions are consistent with those disclosed in the AVR.

DATA

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

FISCAL IMPACT

Description

This proposal has a cost because it provides an unreduced joint and survivor annuity instead of a reduced joint and survivor annuity.

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:

<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>			
PERS 1	\$13,723	\$0.0	\$13,723
PERS 2/3	<u>18,966</u>	<u>0.3</u>	<u>18,966</u>
PERS Total	32,689	0.3	32,689
TRS 1	10,834	0.0	10,834
TRS 2/3	<u>6,804</u>	<u>0.1</u>	<u>6,804</u>
TRS Total	17,638	0.1	17,638
SERS 2/3	2,610	0.0	2,610
PSERS 2	169	0.0	169
LEOFF 1	4,316	0.0	4,316
LEOFF 2	<u>6,004</u>	<u>0.1</u>	<u>6,004</u>
LEOFF Total	10,320	0.1	10,320
WSPRS 1/2	\$848	\$0.0	\$848
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>			
PERS 1	\$3,196	\$0.0	\$3,196
TRS 1	1,976	0.0	1,976
LEOFF 1	(\$702)	\$0.0	(\$702)
Unfunded Liability (PVCBP)			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
PERS 1	\$3,750	\$0.0	\$3,750
PERS 2/3	<u>(2,338)</u>	<u>0.2</u>	<u>(2,338)</u>
PERS Total	1,412	0.2	1,412
TRS 1	2,348	0.0	2,348
TRS 2/3	<u>(1,116)</u>	<u>0.0</u>	<u>(1,116)</u>
TRS Total	1,232	0.0	1,232
SERS 2/3	(336)	0.0	(336)
PSERS 2	0	0.0	0
LEOFF 1	(738)	0.0	(738)
LEOFF 2	<u>(521)</u>	<u>0.1</u>	<u>(521)</u>
LEOFF Total	(1,259)	0.1	(1,259)
WSPRS 1/2	(\$89)	\$0.0	(\$89)

The un-rounded increase in the required actuarial contribution rate does not round-up to the minimum supplemental contribution rate of 0.01%; therefore the proposal will not affect contribution rates in the current biennium. However, the un-rounded rate increases shown below are applied to all subsequent biennia.

Increase in Contribution Rates: (Effective 9/1/2008)						
System/Plan	PERS	PSERS	TRS	SERS	LEOFF	WSPRS
Current Members						
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
Employer	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
State					0.000%	
New Entrants*						
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
Employer	0.000%	0.000%	0.000%	0.000%	0.000%	0.001%
State					0.000%	

**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

<i>(Dollars in Millions)</i>	Fiscal Costs						Total
	PERS	PSERS	TRS	SERS	LEOFF	WSPRS	
2007-2009							
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011							
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1
2007-2032							
General Fund	\$0.2	\$0.0	\$0.1	\$0.0	\$0.1	\$0.0	\$0.5
Non-General Fund	<u>0.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.3</u>
Total State	0.4	0.0	0.1	0.0	0.1	0.0	0.7
Local Government	<u>0.6</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.2</u>	<u>0.0</u>	<u>1.0</u>
Total Employer	1.1	0.0	0.2	0.0	0.3	0.0	1.7
Total Employee	\$0.7	\$0.0	\$0.1	\$0.0	\$0.3	\$0.0	\$1.2

Note: Totals may not agree due to rounding.

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 number of members expected to die during military service would have to increase dramatically for this proposal to impact rates. The table below shows the multiple of how many more assumed deaths are required before the rate impact would reach 0.005% for each system. For example, in LEOFF 2, the employee rate impact would reach 0.005% if 11 times as many members as expected die during military service.

System	Multiple
PERS	21
TRS	66
SERS	59
PSERS	12
LEOFF	11
WSP	10

The costs from this proposal are directly proportionate to the military death rate assumption. If twice or half as many members died during military service, then the cost would either double or be cut in half, respectively.

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.



WASHINGTON STATE PATROL TROOPERS ASSOCIATION
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July 13, 2007

Representative Steve Conway, Chairman
Select Committee on Pension Policy
307 John L. O'Brien Building
PO Box 40600
Olympia, WA 98504-0600

RECEIVED

JUL 17 2007

Office of
The State Actuary

Re: Survivorship options for WSPRS

Dear Representative Conway:

Congratulations on being appointed Chairman of the SCPP. I was appreciative of your willingness to conduct a discussion of survivor benefit option issues. I'm writing to let you know about some survivorship issues of interest to the Troopers Association that I hope you will include in the discussion.

1. "Option B" survivor benefits. In 2000 the Legislature enacted RCW 43.43.278 which allowed retiring Troopers to elect a reduced monthly pension to provide their survivor with a COLA. We would like the Committee to consider three actuarially equivalent modifications to that option:
 - a. Allow retirees who remarry after retirement to select the option;
 - b. Allowing a pop-up option in the event of divorce; and
 - c. Allow persons who were retired before the effective date of the option an opportunity to select it.
2. Provide the in-service death benefit for Troopers who while on military leave serving in Iraq or Afghanistan.

Thank you for your consideration of including these issues in the survivor benefit discussion.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tom Pillow".

Tom Pillow

cc: Matt Smith
Jeff Wickman
Dave Nelsen

Winner, Charlene

From: Harper, Laura
Sent: Monday, May 21, 2007 4:36 PM
To: Winner, Charlene
Subject: FW: Interim Issues list

For scanning, adding to log and including in the interim issues file. Thanks.

-----Original Message-----

From: Smith, Matt
Sent: Monday, May 21, 2007 4:11 PM
To: Harper, Laura
Subject: FW: Interim Issues list

---- Original Message ----

From: "Nelsen, Dave (DRS)" <DaveN@DRS.WA.GOV>
Date: 5/21/07 3:10 pm
To: "Smith, Matt" <Smith.Matt@leg.wa.gov>
Cc: "Wickman, Jeff (DRS)" <JeffW@DRS.WA.GOV>
Subj: Interim Issues list
Matt,

Per our discussion on Friday and based upon our meeting with Laura, the following is a list of issues that has come to our attention that may be of interest to the Select Committee. We are not pursuing these as initiatives for DRS through the executive request legislation process, but we have learned about them through our administrative role and are providing them to the Select committee for consideration.

- * Expanding the Plan 1 Post 30 year contribution program to include an annual window for opting in prospectively, rather than just the one time chance upon reaching 30 years. This has been requested by Plan 1 members. Often, circumstances change after 30 years of service, and what may not have made sense at that time may become an attractive option, even an incentive to retain valuable Plan 1 employees. With the rising cost of healthcare, many Plan 1 members find they cannot afford to retire at an early age, but have missed their deadline to participate in this program.

- * Death while retirement eligible. In PERS Plan 1, if an active member with more than 10 years of service dies, their surviving spouse can choose either to receive a monthly benefit at the option 2 level, or a refund of contributions and interest. However, if a Plan 1 member who is inactive, regardless of years of service or even eligibility to retire, passes away, their survivor only can receive the contributions and interest. This doesn't occur often, but when it does, it can be devastating for survivors. Some individuals may separate when retirement eligible, but don't want to begin drawing their monthly benefits right away. Some are inactive for a time and have forgotten to retire when they first became eligible. In these situations, if the member were to die before applying for their benefit, the spouse would not be eligible for an on going monthly payment.

- * Veterans Benefits. The amendment to the \$150k bill to allow twice the contributions to surviving spouses of members killed while on military duty affects PERS Plan 2 only. This creates a benefit inequity with the other systems.

- * Additionally, the Department would like to bring a proposal to the committee for endorsement that deals with inactive, non-vested members. Currently, a member who separates is not required to withdraw, whether they are vested or not. However, the IRS requires the Department to pay the members when they turn age 70 ½, or pay their beneficiaries when they die. Often, funds can sit in an account for many years, even decades, after employment before reaching these milestones. The Department is then required to locate individuals at significant administrative expense, if it is even

possible. There are currently approximately 50,000 inactive, non-vested members. We are consulting with peers in other systems and evaluating proposals to address this situation and would like to bring a recommendation to the committee.

Thank you for your consideration and let me know if you have any questions about these items.

Sincerely,

Dave Nelsen

DRS



STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD

P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

June 5, 2007

RECEIVED

JUN 5 - 2007

Office of
The State Actuary

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, Washington 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to thank you for all of your help during 2006.

I want to bring several topics to your attention as you begin preparations for the 2007 interim. It is my hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to develop legislation. I have provided a brief summary of each topic for your reference:

Deferred Compensation

The Board studied the need for a clear definition of what is included in "basic salary" in regard to employer contributions to 457 Deferred Compensation Plans.

Under current law, member contributions to 401(a) defined benefit plan such as LEOFF Plan 2 are includable in basic salary and are mandatory. Employer contributions are also mandatory, but are not included in basic salary. Member contributions to a 457 Deferred Compensation Plan are included in basic salary, however, employer contributions to a 457 Deferred Compensation Plan are not always treated the same. The Board will be further studying under what circumstances employer contributions to deferred compensation plans should be considered "basic salary".

Purchase of Annuity

The Board studied whether to permit LEOFF Plan 2 retirees to purchase an actuarially equivalent life annuity from the LEOFF Plan 2 retirement fund. Currently, Federal law provides that defined contribution assets can be used to purchase increased defined benefits. The following questions will need to be explored further:

- Can defined contribution assets be used to purchase additional defined benefits that would exceed the equivalent value of purchasing five years of service credit?
- Should all other Washington State pension plans be provided a similar enhancement?



Inflationary Adjustment for \$150,000 Death Benefit

As you may be aware, the Board endorsed legislation recommended by the SCPP on this topic (SHB 1266 - Addressing death benefits for public employees), which was passed with an amendment removing the annual inflation increase. The Board is interested in working with the SCPP to further study the effect of adding this inflationary adjustment to all the state retirement plans which provide the \$150,000 death benefit.

Military Service Death Benefit

The Legislature passed a bill in the 2007 session (SHB 1266 - Addressing death benefits for public employees), which included an amendment providing the survivor of a Public Employees' Retirement System Plan 2 member that left public employment and died while serving in the uniformed services in Operation Enduring Freedom (Afghanistan) or Persian Gulf, Operation Iraqi Freedom after January 1, 2007, a withdrawal benefit of 200 percent of accumulated member's contributions. The Board would like to study extending a military service death benefit to the other pension plans, including LEOFF Plan 2.

Fish and Wildlife Enforcement Officer Service Credit Transfer

The Board has studied permitting Department of Fish and Wildlife Enforcement Officers to transfer service credit earned in the Public Employees' Retirement System (PERS) Plan 2 as enforcement officers prior to July 2003 into the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. Prior groups that have been allowed membership to LEOFF Plan 2 have had the option of transferring their previous service credit. Other systems have also had the opportunity to make similar transfers when changing systems.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or like any additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) 943-3030 or pres@wscff.org.

We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,



Kelly Fox, Chair

cc: Matt Smith, State Actuary

Interruptive Military Service Credit

Background

"Interruptive military service" is defined as follows:

- The member leaves public employment to serve in the uniformed services.
- The service is honorable.
- The member returns to public employment upon completion of the service.

Federal law governs employment practices related to interruptive military service. For pension benefits, at a minimum, public employers must provide their employees with the right to restore retirement plan benefits, such as service credit. Currently, returning members of the Plans 2 and Plans 3 may restore service lost while on interruptive military duty by paying the appropriate member contributions. States can offer more generous benefits than federal law requires.

This is one of four issues being coordinated with the Law Enforcement Officers' and Firefighters' Plan 2 Retirement Board.

Committee Activity

Presentations:

July 17, 2007 - Full Committee

October 16, 2007 - Executive Committee

December 18, 2007 - Full Committee

Proposal:

December 18, 2007 - Full Committee

Recommendation to Legislature

Eliminate the Plan 2 and Plan 3 member obligation to pay for interruptive military service credit if the member served during a period of war. Employers will still be required to pay the employer contributions on the service. In the case of a military death, the survivor would also be relieved of paying the member cost for interruptive military service credit.

Staff Contact

Laura Harper

Policy and Research Services Manager

360.786.6145

harper.laura@osa.leg.wa.gov

In Brief

ISSUE

The issue before the SCPP is whether to relieve certain members from paying the cost of restoring service credit for periods of public employment that have been interrupted by their military service.

MEMBER IMPACT

All active members of the open plans in all systems could potentially be impacted, since all plans provide for interruptive military service credit. Approximately one out of 4,000 would be expected to be impacted in a given year.

Laura Harper
Policy and Research
Services Manager
360.786.6145
harper.laura@leg.wa.gov

Interruptive Military Service Credit

Current Situation

“Interruptive military service” is defined as follows:

- The member leaves public employment to serve in the uniformed services.
- The service is honorable.
- The member returns to public employment upon completion of the service.

Employment practices related to interruptive military service are governed by federal law. At a minimum, public employers must provide their members with the protections specified in the Uniformed Services Employment and Re-employment Rights Act (USERRA). Included in USERRA's re-employment rights is the right to restore retirement plan benefits such as service credit.

Currently, to reinstate service credit for interruptive military service completed on or after October 6, 1994, a member must pay employee contributions (no interest). If the service was completed on or after March 31, 1992, and before October 6, 1994, the member must pay the employee contributions plus interest. For interruptive military service completed on or after October 1, 1977, and before March 31, 1992, the member must pay both the employer and employee contributions plus interest.

A member who cannot return to public employment due to a total disability must repay contributions to reinstate interruptive military service credit. In the case of a military death, the survivor pays the member cost when applying for interruptive military service credit.

Generally, members must make the required payments within five years of resuming service with their employer, or prior to retirement, whichever comes first. Members who fail to make timely payment have the option of purchasing the service credit by paying the actuarial cost of the resulting increase in their benefits. Survivors must pay the member cost within five years or prior to receiving a benefit.

Public employers can be more generous to members than required by USERRA if they so choose. The bill draft before the SCPP is to allow free interruptive military service credit for members of all the open plans who serve during a "period of war" as defined in RCW 41.04.005. In order to meet that definition, members with honorable interruptive military service in the uniformed services must also serve in a declared war or a designated armed conflict. A copy of RCW 41.04.005 is attached.

Example A

A member voluntarily joins the armed forces during peace time. The member's military service interrupts public employment, and the member serves honorably. The member must reinstate member contributions to receive service credit for the period.

Example B

A member who is also a member of the National Guard Reserves is called to fight in Operation Iraqi Freedom. The member's military service interrupts public employment, and the member serves honorably. Under the proposal before the SCPP, this member would receive free service credit for the time served in Iraq.

History

The SCPP first studied interruptive military service credit in the 2004 interim. As a result, the SCPP recommended legislation that would provide interruptive military service credit for those who are not re-employed due to death or total disability while serving in the uniformed services. Chapter 64, Laws of 2005 provided that service credit may be purchased by a totally disabled member or a survivor of a deceased member for interruptive military service up to the date of death or disability. The law requires repayment of member contributions to reinstate service credit for the period of interruptive military service.

This interim the SCPP is considering a proposal to allow interruptive military service credit at no cost to the members (or the members' survivors). Early this interim, the

Executive Committee requested that the Office of the State Actuary prepare a draft fiscal note to determine the cost to provide **all** interruptive military service credit in the open plans at no member cost. This draft fiscal note is attached.

The draft fiscal note was made available to the Executive Committee at its September 18, 2007, meeting. At that time, the Executive Committee recommended that a bill be prepared for the full SCPP that narrowed the scope of the proposal such that free interruptive military service credit would be available only to members participating in wars and armed conflicts.

Federal law sets minimum standards for interruptive military service credit, but states can be more generous than federal law.

Policy Analysis

Interruptive military service is governed by federal law. At a minimum, public employers must provide the protections specified in the Uniformed Services Employment and Re-employment Rights Act (USERRA). This law provides for the re-employment of individuals who leave employment to serve in the "uniformed services," a term that is federally defined and includes most types of military service. Included in USERRA's re-employment rights is the right to restoration of retirement plan benefits.

For employers, the fundamental requirement of USERRA as it relates to retirement plan benefits is to provide for recovery of the benefits that a re-employed participant did not receive due to qualifying military service. The employee must be treated for vesting and benefit accrual purposes as if he or she had been continuously employed. Thus, the member must pay the contributions that would have been paid during the period of service, and can receive service credit as if there had been no interruption in employment.

USERRA pre-empts state retirement policy in that all public employers must meet the minimum requirements of this federal law. However, states have the discretion to go beyond USERRA and grant benefits for the period of interruptive service that are more generous than those available under the act. Employers who choose to go beyond USERRA may reward active duty by paying all or part of the contributions that the member would have paid during the period of active duty. Employers may also

provide all or part of the member's salary during such periods. Enhanced benefits can be limited to wars and armed conflicts as long as the basic USERRA protections remain intact for all interruptive military service in the uniformed services.

The following table summarizes some of the policy pros and cons of providing special or increased benefits to members based on military service:

Free military service credit has pros and cons.

No Additional Special Benefits	Additional Special Benefits
Members serve voluntarily; no draft requires them to leave employment	Encourage military service; help avoid need for a draft
Members already receive adequate federal compensation and benefits for military service	Support ability to recruit more military personnel into state service and more state personnel into military service
Other members and employers would not have to absorb extra costs for these members	Support view that all WA citizens benefit, directly or indirectly, from military service rendered by public employees
More favorable service credit treatment is already given to these members via federal law (no interest, 5 years to repay)	Recognize that members who serve in conflicts are at higher risk for injury or death; pension plans typically offer extra support for high risk occupations that serve the public at large
Military service is unrelated to the service rewarded by state pension plans	Supplement federal benefits, which may not be viewed as adequate

Other Washington Plans

Currently, free interruptive military service credit is available to members in most of the closed plans, including Plan 1 of the Public Employees' Retirement System (PERS 1), Plan 1 of the Law Enforcement and Firefighters' Retirement System (LEOFF 1), and Plan 1 of the Washington State Patrol Retirement System. This benefit is not available in Plan 1 of the Teachers' Retirement System (TRS).

Other States

California, Idaho, Iowa, Ohio, and Wisconsin provide free interruptive military service credit. None of these states limit free credit to declared wars or armed conflicts. For the purpose of granting free interruptive military service credit, Ohio's definition of armed forces is restricted to federalized

National Guard and Reserve service. The other states apply the benefit broadly.

Florida is a non-contributory state, meaning members do not contribute to their retirement benefits. Thus, there are no member contributions to repay in order to receive interruptive military service credit under USERRA.

Missouri's plans differ. The State Employees' plan is non-contributory like Florida's. The Public School Plan allows members to purchase service under USERRA. The Local Government Plan provides free interruptive service for USERRA-qualified service.

The remaining states – Colorado, Minnesota, and Oregon – require the member to repay contributions.

Possible Options

Stakeholder Input

None.

1. Allow up to five years of free service credit for all interruptive military service in the uniformed services, regardless of whether the member participates in a period of war or armed conflict. The attached draft fiscal note estimates costs associated with this option for all the open plans.
2. Allow up to five years of free service credit for interruptive military service that is during a "period of war" as defined in RCW 41.04.005. "Period of war" includes declared wars and armed conflicts. This option is narrower than Option 1, which would lessen the fiscal impact somewhat. The attached bill draft is an example of this option. This draft affects only the open plans and is prospective in its application.

Executive Committee Recommendation

At its September 18, 2007, meeting, the Executive Committee directed staff to prepare a bill draft providing a new benefit to members: free interruptive military service credit to those participating in wars or armed conflicts.

Bill Draft

A copy of Code Reviser draft Z-0802.1 is attached.

Draft Fiscal Note

Attached. As noted above in the discussion of options, the draft fiscal note prices a proposal that is broader than the proposal in the bill draft.

