Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

Regular Committee Meeting

October 16, 2007
10:00 a.m. - 12:00 p.m.
Senate Hearing Room 4
Olympia

AGENDA

10:00 a.m.	**(1)**	**Approval of Minutes**
10:05 a.m.	**(2)**	**Out-of-State Service Credit**, Laura Harper, Policy And Research Services Manager
10:25 a.m.	**(3)**	**Fish and Wildlife Service Credit Transfer**, Dave Nelsen, Senior Policy Analyst
10:45 a.m.	**(4)**	**Salary Bonuses in TRS**, Dave Nelsen
11:05 a.m.	**(5)**	**Experience Study Preview**, Matthew M. Smith, State Actuary • **Termination** • **Disability**
11:25 a.m.	**(6)**	**2006 Actuarial Valuation Report**, Chris Jasperson, Actuarial Assistant
12:00 p.m.	**(7)**	**Adjourn**

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Select Committee on Pension Policy

2007 Meeting Dates

Full - 10:00am-12:00pm
Exec. - 9:00-10:00am/12:30-2:30pm
SHR4/ABC, Olympia, WA
*SHR 1

January 16, 2007. *meeting cancelled*
February 13, 2007. *meeting cancelled*
March 20, 2007. *meeting cancelled*
April 17, 2007. *meeting cancelled*
May 22, 2007
June 19, 2007
July 17, 2007
August 14, 2007
September 18, 2007
October 16, 2007
November 13, 2007*
December 18, 2007

Reserved Subgroup Dates
SHR4
* SHR 1, *Wednesday*
2:00-4:00pm - Mondays

May 21, 2007. *none scheduled*
June 18, 2007. *none scheduled*
July 16, 2007. *none scheduled*
August 13, 2007. *none scheduled*
September 17, 2007. *none scheduled*
October 15, 2007. *none scheduled*
November 14, 2007*
December 17, 2007

JANUARY

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Select Committee on Pension Policy

Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

1. Contribution Rate Setting: To establish and maintain adequate, predictable and stable contribution rates, with equal cost-sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems.

2. Balanced Long-Term Management: 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.

3. Retirement Eligibility: To establish a normal retirement age for members currently in the Plans 2/3 of PERS, SERS, and TRS that balances employer and employee needs, affordability, flexibility, and the value of the retirement benefit over time.

4. Purchasing Power: To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.

5. Consistency with the Statutory Goals within the Actuarial Funding Chapter: To be consistent with the goals outlined in the RCW 41.45.010:

   a. to provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;
   b. to continue to fully fund the retirement system plans 2 and 3, and the Washington State Patrol Retirement System, as provided by law;
   c. to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
   d. to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; and
   e. to fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

1. Approval of Minutes

P.O. Box 40914
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Select Committee on Pension Policy

REGULAR COMMITTEE MEETING
DRAFT MINUTES

September 18, 2007

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington on September 18, 2007.

Committee members attending:
Representative Conway, Chair
Senator Schoesler, Vice-Chair
Elaine Banks
Representative Crouse
Charles Cuzzetto
Randy Davis
Representative Fromhold
Robert Keller
Sandra Matheson
Doug Miller
Victor Moore
Glenn Olson
David Westberg

Representative Conway, Chair, called the meeting to order at 10:15 a.m.

Matthew M. Smith, State Actuary, introduced new staff member Dave Nelsen, Senior Policy Analyst.

(1) Approval of Minutes

It was moved to approve the August 14, 2007, Full Committee Draft Minutes. Seconded.

MOTION CARRIED

(2) Survivors of PERS 1 Inactive Members

Darren Painter, Policy Analyst, reported on "Survivors of PERS 1 Inactive Members." *Discussion followed.*

(3) PERS to SERS Auto-Transfer

Dave Nelsen, Senior Policy Analyst, reported on "PERS to SERS Auto-Transfer." *Discussion followed.*

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(4) Experience Study Overview
Matthew M. Smith, State Actuary, reported on "Experience Study Overview."
Discussion followed.

(5) Retiree Access to PEBB - Stakeholder Report
Dennis Martin, Health Care Authority, reported on "Retiree Access to PEBB."
Discussion followed.

Stakeholder Testimony
Cassandra de la Rosa, Retired Public Employees Council
John Kvamme, Washington Association of School Administrators and Association of Washington School Principals
Leslie Main, Washington State School Retirees' Association

EXECUTIVE SESSION

(6) Public Education Experience Program - Waiting Period
Laura Harper, Policy and Research Services Manager, reported on "Public Education Experience Program - Waiting Period."

It was moved that the Public Education Experience Program - Waiting Period bill draft Z-0659.1/08 be submitted to the Legislature. Seconded.

MOTION CARRIED

The meeting adjourned at 12:05 p.m.

2. Out-of-State Service Credit

Out-of-State Service Credit

In Brief

ISSUE

The issue before the SCPP is whether to extend the opportunity to purchase out-of-state service credit to members of plans other than TRS 2 and 3.

Laura Harper
Policy and Research Services Manager
360-786-6145
harper.laura@leg.wa.gov

Current Situation

As of January 1, 2007, members of the Teachers' Retirement System (TRS) Plans 2 and 3 may purchase service credit for up to seven years of public education experience in another state or with the federal government. Members may make a one-time purchase at full actuarial cost. The service credit becomes membership service in TRS and may be used to qualify for a benefit and increase the benefit amount.

Members of other plans in the Washington State retirement systems do not have the opportunity to purchase service credit for public employment in another state or with the federal government.

Example 1
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 on a military base in California. After five years of being a member of TRS, this member can make a one-time purchase of seven years of out-of-state public education experience at full actuarial cost. Under SCPP recommended legislation for the 2008 session, the member could make the purchase after two years in TRS.

Example 2
A PERS 2 member has been employed in Washington since 1995. Prior to coming to Washington, this individual worked in a defined benefit plan for state government in California for ten years. The member would like to combine the service from California with the Washington service by "purchasing" ten years of out-of-state service credit and get one pension check from the State of Washington. Currently, the member would be unable to do so. Instead, the member would draw two pension checks when retirement-eligible: one from California and one from the State of Washington.

History

Washington's first program for purchasing out-of-state service credit was implemented in January, 2007. The program is known as the "public education experience program," and it affects members of TRS 2 and 3. It was designed by a subgroup of the SCPP in the 2004 interim as a recruitment tool for teachers.

