Select Committee on Pension Policy

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

Regular Committee Meeting

December 18, 2007
10:00 a.m. - 1:00 p.m.
Senate Hearing Room 4
Olympia

AGENDA

10:00 a.m.	**(1)**	**Approval of Minutes**
10:05 a.m	**(2)**	**2008 Meeting Dates**
10:10 a.m.	**(3)**	**LEOFF 1 Medical Study**, Troy Dempsey, Actuarial Assistant
10:40 a.m.	**(4)**	**Military Death Benefits**, Dave Nelsen, Senior Policy Analyst
10:55 a.m.	**(5)**	**Interruptive Military Service Credit**, Laura Harper, Policy and Research Services Manager
11:10 a.m.	**(6)**	**FRP (Pre-LEOFF) Survivor Benefits**, Darren Painter, Policy Analyst
11:25 a.m.	**(7)**	**Retiree Access to PEBB - Stakeholder Proposal** • Separated Plan 2 Members
11:40 a.m.	**(8)**	**Post-retirement Employment under EHB 2391**, Laura Harper
11:55 p.m.	**(9)**	**PERS 1 Window under SHB 1067**, Laura Harper

POSSIBLE EXECUTIVE SESSION

12:10 p.m.	**(10)**	**Military Death Benefits,** Dave Nelsen
12:15 p.m.	**(11)**	**Interruptive Military Service Credit**, Laura Harper
12:20 p.m.	**(12)**	**FRP (Pre-LEOFF) Survivor Benefits**, Darren Painter
12:25 p.m.	**(13)**	**Retiree Access to PEBB - Stakeholder Proposal** • Separated Plan 2 Members
12:30 p.m.	**(14)**	**Post-retirement Employment under EHB 2391**, Laura Harper
12:35 p.m.	**(15)**	**PERS 1 Window under SHB 1067**, Laura Harper
12:40 p.m.	**(16)**	**PERS to SERS Auto Transfer**, Dave Nelsen
12:45 p.m.	**(17)**	**Salary Bonuses in TRS**, Dave Nelsen
12:50 p.m.	**(18)**	**Fish and Wildlife Service Credit Transfer**, Dave Nelsen
12:55 p.m.	**(19)**	**HECB Proposal**, Laura Harper
1:00 p.m.	**(20)**	**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

Select Committee on Pension Policy

2007 Meeting Dates

Full - 10:00am-1:00pm
SHR4/ABC, Olympia, WA

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

Reserved Subgroup Dates
SHR4

2:00-4:00pm - Mondays

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

JANUARY

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NOVEMBER

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Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

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

2. Balanced Long-Term Management: To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce.

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

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

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

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

1. Approval of Minutes

Select Committee on Pension Policy

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REGULAR COMMITTEE MEETING
DRAFT MINUTES

November 13, 2007

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington on November 13, 2007.

Committee members attending:

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

Representative Conway, Chair, called the meeting to order at 9:35 a.m.

(1) Approval of Minutes

It was moved to approve the October 16, 2007, Full Committee Draft minutes. Seconded.

MOTION CARRIED

(2) Survivors of PERS 1 Inactive Members

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

(3) TRS and SERS 2/3 "*Half-Year* Contracts"

Laura Harper, Policy and Research Services Manager, reported on "TRS and SERS 2/3 "Half-Year Contracts." *Discussion followed.*

It was moved that a bill identical to "TRS and SERS 2/3 'Half-Year Contracts' " (OSA bill draft) be recommended to the Legislature. Seconded.

MOTION CARRIED

Testimony given by:
Senator Derek Kilmer
Ann Fessler, Teacher
Wendy Radar-Konafalski, Washington Education Association
John Kvamme, Washington Association of School Administrators and Association of Washington School Principals

(4) HECB Proposal

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

Testimony given by:
Katie Youngers, HECB

(5) Retiree Access to PEBB - Stakeholder Proposals

John Kvamme, Washington Association of School Administrators and Association of Washington School Principals, and Leslie Main, Washington State School Retirees' Association, reported on "Retiree Access to PEBB - Stakeholder Proposals." *Discussion followed*.

Testimony given by:
Dennis Martin, Health Care Authority
Casandra de laRosa, Retired Public Employees Council
Wendy Radar-Konafalski, Washington Education Association
Randy Parr, Washington Education Association
John Kvamme, Washington Association of School Administrators and Association of Washington School Principals

(6) Salary Bonuses in TRS

Dave Nelsen, Senior Policy Analyst, reported on "Salary Bonuses in TRS." *Discussion followed.*

Testimony given by:
Michaela Miller, Office of the Superintendent of Public Instruction
Megan Conklin, North Thurston Public Schools
Wendy Radar-Konafalski, Washington Education Association

(7) LEOFF Eligibility for Ports

Dave Nelsen, Senior Policy Analyst, reported on "LEOFF Eligibility for Ports." *Discussion followed*.

Testimony given by:
Steve Nelsen, Executive Director, LEOFF Plan 2 Retirement Board
Larry Boone, Port of Bellingham
Eric Johnson, Washington Public Ports Association
Paul Neal, Representing Port of Walla Walla
Daniel Zenk, Port of Bellingham

EXECUTIVE SESSION

(8) Plan 3 Vesting

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

It was moved that a bill identical to "HB 1941 (2007) Plan 3 Vesting" be recommended to the Legislature. Seconded.

MOTION CARRIED

(9) Survivors of PERS 1 Inactive Members

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

It was moved that "Survivors of PERS I Inactive Members" bill draft Z-0735.1/08 be recommended to the Legislature. Seconded.

MOTION CARRIED

(10) Indexed $150,000 Death Benefit

Darren Painter, Policy Analyst, reported on "Indexed $150,000 Death Benefit."

It was moved that "Indexed $150,000 Death Benefit" bill draft Z-0708.1/08 be recommended to the Legislature. Seconded.

MOTION CARRIED

The meeting adjourned at 12:35 p.m.

2. 2008 Meeting Dates

2008 Potential SCPP Dates

JANUARY

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FEBRUARY

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SEPTEMBER

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DECEMBER

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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 - tenative 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

3. LEOFF 1 Medical Study

A PDF of the report may be accessed on the OSA website on the "What's New" page. Click the link below:

http://osa.leg.wa.gov

The Select Committee on Pension Policy

LEOFF 1 Medical Benefits Report

Troy Dempsey, Actuarial Assistant
December 18, 2007

Office of the State Actuary
"Securing tomorrow's pensions today."

What Is The Situation?

- LEOFF 1 employers provide free medical benefits to retirees
  - Provided under state law
  - Pay "all necessary medical expenses"
  - Includes long-term care (LTC)
- Unfunded obligation for most employers
  - Most employers have pay-as-you-go funding policy
  - Local government responsibility
- Some local governments question ability to pay
  - Benefits could place a large strain on future budgets

How Are The Benefits Provided?

- Local disability boards determine what will be paid
  - 3 types of boards
    - First Class cities, other cities, counties
  - Minimum expenses must be covered by law
  - Fringe expenses differ by each board
  - Member must first seek payment from Medicare, insurance
- Insurance
  - Most local governments seek insurance to pay for benefits
    - Washington Counties Insurance Fund
    - AWC Employees Benefit Trust
    - Washington Fire Commissioners Association plan
    - Self-insurance for larger plans
  - Reduces the annual volatility of benefit payments

Who Is Impacted By This?

- Local governments
  - Cities, counties, fire protection districts, ports
  - Determine if they can withstand future cash outlays
  - Need to satisfy new accounting requirements (if applicable)
  - Likely to have impact on borrowing costs, credit ratings (if applicable)
- Taxpayers
  - Some local governments may have more difficulty than others
- Legislature & Office of Financial Management (OFM)
  - Determine if local governments need help (how, how much)
- LEOFF 1 members
  - Benefit security at risk if local government unable meet future obligation

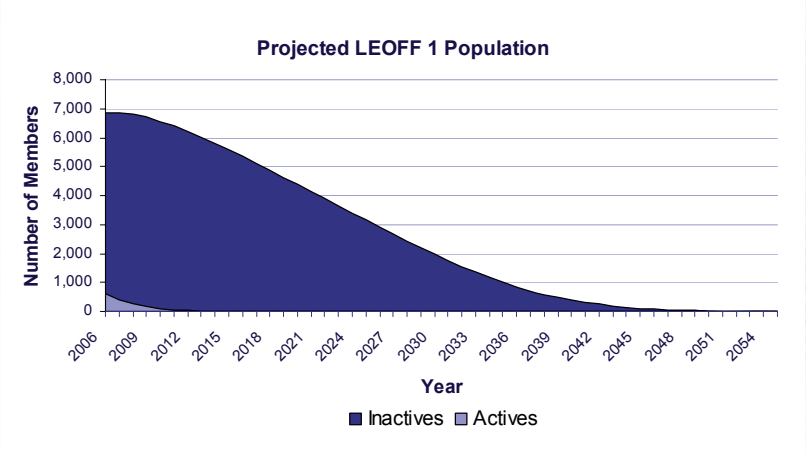
How Many Members Are Impacted?

Employee Count By Employer Type and Status						
Employer Type	Active	Duty Disability	Nonduty Disability	Service Retiree	Terminated Vested	Total
Police						
First Class City	128	648	146	916	1	1,839
Other City	74	468	108	394		1,044
County	81	458	123	499	1	1,162
Total Police	283	1,574	377	1,809	2	4,045
Firefighters						
First Class City	167	1,468	74	453	1	2,163
Other City	85	368	57	282	2	794
Fire Protection District	53	148	33	141	-	375
Port	8	28	11	23		70
Total Firefighters	313	2,012	175	899	3	3,402
Total Members	596	3,586	552	2,708	5	7,447

What Does A Typical Member Look Like?

Summary of Plan Participants	
LEOFF 1	
Active Members	
Number	596
Total Salary (thousands)	$48,055
Average Age	56.4
Average Service	32.0
Average Salary	$80,630
Inactive Members*	
Number	6,851
Average Age	66.1
Average Monthly Medical Cost (current year)	$838
Average Monthly LTC Cost (current year)	$152
Average Monthly Total Cost (current year)	$990
** Includes retirees and terminated vested members.*	

What Does The Population Look Like In The Future?



How Big Is The State-wide Liability?