O:\SCPP\2007\12-18-07 Full\5.Interruptive_Military_Srvc_Credit.doc

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0802.4/08 4th draft

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Providing interruptive military service credit for members of plans 2 and 3 who provide proof to the director that their interruptive military service was during a period of war defined in RCW 41.04.005.

AN ACT Relating to interruptive military service credit within plans 2 and 3 of the public employees' retirement system, plans 2 and 3 of the teachers' retirement system, plan 2 of the law enforcement officers' and firefighters' retirement system, plan 2 of the Washington state patrol retirement system, and the public safety employees' retirement system; and amending RCW 41.40.710, 41.40.805, 41.35.470, 41.35.650, 41.32.810, 41.32.865, 41.26.520, 43.43.260, and 41.37.260.

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

Sec. 1. RCW 41.40.710 and 2005 c 64 s 2 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW 41.40.610 through 41.40.740.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is

authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The compensation earnable reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes both the plan 2 employer and member contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.45.061 and 41.45.067 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2); or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, or adequate proof under (a)(iv), (d)(iv), or (e)(iv) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060, 41.45.061, and 41.45.067 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 2. RCW 41.40.805 and 2005 c 64 s 3 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The earnable compensation reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes the contribution on behalf of the employer, plus interest, as determined by the department; and

(b) The member makes the employee contribution, plus interest, as determined by the department, to the defined contribution portion.

The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service if within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

The department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060 and 41.45.067 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department, or the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

The contributions required shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(a) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of

the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under this subsection within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under this subsection within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years

of free retirement system service credit for interruptive military service.

Sec. 3. RCW 41.35.470 and 2005 c 64 s 4 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW 41.35.400 through 41.35.599.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The compensation earnable reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes both the plan 2 employer and member contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent

with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.35.430 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2); or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, or adequate proof under (a)(iv), (d)(iv), or (e)(iv) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.35.430 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 4. RCW 41.35.650 and 2005 c 64 s 5 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a

member's employer shall continue to receive service credit.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The earnable compensation reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes the contribution on behalf of the employer, plus interest, as determined by the department; and

(b) The member makes the employee contribution, plus interest, as determined by the department, to the defined contribution portion.

The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service if within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

The department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.35.720 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department, or

the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

The contributions required shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(a) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under this subsection within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to

conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under this subsection within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 5. RCW 41.32.810 and 2005 c 64 s 7 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW 41.32.755 through 41.32.825.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The earnable compensation reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (6) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if the member makes both the employer and member contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of

resumption of service or prior to retirement whichever comes sooner.

(4) If a member fails to meet the time limitations of subsection (3) of this section, the member may receive a maximum of two years of service credit during a member's working career for those periods when a member is on unpaid leave of absence authorized by an employer. This may be done by paying the amount required under RCW 41.50.165(2) prior to retirement.

(5) For the purpose of subsection (3) of this section, the contribution shall not include the contribution for the unfunded supplemental present value as required by RCW 41.32.775. The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(6) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.32.775 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2); or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) or adequate proof under (a)(iv), (d)(iv), or (e)(iv) of

this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.32.775 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 6. RCW 41.32.865 and 2005 c 64 s 8 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The earnable compensation reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes the contribution on behalf of the employer, plus interest, as determined by the department; and

(b) The member makes the employee contribution, plus interest, as determined by the department, to the defined contribution portion.

The contributions required shall be based on the average of the

member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service if within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

The department shall establish the member's service credit and shall bill the employer for its contribution required under chapter 239, Laws of 1995 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department, or the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

The contributions required shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(a) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under this subsection within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under this subsection within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

Sec. 7. RCW 41.26.520 and 2005 c 64 s 9 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW 41.26.410 through 41.26.550.

(2) A member who receives compensation from an employer while on

an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The basic salary reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (7) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if the member makes the employer, member, and state contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner.

(4) A law enforcement member may be authorized by an employer to work part time and to go on a part-time leave of absence. During a part-time leave of absence a member is prohibited from any other employment with their employer. A member is eligible to receive credit for any portion of service credit not earned during a month of part-time leave of absence if the member makes the employer, member, and state contributions, plus interest, as determined by the department for the period of the authorized leave within five years of resumption of full-time service or prior to retirement whichever comes sooner. Any service credit purchased for a part-time leave of absence is included in the two-year maximum provided in subsection (3) of this section.

(5) If a member fails to meet the time limitations of subsection (3) or (4) of this section, the member may receive a maximum of two years of service credit during a member's working career for those periods when a member is on unpaid leave of absence authorized by an employer. This may be done by paying the amount required under RCW 41.50.165(2) prior to retirement.

(6) For the purpose of subsection (3) or (4) of this section the contribution shall not include the contribution for the unfunded

supplemental present value as required by RCW 41.45.060, 41.45.061, and 41.45.067. The contributions required shall be based on the average of the member's basic salary at both the time the authorized leave of absence was granted and the time the member resumed employment.

(7) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.45.060, 41.45.061, and 41.45.067 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2); or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, or adequate proof under (a)(iv), (d)(iv), or (e)(iv) of this subsection, the department shall establish the member's service credit and shall bill the employer and the state for their respective contributions required under RCW 41.26.450 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the

member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(8) A member receiving benefits under Title 51 RCW who is not receiving benefits under this chapter shall be deemed to be on unpaid, authorized leave of absence.

Sec. 8. RCW 43.43.260 and 2005 c 64 s 10 are each amended to read as follows:

Upon retirement from service as provided in RCW 43.43.250, a member shall be granted a retirement allowance which shall consist of:

(1) A prior service allowance which shall be equal to two percent of the member's average final salary multiplied by the number of years of prior service rendered by the member.

(2) A current service allowance which shall be equal to two percent of the member's average final salary multiplied by the number of years of service rendered while a member of the retirement system.

(3)(a) Any member commissioned prior to January 1, 2003, with twenty-five years service in the Washington state patrol may have the member's service in the uniformed services credited as a member whether or not the individual left the employ of the Washington state patrol to enter such uniformed services: PROVIDED, That in no instance shall military service in excess of five years be credited: AND PROVIDED FURTHER, That in each instance, a member must restore all withdrawn accumulated contributions, which restoration must be completed on the date of the member's retirement, or as provided under RCW 43.43.130, whichever occurs first: AND PROVIDED FURTHER, That this section shall not apply to any individual, not a veteran within the meaning of RCW 41.06.150.

(b) A member who leaves the Washington state patrol to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(i) The member qualifies for service credit under this subsection

if:

(A) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(B) The member makes the employee contributions required under RCW 41.45.0631 and 41.45.067 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(C) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2); or

(D) The member was commissioned on or after January 1, 2003, and provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(ii) Upon receipt of member contributions under (b)(i)(B), (b)(iv)(C), and (b)(v)(C) of this subsection, or adequate proof under (b)(i)(D), (b)(iv)(D), or (b)(v)(D) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060 for the period of military service, plus interest as determined by the department.

(iii) The contributions required under (b)(i)(B), (b)(iv)(C), and (b)(v)(C) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(iv) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(A) Provides to the director proof of the member's death while serving in the uniformed services;

(B) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(C) If the member was commissioned on or after January 1, 2003, pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(D) If the member was commissioned on or after January 1, 2003, provides to the director proof that the member's' interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(v) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(A) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(B) The member provides to the director proof of honorable discharge from the uniformed services; and

(C) If the member was commissioned on or after January 1, 2003, the member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(D) If the member was commissioned on or after January 1, 2003, the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(4) In no event shall the total retirement benefits from subsections (1), (2), and (3) of this section, of any member exceed

seventy-five percent of the member's average final salary.

(5) Beginning July 1, 2001, and every year thereafter, the department shall determine the following information for each retired member or beneficiary whose retirement allowance has been in effect for at least one year:

(a) The original dollar amount of the retirement allowance;

(b) The index for the calendar year prior to the effective date of the retirement allowance, to be known as "index A";

(c) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(d) The ratio obtained when index B is divided by index A.

The value of the ratio obtained shall be the annual adjustment to the original retirement allowance and shall be applied beginning with the July payment. In no event, however, shall the annual adjustment:

(i) Produce a retirement allowance which is lower than the original retirement allowance;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index for the Seattle-Tacoma-Bremerton Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

The provisions of this section shall apply to all members presently retired and to all members who shall retire in the future.

Sec. 9. RCW 41.37.260 and 2005 c 64 s 11 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under RCW 41.37.190 through 41.37.290.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of

leave. The compensation earnable reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. This credit may be obtained only if:

(a) The member makes both the employer and member contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.37.220 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2); or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service

credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, or adequate proof under (a)(iv), (d)(iv), or (e)(iv) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.37.220 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first; or

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit.
Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit

under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first; or

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	1/8/08	Z-0802.4

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 2008 Interim only.

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

EXECUTIVE SUMMARY

This proposal would allow free retirement system service credit for members whose interruptive military service is during a period of war as defined in RCW 41.04.005.

Increase in Actuarial Liabilities			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$64,274	1	\$64,275
Unfunded Actuarial Accrued Liability	4,470	0	4,470
Unfunded Liability (PVCPB)	\$960	0	\$960

Total Increase in Contribution Rates						
Current Biennium	PERS	PSERS	TRS	SERS	LEOFF	WSPRS
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employer	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State					0.00%	

Fiscal Costs			
<i>(Dollars in Millions)</i>	2007-2009	2009-2011	25-Year
General Fund-State	\$0.0	\$0.0	\$0.6
Total Employer	\$0.0	\$0.1	\$2.4

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

SUMMARY OF PROPOSAL

This proposal impacts Plans 2 and 3 of the Public Employees' Retirement System (PERS), Plans 2 and 3 of the Teachers' Retirement System (TRS), Plans 2 and 3 of the School Employees' Retirement System (SERS), the Public Safety Employees' Retirement System (PSERS), Plan 2 of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), and Plan 2 of the Washington State Patrol Retirement System (WSP) by eliminating the member obligation to repay member contributions in order to receive service credit for interruptive military service during a period of war. In the case of a military death, the survivor would also be relieved of paying the member cost for interruptive military service credit during a period of war.

Assumed Effective Date: 90 days after session.

CURRENT SITUATION

Currently, for interruptive military service completed on or after October 6, 1994, a member must pay employee contributions (no interest). For interruptive military service completed on or after March 31, 1992 and before October 6, 1994, the member must pay the employee contributions plus interest. For interruptive military service completed on or after October 1, 1977 and before March 31, 1992, the member must pay both the employer and employee contributions plus interest.

Members must make the required contributions within five years of resuming service with their employer, or prior to retirement, whichever comes first. Members who fail to make timely payment have the option of purchasing the service credit by paying the actuarial cost of the resulting increase in their benefits. In the case of a military death, a survivor who applies for the member's interruptive military service credit must pay the member cost within five years of the member's death or prior to receiving a benefit.

SUMMARY OF MEMBERS IMPACTED

We estimate that all 15,718 active members of LEOFF Plan 2, all 118,341 active members of PERS Plan 2, all 22,473 active members of PERS Plan 3, all 2,073 active members of PSERS Plan 2, all 18,464 active members of SERS Plan 2, all 32,354 active members of SERS Plan 3, all 6,983 active members of TRS Plan 2, all 53,371 active members of TRS Plan 3, and all 116 active members of WSP Plan 2 could be affected by this proposal through improved benefits. However, we only expect approximately 1 out of 4,000 to be impacted in a given year.

We estimate that for a typical Plan 2 member impacted by this proposal, the increase in benefits would be free interruptive military service credit versus the choice to pay for interruptive military service credit. For example, a 36 year old male in PERS 2 with 7 years of service and a \$46,600 salary would receive free interruptive military service

credit valued at approximately \$2,500 per year of military service whereas without this benefit the member could choose to purchase interruptive military service credit for that same amount.

The benefit for a typical Plan 3 member is the removal of the required contribution to their defined contribution account upon purchase of military service.

Additionally, Plan 2 members would be affected by this proposal through increased contribution rates in future biennia.

METHODS

The pricing method utilized in determining the actuarial cost was through the use of a simplified valuation, where members were grouped by age and projected to retirement. For each year, the probability of earning credit for interruptive military service was assumed and directly affected the resulting liability increase for the system. The process for developing these probabilities will be described in the assumptions section.

A calculation involving both merit and general salary increases was utilized to project the member's salary into the future and, at most, five years into the past. The total increased cost of this benefit is calculated by evaluating the average of what the member would have contributed over the previous five years with the associated contribution rates for those years, and applying the probability that a member will have interruptive military service. The ultimate cost of this increased benefit is presented below with all future payments discounted to present day dollars.

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

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

ASSUMPTIONS

The primary assumption developed for this pricing was the annual probability of a member earning interruptive military service credit. Utilizing data from a service credit report dated September 30, 2006, an annual average using five years of data was calculated starting with the 2002 valuation year and ending in 2006. Since there was far more data available on the PERS system comparatively, the probability developed for PERS was applied to all other systems as well. This came out to be 0.000214 or 1 in every 4700. We utilized general population experience to set the participation rate and adjusted this assumption by system to reflect more or less military participation. For example, we assumed Public Safety employees would have a higher rate of participation

and Teachers less. More specifically, TRS and SERS were assumed to be at half of the standard rate developed, whereas PSERS was assumed to be 1.5 times this rate, and LEOFF and WSPRS were assumed to be at twice this rate.

This result was developed taking into account the number of military service credits that were previously earned and then purchased between the valuation years of 2002 through 2006. The average number of months purchased for military service credit was 10.6 months and thus was the figure assumed for this pricing. Then a weighted average over the five-year span was calculated utilizing the total number of active members for each year to determine the probability that a member purchases service credit each year. This provided our final set of probabilities that have been applied to all systems affected by this proposal. For simplicity, we also assumed the population affected would be 100% male.

Also, we assumed that all interruptive military service credits would be claimed by the members themselves. If a survivor is claiming the service credit they would get an immediate annuity instead of the deferred annuity otherwise available to the member. We assumed that the number of survivors relative to members claiming interruptive military service would be small and the increased cost would be negligible. We assumed that all interruptive military service credit would be during a period of war as defined in RCW 41.04.005.

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

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

FISCAL IMPACT

Description

This proposal has a cost because the system will now absorb the value of the portion of interruptive military service credit that is free to the affected members.

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:

<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>			
PERS 1	\$13,723	\$0.0	\$13,723
PERS 2/3	<u>18,966</u>	<u>0.4</u>	<u>18,966</u>
PERS Total	\$32,689	\$0.4	\$32,689
TRS 1	10,834	0.0	10,834
TRS 2/3	<u>6,804</u>	<u>0.0</u>	<u>6,804</u>
TRS Total	\$17,638	\$0.0	\$17,638
SERS 2/3	2,610	0.0	2,610
PSERS 2	169	0.0	169
LEOFF 1	4,316	0.0	4,316
LEOFF 2	<u>6,004</u>	<u>0.3</u>	<u>6,004</u>
LEOFF Total	\$10,320	\$0.3	\$10,320
WSPRS 1/2	848	0.0	848
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>			
PERS 1	\$3,196	\$0.0	\$3,196
TRS 1	1,976	0.0	1,976
LEOFF 1	(\$702)	\$0.0	(\$702)
Unfunded Liability (PVCBP)			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
PERS 1	\$3,750	\$0.0	\$3,750
PERS 2/3	<u>(2,338)</u>	<u>0.2</u>	<u>(2,338)</u>
PERS Total	\$1,412	\$0.2	\$1,412
TRS 1	2,348	0.0	2,348
TRS 2/3	<u>(1,116)</u>	<u>0.0</u>	<u>(1,116)</u>
TRS Total	\$1,232	\$0.0	\$1,232
SERS 2/3	(336)	0.0	(336)
PSERS 2	0	0.0	0
LEOFF 1	(738)	0.0	(738)
LEOFF 2	<u>(521)</u>	<u>0.2</u>	<u>(521)</u>
LEOFF Total	(\$1,259)	\$0.2	(\$1,259)
WSPRS 1/2	(\$89)	\$0.0	(\$89)

The un-rounded increase in the required actuarial contribution rate does not round-up to the minimum supplemental contribution rate of 0.01%; therefore the proposal will not affect contribution rates in the current biennium. However, the un-rounded rate increase shown below is applied to all subsequent biennia.

Increase in Contribution Rates: (Effective 9/1/2008)						
System/Plan	PERS	PSERS	TRS	SERS	LEOFF	WSPRS
Current Members						
Employee (Plan 2)	0.000%	0.001%	0.000%	0.000%	0.001%	0.000%
Employer	0.000%	0.001%	0.000%	0.000%	0.001%	0.000%
State					0.000%	
New Entrants*						
Employee (Plan 2)	0.000%	0.001%	0.000%	0.000%	0.001%	0.000%
Employer	0.000%	0.001%	0.000%	0.000%	0.001%	0.000%
State					0.000%	

**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

<i>(Dollars in Millions)</i>	Fiscal Costs						Total
	PERS	PSERS	TRS	SERS	LEOFF	WSPRS	
2007-2009							
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011							
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>
Total Employer	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1
2007-2032							
General Fund	\$0.2	\$0.0	\$0.0	\$0.0	\$0.4	\$0.0	\$0.6
Non-General Fund	<u>0.4</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.4</u>
Total State	0.6	0.0	0.0	0.0	0.4	0.0	1.0
Local Government	<u>0.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.5</u>	<u>0.0</u>	<u>1.4</u>
Total Employer	1.4	0.0	0.0	0.0	0.9	0.0	2.4
Total Employee	\$1.0	\$0.0	\$0.0	\$0.0	\$0.9	\$0.0	\$2.0

Note: Totals may not agree due to rounding.

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 number of members expected to earn free interruptive military service credit would have to increase dramatically for this proposal to impact rates in the current biennium. The table below shows the multiple of how many more members would need to receive free military service credit before the rate impact would reach 0.005% for each system. For example, in LEOFF 2, the employee rate impact would reach 0.005% if 4 times as many members as expected receive free interruptive military service credit.

System	Multiple
PERS	16
TRS	176
SERS	60
PSERS	9
LEOFF	4
WSP	48

In general, the results are proportionate to how many members we assumed would earn free interruptive military service credit. If twice or half as many members received free interruptive military service credit, then the cost would either double or be cut in half, respectively.

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.

FRP (Pre-LEOFF) Survivors Benefits

Background

The Firemen's Relief and Pension Plan covered fire fighters prior to the creation of LEOFF. The plan provides retirement, disability, and survivor benefits for paid members of a fire department who were actively employed as a fire fighter or a fire dispatcher prior to March 1, 1970. The plan closed to new members on March 1, 1970, and all active members were transferred to LEOFF. The plan is administered by local governments for remaining members, and benefits are paid out of local government funds.

In the 2007 Legislative session, HB 1824 was introduced, and addressed the issue of continuing survivor benefits upon remarriage. This bill passed the House, but was not voted on in the Senate. Stakeholders for retired firefighters contacted the Select Committee on Pension Policy this interim to recommend legislation for 2008.

Committee Activity

Presentations:

July 17, 2007- Full Committee

December 18, 2007 - Full Committee

Proposal:

December 18, 2007 - Full Committee

Recommendation to Legislature

Create parity with the Law Enforcement Officers' and Firefighters' Retirement System Plan 1 for spouses of members in the Firemen's Relief and Pensions Plans (1955 Act) by providing an optional survivor benefit for spouses who are not currently eligible to receive survivor benefits, and allowing survivor benefits to continue after remarriage.

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In Brief

ISSUE

Stakeholders are proposing two changes to survivor benefits provided in the pre-LEOFF Firemen's Relief and Pension Plans (FRP).