Members of TRS 2/3 may purchase service credit for public education experience in another state or with the federal government.

The original proposal to the legislature involved a partial subsidy for purchasing out-of-state service credit; members were not required to pay the full actuarial value of the increase in their benefit. To help control costs, certain limitations were added, including a seven-year limit on the amount of service credit that could be purchased, as well as a waiting period of five years. The proposal passed with an amendment requiring TRS members to pay the full actuarial cost of the service credit. The "cost control" measures, however, remained intact.

During this interim, stakeholders proposed to reduce the waiting period for teachers to participate in the program. The SCPP decided at its September 18, 2007, meeting to recommend legislation for 2008 that would reduce the waiting period from five years to two.

Washington Plans

TRS 2/3 are currently the only plans allowing members to purchase out-of-state service credit. Members may do so under the public education experience program by meeting the following requirements:

- The member must have five years of TRS service credit.
- 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.
- The public education experience must be earned in a teaching position covered by a governmental retirement or pension plan. A member may not purchase time for which the member is currently receiving a benefit or is currently eligible to receive an unreduced retirement benefit.

- 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.
- The purchased service credit becomes membership service in TRS and may be used to qualify for a benefit and increase the benefit amount.

TRS also allows members to apply unlimited amounts of service credit earned in another state for the sole purpose of qualifying for earlier retirement. This TRS program is known as the "out-of-state service credit program." No payment is required from the member and the service is not used to increase the member's benefit.

Members of all Washington plans may purchase up to five years of "air time."

All Washington plans contain an additional service credit purchase provision which allows members to purchase up to five years of service credit at actuarial cost. This service credit is commonly known as "air time." It is not tied to service in another public retirement plan. Also, it does not count as membership service, meaning it cannot be used to qualify for earlier retirement. Rather, this benefit is available to members at retirement as a means to increase their retirement benefit. It has been implemented for all plans over the course of the past several legislative sessions.

Other States

The ability to purchase out-of-state service credit is more common in plans for teachers.

Most teacher retirement plans throughout the nation allow members to purchase service credit for out-of-state teaching experience. See December 7, 2000, Report to Connecticut General Assembly; National Council on Teacher Retirement Portability Study (1999 and 2001 update), and National Education Association's "Characteristics of Public Education Pension Plans" (2004).

The ability for public employees in non-teaching positions to purchase service credit for public employment in another state or with the federal government is more limited. In Washington's comparative systems, only Colorado, Florida, Iowa, and Wisconsin offer such programs.

Service Credit Purchase Programs for Non-Teaching Members with Public Experience in Other States or with the Federal Government

System	Program? Y/N	Cost	Max Years	Wait
CalPERS	No			
Colorado	Yes	Actuarial	10 years	1 year
Florida	Yes	Greater of 20% of first year salary or $12,000, plus 6.5% interest compounded annually (cost for 1 year)	5 years	1 year to purchase, 6 years to receive the credit
Idaho	No			
Iowa	Yes	Actuarial	Unlimited unless eligible for a benefit in other out-of-state system, in which case limit is 5 years	1 year
Minnesota	No			
Missouri	No			
Ohio	No			
Oregon	No			
Seattle	No			
Wisconsin	Yes	Actuarial	No more than # years in WRS	3 years

Source: Retirement System Websites as of September 20, 2007.

Policy Questions

The SCPP's policy course has not been set.

Extending the ability for members to purchase out-of-state service credit to non-teaching positions raises a number of policy questions for the SCPP:

1) **Need.** To what extent is there an employer or member need for this program?

   Only one plan member of PERS has requested this benefit in the 2007 interim, and no employers have contacted the SCPP regarding the need for adding such a program as a recruitment tool.

2) **Goals.** What goals would be served by offering the program to members in non-teaching positions?

   - To recruit public employees from other states?
   - To provide "member flexibility at member cost"?

- To facilitate interstate career mobility for public employees?
- To provide consistent benefits across Washington plans?

Are these goals that the SCPP wishes to pursue at this time? Are there other goals for this program?

Is this the best or only means for achieving these goals? Should other means for achieving the goals be explored?

3) **Conflicting policies.** Would service credit purchases lead to earlier retirements? If so, would that be at odds with a desire to retain experienced public employees?

4) **Benefit design.** If a service credit purchase program is provided, should it be modeled after the TRS program or should it be independently designed? Program design would most logically be tied to program goals.

   - Should there be a waiting period? If so, how long should it be?
   - Should there be a limit on the number of years of service that can be purchased?
   - Should members be able to purchase the service early in their careers when it is less expensive, or later when the cost is higher but easier to calculate with certainty?
   - Should there be a one-time purchase or multiple opportunities to purchase?
   - Should payment plans be allowed?
   - How strict should the plan administrator be in verifying employment in other states?
   - How careful should the plan administrator be to assure that the member does not draw two benefits for the same service?

5) **Administrative impacts.** How important are administrative and compliance concerns? Should the SCPP consider these costs? How much complexity would be added by offering more options to members? What kinds of education and counseling would members require?

6) **Scope.** Who should be allowed to participate: members of all plans or just members of open plans? Should there be a combined total limit on service credit purchased from sources outside the retirement systems such as air time and other governmental time? If such a limit were imposed, should military time count?

7) **Timing.** Assuming this benefit is needed or desired, when should such a program be implemented?

    - Should the program be expanded while there is proposed legislation to modify the TRS program?
    - If a broader program is independently designed, should the TRS program be revamped to be consistent with the new program?

Possible Strategies

1) **Wait.** This course of action would allow time for the legislature to settle the matter of the waiting period for the TRS program before extending the program to other plans. It would also allow time to assess member and/or employer demand for the program and to determine whether the recently implemented air time and improved early retirement factors are sufficiently meeting members' needs.

2) **Extend the TRS model to other plans.** This would create inter-plan consistency. However, it is not clear that employers and members in plans covering non-teaching positions may have the same needs as those in TRS.

3) **Create a new program for non-teaching employees.** Consider the TRS model, but look at other models. This process could involve independent analysis and goal-setting that is unrelated to recruiting out-of-state teachers. It could also lead to changes in the TRS model.

Stakeholder Input

Correspondence from Maria Nardella is attached.

