

Select Committee on Pension Policy

Regular Executive Committee Meeting

November 13, 2007

9:00 a.m. - 9:30 a.m.

1:00 p.m. - 3:30 p.m.

Senate Conference Rooms A/B/C
Olympia

AGENDA

9:00 a.m. - 9:30 a.m.

- 9:00 a.m. (A) Approval of Minutes
- 9:05 a.m. (B) Constituent Correspondence
- 9:15 a.m. (C) Today's Full Committee Agenda
- 9:30 a.m. (D) Adjourn

1:00 p.m. - 3:30 p.m.

- 1:00 p.m. (E) Direction on Today's Issues
- 2:00 p.m. (F) PERS to SERS Auto-Transfer
- 2:15 p.m. (G) PERS 1 Window under SHB 1067
- 2:35 p.m. (H) Post-retirement Employment under EHB 2391,
Charles Cuzzetto
- 2:50 p.m. (I) December Meeting Agenda
- 3:05 p.m. (J) 2008 Meeting Dates
- 3:15 p.m. (K) 2008 Interim Planning
- 3:25 p.m. (L) State Actuary Evaluation
- 3:30 p.m. (M) Adjourn

*Elaine M. Banks
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

*Representative Steve Conway,
Chair

Representative Larry Crouse

Charles E. Cuzzetto
TRS and SERS Employers

*Randy Davis
TRS Actives

Representative Bill Fromhold

Senator Janea Holmquist

Robert Keller
PERS Actives

*Sandra J. Matheson, Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Ed Murray

*Glenn Olson
PERS Employers

Senator Craig Pridemore

*Senator Mark Schoesler,
Vice Chair

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

* Executive Committee

(360) 786-6140

Fax: (360) 586-8135

TDD: 1-800-635-9993

A. Approval of Minutes

Select Committee on Pension Policy

REGULAR EXECUTIVE COMMITTEE MEETING DRAFT MINUTES

October 16, 2007

The Select Committee on Pension Policy met in Senate Conference Rooms A/B/C, Olympia, Washington on October 16, 2007.

Morning Session

9:00 a.m. - 10:00 p.m.

Committee members attending:

Representative Conway, Chair
Senator Schoesler, Vice-Chair
Elaine Banks
Randy Davis
Sandra Matheson
Glenn Olson

Other members attending:

Representative Bailey
Robert Keller
Corky Mattingly
Doug Miller

Representative Conway, Chair, called the meeting to order at 9:10 a.m.

(A) Approval of Minutes

It was moved to approve the September 18, 2007, Executive Committee Draft Minutes. Seconded.

MOTION CARRIED

(B) Today's Full Committee Agenda

Matthew M. Smith, State Actuary, reported on "Today's Full Committee Agenda." *Discussion followed.*

(C) Constituent Correspondence

Matthew M. Smith, State Actuary, reported on "Constituent Correspondence." *Discussion followed.*

(D) Plan 3 Vesting

Laura Harper, Policy and Research Services Manager, reported on "Plan 3 Vesting." *Discussion followed.*

It was moved to place the Plan 3 Vesting issue on the November 13, 2007, Full Committee agenda. Seconded

MOTION CARRIED

*Elaine M. Banks
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

*Representative Steve Conway,
Chair

Representative Larry Crouse

Charles E. Cuzzetto
TRS and SERS Employers

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(E) Retiree Access to PEBB - Stakeholder Report

Dennis Martin, Health Care Authority, reported on "Retiree Access to PEBB."
Discussion followed.

Testimony given by:

John Kvamme, Washington Association of School Administrators and
Association of Washington School Principals
Wendy Radar-Konafalski, Washington Education Association
Cassandra de laRosa, Retired Public Employees Council
Leslie Main, Washington State School Retirees' Association

The meeting adjourned at 10:05 a.m. to attend the Full Committee meeting.

Afternoon Session

12:30 p.m. - 3:00 p.m.

Committee members attending:

Representative Conway, Chair
Senator Schoesler, Vice-Chair
Elaine Banks
Randy Davis
Sandra Matheson
Glenn Olson

Other members attending:

Representative Bailey
Lois Clement
Representative Crouse
Robert Keller
Corky Mattingly
Pat Thompson

Representative Conway, Chair, called the meeting to order at 12:20 p.m.

(G) Direction on Today's Issues

- Out-of-State Service Credit
No action taken

- Fish and Wildlife Service Credit Transfer

*It was moved to place the Service Credit Transfer issue on the
December 18, 2007, Full Committee agenda. Seconded.*

MOTION CARRIED

- Salary Bonuses in TRS

Testimony given by:

John Kvamme, Washington Association of School Administrators and
Association of Washington School Principals
Wendy Radar-Konofalski, Washington Education Association

It was moved to place the Salary Bonuses in TRS issue on the December 18, 2007, Full Committee agenda. Seconded.

MOTION CARRIED

(H) Military Death Benefits

Dave Nelsen, Policy Analyst, reported on "Military Death Benefits." *Discussion followed.*

(I) Interruptive Military Service Credit

Laura Harper, Policy and Research Services Manager, reported on "Interruptive Military Service Credit." *Discussion followed.*

It was moved to place the Interruptive Military Service Credit issue on the December 18, 2007, Full Committee agenda. Seconded.

MOTION CARRIED

(J) HECB Proposal

Laura Harper, Policy and Research Services Manager, reported on the "HECB Proposal." *Discussion followed.*

It was moved to place the HECB Proposal issue on the December 18, 2007, Full Committee agenda. Seconded.

MOTION CARRIED

(K) Indexed \$150,000 Death Benefits

Darren Painter, Policy Analyst, reported on "Indexed \$150,000 Death Benefits." *Discussion followed.*

(L) November Meeting Agenda

The following issues will be placed on the November 13, 2007, Full Committee agenda:

Regular Executive Committee Meeting

Draft Minutes

October 16, 2007

Page 4

- Survivors of PERS 1 Inactive Members
- TRS and SERS 2/3 "Half-Year Contracts"
- HECB Proposal
- Retiree Access to PEBB - Stakeholder Proposals
- Salary Bonuses in TRS
- LEOFF Eligibility for Ports

Possible Executive Session

- Plan 3 Vesting
- Survivors of PERS 1 Inactive Members
- Indexed \$150,000 Death Benefit

The meeting adjourned at 2:30 p.m.

B. Constituent Correspondence

SELECT COMMITTEE ON PENSION POLICY

EXECUTIVE COMMITTEE

Constituent Correspondence as of November 1, 2007

November 13, 2007

Received by OSA	From	To	Subject
1/4/2007	Amalgamated Transit Union Legislative Council	Joint (sic) Committee on Pension Policy	Actuarial reduction of PERS 2/3 disability pensions
1/16/2007	Barbara Wagner et al	Rep. Fromhold (with copy of 11/29/06 letter to DRS)	PERS 1 benefit cap
1/16/2007	Kim Webster	OSA, SCPP	PERS 1 benefit cap
1/18/2007	Mike Cunningham	OSA	Plan 3 retirement for teachers
1/21/2007	Sen. Karen Fraser	Matt Smith	Pension Protection Act of 2006
2/7/2007	Maria Nardella	SCPP, SCPP Staff	Out-of-state service credit
2/16/2007	Mike Hudson	Rep. Bob Hasegawa (copy provided)	Rule of 85, service credit for two jobs, converting PERS 2 service to PERS 1
3/12/2007	Thad Lindquist	Matt Smith	LEOFF 1 disability retirement
4/10/2007	Sen. Jim Honeyford	Matt Smith, Sen. Pridemore, SCPP	Past service credit for term-vested judges
5/2/2007	Elizabeth Knox	OSA, SCPP	Revocation of gain-sharing (Plan 3)
5/7/2007	John Kvamme (for WASA & AWSP)	Matt Smith	Plan 3 vesting Survivor benefits Plan 3 improvement Plan 1, 2 & 3 military service Plan 2 & 3 final year contract
5/17/2007	Tom Pillow (for WSPTA)	Senator Pridemore	WSPRS demographics Benefit changes paralleling LEOFF Plan 2 Death benefit changes WSPRS governance
5/21/2007	Dave Nelsen (DRS)	Matt Smith	Expanding Plan 1 Post-30-year contribution program Death while retirement eligible Veteran's benefits Endorsement of inactive, non-vested members

Received by OSA	From	To	Subject
5/22/2007	Wendy Rader-Konofalski (for WEA)	SCPP, SCPP Staff	TRS Out-of-State Service Credit PERS, SERS, & TRS 3 Vesting Rule of 85 Salary bonuses included in pension calculations Pre-tax health care benefits for retirees
5/22/2007	John Kvamme (for WASA & AWSP)	Matt Smith	Plan 3 vesting Survivor benefits Plan 3 improvement Plan 1, 2 & 3 military service Plan 2 & 3 final year contract Out-of-state service credit Plan 2 Access to PEBB
5/22/2007	Larry Scholl Leslie Main (for WSSRA)	SCPP, SCPP Staff	TRS/PERS 1 uniform COLA adjustments TRS/SERS/PERS 2/3 Early retirement, Gain-sharing, and Vesting eligibility
5/24/2007	Dennis Eagle (for WFSE)	Senator Pridemore	Military Service Credit F&W Officers service credit transfer
5/29/2007	Ted Danielson	OSA	Military Service Credit
6/5/2007	Kelly Fox (LEOFF 2)	SCPP, SCPP Staff	Deferred Compensation Purchase of Annuity \$150,000 Death Benefit Military Service Death Benefit F&W Officers service credit transfer
6/6/2007	Sen. Derek Kilmer	SCPP, SCPP Staff	TRS half-time service-credit requirement
6/6/2007	Various Constituents	OSA	Gain-sharing
6/14/2007	Richard Warbrouck RFFW	Sen. Pridemore, Rep. Fromhold, Matt Smith	Survivor benefits

Received by OSA	From	To	Subject
6/19/2007	WSSRA	At SCPP Meeting	TRS/PERS 1 uniform COLA adjustments
6/27/2007	Leslie Main (for WSSRA)	OSA	Amendment to PEBB enrollment 2nd chance request
7/5/2007	Various Constituents	OSA	Gain-sharing
6/29/2007	Ed Junbolm	SCPP	Questions regarding the legal status of the trust funds
7/16/2007	Don Bennett	SCPP	HECB staff option to participate in Higher Ed Retirement Plan
7/17/2007	Tom Pillow (for WSPTA)	SCPP	WSP survivor benefits
7/20/2007	Mike Paul	OSA	PERS 2 early retirement factors
7/25/2007	Tom Pillow (for WSPTA)	Rep. Conway	Economic assumptions
8/10/2007	Steve Davis (IBEW, Local 77)	SCPP	PERS 3
8/21/2007	Andrew Renggli	DRS/cc: SCPP	Appeal of DRS Corrective Action Dated Aug. 2, 2007
9/6/2007	John Kvamme	SCPP	Plans 2/3 Post-retirement employment
9/18/2007	Rep. Kevin Van De Wege	At SCPP Meeting	Placing Port of Walla Walla ARFF employees into LEOFF
9/22/2007	Richard Warbrouck RFFW	Rep. Conway	Survivor benefits
9/23/2007	Lorna Ovena, HR, DOC	Stakeholders	PSERS amendments



Retired Firefighters of Washington

15310 163rd Ct. SE
Renton, WA 98058-8122
425-226-3793
rfow@attbi.com

RECEIVED

OCT 22 2007

Office of
The State Actuary

Richard Warbrouck
President

Bob Burch
Secretary

October 19, 2007

The Honorable Representative Steve Conway
Chair, Select Committee on Pension Policy
PO Box 40606
Olympia, WA 98504-0600

The Honorable Senator Mark Schoesler
Vice Chair, Select Committee on Pension Policy
1588 East Rosenoff RD
Ritzville, WA 99169

Mr. Matthew Smith, State Actuary
Office of the State Actuary
PO Box 40914
Olympia, WA 98504-0914

Dear Representative Conway, Senator Schoesler, and Mr. Smith,

Subject: Chapter 41.18 RCW Firemen's Relief and Pensions---1955 ACT

As the interim meetings come to a close and the Select Committee on Pension Policy develops bills for the 2008 Legislative Session, we respectfully request that the two items we addressed in our June 13, 2007 letter be placed on the agenda for the November meeting.

In our June 13, 2007 letter we requested the Committee to consider an amendment to RCW 41.18.080 and RCW 41.18.100 the Firemen's Pension Fund to remove the remarriage penalty for the surviving spouse.

HB 1824 was introduced last session to correct this inequity. HB 1824 was passed by the House Appropriations Committee with a unanimous vote and passed the House 97-0 with one absent. The bill died in Senate Ways and Means at the cut-off.

We requested the Committee to consider an amendment to RCW 41.18.040 to provide an option for a retired firefighter who was married after retirement or less than five years before retirement for a survivor benefit.

The amendment to RCW 41.18.040 would create the same survivor option as was created with the passage of HB 2393 in 2002.

HB 2393 amended several pension statutes establishing a surviving spouse option for spouses of post retirement marriages. However RCW 41.18, the Firemen's Pension Fund was not included.

The members who select this survivor option will have their current pension actuarially reduced based on the age of the member and the age of the spouse.

I know the Committee has a very demanding agenda, however I feel that these two issues are pretty straight forward, easy to understand, have been discussed previously and will have little to no fiscal note. I would expect the debate between the committee members to be minimal.

Thank you for your consideration of this request.

Sincerely,

A handwritten signature in cursive script that reads "R.C. Warbrouck".

Richard C. Warbrouck



Retired Firefighters of Washington

15910 163rd Ct. SE
Renton, WA 98058-8122
425-226-3703
rffow@attbi.com

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JUN 14 2007

Richard Warbrouck
President

Office of
The State Actuary

Bob Burch
Secretary

June 13, 2007

The Honorable Senator Craig Pridemore
Chair, Select Committee on Pension Policy
PO Box 40449
Olympia, WA 98504-0449

The Honorable Representative Bill Fromhold
Vice Chair, Select Committee on Pension Policy
PO Box 40600
Olympia, WA 98504-0600

Mr. Matthew Smith, State Actuary
Office of the State Actuary
PO Box 40914
Olympia, WA 98504-0914

Dear Senator Pridemore, Representative Fromhold, and Mr. Smith,

Subject: Chapter 41.18 RCW Firemen's Relief and Pensions---1955 ACT

On behalf of the members of the Retired Firefighters of Washington I respectfully request that the Select Committee on Pension Policy consider an amendment to RCW 41.18.080 and RCW 41.18.100 to remove the remarriage penalty for the surviving spouse. Currently under RCW 41.18 there are three types of retirements. Each of these retirement classifications include a Survivor Benefit.