GASB 45 Actuarial Accrued Liability	
(in thousands, 000)	
Active Members[1]	
Medical	$139,253
Institutional Long-Term Care	25,166
Non Institutional Long-Term Care	11,225
Total Active	$175,644
Inactive Members[2]	
Medical	1,153,769
Institutional Long-Term Care	297,629
Non Institutional Long-Term Care	118,385
Total Inactive	1,569,783
Total	$1,745,427
Note: Totals may not agree due to rounding.	
[1] *Currently employed.*	
[2] *Retired members and terminated members entitled to a benefit.*	

÷596 = $294,705 per member

÷6,851 = $234,380 per member

What Does This Liability Mean?

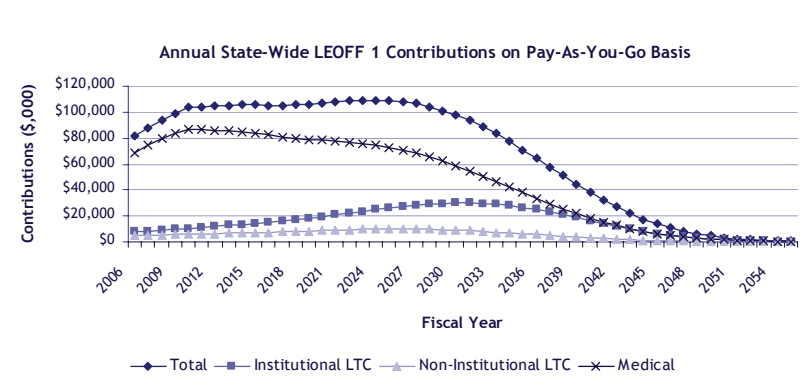
- Present value of all projected medical payments for all current and future LEOFF 1 retirees
  - Includes only benefits earned or accrued today (very close to fully projected liability)
  - Includes projected long-term care benefits
- Projected benefits assumed to grow by medical inflation
- Represents the "state-wide" liability
  - Not the state's responsibility
  - Individual LEOFF 1 employers are responsible for their share of the state-wide liability
- Assumes one funding policy for all employers: "pay-as-you-go"
  - Future payments not offset by expected investment earnings from a typical pension-type trust fund

How Do We Measure The Liability?

- Project the cost of free health care
  - At each age (older members cost more)
  - In each future year (medical inflation)
- Project each member forward to determine cost
  - Probability of member receiving free health care at each age
  - Add up the costs at each age
- Measure the liability at one point in time
  - Discount future costs by 4.5% per year
    - Based on idea that $1 next year is worth less than $1 today
  - Result is today's value of future benefits

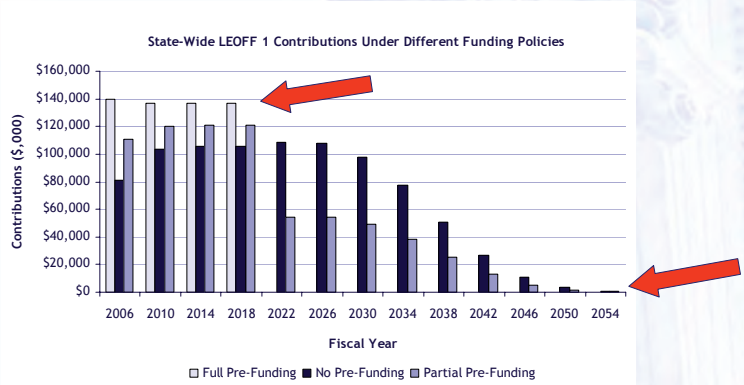
How Much Will This Cost In The Future?

- Pay-as-you-go benefit payments
  - Closed group (no new entrants)



How Much Will This Cost Under Another Funding Policy?

- Benefit payment projections under different funding policies
  - Pay-as-you-go – 4.5% interest rate; previous slide
  - Partial pre-funding – 6.0% interest rate
  - Full pre-funding – 7.5% interest rate



How Sensitive Are These Results?

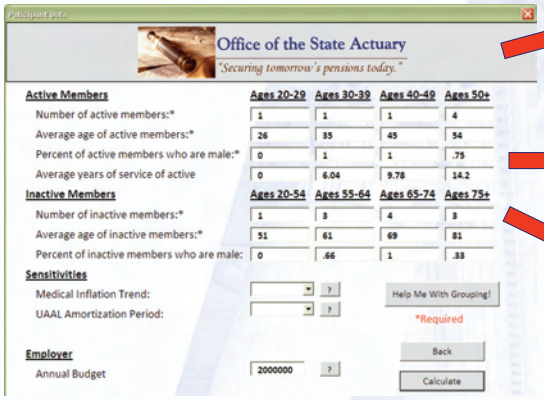
- The sensitivity analysis can be seen in the report
  - Medical inflation, funding policy, amortization sensitivities
  - Less sensitive than open, less mature plans
    - Fewer active assumptions to be realized
    - Benefits paid over a shorter time horizon
- Most employer sensitivity due to individual differences
  - State-wide report cannot be used to satisfy employer reporting
    - Some employers have set money aside
    - Most employers have insurance, some do not

What's Next?

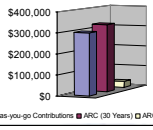
- Local governments – report their share of the liability
- Legislature & OFM – may consider if local governments need assistance or a change in state-wide funding policy
- SCPP – level of involvement
  - Not primary jurisdiction, but goal is "adequacy of retirement benefits"
  - Benefits compete with pensions for budget dollars
- OSA – provide online estimation tool for small employers

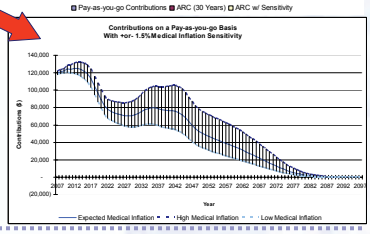
OSA Online Tool

- Help small employers calculate their share of the liability
- Completed in early 2008
- Help SAO audit employers



Outputs:		PVFB	AAL
Active:			
	Implicit Subsidy	$38,789	$13,933
	Explicit Subsidy	$124,060	$44,527
	Life Subsidy	$3,194	$1,252
	Total Active	**$166,043**	**$59,712**
Inactive			
	Implicit Subsidy	$53,730	$53,730
	Explicit Subsidy	$134,104	$134,104
	Life Subsidy	$2,698	$2,698
	Total Inactive	**$190,532**	**$190,532**
Total		**$356,576**	**$250,245**





Questions

- More information can be found in the report at http://osa.leg.wa.gov/whats_new/whats_new.htm
- The online tool will be available in early 2008 at our website: http://osa.leg.wa.gov

4. Military Death Benefits

Military Death Benefits

In Brief

ISSUE

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

MEMBER IMPACT

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

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

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Current Situation

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

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

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

Policy Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Service only in conflicts specifically identified for this benefit?

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

Other States

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

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

Prior Executive Committee Action

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

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

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

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

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

Possible Options

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

Other options to the committee include the following:

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

STAKEHOLDER INPUT

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

Copies of the above requests are attached.

Bill Draft

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

Fiscal Note

Attached.

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Military Death Benefits

Dave Nelsen, Senior Policy Analyst

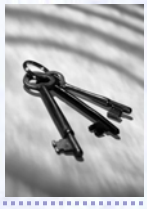
December 18, 2007

Issue

- Should all plans provide additional benefits to survivors of members who die while on military duty?
  - 2007 legislation expanded these benefits for PERS Plan 2 only.

Outline

- Background
  - Survivor benefits in general
  - Legislation in 2007
  - Federal benefits
- Policy Questions
  - Three key decisions
  - Other States
- Executive Committee Recommendation
  - Fiscal costs



Survivor Benefits In Washington Plans

- Eligibility
  - Years of Service (usually 10 yrs is the threshold for higher benefits) and,
  - Duty/non-duty
  - Not generally linked to active/inactive status (Plan 1 exceptions: LEOFF, WSPRS, and PERS)
- Benefits
  - Refund of Contributions, and/or
  - Monthly survivor annuity
    - Duty: unreduced
    - Non-duty: actuarially reduced
  - $150,000 death benefit for duty-related deaths

2007 Legislation

- SHB 1266- Amendment to $150,000 Death Benefit Bill
  - PERS Plan 2 only
  - Survivor Benefit Choice between
    - 200% of member contributions and interest, or
    - Actuarially reduced monthly survivor annuity
  - If eligible
    - Die after 1/1/07 while honorably serving in current Afghanistan or Iraq conflict
    - Has at least 10 years of service

Federal Military Survivor Benefits

- Lump-sum payment
  - $100,000 tax-free
- Lifetime monthly annuity
  - $1,067 tax-free
  - Indexed to inflation
  - Additional $265 monthly for each dependant
- Life Insurance
  - Auto enrolled in $250,000
  - Can opt out or increase up to $400,000
  - $29 monthly cost for full $400,000
- Medical and educational benefits
  - Limited duration

Different Points Of View

No Additional Benefits	Additional Benefits
Members serve voluntarily, as there is no draft	Encourage military service so draft is unnecessary
Members receive federal compensation and benefits	Supplement federal benefits, which may not be adequate
Others pay for additional pension benefits	Support the view that all citizens benefit from uniformed service
Already have favorable benefits (Interruptive service rules)	Provide extra support for high risk public service
Military service is unrelated to state pension plans	Support mobility between military and state service

Three Key Policy Decisions

1. If better benefits are provided, what type?
2. What eligibility and benefit structure?
3. What type of military service should qualify?

Policy Decisions

1. If better benefits are provided, what type?
   - Enhanced lump sum?
   - Enhanced survivor annuity?
   - Both?

Policy Decisions

2. What eligibility and benefit calculation structure?
   - Consistent with other survivor benefits in the same system/plan?
   - Similarly situated survivors receive the same benefit, regardless of system/plan?

Policy Decisions

3. What type of military service should qualify?
   - Participation in all military service? Such as in times of conflict, active duty training, and peace-time.
   - Service only in time of war or conflict?
   - Service only in specific wars or conflicts?

Executive Committee Recommendation

1. What type of benefit?
   - Enhanced monthly annuity
     - Unreduced for years prior to normal retirement
     - Same monthly annuity provided to line-of-duty survivors
2. What eligibility and benefit structure?
   - Consistent within system/plans
     - Ensures military survivors don't receive better benefits than line-of-duty survivors
3. What type of military service?
   - Applies to survivors of all types of uniformed service

Estimated Fiscal Impacts

Fiscal Costs*

(In Millions)	2007-2009	2009-2011	25-year
General Fund-State	$0.0	$0.0	$0.5
Total Employer	$0.0	$0.1	$1.7

* Costs assume lowest standard of eligibility and highest benefits across all systems/plans. Actual costs may be less.