Stakeholders are requesting that survivor pensions not stop when a surviving spouse remarries.

Stakeholders are also requesting that members be allowed to provide a survivor annuity to a spouse who is otherwise ineligible to receive one. This annuity would be provided at member cost.

MEMBER IMPACT

There are no active members remaining in the FRP plan. It is unknown how many retired members or survivors would be impacted by these proposals since the plan is not administered by the State.

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FRP (Pre-LEOFF) Survivor Benefits

Current Situation

Stakeholder Proposals

Stakeholders are proposing two changes to survivor benefits provided in the Firemen's Relief and Pension Plans:

- Continue paying survivor benefits when a surviving spouse remarries.
- Provide a new, member-paid survivor benefit option for certain spouses.

Stakeholders have requested that the new survivor benefit option be modeled after an option currently provided in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The option would allow members to provide an actuarially equivalent survivor annuity to a spouse who is otherwise ineligible for a survivor annuity. Members electing this new option would have their pensions actuarially reduced to pay the cost of providing the survivor annuity. The actuarial reduction would be removed if the spouse predeceases the member.

Background

The FRP covered fire fighters prior to the creation of LEOFF. The plan provides retirement, disability, and survivor benefits for paid members of a fire department who were actively employed as a fire fighter or a fire dispatcher prior to March 1, 1970. The plan closed to new members on March 1, 1970, and all active members were transferred to LEOFF. The plan is administered by local governments for remaining members, and benefits are paid out of local government funds.

Benefits in the plan are funded through property tax levies and a portion of fire insurance premium taxes. Each municipality may levy property taxes of up to 45 cents per \$1,000 of assessed value against all taxable property to support the FRP. If all or a portion of the property taxes are not necessary to maintain the FRP, the taxes may be reduced or used for any other municipal purpose.

Additionally, the State distributes 25 percent of the tax collected on fire insurance premiums to support the FRP. Each eligible city, town, or fire protection district receives its share of the premium taxes based on their current number of active fire fighters.

Currently, FRP provides different survivor benefits depending on the circumstances of the member's death. The surviving spouse of a member who is killed in the line of duty receives a survivor pension of 50 percent of the member's basic salary. The surviving spouse of a member who dies while retired for service or for a duty-related disability continues to receive the member's benefit. The surviving spouse of a member who dies from a disability not related to duty receives a survivor pension of one-third of the member's basic salary with additional amounts provided for each child. If there is no surviving spouse, the pension that would otherwise have been payable to the spouse is divided among the eligible children in equal shares. Survivor benefits are provided at no additional cost to the member.

In order to qualify for survivor benefits, a surviving spouse must have been married to the member at the time of the member's death in the line of duty or retirement for disability, or married five years prior to the member's retirement for service.

Some spouses are not eligible to receive survivor benefits from the plan.

The survivor benefit paid to a surviving spouse of a member who died in the line of duty or was retired for disability is stopped if the spouse remarries. In contrast, the survivor benefit paid to the surviving spouse of a member retired for service continues even if the spouse remarries. Survivor benefits paid to child survivors cease when the child attains the age of eighteen or is married.

History

Survivor Benefits in LEOFF

The changes stakeholders are proposing for FRP are similar to changes that have been made in the LEOFF system.

Initially, survivor benefits payable to surviving spouses in LEOFF Plan 1 were stopped if the spouse remarried. Over time, the plan was amended so that benefits payable to surviving spouses continued even if the spouse remarried.

The changes stakeholders are proposing for FRP are similar to changes that have been made in the LEOFF system.

The plan was further amended in 2002 to allow members to provide an actuarially equivalent survivor annuity to a spouse otherwise ineligible for a survivor annuity from the plan. The cost of the new survivor benefit was paid for by members electing it. Members who were already married to an ineligible spouse were given a one-year window to designate their spouse as a beneficiary for the new survivor benefit option.

Legislative/SCPP

Non-SCPP Legislation was introduced in 2007 that would have addressed the stakeholder proposal regarding remarriage of surviving spouses.

In 2007, non-SCPP legislation was introduced that would have addressed one of the stakeholder proposals regarding survivor pensions in the FRP. HB 1824 would have removed provisions in the FRP that stop the survivor pension for certain spouses who remarry. The bill did not address the other stakeholder proposal concerning a new survivor benefit option. The bill passed the House, but did not receive a hearing in the Senate.

The SCPP received an initial briefing on FRP survivor benefits on July 17, 2007. The Executive Committee discussed this issue at its November meeting and directed staff to provide a briefing to the full committee at the December 18 meeting and draft a bill implementing both stakeholder proposals for possible executive action.

Examples

Remarriage of Surviving Spouse

Emma is the widow of a fire fighter who retired from the FRP for disability. Emma has been collecting a survivor pension for 20 years, and is currently receiving \$3,000 per month. If Emma were to remarry, her survivor pension would be stopped. However, if Emma's husband had been retired for service, Emma would be able to remarry without having her survivor pension stopped.

Ineligible Spouse – Post-Retirement Marriage

Bill is a former fire fighter who retired for *disability* from the FRP 37 years ago. At the time of his retirement, Bill was not married. Five years after retiring, Bill married Becky. Because Becky was not married to Bill *at the time of his*

retirement, she is not eligible for a survivor benefit from the plan.

Ineligible Spouse – Married at Retirement

John is a former fire fighter who retired for service from the FRP 37 years ago. Six months prior to his retirement, John was married to his current wife Joan. Because Joan was not married to John *five years prior to his retirement*, she is not eligible for a survivor benefit from the plan

Policy Analysis

Other Washington Plans

The majority of fire fighters in Washington State are covered by the LEOFF system, and this paper will use the LEOFF system as the basis for comparison.

The first stakeholder proposal relates to the remarriage of surviving spouses. In both plans of the LEOFF system, survivor pensions do not cease when a surviving spouse remarries -- regardless of whether the survivor benefit was paid for by the member or provided at no additional cost to the member.

Surviving spouses in the LEOFF system may generally qualify for a member-paid survivor pension regardless of when or how long they were married to the member. Pensions are not stopped even if the spouse remarries.

The second stakeholder proposal relates to the eligibility of a spouse to qualify for a survivor pension. Here, the approach taken by the plans differs depending on whether the survivor benefit is paid for by the member or provided at no additional member cost.

In LEOFF 1, a surviving spouse must be married to the member one year prior to retirement for service to qualify for a survivor benefit at no member cost. LEOFF 1 also provides an additional member-paid survivor benefit option for spouses not otherwise eligible for the free survivor annuity (including post-retirement spouses).

LEOFF 2 generally provides survivor benefits at member cost and does not generally limit the ability of a spouse to receive a benefit based on when or how long they were married to the member (including post-retirement spouses).

In both plans of the LEOFF system, member-paid survivor benefits are administered by means of an actuarial reduction to the member's pension. Both plans have

provisions to restore the member's pension to the unreduced amount if the spouse predeceases the member -- commonly referred to as a "pop-up" provision.

There is also a pre-LEOFF police system with provisions for surviving spouses similar to the FRP.

There also exists a pre-LEOFF Police Relief and Pensions (PRP) system that has provisions similar to the FRP in regards to survivor benefits for spouses. The PRP closed to new members on March 1, 1970, and all active members were transferred to LEOFF. Like the FRP, the plan is administered by local governments for remaining members, and benefits are paid out of local government funds. As in the FRP, survivor pensions paid to surviving spouses are stopped if the spouse remarries, and a spouse must be married five years prior to the member's retirement for service to qualify for survivor benefits. The PRP also provides a \$300 per month pension for a surviving spouse who is otherwise ineligible for a survivor pension.

Other States

An examination of how plans covering fire fighters in Washington's comparative states handle spousal eligibility for survivor pensions and the remarriage of surviving spouses is relevant to the discussion of this issue.

Other states generally provide options for most spouses to receive a survivor pension and do not stop such pensions if the survivor remarries.

Generally, Washington's comparative states provide survivor benefits at member-cost. These states do not have length of marriage requirements for a spouse of a service retiree to be eligible for a member-paid survivor annuity. The majority of other states also allow members some opportunity to designate a post-retirement spouse for a survivor benefit, and "Pop-up" provisions are common.

In addition to member-paid benefits, California also offers an employer-provided (at no member cost) survivor annuity benefit. The spouse must have been married at least one year prior to the member's retirement to qualify for the employer-provided annuity.

Plans covering fire fighters in Washington's comparative states do not stop a survivor pension if the surviving spouse remarried.

See **Appendix A** for more detailed information on survivor benefits in other states.

Policy-makers may take different views depending on whether benefits are member-paid or offered at no additional cost to the member.

Free vs. Member-Paid Benefits

The two stakeholder proposals on FRP survivor benefits generally address the ability of a spouse to qualify for a survivor pension from the plan. Policy-makers may take different views on this issue depending on whether benefits are member-paid or offered at no additional cost to the member.

When survivor benefits are paid for entirely by the member, they may be viewed more along the lines of providing member flexibility in payment options. There may be little perceived need to place restrictions on who may qualify for such benefits since the cost is entirely born by the member. When survivor benefits are paid for by the member, there is little reason from both a plan design and public policy perspective to either limit a spouse's ability to receive a survivor benefit or to stop survivor benefits if a surviving spouse remarries.

When survivor benefits are provided free to the member, there may be greater reason to limit who qualifies.

In contrast, survivor benefits that are provided free to the member may be viewed more along the lines of a public benefit. In such cases, policy-makers may wish to place restrictions on who qualifies for such benefits and limit the circumstances under which the benefits are paid. Such restrictions may serve many purposes such as:

- Lowering the cost of providing survivor benefits.
- Directing benefit dollars to recipients with the greatest perceived need.
- Preventing perceived abuse.

For example, policy-makers may require a spouse to be married to the member for a certain number of years prior to the member's retirement or death. Such a restriction may serve to ensure survivor benefits are going to spouses who were married to the member for some portion of their public career. It may also serve to prevent "death-bed" marriages—where a member who has a short time to live marries simply to provide the free survivor benefit to someone.

Policy-makers may also choose to stop survivor benefits when a surviving spouse remarries. Such a restriction may serve to prevent a spouse from collecting more than one survivor benefit from the plan if they remarry another plan

member. It may also serve to direct survivor pension dollars to those surviving spouses who do not have access to income from another marriage.

Some restrictions may run counter to broader public policy concerns.

While there are reasons from a plan design perspective to restrict the ability of a spouse to collect a survivor pension, some restrictions may run counter to broader public policy concerns. Restrictions related to the length and timing of marriage may result in a member not being able to provide a survivor annuity for a spouse of many years. Restrictions related to collecting survivor pensions after remarriage may serve as a disincentive for a surviving spouse to ever remarry. For those spouses who do remarry, the loss of a survivor pension may create financial difficulty—particularly if the pension had been collected and relied upon for many years.

Cost Implications

The two stakeholder proposals relating to FRP survivor benefits have very different cost implications. Continuing survivor pension payments that would otherwise be stopped upon the remarriage of the surviving spouse has a direct cost to the plan. Because the FRP has been closed for many years and there are no longer any active members, such additional costs cannot be funded over the working lifetime of plan members. It is unknown whether the tax revenue currently allocated to pay the benefits of the plan is sufficient to cover the cost of any additional benefit improvements.

Providing members a new actuarially equivalent survivor benefit option for otherwise ineligible spouses has no cost to the plan—the benefit is entirely paid for by the member. However, implementing such an option may generate administrative costs for the various local governments that still pay FRP benefits. Plan administrators may need to consult with actuaries or other experts to develop the new survivor option.

Members may wish to consider if policy concerns warrant advancing a legislative proposal with an unknown cost.

The total cost of the stakeholder proposals relating to FRP survivor benefits is indeterminate at this time due to lack of available data (see attached fiscal note). The plan is administered by local boards and there is no centralized reporting. The cost of the proposals would be entirely born by the local governments paying the benefits. SCPP

members may wish to consider whether the policy concerns warrant advancing a legislative proposal with an unknown cost.

Conclusion

Stakeholders have made two proposals regarding survivor benefits in the FRP. Both of the proposals generally address the ability of a spouse to collect a survivor pension from the plan. One proposal is to continue paying survivor pensions when a surviving spouse remarries. This proposal has a cost that is indeterminate at the present time due to insufficient data. The other proposal is to provide a new member-paid survivor benefit option for an otherwise ineligible spouse. This proposal has no cost to the plan. Both proposals are consistent with current practice in the LEOFF system.

Executive Committee Recommendations

The Executive Committee has not made a recommendation on this issue. However, staff was directed to prepare a bill draft incorporating both stakeholder proposals.

Bill Draft

A code reviser draft of the bill (Z-0765.2/08) is attached. Staff prepared the bill draft based upon HB 1824 from the 2007 Session and current LEOFF statute. HB 1824 was referred to for language to continue survivor benefits upon remarriage. The actuarially equivalent survivor option for otherwise ineligible spouses was modeled after current provisions in LEOFF Plan 1.

Stakeholder Input

Correspondence from:
Richard Warbrouk,
President, Retired
Firefighters of Washington.

Draft Fiscal Note

Attached.

Supporting Information

Appendix A

Plans Covering Fire Fighters in Other States				
State	Survivor Benefit Ceases on Remarriage	Restrictions on Eligible Spouse for Service Retirement Survivor Benefit	May Designate a Post-Retirement Spouse for Survivor Benefits	Pop-Up
California				
<i>Employer-Provided</i>	No	Married 1 year prior	No	
<i>Member-Paid</i>	No	No	Yes	Yes
Iowa	No	No	Yes	Yes
Missouri	No	No	No	Yes
Ohio	No	No	Yes	Not specified
Colorado	No	No	Yes	Yes
Florida	No	No	Yes	Not specified
Idaho	No	No	Yes	Yes
Iowa	No	No	No	Yes
Minnesota	No	No	No	Yes
Oregon	No	No	Yes	Yes
Wisconsin	No	No	Yes	Yes

Data obtained from plan administrator websites, member handbooks, and other publications available online as of 11/26/2007.

O:\Reports\Interim Issues\2007\8.FRP-PreLEOFF-Sruvivor_Bens.doc

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0765.2/08 2nd draft

ATTY/TYPIST: LL:seg

BRIEF DESCRIPTION: Providing benefits for the survivors of certain firefighters.

1 AN ACT Relating to benefits for the survivors of certain
2 firefighters; amending RCW 41.18.080 and 41.18.100; and adding a new
3 section to chapter 41.18 RCW.

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

5 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.18 RCW
6 to read as follows:

7 (1) Any retired firefighter married to a spouse ineligible for
8 survivor benefits under RCW 41.18.040, 41.18.080, and 41.18.100 may
9 choose an actuarially equivalent benefit adopted by the board that pays
10 the retired firefighter a reduced retirement allowance, and upon death
11 such portion of the retired firefighter's reduced retirement allowance
12 as designated by the retired firefighter shall be continued throughout
13 the life of the spouse.

14 (2) A retired firefighter who married a spouse ineligible for
15 survivor benefits under RCW 41.18.040, 41.18.080, and 41.18.100 prior
16 to the effective date of this section has one year after the effective
17 date of this section to designate their spouse as a survivor
18 beneficiary.

1 (3) The benefit provided to a child survivor beneficiary under RCW
2 41.18.040, 41.18.080, and 41.18.100 shall not be affected or reduced by
3 the retired firefighter's selection of the actuarially reduced spousal
4 survivor benefit provided by this section, and shall be equivalent to
5 the amount payable as if the choice under subsection (1) of this
6 section was not made.

7 (4)(a) Any retired firefighter who chose to receive a reduced
8 retirement allowance under subsection (1) of this section is entitled
9 to receive a retirement allowance adjusted in accordance with (b) of
10 this subsection if:

11 (i) The retiree's survivor spouse designated in subsection (1) of
12 this section predeceases the retiree; and

13 (ii) The retiree provides to the board proper proof of the
14 designated beneficiary's death.

15 (b) The retirement allowance payable to the retiree from the
16 beginning of the month following the date of the beneficiary's death
17 shall be the current monthly amount payable as if the selection under
18 subsection (1) of this section was not made.

19 **Sec. 2.** RCW 41.18.080 and 2007 c 218 s 49 are each amended to read
20 as follows:

21 Any firefighter who has completed his or her probationary period
22 and has been permanently appointed, and sustains a disability not in
23 the performance of his or her duty which renders him or her unable to
24 continue his or her service, may request to be retired by filing a
25 written request with his or her retirement board within sixty days from
26 the date of his or her disability. The board may, upon such request
27 being filed, consult such medical advice as it deems fit and proper.
28 If the board finds the firefighter capable of performing his or her
29 duties, it may refuse to recommend retirement and order the firefighter
30 back to duty. If no request for retirement has been received after the
31 expiration of sixty days from the date of his or her disability, the
32 board may recommend retirement of the firefighter. The board shall
33 give the firefighter a thirty-day written notice of its recommendation,
34 and he or she shall be retired upon expiration of said notice. Upon
35 retirement he or she shall receive a pension equal to fifty percent of
36 his or her basic salary. For a period of ninety days following such
37 disability the firefighter shall receive an allowance from the fund

1 equal to his or her basic salary. He or she shall during said ninety
2 days be provided with such medical, hospital, and nursing care as the
3 board deems proper. No funds shall be expended for such disability if
4 the board determines that the firefighter was gainfully employed or
5 engaged for compensation in other than fire department duty when the
6 disability occurred, or if such disability was the result of
7 dissipation or abuse. Whenever any firefighter shall die as a result
8 of a disability sustained not in the line of duty, his widow or her
9 widower shall receive a monthly pension equal to one-third of his or
10 her basic salary (~~until remarried~~); if such widow or widower has
11 dependent upon her or him for support a child or children of such
12 deceased firefighter, he or she shall receive an additional pension as
13 follows: One child, one-eighth of the deceased's basic salary; two
14 children, one-seventh; three or more children, one-sixth. If there be
15 no widow or widower, monthly payments equal to one-third of the
16 deceased firefighter's basic salary shall be made to his or her child
17 or children. The widow or widower may elect at any time in writing to
18 receive a cash settlement, and if the board after hearing finds it
19 financially beneficial to the pension fund, he or she may receive the
20 sum of five thousand dollars cash in lieu of all future monthly pension
21 payments, and other benefits, including benefits to any child and/or
22 children.

23 **Sec. 3.** RCW 41.18.100 and 2007 c 218 s 51 are each amended to read
24 as follows:

25 In the event a firefighter is killed in the performance of duty, or
26 in the event a firefighter retired on account of service connected
27 disability shall die from any cause, his widow or her widower shall
28 receive a monthly pension under one of the following applicable
29 provisions: (1) If a firefighter is killed in the line of duty his
30 widow or her widower shall receive a monthly pension equal to fifty
31 percent of his or her basic salary at the time of his or her death; (2)
32 if a firefighter who has retired on account of a service connected
33 disability dies, his widow or her widower shall receive a monthly
34 pension equal to the amount of the monthly pension such retired
35 firefighter was receiving at the time of his or her death. If she or
36 he at any time so elects in writing and the board after hearing finds
37 it to be financially beneficial to the pension fund, he or she may

1 receive in lieu of all future monthly pension and other benefits,
2 including benefits to child or children, the sum of five thousand
3 dollars in cash. If there be no widow or widower at the time of such
4 firefighter's death or upon the widow's or widower's death the monthly
5 pension benefits (~~hereinabove~~) provided for under this section shall
6 be paid to and divided among his or her child or children share and
7 share alike, until they reach the age of eighteen or are married,
8 whichever occurs first. (~~The widow's or widower's monthly pension~~
9 ~~benefit, including increased benefits to his or her children shall~~
10 ~~cease if and when he or she remarries: PROVIDED, That~~) No pension
11 payable under the provisions of this section shall be less than that
12 specified under RCW 41.18.200.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	12/20/2007	Z-0765.2

INTENDED USE

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

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

EXECUTIVE SUMMARY

This proposal impacts members of the Firemen's Relief and Pensions Plans (1955 Act) by providing an optional survivor benefit for spouses who are not currently eligible to receive survivor benefits, and by allowing certain survivor benefits to continue after remarriage.