RCW 41.18.040 Retirement for Service

RCW 41.18.080 Retirement for disability not in the line of duty

RCW 41.18.100 Death in the line of duty or when retired with a service connected disability

Only RCW 41.18.040 Retirement for service allows the surviving spouse, most often a widow to continue to receive her pension if she remarries. RCW

spouse predeceases the retiree, the retiree's benefit will increase to the Standard Option (1) 100% benefit.

I realize that the Committee has a very busy schedule and several issues on the agenda, but I believe these issues are important and would create increased parity between systems.

I want to thank you in advance for your consideration of this request.

Sincerely,

A handwritten signature in cursive script that reads "R.C. Warbrouck".

Richard C. Warbrouck

41.18.080 and RCW 41.18.100 specifically state that the pension will be forfeited if and when the surviving spouse remarries.

As you can imagine this puts a surviving spouse in a very awkward situation:

1. Not to ever remarry
2. To remarry and forfeit her pension
3. To face a moral conflict and a choice to enter into a partner relationship which may put them in conflict with their religious faith and with members of their families

RCW 41.26 the LEOFF Law when passed also included a remarriage penalty provision. This statute was first amended to allow a surviving spouse to remarry without forfeiting their pension except for those who had dependent children.

RCW 41.26 was later amended to allow a surviving spouse with a dependent child to remarry without losing their pension, after it was pointed out that a surviving spouse with a disabled child would not be able to remarry for her entire life without losing her pension and in the event of HER death, the disabled child's pension.

We would also like the Committee to consider amending RCW 41.18.040.

We respectfully request the Committee to consider an amendment to RCW 41.18.040 to provide an option for a retired firefighter who was married less than five years before retirement or who married after retirement for a surviving spouse benefit.

The amendment to RCW 41.18.040 would create the same survivor option as was created by the passage of HB 2393 in 2002 for LEOFF I.

HB 2393 amended RCW 41.26 the Law Enforcement Officer and Firefighters Retirement System and created a surviving spouse option for spouses of post-retirement marriages.

HB 2393 established a new supplemental actuarial reduction type of survivor benefit for post retirement marriages. The member who exercises this option will have his/her current pension actuarially reduced based on the selected survivor option, full, half or one third and based on the age of the member and the age of the spouse.

A retiree who is married prior to the effective date of the bill has one year to designate their spouse as a survivor beneficiary following the adoption of this law. Currently, a post-retirement spouse is not eligible as a survivor beneficiary. This law does not affect benefits paid to eligible children. If the eligible surviving



STATE OF WASHINGTON
DEPARTMENT OF CORRECTIONS
P.O. Box 41100 • Olympia, Washington 98504-1100

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OCT 23 2007

Office of
The State Actuary

October 19, 2007

TO: Pension Policy Stakeholders

FROM: Lorna Ovena, Human Resources, Department of Corrections

**SUBJECT: PUBLIC SAFETY EMPLOYEES RETIREMENT SYSTEM (PSERS)
– BILL REVISION**

The Department of Corrections (DOC) is seeking comments on proposed legislation amending the eligibility requirements for membership in PSERS as set forth in RCW 41.37.020 and 41.27.210, and reenacting and amending RCW 41.37.010.

The revisions to the Public Safety Employees Retirement System would allow:

- A. Wider application so more employees would qualify for this benefit;
- B. Employees to remain in PSERS if they subsequently choose to accept a position into an otherwise ineligible position as long as the employee has been in PSERS for at least five years and is currently employed by the agency where the qualifying duties are performed;
- C. Employees to choose to remain in their current retirement system when moving from an ineligible to a PSERS eligible position;
- D. The unreduced retirement age to change from 60 to 58 years of age.

The proposed changes would ensure that PSERS is not a disincentive to promote or change careers in the DOC from a purely custody-related position (e.g. correctional officers) to a non-custody position (such as a classification counselor). An employee may make many job changes over the course of his/her career. We strongly believe our employees should have choices that benefit them financially. These changes will help the Department in its recruitment and retention efforts, a challenge with which we continue to struggle.

Please review the attached proposal, and share it with your members, as applicable. We welcome comments of support as well as concerns, submitted as specific detailed comments, which will enable us to make informed decisions as we pursue the legislative process.

“Working Together for SAFE Communities”

I would appreciate receiving your comments on this proposed legislation no later than Monday, November 5, 2007, by e-mail to ldovena@doc1.wa.gov.

The Department looks forward to receiving your comments.

Enclosure

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0694.2/08 2nd draft

ATTY/TYPIST: LL:cro

BRIEF DESCRIPTION: Addressing membership and retirement eligibility in
the public safety employees' retirement system.

AN ACT Relating to membership and retirement eligibility in the public safety employees' retirement system; amending RCW 41.37.020 and 41.37.210; and reenacting and amending RCW 41.37.010.

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

Sec. 1. RCW 41.37.010 and 2007 c 492 s 11 and 2007 c 294 s 1 are each reenacted and amended to read as follows:

The definitions in this section apply throughout this chapter, unless the context clearly requires otherwise.

(1) "Retirement system" means the Washington public safety employees' retirement system provided for in this chapter.

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

(3) "State treasurer" means the treasurer of the state of Washington.

(4) "Employer" means the Washington state department of corrections, the Washington state parks and recreation commission, the Washington state gambling commission, the Washington state patrol, the Washington state department of natural resources, and the Washington state liquor control board; any county corrections department; or any

city corrections department not covered under chapter 41.28 RCW.

(5) "Member" means any employee employed by an employer on a full-time basis:

(a) Who is in a position that requires completion of a certified criminal justice training course and is authorized by their employer to arrest, conduct criminal investigations, enforce the criminal laws of the state of Washington, and carry a firearm as part of the job;

(b) Whose primary responsibility is to ensure the custody and security of incarcerated or probationary individuals as a corrections officer, probation officer, or jailer;

(c) Who is a limited authority Washington peace officer, as defined in RCW 10.93.020, for an employer; ((or))

(d) Who works in a Washington state department of corrections prison or work release facility and supervises inmates or ensures custody and security of inmates as part of normal job duties;

(e) Whose primary responsibility is to supervise members eligible under (a) through (d) of this subsection; or

(f) Who, on or after July 1, 2006, worked in any position requiring performance of the qualifying duties and responsibilities set forth in (a) through (e) of this subsection, participated in the retirement system for at least five service creditable years, and is currently employed by the agency where the qualifying duties and responsibilities set forth in (a) through (e) of this subsection were performed.

(6)(a) "Compensation earnable" for members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

(b) "Compensation earnable" for members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement, which are awarded

or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided in this subsection, and the individual shall receive the equivalent service credit;

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

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

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

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.37.060;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(7) "Service" means periods of employment by a member on or after July 1, 2006, for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month.

Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(a) Service in any state elective position shall be deemed to be full-time service.

(b) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

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

(9) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(10) "Membership service" means all service rendered as a member.

(11) "Beneficiary" means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

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

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

(14) "Average final compensation" means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.37.290.

(15) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(16) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(17) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(18) "Retirement allowance" means monthly payments to a retiree or

beneficiary as provided in this chapter.

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

(20) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

(21) "Retirement" means withdrawal from active service with a retirement allowance as provided by this chapter.

(22) "Eligible position" means any permanent, full-time position included in subsection (5) of this section.

(23) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (22) of this section.

(24) "Leave of absence" means the period of time a member is authorized by the employer to be absent from service without being separated from membership.

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

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

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

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

(29) "Plan" means the Washington public safety employees' retirement system plan 2.

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

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

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

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

(34) "Separation from service" occurs when a person has terminated all employment with an employer.

Sec. 2. RCW 41.37.020 and 2005 c 327 s 5 are each amended to read as follows:

Membership in the retirement system shall consist of all regularly compensated public safety employees who are members as defined in RCW 41.37.010(5), with the following exceptions:

(1) Persons in ineligible positions;

(2)(a) Persons holding elective offices or persons appointed directly by the governor to statewide elective offices: PROVIDED, That such persons shall have the option of continuing membership during such periods of employment: AND PROVIDED FURTHER, That any persons holding or who have held elective offices or persons appointed by the governor who are members in the retirement system and who have, prior to becoming such members, previously held an elective office, and did not at the start of such initial or successive terms of office exercise their option to become members, may apply for membership to be effective during such term or terms of office, and shall be allowed to establish the service credit applicable to such term or terms of office upon payment of the employee contributions therefor by the employee with interest as determined by the director and employer contributions therefor by the employer or employee with interest as determined by the director: AND PROVIDED FURTHER, That all contributions with interest submitted by the employee under this subsection shall be placed in the employee's individual account in the employee's savings fund and be treated as any other contribution made by the employee, with the exception that any contributions submitted by the employee in payment of the employer's obligation, together with the interest the director may apply to the employer's contribution, shall not be considered part of the member's annuity for any purpose except withdrawal of contributions;

(b) A member holding elective office who has elected to apply for membership pursuant to (a) of this subsection and who later wishes to be eligible for a retirement allowance shall have the option of ending his or her membership in the retirement system. A member wishing to end his or her membership under this subsection must file on a form supplied by the department a statement indicating that the member agrees to irrevocably abandon any claim for service for future periods

served as an elected official. A member who receives more than fifteen thousand dollars per year in compensation for his or her elective service, adjusted annually for inflation by the director, is not eligible for the option provided by this subsection (2)(b);

(3) Retirement system retirees: PROVIDED, That following reemployment in an eligible position, a retiree may elect to prospectively become a member of the retirement system if otherwise eligible;

(4) Persons enrolled in state-approved apprenticeship programs, authorized under chapter 49.04 RCW, and who are employed by employers to earn hours to complete such apprenticeship programs, if the employee is a member of a union-sponsored retirement plan and is making contributions to such a retirement plan or if the employee is a member of a Taft-Hartley retirement plan;

(5) Persons rendering professional services to an employer on a fee, retainer, or contract basis or when the income from these services is less than fifty percent of the gross income received from the person's practice of a profession; ((and))

(6) Employees who (a) are not citizens of the United States, (b) are not covered by chapter 41.48 RCW, (c) are not excluded from membership under this chapter or chapter 41.04 RCW, (d) are residents of this state, and (e) make an irrevocable election to be excluded from membership, in writing, which is submitted to the director within thirty days after employment in an eligible position;

(7) Employees participating in the Washington public employees' retirement system under chapter 41.40 RCW, who (a) on or after the effective date of this section, accept a position with an employer requiring them to perform the qualifying duties and responsibilities as defined in RCW 41.37.010(5) (a) through (e); and (b) within ninety days of their appointment, make an irrevocable election to remain in the Washington public employees' retirement system. At the end of ninety days, if the member has not made a choice to remain in the public employees' retirement system, he or she becomes a member of the public safety employees' retirement system. For administrative efficiency, until a member elects to remain a member of the public employees' retirement system or becomes a member of the public safety employees' retirement system by default, the member shall be reported to the department in the public employees' retirement system; and

(8)(a) An employee of the department of corrections who was a

member of the public employees' retirement system plan 2 or plan 3 before July 1, 2008, and on July 1, 2008, is performing the duties as defined in RCW 41.37.010(5) (d) or (e), has the following options during the election period defined in (b) of this subsection:

(i) Remain in the public employees' retirement system; or

(ii) Become a member of the public safety employees' retirement system plan 2 and be a dual member as provided in chapter 41.54 RCW, and public employees' retirement system service credit may not be transferred to the public safety employees' retirement system.

(b) The election period is the period between July 1, 2008, and September 30, 2008. During the election period, department of corrections employees remain members of the public employees' retirement system plan 2 or plan 3 until they elect to join the public safety employees' retirement system. Members who elect to join the public safety employees' retirement system as described in this subsection will have their membership begin prospectively from the date of their election.

(c) If after September 30, 2008, an employee has not made an election to join the public safety employees' retirement system, he or she will remain in the public employees' retirement system plan 2 or plan 3.

Sec. 3. RCW 41.37.210 and 2004 c 242 s 27 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to RCW 41.37.190.

(2) UNREDUCED RETIREMENT. Any member who has completed at least ten service credit years in the public safety employees' retirement system and has attained age (~~sixty~~) fifty-eight shall be eligible to retire and to receive a retirement allowance computed according to RCW 41.37.190.

(3) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age (~~fifty-three~~) fifty-one shall be eligible to retire and to receive a retirement allowance computed according to RCW 41.37.190, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference

in the number of years between age at retirement and the attainment of age ((~~sixty~~) forty-eight).