Other States

- Provide additional survivor benefits
  - Idaho- 200% refund or reduced annuity
  - California- receive benefits as if active employee, but not line-of-duty
  - Iowa- receive benefits as if active employee, but not line-of-duty
- Do not provide additional benefits
  - Colorado
  - Oregon
  - Missouri
  - Ohio
  - Wisconsin
  - Florida

Possible Options

- Endorse Executive Committee recommendation
  - Scheduled for possible executive action later in meeting
  - Bill draft reflects Executive Committee recommendation
- Move to provide different combination of eligibility or benefits
  - Define motion based upon three primary decisions outlined earlier

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0779.1/08

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Addressing the survivor benefits of employees who die while honorably serving in the uniformed services of the United States.

AN ACT Relating to the survivor benefits of employees who die while honorably serving in the uniformed services of the United States; and amending RCW 41.26.160, 41.26.510, 43.43.270, 43.43.295, 41.32.520, 41.32.805, 41.32.895, 41.35.460, 41.35.710, 41.37.250, 41.40.270, 41.40.700, and 41.40.835.

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

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

(1) In the event of the duty connected death of any member who is in active service, or who has vested under the provisions of RCW 41.26.090 with twenty or more service credit years of service, or who is on duty connected disability leave or retired for duty connected disability, <u>or upon the death of a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> the surviving spouse shall become entitled, subject to RCW 41.26.162, to receive a monthly allowance equal to fifty percent of the final average salary at the date of death if active, or the amount of retirement allowance the vested member would have received at age fifty, or the amount of the

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

(2) If at the time of the duty connected death of a vested member with twenty or more service credit years of service as provided in subsection (1) of this section or a member retired for duty connected disability, <u>or at the time of the death of a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> the surviving spouse has not been lawfully married to such member for one year prior to retirement or separation from service if a vested member, the surviving spouse shall not be eligible to receive the benefits under this section: PROVIDED, That if a member dies as a result of a disability incurred in the line of duty <u>or while honorably serving in the uniformed services</u>, then if he or she was married at the time he or she was disabled <u>or left the employ of an employer to serve in the uniformed services of the United States</u>, the surviving spouse shall be eligible to receive the benefits under this section.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, <u>or the retirement allowance of a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> is not subject to an actuarial reduction. The member's retirement allowance is computed under RCW 41.26.420.

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

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

For members commissioned prior to January 1, 2003:

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

(2) If a member should die while in service<u>, or a member leaves the employ of the employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> the member's lawful spouse shall be paid an allowance which shall be equal to fifty percent of the average final salary of the member. If the member should die after retirement the member's lawful spouse shall be paid an allowance which shall be equal to the retirement allowance then payable to the member or fifty percent of the final average salary used in computing the member's retirement allowance, whichever is less. The allowance paid to the lawful spouse shall continue as long as the spouse lives: PROVIDED, That if a surviving spouse who is receiving benefits under this subsection marries another member of this retirement system who subsequently predeceases such spouse, the spouse shall then be entitled to receive the higher of the two survivors'

allowances for which eligibility requirements were met, but a surviving spouse shall not receive more than one survivor's allowance from this system at the same time under this subsection. To be eligible for an allowance the lawful surviving spouse of a retired member shall have been married to the member prior to the member's retirement and continuously thereafter until the date of the member's death or shall have been married to the retired member at least two years prior to the member's death. The allowance paid to the lawful spouse may be divided with an ex spouse of the member by a dissolution order as defined in RCW 41.50.500(3) incident to a divorce occurring after July 1, 2002. The dissolution order must specifically divide both the member's benefit and any spousal survivor benefit, and must fully comply with RCW 41.50.670 and 41.50.700.

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

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

(b) If there is no surviving spouse or the spouse should die, the child or children shall be entitled to a benefit equal to thirty percent of the final average salary of the member or retired member for one child and an additional ten percent for each additional child. The combined benefits to the children under this subsection shall not exceed sixty percent of the final average salary of the member or retired member. Payments under this subsection shall be prorated equally among the children, if more than one.

(4) If a member should die in the line of duty while employed by the Washington state patrol, <u>or a member leaves the employ of the employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> the member's surviving children under the age of twenty years and eleven months if attending any high school, college, university, or vocational or other educational institution accredited or approved by the state of Washington shall be provided for in the following manner:

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

(b) If there is no surviving spouse or the spouse should die, the unmarried child or children shall be entitled to receive a benefit equal to thirty percent of the final average salary of the member or retired member for one child and an additional ten percent for each additional child. The combined benefits to the children under this subsection shall not exceed sixty percent of the final average salary. Payments under this subsection shall be prorated equally among the children, if more than one; and

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

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

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

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

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

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

those the member would have received under the definitions of average final salary created in chapter 94, Laws of 2006.

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

(1) For members commissioned on or after January 1, 2003, except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

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

(a) A retirement allowance computed as provided for in RCW 43.43.260, actuarially reduced, except under subsection (4) of this section, by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 43.43.278 and if the member was not eligible for normal retirement at the date of death a further reduction from age fifty-five or when the member could have attained twenty-five years of service, whichever is less; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an

allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated under this section making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

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

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

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

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

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

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries<u>, or the retirement allowance of a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services</u>, is not subject to an actuarial reduction.

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

(1) Except as specified in subsection (3) of this section, upon receipt of proper proofs of death of any member before retirement or before the first installment of his or her retirement allowance shall become due his or her accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, and/or other benefits payable upon his or her death shall be paid to his or her estate or to such persons, trust, or organization as he or she shall have nominated by written designation duly executed and filed with the department. If a member fails to file a new beneficiary designation subsequent to marriage, divorce, or reestablishment of membership following termination by withdrawal, lapsation, or retirement, payment of his or her accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, and/or other benefits upon death before retirement shall be made to the surviving spouse, if any; otherwise, to his or her estate. If a member had established ten or more years of Washington membership service credit or was eligible for retirement, the beneficiary or the surviving spouse if otherwise eligible may elect, in lieu of a cash refund of the member's accumulated contributions, the following survivor benefit plan actuarially reduced, except under subsection (4) of this section, by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670:

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

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

(i) In the case of a dependent child the allowance shall continue until attainment of majority or so long as the department judges that the circumstances which created his or her dependent status continue to exist. In any case, if at the time dependent status ceases, an amount

equal to the amount of accumulated contributions of the deceased member has not been paid to the beneficiary, the remainder shall then be paid in a lump sum to the beneficiary.

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

(2) If no qualified beneficiary survives a member, at his or her death his or her accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to his or her estate, or his or her dependents may qualify for survivor benefits under benefit plan (1)(b) in lieu of a cash refund of the members accumulated contributions in the following order: Widow or widower, guardian of a dependent child or children under age eighteen, or dependent parent or parents.

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

(a) This section; or

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

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, <u>or the retirement allowance of a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> is not subject to an actuarial reduction. The member's retirement allowance is computed under RCW 41.32.480.

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

(1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a

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

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

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

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

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

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

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

(4) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, <u>or a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> is not subject to an actuarial reduction under RCW 41.32.765. The member's retirement allowance is computed under RCW 41.32.760.

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

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

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

If there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under

the age of majority shall receive an allowance, share and share alike. The allowance shall be calculated with the assumption that the age of the spouse and member were equal at the time of the member's death.

(2) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, <u>or a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> is not subject to an actuarial reduction under RCW 41.32.875. The member's retirement allowance is computed under RCW 41.32.840.

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

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

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

(a) A retirement allowance computed as provided for in RCW 41.35.420, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent

survivor option under RCW 41.35.220 and, except under subsection (4) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.35.420; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance, share and share alike, calculated as herein provided making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

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

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

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

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

(4) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, <u>or a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> is not subject to an actuarial reduction under RCW 41.35.420. The member's retirement allowance is computed under RCW 41.35.400.

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

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

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

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

(2) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, <u>or a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> is not subject to an actuarial reduction under RCW 41.35.680. The member's retirement allowance is computed under RCW 41.35.620.

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

(1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to that member's credit in the retirement system at the time of the member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or the person or persons, trust, or organization as the member shall have nominated by

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

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

(a) A retirement allowance computed as provided for in RCW 41.37.210, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 41.37.170 and, except under subsection (4) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.37.210; if a surviving spouse who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then the child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse, share and share alike, until the child or children reach the age of majority; if there is no surviving spouse eligible to receive an allowance at the time of the member's death, the member's child or children under the age of majority shall receive an allowance, share and share alike, calculated under this section making the assumption that the ages of the spouse and member were equal at the time of the member's death; or

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

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies and is not survived by a spouse or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to

an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

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

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

(4) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, <u>or a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> is not subject to reduction under RCW 41.37.210. The member's retirement allowance is computed under RCW 41.37.190.

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

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

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

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

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

(3) Subsection (1) of this section, unless elected, shall not apply to any member who has applied for service retirement in RCW 41.40.180, as now or hereafter amended, and thereafter dies between the date of separation from service and the member's effective retirement date, where the member has selected a survivorship option under RCW 41.40.188. In those cases the beneficiary named in the member's final application for service retirement may elect to receive either a cash refund, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, or monthly payments according to the option selected by the member.

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

(a) This section; or

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

(5) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, <u>or the retirement allowance of a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services,</u> is not subject to an actuarial reduction. The member's retirement allowance is computed under RCW 41.40.185.

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

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

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

(a) A retirement allowance computed as provided for in RCW 41.40.630, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 41.40.660 and, except under subsection (4) of this section, if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.40.630; if

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

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

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

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

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

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

(4) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, <u>or a member who has left the employ of an employer to enter the</u>

uniformed services of the United States and dies while honorably serving in the uniformed services, is not subject to an actuarial reduction under RCW 41.40.630. The member's retirement allowance is computed under RCW 41.40.620.

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

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

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

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

(2) A member who is killed in the course of employment, as determined by the director of the department of labor and industries, or a member who has left the employ of an employer to enter the uniformed services of the United States and dies while honorably serving in the uniformed services, is not subject to an actuarial reduction under RCW 41.40.820. The member's retirement allowance is computed under RCW 41.40.790.

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DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**10/4/07**	**Military Death Benefit: Unreduced Survivor Annuity**

INTENDED USE

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

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

EXECUTIVE SUMMARY

This proposal would provide an unreduced joint and survivor annuity to the survivor of a member who dies in military service.