The cost for this proposal is indeterminate as we do not have any data to perform a sufficient analysis.

See the Actuarial Determinations section of this draft fiscal note for additional detail.

SUMMARY OF PROPOSAL

This proposal impacts the Firemen's Relief and Pensions Plans (1955 Act) by providing a new survivor benefit option and allowing certain survivor benefits to continue if the survivor remarries.

This proposal would create a new actuarially equivalent survivor benefit for spouses who are otherwise ineligible to receive ongoing survivor benefits under the plan. If a member who is married to an ineligible spouse elects this option, the member's retirement allowance will be actuarially reduced. Then, upon the death of the member, the reduced

retirement allowance will continue throughout the life of the spouse. The selection of this survivor option will not affect any payments due to child beneficiaries. Members who were married to an ineligible spouse prior to the effective date of the act will have one year from the effective date of the act to designate their spouse as a survivor beneficiary. The proposed option also provides a “pop-up” provision in the event the designated spouse predeceases the member. This provision would increase the amount of the member’s retirement allowance to the amount the member would have received had the member not selected the option.

This proposal would also allow survivor benefits for members who retired on disability or who died in the line of duty to continue if the survivor remarries.

Assumed Effective Date: 90 days after session.

CURRENT SITUATION

The Firemen's Relief and Pensions Plans (1955 Act) provides retirement, disability, and survivor benefits for paid members of a fire department who are actively employed as a fire fighter or a fire dispatcher. The plan closed to new members on March 1, 1970, and the majority of members were transferred to the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The plan is administered by local governments and benefits are paid out of local government funds.

Currently, the plan provides different survivor benefits depending on the circumstances of the member's death. The surviving spouse of a member who is killed in the line of duty receives a survivor pension of 50% of the member's basic salary. The surviving spouse of a member who dies while retired for service or for a duty-related disability continues to receive the member's benefit. The surviving spouse of a member who dies from a disability not related to duty receives a survivor pension of one-third of the member's basic salary with additional amounts provided for each child. If there is no surviving spouse, the pension that would otherwise have been payable to the spouse is divided among the eligible children in equal shares.

In order to qualify for survivor benefits, a surviving spouse must have been married to the member at the time of the member’s death in service or disability, or married five years prior to the member’s retirement for service. The survivor benefit paid to a surviving spouse of a member retired for service continues even if the spouse remarries, while in all other cases, the survivor benefits are stopped if the spouse remarries. Survivor benefits paid to child survivors cease when the child attains the age of eighteen or is married.

SUMMARY OF MEMBERS IMPACTED

We do not have any data to determine the number of members impacted by this proposal.

FISCAL IMPACT

Actuarial Determinations

The FRP Plan is administered by local governments and benefits are paid out of local funds. Neither the LEOFF Plans nor any other State Retirement Plans are impacted by these benefit improvements. The cost associated with this proposal is discussed under each of the benefit provisions below:

- (1) The provision of an actuarially equivalent survivor benefit for spouses who are otherwise ineligible is cost neutral as far as the benefit provision itself. An actuarially equivalent benefit is a benefit that has the same present value as the benefit it replaces. There are, however, some intrinsic costs in offering this benefit because the local governments will have to administer this additional benefit and possibly obtain actuarial services to calculate the actuarially equivalent values.
- (2) The cost to continue a survivor pension when the survivor remarries is essentially the “loss of savings” to the fund that would have occurred without this provision. We do not have any data to support a fiscal cost determination for this part of the proposal.

Based on information provided in HB 1824 during the 2007 Legislative Session, The City of Seattle, with the largest FRP membership, assumes that no surviving spouse will remarry when budgeting for the Plan. They also report that the number of surviving spouses who remarry is very small. This suggests that the impact of this part of the proposal is a small “loss of savings” to the Plan’s fund. If, however, this provision was made retroactive, the cost to provide this benefit back many years, plus the administrative work to find the impacted surviving spouses, could be significant.

Plan 2 Access to PEBB

Background

Plan 2 members who separate when eligible to retire (at least age 55 and have at least 20 years of service) but do not begin drawing their monthly retirement benefit, lose their eligibility to enroll in the insurance plans and contracts offered to retirees by the Public Employees' Benefits Board.

Plan 3 members who separate at age 55 with at least ten years of service are eligible for the insurance plans, regardless of whether or not they are receiving their monthly defined benefit payment.

A sub-group of committee members and stakeholders worked with Health Care Authority staff during this interim to present ideas and proposals to the Select Committee on Pension Policy regarding health care benefit enhancements. **These issues were not developed or led by staff at the Office of the State Actuary.**

Committee Activity

Presentations:

July 17, 2007 - Full Committee

September 18, 2007 - Full Committee

October 16, 2007 - Executive Committee

November 13, 2007 - Full Committee

December 18, 2007 - Full Committee

Proposal:

December 18, 2007 - Full Committee

Recommendation to Legislature

Provide retiree eligibility for insurance plans and contracts offered by the Public Employee Benefits Board to separated Plan 2 members of PERS, TRS and SERS who are at least age 55 and have at least 20 years of service credit.

Staff Contact

N/A

Allow Plan 2 Members Join PEBB as A Separated Employee

Current Situation

Retired or disabled employees of the state, school districts, and participating political subdivisions (PERS, SERS, and TRS) may purchase health care benefits from the Public Employees' Benefits Board (PEBB), administered by the Health Care Authority (HCA). In order for members to be eligible for participation in PEBB benefit offerings the member must start drawing their monthly pension benefit as a retiree upon separation from employment. The exception to this is found in RCW 41.05.011(13) under definitions listed for the HCA. The definition of "separated employees" only includes the separated Plan 3 members of PERS, SERS, and TRS that are at least fifty-five years of age and have served at least ten years of service that are eligible to participate in PEBB benefit offerings. PERS, SERS, and TRS members of Plan 1 and 2 that separate from service and do not start drawing their monthly pension upon separation are not eligible to participate in the PEBB benefit offerings.

History

Legislation has been introduced during past sessions and most recently in the 2007 session through HB 1284 and SB 5427 to allow separating Plan 2 PERS, SERS, and TRS members to participate in the PEBB benefit plan offerings upon separation similar to Plan 3 members age 55 or older and having at least 10 years of service. The fiscal note on HB 1284 included \$10.9 million for 2007-09. Almost all of the cost was due to a retroactive provision for PERS 2 members going back to March 2002.

New Proposed Legislation

Legislation proposed would allow Plan 2 PERS, SERS, and TRS members access to the PEBB benefit offerings upon separation from service without beginning to draw a retirement pension at age 55 with a least 20 years of service. The bill proposes to prospectively expand the definition of "separated employees" in RCW 41.05.011(13) to include Plan 2 PERS, SERS, and TRS members who have separated from employment and are at least age 55 and have at least 20 years of service credit. The effective date of the bill is January 1, 2009.

Cost

The HCA assumes the administrative process changes can be accomplished within existing resources. The policy change would have no fiscal impact. The HCA fiscal note states: "Due to this bill, staff considered some separated employees may join PEBB earlier than they originally intended but others would postpone PEBB enrollment longer than they originally intended to coincide with receiving their pension. These offsetting behaviors result in no overall increased cost to the PEBB fund."

Supportive Issues

- Fairness between retirement plans – Plan 3 members can separate at age 55 with 10 years of service and join PEBB benefit plans and Plan 1 members can retire at an earlier age with full benefits thus separation has not been a significant problem.
- This bill allows members more flexibility in being able to plan possible changes in their lifework while delaying the start of their pension. It allows the member to complete PEBB enrollment or the waiver form and thus not lose the benefit of participating by paying the coverage cost based on the state risk pools rather than going into the private market.
- It is anticipated that many Plan 2 members that entered public employment while in their late 30s or 40s will never reach 30 years of service by the age 65 or 62 and thus cannot qualify for early retirement under EHB 2391. If a member wishes or needs to make a change in their life before age 65 most members would plan to not start drawing a significantly reduced pension at that point but would wait till an older age when the pension takes less of a reduction. Not being able to participate in the PEBB benefit plans for the remainder of the person's life creates a real concern.
- Teachers and certain other public employees often work in a high stress jobs. Some need either lower stress employment or the opportunity to make changes in their lifework without starting to draw on their public pension. The disadvantage of not being able to obtain or keep PEBB benefit plans is significant.

John Kvamme, WASA & AWSP Consultant

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0901.1/08

ATTY/TYPIST: LL:ean

BRIEF DESCRIPTION: Participating in insurance plans and contracts by separated plan 2 members of certain retirement systems.

AN ACT Relating to participating in insurance plans and contracts by separated plan 2 members of certain retirement systems; reenacting and amending RCW 41.05.011; and providing an effective date.

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

Sec. 1. RCW 41.05.011 and 2007 c 488 s 2 and 2007 c 114 s 2 are each reenacted and amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Administrator" means the administrator of the authority.

(2) "State purchased health care" or "health care" means medical and health care, pharmaceuticals, and medical equipment purchased with state and federal funds by the department of social and health services, the department of health, the basic health plan, the state health care authority, the department of labor and industries, the department of corrections, the department of veterans affairs, and local school districts.

(3) "Authority" means the Washington state health care authority.

(4) "Insuring entity" means an insurer as defined in chapter 48.01 RCW, a health care service contractor as defined in chapter 48.44 RCW, or a health maintenance organization as defined in chapter 48.46 RCW.

(5) "Flexible benefit plan" means a benefit plan that allows employees to choose the level of health care coverage provided and the amount of employee contributions from among a range of choices offered by the authority.

(6) "Employee" includes all full-time and career seasonal employees of the state, whether or not covered by civil service; elected and appointed officials of the executive branch of government, including full-time members of boards, commissions, or committees; and includes any or all part-time and temporary employees under the terms and conditions established under this chapter by the authority; justices of the supreme court and judges of the court of appeals and the superior courts; and members of the state legislature or of the legislative authority of any county, city, or town who are elected to office after February 20, 1970. "Employee" also includes: (a) Employees of a county, municipality, or other political subdivision of the state if the legislative authority of the county, municipality, or other political subdivision of the state seeks and receives the approval of the authority to provide any of its insurance programs by contract with the authority, as provided in RCW 41.04.205 and 41.05.021(1)(g); (b) employees of employee organizations representing state civil service employees, at the option of each such employee organization, and, effective October 1, 1995, employees of employee organizations currently pooled with employees of school districts for the purpose of purchasing insurance benefits, at the option of each such employee organization; (c) employees of a school district if the authority agrees to provide any of the school districts' insurance programs by contract with the authority as provided in RCW 28A.400.350; and (d) employees of a tribal government, if the governing body of the tribal government seeks and receives the approval of the authority to provide any of its insurance programs by contract with the authority, as provided in RCW 41.05.021(1)(f) and (g).

(7) "Board" means the public employees' benefits board established under RCW 41.05.055.

(8) "Retired or disabled school employee" means:

(a) Persons who separated from employment with a school district or educational service district and are receiving a retirement allowance under chapter 41.32 or 41.40 RCW as of September 30, 1993;

(b) Persons who separate from employment with a school district or educational service district on or after October 1, 1993, and

immediately upon separation receive a retirement allowance under chapter 41.32, 41.35, or 41.40 RCW;

(c) Persons who separate from employment with a school district or educational service district due to a total and permanent disability, and are eligible to receive a deferred retirement allowance under chapter 41.32, 41.35, or 41.40 RCW.

(9) "Benefits contribution plan" means a premium only contribution plan, a medical flexible spending arrangement, or a cafeteria plan whereby state and public employees may agree to a contribution to benefit costs which will allow the employee to participate in benefits offered pursuant to 26 U.S.C. Sec. 125 or other sections of the internal revenue code.

(10) "Salary" means a state employee's monthly salary or wages.

(11) "Participant" means an individual who fulfills the eligibility and enrollment requirements under the benefits contribution plan.

(12) "Plan year" means the time period established by the authority.

(13) "Separated employees" means persons who separate from employment with an employer as defined in:

(a) (i) RCW 41.32.010(11) on or after July 1, 1996; or

~~((b))~~ (ii) RCW 41.35.010 on or after September 1, 2000; or

~~((c))~~ (iii) RCW 41.40.010 on or after March 1, 2002;

and who are at least age fifty-five and have at least ten years of service under the teachers' retirement system plan 3 as defined in RCW 41.32.010(40), the Washington school employees' retirement system plan 3 as defined in RCW 41.35.010, or the public employees' retirement system plan 3 as defined in RCW 41.40.010; or

(b) For the purposes of RCW 41.05.080:

(i) RCW 41.32.010 on or after the effective date of this section;

or

(ii) RCW 41.35.010 on or after the effective date of this section;

or

(iii) RCW 41.40.010 on or after the effective date of this section;

and who are at least age fifty-five and have at least twenty years of service under the teachers' retirement system plan 2 as defined in RCW 41.32.010, the Washington school employees' retirement system plan 2 as defined in RCW 41.35.010, or the public employees' retirement system plan 2 as defined in RCW 41.40.010.

(14) "Emergency service personnel killed in the line of duty" means law enforcement officers and firefighters as defined in RCW 41.26.030, members of the Washington state patrol retirement fund as defined in RCW 43.43.120, and reserve officers and firefighters as defined in RCW 41.24.010 who die as a result of injuries sustained in the course of employment as determined consistent with Title 51 RCW by the department of labor and industries.

(15) "Employer" means the state of Washington.

(16) "Employing agency" means a division, department, or separate agency of state government; a county, municipality, school district, educational service district, or other political subdivision; and a tribal government covered by this chapter.

(17) "Tribal government" means an Indian tribal government as defined in section 3(32) of the employee retirement income security act of 1974, as amended, or an agency or instrumentality of the tribal government, that has government offices principally located in this state.

NEW SECTION. **Sec. 2.** This act takes effect January 1, 2009.

PERS to SERS Auto-Transfer

Background

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

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

Committee Activity

Presentations:

July 17, 2007 - Full Committee

September 18, 2007 - Full Committee

November 13, 2007 - Executive Committee

Proposal:

December 18, 2007 - Full Committee

Recommendation to Legislature

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

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In Brief

ISSUE

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

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

MEMBER IMPACT

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

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PERS to SERS "Auto-Transfer"

Current Situation

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

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

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

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

History

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

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

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

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

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

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

Since the initial transfer of PERS 2 classified school employees to SERS 2, over 5,000 PERS 2 members who became employed in SERS eligible positions have had their PERS membership and service credit automatically transferred to SERS. It is unknown how many of these members' PERS service was related to school employment. The Department of Retirement Systems has received

complaints from some members who have had their PERS 2 service automatically transferred to SERS 2 when their primary career was not in SERS.

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

Examples

Example 1: School employee with break in service

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

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

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

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

Policy Analysis

Possible Inconsistency with SERS Intent

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

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

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

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

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

Implications of Continuing “Auto-Transfer”

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

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

The advantages of the “auto-transfer”, however, have diminished since the initial creation of SERS. The number of former classified school employees returning to service and

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

When SERS was first created, the benefit provisions of SERS 2 and PERS 2 were identical. Thus, members did not experience either a diminution or expansion of benefits by having their PERS 2 membership and service transferred to SERS 2. However, the more time that passes following the creation of SERS, the greater the likelihood that the benefit provisions of PERS 2 and SERS 2 will start to diverge.

In the future, there could be increased legal risk.

Divergent benefits often result from pension legislation that does not go through a policy committee like the SCPP. If the differences in the plans were to become substantial enough, members may actually begin to experience a diminution or expansion of benefits by having their PERS membership automatically transferred to SERS. Such an outcome was likely not envisioned as a possibility at that time and was clearly not part of the Legislature’s original intent in transferring members to SERS. See RCW 41.35.005. If benefits were to diverge to the point that some members were being inadvertently harmed by the “auto-transfer,” it may create potential legal risk for the state.

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

Implications for Dual-Membership

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

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

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

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

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

Implications for Optional Transfer

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

Making the “auto-transfer” optional instead of mandatory would reduce the risk of the exposure to one kind of liability while increasing the risk of exposure to another. Making the transfer optional would likely eliminate the potential legal risk of members being harmed by the transfer. However, members may be able to take advantage of an optional transfer to increase their benefits while passing the

cost of those benefits on to others. This situation could occur if the benefits in SERS were to become more generous than the benefits in PERS. Members electing to transfer their service would essentially be able to “buy” the more expensive SERS benefits using cheaper PERS service. This would result in a cost to the SERS system which would be subsidized by all plan members and/or employers.

Other States

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

Policy Questions

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

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

Conclusion

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

The automatic transfer of PERS 2 membership and service to SERS 2 at the initial opening of SERS was advantageous for both members and the plan administrator. The

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

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

Next Steps

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

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BILL REQUEST - CODE REVISER'S OFFICE

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

ATTY/TYPIST: LL:rmh

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

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

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

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

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

(2)(a) The membership and previous service credit of a plan 2 member not employed in an eligible position on September 1, 2000, will be transferred to the Washington school employees' retirement system plan 2 when he or she becomes employed in an eligible position prior to July 1, 2008. Plan 2 members not employed in an eligible position on September 1, 2000, who have withdrawn their member contributions

for prior plan 2 service may restore contributions and service credit to the Washington school employees' retirement system plan 2 as provided under RCW 41.40.740, if they first establish eligibility in the Washington school employees' retirement system plan 2 prior to July 1, 2008.

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

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

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

DRAFT FISCAL NOTE

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

INTENDED USE

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

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

EXECUTIVE SUMMARY

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

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

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

SUMMARY OF PROPOSAL

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

- Discontinue the automatic transfer of prior PERS Plan 2 service to SERS Plan 2 upon employment in a SERS eligible position. Prior PERS Plan 2 members hired

into SERS eligible positions after the effective date of the proposal will be dual members under the provisions of Chapter 41.54 RCW.

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

Assumed Effective Date: 90 days following session

CURRENT SITUATION

The provisions of RCW 41.40.750 provide the following:

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

SUMMARY OF MEMBERS IMPACTED

We estimate that of the 5,342 PERS members who have had service transferred to SERS after 9/1/2000, 3,068 would be affected by this proposal by having the ability to move their service and associated savings funds back to PERS. These members could be actives, terminated vested members or Terminated Non-Vested (TNV) members. TNV members are only entitled to receive their contributions with interest.

We estimate that for a typical member impacted by this proposal, there would not be an increase in benefits because the benefits for Plan 2 members in PERS and SERS are virtually identical. The only difference between the benefits in PERS 2 and SERS 2 is the availability of a 200 percent refund of contributions benefit for PERS 2 members who interrupt their PERS service to join the uniformed services and are subsequently killed while on active duty.

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

PURPOSE

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

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

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

METHODS

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

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

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

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

$$(\text{AFC Factor} \times \text{Annuity Factor}) / \text{Pay Factor}$$

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

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

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

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

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

ASSUMPTIONS

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

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

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

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

DATA

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

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

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

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

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

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

FISCAL IMPACT

Description

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

Actuarial Determinations

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

<i>(Dollars in millions)</i>	PERS 2	SERS 2
Liability change	\$21.2	-\$21.2
Savings Fund asset change	9.6	-9.6
Additional asset change	11.6	-11.6
Change in Unfunded Liability	\$0.0	\$0.0

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

Sensitivity Analysis

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

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

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

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

Present Value of Credited Projected Benefits (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.