C. Today's Full Committee Agenda

Select Committee on Pension Policy

Regular Committee Meeting

November 13, 2007
9:30 a.m. - 12:30 p.m.
Senate Hearing Room 4
Olympia

AGENDA

- 9:30 a.m. (1) **Approval of Minutes**
- 9:35 a.m. (2) **Survivors of PERS 1 Inactive Members**, Darren Painter, Policy Analyst
- 9:45 a.m. (3) **TRS and SERS 2/3 "Half-Year Contracts"**, Laura Harper, Policy and Research Services Manager
- 10:05 a.m. (4) **HECB Proposal**, Laura Harper
- 10:35 a.m. (5) **Retiree Access to PEBB - Stakeholder Proposals**
a) John Kvamme
b) Leslie Main
- 11:05 a.m. (6) **Salary Bonuses in TRS**, Dave Nelsen, Senior Policy Analyst
- 11:45 a.m. (7) **LEOFF Eligibility for Ports**, Dave Nelsen

POSSIBLE EXECUTIVE SESSION

- 12:10 p.m. (8) **Plan 3 Vesting**, Laura Harper
- 12:15 p.m. (9) **Survivors of PERS 1 Inactive Members**, Darren Painter
- 12:20 p.m. (10) **Indexed \$150,000 Death Benefit**, Darren Painter
- 12:30 p.m. (11) **Adjourn**

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

***Representative Steve Conway,**
Chair

Representative Larry Crouse

Charles E. Cuzzetto
TRS and SERS Employers

***Randy Davis**
TRS Actives

Representative Bill Fromhold

Senator Janea Holmquist

Robert Keller
PERS Actives

***Sandra J. Matheson**, Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Ed Murray

***Glenn Olson**
PERS Employers

Senator Craig Pridemore

***Senator Mark Schoesler,**
Vice Chair

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

*** Executive Committee**

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

E. Direction on Today's Issues

Direction on Today's Issues

Issue

- (2) Survivors of PERS 1 Inactive Members
- (3) TRS and SERS 2/3 "Half-Year Contracts"
- (4) HECB Proposal
- (5) Retiree Access to PEBB - Stakeholder Proposals
- (6) Salary Bonuses in TRS
- (7) LEOFF Eligibility for Ports

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Washington State School Retirees Association

4726 Pacific Ave. SE

Lacey, WA 98503-1216

PHONE (360) 413-5496

Testimony before the Select Committee on Pension Policy (SCPP)

November 13, 2007

Re: "2nd Chance" Public Employees Benefits Board (PEBB) Enrollment Window

Honorable Chair and Committee members, for the record my name is Leslie Main. I represent the approximately 16,000 members of the Washington State School Retirees' Association (WSSRA). WSSRA thanks you for the opportunity to offer testimony on proposed legislation to provide a "2nd chance" PEBB enrollment window for K-12 and state employees retired by 1/01.

Most of the technical points of interest on this issue are addressed in the briefing paper, draft bill, and fiscal material provided to Committee members. However, WSSRA would like to offer the following observations for your consideration:

- As reflected in the Health Care Authority's (HCA) *1998 Retiree Access Study*, this issue has been a major concern for many years. One of the Study's Guiding Principles was to, "*Ensure that PEBB eligibility rules are logical and easy to communicate, so that former employees do not inadvertently terminate their options for coverage through misunderstandings or lack of awareness of these policies.*" This was an acknowledgement by the HCA that efforts to inform retirees of the PEBB eligibility criteria had been inadequate.
- The PEBB's establishment of administrative rules allowing retirees to defer PEBB coverage (WAC 182-12-205) was an acknowledgement of the need for retirees to have the ability to defer PEBB enrollment. From the perspective of many school retirees, the only difference between one who retired before 1/01 and one who retired after 1/01 and had the ability to formally defer PEBB enrollment, is that the latter retirees submitted a form to the HCA indicating their desire to defer PEBB coverage. Under the proposal currently under consideration, pre-1/01 retiree would be held to the same previously eligible and strict continuity of care eligibility requirement as post-1/01 retirees.
- The state receives a financial benefit from offering retiree access to the PEBB in two important ways:
 1. Under the *Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003* P.L. 108-173 et seq., the state receives a federal Retiree Drug Subsidy (RDS) from the Center for Medicare Services (CMS) for every Medicare-eligible retiree enrolled in a PEBB plan that offers a retiree prescription drug benefit that is considered "creditable coverage." Creditable coverage means that retiree drug benefit provided through the PEBB is as good or better than that available through Medicare Part D. There is no direct offsetting expenditure to PEBB programs for the RDS revenue the state receives. Instead, the funds are primarily placed in the Health Services Account. The HCA recently estimated that the revenue to the state from the CMS RDS would be \$496 per retiree per year (or \$41.33 per retiree per month) in CY '09.

When the legislature granted the PEBB authority to participate in the RDS in 2005, it was estimated by actuaries at Mercer Human Resources Consulting that the RDS would amount to approximately \$52 per member per month in calendar year '05 and \$60 in calendar year '06. The HCA's recent estimates regarding the RDS revenues can only be definitively assessed with further actuarial assessment of the impacts of this proposal that would take place as it progresses through the legislative process. It's important to acknowledge the increased revenue the state would realize from the RDS with increased retiree enrollment in the PEBB. Using the HCA projections on this proposal for CY '09 (without any trend increase for CY '10), WSSRA estimates the following revenue total from the CMS RDS for the first year of PEBB coverage by Medicare retirees projected to utilize the "2nd chance" enrollment window:

14,016	Medicare eligible K-12 and state retirees projected to use the "2 nd chance" window.
- 1,401	10% Medicare eligible retirees who don't belong to PEBB plans Medicare part D creditable coverage.
12,615	Total number of new Medicare eligible enrollees projected to provide state with additional CMS RDS.
x \$496	The projected per member per year revenue for Medicare eligible PEBB enrollees.
\$6,257,040	Total estimated CMS RDS revenues to the state for the first year of PEBB coverage of Medicare retirees projected to utilize the "2 nd chance" enrollment window.

2. In July of 2006 The Perryman Group produced its report , *Healthy Minds and Bodies: The Impact of Health Care Benefits Paid by the Teacher Retirement Systems of Texas (TRS) on Business Activity in Texas, Its Regions, Metropolitan Areas, and Counties*. The Texas study found that TRS retiree health plans are a significant source of economic stimulus, as well as an important source of benefits to retired educators. **The spending generated by the TRS-Care plan for retired members results in annual gains of almost \$54 million in State fiscal revenues and more than \$11 million to various local governments. These funds represent a substantial offset to the State contributions to the system (more than 20%). Thus, the dynamic gains to the Texas economy relative to fiscal outlay are greatly enhanced.** Moreover, along with TRS pension benefits, TRS retiree health benefits provide an essential mechanism for assuring the long-term financial security of retired teachers. These effects contribute notably to the attractiveness and stability of the teaching profession.

As a reminder, in order to gain support for this proposal, retirees have agreed to the following provisions:

1. The "2nd chance" window is provided only to those retired or disabled K-12 and state employees who were receiving a pension benefit as of 1/1/01, when the opportunity to defer PEBB retiree coverage began.
2. Eligibility for the "2nd chance" window is consistent with current WAC regarding continuity of care.
3. The "2nd chance" enrollment window is delayed until 2010 in order to accommodate HCA concerns regarding their ability to implement this proposal while maintaining quality service for current PEBB enrollees.

Who among us, be they individuals, committees, advocates, or state agencies haven't needed, and indeed deserved, a second chance at something at some point in time. NOW IS THE TIME FOR THE "2ND CHANCE" PEBB ENROLLMENT WINDOW. Officials in Washington State government, be it the executive or legislative branch can often be heard speaking of the need to support our state's educators and public employees; to value the contributions our state's senior citizens make to our communities; and to make legislative changes in an incremental fashion. If one considers such comments from policy makers over recent months, one would think that this "2nd chance" PEBB enrollment window proposal would likely receive a positive reception before the legislature.

WSSRA requests that the SCPP put forth this "2nd chance" PEBB enrollment window proposal as SCPP request legislation during the 2008 Session. We understand that just because a bill is put forth by the SCPP does not guarantee its enactment by the legislature. However, it does send the authoritative message that the Committee recognizes the need for the issue to be addressed and the merits of the proposal's policy content. **Thank you for your attention to this important issue.**

Leslie Main

WSSRA Legislative Coordinator
360-413-5496

F. PERS to SERS Auto- Transfer

In Brief

ISSUE

The membership and service credit of certain PERS 2 members is being automatically transferred to SERS. This transfer, which was designed to move classified school employees to SERS when the system was first opened, occurs even if the member's primary career is unrelated to school employment.

The statutes governing the transfer of PERS membership to SERS may be impacting members that the Legislature did not intend to impact. Further, the open-ended nature of the "auto-transfer" may lead to unintended consequences in future years.

MEMBER IMPACT

On average, nearly 50 PERS 2 members a month have their membership and service credit transferred to SERS.

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

PERS to SERS Auto-Transfer

Current Situation

There are statutory provisions to automatically transfer the membership and service credit of certain Public Employees' Retirement System (PERS) Plan 2 members to the School Employees' Retirement System (SERS) Plan 2. Affected members have their PERS membership and service credit automatically transferred to SERS if they become employed in a SERS eligible position*. PERS 2 members currently being affected by the SERS "auto-transfer" provisions if they become employed in a SERS eligible position* include:

- Members who first entered PERS employment after SERS was opened.
- Members who were working for non-educational employers when SERS was opened.
- Members who left or retired from PERS employment prior to the opening of SERS.
- Members whose last employment was for a school district or educational district and who retired from PERS 2 prior to the opening of SERS and opt to re-establish membership.

A PERS 2 member's service and membership will only be automatically transferred to SERS one time – even if the member alternates between PERS and SERS positions throughout their career in public service.

**Or establish membership in SERS as a substitute employee*

Examples

Example 1: School employee with break in service

A PERS 2 member employed by a school district leaves employment after five years of service and prior to the opening of SERS. Two years later the member returns to an eligible position in a school district. The member's five years of prior PERS 2 service are automatically transferred to SERS 2.

PERS members taking a part-time SERS job for the first time have their PERS membership automatically transferred to SERS.

Example 2: County employee taking a part-time SERS job

A county employee with 15 years of service in PERS 2 takes an additional part-time job with a school district to earn extra money. This is the first time the member has held a SERS-eligible position. Because the member is now employed in a SERS-eligible position, his PERS membership and 15 years of PERS service are automatically transferred to SERS. Any future service rendered for the county remains in PERS.

Procedural History

The full SCPP received a briefing on this issue at its September 18, 2007, meeting. At the same meeting the executive committee discussed this issue and requested a bill draft that would discontinue the auto-transfer prospectively and allow members who had no prior educational service and were auto-transferred to SERS Plan 2 the opportunity to transfer that service back to PERS Plan 2. A fiscal note for the proposal was also requested.

Bill Draft

A bill draft is included.

Draft Fiscal Note

A fiscal note is included.

STAKEHOLDER INPUT

This issue was brought to the SCPP by DRS.

Next Steps

The Executive Committee will provide further direction, including whether or not to forward this issue to the full committee for possible executive action.

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Dave Nelsen 360.786.6144
Office of the State Actuary
October 18, 2007 (8:50 AM)

1 AN ACT Relating to the transfer of public employees' retirement
2 system plan 2 members to the school employees' retirement system plan
3 2; and amending RCW 41.40.750.

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

5 **Sec. 1.** RCW 41.40.750 and 2001 2nd sp.s. c 10 s 13 are each
6 amended to read as follows:

7 (1) Effective September 1, 2000, the membership of all plan 2
8 members currently employed in eligible positions in a school district
9 or educational service district and all plan 2 service credit for such
10 members, is transferred to the Washington school employees' retirement
11 system plan 2. Plan 2 members who have withdrawn their member
12 contributions for prior plan 2 service may restore contributions and
13 service credit to the Washington school employees' retirement system
14 plan 2 as provided under RCW 41.40.740.

15 (2) (a) The membership and previous service credit of a plan 2
16 member not employed in an eligible position on September 1, 2000, will
17 be transferred to the Washington school employees' retirement system

1 plan 2 when he or she becomes employed in an eligible position prior to
2 July 1, 2008. Plan 2 members not employed in an eligible position on
3 September 1, 2000, who have withdrawn their member contributions for
4 prior plan 2 service may restore contributions and service credit to
5 the Washington school employees' retirement system plan 2 as provided
6 under RCW 41.40.740, if they first establish eligibility in the
7 Washington school employees' retirement system plan 2 prior to July 1,
8 2008.

9 (b) The membership and previous service credit of a plan 2 member
10 last employed by a school district or educational service district and
11 retired prior to September 1, 2000, will be transferred to the
12 Washington school employees' retirement system plan 2 if the member
13 opts to reestablish membership prior to July 1, 2008.

14 (3) Members who restore contributions and service credit under
15 subsection (1) or (2) of this section shall have their contributions
16 and service credit transferred to the Washington school employees'
17 retirement system.

18 (4) From September 1, 2008 to November 30, 2008, upon written
19 request to the Department, members and former members transferred under
20 subsection 2 of this section who did not establish membership and earn
21 service credit for employment with a school district or educational
22 service district prior to the transfer, and who have not transferred to
23 plan 3 of the Washington school employees' retirement system or plan 3
24 of the public employees' retirement system, may restore their
25 transferred membership and previous service credit to plan 2. All
26 previously transferred contributions and interest, and additional
27 interest as determined by the Department, shall be returned to plan 2.
28 An additional amount shall be transferred from the Washington school
29 employees' retirement system sufficient to offset the liabilities
30 returned to plan 2 under this subsection, as determined by the State
31 Actuary.

32

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:

CODE:

DATE:

PROPOSAL NAME:

Office of the State Actuary

035

10/31/2007

PERS to SERS Auto-Transfer

INTENDED USE

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

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

EXECUTIVE SUMMARY

This proposal gives certain PERS members who were automatically transferred to SERS the option to move their service and associated savings funds back to PERS. This proposal specifies that there will be an additional transfer of assets from SERS to PERS to offset the liability transferred to PERS.

This proposal would result in liabilities of about \$21.2 million being transferred from PERS to SERS. The increase in liability would be offset by corresponding transfers of savings funds and additional assets from SERS to PERS totaling \$9.6 million and \$11.6 million, respectively. This proposal will not affect the contribution rates of either PERS or SERS because the liabilities transferred are fully offset by the assets transferred.

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

SUMMARY OF PROPOSAL

This proposal impacts the Public Employees' Retirement System (PERS) Plan 2 and the School Employees' Retirement System (SERS) Plan 2 by amending RCW 41.40.750 to do the following:

- Discontinue the automatic transfer of prior PERS Plan 2 service to SERS Plan 2 upon employment in a SERS eligible position. Prior PERS Plan 2 members hired

into SERS eligible positions after the effective date of the proposal will be dual members under the provisions of Chapter 41.54 RCW.