Executive Committee Recommendation

The Executive Committee recommended that a briefing be provided to the full SCPP on this topic. The Executive Committee will then consider whether to recommend additional steps or actions to move the issue forward.

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The Select Committee on Pension Policy

Out-of-State Service Credit

Laura Harper, Policy and Research Services Manager

October 16, 2007

Office of the State Actuary

"Securing tomorrow's pensions today."

Familiar Topic with a New Twist

- The ability to purchase out-of-state service credit is a benefit
  - Allows for earlier retirement
  - Increases the pension payment
- Issue is whether to implement an out-of-state service credit purchase program for non-teaching employees
- Executive Committee forwarded this issue to the SCPP for an initial briefing

Today's Briefing

- Overview
  - WA plans
  - Other States
- Questions for policy makers
- Decision points for designing these programs
- Possible strategies for the SCPP

Washington Plans

- All plans allow members to purchase up to five years of air time
  - "Non-qualified" service, so does not have to be tied to employment in another plan
  - Member pays full actuarial cost
  - One-time purchase at retirement
- Air time provides some but not all benefits of purchasing out-of-state service credit
  - Can be used to increase the member's benefit
  - Cannot be used for earlier retirement

Special Provisions in TRS

- Two programs
- Developed as recruitment tools for teachers
- Not available in the other plans

TRS Programs

- Use out-of-state service for benefit eligibility
  - Does not increase the benefit amount
  - Does not involve a purchase
  - Does facilitate earlier retirement
- Purchase up to seven years of service credit
  - For public education experience in another state or with the federal government
  - Member pays full actuarial cost
  - Time purchased becomes "membership service"
  - Used to increase benefit AND retire earlier

Other States

- Most teacher retirement plans allow members to purchase out-of-state service credit
- Less common for public employees in non-teaching positions
  - Offered to non-teachers
    - Colorado, Florida, Iowa, and Wisconsin
  - Not offered
    - California, Idaho, Minnesota, Missouri, Ohio, Oregon, and Seattle

Questions for Policy Makers

- Is TRS unique or should other plans have the same benefits?
  - Comparative systems are split on whether to offer these programs to non-teachers
- Would the availability of more service credit purchase options lead to earlier retirements?
- Would that be at odds with a desire to retain experienced public employees?

Deciding Whether To Add A Program

- Do members and employers outside of TRS need this?
  - To date, SCPP has received a request from one plan member in PERS
- Goals served by these kinds of programs:
  - Recruit public employees
  - Facilitate interstate career mobility
  - Increase member flexibility
  - Provide consistency throughout the plans
- Do they fit with SCPP goals?

Decision Points

- If the SCPP decides to add a program, how would it work?
  - Benefit design
  - Scope
  - Complexity
  - Timing
- What kind of effort is required to develop a program?

Benefit Design

- Common design elements
  - Waiting period
  - Cost
  - Who pays
  - Limit on number of years
  - Timing of purchase
  - Terms of purchase
  - Relationship to benefit from other state
    - Avoid two benefits for same service?
- Use benefit design to implement goals

Service Credit Purchase Programs For Non-Teaching Members

System	Cost	Max Years	Wait
Colorado	Actuarial	10 years	1 year
Florida	Greater of 20% of first year salary or $12,000, plus 6.5% interest compounded annually (cost for 1 year)	5 years	1 year to purchase, 6 years to receive the credit
Iowa	Actuarial	Unlimited unless eligible for a benefit in other out-of-state system, in which case limit is 5 years	1 year
Wisconsin	Actuarial	No more than # years in WRS	3 years

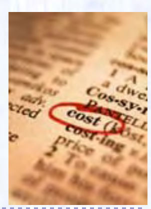
Source: Retirement System Websites as of September 20, 2007.

Scope

- Determining who should participate
  - Members of all plans?
  - Members of open plans?
  - Members of plans with special recruitment needs?
- Setting program limits
  - Limit on number of years that can be purchased?
  - Should there be a combined total limit on the amount of service credit from sources outside the retirement system?
    - If so, should military time count?

Complexity

- Impacts administrative cost
- Determines amount of education needed
- Affects compliance
  - IRS rules
  - Rollovers
  - Verifying employment
  - Enforcing program limits



Timing

- SCPP legislation proposed for 2008 re: TRS program
  - Would designing a new program lead to additional modifications of TRS program?
- Process affects timing
  - Who decides: work group, Executive Committee, full SCPP?
  - Include stakeholders in program development?

Possible Strategies

- Wait
  - Settle elements of TRS program first
  - See if air time program meets needs of members
- Extend TRS model to other plans
  - Creates plan consistency
  - Not clear that members and employers have same needs for non-teaching positions
- Create a new program for non-teaching employees
  - Assess need and set goals
  - Tie benefit design to program goals
  - Consider program impacts

Next Steps

- No strategy has been discussed for this issue to date
- The Executive Committee will consider whether to recommend additional steps or actions

STATE OF WASHINGTON
DEPARTMENT OF HEALTH
COMMUNITY AND FAMILY HEALTH
Olympia, Washington 98504

RECEIVED
FEB 07 2007
Office of
The State Actuary

February 5, 2007

Select Committee on Pension Policy
PO Box 40914
Olympia, Washington 98504-0914

Dear SCPP Staff:

Since I began my employment with the Department of Health in 1992, I have been making inquiries to the Department of Retirement Systems (DRS) regarding the possibility of blending my service credits and retirement savings from my previous employment with another public retirement plan, the Arizona State Retirement System. If I were to move back to Arizona and again work as a state employee there, I would be able to "buy service credit" for my years of service in Washington. Unfortunately, the reverse is still not an option for Washington State employees.

I have made this inquiry to DRS before and have been told that it would take legislative action to make this option available to public employees in Washington. I know that the Select Committee on Pension Policy is active in the 2007 Legislative Session. I would like to suggest that my issue be included in those that are brought forward.

Please let me know if there is anything that I can do to impact this process. My phone number is 360-236-3573 and email, maria.nardella@doh.wa.gov.

Thank you for your assistance.

Sincerely,

Maria Nardella

Maria Nardella
Manager
Children with Special Health Care Needs Program

3. Fish and Wildlife Service Credit Transfer

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.

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

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

Prior service transfers to a higher benefit system create liabilities in the new system.