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

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

Fiscal Costs			
(Dollars in Millions)	**2007-2009**	**2009-2011**	**25-Year**
General Fund-State	$0.0	$0.0	$0.5
Total Employer	$0.0	$0.1	$1.7

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

SUMMARY OF PROPOSAL

This proposal impacts the Public Employees' Retirement System (PERS) Plan(s) 1, 2 and 3, the Teachers' Retirement System (TRS) Plan(s) 1, 2, and 3, the School Employees' Retirement System (SERS) Plan(s) 2 and 3, the Public Safety Employees' Retirement System (PSERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan(s) 1 and 2, and the Washington State Patrol Retirement System (WSPRS) by increasing the benefits offered to survivors of members who die while on active military service. Under this proposal, a qualifying survivor of a member who dies while on active military service is entitled to receive either 200% of the member's account balance or a survivor annuity that is not actuarially reduced for each year of retirement prior to the normal retirement age of the specific system and plan.

Assumed Effective Date: 90 days after session

CURRENT SITUATION

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

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

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

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

SUMMARY OF MEMBERS IMPACTED

We estimate that all 16,314 active members of LEOFF Plans 1 and 2, all 155,027 active members of PERS Plans 1, 2 and 3, all 2,073 active members of PSERS Plan 2, all 50,818 active members of SERS Plans 2 and 3, all 67,736 active members of TRS Plans 1, 2 and 3, and all 1,022 active members of WSP Plans 1 and 2 could be affected by this

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proposal through improved benefits. However, we only expect this to happen to approximately 1 in 240,000 PERS members per year.

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

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

METHODS

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

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

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

ASSUMPTIONS

The primary assumption formulated for this pricing was approximating the probability of a military related death for an individual at each age. According to a Washington Post article based on Department of Defense records and dated August 23, 2006, the annual death rate for military personnel in Iraq is 3.92 deaths per 1,000 people. The article further explains the fact that troops aged 17-19 are 4.6 times more likely to die than those age 50 and older. Therefore, we approximated the probability of death in the military using these two facts. The overall probability of death was maintained while significantly weighting those with higher probabilities to younger ages. Furthermore, the addition of accounting for non-combat related deaths, or rather military related deaths that occur outside of designated conflicts, will increase the overall assumption rate to approximately 4.4 deaths per 1,000 people.

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

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

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

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

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

DATA

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

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FISCAL IMPACT

Description

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

Actuarial Determinations

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

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

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

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

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations

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

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

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

Sensitivity Analysis

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

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

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

DRAFT

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

Present Value of Credited Projected Benefits (PVCPB): 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 PVCPB): 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.

DRAFT

STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD
P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

June 5, 2007

RECEIVED
JUN 5 - 2007
Office of
The State Actuary

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

Dear Honorable Members of the Select Committee on Pension Policy:

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

Kelly Fox, Chair

cc: Matt Smith, State Actuary

WASHINGTON STATE PATROL TROOPERS ASSOCIATIO1
200 UNION AVE. SE STE. 200, OLYMPIA, WA 98501 (360) 704-7530 FAX (360) 704-75:

July 13, 2007

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

RECEIVED
JUL 17 2007
Office of
The State Actuary

Re: Survivorship options for WSPRS

Dear Representative Conway:

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

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

2. Provide the in-service death benefit for Troopers who while on military leave serving in Iraq or Afghanistan.

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

Sincerely,

Tom Pillow

cc: Matt Smith
Jeff Wickman
Dave Nelsen

Winner, Charlene

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

Dave Nelsen

DRS

5. Interruptive Military Service Credit

Interruptive Military Service Credit

In Brief

ISSUE

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

MEMBER IMPACT

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

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

Current Situation

"Interruptive military service" is defined as follows:

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

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

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

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

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

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

Example A

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

Example B

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

History

The SCPP first studied interruptive military service credit in the 2004 interim. As a result, the SCPP recommended legislation that would provide interruptive military service credit for those who are not re-employed due to death or total disability while serving in the uniformed services. Chapter 64, Laws of 2005 provided that service credit may be purchased by a totally disabled member or a survivor of a deceased member for interruptive military service up to the date of death or disability. The law requires repayment of member contributions to reinstate service credit for the period of interruptive military service.

This interim the SCPP is considering a proposal to allow interruptive military service credit at no cost to the members (or the members' survivors). Early this interim, the

Executive Committee requested that the Office of the State Actuary prepare a draft fiscal note to determine the cost to provide **all** interruptive military service credit in the open plans at no member cost. This draft fiscal note is attached.

The draft fiscal note was made available to the Executive Committee at its September 18, 2007, meeting. At that time, the Executive Committee recommended that a bill be prepared for the full SCPP that narrowed the scope of the proposal such that free interruptive military service credit would be available only to members participating in wars and armed conflicts.

Policy Analysis

Federal law sets minimum standards for interruptive military service credit, but states can be more generous than federal law.

Interruptive military service is governed by federal law. At a minimum, public employers must provide the protections specified in the Uniformed Services Employment and Re-employment Rights Act (USERRA). This law provides for the re-employment of individuals who leave employment to serve in the "uniformed services," a term that is federally defined and includes most types of military service. Included in USERRA's re-employment rights is the right to restoration of retirement plan benefits.

For employers, the fundamental requirement of USERRA as it relates to retirement plan benefits is to provide for recovery of the benefits that a re-employed participant did not receive due to qualifying military service. The employee must be treated for vesting and benefit accrual purposes as if he or she had been continuously employed. Thus, the member must pay the contributions that would have been paid during the period of service, and can receive service credit as if there had been no interruption in employment.

USERRA pre-empts state retirement policy in that all public employers must meet the minimum requirements of this federal law. However, states have the discretion to go beyond USERRA and grant benefits for the period of interruptive service that are more generous than those available under the act. Employers who choose to go beyond USERRA may reward active duty by paying all or part of the contributions that the member would have paid during the period of active duty. Employers may also

provide all or part of the member's salary during such periods. Enhanced benefits can be limited to wars and armed conflicts as long as the basic USERRA protections remain intact for all interruptive military service in the uniformed services.

The following table summarizes some of the policy pros and cons of providing special or increased benefits to members based on military service:

Free military service credit has pros and cons.

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

Other Washington Plans

Currently, free interruptive military service credit is available to members in most of the closed plans, including Plan 1 of the Public Employees' Retirement System (PERS 1), Plan 1 of the Law Enforcement and Firefighters' Retirement System (LEOFF 1), and Plan 1 of the Washington State Patrol Retirement System. This benefit is not available in Plan 1 of the Teachers' Retirement System (TRS).

Other States

California, Idaho, Iowa, Ohio, and Wisconsin provide free interruptive military service credit. None of these states limit free credit to declared wars or armed conflicts. For the purpose of granting free interruptive military service credit, Ohio's definition of armed forces is restricted to federalized

National Guard and Reserve service. The other states apply the benefit broadly.

Florida is a non-contributory state, meaning members do not contribute to their retirement benefits. Thus, there are no member contributions to repay in order to receive interruptive military service credit under USERRA.

Missouri's plans differ. The State Employees' plan is non-contributory like Florida's. The Public School Plan allows members to purchase service under USERRA. The Local Government Plan provides free interruptive service for USERRA-qualified service.

The remaining states – Colorado, Minnesota, and Oregon – require the member to repay contributions.

Possible Options

Stakeholder Input

None.

1. Allow up to five years of free service credit for all interruptive military service in the uniformed services, regardless of whether the member participates in a period of war or armed conflict. The attached draft fiscal note estimates costs associated with this option for all the open plans.
2. Allow up to five years of free service credit for interruptive military service that is during a "period of war" as defined in RCW 41.04.005. "Period of war" includes declared wars and armed conflicts. This option is narrower than Option 1, which would lessen the fiscal impact somewhat. The attached bill draft is an example of this option. This draft affects only the open plans and is prospective in its application.

Executive Committee Recommendation

At is September 18, 2007, meeting, the Executive Committee directed staff to prepare a bill draft providing a new benefit to members: free interruptive military service credit to those participating in wars or armed conflicts.

Bill Draft

A copy of Code Reviser draft Z-0802.1 is attached.

Draft Fiscal Note

Attached. As noted above in the discussion of options, the draft fiscal note prices a proposal that is broader than the proposal in the bill draft.

O:\SCPP\2007\12-18-07 Full\5.Interruptive_Military_Srvc_Credit.doc

Military Death Benefits

Dave Nelsen, Senior Policy Analyst

December 18, 2007

Issue

- Should all plans provide additional benefits to survivors of members who die while on military duty?
  - 2007 legislation expanded these benefits for PERS Plan 2 only.

Outline

- Background
  - Survivor benefits in general
  - Legislation in 2007
  - Federal benefits
- Policy Questions
  - Three key decisions
  - Other States
- Executive Committee Recommendation
  - Fiscal costs

Survivor Benefits In Washington Plans

- Eligibility
  - Years of Service (usually 10 yrs is the threshold for higher benefits) and,
  - Duty/non-duty
  - Not generally linked to active/inactive status (Plan 1 exceptions: LEOFF, WSPRS, and PERS)
- Benefits
  - Refund of Contributions, and/or
  - Monthly survivor annuity
    - Duty: unreduced
    - Non-duty: actuarially reduced
  - $150,000 death benefit for duty-related deaths

2007 Legislation

- SHB 1266- Amendment to $150,000 Death Benefit Bill
  - PERS Plan 2 only
  - Survivor Benefit Choice between
    - 200% of member contributions and interest, or
    - Actuarially reduced monthly survivor annuity
  - If eligible
    - Die after 1/1/07 while honorably serving in current Afghanistan or Iraq conflict
    - Has at least 10 years of service

Federal Military Survivor Benefits

- Lump-sum payment
  - $100,000 tax-free
- Lifetime monthly annuity
  - $1,067 tax-free
  - Indexed to inflation
  - Additional $265 monthly for each dependant
- Life Insurance
  - Auto enrolled in $250,000
  - Can opt out or increase up to $400,000
  - $29 monthly cost for full $400,000
- Medical and educational benefits
  - Limited duration

Different Points Of View

No Additional Benefits	Additional Benefits
Members serve voluntarily, as there is no draft	Encourage military service so draft is unnecessary
Members receive federal compensation and benefits	Supplement federal benefits, which may not be adequate
Others pay for additional pension benefits	Support the view that all citizens benefit from uniformed service
Already have favorable benefits (Interruptive service rules)	Provide extra support for high risk public service
Military service is unrelated to state pension plans	Support mobility between military and state service

Three Key Policy Decisions

1. If better benefits are provided, what type?
2. What eligibility and benefit structure?
3. What type of military service should qualify?