- Discontinue the requirement to restore withdrawn prior PERS Plan 2 service within the SERS Plan 2 system. Restorations for members hired after the effective date of the proposal will occur under the dual membership provisions of Chapter 41.54 RCW.
- Discontinue the automatic transfer of prior PERS Plan 2 service to SERS Plan 2 for former educational PERS Plan 2 members who retired prior to 9/1/2000 and opted into membership upon return to work in a SERS eligible position.
- Provide a three month window for current and former SERS Plan 2 members to choose to reverse the transfer of prior PERS Plan 2 service and member account if they had only non-educational PERS Plan 2 service and member account automatically transferred after September 1, 2000. An additional transfer of funds from the SERS Plan 2 fund to the PERS Plan 2 fund will occur to offset the liability transferred to PERS under this proposal.

Assumed Effective Date: 90 days following session

CURRENT SITUATION

The provisions of RCW 41.40.750 provide the following:

- All prior PERS Plan 2 members hired into SERS eligible positions after 9/1/2000 have their PERS Plan 2 membership automatically transferred to SERS Plan 2.
- SERS Plan 2 members who have withdrawn prior PERS Plan 2 service must restore that service in SERS Plan 2.
- Educational PERS Plan 2 members that retired prior to 9/1/2000 and opt into membership upon employment in a SERS eligible system will have their prior service in PERS Plan 2 transferred to SERS Plan 2.

SUMMARY OF MEMBERS IMPACTED

We estimate that of the 5,342 PERS members who have had service transferred to SERS after 9/1/2000, 3,068 would be affected by this proposal by having the ability to move their service and associated savings funds back to PERS. These members could be actives, terminated vested members or Terminated Non-Vested (TNV) members. TNV members are only entitled to receive their contributions with interest.

We estimate that for a typical member impacted by this proposal, there would not be an increase in benefits because the benefits for Plan 2 members in PERS and SERS are virtually identical. The only difference between the benefits in PERS 2 and SERS 2 is the availability of a 200 percent refund of contributions benefit for PERS 2 members who interrupt their PERS service to join the uniformed services and are subsequently killed while on active duty.

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

PURPOSE

The purpose of this pricing exercise is to estimate the amount of the additional transfer of funds from SERS 2 to PERS 2. This amount should be enough to ensure that contribution rates remain constant in both plans as a result of this proposal. The transfer of service from SERS 2 to PERS 2 will result in a liability decrease in SERS and a liability increase in PERS. This liability is the value in today's dollars of all the future benefit payments expected to be paid as a result of the service transferred. Also transferred from SERS 2 to PERS 2 is the accumulated value of the member contributions paid at the time the transferred service was earned. This asset transfer will result in a decrease in SERS assets and an increase in PERS assets.

The difference between the liability transferred and the assets transferred will be positive. That is, the liability transferred will be more valuable than the assets transferred. There are a couple of reasons for this. First, only the member contributions are being transferred and not the employer contributions. Also, the interest credited to the savings funds is 5.5 percent whereas the liabilities are calculated assuming 8 percent interest. This difference in credited and assumed interest implies that the assets will never accumulate in the member's saving fund at a high enough rate to cover the projected liabilities.

The positive difference between the transferred liability and assets is the additional amount that is required from the SERS assets to ensure that contribution rates are not affected in either plan. The next section explains the methods used to calculate the value of the transferred liability and assets.

METHODS

We used an individual annuity factor model to determine the liability associated with the service being transferred from SERS to PERS. The total liability being transferred is the sum of the individual liabilities. The data used to calculate the liability was received from the Department of Retirement Systems (DRS) listing all the members who have had service transferred since 9/1/2000. For a description of the evaluation of the data please see the Data section below. For each member we determined their current age, their current total service and salary, and their projected service at retirement. The number of months of service credit transferred, the savings fund, and the date of transfer were provided in the data.

We used the SERS salary inflation, salary merit, AFC calculation, and mortality assumptions described below to create the following factors:

- Pay Factor – based on the member's current service earned to date.
- Average Final Compensation (AFC) Factor – based on the member's projected service at retirement.
- Annuity Factors – deferred to age 65 life-annuity factors with a 3 percent cost of living adjustment after the deferral period.

- Credited Projected Benefits (CPB) Factor – calculated using the other factors as follows:

$$(\text{AFC Factor} \times \text{Annuity Factor}) / \text{Pay Factor}$$

The liability for each individual is the product of their service transferred times the 2 percent plan accrual rate times their current salary times their calculated CPB factor.

For Terminated Non-Vested (TNV) members the result of the calculation just described is a liability of zero. This is because these members are not reported with a salary. Their liability was set equal to the value of their transferred contributions with interest accumulated to September 30, 2006, the most recent valuation date.

The value of the assets transferred from SERS 2 to PERS 2 is the sum of the individual member savings funds with interest. The original savings fund values transferred to SERS from PERS were reported in the data from DRS along with the dates the individual transfers took place. We applied the 5.5 percent interest rate to determine the savings fund values as of the valuation date. The data file from DRS was prepared after the valuation date; therefore, some of the members had their savings funds discounted back to the valuation date.

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

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

ASSUMPTIONS

We assumed no pre-retirement terminations or disability. That is, we assumed that each member would retire at age 65, or if the member is older than age 65, we assumed they would retire immediately. The deferred annuity factors were calculated using SERS 2 mortality regardless of whether the member had previously resumed employment in PERS. This would only affect female members. Male members are assumed to have the same mortality in PERS and SERS, whereas female members in SERS are assumed to have the same mortality as female PERS members who are two years older. For example a 37 year old SERS female is expected to have the same mortality as a 35 year old PERS female.

We assumed that all members would elect to transfer their eligible service from SERS back to PERS.

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

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

DATA

DRS provided a data file containing records for the 5,342 members who have been automatically transferred from PERS to SERS since 9/1/2000. This data file contained the months of service, the savings fund balance transferred for each member, the date the service and savings funds transferred, and some additional fields identifying the plans in both PERS and SERS the members were in and whether or not the member had prior service in PERS for an educational employer. We relied upon this data as complete and accurate. We merged this data file with the PERS and SERS 2006 valuation data to determine the current status, current salary, and total service of each employee in the data file.

Of the 5,342 records in the data file, 2,274 were excluded from this pricing for the following reasons:

- One of the members plans transferred to or from was a Plan 3.
- The member had previous service in PERS under an educational employer.
- The member did not have any current data in the PERS or SERS 2006 valuation data. This implies the member either terminated and withdrew their service, or transferred to a different system, or entered the PERS and was automatically transferred to SERS after the valuation date. In any case we did not include these members because we could not accurately value their liability or savings funds.

The following table summarizes the number of records excluded by cause. Some of the records were identified as not being eligible for more than one reason; therefore, the counts in the table total to more than the 2,274 records excluded from this pricing.

Reason for exclusion	Total Count Excluded by Reason	Additional Records Excluded when Reasons are Taken in Order (top to bottom)
Member of a Plan 3	413	413
Prior PERS Educational Service	1,877	1,687
No data in any system	256	183
Total	2,546	2,274

Otherwise, costs were developed using the same data and assets as those disclosed in the AVR.

FISCAL IMPACT

Description

The total liability estimated to transfer from SERS to PERS under this proposal exceeds the estimated total savings funds. Therefore there will be an additional transfer of assets from SERS to PERS to ensure contribution rates in both systems are unaffected by this proposal.

Actuarial Determinations

The total liability we expect to be transferred to PERS from SERS is \$21.2 million. The total savings funds we expect to be transferred are \$9.6 million. The resulting difference of \$11.6 million is the amount that would need to be transferred from SERS to PERS to ensure liabilities transferred are offset. The following table summarizes these results.

	Table 2 – Summary of Liabilities and Assets Expected to be Transferred	
	System/Plan	
<i>(Dollars in millions)</i>	PERS 2	SERS 2
Liability change	\$21.2	-\$21.2
Savings Fund asset change	9.6	-9.6
Additional asset change	11.6	-11.6
Change in Unfunded Liability	\$0.0	\$0.0

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

Sensitivity Analysis

Specific sensitivity tests were not performed for this pricing. The liabilities and assets calculated for this draft fiscal note are heavily dependent on the number of members transferring service from SERS back to PERS. If half of the 2,274 members elect to transfer service back to PERS, we would expect the liabilities and assets to be about half of the values displayed in Table 2.

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

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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

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

G. PERS 1 Window Under SHB 1067

In Brief

ISSUE

The issue before the SCPP is whether to recommend or endorse legislation to open a 90-day window during which certain individuals currently employed by the Public School Employees of Washington (PSE) who were previously members of TRS 1 can become members of PERS 1.

MEMBER IMPACT

The 2007 fiscal note for this proposal estimated that two members would be impacted by the change.

PERS 1 Window Under SHB 1067

Current Situation

Currently a Public School Employees of Washington (PSE) employee who is seeking to join the Public Employees' Retirement System (PERS) for the first time has no avenue for membership. In PERS 1 there are slightly more than 100 employees who work for unions and private associations and are advocates for public employees. The PERS 1 definition of "employer" is broad and includes entities such as the PSE. However, PERS 1 is a closed plan, so new employees of the PSE cannot join PERS 1 unless they have prior PERS 1 membership service. Also, they cannot join PERS 2 or 3 because the definition of employer specifically excludes such groups. Thus, special legislation would be required to allow PSE employees into PERS at this time.

The proposal seeks to temporarily open PERS 1, which is a closed plan. During the open window, certain PSE employees who were previously members of TRS 1 and would not otherwise be eligible to join PERS would have the opportunity to join. Once in the plan, such members could accrue service credit in PERS 1 based on their continued employment. These members would then be entitled to increase their retirement benefits accordingly and retire as dual members under the portability provisions of state law.

History

The SCPP heard this issue in 2005 and decided not to recommend or endorse this legislation. HB 1067 was introduced during the 2007 legislative session, but it was not sponsored or endorsed by the SCPP. The bill was amended in the House to delete its emergency clause. The bill passed the House but did not receive a hearing in the Senate.

Policy Preview

The IRS contemplates that public employees' retirement systems include only governmental employees in order to

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

be “qualified” under Internal Revenue Code Section 401(a). (Plan qualification is necessary in order to assure tax advantages for participants.) This IRS requirement may have been considered when the definition of employer was tightened for the Plans 2 and 3 such that unions and associations are no longer covered.

The IRS has recognized on occasion that a *de minimus*, or very small number, of non-public employees in a public plan will not ordinarily defeat plan qualification. However, there is no definitive rule as to how many employees are considered to be *de minimus*. Ultimately the question is answered by the IRS on a plan-by-plan basis in response to a request by the plan sponsor. An opinion of tax counsel would be useful in determining whether a specific plan amendment would be consistent with IRS requirements.

Bill

A copy of SHB 1067(2007) is attached.

Fiscal Note

A copy of the fiscal note for SHB 1067 (2007) is attached.

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SUBSTITUTE HOUSE BILL 1067

State of Washington 60th Legislature 2007 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Haigh, Priest, Conway, Fromhold, Green, Ericks, Simpson, Kenney and B. Sullivan)

READ FIRST TIME 01/30/07.

1 AN ACT Relating to membership in plan 1 of the public employees'
2 retirement system; and adding a new section to chapter 41.40 RCW.

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

4 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.40 RCW
5 under the subchapter heading "plan 1" to read as follows:

6 (1) Beginning July 1, 2007, and ending September 30, 2007, an
7 eligible member of plan 1 of the teachers' retirement system may make
8 a one-time irrevocable election, filed in writing with the department,
9 to leave any service credit earned as a member of plan 1 of the
10 teachers' retirement system in that system and join plan 1 of the
11 public employees' retirement system. An eligible member who makes such
12 an election may, upon satisfying the requirements of chapter 41.54 RCW,
13 become a dual member of the two systems in order to combine service in
14 each system for the purpose of determining benefit eligibility.

15 (2) For the purpose of this section, an "eligible member" means a
16 member of plan 1 of the teachers' retirement system who, at the time of
17 election, has at least ten and not more than twenty years of service

1 credit in that system and who is employed by the public school
2 employees of Washington.

--- END ---

Multiple Agency Fiscal Note Summary

Bill Number: 1067 S HB	Title: TRS & PERS
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Estimated Cash Receipts

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

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

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Total	0.0	\$0	\$0	0.0	\$0	\$0	0.0	\$0	\$0

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

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Prepared by: Jane Sakson, OFM	Phone: 360-902-0549	Date Published: Final 2/ 5/2007
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

Individual State Agency Fiscal Note

Bill Number: 1067 S HB	Title: TRS & PERS	Agency: 035-Office of State Actuary
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

FUND					
Total \$					

Estimated Expenditures from:

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

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

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 02/01/2007
Agency Preparation: Robert Baker	Phone: 360-786-6144	Date: 02/01/2007
Agency Approval: Matthew M. Smith	Phone: 360-786-6140	Date: 02/02/2007
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/02/2007

Part II: Narrative Explanation

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

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

II. B - Cash receipts Impact

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

II. C - Expenditures

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

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
Total:					

Part IV: Capital Budget Impact

Part V: New Rule Making Required

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

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	2/1/07	SHB 1067

INTENDED USE

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

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

SUMMARY OF BILL

This bill impacts the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) by allowing a member of TRS 1 who has at least 10 but not more than 20 years of service in TRS 1, and who is employed by the Public School Employees of Washington (PSE), to join PERS 1 during an election window from July 1, 2007 through September 30, 2007, and become a dual member of TRS 1 and PERS 1.

Effective Date: 90 days after session

The original bill differed from the substitute bill in that it had an emergency clause and an effective date of July 1, 2007.

CURRENT SITUATION

PERS 1 has been closed to new membership since September 30, 1977.

Several public employee representative organizations, including the PSE, are PERS 1 employers.

IRS regulations require that public employee retirement systems include only governmental employees in order to maintain their plan's status as "qualified" under Internal Revenue Code Section 401(a). PERS 1 is currently qualified. It is unknown whether an increase in the number of non-governmental members would impact the plan's qualification status or whether a de minimus number of non-governmental employees is allowable. PERS 2/3 avoided this issue by specifically excluding these employers.

RCW 41.04.270 prohibits a member or former member with 15 or more years of service from becoming a member or establishing rights in another DRS-administered retirement system if the member is retired, eligible to retire, or receives a disability allowance from a public retirement system.