25 yrs X 2% X $50,000 = *Total annual benefit of **$25,000***

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

Previous expansions of LEOFF Plan 2 eligibility allowed prior service transfers.

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-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.

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The Select Committee on Pension Policy

Fish and Wildlife Service Credit Transfer

Dave Nelsen, Senior Policy Analyst

October 16, 2007

Office of the State Actuary

"Securing tomorrow's pensions today."

Issue

- Fish and Wildlife (F&W) Enforcement Officers were mandated into LEOFF Plan 2
- Should they be allowed to transfer prior PERS Plan 2 service into their new plan?

Office of the State Actuary

"Securing tomorrow's pensions today."

Approach

- History
- Other Instances
- Options

LEOFF Plan 2 Eligibility

General requirements for law enforcement:

Authority	Employer	Training
General authority peace officer	enforcement agency General authority	CJTC basic law enforcement course

History: LEOFF Plan 2 Eligibility

- Prior to 2002 - PERS members
  - Less authority provided in statute
    - Limited authority peace officers
    - Primary duty to enforce F&W related laws
  - Duties often in concert with local law enforcement
    - Some enforcement officers had full commissions from counties*
- All met LEOFF standard with 2002 legislative change
  - Full scope and authority of other LEOFF 2 officers
  - Specifically excluded from LEOFF 2 membership

**November 2001 data*

History: Service Credit Transfer

- 2003 Legislative session - LEOFF Plan 2 Members
  - Mandated into LEOFF Plan 2 prospectively
  - Prior PERS Plan 2 time excluded from transfer
  - PERS Plan 1 stayed in PERS Plan 1
- 2006 and 2007 Legislative sessions
  - LEOFF Plan 2 Board recommended legislation to allow prior PERS service transfer
  - Public hearing in House and Senate in 2006
  - No hearings in 2007

Example

A F&W Enforcement Officer retires at age 53 with 10 years prior service in PERS Plan 2, 15 years of service in LEOFF Plan 2, and a $50,000 final average salary

- Benefit with service in PERS and LEOFF (dual member)
  - LEOFF 2: 15 yrs X 2% X $50,000 = $15,000
  - PERS 2: 10 yrs X 2% X .31 (early ret factor) X $50,000 = $3,100
  - Total combined benefit of **$18,100**
- Benefit with all service in LEOFF Plan 2
  - 25 yrs X 2% X $50,000 = **$25,000**
- Difference in benefit due to reduction factor applied to PERS service

Transfer Examples Into LEOFF Plan 2

Four prior examples

- 1993 port and university police
- 1996 university fire fighters
- 2003 prior EMT service for current LEOFF 2 members
- 2005 EMTs admitted into LEOFF

Transfer Examples Into LEOFF Plan 2

Four Prior Examples

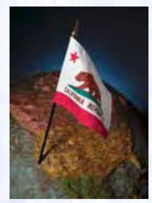
- Each had LEOFF eligible prior time based on duties
  - Either changed the employer definition to include
  - Changed the LEOFF eligible duties to include
- Each allowed to transfer all prior PERS time
- Costs of service transfer
  - Member paid difference in rates plus interest
  - Employer paid amount sufficient to keep rates from increasing

Transfer Examples In Other Systems

- 2000 (on-going) PERS-SERS auto transfer
  - Prior time automatically transferred
    - Essentially equivalent benefits - no cost assessed
- 2002 commercial vehicle enforcement officers (CVEOs)
  - Allowed to transfer prior PERS time to WSPRS
    - Member paid full cost to ensure rates did not increase
- 2006 public safety employees
  - No transfer of prior PERS service allowed

Other States/Systems

- Common circumstance in most states
  - Inconsistency even within states
- Example - California
  - Multiple circumstances – always allowed prior service transfer
  - Except latest – no prior service allowed into higher plan



Policy Issues

1. What about the nature of the prior service?
   - Is prior service equivalent to current plan service?
   - Should all prior time be eligible for transfer?
2. Is dual membership sufficient?
   - Still retain value under prior system's rules
   - Differences in normal retirement age
3. Who pays for increased cost?
   - Affected members?
   - Affected employers?
   - Everybody in plan?

Policy Options

- Continue current policy
  - No additional costs to system
  - Value retained in PERS with dual membership
- Allow transfer option
  - Would be more consistent with prior LEOFF 2 examples
  - Recognizes limitation of dual membership with different retirement ages

Transfer Options

- To address financial impact the committee could recommend steps such as the following
  - Limit the amount of service to transfer
  - Member pays all costs
  - Combination of member payments with employer paying the difference to keep rates from increasing
    - Prior LEOFF Plan 2 model
  - Socialize increased costs across the plan

Prior LEOFF Plan 2 Board Proposal

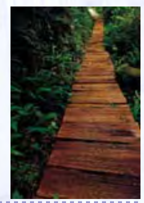
- Same proposal submitted in 2006 and 2007
- Allowed the transfer of all prior PERS Plan 2 service as an enforcement officer into LEOFF Plan 2
  - Member would pay difference in contribution rates plus interest
  - Department of Fish and Wildlife would pay amount sufficient to ensure rates would not increase

Conclusion

- Significant history of service transfers
  1. Nature of prior service
  2. Dual membership
  3. Costs of service transfer
- LEOFF 2 Board proposal consistent with past LEOFF 2 examples

Next Steps

- Executive Committee will provide further direction to staff
  - Possible options
  - Possible pricing



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 L Fox

Kelly Fox, Chair

cc: Matt Smith, State Actuary

Z-0420.1

HOUSE BILL 1687

State of Washington 60th Legislature 2007 Regular Session

By Representatives Simpson, Hurst, Williams, Curtis and Ericks

Read first time . Referred to .

AN ACT Relating to allowing department of fish and wildlife enforcement officers to transfer service credit; and adding a new section to chapter 41.26 RCW.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.26 RCW to read as follows:

(1) A member of plan 2 who was a member of the public employees' retirement system plan 2 while employed as an enforcement officer for the department of fish and wildlife has the option to make an election no later than June 30, 2012, filed in writing with the department of retirement systems, to transfer service credit previously earned as an enforcement officer in the public employees' retirement system plan 2 to the law enforcement officers' and firefighters' retirement system plan 2. Service credit that a member elects to transfer from the public employees' retirement system to the law enforcement officers' and firefighters' retirement system under this section shall be transferred no earlier than June 30, 2012, and only after the member completes payment as provided in subsection (2) of this section.

