

# Survivors of PERS 1 Inactives

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## 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

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## 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.*

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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**

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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:  |
| <b>Office of the State Actuary</b> | <b>035</b> | <b>10/29/07</b> | <b>Z-0735.1</b> |

## 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.

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

| <b>Total Increase in Contribution Rates</b> |             |             |              |
|---|-------------|-------------|--------------|
| <b>Current Biennium</b>                     | <b>PERS</b> | <b>SERS</b> | <b>PSERS</b> |
| Employee (Plan 2)                           | 0.00%       | 0.00%       | 0.00%        |
| Employer (UAAL)                             | 0.00%       | 0.00%       | 0.00%        |

| <b>Fiscal Costs</b>          |                  |                  |                |
|------------------------------|------------------|------------------|----------------|
| <i>(Dollars in Millions)</i> | <b>2008-2009</b> | <b>2009-2011</b> | <b>25-Year</b> |
| 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>   | <b>Current</b>  | <b>Increase</b> | <b>Total</b>    |
|--|-----------------|-----------------|-----------------|
| <b>Actuarial Present Value of Projected Benefits</b>   |                 |                 |                 |
| <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>   |
| <b>PERS Total</b>  | <b>\$32,689</b> | <b>\$0.5</b>    | <b>\$32,689</b> |
| <b>Unfunded Actuarial Accrued Liability</b>  |                 |                 |                 |
| <i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>                         |                 |                 |                 |
| <b>PERS 1</b>  | <b>\$3,196</b>  | <b>\$0.5</b>    | <b>\$3,196</b>  |
| <b>Unfunded Liability (PVCBP)</b>  |                 |                 |                 |
| <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>  |
| <b>PERS Total</b>  | <b>\$1,412</b>  | <b>\$0.5</b>    | <b>\$1,412</b>  |

**Note:** Totals may not agree due to rounding.

| <b>Increase in Contribution Rates: (Effective 09/01/2008)</b> |             |             |              |
|---|-------------|-------------|--------------|
| <b>System/Plan</b>  | <b>PERS</b> | <b>SERS</b> | <b>PSERS</b> |
| <b>Current Members</b>  |             |             |              |
| Employee (Plan 2)   | 0.0000%     | 0.0000%     | 0.0000%      |
| Employer (UAAL)<br>State                                      | 0.0004%     | 0.0004%     | 0.0004%      |
| <b>New Entrants*</b>  |             |             |              |
| Employee (Plan 2)   | 0.0000%     | 0.0000%     | 0.0000%      |
| Employer<br>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> | <b>Fiscal Costs</b> |             |              |              |
|------------------------------|---------------------|-------------|--------------|--------------|
|                              | <b>PERS</b>         | <b>SERS</b> | <b>PSERS</b> | <b>Total</b> |
| <b>2008-2009</b>             |                     |             |              |              |
| 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        |
| <b>2009-2011</b>             |                     |             |              |              |
| 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        |
| <b>2008-2033</b>             |                     |             |              |              |
| 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

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**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