SUMMARY OF MEMBERS IMPACTED

We estimate that 2 members of TRS Plan 1 would be affected by this bill.

We estimate that for a typical member impacted by this bill, the increase in benefits would be the prospective service credit earned in PERS 1 and the ability to use the more current PERS 1 base salary for determining the retirement benefit from TRS 1. At most, a member could gain 20 years of service credit toward their benefit calculation. Both the member and the employer pay additional contributions for the prospective service credit earned.

METHODS

It was not necessary to develop new methods to price this bill. The methods used are the same 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

It was not necessary to develop new assumptions for this bill. Assumptions used continue to be 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

We relied upon data from PSE to estimate the number of members affected by this bill.

FISCAL IMPACT

There is a cost associated with this proposal, but it is insufficient to impact contribution rates.

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

Sensitivity Analysis

The number of people eligible for this benefit would have to be significantly higher to impact employer contribution rates in PERS/TRS.

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: 1067 S HB	Title: TRS & PERS	Agency: 124-Department of Retirement Systems
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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: 02/01/2007
Agency Preparation: Dave Nelsen	Phone: (360) 664-7304	Date: 02/05/2007
Agency Approval: Marcie Frost	Phone: (360)664-7224	Date: 02/05/2007
OFM Review: Doug Jenkins	Phone: 360-902-0563	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.

This substitute bill will allow certain Teachers' Retirement System (TRS) Plan 1 members who are employed by the Public School Employees of Washington a one-time option to join the Public Employees' Retirement System (PERS) Plan 1 between July 1, 2007 and Sept 30, 2007.

This change, as well as the removal of the emergency clause in the substitute bill, does not have a fiscal impact on the Department of Retirement Systems.

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.

No impact.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

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

No impact.

H. Post-Retirement Employment Under EHB 2391

In Brief

ISSUE

The proposal is to delete the provision of law that forbids those retiring under newly improved alternate early retirement provisions from utilizing post-retirement employment benefits until they reach age 65.

MEMBER IMPACT

The prohibition impacts members of Plans 2 and 3 of PERS, TRS, and SERS who will be eligible for alternate early retirement on or after July 1, 2008.

Post-Retirement Employment Under EHB 2391

Current Situation

EHB 2391(2007) provides that beginning July 1, 2008, members of the Plans 2 and 3 of PERS, TRS and SERS who have completed at least 30 years of service and who have attained age 62 may retire with unreduced benefits. In addition, those with 30 years of service who are at least 55 but not yet 62 may retire with improved early retirement reduction factors. The law providing these benefits includes a specific provision prohibiting members retiring under the new provisions from receiving their pension while participating in any post-retirement public employment prior to reaching age 65.

The current general post-retirement employment provisions found in these plans allow the following: after a thirty day waiting period, members may return to work in an eligible position and continue to receive their retirement benefits without suspension while working. However, once they work 867 hours, their pension is suspended and will resume again on the last day of employment, or at the beginning of the calendar year, whichever comes first.

Policy Preview

The new prohibition on post-retirement employment was attached to the provisions of EHB 2391(2007) that improved the early retirement options for members retiring on or after July 1, 2008; yet post-retirement employment is currently allowed for members who have retired under early or alternate early retirement provisions. So why was this line drawn? One can only infer legislative intent with respect to this change, as there is no official record of intent and the policy reasons are unstated.

This conflict between post-retirement employment and early retirement benefits, however, highlights a fundamental tension between the Plan 2/3 design and the consistent desire of members to advocate for a lower retirement age. The Plans 2/3 have an **age-based** design

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

that views the retirement benefit as something that is made available to members when they stop working. This approach typically seeks to retain workers in the system until they reach what is deemed an appropriate normal retirement age. Age-based plans tend to discourage or restrict post-retirement employment.

In contrast, **service-based** plans tie the retirement benefit less to age and more to the number of years worked. This plan design tends to view the retirement benefit as compensation for a career. The member is entitled to the pension after working a set number of years, regardless of age. This approach is more consistent with the design in the Plans 1. Such plans are more likely to allow or facilitate post-retirement employment. In keeping with that approach, the Plans 1 have more liberal post-retirement employment programs.

The two philosophies in play view the ability to work after retirement without suspension of pension benefits in two very different ways:

- 1) "They earned it, so why not?"
- 2) "It's double dipping."

Whether to eliminate the prohibition in the new law is a policy question that goes to fundamental questions about the purpose of a retirement benefit. Is the purpose of the benefit to reward a career or to provide security when the member stops working? Should members who retire earlier be able to come back to work shortly thereafter and draw their pension benefit?

If the benefit is to reward a career, the answer to allowing post-retirement employment might be yes. If the benefit is to provide security when the member stops working, then answer might be no. It is also possible to draw a line somewhere between the two positions. Where to draw the line depends on the needs and viewpoints of the various stakeholders: members, retirees, employers, policy-makers and taxpayers.

Attachments

The new Plan 2/3 provisions for alternate early retirement, which include the specific provisions prohibiting post-retirement employment, are attached.

Stakeholder Input / Bill Draft

A bill draft has been submitted by John Kvamme (attached). It would strike the prohibitions on post-retirement employment that were found in EHB 2391 (2007).

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RCW 41.32.765**Retirement for service.**

(1) **NORMAL RETIREMENT.** Any member with at least five service credit years of service who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760.

(2) **EARLY RETIREMENT.** Any member who has completed at least twenty service credit years of service who has attained at least age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) **ALTERNATE EARLY RETIREMENT.**

(a) Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(b) On or after September 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced as follows:

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

Any member who retires under the provisions of this subsection is ineligible for the postretirement employment provisions of RCW 41.32.802(2) until the retired member has reached sixty-five years of age. For purposes of this subsection, employment with an employer also includes any personal service contract, service by an employer as a temporary or project employee, or any other similar compensated relationship with any employer included under the provisions of RCW 41.32.800(1).

The subsidized reductions for alternate early retirement in this subsection as set forth in section 2, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection is noncontractual, and the legislature reserves the right to amend or repeal this subsection. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection, and upon receipt of the first installment of a retirement allowance computed under this subsection, the resulting benefit becomes contractual for the recipient. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then retirement benefits for any member who has completed at least thirty service credit years and has attained age fifty-five but has not yet received the first installment of a retirement allowance under this subsection shall be computed using the reductions in (a) of this subsection.

[2007 c 491 § 2; 2000 c 247 § 902; 1991 c 343 § 5; 1977 ex.s. c 293 § 4.]

Notes:

Benefits not contractual right until September 1, 2008 -- 2007 c 491: "The new benefits provided pursuant to sections 2(3)(b), 4(3)(b), 6(3)(b), and 8(3)(b), chapter 491, Laws of 2007 are not provided to employees as a matter of contractual right prior to September 1, 2008, and will not become a contractual right thereafter if the repeal of chapter 41.31A RCW is held to be invalid in a final

determination of a court of law. The legislature retains the right to alter or abolish these benefits at any time prior to September 1, 2008." [2007 c 491 § 15.]

Severability -- 2007 c 491: "If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected." [2007 c 491 § 18.]

Conflict with federal requirements -- 2007 c 491: "If any part of this act is found to be in conflict with a final determination by the federal internal revenue service that is a prescribed condition to favorable tax treatment of one or more of the retirement plans, the conflicting part of this act is inoperative solely to the extent of the conflict and with respect to the individual members directly affected. This finding does not affect the operation of the remainder of this act in its application to the members concerned. The legislature reserves the right to amend or repeal this act in the future as may be required to comply with a final federal determination that amendment or repeal is necessary to maintain the favorable tax treatment of a plan." [2007 c 491 § 14.]

Effective dates -- Subchapter headings not law -- 2000 c 247: See RCW 41.40.931 and 41.40.932.

Findings -- Effective dates -- 1991 c 343: See notes following RCW 41.50.005.

Effective date -- Severability -- Legislative direction and placement -- Section headings -- 1977 ex.s. c 293: See notes following RCW 41.32.755.

RCW 41.32.875 Retirement eligibility.

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

- (a) Completed ten service credit years; or
- (b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or
- (c) Completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

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

(3) ALTERNATE EARLY RETIREMENT.

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

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

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

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

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

[2007 c 491 § 4; 2006 c 33 § 1; 2000 c 247 § 903; 1996 c 39 § 6; 1995 c 239 § 113.]

Notes:

Benefits not contractual right until September 1, 2008 -- 2007 c 491: See note following RCW 41.32.765.

Severability -- Conflict with federal requirements -- 2007 c 491: See notes following RCW 41.32.765.

Effective dates -- Subchapter headings not law -- 2000 c 247: See RCW 41.40.931 and 41.40.932.

Effective dates -- 1996 c 39: See note following RCW 41.32.010.

Intent -- Purpose -- 1995 c 239: See note following RCW 41.32.831.

Effective date -- Part and subchapter headings not law -- 1995 c 239: See notes following RCW 41.32.005.

Benefits not contractual right until date specified: RCW 41.34.100.

RCW 41.35.420 Retirement eligibility.

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400.

(2) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT.

(a) Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(b) On or after September 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced as follows:

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

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

The subsidized reductions for alternate early retirement in this subsection as set forth in section 6, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection is noncontractual, and the legislature reserves the right to amend or repeal this subsection. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection, and upon receipt of the first installment of a retirement allowance computed under this subsection, the resulting benefit becomes contractual for the recipient. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then retirement benefits for any member who has completed at least thirty service credit years and has attained age fifty-five but has not yet received the first installment of a retirement allowance under this subsection shall be computed using the reductions in (a) of this subsection.

[2007 c 491 § 6; 2000 c 247 § 905; 1998 c 341 § 103.]

Notes:

Benefits not contractual right until September 1, 2008 -- 2007 c 491: See note following RCW 41.32.765.

Severability -- Conflict with federal requirements -- 2007 c 491: See notes following RCW 41.32.765.

Effective dates -- Subchapter headings not law -- 2000 c 247: See RCW 41.40.931 and 41.40.932.

RCW 41.35.680**Retirement eligibility.**

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

(a) Completed ten service credit years; or

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

(c) Completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

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

(3) ALTERNATE EARLY RETIREMENT.

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

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

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

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

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

[2007 c 491 § 8; 2006 c 33 § 2; 2000 c 247 § 906; 1998 c 341 § 209.]

Notes:

Benefits not contractual right until September 1, 2008 -- 2007 c 491: See note following RCW 41.32.765.

Severability -- Conflict with federal requirements -- 2007 c 491: See notes following RCW 41.32.765.

Effective dates -- Subchapter headings not law -- 2000 c 247: See RCW 41.40.931 and 41.40.932.

RCW 41.40.630**Retirement for service.**

(1) **NORMAL RETIREMENT.** Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620.

(2) **EARLY RETIREMENT.** Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) **ALTERNATE EARLY RETIREMENT.**

(a) Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(b) On or after July 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced as follows:

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

Any member who retires under the provisions of this subsection is ineligible for the postretirement employment provisions of RCW 41.40.037(2)(d) until the retired member has reached sixty-five years of age. For purposes of this subsection, employment with an employer also includes any personal service contract, service by an employer as a temporary or project employee, or any other similar compensated relationship with any employer included under the provisions of RCW 41.40.690(1).

The subsidized reductions for alternate early retirement in this subsection as set forth in section 9, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection is noncontractual, and the legislature reserves the right to amend or repeal this subsection. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection, and upon receipt of the first installment of a retirement allowance computed under this subsection, the resulting benefit becomes contractual for the recipient. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then retirement benefits for any member who has completed at least thirty service credit years and has attained age fifty-five but has not yet received the first installment of a retirement allowance under this subsection shall be computed using the reductions in (a) of this subsection.

[2007 c 491 § 9; 2000 c 247 § 901; 1991 c 343 § 11; 1977 ex.s. c 295 § 4.]

Notes:

Benefits not contractual right until July 1, 2008 -- 2007 c 491: "The new benefits provided pursuant to sections 9(3)(b) and 10(3)(b), chapter 491, Laws of 2007 are not provided to employees as a matter of contractual right prior to July 1, 2008, and will not become a contractual right thereafter if the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law. The

legislature retains the right to alter or abolish these benefits at any time prior to July 1, 2008." [2007 c 491 § 16.]

Severability -- Conflict with federal requirements -- 2007 c 491: See notes following RCW 41.32.765.

Findings -- Effective dates -- 1991 c 343: See notes following RCW 41.50.005.

Legislative direction and placement -- Section headings -- 1977 ex.s. c 295: See notes following RCW 41.40.600.

RCW 41.40.820 Retirement eligibility.

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

- (a) Completed ten service credit years; or
- (b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or
- (c) Completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

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

(3) ALTERNATE EARLY RETIREMENT.

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

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

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

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

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

[2007 c 491 § 10; 2006 c 33 § 3; 2000 c 247 § 309.]

Notes:

Benefits not contractual right until July 1, 2008 -- 2007 c 491: See note following RCW 41.40.630.

Severability -- Conflict with federal requirements -- 2007 c 491: See notes following RCW 41.32.765.

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: H-3755.1/08

ATTY/TYPIST: LL:cro

BRIEF DESCRIPTION: Addressing postretirement employment.

1 AN ACT Relating to postretirement employment; and amending RCW
2 41.32.765, 41.32.875, 41.35.420, 41.35.680, 41.40.630, and 41.40.820.

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

4 **Sec. 1.** RCW 41.32.765 and 2007 c 491 s 2 are each amended to read
5 as follows:

6 (1) NORMAL RETIREMENT. Any member with at least five service
7 credit years of service who has attained at least age sixty-five shall
8 be eligible to retire and to receive a retirement allowance computed
9 according to the provisions of RCW 41.32.760.

10 (2) EARLY RETIREMENT. Any member who has completed at least twenty
11 service credit years of service who has attained at least age fifty-
12 five shall be eligible to retire and to receive a retirement allowance
13 computed according to the provisions of RCW 41.32.760, except that a
14 member retiring pursuant to this subsection shall have the retirement
15 allowance actuarially reduced to reflect the difference in the number
16 of years between age at retirement and the attainment of age sixty-
17 five.

18 (3) ALTERNATE EARLY RETIREMENT.