(2)(a) A member who elects to transfer service credit under subsection (1) of this section shall make the payments required by this subsection prior to having service credit earned as an enforcement officer with the department of fish and wildlife under the public employees' retirement system plan 2 transferred to the law enforcement officers' and firefighters' retirement system plan 2.

(b) A member who elects to transfer service credit under this subsection shall pay, for the applicable period of service, the difference between the contributions the employee paid to the public employees' retirement system plan 2 and the contributions that would have been paid by the employee had the employee been a member of the law enforcement officers' and firefighters' retirement system plan 2, plus interest on this difference as determined by the director. This payment must be made no later than June 30, 2012, and must be made prior to retirement.

(c) No later than June 30, 2013, the department of fish and wildlife shall pay an amount sufficient to ensure that the contribution level to the law enforcement officers' and firefighters' retirement system will not increase due to this transfer.

(d) Upon completion of the payment required in (b) of this subsection, the department shall transfer from the public employees' retirement system to the law enforcement officers' and firefighters' retirement system plan 2: (i) All of the employee's applicable accumulated contributions plus interest and all of the applicable employer contributions plus interest; and (ii) all applicable months of service, as defined in RCW 41.26.030(14)(b), credited to the employee under this chapter for service as an enforcement officer with the department of fish and wildlife as though that service was rendered as a member of the law enforcement officers' and firefighters' retirement system plan 2.

(e) Upon transfer of service credit, contributions, and interest under this subsection, the employee is permanently excluded from membership in the public employees' retirement system for all service related to time served as an enforcement officer with the department of fish and wildlife under the public employees' retirement system plan 2.

--- END ---

Multiple Agency Fiscal Note Summary

Bill Number: 1687 HB	**Title:** Fish & wildlife officers

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	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.2	0	70,676	.0	0	0	.0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	.0	0	0	.0	0	0
Department of Fish and Wildlife	.0	0	0	.0	0	0	.0	2,000,000	2,000,000
Total	0.2	$0	$70,676	0.0	$0	$0	0.0	$2,000,000	$2,000,000

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

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 2/ 6/2007

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

** See local government fiscal note

FNPID: 15516

Individual State Agency Fiscal Note

Bill Number: 1687 HB	Title: Fish & wildlife officers	Agency: 035-Office of State Actuary

Part I: Estimates

[X] **No Fiscal Impact**

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: 01/24/2007
Agency Preparation:	Robert Baker	Phone: 360-786-6144	Date: 01/29/2007
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 01/29/2007
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/29/2007

FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. BILL NUMBER:
Office of the State Actuary	035	1/29/07	HB 1687/SB 5588

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 Plans 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF 2) Retirement System and the Public Employees' Retirement System (PERS 2) by allowing 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 bill provides that it shall be transferred no earlier than June 30, 2012, and only after the member completes payment, which must be made no later than June 30, 2012.

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 had the employee been a member of LEOFF 2, plus interest on this difference as determined by the director. The assets associated with 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 DFW.

The bill also provides that no later than June 30, 2013, DFW would be required to pay an amount sufficient to ensure that the contribution rate in LEOFF 2 will not increase due to "this" transfer. The bill does not specify who would calculate this amount, who the amount would be paid to, nor who would determine the adequacy of the payment. We assume that one total amount would be determined by the Department of Retirement Systems (DRS) in consultation with the Office of the State Actuary, and that it would cover all service credit transfers under this provision. We also assume that DRS would collect the payment from DFW.

Finally, the bill provides that members who elect to transfer their service credit must transfer all their service as an Enforcement Officer with DFW under PERS 2 and are thereafter permanently excluded from membership in PERS for all service related to time served as an enforcement officer with DFW in PERS 2.
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 68 members out of the total 101 active DFW enforcement officers have eligible prior service credit in PERS 2 and could be affected by this bill. We believe that 66 of those members will receive improved benefits from this bill. This bill would not affect inactive members.

We estimate that for a typical member impacted by this bill, 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.

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

METHODS

The bill language provides that there shall be no increase in unfunded liability to LEOFF 2 resulting from the additional service being transferred from PERS 2 and 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 bill is equal to the present value of the additional benefit at the member's retirement resulting from the transferred service credit.

Otherwise, costs were developed using the same methods as those disclosed in the September 30, 2005 actuarial valuation report (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.

ASSUMPTIONS

We assume for this pricing exercise that all past PERS 2 service is eligible for transfer to LEOFF 2. We also assume that only members of PERS 2 are eligible to transfer. We assume 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 66 out of the 68 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, 2012. We assume that the purchase price 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 fiscal note. Use of another set of assumptions may also be reasonable and might produce different results.

DATA

Of the 101 DFW enforcement officers active as of September 30, 2005, we were provided information for 68 who had eligible prior service credit in PERS 2. Among the DFW active records were a handful of members with more than the approximately 2.2 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 68 PERS records, we found that 54 members were vested in their respective plans under the provisions of portability. The remaining 14 Plan 2 members were not vested. 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	101	2.7	$9,578	$57,550
LEOFF actives with PERS service	68	10.3	$25,984	$59,015
PERS 2 Service Range (Rounded, in years)				
0 - 2	15	1.2	$521	$52,594
3 - 5	14	3.4	$2,382	$56,771
6 - 10	8	7.8	$11,726	$58,974
11 - 15	11	13.7	$32,600	$63,170
16 - 20	9	17.9	$50,845	$63,782
21+	11	23.6	$74,161	$62,603

**LEOFF 2 salary, effective September 30, 2005, 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, which would be offset by the approximately $3 million transferred from the PERS 2 assets, $2 million in additional contributions from Fish and Wildlife members, and a $2 million contribution from DFW.

The liability reduction in PERS 2 due to the proposed transfer is about $3 million. This amount is offset by the estimated transfer of assets from PERS 2 to LEOFF 2 of about $3 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 and the transfer could result in additional experience gains for PERS 2.