Policy Decisions

1. If better benefits are provided, what type?
   - Enhanced lump sum?
   - Enhanced survivor annuity?
   - Both?

Policy Decisions

2. What eligibility and benefit calculation structure?
   - Consistent with other survivor benefits in the same system/plan?
   - Similarly situated survivors receive the same benefit, regardless of system/plan?

Policy Decisions

3. What type of military service should qualify?
   - Participation in all military service? Such as in times of conflict, active duty training, and peace-time.
   - Service only in time of war or conflict?
   - Service only in specific wars or conflicts?

Executive Committee Recommendation

1. What type of benefit?
   - Enhanced monthly annuity
     - Unreduced for years prior to normal retirement
     - Same monthly annuity provided to line-of-duty survivors
2. What eligibility and benefit structure?
   - Consistent within system/plans
     - Ensures military survivors don't receive better benefits than line-of-duty survivors
3. What type of military service?
   - Applies to survivors of all types of uniformed service

Estimated Fiscal Impacts

Fiscal Costs*

(In Millions)	2007-2009	2009-2011	25-year
General Fund-State	$0.0	$0.0	$0.5
Total Employer	$0.0	$0.1	$1.7

* Costs assume lowest standard of eligibility and highest benefits across all systems/plans. Actual costs may be less.

Other States

- Provide additional survivor benefits
  - Idaho- 200% refund or reduced annuity
  - California- receive benefits as if active employee, but not line-of-duty
  - Iowa- receive benefits as if active employee, but not line-of-duty
- Do not provide additional benefits
  - Colorado
  - Oregon
  - Missouri
  - Ohio
  - Wisconsin
  - Florida

Possible Options

- Endorse Executive Committee recommendation
  - Scheduled for possible executive action later in meeting
  - Bill draft reflects Executive Committee recommendation
- Move to provide different combination of eligibility or benefits
  - Define motion based upon three primary decisions outlined earlier

RCW 41.04.005
"Veteran" defined for certain purposes.

(1) As used in RCW 41.04.005, 41.16.220, 41.20.050, 41.40.170, and *28B.15.380 "veteran" includes every person, who at the time he or she seeks the benefits of RCW 41.04.005, 41.16.220, 41.20.050, 41.40.170, or *28B.15.380 has received an honorable discharge, is actively serving honorably, or received a discharge for physical reasons with an honorable record and who meets at least one of the following criteria:

(a) The person has served between World War I and World War II or during any period of war, as defined in subsection (2) of this section, as either:

(i) A member in any branch of the armed forces of the United States;

(ii) A member of the women's air forces service pilots;

(iii) A U.S. documented merchant mariner with service aboard an oceangoing vessel operated by the war shipping administration, the office of defense transportation, or their agents, from December 7, 1941, through December 31, 1946; or

(iv) A civil service crewmember with service aboard a U.S. army transport service or U.S. naval transportation service vessel in oceangoing service from December 7, 1941, through December 31, 1946; or

(b) The person has received the armed forces expeditionary medal, or marine corps and navy expeditionary medal, for opposed action on foreign soil, for service:

(i) In any branch of the armed forces of the United States; or

(ii) As a member of the women's air forces service pilots.

(2) A "period of war" includes:

(a) World War I;

(b) World War II;

(c) The Korean conflict;

(d) The Vietnam era, which means:

(i) The period beginning on February 28, 1961, and ending on May 7, 1975, in the case of a veteran who served in the Republic of Vietnam during that period;

(ii) The period beginning August 5, 1964, and ending on May 7, 1975;

(e) The Persian Gulf War, which was the period beginning August 2, 1990, and ending on the date prescribed by presidential proclamation or law;

(f) The period beginning on the date of any future declaration of war by the congress and ending on the date prescribed by presidential proclamation or concurrent resolution of the congress; and

(g) The following armed conflicts, if the participant was awarded the respective campaign badge or medal: The crisis in Lebanon; the invasion of Grenada; Panama, Operation Just Cause; Somalia, Operation Restore Hope; Haiti, Operation Uphold Democracy; Bosnia, Operation Joint Endeavor; Operation Noble Eagle; southern or central Asia, Operation Enduring Freedom; and Persian Gulf, Operation Iraqi Freedom.

[2005 c 255 § 1; 2005 c 247 § 1. Prior: 2002 c 292 § 1; 2002 c 27 § 1; 1999 c 65 § 1; 1996 c 300 § 1; 1991 c 240 § 1; 1984 c 36 § 1; 1983 c 230 § 1; 1982 1st ex.s. c 37 § 20; 1969 ex.s. c 269 § 1.]

Notes:

Reviser's note: *(1) RCW 28B.15.380 was amended by 2005 c 249 § 2 and no longer applies to veterans. For later enactment, see RCW 28B.15.621.

(2) This section was amended by 2005 c 247 § 1 and by 2005 c 255 § 1, each without reference to the other. Both amendments are incorporated in the publication of this section under RCW 1.12.025(2). For rule of construction, see RCW 1.12.025(1).

Severability -- 2005 c 247: "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." [2005 c 247 § 3.]

Effective date -- 2005 c 247: "This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately [May 3, 2005]." [2005 c 247 § 4.]

Effective date -- 1983 c 230: "This act is necessary for the immediate preservation of the public peace, health, and safety, the support of the state government and its existing public institutions, and shall take effect July 1, 1983." [1983 c 230 § 3.]

Effective date -- Severability -- 1982 1st ex.s. c 37: See notes following RCW 28B.15.012.

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0802.1/08

ATTY/TYPIST: LL:cro

BRIEF DESCRIPTION: Providing free interruptive military service credit for members of plans 2 and 3 who provide proof to the director that their interruptive military service was during a period of war defined in RCW 41.04.005.

AN ACT Relating to interruptive military service credit within plans 2 and 3 of the public employees' retirement system, plans 2 and 3 of the school employees' retirement system, plans 2 and 3 of the teachers' retirement system, plan 2 of the law enforcement officers' and firefighters' retirement system, plan 2 of the Washington state patrol retirement system, and the public safety employees' retirement system; and amending RCW 41.40.710, 41.40.805, 41.35.470, 41.35.650, 41.32.810, 41.32.865, 41.26.520, 43.43.260, and 41.37.260.

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

Sec. 1. RCW 41.40.710 and 2005 c 64 s 2 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW 41.40.610 through 41.40.740.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence.

This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The compensation earnable reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes both the plan 2 employer and member contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.45.061 and 41.45.067 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2).

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060, 41.45.061, and 41.45.067 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first.

(5) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to free retirement system service credit for up to five years of military service if the member qualifies under this subsection. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(a) The member qualifies for free service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(b) Upon receipt of documentation of eligibility for free military service credit under (a), (d), or (e) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060, 41.45.061, and 41.45.067 for the period of military service, plus interest as determined by the department.

(c) The employer contributions required under this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, and died while serving in the uniformed services may, on behalf of the deceased member, apply for free retirement system service credit under this subsection up to the date of the member's

death in the uniformed services. The department shall establish the deceased member's free service credit if the surviving spouse or eligible child or children:

(i) Provide to the director proof of the member's death while serving in the uniformed services;

(ii) Provide to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Provide to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to free retirement system service credit under this subsection up to the date of discharge from the uniformed services if the member:

(i) Obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) Provides to the director proof of honorable discharge from the uniformed services; and

(iii) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

Sec. 2. RCW 41.40.805 and 2005 c 64 s 3 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The earnable compensation reported for a member who establishes

service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes the contribution on behalf of the employer, plus interest, as determined by the department; and

(b) The member makes the employee contribution, plus interest, as determined by the department, to the defined contribution portion.

The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service if within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

The department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060 and 41.45.067 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department.

The contributions required shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(a) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may,

on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under this subsection within five years of the date of death or prior to the distribution of any benefit, whichever comes first.

(b) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under this subsection within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first.

<u>(5) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to free retirement system service credit for up to five years of military service if the member qualifies under this subsection. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.</u>

<u>(a) The member qualifies for free service credit under this subsection if:</u>

<u>(i) Within ninety days of the member's honorable discharge from the</u>

uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(b) Upon receipt of documentation of eligibility for free military service credit under (a), (d), or (e) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060 and 41.45.067 for the period of military service, plus interest as determined by the department.

(c) The employer contributions required under this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, and died while serving in the uniformed services may, on behalf of the deceased member, apply for free retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's free service credit if the surviving spouse or eligible child or children:

(i) Provide to the director proof of the member's death while serving in the uniformed services;

(ii) Provide to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Provide to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to free retirement system service credit under this subsection up to the date of discharge from the uniformed services if the member:

(i) Obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) Provides to the director proof of honorable discharge from the uniformed services; and

(iii) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

Sec. 3. RCW 41.35.470 and 2005 c 64 s 4 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW 41.35.400 through 41.35.599.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The compensation earnable reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes both the plan 2 employer and member contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.35.430 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2).

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.35.430 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in

the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first.

(5) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to free retirement system service credit for up to five years of military service if the member qualifies under this subsection. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(a) The member qualifies for free service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(b) Upon receipt of documentation of eligibility for free military service credit under (a), (d), or (e) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.35.430 for the period of military service, plus interest as determined by the department.

(c) The employer contributions required under this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, and died while serving in the uniformed services may, on behalf of the deceased member, apply for free retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's free service credit if the surviving spouse or eligible child or children:

(i) Provide to the director proof of the member's death while serving in the uniformed services;

(ii) Provide to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Provide to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to free retirement system service credit under this subsection up to the date of discharge from the uniformed services if the member:

(i) Obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) Provides to the director proof of honorable discharge from the uniformed services; and

(iii) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

Sec. 4. RCW 41.35.650 and 2005 c 64 s 5 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The earnable compensation reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes the contribution on behalf of the employer, plus interest, as determined by the department; and

(b) The member makes the employee contribution, plus interest, as determined by the department, to the defined contribution portion.

The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service if within ninety days of the member's honorable discharge from the

uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

The department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.35.720 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department.

The contributions required shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(a) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under this subsection within five years of the date of death or prior to the distribution of any benefit, whichever comes first.

(b) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or

she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under this subsection within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first.

(5) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to free retirement system service credit for up to five years of military service if the member qualifies under this subsection. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(a) The member qualifies for free service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(b) Upon receipt of documentation of eligibility for free military service credit under (a), (d), or (e) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.35.720 for the period of military service, plus interest as determined by the department.