1 (a) Any member who has completed at least thirty service credit
2 years and has attained age fifty-five shall be eligible to retire and
3 to receive a retirement allowance computed according to the provisions
4 of RCW 41.32.760, except that a member retiring pursuant to this
5 subsection shall have the retirement allowance reduced by three percent
6 per year to reflect the difference in the number of years between age
7 at retirement and the attainment of age sixty-five.

8 (b) On or after September 1, 2008, any member who has completed at
9 least thirty service credit years and has attained age fifty-five shall
10 be eligible to retire and to receive a retirement allowance computed
11 according to the provisions of RCW 41.32.760, except that a member
12 retiring pursuant to this subsection shall have the retirement
13 allowance reduced as follows:

14	Retirement	Percent
15	Age	Reduction
16	55	20%
17	56	17%
18	57	14%
19	58	11%
20	59	8%
21	60	5%
22	61	2%
23	62	0%
24	63	0%
25	64	0%

26 ~~((Any member who retires under the provisions of this subsection is~~
27 ~~ineligible for the postretirement employment provisions of RCW~~
28 ~~41.32.802(2) until the retired member has reached sixty five years of~~
29 ~~age. For purposes of this subsection, employment with an employer also~~
30 ~~includes any personal service contract, service by an employer as a~~
31 ~~temporary or project employee, or any other similar compensated~~
32 ~~relationship with any employer included under the provisions of RCW~~
33 ~~41.32.800(1).))~~

34 The subsidized reductions for alternate early retirement in this
35 subsection as set forth in section 2, chapter 491, Laws of 2007 were
36 intended by the legislature as replacement benefits for gain-sharing.

1 Until there is legal certainty with respect to the repeal of chapter
2 41.31A RCW, the right to retire under this subsection is
3 noncontractual, and the legislature reserves the right to amend or
4 repeal this subsection. Legal certainty includes, but is not limited
5 to, the expiration of any: Applicable limitations on actions; and
6 periods of time for seeking appellate review, up to and including
7 reconsideration by the Washington supreme court and the supreme court
8 of the United States. Until that time, eligible members may still
9 retire under this subsection, and upon receipt of the first installment
10 of a retirement allowance computed under this subsection, the resulting
11 benefit becomes contractual for the recipient. If the repeal of
12 chapter 41.31A RCW is held to be invalid in a final determination of a
13 court of law, and the court orders reinstatement of gain-sharing or
14 other alternate benefits as a remedy, then retirement benefits for any
15 member who has completed at least thirty service credit years and has
16 attained age fifty-five but has not yet received the first installment
17 of a retirement allowance under this subsection shall be computed using
18 the reductions in (a) of this subsection.

19 **Sec. 2.** RCW 41.32.875 and 2007 c 491 s 4 are each amended to read
20 as follows:

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

23 (a) Completed ten service credit years; or

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

26 (c) Completed five service credit years by July 1, 1996, under plan
27 2 and who transferred to plan 3 under RCW 41.32.817;

28 shall be eligible to retire and to receive a retirement allowance
29 computed according to the provisions of RCW 41.32.840.

30 (2) EARLY RETIREMENT. Any member who has attained at least age
31 fifty-five and has completed at least ten years of service shall be
32 eligible to retire and to receive a retirement allowance computed
33 according to the provisions of RCW 41.32.840, except that a member
34 retiring pursuant to this subsection shall have the retirement
35 allowance actuarially reduced to reflect the difference in the number
36 of years between age at retirement and the attainment of age sixty-
37 five.

1 (3) ALTERNATE EARLY RETIREMENT.

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

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

15	Retirement	Percent
16	Age	Reduction
17	55	20%
18	56	17%
19	57	14%
20	58	11%
21	59	8%
22	60	5%
23	61	2%
24	62	0%
25	63	0%
26	64	0%

27 ~~((Any member who retires under the provisions of this subsection is~~
28 ~~ineligible for the postretirement employment provisions of RCW~~
29 ~~41.32.862(2) until the retired member has reached sixty five years of~~
30 ~~age. For purposes of this subsection, employment with an employer also~~
31 ~~includes any personal service contract, service by an employer as a~~
32 ~~temporary or project employee, or any other similar compensated~~
33 ~~relationship with any employer included under the provisions of RCW~~
34 ~~41.32.860(1).))~~

35 The subsidized reductions for alternate early retirement in this
36 subsection as set forth in section 4, chapter 491, Laws of 2007 were

1 intended by the legislature as replacement benefits for gain-sharing.
2 Until there is legal certainty with respect to the repeal of chapter
3 41.31A RCW, the right to retire under this subsection is
4 noncontractual, and the legislature reserves the right to amend or
5 repeal this subsection. Legal certainty includes, but is not limited
6 to, the expiration of any: Applicable limitations on actions; and
7 periods of time for seeking appellate review, up to and including
8 reconsideration by the Washington supreme court and the supreme court
9 of the United States. Until that time, eligible members may still
10 retire under this subsection, and upon receipt of the first installment
11 of a retirement allowance computed under this subsection, the resulting
12 benefit becomes contractual for the recipient. If the repeal of
13 chapter 41.31A RCW is held to be invalid in a final determination of a
14 court of law, and the court orders reinstatement of gain-sharing or
15 other alternate benefits as a remedy, then retirement benefits for any
16 member who has completed at least thirty service credit years and has
17 attained age fifty-five but has not yet received the first installment
18 of a retirement allowance under this subsection shall be computed using
19 the reductions in (a) of this subsection.

20 **Sec. 3.** RCW 41.35.420 and 2007 c 491 s 6 are each amended to read
21 as follows:

22 (1) NORMAL RETIREMENT. Any member with at least five service
23 credit years who has attained at least age sixty-five shall be eligible
24 to retire and to receive a retirement allowance computed according to
25 the provisions of RCW 41.35.400.

26 (2) EARLY RETIREMENT. Any member who has completed at least twenty
27 service credit years and has attained age fifty-five shall be eligible
28 to retire and to receive a retirement allowance computed according to
29 the provisions of RCW 41.35.400, except that a member retiring pursuant
30 to this subsection shall have the retirement allowance actuarially
31 reduced to reflect the difference in the number of years between age at
32 retirement and the attainment of age sixty-five.

33 (3) ALTERNATE EARLY RETIREMENT.

34 (a) Any member who has completed at least thirty service credit
35 years and has attained age fifty-five shall be eligible to retire and
36 to receive a retirement allowance computed according to the provisions
37 of RCW 41.35.400, except that a member retiring pursuant to this

1 subsection shall have the retirement allowance reduced by three percent
2 per year to reflect the difference in the number of years between age
3 at retirement and the attainment of age sixty-five.

4 (b) On or after September 1, 2008, any member who has completed at
5 least thirty service credit years and has attained age fifty-five shall
6 be eligible to retire and to receive a retirement allowance computed
7 according to the provisions of RCW 41.35.400, except that a member
8 retiring pursuant to this subsection shall have the retirement
9 allowance reduced as follows:

10	Retirement	Percent
11	Age	Reduction
12	55	20%
13	56	17%
14	57	14%
15	58	11%
16	59	8%
17	60	5%
18	61	2%
19	62	0%
20	63	0%
21	64	0%

22 ~~((Any member who retires under the provisions of this subsection is
23 ineligible for the postretirement employment provisions of RCW
24 41.35.060(2) until the retired member has reached sixty five years of
25 age. For purposes of this subsection, employment with an employer also
26 includes any personal service contract, service by an employer as a
27 temporary or project employee, or any other similar compensated
28 relationship with any employer included under the provisions of RCW
29 41.35.230(1).))~~

30 The subsidized reductions for alternate early retirement in this
31 subsection as set forth in section 6, chapter 491, Laws of 2007 were
32 intended by the legislature as replacement benefits for gain-sharing.
33 Until there is legal certainty with respect to the repeal of chapter
34 41.31A RCW, the right to retire under this subsection is
35 noncontractual, and the legislature reserves the right to amend or
36 repeal this subsection. Legal certainty includes, but is not limited

1 to, the expiration of any: Applicable limitations on actions; and
2 periods of time for seeking appellate review, up to and including
3 reconsideration by the Washington supreme court and the supreme court
4 of the United States. Until that time, eligible members may still
5 retire under this subsection, and upon receipt of the first installment
6 of a retirement allowance computed under this subsection, the resulting
7 benefit becomes contractual for the recipient. If the repeal of
8 chapter 41.31A RCW is held to be invalid in a final determination of a
9 court of law, and the court orders reinstatement of gain-sharing or
10 other alternate benefits as a remedy, then retirement benefits for any
11 member who has completed at least thirty service credit years and has
12 attained age fifty-five but has not yet received the first installment
13 of a retirement allowance under this subsection shall be computed using
14 the reductions in (a) of this subsection.

15 **Sec. 4.** RCW 41.35.680 and 2007 c 491 s 8 are each amended to read
16 as follows:

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

19 (a) Completed ten service credit years; or

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

22 (c) Completed five service credit years by September 1, 2000, under
23 the public employees' retirement system plan 2 and who transferred to
24 plan 3 under RCW 41.35.510;

25 shall be eligible to retire and to receive a retirement allowance
26 computed according to the provisions of RCW 41.35.620.

27 (2) EARLY RETIREMENT. Any member who has attained at least age
28 fifty-five and has completed at least ten years of service shall be
29 eligible to retire and to receive a retirement allowance computed
30 according to the provisions of RCW 41.35.620, except that a member
31 retiring pursuant to this subsection shall have the retirement
32 allowance actuarially reduced to reflect the difference in the number
33 of years between age at retirement and the attainment of age sixty-
34 five.

35 (3) ALTERNATE EARLY RETIREMENT.

36 (a) Any member who has completed at least thirty service credit
37 years and has attained age fifty-five shall be eligible to retire and

1 to receive a retirement allowance computed according to the provisions
2 of RCW 41.35.620, except that a member retiring pursuant to this
3 subsection shall have the retirement allowance reduced by three percent
4 per year to reflect the difference in the number of years between age
5 at retirement and the attainment of age sixty-five.

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

12	Retirement	Percent
13	Age	Reduction
14	55	20%
15	56	17%
16	57	14%
17	58	11%
18	59	8%
19	60	5%
20	61	2%
21	62	0%
22	63	0%
23	64	0%

24 ~~((Any member who retires under the provisions of this subsection is~~
25 ~~ineligible for the postretirement employment provisions of RCW~~
26 ~~41.35.060(2) until the retired member has reached sixty five years of~~
27 ~~age. For purposes of this subsection, employment with an employer also~~
28 ~~includes any personal service contract, service by an employer as a~~
29 ~~temporary or project employee, or any other similar compensated~~
30 ~~relationship with any employer included under the provisions of RCW~~
31 ~~41.35.230(1).))~~

32 The subsidized reductions for alternate early retirement in this
33 subsection as set forth in section 8, chapter 491, Laws of 2007 were
34 intended by the legislature as replacement benefits for gain-sharing.
35 Until there is legal certainty with respect to the repeal of chapter
36 41.31A RCW, the right to retire under this subsection is

1 noncontractual, and the legislature reserves the right to amend or
2 repeal this subsection. Legal certainty includes, but is not limited
3 to, the expiration of any: Applicable limitations on actions; and
4 periods of time for seeking appellate review, up to and including
5 reconsideration by the Washington supreme court and the supreme court
6 of the United States. Until that time, eligible members may still
7 retire under this subsection, and upon receipt of the first installment
8 of a retirement allowance computed under this subsection, the resulting
9 benefit becomes contractual for the recipient. If the repeal of
10 chapter 41.31A RCW is held to be invalid in a final determination of a
11 court of law, and the court orders reinstatement of gain-sharing or
12 other alternate benefits as a remedy, then retirement benefits for any
13 member who has completed at least thirty service credit years and has
14 attained age fifty-five but has not yet received the first installment
15 of a retirement allowance under this subsection shall be computed using
16 the reductions in (a) of this subsection.

17 **Sec. 5.** RCW 41.40.630 and 2007 c 491 s 9 are each amended to read
18 as follows:

19 (1) NORMAL RETIREMENT. Any member with at least five service
20 credit years who has attained at least age sixty-five shall be eligible
21 to retire and to receive a retirement allowance computed according to
22 the provisions of RCW 41.40.620.

23 (2) EARLY RETIREMENT. Any member who has completed at least twenty
24 service credit years and has attained age fifty-five shall be eligible
25 to retire and to receive a retirement allowance computed according to
26 the provisions of RCW 41.40.620, except that a member retiring pursuant
27 to this subsection shall have the retirement allowance actuarially
28 reduced to reflect the difference in the number of years between age at
29 retirement and the attainment of age sixty-five.

30 (3) ALTERNATE EARLY RETIREMENT.

31 (a) Any member who has completed at least thirty service credit
32 years and has attained age fifty-five shall be eligible to retire and
33 to receive a retirement allowance computed according to the provisions
34 of RCW 41.40.620, except that a member retiring pursuant to this
35 subsection shall have the retirement allowance reduced by three percent
36 per year to reflect the difference in the number of years between age
37 at retirement and the attainment of age sixty-five.