A summary of costs/(savings) for all parties appear below:

Summary of Costs/(Savings) for All Parties			
(Dollars are in millions)	PERS 2	LEOFF 2	Total
Change in present value of fully projected benefits (The value of the total commitment to all current members)	($3)	$7	$4
Assets transferred from PERS to LEOFF 2	$3	($3)	$0
Additional member contributions	$0	($2)	($2)
Payment from Department of Fish and Wildlife	$0	($2)	($2)
Net change in present value of unfunded fully projected benefits	$0	$0	$0

These costs are based on the assumption that sixty-six of out of sixty-eight eligible DFW enforcement officers will transfer past PERS 2 service credit from PERS 2 to LEOFF 2. The actual cost of this bill will be determined from 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.

(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 2/3	$16,997	($3)	$16,994
(The Value of the Total Commitment to all Current Members)	LEOFF 2	$5,462	$7	$5,469
Unfunded Actuarial Accrued Liability	PERS 1	NA	NA	NA
(The Portion of the Plan 1 Liability that is Amortized at 2024)	LEOFF 1	NA	NA	NA
Unfunded Liability (PBO)	PERS 2/3	($2,611)	$0	($2,611)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	LEOFF 2	($397)	$0	($397)

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

	PERS	LEOFF
Current Members		
Employee (Plan 2)	0.00%	0.00%
Employer/State (Plan 1 UAAL)	NA	NA
Employer/State (Plan 2/3 normal cost)	0.00%	0.00%
New Entrants*		
Employee (Plan 2)	0.00%	0.00%
Employer/State (Plan 1 UAAL)	NA	NA
Employer/State (Plan 2/3 normal cost)	0.00%	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 $2 million payment required from DFW.

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 twenty-three to sixty-six members with the greatest benefit transfer, the cost to DFW would still be about $2 million. If less than twenty-three members transfer, the cost to DFW would be about $1 million. More likely than not, the number of members who transfer will be between twenty-three and sixty-six, and the cost to DFW would be about $2 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 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: 1687 HB	Title: Fish & wildlife officers	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.4	0.0	0.2	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	70,676	0	70,676	0	0
Total $	70,676	0	70,676	0	0

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: 01/24/2007
Agency Preparation:	Dave Nelsen	Phone: (360) 664-7304	Date: 01/25/2007
Agency Approval:	Sandra J. Matheson	Phone: (360) 664-7312	Date: 01/26/2007
OFM Review:	Doug Jenkins	Phone: 360-902-0563	Date: 01/26/2007

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.

This bill allows service credit earned as a Department of Fish and Wildlife (F&W) Enforcement Officer in the Public Employees' Retirement System (PERS) Plan 2 to be transferred to the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement System. It provides that:

- Eligible F&W Enforcement Officers must elect to transfer their PERS service credit before June 30, 2012.
- The employer must pay an amount sufficient to ensure that the contribution level of the LEOFF Retirement System will not increase as a result of the transfer of service.
- The employer payment must be made no later than June 30, 2013, but can be made periodically prior to this date based upon tranfers paid in full at the time of billing.
- Service credit will be transferred no earlier than June 30, 2012.

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.

Administrative Assumptions

- This bill affects approximately 70 current LEOFF Plan 2 members.
- The Department of Fish and Wildlife will provide DRS with the applicable time served as an Enforcement Officer.
- If there are adjustments after the transfer invoice is created, and the adjustment would change the cost of the transfer, the original invoice will be canceled and a new invoice will be created for the correct amount.
- Payment cannot be made through an actuarial reduction of a retirement benefit.
- If the invoice is not paid in full by the deadline, all payments made by the member will be refunded.
- If the member does not meet the transfer requirements before retirement or death, all payments will be refunded.
- The transfer of service credit costs will not change in the event that the member is divorced and the ex-spouse is entitled to a portion of the member's retirement benefit.
- An ex-spouse's benefit is not impacted by the member's decision to transfer service credit.
- The Office of the State Actuary will determine the amount of the employer contribution required to ensure that the contribution level to the LEOFF plan will not increase as a result of this transfer.
- Partial service transfers are not allowed.

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

Benefits/Customer Service
DRS will send a letter to affected members notifying them when the transfer election is available. A second mailing, sent via certified mail to the member's home address, will include personalized information. DRS will also mail a sample of these materials to the affected employer. Additionally, a Retirement Services Analyst (RSA) will work with the programmers to identify system-related business requirements and participate in user acceptance testing of the required system changes. In order to implement the legislation, the following tasks will be accomplished:

- Modify the Election to Transfer Membership form
- Prepare estimated member billings
- Create content material for the personalized informational packet provided to each eligible member (e.g., Service Credit Worksheet, Benefit Comparison, Estimate of Benefits)
- Update policies and procedures
- Update the Retirement Services Division (RSD) Online Operations Manual
- Participate in the business requirements definition for the agency's automated systems
- Conduct user acceptance testing of automated system modifications
- Conduct staff training
- Process the transfer of service credit

Retirement Services Analyst 3 – 762 hours (salaries/benefits) = $23,376
Total Estimated Benefits/Customer Service Costs = $23,376

Automated Systems
DRS' Member Information System will require modifications.

- Development of a new optional bill type to account for new deadline dates
- Modification to the Member Information System (MIS)
- Testing of modifications

Programmer time of 440 hours @ $95 per hour = $41,800
DIS cost* of $500 per week for 11 weeks = $5,500
Total Estimated Automated Systems Costs = $47,300

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

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

2007-09 BIENNIUM
BENEFITS/CUSTOMER SERVICE = $23,376
AUTOMATED SYSTEMS = $47,300
ESTIMATED TOTAL COSTS = $70,676

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.4		0.2		
A-Salaries and Wages	17.636		17,636		
B-Employee Benefits	5.740		5,740		
C-Personal Service Contracts					
E-Goods and Services	47.300		47,300		
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:	$70,676	$0	$70,676	$0	$0

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2008	FY 2009	2007-09	2009-11	2011-13
Retirement Svcs Analyst 3	48,326	0.4		0.2		
Total FTE's		0.4		0.2		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.

New WACs will be needed to clarify any election or service credit transfer issues.

Individual State Agency Fiscal Note

Bill Number: 1687 HB	**Title:** Fish & wildlife officers	**Agency:** 341-LEOFF 2 Retirement Board

Part I: Estimates

☒ **No Fiscal Impact**

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: 01/24/2007
Agency Preparation: Diann Lewallen	Phone: (360) 664-7666	Date: 01/24/2007
Agency Approval: Steve Nelsen	Phone: 360-586-2323	Date: 01/24/2007
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 01/24/2007

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.