(c) The employer contributions required under this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, and died while serving in the uniformed services

may, on behalf of the deceased member, apply for free retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's free service credit if the surviving spouse or eligible child or children:

(i) Provide to the director proof of the member's death while serving in the uniformed services;

(ii) Provide to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Provide to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to free retirement system service credit under this subsection up to the date of discharge from the uniformed services if the member:

(i) Obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) Provides to the director proof of honorable discharge from the uniformed services; and

(iii) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

Sec. 5. RCW 41.32.810 and 2005 c 64 s 7 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW 41.32.755 through 41.32.825.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is

authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The earnable compensation reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (6) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if the member makes both the employer and member contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner.

(4) If a member fails to meet the time limitations of subsection (3) of this section, the member may receive a maximum of two years of service credit during a member's working career for those periods when a member is on unpaid leave of absence authorized by an employer. This may be done by paying the amount required under RCW 41.50.165(2) prior to retirement.

(5) For the purpose of subsection (3) of this section, the contribution shall not include the contribution for the unfunded supplemental present value as required by RCW 41.32.775. The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(6) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.32.775 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2).

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.32.775 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first.

(7) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to free retirement system service credit for up to five years of military service if the member qualifies under this subsection. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(a) The member qualifies for free service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(b) Upon receipt of documentation of eligibility for free military service credit under (a), (d), or (e) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.32.775 for the period of military service, plus interest as determined by the department.

(c) The employer contributions required under this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of

the United States, and died while serving in the uniformed services may, on behalf of the deceased member, apply for free retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's free service credit if the surviving spouse or eligible child or children:

(i) Provide to the director proof of the member's death while serving in the uniformed services;

(ii) Provide to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Provide to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to free retirement system service credit under this subsection up to the date of discharge from the uniformed services if the member:

(i) Obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) Provides to the director proof of honorable discharge from the uniformed services; and

(iii) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

Sec. 6. RCW 41.32.865 and 2005 c 64 s 8 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is

authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The earnable compensation reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if:

(a) The member makes the contribution on behalf of the employer, plus interest, as determined by the department; and

(b) The member makes the employee contribution, plus interest, as determined by the department, to the defined contribution portion.

The contributions required shall be based on the average of the member's earnable compensation at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service if within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

The department shall establish the member's service credit and shall bill the employer for its contribution required under chapter 239, Laws of 1995 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department.

The contributions required shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(a) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under this subsection within five years of the date of death or prior to the distribution of any benefit, whichever comes first.

(b) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under this subsection within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first.

<u>(5) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to free retirement system service credit for up to five years of military service if the member qualifies under this subsection. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.</u>

(a) The member qualifies for free service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(b) Upon receipt of documentation of eligibility for free military service credit under (a), (d), or (e) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW chapter 239, Laws of 1995 for the period of military service, plus interest as determined by the department.

(c) The employer contributions required under this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, and died while serving in the uniformed services may, on behalf of the deceased member, apply for free retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's free service credit if the surviving spouse or eligible child or children:

(i) Provide to the director proof of the member's death while serving in the uniformed services;

(ii) Provide to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Provide to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in

the uniformed services is entitled to free retirement system service credit under this subsection up to the date of discharge from the uniformed services if the member:

(i) Obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) Provides to the director proof of honorable discharge from the uniformed services; and

(iii) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

Sec. 7. RCW 41.26.520 and 2005 c 64 s 9 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under the provisions of RCW 41.26.410 through 41.26.550.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The basic salary reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (7) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. Such credit may be obtained only if the member makes the employer, member, and state contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner.

(4) A law enforcement member may be authorized by an employer to work part time and to go on a part-time leave of absence. During a part-time leave of absence a member is prohibited from any other employment with their employer. A member is eligible to receive credit for any portion of service credit not earned during a month of part-time leave of absence if the member makes the employer, member, and state contributions, plus interest, as determined by the department for the period of the authorized leave within five years of resumption of full-time service or prior to retirement whichever comes sooner. Any service credit purchased for a part-time leave of absence is included in the two-year maximum provided in subsection (3) of this section.

(5) If a member fails to meet the time limitations of subsection (3) or (4) of this section, the member may receive a maximum of two years of service credit during a member's working career for those periods when a member is on unpaid leave of absence authorized by an employer. This may be done by paying the amount required under RCW 41.50.165(2) prior to retirement.

(6) For the purpose of subsection (3) or (4) of this section the contribution shall not include the contribution for the unfunded supplemental present value as required by RCW 41.45.060, 41.45.061, and 41.45.067. The contributions required shall be based on the average of the member's basic salary at both the time the authorized leave of absence was granted and the time the member resumed employment.

(7) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.45.060, 41.45.061, and 41.45.067 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2).

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, the department shall establish the member's service credit and shall bill the employer and the state for their respective contributions required under RCW 41.26.450 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first.

(8) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to free retirement system service credit for up to five years of military service if the member qualifies under this subsection. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(a) The member qualifies for free service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(b) Upon receipt of documentation of eligibility for free military service credit under (a), (d), or (e) of this subsection, the department shall establish the member's service credit and shall bill the employer and the state for its contribution required under RCW 41.26.450 for the period of military service, plus interest as determined by the department.

(c) The employer and state contributions required under this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, and died while serving in the uniformed services may, on behalf of the deceased member, apply for free retirement system service credit under this subsection up to the date of the member's

death in the uniformed services. The department shall establish the deceased member's free service credit if the surviving spouse or eligible child or children:

(i) Provide to the director proof of the member's death while serving in the uniformed services;

(ii) Provide to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Provide to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to free retirement system service credit under this subsection up to the date of discharge from the uniformed services if the member:

(i) Obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) Provides to the director proof of honorable discharge from the uniformed services; and

(iii) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(9) A member receiving benefits under Title 51 RCW who is not receiving benefits under this chapter shall be deemed to be on unpaid, authorized leave of absence.

Sec. 8. RCW 43.43.260 and 2005 c 64 s 10 are each amended to read as follows:

Upon retirement from service as provided in RCW 43.43.250, a member shall be granted a retirement allowance which shall consist of:

(1) A prior service allowance which shall be equal to two percent of the member's average final salary multiplied by the number of years of prior service rendered by the member.

(2) A current service allowance which shall be equal to two percent of the member's average final salary multiplied by the number of years of service rendered while a member of the retirement system.

(3)(a) Any member commissioned prior to January 1, 2003, with twenty-five years service in the Washington state patrol may have the member's service in the uniformed services credited as a member whether or not the individual left the employ of the Washington state patrol to enter such uniformed services: PROVIDED, That in no instance shall military service in excess of five years be credited: AND PROVIDED FURTHER, That in each instance, a member must restore all withdrawn accumulated contributions, which restoration must be completed on the date of the member's retirement, or as provided under RCW 43.43.130, whichever occurs first: AND PROVIDED FURTHER, That this section shall not apply to any individual, not a veteran within the meaning of RCW 41.06.150.

(b) A member who leaves the Washington state patrol to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(i) The member qualifies for service credit under this subsection if:

(A) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(B) The member makes the employee contributions required under RCW 41.45.0631 and 41.45.067 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(C) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2).

(ii) Upon receipt of member contributions under (b)(i)(B), (b)(iv)(C), and (b)(v)(C) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060 for the period of military service, plus interest as determined by the department.

(iii) The contributions required under (b)(i)(B), (b)(iv)(C), and (b)(v)(C) of this subsection shall be based on the compensation the

member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(iv) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(A) Provides to the director proof of the member's death while serving in the uniformed services;

(B) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(C) If the member was commissioned on or after January 1, 2003, pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first.

(v) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(A) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(B) The member provides to the director proof of honorable discharge from the uniformed services; and

(C) If the member was commissioned on or after January 1, 2003, the member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first.

<u>(c) A member who leaves the Washington state patrol to enter the uniformed services of the United States shall be entitled to free retirement system service credit for up to five years of military service if the member qualifies under this subsection (3)(c).</u>

Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(i) The member qualifies for service credit under this subsection (3)(c) if:

(A) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(B) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(ii) Upon receipt of documentation of eligibility for free military service credit under (c)(i), (iv), and (v) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060, for the period of military service, plus interest as determined by the department.

(iii) The employer contributions required under this subsection (3)(c) shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(iv) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(A) Provide to the director proof of the member's death while serving in the uniformed services;

(B) Provide to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(C) Provide to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(v) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to free retirement system service credit under this subsection up to the date of discharge from the uniformed services if the member:

(A) Obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(B) Provides to the director proof of honorable discharge from the uniformed services; and

(C) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(4) In no event shall the total retirement benefits from subsections (1), (2), and (3) of this section, of any member exceed seventy-five percent of the member's average final salary.

(5) Beginning July 1, 2001, and every year thereafter, the department shall determine the following information for each retired member or beneficiary whose retirement allowance has been in effect for at least one year:

(a) The original dollar amount of the retirement allowance;

(b) The index for the calendar year prior to the effective date of the retirement allowance, to be known as "index A";

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

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

The value of the ratio obtained shall be the annual adjustment to the original retirement allowance and shall be applied beginning with the July payment. In no event, however, shall the annual adjustment:

(i) Produce a retirement allowance which is lower than the original retirement allowance;

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

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

For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index for the Seattle-Tacoma-

Bremerton Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

The provisions of this section shall apply to all members presently retired and to all members who shall retire in the future.

Sec. 9. RCW 41.37.260 and 2005 c 64 s 11 are each amended to read as follows:

(1) A member who is on a paid leave of absence authorized by a member's employer shall continue to receive service credit as provided for under RCW 41.37.190 through 41.37.290.

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor organization for the compensation paid to the member during the period of absence, may also be considered to be on a paid leave of absence. This subsection shall only apply if the member's leave of absence is authorized by a collective bargaining agreement that provides that the member retains seniority rights with the employer during the period of leave. The compensation earnable reported for a member who establishes service credit under this subsection may not be greater than the salary paid to the highest paid job class covered by the collective bargaining agreement.

(3) Except as specified in subsection (4) of this section, a member shall be eligible to receive a maximum of two years service credit during a member's entire working career for those periods when a member is on an unpaid leave of absence authorized by an employer. This credit may be obtained only if:

(a) The member makes both the employer and member contributions plus interest as determined by the department for the period of the authorized leave of absence within five years of resumption of service or prior to retirement whichever comes sooner; or

(b) If not within five years of resumption of service but prior to retirement, pay the amount required under RCW 41.50.165(2).