1 (b) On or after July 1, 2008, any member who has completed at least
2 thirty service credit years and has attained age fifty-five shall be
3 eligible to retire and to receive a retirement allowance computed
4 according to the provisions of RCW 41.40.620, except that a member
5 retiring pursuant to this subsection shall have the retirement
6 allowance reduced as follows:

7	Retirement	Percent
8	Age	Reduction
9	55	20%
10	56	17%
11	57	14%
12	58	11%
13	59	8%
14	60	5%
15	61	2%
16	62	0%
17	63	0%
18	64	0%

19 ~~((Any member who retires under the provisions of this subsection is
20 ineligible for the postretirement employment provisions of RCW
21 41.40.037(2)(d) until the retired member has reached sixty five years
22 of age. For purposes of this subsection, employment with an employer
23 also includes any personal service contract, service by an employer as
24 a temporary or project employee, or any other similar compensated
25 relationship with any employer included under the provisions of RCW
26 41.40.690(1).))~~

27 The subsidized reductions for alternate early retirement in this
28 subsection as set forth in section 9, chapter 491, Laws of 2007 were
29 intended by the legislature as replacement benefits for gain-sharing.
30 Until there is legal certainty with respect to the repeal of chapter
31 41.31A RCW, the right to retire under this subsection is
32 noncontractual, and the legislature reserves the right to amend or
33 repeal this subsection. Legal certainty includes, but is not limited
34 to, the expiration of any: Applicable limitations on actions; and
35 periods of time for seeking appellate review, up to and including
36 reconsideration by the Washington supreme court and the supreme court

1 of the United States. Until that time, eligible members may still
2 retire under this subsection, and upon receipt of the first installment
3 of a retirement allowance computed under this subsection, the resulting
4 benefit becomes contractual for the recipient. If the repeal of
5 chapter 41.31A RCW is held to be invalid in a final determination of a
6 court of law, and the court orders reinstatement of gain-sharing or
7 other alternate benefits as a remedy, then retirement benefits for any
8 member who has completed at least thirty service credit years and has
9 attained age fifty-five but has not yet received the first installment
10 of a retirement allowance under this subsection shall be computed using
11 the reductions in (a) of this subsection.

12 **Sec. 6.** RCW 41.40.820 and 2007 c 491 s 10 are each amended to read
13 as follows:

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

16 (a) Completed ten service credit years; or

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

19 (c) Completed five service credit years by the transfer payment
20 date specified in RCW 41.40.795, under the public employees' retirement
21 system plan 2 and who transferred to plan 3 under RCW 41.40.795;
22 shall be eligible to retire and to receive a retirement allowance
23 computed according to the provisions of RCW 41.40.790.

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

32 (3) ALTERNATE EARLY RETIREMENT.

33 (a) Any member who has completed at least thirty service credit
34 years and has attained age fifty-five shall be eligible to retire and
35 to receive a retirement allowance computed according to the provisions
36 of RCW 41.40.790, except that a member retiring pursuant to this

1 subsection shall have the retirement allowance reduced by three percent
2 per year to reflect the difference in the number of years between age
3 at retirement and the attainment of age sixty-five.

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

10	Retirement	Percent
11	Age	Reduction
12	55	20%
13	56	17%
14	57	14%
15	58	11%
16	59	8%
17	60	5%
18	61	2%
19	62	0%
20	63	0%
21	64	0%

22 ~~((Any member who retires under the provisions of this subsection is~~
23 ~~ineligible for the postretirement employment provisions of RCW~~
24 ~~41.40.037(2)(d) until the retired member has reached sixty five years~~
25 ~~of age. For purposes of this subsection, employment with an employer~~
26 ~~also includes any personal service contract, service by an employer as~~
27 ~~a temporary or project employee, or any other similar compensated~~
28 ~~relationship with any employer included under the provisions of RCW~~
29 ~~41.40.850(1).))~~

30 The subsidized reductions for alternate early retirement in this
31 subsection as set forth in section 10, chapter 491, Laws of 2007 were
32 intended by the legislature as replacement benefits for gain-sharing.
33 Until there is legal certainty with respect to the repeal of chapter
34 41.31A RCW, the right to retire under this subsection is
35 noncontractual, and the legislature reserves the right to amend or
36 repeal this subsection. Legal certainty includes, but is not limited

1 to, the expiration of any: Applicable limitations on actions; and
2 periods of time for seeking appellate review, up to and including
3 reconsideration by the Washington supreme court and the supreme court
4 of the United States. Until that time, eligible members may still
5 retire under this subsection, and upon receipt of the first installment
6 of a retirement allowance computed under this subsection, the resulting
7 benefit becomes contractual for the recipient. If the repeal of
8 chapter 41.31A RCW is held to be invalid in a final determination of a
9 court of law, and the court orders reinstatement of gain-sharing or
10 other alternate benefits as a remedy, then retirement benefits for any
11 member who has completed at least thirty service credit years and has
12 attained age fifty-five but has not yet received the first installment
13 of a retirement allowance under this subsection shall be computed using
14 the reductions in (a) of this subsection.

--- END ---

**Presented to Select Committee on Pension Policy
Post Retirement Employment under EHB 2391
November 2007**

Input from Washington State School Districts
Gathered by the Washington School Personnel Association

Number of Responders: 53

Certificated Substitutes

Number that use retirees as substitutes: all

Percentage of substitutes that are retirees:

- Range 1% - 50%
- Mean 16%
- Median 13%

64% of responders say finding substitutes is harder this year than prior years

Classified Substitutes

Number that use retirees as substitutes: 80%

Percentage of substitutes that are retirees:

- Range 0% - 38%
- Mean 6%
- Median 4%

Plan 2 & 3 Postretirement Employment

- During the past legislative session a provision in EHB 2391, the gain-sharing trade-off bill, has the potential to impact the availability of some retirees to do any postretirement employment, including teacher substituting, when using the new Plan 2 and 3 early retirement option available in 2008.
- We would anticipate that the majority of Plan 2 & 3 members when planning for retirement will take advantage of the new option.
- Plan 2 & 3 members have been limited to 867 hours of employment in the public sector after retiring. Plan 1 members are able, through retire/rehire, to work up to 1500 hours without it impacting their pension.
- After 2008 these Plan 2 & 3 retirees would not have the use of any hours of employment in the public sector until reaching the age of 65.

Representative Steve Conway, Chair of the Select Committee on Pension Policy, has asked for documentation regarding the role that retirees play in helping to fill the need for substitutes within school districts. Washington Association of School Administrators (WASA), Association of Washington School Principals (AWSP), and Washington School Personnel Association (WSPA) have begun collecting sampling information from school districts.

Below is a sampling of responses John Kvamme, WASA & AWSP consultant, received. About forty (40) district were sent e-mails asking to give a percentage of their teacher substitutes that were public employee retirees within their substitute pool. They were also asked to estimate the difficulty in securing enough substitutes on a five point scale from 1 to 5, with 5 being very difficult.

After doing some telephone follow-up it was discovered that the Washington School Information Processing Cooperative (WSIPC) does not identify retirees among the substitutes. Therefore, those districts participating in the WSIPC program have a difficult time coming up with retiree information and almost all did not respond to the request for information.

Information thus far received:

	Retiree subs	Difficulty		Retiree sub	Difficulty
Vancouver	25%		Kent	20%	5
Evergreen	20%	3	Peninsula	25%	
Tumwater	10%		Camas	1%	3/4
Aberdeen	19%	5	Yakima	10%	5
Federal Way	30%	5	Moses Lake		3

**Select Committee on Pension Policy
Input of Retirees as Substitutes
November 2007**

District	Percentage of Substitutes are Retirees		Getting Substitutes Compared to Prior Years
	Certificated	Classified	
Anacortes	24%	17%	Worse, 20% smaller this year
Arlington	10%	0%	Worse
Bainbridge Island	22%		Cert info only
Battle Ground			Supplied number of subs
Bellevue	10%	5%	Progressively Worse
Blaine	8%	3%	Shortage, not sure worse or better
Bremerton	6%		Cert info only
Bridgeport	35%	0%	The same, still a shortage
Burlington Edison	30%	10%	Worse
Chelan	1%	1%	Shortage has increased
Clover Park	5%	5%	Worse, short every day
Dayton	50%	15%	Shortages 25%
Eatonville	10%	13%	Worse
Everett	3%	1%	Shortages about the same
Evergreen	20%	6%	Shortages about the same
Federal Way	30%	4%	Worse and escalating
Grabnite Falls	3%	0%	Worse this year
Highline	6%	5%	Same, using more Emergency Subs
Issaquah	14%	1%	Worst in memory
Kalama	1%	0%	Have shortages
Kent	20%	3%	Worse
Lahe Stevens	13%	0%	Shortage grows every year
Lake Washington	15%	1%	A little worse this year
Longview	30%	9%	May be a bit worse
Lynden	17%	3%	Worse
Marysville	8%	1%	A little worse this year
Mount Vernon			Worse, supplied number of subs
Mukilteo	10%	4%	More difficult to fill
Naselle	40%	14%	Worse
Northshore	20%	5%	A little worse this year
Oak Harbor	37%	12%	
Orting	10%	1%	A growing problem
Peninsula	25%	10%	Worse
Pioneer	17%	0%	Can't say better or worse
Puyallup	18%	2%	Yes. Staff development impacts
Quillayute	30%	3%	Shortages, same as prior
Renton	26%	5%	Growing, staff development impacts
Ridgefield	3%	1%	Always need
Riverview	7%	5%	Worse

**Select Committee on Pension Policy
 Input of Retirees as Substitutes
 November 2007**

District	Percentage of Substitutes are Retirees		Getting Substitutes Compared to Prior Years
	Certificated	Classified	
Sedro-Woolley	5%	5%	Worse
Sequim	42%	38%	Worse
Shelton	12%	4%	Worse
Snohomish	10%	5%	
South Kitsap	15%	5%	Bad past three years
South Whidbey	2%	0%	Can't say better or worse
Sultan	2%	0%	A little worse this year
Toppenish	25%	12%	Worse
Tumwater	10%		Increasing problem
University Place	10%	5%	
Valley	17%	0%	
Wapato	22%	14%	Shortages about the same
Wenatchee	4%	16%	Worse
Yakima	10%	5%	Worse this year
Responding = 53			
Mean	16%	6%	64% say worse this year
Median	13%	4%	
Mode	10%	5%	

I. December Meeting Agenda

December 18, 2007, Meeting

FULL COMMITTEE AGENDA

- (1) 2008 Meeting Dates
- (2) LEOFF 1 Medical Study
- (3) Military Death Benefits
- (4) Interruptive Military Service Credit
- (5)

POSSIBLE EXECUTIVE SESSION ON REMAINING INTERIM ISSUES:

- (6)
- (7)
- (8)
- (9)
- (10)
- (11)
- (12)

(13)

(14)

EXECUTIVE COMMITTEE AGENDA

(A) Constituent Correspondence

(B) Today's Full Committee Agenda

(C) State Actuary Evaluation - Final

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2007 Interim Issues

Inventory as of October 24, 2007

Referred from 2006 SCPP	Status
<p>Disability Retirement – Continue review of disability benefits and policies under the Washington State retirement systems, including reduction of actuarial penalties associated with early retirement for medical reasons (Sen. Eide).</p>	Briefing June 19, 2007; options/pricing Aug. 14, 2007
Significant Amendments to SCPP Legislative Proposals	Status
<p>Index \$150,000 Death Benefit – The SCPP's 2007 recommendation concerning the \$150,000 death benefit included indexing for this benefit, and the indexing provision was removed by the legislature.</p>	Briefing July 17, 2007; SCPP hearing Aug. 14, 2007; pricing to Exec. Cmte. Oct. 16, 2007; possible Exec. Session by SCPP Nov. 13, 2007
<p>Washington State Patrol Cost-Sharing – The SCPP recommended that members pay one-third of the difference between the total cost of the system and the “Truman liability” or 7 percent, whichever is less. The bill was amended to specify that members would pay the lesser of one-half of the adjusted total contribution rate or 7 percent, plus one-half of any benefit improvements effective on or after July 1, 2007.</p>	
SCPP Member Requests	Status
<p>Pension Protection Act (Fraser) – Study implications of recent federal legislation for Washington State retirement systems.</p>	Briefing May 22, 2007
<p>Benefits History (Olson) – Review cost of Plans 2/3 from creation to present.</p>	
<p>Plan 3 Vesting (Davis) – Recommend 5-year vesting for all members of Plan 3.</p>	Exec. Cmte. update Oct. 16, 2007; possible Exec. Session by SCPP Nov. 13, 2007

SCPP Executive Committee Requests	Status
Contribution Rates – Identify impacts of 2007 legislation on contribution rates.	Briefing June 19, 2007
Rules of Procedure – Update current SCPP rules.	Initial briefing May 22, 2007; changes approved June 19, 2007
Interruptive Military Service Credit – Consider free service credit.	Pricing to Exec. Cmte. Oct. 16, 2007; SCPP briefing Dec. 18, 2007

Legislator Requests	Status
Former Judges (Sen. Honeyford) – Allow inactive vested judges, or judges who have separated from service but not yet retired, to apply to increase their benefit multiplier and pay the full actuarial cost.	
Service Credit (Sen. Kilmer) - Allow TRS and SERS 2/3 members “with half-year contracts” to receive a half-credit per month of employment.	Briefing July 17, 2007; Exec. Cmte. follow-up, Aug. 14, 2007; Proposal forwarded from Exec. Cmte. Sept. 18, 2007; SCPP briefing Nov. 13, 2007
Port of Walla Walla (Rep. Van De Wege) – Review policy regarding LEOFF membership for employees performing fire-fighting duties.	SCPP briefing Nov. 13, 2007
PERS 1 Window under SHB 1067 (Rep. Conway) – Allow certain employees of the Public School Employees of Washington (PSE) to obtain service credit as PERS 1 members.	Exec. Cmte. briefing Nov. 13, 2007

Coordination with LEOFF 2 Board	Status
Deferred compensation – Treat employer contributions to deferred compensation plans as “salary.”	
Annuities – Authorize the purchase of actuarially equivalent annuities (like Plan 3).	