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

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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.

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Salary Bonuses in TRS

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%

<i>(Dollars in Millions)</i>	Fiscal Costs		
	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 (PVC PB)			
<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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May 22, 2007

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

Dear Executive Committee Members:

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

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

Old Business:

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

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

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

(Continued...)

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

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

Sincerely,



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Fish and Wildlife Service Credit Transfer

Background

In the 2003 Legislative session, service as an enforcement officer for the Department of Fish and Wildlife was made eligible for inclusion in the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plan 2. The officers employed at that time who were in the Public Employees' Retirement System (PERS) Plan 2 were prospectively transferred to LEOFF Plan 2, but were not given the opportunity to transfer their prior PERS Plan 2 service as enforcement officers into their new plan. They are dual members of PERS Plan 2 and LEOFF Plan 2 and can retire under provisions of the portability chapter (RCW 41.54).

Legislation was introduced in 2005 and 2006 to allow these officers to transfer their prior service.

This is one of four issues being coordinated with the Law Enforcement Officers' and Firefighters' Plan 2 Retirement Board.

Committee Activity

Presentations:

July 17, 2007 - Full Committee

August 14, 2007 - Executive Committee

October 16, 2007 - Full Committee

Proposal:

December 18, 2007 - Full Committee

Recommendation to Legislature

Allow Fish and Wildlife Enforcement Officers to transfer their prior enforcement officer service in PERS Plan 2 into LEOFF Plan 2. The members would pay the difference in employee contributions plus interest, and the Department of Fish and Wildlife would pay an additional amount sufficient to ensure the LEOFF Plan 2 rates would not increase due to the transfer.

Staff Contact

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In Brief

ISSUE

Fish and Wildlife enforcement officers were mandated into LEOFF Plan 2 beginning July 23, 2003. When this occurred, existing employees were not allowed to transfer prior PERS service as Fish and Wildlife Officers into LEOFF Plan 2. The LEOFF Plan 2 Board has requested the committee study this issue and jointly recommend legislation allowing this transfer of prior service.

MEMBER IMPACT

This proposal would impact an estimated 68 active members of LEOFF Plan 2 serving as a Fish and Wildlife Enforcement Officers.

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Fish and Wildlife Service Credit Transfer

Current Situation

Fish and Wildlife enforcement officers who were members of the Public Employees' Retirement System (PERS) Plan 2 or PERS Plan 3 on or before January 1, 2003, and were employed on July 23, 2003, are mandated into the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2. Service as an enforcement officer prior to that date remains in PERS. Enforcement officers that were members of PERS Plan 1 remained in Plan 1.

History

Prior to the passage of HB 1205 in the 2003 legislative session, all enforcement officers hired by the Department of Fish and Wildlife were placed into the PERS retirement system. The employees had long sought membership in the LEOFF system, but the responsibilities and authority of these officers were somewhat different than LEOFF-eligible police officers. Generally, the eligibility of a group of employees for membership in LEOFF Plan 2 as law enforcement officers is determined by three things:

- They must be full-time, fully authorized law enforcement officers commissioned and employed to enforce the criminal laws in general.
- Their employer must be a general authority law enforcement agency which has as its primary function the enforcement of the traffic and criminal laws of the state in general.
- They must meet certain qualifications, including the Criminal Justice Training Commission basic law enforcement course.

As summarized by Office of the State Actuary staff in an October 18, 2000, letter to the Joint Committee on Pension Policy, prior to 2002, enforcement officers were considered limited authority peace officers, with their primary responsibility to enforce the laws and regulations related to

Transfer of prior PERS service was not part of Legislative request in 2003.

Fish and Wildlife. However, staff research at the time showed their duties often placed them in cooperative working situations with local law enforcement agencies, assisting with actions clearly outside the enforcement of Fish and Wildlife regulations. These situations were fairly common, particularly in the rural areas of the state.

Legislation in 2002 explicitly authorized Fish and Wildlife enforcement officers to be general authority enforcement officers, and designated the Department of Fish and Wildlife as a general authority enforcement agency. This legislation also kept the enforcement officers from qualifying for LEOFF by excluding the employer from the employer definition section in the LEOFF statute.

The legislation in 2003 established the future eligibility in LEOFF Plan 2 for existing employees and all new hires into these positions, but specifically did not allow the transfer of prior PERS service credit earned as enforcement officers into the LEOFF Plan 2 system. These existing members would be dual members in the PERS and LEOFF systems. Public testimony from representatives of both labor and management at the time agreed that they were asking only for prospective LEOFF eligibility, without a transfer of prior service.

Since that time, legislation was introduced in the 2006 and 2007 Legislative sessions that would have allowed for the transfer of prior PERS service into LEOFF Plan 2, but neither effort was passed by the Legislature.

Examples

The following examples highlight the difference in total retirement benefit amount between an enforcement officer that retires at the normal age in LEOFF Plan 2 as a dual member or retires with all prior service transferred into LEOFF Plan 2.

A Fish and Wildlife Enforcement officer had 10 years of prior PERS Plan 2 time as an enforcement officer, worked 15 years in LEOFF Plan 2, and now is retiring at age 53, with a Final Average Salary of \$50,000 per year.

Example 1: Retiring as a Dual Member

15 yrs X 2% X \$50,000= LEOFF Plan 2 annual benefit of \$15,000

10 yrs X 2% X \$50,000 X .31 (reduction factor for 12 year early retirement) = PERS Plan 2 annual benefit of \$3,100

*Total annual benefit of **\$18,100***

Example 2: Retiring with all service in LEOFF

25 yrs X 2% X \$50,000 = *Total annual benefit of **\$25,000***

Prior service transfers to a higher benefit system create liabilities in the new system.

Policy Analysis

The policy question is whether the current LEOFF Plan 2 Fish and Wildlife Enforcement Officers should be allowed to transfer prior PERS Plan 2 service as enforcement officers into the LEOFF Plan 2 system.

In general, when service from one system is transferred to a system with a higher level of benefits, a financial liability is created. How that liability is paid for becomes part of the policy deliberations about the transfer. Should the affected members and employers be the only parties that pay for the transfer, and if so, in what proportion for each? Alternatively, should the costs be socialized throughout the plan and everyone in the plan would pay through increased contribution rates, if necessary?

Dual membership provisions help members retain value of prior service in their previous system.

Another consideration is whether the policy of dual membership is sufficient for this situation, and if not, why not? Dual membership is in place to provide a cost effective way to help retain the value of service credit earned in a prior system under the prior system's rules. Are there compelling reasons why the dual membership status is insufficient in this situation?

To address these questions, we can first look at what has been the historical practice in LEOFF Plan 2 when eligibility has been expanded to include former PERS duties. There have been four prior instances where other PERS members were allowed to become members of LEOFF. In each case, prior PERS service was allowed to be transferred, although the funding models to pay for the increased liabilities varied.

The following chart displays information about these four prior situations, including the year the expansion took place, what members were included in the eligibility change, what payment was required of the affected member to transfer prior service, what corresponding payment was required of the affected member's employer if the member paid their share, and finally, was their additional liability socialized over all members and employers of the plan.

YEAR	Members Affected	Cost to Affected Member	Cost to Affected Employer	Additional liability socialized by plan? (Y/N)
1993 SHB 1744	Port and university police officers	Difference in member contribution rates, plus interest	Difference in PERS employer rate and the LEOFF employer and state contribution rates, plus interest amount sufficient to prevent increased rates	N
1996 SHB 2191	Higher Ed fire fighters	Difference in member contribution rates, plus interest	Difference in PERS employer rate and the LEOFF employer and state contribution rates, plus interest, and an additional amount sufficient to ensure the LEOFF rates would not increase due to the transfer	N
2003 SHB 1202	Prior PERS EMTs whose jobs were relocated to a fire district and they became fire fighters	Difference in member contribution rates, plus interest	None	Y
2005 HB 1936	Current PERS EMTs working for a LEOFF employer	Difference in member contribution rates, plus interest	An amount sufficient to ensure the LEOFF contribution rates will not increase due to the transfer	N

In each of the four above cases, the member's prior time in PERS was allowed to transfer into LEOFF. The only consistency in the funding, however, was the amount required to be paid by the member. The nature of the prior service in the four instances also varied. For example, EMT service alone had long been considered PERS service, until the 2005 Legislation amended the definition of LEOFF-eligible duty to include EMT time. As discussed earlier, for the Fish and Wildlife Enforcement Officers, the duties and authority granted them over time grew into more LEOFF-

Previous expansions of LEOFF Plan 2 eligibility allowed prior service transfers.

like service, but may not have always been as similar as they were in 2003.

Other Systems

There are also examples within the other retirement systems administered by the State where individuals performing the same job are moved to a different retirement system.

- In 2000, existing PERS Plan 2 members of school and educational service districts had all their prior service transferred to the School Employees' Retirement System (SERS) Plan 2.
- In 2002, PERS Commercial Vehicle Enforcement Officers (CVEO) became eligible for the WSPRS, and prior service as a CVEO was allowed to be transferred.
- In 2006, PERS Plan 2 and 3 members could transfer to the Public Safety Employees' Retirement System (PSERS), but their prior PERS service remained in PERS.

Other Washington State systems likely addressed prior service transfers based upon unique circumstances of the situation.

There doesn't appear to be a consistent application of a prior service transfer policy to each of the above situations. All but PSERS allowed prior service to transfer, and the SERS example mandated the transfer. The SERS example is the only situation where the benefits in the two systems affected were equivalent and where the affected individuals were not moving to a system with a higher benefit level. What the disparity shows, is that each situation was likely treated uniquely, and may have had other compelling reasons to justify the decisions made regarding the transfer of prior service.

Other States

A look at similar situations in our comparative states provides a general mix of how this situation has been handled over time, even within the same state. The State of California, for example, is indicative of other states' practice, and has seen significant expansion of their public safety plan. In all cases save one, where the public safety eligibility requirements were expanded to include members previously reported in their general plan, the prior service

was also moved into the public safety plan. The only exception to allowing prior service was the latest transfer, in 2005, where some 4,000 employees in various job classes were allowed into the system, but only on a prospective basis. According to staff of the system, the main reason for disallowing the transfer in this case was the cost.

Possible Options

The Committee has two primary options;

- Don't recommend any change to the current situation, or
- Recommend allowing some form of prior service transfer.

The **first option** allows the enforcement officers to maintain value of their prior service according to the original plan rules through dual membership, and is in keeping with the original requests of the labor and management representatives who backed the legislation in 2003. While this doesn't appear to be consistent with the past practice in LEOFF Plan 2, the examples from the other systems show in those cases that prior service transfers were likely addressed based upon their own unique circumstances.

One argument against dual membership in these situations was in the House bill analysis for HB 1202. The argument made was that though the dual membership provisions exist, given the wide difference in the normal retirement ages for PERS Plan 2 and LEOFF Plan 2 (age 65 and age 53), only a greatly reduced PERS 2 benefit would be available to the member at the LEOFF 2 normal retirement age. This reduction was demonstrated in our earlier example.

The **second option** is consistent with past practice in LEOFF Plan 2, and represents the current wishes of the affected stakeholders. While it doesn't match with the use of dual membership, it recognizes the impact of disparate normal ages of retirement.

If the committee recommends the option to transfer prior PERS Plan 2 service, several questions arise regarding the funding of the transfer:

1. If a member payment is required, how much should it be and how long should the member have to elect and pay for the transfer of service?
2. If an employer payment is required, how much should it be and how long should the employer have to pay?
3. Should any amount of the liability be socialized over all members and employers in the plan?

With regard to the first question, past practice in LEOFF Plan 2 has required the member to pay the difference in the PERS 2 member contributions and the LEOFF 2 member contributions, plus interest, and provide a window to complete that payment, usually five years. However, other payment options exist. For example, the proposal could require the employee to pay the full actuarial cost of the prior service in the LEOFF system. Given the value of the service, the cost could be high, but it would be a compromise between the current dual membership status and the employer paying for the benefit enhancement.

As to the employer payment, the past practice is generally to pay an amount sufficient to keep contribution rates from increasing due to the transfer. The one time in LEOFF Plan 2 this didn't happen, the remaining liability that was socialized was not sufficient to cause an immediate rate increase on its own.

With regard to socialization of costs, again, that occurred only in LEOFF Plan 2 with the 2003 EMT legislation, and the liability that was socialized did not raise contribution rates.

Prior LEOFF Plan 2 Board Proposal

The proposal to the Legislature from the LEOFF Plan 2 Board on this issue in 2006 and 2007 allowed the transfer of prior PERS Plan 2 service to the LEOFF system. The details of the proposal are as follows:

- Members who elect to transfer their prior service pay the difference in the member contribution rates between PERS 2 and LEOFF 2, plus interest.
- Members would have five years to complete payment, but service credit would not be

transferred prior to the end of the five year waiting period.

- Upon completion of the five year waiting period, the Department of Fish and Wildlife would have one year to pay a sum sufficient to ensure the LEOFF Plan 2 rates would not increase due to this transfer.

Conclusion

Whenever eligibility of LEOFF Plan 2 was expanded to include prior PERS related duties, it has been the historical practice to allow the members moving to the new system the option to transfer their prior service. However, this was not part of the original request by the stakeholders in the 2003 Legislation. Other systems administered by the State of Washington have addressed this issue in variety of ways, each situation likely based upon their own unique circumstances. The LEOFF Plan 2 Board has asked the committee to study this issue, and to work cooperatively to develop legislation. The proposal submitted to the Legislature by the Board in the past is generally consistent with past LEOFF Plan 2 expansions of eligibility.

Bill Draft

Attached is HB 1687, the proposal submitted by the LEOFF Plan 2 Board to the Legislature in the 2007 Legislative Session.

Fiscal Note

Attached is the corresponding multi-agency fiscal note to HB 1687.

STAKEHOLDER INPUT

*Correspondence from
Kelly Fox, LEOFF Plan 2
Board Chair, is attached.*

Next Steps

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

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0766.1/08

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Allowing department of fish and wildlife enforcement officers to transfer service credit.

1 AN ACT Relating to allowing department of fish and wildlife
2 enforcement officers to transfer service credit; and adding a new
3 section to chapter 41.26 RCW.

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

5 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.26 RCW
6 to read as follows:

7 (1) A member of plan 2 who was a member of the public employees'
8 retirement system plan 2 while employed as an enforcement officer for
9 the department of fish and wildlife has the option to make an election
10 no later than June 30, 2013, filed in writing with the department of
11 retirement systems, to transfer service credit previously earned as an
12 enforcement officer in the public employees' retirement system plan 2
13 to the law enforcement officers' and firefighters' retirement system
14 plan 2. Service credit that a member elects to transfer from the
15 public employees' retirement system to the law enforcement officers'
16 and firefighters' retirement system under this section shall be
17 transferred no earlier than June 30, 2013, and only after the member
18 completes payment as provided in subsection (2) of this section.

1 (2)(a) A member who elects to transfer service credit under
2 subsection (1) of this section shall make the payments required by this
3 subsection prior to having service credit earned as an enforcement
4 officer with the department of fish and wildlife under the public
5 employees' retirement system plan 2 transferred to the law enforcement
6 officers' and firefighters' retirement system plan 2.

7 (b) A member who elects to transfer service credit under this
8 subsection shall pay, for the applicable period of service, the
9 difference between the contributions the employee paid to the public
10 employees' retirement system plan 2 and the contributions that would
11 have been paid by the employee had the employee been a member of the
12 law enforcement officers' and firefighters' retirement system plan 2,
13 plus interest on this difference as determined by the director. This
14 payment must be made no later than June 30, 2013, and must be made
15 prior to retirement.

16 (c) No later than June 30, 2014, the department of fish and
17 wildlife shall pay an amount sufficient to ensure that the contribution
18 level to the law enforcement officers' and firefighters' retirement
19 system will not increase due to this transfer. Payments made prior to
20 June 30, 2014, are authorized as determined by the department and
21 coordinated with the state actuary.

22 (d) Upon completion of the payment required in (b) of this
23 subsection, the department shall transfer from the public employees'
24 retirement system to the law enforcement officers' and firefighters'
25 retirement system plan 2: (i) All of the employee's applicable
26 accumulated contributions plus interest and all of the applicable
27 employer contributions plus interest; and (ii) all applicable months of
28 service, as defined in RCW 41.26.030(14)(b), credited to the employee
29 under this chapter for service as an enforcement officer with the
30 department of fish and wildlife as though that service was rendered as
31 a member of the law enforcement officers' and firefighters' retirement
32 system plan 2.

33 (e) If a member who elected to transfer pursuant to this section
34 dies or retires for disability prior to five years from their election
35 date, the member's benefit is calculated as follows:

36 (i) All of the applicable service credit, accumulated
37 contributions, and interest is transferred to the law enforcement

1 officers' and firefighters' retirement system plan 2 and used in the
2 calculation of a benefit.

3 (ii) If a member's obligation under (b) of this subsection has not
4 been paid in full at the time of death or disability retirement, the
5 member, or in the case of death the surviving spouse or eligible minor
6 children, have the following options:

7 (A) Pay the bill in full;

8 (B) If a continuing monthly benefit is chosen, have the benefit
9 actuarially reduced to reflect the amount of the unpaid obligation
10 under (b) of this subsection; or

11 (C) Continue to make payment against the obligation under (b) of
12 this subsection, provided that payment in full is made no later than
13 five years from the member's original election date.

14 (f) Upon transfer of service credit, contributions, and interest
15 under this subsection, the employee is permanently excluded from
16 membership in the public employees' retirement system for all service
17 related to time served as an enforcement officer with the department of
18 fish and wildlife under the public employees' retirement system plan 2.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	12/3/07	Z-0766.1

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 and the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board 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 options and analysis presented in this draft fiscal note should be read as a whole. Distributing or relying on only portions of this draft fiscal note could result in misuse and may be misleading to others.

EXECUTIVE SUMMARY

This proposal would allow enforcement officers for the Department of Fish & Wildlife to convert prior PERS 2 service to LEOFF 2 by paying the difference in contribution rates.

Increase in Actuarial Liabilities			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$24,970	5	\$24,975
Unfunded Actuarial Accrued Liability	2,494	0	2,494
Unfunded Liability (PVCBP)	(\$2,859)	5	(\$2,854)

Total Increase in Contribution Rates		
Current Biennium	PERS	LEOFF
Employee (Plan 2)	0.00%	0.00%
Employer	N/A	N/A
State		0.00%

Fiscal Costs			
<i>(Dollars in Millions)</i>	2008-2009	2009-2011	25-Year
General Fund-State	\$0.0	\$0.0	\$0.0
Total Employer	\$0.0	\$0.0	\$0.0

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

SUMMARY OF PROPOSAL

This proposal impacts Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System and Plan 2 of the Public Employees' Retirement System (PERS). This proposal allows LEOFF 2 members to transfer into LEOFF 2 their prior PERS 2 service credit for periods of employment as enforcement officers for the Department of Fish and Wildlife (DFW). There is a waiting period for transferring the service credit, as the proposal provides that it shall be transferred no earlier than June 30, 2013, and only after the member completes payment, which must be made no later than June 30, 2013. Allowances for early transfer are provided for members who become disabled or die during the waiting period.

The member cost for the service credit is the difference between the PERS 2 contributions paid by the member, and the contributions that the member would have paid as a member of LEOFF 2. These amounts are then subject to interest as determined by the director. The assets associated with the PERS 2 member and employer contributions will be transferred from the PERS 2 assets to LEOFF 2 and will be used to further offset the cost to the DFW.

The proposal also provides that no later than June 30, 2014 the DFW would be required to pay an amount sufficient to ensure that the contribution rate in LEOFF 2 will not increase due to the specified transfer of funds and service credit. The proposal also allows for payments prior to 2014 as determined by the Department of Retirement Systems (DRS) in consultation with the Office of the State Actuary.