The contributions required under (a) of this subsection shall be based on the average of the member's compensation earnable at both the time the authorized leave of absence was granted and the time the member resumed employment.

(4) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

(a) The member qualifies for service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member makes the employee contributions required under RCW 41.37.220 within five years of resumption of service or prior to retirement, whichever comes sooner; or

(iii) Prior to retirement and not within ninety days of the member's honorable discharge or five years of resumption of service the member pays the amount required under RCW 41.50.165(2).

(b) Upon receipt of member contributions under (a)(ii), (d)(iii), or (e)(iii) of this subsection, the department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.37.220 for the period of military service, plus interest as determined by the department.

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States and died while serving in the uniformed services may, on behalf of the deceased member, apply for retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's service credit if the surviving spouse or eligible child or children:

(i) Provides to the director proof of the member's death while serving in the uniformed services;

(ii) Provides to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Pays the employee contributions required under chapter 41.45 RCW within five years of the date of death or prior to the distribution of any benefit, whichever comes first.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to retirement system service credit under this subsection up to the date of discharge from the uniformed services if:

(i) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) The member provides to the director proof of honorable discharge from the uniformed services; and

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of total disability or prior to the distribution of any benefit, whichever comes first.

(5) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to free retirement system service credit for up to five years of military service if the member qualifies under this subsection. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

(a) The member qualifies for free service credit under this subsection if:

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

(ii) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(b) Upon receipt of documentation of eligibility for free military service credit under (a), (d), or (e) of this subsection, the

department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.37.220 for the period of military service, plus interest as determined by the department.

(c) The employer contributions required under this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

(d) The surviving spouse or eligible child or children of a member who left the employ of an employer to enter the uniformed services of the United States, and died while serving in the uniformed services may, on behalf of the deceased member, apply for free retirement system service credit under this subsection up to the date of the member's death in the uniformed services. The department shall establish the deceased member's free service credit if the surviving spouse or eligible child or children:

(i) Provide to the director proof of the member's death while serving in the uniformed services;

(ii) Provide to the director proof of the member's honorable service in the uniformed services prior to the date of death; and

(iii) Provide to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005.

(e) A member who leaves the employ of an employer to enter the uniformed services of the United States and becomes totally incapacitated for continued employment by an employer while serving in the uniformed services is entitled to free retirement system service credit under this subsection up to the date of discharge from the uniformed services if the member:

(i) Obtains a determination from the director that he or she is totally incapacitated for continued employment due to conditions or events that occurred while serving in the uniformed services;

(ii) Provides to the director proof of honorable discharge from the uniformed services; and

(iii) Provides to the director proof that the member's interruptive

military service was during a period of war as defined in RCW 41.04.005.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**10/3/07**	**Free Interruptive Military Service Credit**

INTENDED USE

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

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

EXECUTIVE SUMMARY

This proposal would allow the member to receive interruptive military service credit at no cost.

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

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

	Fiscal Costs		
(Dollars in Millions)	**2007-2009**	**2009-2011**	**25-Year**
General Fund-State	$0.0	$0.0	$0.6
Total Employer	$0.0	$0.1	$2.4

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

SUMMARY OF PROPOSAL

This proposal impacts Plans 2 and 3 of the Public Employees' Retirement System (PERS), Plans 2 and 3 of the Teachers' Retirement System (TRS), Plans 2 and 3 of the School Employees' Retirement System (SERS), the Public Safety Employees' Retirement System (PSERS), Plan 2 of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), and Plan 2 of the Washington State Patrol Retirement System (WSP) by eliminating the member obligation to pay for interruptive military service credit. In the case of a military death, the survivor would also be relieved of paying the member cost for interruptive military service credit.

Assumed Effective Date: 90 days after session

CURRENT SITUATION

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

Members must make the required contributions within five years of resuming service with their employer, or prior to retirement, whichever comes first. Members who fail to make timely payment have the option of purchasing the service credit by paying the actuarial cost of the resulting increase in their benefits. In the case of a military death, a survivor who applies for the member's interruptive military service credit must pay the member cost within five years of the member's death or prior to receiving a benefit.

SUMMARY OF MEMBERS IMPACTED

We estimate that all 15,718 active members of LEOFF Plan 2, all 118,341 active members of PERS Plan 2, all 22,473 active members of PERS plan 3, all 2,073 active members of PSERS Plan 2, all 18,464 active members of SERS Plan 2, all 32,354 active members of SERS Plan 3, all 6,983 active members of TRS Plan 2, all 53,371 active members of TRS Plan 3, and all 116 active members of WSP Plan 2 could be affected by this proposal through improved benefits. However, we only expect approximately 1 out of 4,000 to be impacted in a given year.

We estimate that for a typical Plan 2 member impacted by this proposal, the increase in benefits would be free interruptive military service credit versus the choice to pay for interruptive military service credit. For example, a 36 year old male in PERS 2 with 7

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years of service and a $46,600 salary would receive free interruptive military service credit valued at approximately $2,500 per year of military service whereas without this benefit the member could choose to purchase interruptive military service credit for that same amount.

The benefit for a typical Plan 3 member is the removal of the required contribution to their defined contribution account upon purchase of military service.

Additionally, Plan 2 members would be affected by this proposal through increased contribution rates in future biennia.

METHODS

The pricing method utilized in determining the actuarial cost was through the use of a simplified valuation, where members were grouped by age and projected to retirement. For each year, the probability of purchasing credit for interruptive military service was assumed and directly affected the resulting liability increase for the system. If the member purchases the service credit within 5 years they pay the missed contributions, however if they miss the 5 year window they will repay the full actuarial value at retirement. The process for developing these probabilities will be described in the assumptions section.

A calculation involving both merit and general salary increases was utilized to project the member's salary into the future and, at most, five years into the past. The total increased cost of this benefit is calculated by evaluating the average of what the member would have contributed over the previous five years with the associated contribution rates for those years, and applying the probability that a member will have interruptive military service. The ultimate cost of this increased benefit is presented below with all future payments discounted to present day dollars.

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

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

ASSUMPTIONS

The primary assumption developed for this pricing was the annual probability of a member purchasing military service credit, either within the 5 year window or at retirement. Utilizing data from a service credit report dated September 30, 2006, an annual average using five years of data was calculated starting with the 2002 valuation year and ending in 2006. Since there was far more data available on the PERS system

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comparatively, the probability developed for PERS was applied to all other systems as well. This came out to be 0.000214 or 1 in every 4700. We utilized general population experience to set the participation rate and adjusted this assumption by system to reflect more or less military participation. For example, we assumed Public Safety employees would have a higher rate of participation and Teachers less. More specifically, TRS and SERS were assumed to be at half of the standard rate developed, whereas PSERS was assumed to be 1.5 times this rate, and LEOFF and WSPRS were assumed to be at twice this rate.

This result was developed taking into account the number of military service credits that were previously earned and then purchased between the valuation years of 2002 through 2006. The average number of months purchased for military service credit was 10.6 months and thus was the figure assumed for this pricing. Then a weighted average over the five-year span was calculated utilizing the total number of active members for each year to determine the probability that a member purchases service credit each year. This provided our final set of probabilities that have been applied to all systems affected by this proposal. For simplicity, we also assumed the population affected would be 100% male.

Also, we assumed that all military service purchases would be by the members themselves. If a survivor is purchasing the service credit they would get an immediate annuity instead of the deferred annuity otherwise available to the member. We assumed that the number of survivors relative to members purchasing military service would be small and the increased cost would be negligible.

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

DATA

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

FISCAL IMPACT

Description

This proposal has a cost because the system will now absorb the cost of individual members purchasing interruptive military service credit.

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Actuarial Determinations

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

(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$13,723	$0.0	$13,723
PERS 2/3	18,966	0.4	18,966
PERS Total	**32,689**	**0.4**	**32,689**
TRS 1	10,834	0.0	10,834
TRS 2/3	6,804	0.0	6,804
TRS Total	**17,638**	**0.0**	**17,638**
SERS 2/3	**2,610**	**0.0**	**2,610**
PSERS 2	**169**	**0.0**	**169**
LEOFF 1	4,316	0.0	4,316
LEOFF 2	6,004	0.3	6,004
LEOFF Total	**10,320**	**0.3**	**10,320**
WSPRS 1/2	**$848**	**$0.0**	**$848**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	**$3,196**	**$0.0**	**$3,196**
TRS 1	**1,976**	**0.0**	**1,976**
LEOFF 1	**($702)**	**$0.0**	**($702)**
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 1	$3,750	$0.0	$3,750
PERS 2/3	(2,338)	0.2	(2,338)
PERS Total	**1,412**	**0.2**	**1,412**
TRS 1	2,348	0.0	2,348
TRS 2/3	(1,116)	0.0	(1,116)
TRS Total	**1,232**	**0.0**	**1,232**
SERS 2/3	**(336)**	**0.0**	**(336)**
PSERS 2	**0**	**0.0**	**0**
LEOFF 1	(738)	0.0	(738)
LEOFF 2	(521)	0.2	(521)
LEOFF Total	**(1,259)**	**0.2**	**(1,259)**
WSPRS 1/2	**($89)**	**$0.0**	**($89)**

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

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

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations

	Fiscal Costs						
(Dollars in Millions)	**PERS**	**PSERS**	**TRS**	**SERS**	**LEOFF**	**WSPRS**	**Total**
2007-2009							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employer	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
2009-2011							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total Employer	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.1
2007-2032							
General Fund	$0.2	$0.0	$0.0	$0.0	$0.4	$0.0	$0.6
Non-General Fund	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Total State	0.6	0.0	0.0	0.0	0.4	0.0	1.0
Local Government	0.9	0.0	0.0	0.0	0.5	0.0	1.4
Total Employer	1.4	0.0	0.0	0.0	0.9	0.0	2.4
Total Employee	$1.0	$0.0	$0.0	$0.0	$0.9	$0.0	$2.0

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

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

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Sensitivity Analysis

The number of members expected to purchase military service credit would have to increase dramatically for this proposal to impact rates in the current biennium. The table below shows the multiple of how many more members would need to receive free military service credit before the rate impact would reach 0.005% for each system. For example, in LEOFF 2, the employee rate impact would reach 0.005% if 4 times as many members as expected receive free interruptive military service credit.

System	Multiple
PERS	16
TRS	176
SERS	60
PSERS	9
LEOFF	4
WSP	48

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.