No cash receipts impact is anticipated.

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.

No expenditure impact is anticipaetd.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

No capital budget impact is anticipated.

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.

Individual State Agency Fiscal Note

Revised

Bill Number: 1687 HB	**Title:** Fish & wildlife officers	**Agency:** 477-Department of Fish and Wildlife

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					
General Fund-State 001-1	0	0	0	0	2,000,000
Total $	0	0	0	0	2,000,000

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: 01/24/2007
Agency Preparation: Sean Carrell	Phone: 360-902-2926	Date: 02/02/2007
Agency Approval: Ron McQueen	Phone: 360-902-2204	Date: 02/05/2007
OFM Review: Jim Cahill	Phone: 360-902-0569	Date: 02/05/2007

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.

The bill allows Fish and Wildlife Officers who are members of the Law Enforcement Officers and Fire Fighters (LEOFF) 2 retirement system to transfer service credits from the Public Employees Retirement System (PERS) 2. The transfers will be made after June 30, 2012. WDFW must pay its share no later than June 30, 2013.

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.

NA

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.

This bill allows Fish and Wildlife Officers who are members of the Law Enforcement Officers and Fire Fighters (LEOFF) 2 retirement system to transfer credits from the Public Employees Retirement System (PERS) 2.

The Department agrees with the assumptions and figures provided by the Office of the State Actuary. The major fiscal impact of $2,000,000 to the Department will occur in the 2011-13 Biennium. The appropriation would need to be approved in the 2010 Legislative Session. In bills of this type in the past, not all eligible members elected to transfer their service credits. More than likely, the number of members who transfer will be between 23 and 66 because they have more than 10 years of PERS service credit.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					2,000,000
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	$2,000,000

Part IV: Capital Budget Impact

NA

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.

NA

4. Salary Bonuses in TRS

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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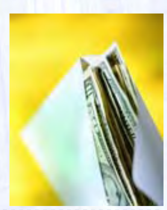
Salary Bonuses in TRS

Dave Nelsen, Senior Policy Analyst

October 16, 2007

Issue

- Specific payment statutorily excluded from earnable compensation in TRS
- Should payments be included?
  - If so, what policy would inclusion advance?



Overview

- Background
- Current policy
- Other states
- Policy options

Office of the State Actuary

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2

National Board For Professional Teaching Standards (NBPTS)

- Non-Profit, non-partisan since 1987
- 63-member Board of Directors
  - Most are teachers
- Mission
  - Maintain high standards for teachers
  - Certify teachers who meet standards
  - Advocate for standards throughout American education

Office of the State Actuary

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3

NBPTS Certification Bonus

- Existed as biennial budget language since July of 2001
  - $3,500 payment
  - Only guaranteed for two years
  - Specifically excluded from earnable compensation for retirement
- 2SHB 2262 Created program in statute in 2007
  - $5,000 annual payment
  - Additional $5,000 available annually
  - NBPTS Certificate good for 10 years
- Still statutorily excluded

NBPTS Certification Bonus

- 1,313 teachers certified through 2006
  - Nearly 2% of Washington teachers
  - 409 in 2006
- Increase in number of teachers certified each year since 2001
- 1,377 applied in 2007

Example

A TRS Plan 3 teacher retires at age 65 with 30 years and $50,000 average salary:

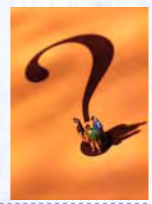
- The defined benefit without including the annual bonus would be **$15,000** per year
- The defined benefit with the $5,000 annual bonus included would be **$16,500** per year
- The defined benefit with the additional $5,000 bonus included would be **$18,000** per year

What Is Typically Includable In TRS?

- Payment for service rendered over time
  - Other bonuses are included if they meet this definition…
    - Performance goals, teaching in an overcrowded classroom
  - Or are excluded if they don't
    - Payment for agreeing to retire
- Some exceptions to service-rendered definition
  - Meet definition and are excluded
    - Sick leave cash-outs
  - Don't meet definition and are included
    - Paid administrative leave

Policy Questions

- What policy would be advanced by including payments?
  - Recruitment/retention?
  - Increase quality of education?
- Is the nature of the payment important?
- Possible pension ballooning?
  - Significant salary increase close to retirement
  - More of a concern with Plan 1



Other States / Systems

State	Oregon	Idaho	Florida	California	Wisconsin	Ohio	Colorado	Missouri
Allow bonuses?	Y	Y	Y	Y	Y	Y	Y*	N
Allow NBPTS bonuses?	Y	Y	Y	?	?	?	N	N

**Upon board approval.*

Policy Options

- Continue to exclude
  - No additional costs to system
  - More time to assess impacts of codification and program expansion
  - DRS could evaluate payment
- Change current policy to include
  - Would be more consistent with comparative states
  - May promote established policy goals

Cost Options

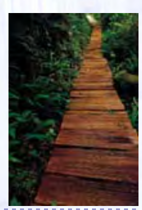
- To limit the financial impact, the committee could recommend steps such as the following
  - Only allow a portion of the payment to be includable
  - Limit the time period the payment is includable
  - Only include for TRS Plan 2/3
  - Allow salary increase to apply only to service earned prospectively

Conclusion

- New and growing program
- Inclusion may advance certain policies
- Possible concerns about pension ballooning, particularly in TRS Plan 1
- Comparative states typically allow it
- If allowed, there are ways to mitigate costs

Next Steps

- Executive Committee will provide further direction to staff
  - Possible options
  - Possible pricing



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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

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

5. Experience Study Preview

Deferred to another meeting.

6. 2006 Actuarial Valuation Report

No handout provided at the meeting.