Finally, the proposal provides that members who elect to transfer their service credit must transfer all their service as an Enforcement Officer with DFW under PERS 2. Furthermore, these members are thereafter permanently excluded from membership in PERS for all service related to time served as an enforcement officer with the DFW in PERS 2.

Assumed Effective Date: 90 days after session

CURRENT SITUATION

Currently, LEOFF 2 members who transferred from PERS 2 while serving as enforcement officers for DFW have no ability to transfer their prior PERS 2 service to LEOFF 2; rather, they are dual members of PERS 2 and LEOFF 2 and can retire under provisions of the portability chapter (RCW 41.54).

SUMMARY OF MEMBERS IMPACTED

We estimate that 67 members out of the total 108 active DFW enforcement officers have eligible prior service credit in PERS 2 and could be affected by this proposal. We believe that 60 of those members would receive improved benefits from this proposal. The remaining seven members would not elect to transfer service credit since they will be retiring prior to culmination of the waiting period. Thus the option to transfer their service credit is not financially advantageous for their situation. This proposal would not affect inactive members.

We estimate that for a typical member impacted by this proposal, the increase in benefits would be the opportunity for a full retirement at age 53 instead of 65, or a benefit at age 50 with 20 years of service reduced 3% for each year under age 53. The affected members would also be required to pay the difference in the member contribution rates as though they had been in LEOFF 2 instead of PERS 2 for the period of service they transfer, with interest.

Furthermore, the Department of Fish and Wildlife would be required to pay an amount sufficient to ensure that the contribution rate in LEOFF 2 will not increase due to the specified transfer of funds and service credit.

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

METHODS

The proposal provides that there shall be no increase in unfunded liability to LEOFF 2 resulting from the additional service being transferred from PERS 2, that DFW would pay any additional cost not covered by the asset transfer, and additional member contributions. The purpose of this pricing exercise was to isolate the total cost to DFW which is equal to the amount of remaining LEOFF 2 liability after the associated PERS 2 assets and member contributions are subtracted from the total transferred liability. The PERS 2 assets are equal to two times the members' PERS savings funds which were provided in the data.

The liability increase to LEOFF 2 resulting from this proposal is equal to the present value of the additional benefits resulting from the transferred service credit.

Otherwise, costs were developed using the same methods as those disclosed in the September 30, 2006 Actuarial Valuation Report (AVR).

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

ASSUMPTIONS

We assumed for this pricing exercise that all past PERS 2 service is eligible for transfer to LEOFF 2. We also assumed that only members of PERS 2 are eligible to transfer. We assumed that this service transfer is only available to active DFW enforcement officers. We assumed that all PERS 2 members who are eligible to transfer service credit would elect to transfer that service if the value of the additional benefit is greater than the sum of double their PERS 2 member account plus the contributions required from the member (that is true for approximately 60 out of the 67 members with eligible service to transfer). It is assumed that members who transfer service will not receive additional benefits as a result of the transfer until after June 30, 2013. We assume that the calculation of the cost to DFW will be administered using annuity factors that assume no pre-retirement decrements other than mortality.

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

Of the 108 DFW enforcement officers active as of September 30, 2006, we were provided information for 67 who had eligible prior service credit in PERS 2. Among the DFW active records were a handful of members with more than the approximately 3.2 years of service they could have earned in their current positions since joining LEOFF 2. These members most likely have past service with other LEOFF agencies. There are also a few active members with no past service in PERS because they entered after July 2003. Of the 67 LEOFF members with prior PERS service, we found that 60 members were vested in their respective plans under the provisions of portability. The remaining seven Plan 2 members were not vested. The vested status for these members was determined utilizing their total service from both the PERS and LEOFF retirement systems. A demographic summary of the affected members is shown below:

Demographic Summary of the Affected Members

	Count	Average Service (Years)	Average Savings Fund	Average Current Salary*
LEOFF Actives	108	3.52	\$14,212	\$63,468
LEOFF Actives with PERS Service	60	8.58	\$20,749	\$68,215
PERS 2 Service Range (Rounded, in years)				
0 - 2	15	1.22	\$551	\$63,324
3 - 5	14	3.38	\$2,519	\$67,031
6 - 10	8	7.82	\$12,398	\$68,938
11 - 15	11	13.71	\$34,468	\$72,240
16 - 20	8	17.96	\$53,810	\$72,126
21+	4	22.98	\$73,144	\$70,362

**LEOFF 2 salary, effective September 30, 2006, is used for all records, including PERS inactive records.*

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

FISCAL IMPACT

Description

This bill would increase the liability in LEOFF 2 by about \$7 million. This would be offset by the approximately \$2 million transferred from the PERS 2 assets, \$2 million in additional contributions from Fish and Wildlife members, and a \$3 million contribution from DFW.

The liability reduction in PERS 2 due to the proposed service transfer is about \$2 million. This amount is offset by the estimated transfer of assets from PERS 2 to LEOFF 2 of about \$2 million, which consists of the member and employer contributions, with interest. The PERS 2 contribution rates will not be affected by this service credit transfer. The members eligible to transfer service credit are currently dual members eligible for portability. The transfer could result in additional experience gains for PERS Plan 2.

A summary of costs/(savings) for all parties appear below:

Summary of Costs/(Savings) for All Parties			
<i>(Dollars are in Millions)</i>	PERS 2	LEOFF 2	Total
Change in Present Value of Fully Projected Benefits			
<i>(The Value of the Total Commitment to all Current Members)</i>	(\$2)	\$7	\$5
Assets Transferred from PERS to LEOFF 2	\$2	(\$2)	\$0
Additional Member Contributions	\$0	(\$2)	(\$2)
Payment from Department of Fish and Wildlife	\$0	(\$3)	(\$3)
Net Change in Present Value of Unfunded Fully Projected Benefits	\$0	\$0	\$0

These costs are based on the assumption that 60 out of 67 eligible DFW enforcement officers will transfer past PERS 2 service credit to LEOFF 2. The actual cost of this bill will be determined by the actual number of affected members who elect to transfer past service.

Actuarial Determinations

The bill will not increase the present value of **unfunded** fully projected benefits of the affected systems.

<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>			
PERS 2/3	\$18,966	(\$2)	\$18,964
LEOFF 2	\$6,004	\$7	\$6,011
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>			
PERS 1	\$3,196	\$0	\$3,196
LEOFF 1	(\$702)	\$0	(\$702)
Unfunded Liability (PVCPB)			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
PERS 2/3	(\$2,338)	\$0	(\$2,338)
LEOFF 2	(\$521)	\$0	(\$521)

Note: Totals may not agree due to rounding.

Increase in Contribution Rates: (Effective 9/1/2008)		
System/Plan	PERS	LEOFF
Current Members		
Employee (Plan 2)	0.00%	0.00%
Employer	N/A	N/A
State		0.00%
New Entrants*		
Employee (Plan 2)	0.00%	0.00%
Employer	N/A	N/A
State		0.00%

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

Fiscal Budget Determinations

There is no fiscal impact to members or employers in the affected systems with the exception of members electing to transfer service and the estimated \$3 million payment required from DFW.

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 amount that DFW will be responsible to pay is sensitive to the assumption regarding the number of members who transfer. For the pricing, we assumed the members that benefit from making the transfer would be the members who elect to transfer their past service. For the sensitivity analysis, we assumed that the members with the greatest benefit from making the transfer would be the members who elect to transfer their past service. If between 41 and 60 members with the greatest benefit transfer, the cost to DFW would still be about \$3 million. If between 18 and 40 members with the greatest benefit transfer, the cost to DFW would be about \$2 million. If less than 18 members transfer, the cost to DFW would be about \$1 million. More likely than not, the number of members who transfer will be between 41 and 60, and the cost to DFW would be about \$3 million.

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.

HECB Proposal

Background

The higher education statutes allow specific public employers to offer retirement plans in addition to those public retirement systems administered by the State of Washington. These employers may offer higher education retirement plans to their employees:

- Board of Regents of the State Universities
- Boards of Trustees of the Regional Universities
- The Evergreen State College
- The State Board for Community College Education

The Higher Education Coordinating Board does not currently have this authority. Currently, all of the Board's employees are covered in the Public Employees' Retirement System.

Committee Activity

Presentations:

October 16, 2007 - Executive Committee

November 13, 2007 - Full Committee

Proposal:

December 18, 2007 - Full Committee

Recommendation to Legislature

Allow the Higher Education Coordinating Board to offer higher education retirement plans to its employees; provided, however, that the Board cannot offer these plans to retirees from the state administered retirement systems.

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In Brief

ISSUE

The HECB is requesting support for legislation that would amend the higher education statutes to allow it to offer participation in TIAA-CREF and other higher education retirement plans to its employees.

MEMBER IMPACT

HECB staff reports that the board currently employs eighty-five people. Approximately ten of those came from higher education institutions, and about ten more are expected to come from higher education institutions in the near future.

Currently, the employees of the HECB are reported in PERS. HECB employees who participate in a higher education plan would no longer accrue service in PERS.

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HECB Proposal

Current Situation

The Higher Education Coordinating Board (HECB) is proposing that the higher education statutes be amended to authorize it to offer higher education retirement benefits to its employees. Currently that authority is given by statute to the following groups:

- Board of Regents of the State Universities.
- Boards of Trustees of the Regional Universities.
- The Evergreen State College.
- The State Board for Community and Technical Colleges.

Typically, these groups define which of their employees are eligible to participate in the higher education retirement plan (HERP) or plans offered. Once the eligible positions are determined, employees in those positions are mandated into the HERP; however, employees who have prior Public Employees' Retirement System (PERS) service are typically offered the choice to remain in PERS.

What is the HECB?

The HECB is a ten-member citizen board that administers the state's student financial aid programs and provides strategic planning, coordination, monitoring, and policy analysis for higher education in Washington. Created by the Legislature in 1985, as successor to the Council for Postsecondary Education, the board is charged by state law with representing the "broad public interest above the interests of the individual colleges and universities." An Advisory Council, which includes K-12 and higher education leaders, advises the board on carrying out its statutory duties.

The HECB employs a staff of approximately eighty-five employees and functions as a state agency. Its employees belong to PERS. Currently, none of these employees are offered the opportunity to join a HERP because the HECB

does not have authority to offer such plans to its employees.

What is the HECB's interest?

In particular, the HECB has expressed interest in offering participation in the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA - CREF) to some of its employees. This is the most common HERP offered to higher education employees in Washington. The requested authority, however, would allow the HECB to offer other higher education retirement benefits.

TIAA-CREF offers a variety of financial products and services to those in the academic, medical, cultural and research fields. The company offers retirement plans with immediate vesting, full portability and member choice of investment options. Members may be allowed to relocate, change future contributions, transfer existing account balances and reallocate funds. Additional member security can be purchased and offered by plan sponsors as a supplemental benefit. For example, after a pre-determined number of years of service, a retirement supplement can be paid to a member if the member's base pension does not provide what has been determined to be an adequate retirement benefit.

The HECB views this as a recruitment and retention issue.

The HECB views the ability to offer this type of plan to its employees as a recruitment and retention issue. According to Don Bennett, HECB Deputy Director, the HECB competes with colleges, universities, and the State Board for Community and Technical Colleges for mid-career staff. It also recruits from colleges and universities throughout the nation as well as from other state higher education executive offices. Mr. Bennett views the inability to offer a HERP as a competitive disadvantage. (See attached letter dated July 16, 2007, and HECB handout.)

The HECB anticipates that its own costs will increase for those employees who would be covered by TIAA-CREF under the expanded authority. To the extent that more HECB employees seek and obtain TIAA-CREF coverage, those costs could increase over time.

History

This is the first interim in which this issue has been studied by the SCPP.

Other Higher Education Agencies in Washington State

The Washington State Board for Community and Technical Colleges (SBCTC) is a state agency that employs approximately ninety-four people. The State Board provides “general supervision and control over the state system of community and technical colleges.” Its responsibilities include preparing a single system operating budget and capital budget request for the Legislature, disbursing capital and operating funds, ensuring statutory compliance, administering criteria for establishing new colleges, establishing operational standards, preparing a comprehensive master plan, and providing research.

SBCTC is specifically authorized by statute to offer higher education retirement plans to its employees. This agency reports that of its ninety-four employees, approximately sixty are reported in PERS and the remaining employees are covered under TIAA-CREF. The other entities authorized to offer higher education retirement plans in Washington are the higher education institutions themselves.

Other States

Representatives of TIAA-CREF in their Seattle and Denver offices have represented to OSA staff that forty-nine government entities in eighteen states offer membership in TIAA-CREF. The types of employees most typically served by TIAA-CREF are in the academic, medical, cultural and research fields.

Questions for Policy-Makers

1. What is the impact on PERS? The proposal before the SCPP would leave it to the HECB to determine who is eligible to participate in a HERP. Once a higher education employer determines an employee is eligible for membership in a HERP and the employee decides to

The proposal is to amend the higher education statutes, not the pension statutes. However, there would be a slight impact on PERS.

participate in the HERP, that employee is exempted from PERS membership. In other words, by participating in a HERP such as TIAA-CREF, HECB employees would no longer be eligible for PERS coverage unless they had prior PERS service and chose to remain in PERS. Thus the proposal, if successful, could lead to a loss of PERS plan members. The number, however, is expected to be small, i.e. no more than the number of employees working for the HECB (currently about eighty-five). It is unclear at this time whether there are other groups who might seek similar treatment in the future. In any event, the proposal is not expected to impact PERS contribution rates.

2. What is the impact on benefits policy? The SCPP may wish to consider the ramifications of a state agency offering different retirement benefits to different individuals within the same agency. For example, if the HECB receives the requested authorization, approximately twenty of its employees would be in TIAA-CREF and sixty-five would be in PERS (at least initially). Since the TIAA-CREF plan is viewed by most people as a more generous plan, this could lead to issues around employee morale and consistent treatment within the plan.

On the other hand, the offering may make the employer more attractive to some employees. As stated by the HECB Deputy Director, the benefit may enable the HECB to attract highly qualified people from the higher education sector to work at HECB.

There are consequences for members who continue their public employment but change retirement plan participation to a HERP, in that they are removed from coverage by certain programs. (This situation already exists for other retirement system members who are offered HERP participation, such as those employed by the SBCTC.) First, dual membership does not apply to higher education plans. This means that an employee who has been covered in PERS and then becomes covered by TIAA-CREF cannot combine the non-PERS time with the prior PERS time in order to determine benefit eligibility, nor can the salary earned while participating in TIAA-CREF be considered in computing the final retirement benefit from PERS.

Secondly, retirement system restrictions on post-retirement employment do not apply to those covered by a HERP. This means that a PERS retiree who returns to work in a

HERP-covered position can draw the PERS pension, earn a state salary as an employee of the agency, and simultaneously earn a new retirement benefit under TIAA-CREF.

3. How does the proposal impact the higher education institutions? This proposal raises questions about processes that do not typically arise when an issue is brought before the SCPP, primarily because this proposal is to amend the higher education statutes, not the pension statutes.

It is unknown at this time how the higher education institutions currently covered under Title 28B would view this proposal or how they would be impacted. Are they aware of the proposal? Do they support it? Is that important to the SCPP? Is there a desire to formally engage them in the process of crafting legislation that amends the statutes affecting their institutions?

4. Should the Higher Education Committees be involved?

The SCPP may also want to think about whether the Higher Education Committees of the House and Senate would be more suited to decide this, or whether the issue should at least be coordinated with those committees. Does the SCPP want to hear what they have to say, or proceed independently?

If the SCPP decides to get involved, the SCPP may want to look at entire proposal and take a position, or alternatively, the SCPP could limit its analysis to the impact of the proposal on the state retirement system.

Possible SCPP Strategies

The Executive Committee has not recommended a strategy.

1. **Sponsor.** Move the issue forward as potential SCPP-sponsored legislation.
2. **Endorse.** Move the issue forward as potential SCPP-endorsed legislation.
3. **Coordinate with the Higher Education Committees.** Provide input limited to describing the impact on PERS, or if sponsoring or endorsing legislation, make such action contingent upon a favorable recommendation from those committees. Another option would be to defer action until the Higher

Education Committees have had an opportunity to weigh in on the issue.

4. **Request further study.** Move the issue forward for further study.
5. **Monitor.** Track the progress of the issue, but do not sponsor or endorse.
6. **No action.** Take no action and treat the matter as informational only.

Executive Committee Recommendation

The issue was heard by the Executive Committee on October 16, 2007. The Executive Committee forwarded the issue to the SCPP for a full briefing.

Bill Draft

The HECB has provided a copy of a proposed bill draft that would amend the higher education statutes. The authority granted would be broad enough to allow the HECB to offer higher education retirement benefits to any or all of its employees.

STAKEHOLDER INPUT

Correspondence from Don Bennett, Deputy Director of HECB, is attached.

Draft Fiscal Note

Not available. However, the proposal is not expected to affect PERS contribution rates.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0929.3/08 3rd draft

ATTY/TYPIST: LL:rls

BRIEF DESCRIPTION: Authorizing the higher education coordinating board to offer higher education annuities and retirement income plans.

AN ACT Relating to higher education employees' annuities and retirement income plans; and amending RCW 28B.10.400.

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

Sec. 1. RCW 28B.10.400 and 1979 ex.s. c 259 s 1 are each amended to read as follows:

The boards of regents of the state universities, the boards of trustees of the regional universities and of The Evergreen State College, and the state board for community and technical colleges (~~(education)~~) are authorized and empowered:

(1) To assist the faculties and such other employees as any such board may designate in the purchase of old age annuities or retirement income plans under such rules (~~(and regulations)~~) as any such board may prescribe. County agricultural agents, home demonstration agents, 4-H club agents, and assistant county agricultural agents paid jointly by the Washington State University and the several counties shall be deemed to be full time employees of the Washington State University for the purposes hereof;

(2) To provide, under such rules and regulations as any such board may prescribe for the faculty members or other employees under its supervision, for the retirement of any such faculty member or other

employee on account of age or condition of health, retirement on account of age to be not earlier than the sixty-fifth birthday: PROVIDED, That such faculty member or such other employee may elect to retire at the earliest age specified for retirement by federal social security law: PROVIDED FURTHER, That any supplemental payment authorized by subsection (3) of this section and paid as a result of retirement earlier than age sixty-five shall be at an actuarially reduced rate;

(3) To pay to any such retired person or to his or her designated beneficiary(s), each year after his or her retirement, a supplemental amount which, when added to the amount of such annuity or retirement income plan, or retirement income benefit pursuant to RCW 28B.10.415, received by (~~him or his~~) the retired person or the retired person's designated beneficiary(s) in such year, will not exceed fifty percent of the average annual salary paid to such retired person for his or her highest two consecutive years of full time service under an annuity or retirement income plan established pursuant to subsection (1) of this section at an institution of higher education: PROVIDED, HOWEVER, That if such retired person prior to (~~his~~) retirement elected a supplemental payment survivors option, any such supplemental payments to such retired person or (~~his~~) the retired person's designated beneficiary(s) shall be at actuarially reduced rates: PROVIDED FURTHER, That if a faculty member or other employee of an institution of higher education who is a participant in a retirement plan authorized by this section dies, or has died before retirement but after becoming eligible for retirement on account of age, the designated beneficiary(s) shall be entitled to receive the supplemental payment authorized by this subsection (~~((3) of this section))~~) to which such designated beneficiary(s) would have been entitled had said deceased faculty member or other employee retired on the date of death after electing a supplemental payment survivors option: PROVIDED FURTHER, That for the purpose of this subsection, the designated beneficiary(s) shall be (a) the surviving spouse of the retiree; or, (b) with the written consent of such spouse, if any, such other person or persons as shall have an insurable interest in the retiree's life and shall have been nominated by written designation duly executed and filed with the retiree's institution of higher education;

(4) The higher education coordinating board is also authorized and empowered as described in this section, subject to the following: The

board is prohibited from offering or funding a purchased annuity or retirement income plan authorized under this section for the benefit of any retiree who is receiving or accruing a retirement allowance from a public employee retirement system under Title 41 or chapter 43.43 RCW.

