

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.

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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.

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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

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