2006 Actuarial Valuation Report

Chris Jasperson
Actuarial Assistant

Overview

- Purpose
- Contribution rates
- Comments on 2006 results
- Liabilities
- Assets
- Funded status
- Participant data
- Key assumptions

2006 AVR

- Report of the Combined Actuarial Valuation as of September 30, 2006
- Actuarial Valuation performed on the following Washington State retirement systems
  - 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)

Purpose of Valuation

- Determine contribution requirements for plans as of the valuation date September 30, 2006
  - Assumes completion of phase-in schedule
  - Includes cost of 2007 legislation
  - Assumes plans are on-going
- Results should not be used for other purposes
- This is not a rate-setting valuation year

Employer Contribution Rates to Complete Phase-In*

System	Current	2008-09 Adopted	2006 AVR
PERS	5.97%	8.15%	8.63%
TRS	5.66%	8.22%	9.59%
SERS	5.72%	7.38%	8.57%
PSERS	8.39%	9.27%	9.96
LEOFF 1	0.00%	0.00%	0.00%
WSP	7.70%	7.70%	7.30%

**Excludes current administrative expense rate of 0.16%.*

Plan 2 Member Contribution Rates To Complete Phase-in

System	Current	2008-09 Adopted	2006 AVR
PERS	4.15%	5.45%	5.53%
TRS	2.90%	4.18%	4.25%
SERS	3.90%	4.68%	4.69%
PSERS	6.57%	6.57%	6.96%
LEOFF 1	N/A	N/A	N/A
WSP*	6.65%	6.65%	5.98%

** Rate for all plan members.*

Comments On 2006 Results

- 15.76% ROR on market value of assets
- ROR on actuarial value of assets
  - Less than 8% for TRS and PSERS
  - Greater than 8% for PERS, SERS, LEOFF, and WSP
- Repeal of gain-sharing and associated benefits
  - Improved early retirement reduction factors for certain members
  - Plan 2/3 choice for new TRS and SERS members
  - Plan 1 Uniform COLA increase
- Projected 2008 gain-sharing distribution

Comments On 2006 Results

- Plan 1 funding method may present an unreasonable payment schedule for employers under some economic scenarios in the future
- Future improvement in assumed mortality represents a material liability that has been excluded from this valuation
  - PFC will review this assumption change following the completion of the experience study

Actuarial Liabilities

All Systems	9/30/2005 ($ in millions)	9/30/2006 ($ in millions)
PV of fully projected benefits	$60,697	$63,277
Unfunded actuarial accrued liability*	$5,130	$4,470**
PV of credited projected benefits	$45,841	$47,889
Valuation interest rate	8.00%	8.00%

** For PERS 1, TRS 1, and LEOFF 1.*

*** $5.2 billion if you exclude LEOFF 1.*

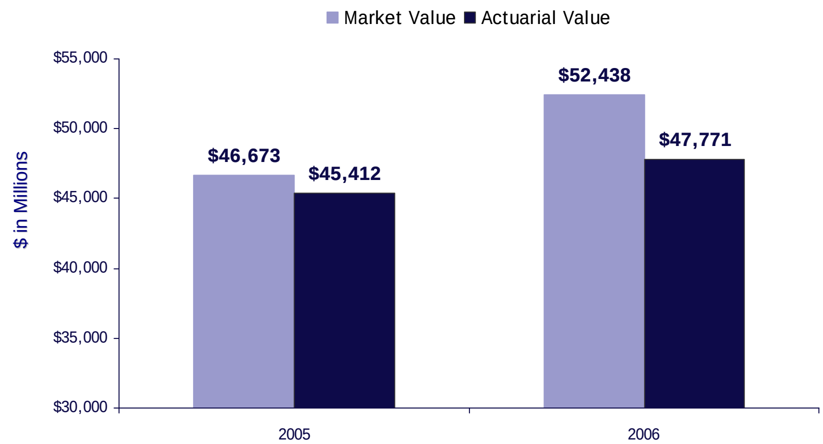
Assets

All Systems	9/30/2005 ($ in millions)	9/30/2006 ($ in millions)
Actuarial value (AV)	$45,412	$47,771
Market value (MV)	$46,673	$52,438
Ratio (AV ÷ MV)	97%	91%
Contributions less Disbursements*	-$1,648	-$1,465
Investment return	$7,074	$7,230
Return on assets**	17.53%	15.76%

** Includes transfers, restorations, payables*

*** Time-weighted return on market value of assets*

Comparison of Asset Values

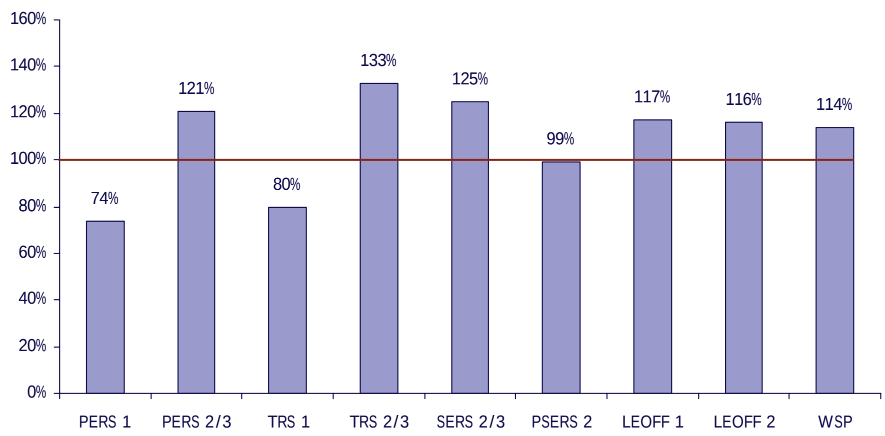


Combined Funded Status

All Systems	9/30/2005 ($ in millions)	9/30/2006 ($ in millions)
Actuarial value of assets	$45,412	$47,771
PV of credited projected benefits	$45,841	$47,889
Unfunded credited projected benefits	$429	$118
Funded ratio*	99%	100%

** All plans combined. Assets from an individual qualified retirement plan may not be used to fund benefits from another plan. This table, therefore, is for summarization purposes only.*

Funded Status By Plan (Actuarial Basis)



Participant Data

All Systems	9/30/2005	9/30/2006
Number of actives	290,111	292,990
Average annual salary	$45,671	$47,219
Average attained age	45.9	46.0
Average service	10.7	10.7
Number of annuitants	117,576	120,970

Key Assumptions

Valuation interest rate	8.00%
Salary increase (general)	4.50%
Inflation	3.50%
Growth in membership*	1.25%

** 0.90% for TRS.*

Next Steps

- Economic experience study completed
  - Associated assumptions may change
- Demographic experience study underway
  - Associated assumptions may change
- Results of experience studies will be included in 2007 AVR
  - 2007 AVR to be the basis for 2009-11 contribution rate setting
- Updated projections will be available later this Fall

Questions?