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	035	12/27/2007	Z-0929.3

INTENDED USE

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

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

EXECUTIVE SUMMARY

This proposal would amend the higher education statutes to authorize the Higher Education Coordinating Board (HECB) to offer participation in higher education retirement plans to any or all of its employees.

Increase in Actuarial Liabilities			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$32,689	(2)	\$32,687
Unfunded Actuarial Accrued Liability	3,196	0	3,196
Unfunded Liability (PVCBP)	\$1,412	(1)	\$1,411

Note: Totals may not agree due to rounding.

Total Increase in Contribution Rates	
Current Biennium	PERS
Employee (Plan 2)	0.00%
Employer	0.00%

Fiscal Costs			
<i>(Dollars in Millions)</i>	2008-2009	2009-2011	25-Year
General Fund-State	\$0.0	\$0.0	(\$0.3)
Total Employer	\$0.0	(\$0.3)	(\$2.2)

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

SUMMARY OF PROPOSAL

The proposal is to amend the higher education statutes to include the HECB as an entity authorized to offer higher education retirement plans to its employees, unless the employees are retirees of state administered plans. This proposal impacts potentially all plans of the Public Employees' Retirement System (PERS), but only the members of those plans who are HECB employees in positions chosen by HECB to be covered by a higher education retirement plan (HERP).

Assumed Effective Date: 90 days after session.

CURRENT SITUATION

Currently employees of the HECB are covered in PERS. The HECB is not currently authorized to offer higher education retirement benefits to its members, as only the following groups have this statutory authority: Board of Regents of the State Universities, Boards of Trustees of the Regional Universities, the Evergreen State College, and the State Board for Community and Technical Colleges (SBCTC). Typically, these groups define which of their employees are eligible to participate in the HERP. Once the eligible positions are determined, employees in those positions are mandated into the HERP; however, employees who have prior PERS service are typically offered the choice to remain in PERS. The SBCTC, another higher education agency, currently reports approximately 60 of its 94 employees in PERS and the rest are covered under a HERP known as the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF).

SUMMARY OF MEMBERS IMPACTED

If this proposal is passed, it could result in a loss of PERS members to the extent that HECB employees who are currently covered in PERS plans are offered the choice to either remain in PERS or to participate in a higher education retirement plan (HERP). In addition, the plans are impacted to the extent that future employees who would have otherwise been covered in PERS could be covered by a HERP. The HECB would determine the scope of the offering.

There are 87 active members out of the total 155,027 active members of PERS Plans 1, 2, and 3 that could be affected by this proposal. We have assumed that 17 of these 87 employees will be eligible for a HERP. We do not have any data to assess the value of benefits that will be provided by a HERP for the impacted members.

Additionally, this proposal could impact contribution rates for the 118,341 current active and all future PERS 2 members. See the Data section of this draft fiscal note for more details.

METHODS

To calculate the cost of this proposal, we determined the impact on the Plan if the 17 highest paid current HECB employees terminated their PERS membership to join a HERP. The PERS Plans would be impacted by a loss of liabilities for future service credit and a loss of future contributions associated with these employees.

We calculated the Present Value of Future Benefits (PVFB), the Present Value of Accrued Benefits (PVAB), and the total savings fund (SF) for the 17 highest paid current HECB members. The PVFB is calculated for all 17 employees while the PVAB is calculated for the vested employees and the SF is calculated for the non-vested employees. The difference between these numbers (PVFB - PVAB - SF) represents the decrease in liabilities for future service.

In order to determine the impact due to the loss of future contributions, we calculated the Present Value of Future Salaries (PVFS) for the 17 HECB employees. We reduced the total PERS Plan PVFS by this amount. The resulting PVFS is used, as appropriate by Plan, to determine contributions for the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) and any impact on contribution rates for Plan 2 members and all PERS employers.

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

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

ASSUMPTIONS

The HECB expects 10 – 20 of their employees will be eligible for a HERP but they have requested authority to offer this to all employees. Since we did not have any data as to which employees will be eligible for the HERP and what level of benefits will be provided under the HERP, we assumed the highest paid 17 employees/positions would leave the PERS Plan and join a HERP.

We sorted the HECB active employee data by salary and found a reasonable break in salaries at \$70,000. This provided us with 17 employees above \$70,000 followed by a large group of employees in the \$65,000 - \$69,000 range.

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

Using the most recent valuation data file we were able to isolate the 87 HECB active members in the PERS Plans based on their department codes. This allowed us to review the data and select a reasonable group that we expect would be offered a HERP. We selected the 17 highest paid employees and produced a new database with those employees to process through our valuation software. Processing these members separately allowed us to determine their values in order to compare them to the whole of the PERS active population, which includes all HECB members, as valued in the last AVR.

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

FISCAL IMPACT

Description

If the 17 highest paid HECB employees leave the PERS system, the PERS Plans will see a small loss of actuarial liabilities for future service credits since these members will not continue to accrue service under PERS and will not have their future salary increases used in the calculation of their final benefits.

There is a small impact on Plan 2 employee contribution rates and all PERS employer contribution rates due to the loss of liabilities and loss of future contributions of the HECB employees.

There will also be a small loss of future contributions being made to the Plan 1 UAAL by the HECB employer on behalf of these 17 employees.

Actuarial Determinations

The proposal will impact the actuarial funding of the system by decreasing the present value of benefits payable under the system and decreasing the required actuarial contribution rates as shown below.

The rounded decrease in the required actuarial contribution rate does not round to the minimum supplemental contribution rate of 1 basis point. As a result, the proposal will not affect contribution rates in the current biennium. However, the un-rounded rate decreases shown below are applied to all 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>			
PERS 1	\$13,723	\$0	\$13,723
PERS 2/3	<u>18,966</u>	<u>(2)</u>	<u>18,964</u>
PERS Total	\$32,689	(2)	\$32,687
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>			
PERS 1	\$3,196	\$0	\$3,196
Unfunded Liability (PVCBP)			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
PERS 1	\$3,750	\$0	\$3,750
PERS 2/3	<u>(2,338)</u>	<u>(1)</u>	<u>(2,339)</u>
PERS Total	\$1,412	(1)	\$1,411

Note: Totals may not agree due to rounding.

Increase in Contribution Rates: (Effective 9/1/2008)				
System/Plan	PERS	TRS	SERS	PSERS
Current Members				
Employee (Plan 2)	(0.001%)	0.000%	0.000%	0.000%
Employer	(0.002%)	0.000%	0.000%	0.000%
New Entrants*				
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Employer	0.000%	0.000%	0.000%	0.000%

**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

<i>(Dollars in Millions)</i>	Fiscal Costs				
	PERS	TRS	SERS	PSERS	Total
2008-2009					
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Employer	0.0	0.0	0.0	0.0	0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2009-2011					
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>(0.1)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(0.1)</u>
Total State	(0.1)	0.0	0.0	0.0	(0.1)
Local Government	<u>(0.2)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(0.2)</u>
Total Employer	(0.3)	0.0	0.0	0.0	(0.3)
Total Employee	(\$0.1)	\$0.0	\$0.0	\$0.0	(\$0.1)
2008-2033					
General Fund	(\$0.3)	\$0.0	\$0.0	\$0.0	(\$0.3)
Non-General Fund	<u>(0.6)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(0.6)</u>
Total State	(0.9)	0.0	0.0	0.0	(0.9)
Local Government	<u>(1.4)</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>(1.3)</u>
Total Employer	(2.3)	0.0	0.1	0.0	(2.2)
Total Employee	(\$1.1)	\$0.0	\$0.0	\$0.0	(\$1.1)

Note: Totals may not agree due to rounding.

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

In determining the cost of this proposal, we assumed the 17 highest paid employees would move out of the PERS Plans and into a HERP. The decision to leave PERS and join the HECB HERP will depend on the level of benefits provided under the HERP, which are not defined under the proposal. The decision may also be affected if the employee plans to participate in post-retirement employment since they are restricted from earning any HERP benefits while receiving a retirement allowance from the PERS Plans. If a smaller number of employees actually leave the PERS Plans, the cost savings would be less than outlined in this draft fiscal note.

If more HECB employees leave the system than assumed, we would see a higher cost savings to the Plans. If the HECB offered a HERP to all of its employees and all 87 employees left the PERS Plans, the impact would be a decrease in liabilities of \$6.5M versus the \$2.3M under our assumptions.

There is a possibility that the HERP offering would be to a different number of employees or to a different salary range of employees versus what we have assumed. In addition, some employees that are offered the HERP may choose to remain in PERS. However, from a long term perspective, those positions that are selected by the HECB are likely to transition to non-PERS positions. In any case, we expect that the financial impact to the PERS Plans will be a cost savings with a magnitude that will not impact contribution rates in the next biennium.

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.

DRAFT

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.

Bill Grinstein
Chair



Ann Daley
Executive Director

STATE OF WASHINGTON

HIGHER EDUCATION COORDINATING BOARD

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July 16, 2007

Select Committee on Pension Policy
C/O The Office of the State Actuary
Post Office Box 40914
Olympia, WA 98504-0914

Dear Honorable Members of the Select Committee on Pension Policy:

The Higher Education Coordinating Board (HECB) is the only higher education agency/institution in Washington state that does not have the authority to offer its employees a purchased annuity and retirement income plan such as the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). We respectfully request that the SCPP support a statutory change allowing the HECB to offer such a plan to its employees.

The HECB competes with colleges, universities, and the State Board for Community and Technical Colleges (SBCTC) for mid-career staff. In addition, the HECB attempts to recruit qualified employees from colleges and universities throughout the nation and from other State Higher Education Executive Offices (SHEEOs). The SBCTC, state universities, and colleges have the statutory authority to assist faculty members and other (generally exempt) employees in the purchase of an annuity or retirement income plan. The HECB is at a competitive disadvantage in attracting and retaining individuals from a higher education background because it cannot offer portability of retirement systems.

RCW 28B.10.400 et seq., relating to annuities and retirement income plans, would need to be amended to include the Higher Education Coordinating Board in the list of employers authorized to offer such a plan. We have enclosed a draft bill amending RCW 28B.10.400 to grant the HECB this authority.

Please feel free to contact me if you have any questions or concerns regarding this request. Thank you for your attention to this matter.

Sincerely,

Don Bennett
Deputy Director

AN ACT Relating to annuities and retirement income plans; amending RCW 28B.10.400; and providing an effective date.

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

The boards of regents of the state universities, the boards of trustees of the regional universities and of The Evergreen State College, ~~((and))~~ the ~~*state board for community ((college education))~~ and technical colleges and the higher education coordinating board are authorized and empowered:

(1) To assist the faculties and such other employees as any such board may designate in the purchase of old age annuities or retirement income plans under such rules and regulations as any such board may prescribe. County agricultural agents, home demonstration agents, 4-H club agents, and assistant county agricultural agents paid jointly by the Washington State University and the several counties shall be deemed to be full time employees of the Washington State University for the purposes hereof;

(2) To provide, under such rules and regulations as any such board may prescribe for the faculty members or other employees under its supervision, for the retirement of any such faculty member or other employee on account of age or condition of health, retirement on account of age to be not earlier than the sixty-fifth birthday: PROVIDED, That such faculty member or such other employee may elect to retire at the earliest age specified for retirement by federal social security law: PROVIDED FURTHER, That any supplemental payment authorized by subsection (3) of this section and paid as a result of retirement earlier than age sixty-five shall be at an actuarially reduced rate;

(3) To pay to any such retired person or to his designated beneficiary(s), each year after his retirement, a supplemental amount which, when added to the amount of such annuity or retirement income plan, or retirement income benefit pursuant to RCW 28B.10.415, received by him or his designated beneficiary(s) in such year, will not exceed fifty percent of the average annual salary paid to such retired person for his highest two consecutive years of full time service under an annuity or retirement income plan established pursuant to subsection (1) of this section at an institution of higher education: PROVIDED, HOWEVER, That if such retired person prior to his retirement elected a supplemental payment survivors option, any such supplemental payments to such retired person or his designated beneficiary(s) shall be at actuarially reduced rates: PROVIDED FURTHER, That if a faculty member or other employee of an institution of higher education who is a participant in a retirement plan authorized by this section dies, or has died before retirement but after becoming eligible for retirement on account of age, the designated beneficiary(s) shall be entitled to receive the supplemental payment authorized by this subsection (3) of this section to which such designated beneficiary(s) would have been entitled had said deceased faculty member or other employee retired on the date of death after electing a supplemental payment survivors option: PROVIDED FURTHER, That for the purpose of this subsection, the designated beneficiary(s) shall be (a) the surviving spouse of the retiree; or, (b) with the written consent of such spouse, if any, such other person or persons as

shall have an insurable interest in the retiree's life and shall have been nominated by written designation duly executed and filed with the retiree's institution of higher education.

--- END ---

Recruiting academic professionals – HECB’s competitive disadvantage

The Higher Education Coordinating Board (HECB) is the only higher education agency (college, university or related board) in the state of Washington that does not have the authority to offer its employees a purchased annuity and retirement income plan such as the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF).

When employees with teaching and administrative experience at colleges, universities, or the State Board for Community and Technical Colleges (SBCTC) join the HECB staff during their careers, important institutional and system perspective is added to our work advising the Legislature and Governor on higher education policy, research and finance issues.

HECB also recruits experienced, qualified employees from colleges and universities throughout the nation and from other State Higher Education Executive Offices (SHEEOs).

HECB is at a competitive disadvantage to attract, recruit and hire candidates that have higher education experience for key positions without the ability to offer TIAA-CREF participation.

RCW 28B.10.400 – Annuities and retirement income plans

RCW 28B.10.400 et seq. authorizes annuity and retirement income plans. The list of employers authorized to offer such plans in RCW 28B.10.400 should be amended to include the Higher Education Coordinating Board:

The boards of regents of the state universities, the boards of trustees of the regional universities and of The Evergreen State College, ~~((and))~~ the state board for community and technical colleges ~~((education)),~~ and the higher education coordinating board are authorized and empowered:

(1) To assist the faculties and such other employees as any such board may designate in the purchase of old age annuities or retirement income plans under such rules and regulations as any such board may prescribe. ...

Administrative considerations:

Limited number of positions (~10-12) that could potentially be eligible;
Limit participation to employees who had TIAA-CREF before becoming HECB employees;
Interagency agreement for plan administration;
Minimal fiscal impact (PERS employer contribution rates v. TIAA-CREF costs).

Staff contact:

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Second Chance Enrollment Window

Background

School employees at the time of retirement can elect coverage under medical and dental plans offered to state and school retirees by the Public Employee Benefits Board. If the new retiree does not choose to participate in these plans at the time of retirement, then, with a few exceptions, the retiree loses the opportunity to join at a later date.

A sub-group of committee members and stakeholders worked with Health Care Authority staff during this interim to present ideas and proposals to the Select Committee on Pension Policy regarding health care benefit enhancements. **These issues were not developed or led by staff at the Office of the State Actuary.**

Committee Activity

Presentations:

- July 17, 2007 - Full Committee
- September 18, 2007 - Full Committee
- October 16, 2007 - Executive Committee
- November 13, 2007 - Full Committee
- December 18, 2007 - Full Committee

Proposal:

- December 18, 2007 - Full Committee

Recommendation to Legislature

Allow certain previously retired or disabled school employees an opportunity to enroll in medical or dental plans offered by the PEBB.

Staff Contact

N/A

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0964.1/08

ATTY/TYPIST: KK:rmh

BRIEF DESCRIPTION:Regulating health care coverage for retired or disabled school employees or state employees.

AN ACT Relating to health care coverage for retired or disabled school employees and state employees; adding a new section to chapter 41.05 RCW; and providing an effective date.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.05 RCW to read as follows:

(1) Under qualifications, terms, conditions, benefits, and continuity of care requirements set by the board, retired or disabled school employees and retired or disabled state employees who are receiving a retirement allowance under chapter 41.32, 41.35, or 41.40 RCW as of January 1, 2001, and their dependents, may enroll in medical and dental plans under the authority, provided they apply no later than the end of the open enrollment period for the plan year beginning January 1, 2011.

(2) Retired or disabled school employees and retired or disabled state employees and their dependents shall be responsible for payment of rates developed by the authority, and shall include any amounts necessary for administration in accordance with this chapter. Premium rates charged to retired or disabled school employees and retired or disabled state employees and their dependents shall be based on the

experience of the community-rated risk pool established under RCW 41.05.022 and shall be reduced by the amount of the subsidy provided under RCW 41.05.085.

(3) The authority may establish rules to implement the enrollment opportunity under this section.

(4) Enrollment shall be processed on a first-come, first-enrolled basis, subject to an enrollment cap reflecting twenty-five percent of the eligible medicare retirees, as specified in the state operating budget.

NEW SECTION. **Sec. 2.** This act takes effect January 1, 2010.

Select Committee on Pension Policy

November 13, 2007

Briefing Paper Re: 2nd Chance” PEBB Enrollment Window

Issue In Brief:

Advocates seek SCPP request legislation for the 2008 Session which provides a “2nd chance” Public Employees Benefits Board (PEBB) enrollment window for retired or disabled school and state employees who were receiving their pension benefit by 1/1/01 and missed their initial PEBB enrollment opportunity.

Current Situation:

The comprehensive benefit design and the relatively affordable premium rates available to retirees enrolled in PEBB sponsored health insurance plans programs provide a valuable retirement benefit. In most cases, the value of PEBB sponsored health plans can not be matched by other insurance offerings. Over the years, advocates of K-12 and state retirees have pursued enactment of a “2nd chance” enrollment window for previously eligible (K-12 and state) retirees currently locked out of the PEBB program because they missed their one-time enrollment option. It was not until 1/1/01 that K-12 and state retirees obtained the ability to defer enrollment in PEBB programs.

The Select Committee on Pension Policy (SCPP) normally contains its considerations to pension issues. However, it was thought that the general principle of **adequacy of retirement benefits** and the specific **SCPP Goal regarding recovery of purchasing power for TRS/PERS 1 retirees** justified the SCPP’s attention to this issue. The SCPP adopted the “2nd chance” PEBB enrollment window as an issue to be analyzed by the PEBB retiree access study group.

Accommodation of SCPP and HCA Concerns

In response to SCPP desires to contain the costs of a “2nd chance” PEBB enrollment window, advocates have made two major concessions:

- **The “2nd chance” window is provided only to those retired or disabled K-12 and state employees who were receiving a pension benefit as of 1/1/01, when the opportunity to defer PEBB retiree coverage began.** This reduces the number of potential new enrollees.
- **Eligibility for the “2nd chance” window is consistent with current WAC regarding continuity of care.ⁱ** Being consistent with PEBB policy serves as a protection against adverse risk. Additionally, this provision preserves flexibility in the PEBB’s administrative rulemaking authority to adjust continuity of care WAC in the future.