Military Service Death Benefit – Extend application of new (2007) PERS 2 survivor benefit authorizing a refund of 200 percent of member contributions.	Briefing July 17, 2007; pricing to Exec. Cmte. Oct. 16, 2007; SCPP briefing Dec. 18, 2007
Fish and Wildlife Officer Service Credit Transfer – Allow eligible members to transfer prior PERS 2 service to LEOFF 2.	Briefing July 17, 2007; Exec. Cmte. briefing Aug. 14, 2007; SCPP briefing Oct. 16, 2007
\$150,000 Death Benefit – Index the benefit to changes in the CPI-W for Seattle-Tacoma-Bremerton, with a maximum change of 3 percent per year.	Briefing July 17, 2007; SCPP briefing Aug. 14, 2007; pricing to Exec. Cmte. Oct. 16, 2007; possible Exec. Session Nov. 13, 2007

Constituent/Stakeholder Requests

Status

Disability Retirement (ATULC) – Eliminate actuarial reductions for disability pensions.	Briefing June 19, 2007; options/pricing Aug. 14, 2007
PERS 1 Benefit Cap (Wagner, Von Moos, Fortune, Madden, Esparza, Webster) – Remove or increase the 60 percent cap on retirement pensions for PERS 1.	
TRS 3 Benefits (Cunningham) – Improve benefits by creating a rule of 85 and/or increasing the benefit multiplier.	
Out-of-State Service Credit (Nardella) – Authorize service credit purchases for all time served as a public employee in another state.	Initial briefing July 17, 2007; SCPP briefing Oct. 16, 2007
PERS Benefits (Hudson) – Create a rule of 85, allow service credit for two jobs, authorize service credit for prior employment in an ineligible position, and authorize the conversion of service credit from Plan 2 to Plan 1.	Briefing on multiple jobs, July 17, 2007
LEOFF 1 Surplus (Lindquist) – Use any surplus to improve pension payments to disabled police officers and firefighters (before using for medical benefits).	
Plan 3 Vesting (tentative, WASA & AWSP; WEA; WSRA) – Allow vesting after five years regardless of age.	Update to Exec. Cmte. Oct. 16, 2007; possible Exec. Session Nov. 13, 2007

Survivor Benefits (tentative, WASA & AWSP) – Improve survivor benefits for members of Plans 1, 2, and 3 of TRS, SERS, and PERS.	Briefing July 17, 2007
Plan 3 Benefits (tentative, WASA & AWSP) – Provide additional benefits to Plan 3 members to improve the gain-sharing trade-off.	
Military Service (tentative, WASA & AWSP) – Review 2007 legislative proposals to improve Plan 1 military service credit provisions and make a recommendation for 2008.	Briefing July 17, 2007
“Plans 2/3 Final Year Contract” (tentative, WASA & AWSP) - Allow TRS 2/3 members to receive a full year (12 months) of service credit for their final year’s work when retiring on July 1.	Briefing July 17, 2007; Proposal withdrawn, Sept. 18, 2007 Exec. Cmte.
Gain-Sharing (numerous requests on file with OSA) – Restore gain-sharing or improve trade-off options.	Exec. Cmte. discussion Sept. 18, 2007
Public Safety Subcommittee (WSP Troopers’ Association) – Convene a subcommittee to address WSPRS demographics, benefit changes paralleling LEOFF Plan 2, death benefit changes for troopers killed while serving on active military duty, and formation of a WSPRS board.	Briefing on death benefits July 17, 2007
Out-of-State Service (WASA, AWSP, WEA) – Allow TRS 2/3 members to purchase out-of-state service credit after serving two years instead of five.	Briefing July 17, 2007; hearing August 14, 2007; legislation recommended Sept. 18, 2007
Plan 2 Access to PEBB (WASA, AWSP) - Allow Plan 2 members to access PEBB health care plans upon separation from service at age 55 with at least ten years of service.	Briefing July 17, 2007; stakeholder reports to SCPP on Sept. 18, 2007 and Exec. Cmte. on Oct. 16, 2007; stakeholder proposals to SCPP Nov. 13, 2007
Rule of 85 (WEA)	
Salary Bonuses (WEA) – Include certain salary bonuses in pension calculations.	SCPP briefings Oct. 16, 2007 and Nov. 13, 2007

Health Care Premiums (WEA) – Seek authority for retirees to pay for health care benefits on a pre-tax basis.

Memo to SCPP May 30, 2007; informal Exec. Cmte. discussion June 19, 2007

Service Credit (WEA) – Allow TRS and SERS 2/3 members with “half-year contracts” to receive a half credit per month of employment.

Briefing July 17, 2007; update to Exec. Cmte. Aug. 14, 2007; proposal forwarded from Exec. Cmte. Sept. 18, 2007; SCPP briefing Nov. 13, 2007

ESA’s Back to Plan 2 (WEA) – Allow TRS 3 Educational Staff Associates to return to PERS.

Plan 1 Purchasing Power (WSRA) – Change COLA eligibility to one-year after retirement and establish a COLA based on the Consumer Price Index.

Exec. Cmte. discussion Sept. 18, 2007

Plan 2/3 Benefits (WSRA) – Provide for normal retirement eligibility below age 62; improve Plan 3 retiree and SERS 3 member benefits to compensate for loss of gain-sharing.

Service Credit (WFSE) – Improve provisions granting military service credit and allow Department of Fish & Wildlife Enforcement Officers to transfer service credit.

Briefing on both topics July 17, 2007; Exec. Cmte. briefing on F&W transfer on Aug. 14, 2007; SCPP briefing Oct. 16, 2007; Exec. Cmte. briefing on free interruptive military service credit Oct. 16 with full SCPP briefing Dec. 18, 2007

Military Service Credit (Danielson) – Allow members of other plans to have the same service credit provisions as in PERS 1 and WSPRS 1.

Briefing July 17, 2007

Surviving Spouses (RFW) – Amend “pre-LEOFF 1” law to remove remarriage penalty for surviving spouses and create an option for a surviving spouse benefit for retired firefighters who were married less than five years before retirement or who married after retirement.

Briefing July 17, 2007

- PEBB Access (WSRA)** – Allow a “2nd chance” PEBB enrollment window for those who missed their one-time enrollment opportunity. Briefing July 17, 2007; stakeholder reports to SCPP on Sept. 18, 2007 and Exec. Cmte. Oct. 16, 2007; stakeholder proposals to SCPP Nov. 13, 2007
- TIAA-CREF for HECB (HECB)** - Amend higher education statutes to authorize the Higher Education Board (HECB) to offer its employees a retirement annuity through TIAA-CREF instead of PERS. Exec. Cmte. briefing Oct. 16, 2007; SCPP briefing Nov. 13, 2007
- PERS and TRS 1 “Trust” Issues (WPR, Inc.)** – Answer questions regarding history and practices related to Plan 1 governance, fiduciary responsibilities and unfunded liabilities. Exec. Cmte. briefing from AAG on “trust” cases, Aug. 14, 2007
- Survivor Benefits for WSPRS** – 1) Provide “the in-service death benefit” for troopers who die while on military leave in Iraq or Afghanistan; and 2) modify retirement Option B to create several changes: a) allow retirees who remarry after retirement to select Option B; b) allow a “pop-up” option in the event of divorce; and c) allow persons who were retired before the effective date of the option an opportunity to select it. Briefing on military death benefits July 17, 2007; Exec. Cmte. briefing Oct. 16, 2007
- PERS 2 Early Retirement Reduction Factors (Paul)** – Improve ERRF’s for members with 20-29 years of service.
- Plan 3 Members to Plan 2 (Davis)** - Allow Plan 3 members the opportunity to return to Plan 2. Exec. Cmte. discussion Sept. 18, 2007
- Post-Retirement Employment (WASA, AWSP)** – Restore retire-rehire for Plan 2/3 members who retire under improved ERRF’s passed in 2007. Exec. Cmte. discussion Sept. 18, 2007; Exec. Cmte. briefing Nov. 13, 2007.
- PSERS Amendments (Orvena)** – Amend PSERS to broaden eligibility, provide more plan choice and lower the normal retirement age.

Requests from Members to DRS	Status
<p>SERS Auto-Transfer of Prior Plan Service Credit – Adapt plan provisions to current conditions.</p>	<p>Briefing July 17, 2007; SCPP briefing Sept. 18, 2007; Exec. Cmte. briefing Nov. 13, 2007</p>
<p>Expand Plan 1 Post-30 Year Contribution Program – Include an annual window for opting in prospectively.</p>	
<p>PERS 1 Death While Retirement Eligible – Allow survivors to get a monthly benefit instead of just member contributions.</p>	<p>Briefing July 17, 2007 and Sept. 18, 2007</p>
<p>Veterans' Benefits – Allow twice the contributions to surviving spouses of members killed while on military duty in other Plans besides PERS 2.</p>	<p>Briefing July 17, 2007; Exec. Cmte. briefing Oct. 16, 2007; SCPP briefing Dec. 18, 2007</p>
DRS Request for Endorsement	Status
<p>DRS plans to bring a proposal to the SCPP regarding how to address contributions for approximately 50,000 inactive non-vested members.</p>	<p>Proposal expected for 2008 interim</p>
SCPP Statutory Obligations	Status
<p>None for 2007.</p>	
Actuarial Work	Status
<p>2008 Gain-Sharing Distributions – Calculate required distribution amounts and notify plan administrator.</p>	
<p>LEOFF 1 Medical Study – (Required in OSA budget) Identify local government employer liability for LEOFF 1 medical benefits.</p>	<p>Report to SCPP Dec. 18, 2007</p>
<p>OPEB Actuarial Valuation – Using new governmental accounting standards, identify (and facilitate others in identifying) public employer obligations for “other post-employment benefits” (OPEB), the most significant of which is health care.</p>	<p>Initial briefing May 22, 2007</p>

Review of Economic Assumptions – Make recommendations to Pension Funding Council regarding long-term economic assumptions.

Briefing August 14, 2007; WSIB Return Simulations for Exec. Cmte. Sept. 18, 2007

Experience Study Preparation – Much of the work for the 2008 Experience Study will be done in 2007. OSA can provide the SCPP with “previews” of the data that will be reviewed, the study methodology, the standards of practice involved, and the assumptions that will be examined (e.g. retirement rates, mortality, etc).

Overview presented to SCPP Sept. 18, 2007

2006 Actuarial Valuation

Report presented to SCPP Oct. 16, 2007

SCPP Staff	Status
State Actuary – Annual Evaluation.	Coordinated by Glenn Olson

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J. 2008 Meeting Dates

2008 Potential SCPP Dates

JANUARY							FEBRUARY						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
		1	2	3	4	5						1	2
6	7	8	9	10	11	12	3	4	5	6	7	8	9
13	14	15	16	17	18	19	10	11	12	13	14	15	16
20	21	22	23	24	25	26	17	18	19	20	21	22	23
27	28	29	30	31			24	25	26	27	28	29	
MARCH							APRIL						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
						1			1	2	3	4	5
2	3	4	5	6	7	8	6	7	8	9	10	11	12
9	10	11	12	13	14	15	13	14	15	16	17	18	19
16	17	18	19	20	21	22	20	21	22	23	24	25	26
23	24	25	26	27	28	29	27	28	29	30			
30	31												
MAY							JUNE						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
				1	2	3	1	2	3	4	5	6	7
4	5	6	7	8	9	10	8	9	10	11	12	13	14
11	12	13	14	15	16	17	15	16	17	18	19	20	21
18	19	20	21	22	23	24	22	23	24	25	26	27	28
25	26	27	28	29	30	31	29	30					
JULY							AUGUST						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
		1	2	3	4	5						1	2
6	7	8	9	10	11	12	3	4	5	6	7	8	9
13	14	15	16	17	18	19	10	11	12	13	14	15	16
20	21	22	23	24	25	26	17	18	19	20	21	22	23
27	28	29	30	31			24	25	26	27	28	29	30
							31						
SEPTEMBER							OCTOBER						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
	1	2	3	4	5	6				1	2	3	4
7	8	9	10	11	12	13	5	6	7	8	9	10	11
14	15	16	17	18	19	20	12	13	14	15	16	17	18
21	22	23	24	25	26	27	19	20	21	22	23	24	25
28	29	30					26	27	28	29	30	31	
NOVEMBER							DECEMBER						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
						1		1	2	3	4	5	6
2	3	4	5	6	7	8	7	8	9	10	11	12	13
9	10	11	12	13	14	15	14	15	16	17	18	19	20
16	17	18	19	20	21	22	21	22	23	24	25	26	27
23	24	25	26	27	28	29	28	29	30	31			
30													

Legend

x	2008 Session - January 14 - March 13
x	2008 Holidays
x	SCPP suggested meeting dates*
x	SCPP suggested subgroup reserved**
x	NCSL Conference, New Orleans - July 22 - 26
x	Tentative Legislative Assembly Days
x	SIB - tentative meeting dates - third Thursday
x	LEOFF 2 Board - tentative dates - fourth Wednesday
x	LEAP - Jan. set - no recurring meetings
x	JLARC - Jan. set - others tentative - third Wednesday
x	Election Dates

SCPP Potential Full and Exec. Dates*

January 15, 2008
February 12, 2008
March 18, 2008
April 15, 2008
May 13, 2008
June 17, 2008
July 15, 2008
August 12, 2008
September 16, 2008
October 21, 2008
November 18, 2008
December 16, 2008

SCPP Potential Sub-group Dates**

None scheduled
None scheduled
None scheduled
April 14, 2008
May 12, 2008
June 16, 2008
July 14, 2008
August 11, 2008
September 15, 2008
October 20, 2008
November 17, 2008
December 15, 2008

K. 2008 Interim Planning

There are no handouts for this agenda item.

L. State Actuary Evaluation

Select Committee on Pension Policy

Actuary Performance Evaluation

(November 12, 2003)

The State Actuary Appointment Committee has the statutory authority to review the performance and make adjustments to the pay of the State Actuary. The State Actuary Appointment Committee consists of:

- Chairs and ranking minority members of the Senate Ways and Means Committee and the House Appropriations Committee; plus
- Four members of the Select Committee on Pension Policy (SCPP) appointed jointly by the Chair and Vice Chair of the SCPP.

The SCPP Executive Committee will conduct a review of the State Actuary's performance and relay it to the State Actuary Appointment Committee with recommendations for pay adjustments, as deemed appropriate. The review will take place at least once every two employment anniversaries of the State Actuary or as requested by the Chair of the SCPP.

In conducting the review, the Executive Committee of the SCPP or their designee will:

- Review the statutory responsibilities of the Office of the State Actuary (OSA).
- Request a self-performance evaluation, including future goals and development activities from the State Actuary.
- Develop a list of feedback sources which may include OSA staff, SCPP members, Directors of the Department of Retirement Systems and Office of Financial Management, Chairs and/or staff of the legislative fiscal committees and the Executive Director of the LEOFF 2 Board.
- Solicit written feedback from feedback sources.
- Meet with the State Actuary to share feedback and overall performance evaluation.
- Relay the results of the performance evaluation and any recommendations regarding performance and/or pay adjustments to the members of the State Actuary Appointment Committee.