Advocates also made a major concession in order to accommodate HCA concerns regarding their ability to implement this proposal while maintaining quality service for current PEBB enrollees:

- **The “2nd chance” enrollment window is delayed until 2010.**

In developing this proposal advocates were mindful of the 1998 HCA Retiree Access Study - Guiding Principles (see below) regarding analysis of cost shifting, access, equitable treatment, and eligibility. For example:

- *taking measures to contain costs,*
- *equitably providing access to the “2nd chance window” to all of those who retired as of 1/1/01 and were previously eligible for enrollment in PEBB sponsored plans, and*
- *using WAC deferral eligibility criteria regarding proof of continuous coverage.*

During a 9/27/07 update by HCA Administrator, Steve Hill, before the House Appropriations Committee regarding health care related items in the budget, Mr. Hill focused on the benefits Washington State provides to its public and school employees and retirees. **Committee members were informed that keeping employees healthy saves costs and that quality employers of large size provide comprehensive health insurance plans with relatively low employee premiums. These comments were absolutely appreciated and could only have been improved upon by likewise referencing employers' treatment of retirees.**

History:

The retiree health insurance program has evolved over the last 27 years. Beginning in 1970, state employees were permitted to continue their participation in health insurance upon retirement, on a self-pay basis. In 1977, language was added to statute (RCW 41.05 HCA Enabling Statute) requiring rates charged for all retirees to be developed from the same experience pool as active employees. However, rates for Medicare retirees were actuarially reduced to account for Medicare as a primary payer for Medicare-covered claims.ⁱⁱ

In 1993, during the state's health care reform movement, eligibility for retiree coverage was modified to include retirees from school districts and educational service districts (a.k.a. K-12 retirees). For a short period, the risk pools of K-12 and state retirees were maintained separately and the subsidies were different. In 1995, the risk pool and subsidies were clarified in statute: (1) all state active employees (and K-12 actives whose districts participate in PEBB programs) were combined with all non-Medicare eligible retirees into one risk pool, ensuring an implicit subsidy of the non-Medicare premium rates, and (2) all Medicare-eligible retirees were combined in a second risk pool, and an explicit premium subsidy was established.ⁱⁱⁱ The HCA collects revenue to pay for the implicit subsidy and explicit subsidy from employers and active employees who participate in PEBB health insurance programs.^{iv}

K-12 retirees received PEBB enrollment materials from the HCA and DRS via school district offices. However, for various reasons, during the first decade of K-12 retiree access to the PEBB, and especially during the initial K-12 enrollment period, a significant number of K-12 retirees failed to realize the opportunity to enroll in PEBB plans within established enrollment periods. Two frequently cited examples include retirees who received misinformation from their employers regarding the "one-time" nature of PEBB access, and retirees who had access to other health insurance coverage upon retirement, but now want to enroll in PEBB plans. These K-12 retirees, along with state retirees who similarly missed their 60-day post-retirement enrollment opportunity have thus been excluded from joining the PEBB system.

On January 1, 2001, WAC 182-12-205 rules adopted by the PEBB went into effect allowing retirees to defer PEBB coverage. To defer coverage a retiring school or state employee must submit a form to the HCA indicating their desire to defer coverage prior to the date coverage is to be deferred or within 60 days of the date they are eligible to apply for PEBB retiree benefits.^v Those K-12 and state employees who retired prior to establishment of the PEBB deferral policy (1/1/01), and missed their one-time enrollment opportunity, continue to be forever excluded from access to PEBB health insurance plans.

1998 HCA Retiree Access Study - Guiding Principles^{vi}

In evaluating options, we will analyze the impacts – for each option – with respect to several main areas: cost shifting, access, equitable treatment, and eligibility.

- *Minimize additional cost-shifting or impact on subscriber premiums paid by current PEBB active and retiree members.*
- *Seek the broadest access possible for retirees and former employees who need health insurance, within these other constraints.*
- *Accommodate different retirement plans in an equitable manner.*
- *Ensure that PEBB eligibility rules are logical and easy to communicate, so that former employees do not inadvertently terminate their options for coverage through misunderstandings or lack of awareness of these policies.*
- *Ensure that PEBB eligibility standards are consistent with other retirement personnel policies of the state.*

In 2005 legislation (HB 1297) was enacted which provides the Health Care Authority (HCA) statutory authority to participate in the Federal employer subsidy program established in section 1860D-22 of the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003 P.L. 108-173 et seq. This makes it possible for the state to receive Federal subsidy funds as an employer who provides retired employee health coverage, which includes a pharmacy benefit which is substantially equivalent to that of Medicare part D. Any employer subsidy received from participation in the Federal employer subsidy is deposited into the Health Services Account (Fund 670).^{vii} This subsidy is commonly referred to as the Centers for Medicare Services Retiree Drug Subsidy (CMS RDS). There is no direct expenditure offset for PEBB programs from the revenue realized by the state for the CMS RDS.

Bill Draft:

A copy of Bill Request #: H-3771.1/08 is attached.

Fiscal Note & Related Information Attached:

- 10/11/07 draft HCA fiscal note
- 10/29/07 e-mail from HCA re: CMS RDS

Leslie Main

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ⁱ WAC 182-12-200 (1)(a) re: Retiree Deferral of PEBB Enrollment

ⁱⁱ Retiree Access Study, PEBB 3/3/98, pg. 7

ⁱⁱⁱ Retiree Access Study, PEBB 3/3/98, pg. 7

^{iv} 10/11/07 draft HCA fiscal note

^v PEBB internet web site re: WAC 182-12-200

^{vi} Retiree Access Study, PEBB 3/3/98, pg. 46

^{vii} HCA fiscal note re: HB 1287, 1/27/05

2007 Interim Issues*

Inventory as of January 10, 2008

Referred from 2006 SCPP	Status
<p>Disability Retirement – Continue review of disability benefits and policies under the Washington State retirement systems, including reduction of actuarial penalties associated with early retirement for medical reasons (Sen. Eide).</p>	Briefing June 19, 2007; options/pricing Aug. 14, 2007
Significant Amendments to SCPP Legislative Proposals	Status
<p>Index \$150,000 Death Benefit – The SCPP's 2007 recommendation concerning the \$150,000 death benefit included indexing for this benefit, and the indexing provision was removed by the legislature.</p>	Briefing July 17, 2007; SCPP hearing Aug. 14, 2007; pricing to Exec. Cmte. Oct. 16, 2007; legislation recommended Nov. 13, 2007
<p>Washington State Patrol Cost-Sharing – The SCPP recommended that members pay one-third of the difference between the total cost of the system and the “Truman liability” or 7 percent, whichever is less. The bill was amended to specify that members would pay the lesser of one-half of the adjusted total contribution rate or 7 percent, plus one-half of any benefit improvements effective on or after July 1, 2007.</p>	
SCPP Member Requests	Status
<p>Pension Protection Act (Fraser) – Study implications of recent federal legislation for Washington State retirement systems.</p>	Briefing May 22, 2007
<p>Benefits History (Olson) – Review cost of Plans 2/3 from creation to present.</p>	
<p>Plan 3 Vesting (Davis) – Recommend 5-year vesting for all members of Plan 3.</p>	Exec. Cmte. Update Oct. 16, 2007; legislation recommended Nov. 13, 2007

* Reference to specific names/entities in support of various items reflect the original requests only and does not include subsequent similar requests.

SCPP Executive Committee Requests	Status
Contribution Rates – Identify impacts of 2007 legislation on contribution rates.	Briefing June 19, 2007
Rules of Procedure – Update current SCPP rules.	Initial briefing May 22, 2007; changes approved June 19, 2007
Interruptive Military Service Credit – Consider free service credit.	Initial briefing July 17, 2007; Pricing to Exec. Cmte. Oct. 16, 2007; SCPP briefing and legislation recommended Dec. 18, 2007

Legislator Requests	Status
Former Judges (Sen. Honeyford) – Allow inactive vested judges, or judges who have separated from service but not yet retired, to apply to increase their benefit multiplier and pay the full actuarial cost.	
Service Credit (Sen. Kilmer) – Allow TRS and SERS 2/3 members “with half-year contracts” to receive a half-credit per month of employment.	Briefing July 17, 2007; Exec. Cmte. Follow-up, Aug. 14, 2007; Proposal forwarded from Exec. Cmte. Sept. 18, 2007; SCPP briefing and legislation recommended Nov. 13, 2007
Port of Walla Walla (Rep. Van De Wege) – Review policy regarding LEOFF membership for employees performing fire-fighting duties.	SCPP briefing Nov. 13, 2007
PERS 1 Window under SHB 1067 (Rep. Conway) – Allow certain employees of the Public School Employees of Washington (PSE) to obtain service credit as PERS 1 members.	Exec. Cmte. Briefing Nov. 13, 2007; Exec Cmte. Follow-up in Dec. 18, 2007 and removed from full agenda

Coordination with LEOFF 2 Board	Status
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Deferred compensation – Treat employer contributions to deferred compensation plans as “salary.”

Annuities – Authorize the purchase of actuarially equivalent annuities (like Plan 3).

Military Service Death Benefit – Extend application of new (2007) PERS 2 survivor benefit authorizing a refund of 200 percent of member contributions. (Recommended legislation removed actuarial reduction from survivor annuity)

Briefing July 17, 2007; pricing to Exec. Cmte. Oct. 16, 2007; SCPP briefing and legislation recommended Dec. 18, 2007

Fish and Wildlife Officer Service Credit Transfer – Allow eligible members to transfer prior PERS 2 service to LEOFF 2.

Briefing July 17, 2007; Exec. Cmte. Briefing Aug. 14, 2007; SCPP briefing Oct. 16, 2007; legislation recommended Dec. 18, 2007

\$150,000 Death Benefit – Index the benefit to changes in the CPI-W for Seattle-Tacoma-Bremerton, with a maximum change of 3 percent per year.

Briefings July 17, 2007 and Aug. 14, 2007; pricing to Exec. Cmte. Oct. 16, 2007; leg. recommended Nov. 13, 2007

Constituent/Stakeholder Requests	Status
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Disability Retirement (ATULC) – Eliminate actuarial reductions for disability pensions.

Briefing June 19, 2007; options/pricing Aug. 14, 2007

PERS 1 Benefit Cap (Wagner, Von Moos, Fortune, Madden, Esparza, Webster) – Remove or increase the 60 percent cap on retirement pensions for PERS 1.

TRS 3 Benefits (Cunningham) – Improve benefits by creating a rule of 85 and/or increasing the benefit multiplier.

Out-of-State Service Credit (Nardella) – Authorize service credit purchases for all time served as a public employee in another state.

Initial briefing July 17, 2007; SCPP briefing Oct. 16, 2007

PERS Benefits (Hudson) – Create a rule of 85, allow service credit for two jobs, authorize service credit for prior employment in an ineligible position, and authorize the conversion of service credit from Plan 2 to Plan 1.

Briefing on multiple jobs, July 17, 2007

LEOFF 1 Surplus (Lindquist) – Use any surplus to improve pension payments to disabled police officers and firefighters (before using for medical benefits).

Plan 3 Vesting (tentative, WASA & AWSP; WEA; WSRA, Johnson) – Allow vesting after five years regardless of age.

Update to Exec. Cmte. Oct. 16, 2007; legislation recommended Nov. 13, 2007

Survivor Benefits (tentative, WASA & AWSP) – Improve survivor benefits for members of Plans 1, 2, and 3 of TRS, SERS, and PERS.

Briefing July 17, 2007

Plan 3 Benefits (tentative, WASA & AWSP) – Provide additional benefits to Plan 3 members to improve the gain-sharing trade-off.

Military Service (tentative, WASA & AWSP) – Review 2007 legislative proposals to improve Plan 1 military service credit provisions and make a recommendation for 2008.

Briefing July 17, 2007

“Plans 2/3 Final Year Contract” (tentative, WASA & AWSP) - Allow TRS 2/3 members to receive a full year (12 months) of service credit for their final year's work when retiring on July 1.

Briefing July 17, 2007; Proposal withdrawn, Sept. 18, 2007 Exec. Cmte.

Gain-Sharing (numerous requests on file with OSA) – Restore gain-sharing or improve trade-off options.

Exec. Cmte. Discussion Sept. 18, 2007

Public Safety Subcommittee (WSP Troopers' Association) – Convene a subcommittee to address WSPRS demographics, benefit changes paralleling LEOFF Plan 2, death benefit changes for troopers killed while serving on active military duty, and formation of a WSPRS board.

Briefing on death benefits July 17, 2007; Briefing and legislation recommended Dec. 18, 2007

Out-of-State Service (WASA, AWSP, WEA) – Allow TRS 2/3 members to purchase out-of-state service credit after serving two years instead of five.

Briefing July 17, 2007; hearing August 14, 2007; legislation recommended Sept. 18, 2007

Plan 2 Access to PEBB (WASA, AWSP) – Allow Plan 2 members to access PEBB health care plans upon separation from service at age 55 with at least ten years of service.

Briefing July 17, 2007; stakeholder reports to SCPP on Sept. 18, 2007 and Exec. Cmte. On Oct. 16, 2007; stakeholder proposals to SCPP Nov. 13, 2007; legislation recommended Dec. 18, 2007

Rule of 85 (WEA)

Salary Bonuses (WEA, Johnson) – Include certain salary bonuses in pension calculations.

SCPP briefings Oct. 16, 2007 and Nov. 13, 2007; legislation recommended Dec. 18, 2007

Health Care Premiums (WEA) – Seek authority for retirees to pay for health care benefits on a pre-tax basis.

Memo to SCPP May 30, 2007; informal Exec. Cmte. Discussion June 19, 2007

Service Credit (WEA) – Allow TRS and SERS 2/3 members with “half-year contracts” to receive a half credit per month of employment.

Briefing July 17, 2007; update to Exec. Cmte. Aug. 14, 2007; proposal forwarded from Exec. Cmte. Sept. 18, 2007; SCPP hearing and legislation recommended Nov. 13, 2007

ESA’s Back to Plan 2 (WEA) – Allow TRS 3 Educational Staff Associates to return to PERS.

Plan 1 Purchasing Power (WSRA) – Change COLA eligibility to one-year after retirement and establish a COLA based on the Consumer Price Index.

Exec. Cmte.
Discussion Sept. 18,
2007

Plan 2/3 Benefits (WSRA) – Provide for normal retirement eligibility below age 62; improve Plan 3 retiree and SERS 3 member benefits to compensate for loss of gain-sharing.

Service Credit (WFSE) – Improve provisions granting military service credit and allow Department of Fish & Wildlife Enforcement Officers to transfer service credit.

Briefing on both topics July 17, 2007; Exec. Cmte. briefing on F&W transfer on Aug. 14, 2007; SCPP briefing Oct. 16, 2007; Exec. Cmte. briefing on free interruptive military service credit Oct. 16; SCPP briefing on military service and legislation recommended on both topics Dec. 18, 2007

Military Service Credit (Danielson) – Allow members of other plans to have the same service credit provisions as in PERS 1 and WSPRS 1.

Briefing July 17, 2007

Surviving Spouses (RFW) – Amend “pre-LEOFF 1” law to remove remarriage penalty for surviving spouses and create an option for a surviving spouse benefit for retired firefighters who were married less than five years before retirement or who married after retirement.

Briefing July 17, 2007; Briefing and legislation recommended Dec. 18, 2007

PEBB Access (WSRA) – Allow a “2nd chance” PEBB enrollment window for those who missed their one-time enrollment opportunity.

Briefing July 17, 2007; stakeholder reports to SCPP on Sept. 18, 2007 and Exec. Cmte. Oct. 16, 2007; stakeholder proposals to SCPP Nov. 13, 2007; briefing and legislation recommended Dec. 18, 2007

TIAA-CREF for HECB (HECB) - Amend higher education statutes to authorize the Higher Education Board (HECB) to offer its employees a retirement annuity through TIAA-CREF instead of PERS.

Exec. Cmte. briefing Oct. 16, 2007; SCPP briefing Nov. 13, 2007; leg. recommended Dec 18, 2007

PERS and TRS 1 “Trust” Issues (WPR, Inc.) – Answer questions regarding history and practices related to Plan 1 governance, fiduciary responsibilities and unfunded liabilities.

Exec. Cmte. briefing from AAG on “trust” cases, Aug. 14, 2007

Survivor Benefits for WSPRS – 1) Provide “the in-service death benefit” for troopers who die while on military leave in Iraq or Afghanistan; and 2) modify retirement Option B to create several changes: a) allow retirees who remarry after retirement to select Option B; b) allow a “pop-up” option in the event of divorce; and c) allow persons who were retired before the effective date of the option an opportunity to select it.

Briefing on military death benefits July 17, 2007; Exec. Cmte. briefing Oct. 16, 2007; SCPP Briefing and legislation recommended on death benefits Dec. 18, 2007

PERS 2 Early Retirement Reduction Factors (Paul) – Improve ERRF’s for members with 20-29 years of service.

Plan 3 Members to Plan 2 (Two requests on file with OSA)

- Allow Plan 3 members the opportunity to return to Plan 2.

Exec. Cmte. discussion Sept. 18, 2007

Post-Retirement Employment (WASA, AWSP, Davis, Johnson) – Restore retire-rehire for Plan 2/3 members who retire under improved ERRF's passed in 2007.

Exec. Cmte. discussion Sept. 18, 2007; Exec. Cmte. briefing Nov. 13, 2007; Exec Cmte. follow-up, SCPP briefing and motion offered to recommend legislation (did not pass) Dec 18, 2007

PSERS Amendments (Orvena) – Amend PSERS to broaden eligibility, provide more plan choice and lower the normal retirement age.

Exec. Cmte. discussion Nov. 13, 2007; Forwarded to 2008 interim.

Dual-Member Prior Military Service (Williams) – Allow Dual-Members to combine service from all plans to qualify for prior military service credit

Requests from Members to DRS	Status
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SERS Auto-Transfer of Prior Plan Service Credit – Adapt plan provisions to current conditions.

Briefing July 17, 2007; SCPP briefing Sept. 18, 2007; Exec. Cmte. briefing Nov. 13, 2007; legislation recommended Dec. 18, 2007

Expand Plan 1 Post-30 Year Contribution Program – Include an annual window for opting in prospectively.

PERS 1 Death While Retirement Eligible – Allow survivors to get a monthly benefit instead of just member contributions.

Briefing July 17, 2007 and Sept. 18, 2007; leg. recommended Nov. 13, 2007

Veterans' Benefits – Allow twice the contributions to surviving spouses of members killed while on military duty in other Plans besides PERS 2.

Briefing July 17, 2007; Exec. Cmte. briefing Oct. 16, 2007; briefing and legislation recommended Dec. 18, 2007

DRS Request for Endorsement	Status
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DRS plans to bring a proposal to the SCPP regarding how to address contributions for approximately 50,000 inactive non-vested members.	Proposal expected for 2008 interim
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SCPP Statutory Obligations	Status
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None for 2007.

Actuarial Work	Status
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2008 Gain-Sharing Distributions – Calculate required distribution amounts and notify plan administrator.	Completed.
LEOFF 1 Medical Study – (Required in OSA budget) Identify local government employer liability for LEOFF 1 medical benefits.	Report to SCPP Dec. 18, 2007
OPEB Actuarial Valuation – Using new governmental accounting standards, identify (and facilitate others in identifying) public employer obligations for “other post-employment benefits” (OPEB), the most significant of which is health care.	Initial briefing May 22, 2007
Review of Economic Assumptions – Make recommendations to Pension Funding Council regarding long-term economic assumptions.	Briefing August 14, 2007; WSIB Return Simulations for Exec. Cmte. Sept. 18, 2007
Experience Study Preparation – Much of the work for the 2008 Experience Study will be done in 2007. OSA can provide the SCPP with “previews” of the data that will be reviewed, the study methodology, the standards of practice involved, and the assumptions that will be examined (e.g. retirement rates, mortality, etc).	Overview presented to SCPP Sept. 18, 2007
2006 Actuarial Valuation	Report presented to SCPP Oct. 16, 2007

SCPP Staff	Status
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State Actuary – Annual Evaluation.	Coordinated by Glenn Olson
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