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

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

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6. FRP (Pre-LEOFF) Survivor Benefits

FRP (Pre-LEOFF) Survivor Benefits

In Brief

ISSUE

Stakeholders are proposing two changes to survivor benefits provided in the pre-LEOFF Firemen's Relief and Pension Plans (FRP).

Stakeholders are requesting that survivor pensions not stop when a surviving spouse remarries.

Stakeholders are also requesting that members be allowed to provide a survivor annuity to a spouse who is otherwise ineligible to receive one. This annuity would be provided at member cost.

MEMBER IMPACT

There are no active members remaining in the FRP plan. It is unknown how many retired members or survivors would be impacted by these proposals since the plan is not administered by the State.

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Current Situation

Stakeholder Proposals

Stakeholders are proposing two changes to survivor benefits provided in the Firemen's Relief and Pension Plans:

- Continue paying survivor benefits when a surviving spouse remarries.
- Provide a new, member-paid survivor benefit option for certain spouses.

Stakeholders have requested that the new survivor benefit option be modeled after an option currently provided in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The option would allow members to provide an actuarially equivalent survivor annuity to a spouse who is otherwise ineligible for a survivor annuity. Members electing this new option would have their pensions actuarially reduced to pay the cost of providing the survivor annuity. The actuarial reduction would be removed if the spouse predeceases the member.

Background

The FRP covered fire fighters prior to the creation of LEOFF. The plan provides retirement, disability, and survivor benefits for paid members of a fire department who were actively employed as a fire fighter or a fire dispatcher prior to March 1, 1970. The plan closed to new members on March 1, 1970, and all active members were transferred to LEOFF. The plan is administered by local governments for remaining members, and benefits are paid out of local government funds.

Benefits in the plan are funded through a property tax levy and a portion of fire insurance premium taxes. Each municipality is required to levy a property tax of up to 22.5 cents per $1,000 of assessed value against all taxable property to support the FRP. If all or a portion of the property tax is not necessary to maintain the FRP, the tax may be reduced or used for any other municipal purpose.

Additionally, the State distributes 25 percent of the tax collected on fire insurance premiums to support the FRP. Each eligible city, town, or fire protection district receives its share of the premium taxes based on their current number of active fire fighters.

Currently, FRP provides different survivor benefits depending on the circumstances of the member's death. The surviving spouse of a member who is killed in the line of duty receives a survivor pension of 50 percent of the member's basic salary. The surviving spouse of a member who dies while retired for service or for a duty-related disability continues to receive the member's benefit. The surviving spouse of a member who dies from a disability not related to duty receives a survivor pension of one-third of the member's basic salary with additional amounts provided for each child. If there is no surviving spouse, the pension that would otherwise have been payable to the spouse is divided among the eligible children in equal shares. Survivor benefits are provided at no additional cost to the member.

Some spouses are not eligible to receive survivor benefits from the plan.

In order to qualify for survivor benefits, a surviving spouse must have been married to the member at the time of the member's death in the line of duty or retirement for disability, or married five years prior to the member's retirement for service.

The survivor benefit paid to a surviving spouse of a member who died in the line of duty or was retired for disability is stopped if the spouse remarries. In contrast, the survivor benefit paid to the surviving spouse of a member retired for service continues even if the spouse remarries. Survivor benefits paid to child survivors cease when the child attains the age of eighteen or is married.

History

Survivor Benefits in LEOFF

The changes stakeholders are proposing for FRP are similar to changes that have been made in the LEOFF system.

The changes stakeholders are proposing for FRP are similar to changes that have been made in the LEOFF system.

Initially, survivor benefits payable to surviving spouses in LEOFF Plan 1 were stopped if the spouse remarried. Over time, the plan was amended so that benefits payable to surviving spouses continued even if the spouse remarried.

The plan was further amended in 2002 to allow members to provide an actuarially equivalent survivor annuity to a spouse otherwise ineligible for a survivor annuity from the plan. The cost of the new survivor benefit was paid for by members electing it. Members who were already married to an ineligible spouse were given a one-year window to designate their spouse as a beneficiary for the new survivor benefit option.

Legislative/SCPP

Non-SCPP Legislation was introduced in 2007 that would have addressed the stakeholder proposal regarding remarriage of surviving spouses.

In 2007, non-SCPP legislation was introduced that would have addressed one of the stakeholder proposals regarding survivor pensions in the FRP. HB 1824 would have removed provisions in the FRP that stop the survivor pension for certain spouses who remarry. The bill did not address the other stakeholder proposal concerning a new survivor benefit option. The bill passed the House, but did not receive a hearing in the Senate.

The SCPP received an initial briefing on FRP survivor benefits on July 17, 2007. The Executive Committee discussed this issue at its November meeting and directed staff to provide a briefing to the full committee at the December 18 meeting and draft a bill implementing both stakeholder proposals for possible executive action.

Examples

Remarriage of Surviving Spouse

Emma is the widow of a fire fighter who retired from the FRP for disability. Emma has been collecting a survivor pension for 20 years, and is currently receiving $3,000 per month. If Emma were to remarry, her survivor pension would be stopped. However, if Emma's husband had been retired for service, Emma would be able to remarry without having her survivor pension stopped.

Ineligible Spouse – Post-Retirement Marriage

Bill is a former fire fighter who retired for *disability* from the FRP 37 years ago. At the time of his retirement, Bill was not married. Five years after retiring, Bill married Becky. Because Becky was not married to Bill *at the time of his*

retirement, she is not eligible for a survivor benefit from the plan.

Ineligible Spouse – Married at Retirement

John is a former fire fighter who retired for *service* from the FRP 37 years ago. Six months prior to his retirement, John was married to his current wife Joan. Because Joan was not married to John *one year prior to his retirement*, she is not eligible for a survivor benefit from the plan

Policy Analysis

Other Washington Plans

The majority of fire fighters in Washington State are covered by the LEOFF system, and this paper will use the LEOFF system as the basis for comparison.

The first stakeholder proposal relates to the remarriage of surviving spouses. In both plans of the LEOFF system, survivor pensions do not cease when a surviving spouse remarries -- regardless of whether the survivor benefit was paid for by the member or provided at no additional cost to the member.

Surviving spouses in the LEOFF system may generally qualify for a member-paid survivor pension regardless of when or how long they were married to the member. Pensions are not stopped even if the spouse remarries.

The second stakeholder proposal relates to the eligibility of a spouse to qualify for a survivor pension. Here, the approach taken by the plans differs depending on whether the survivor benefit is paid for by the member or provided at no additional member cost.

In LEOFF 1, a surviving spouse must be married to the member one year prior to retirement for service to qualify for a survivor benefit at no member cost. LEOFF 1 also provides an additional member-paid survivor benefit option for spouses not otherwise eligible for the free survivor annuity (including post-retirement spouses).

LEOFF 2 generally provides survivor benefits at member cost and does not generally limit the ability of a spouse to receive a benefit based on when or how long they were married to the member (including post-retirement spouses).

In both plans of the LEOFF system, member-paid survivor benefits are administered by means of an actuarial reduction to the member's pension. Both plans have

provisions to restore the member's pension to the unreduced amount if the spouse predeceases the member -- commonly referred to as a "pop-up" provision.

There is also a pre-LEOFF police system with provisions for surviving spouses similar to the FRP.

There also exists a pre-LEOFF Police Relief and Pensions (PRP) system that has provisions similar to the FRP in regards to survivor benefits for spouses. The PRP closed to new members on March 1, 1970, and all active members were transferred to LEOFF. Like the FRP, the plan is administered by local governments for remaining members, and benefits are paid out of local government funds. As in the FRP, survivor pensions paid to surviving spouses are stopped if the spouse remarries, and a spouse must be married five years prior to the member's retirement for service to qualify for survivor benefits. The PRP also provides a $300 per month pension for a surviving spouse who is otherwise ineligible for a survivor pension.

Other States

An examination of how plans covering fire fighters in Washington's comparative states handle spousal eligibility for survivor pensions and the remarriage of surviving spouses is relevant to the discussion of this issue.

Other states generally provide options for most spouses to receive a survivor pension and do not stop such pensions if the survivor remarries.

Generally, Washington's comparative states provide survivor benefits at member-cost. These states do not have length of marriage requirements for a spouse of a service retiree to be eligible for a member-paid survivor annuity. The majority of other states also allow members some opportunity to designate a post-retirement spouse for a survivor benefit, and "Pop-up" provisions are common.

In addition to member-paid benefits, California also offers an employer-provided (at no member cost) survivor annuity benefit. The spouse must have been married at least one year prior to the member's retirement to qualify for the employer-provided annuity.

Plans covering fire fighters in Washington's comparative states do not stop a survivor pension if the surviving spouse remarried.

See **Appendix A** for more detailed information on survivor benefits in other states.

Free vs. Member-Paid Benefits

Policy-makers may take different views depending on whether benefits are member-paid or offered at no additional cost to the member.

The two stakeholder proposals on FRP survivor benefits generally address the ability of a spouse to qualify for a survivor pension from the plan. Policy-makers may take different views on this issue depending on whether benefits are member-paid or offered at no additional cost to the member.

When survivor benefits are paid for entirely by the member, they may be viewed more along the lines of providing member flexibility in payment options. There may be little perceived need to place restrictions on who may qualify for such benefits since the cost is entirely born by the member. When survivor benefits are paid for by the member, there is little reason from both a plan design and public policy perspective to either limit a spouse's ability to receive a survivor benefit or to stop survivor benefits if a surviving spouse remarries.

When survivor benefits are provided free to the member, there may be greater reason to limit who qualifies.

In contrast, survivor benefits that are provided free to the member may be viewed more along the lines of a public benefit. In such cases, policy-makers may wish to place restrictions on who qualifies for such benefits and limit the circumstances under which the benefits are paid. Such restrictions may serve many purposes such as:

- Lowering the cost of providing survivor benefits.
- Directing benefit dollars to recipients with the greatest perceived need.
- Preventing perceived abuse.

For example, policy-makers may require a spouse to be married to the member for a certain number of years prior to the member's retirement or death. Such a restriction may serve to ensure survivor benefits are going to spouses who were married to the member for some portion of their public career. It may also serve to prevent "death-bed" marriages—where a member who has a short time to live marries simply to provide the free survivor benefit to someone.

Policy-makers may also choose to stop survivor benefits when a surviving spouse remarries. Such a restriction may serve to prevent a spouse from collecting more than one survivor benefit from the plan if they remarry another plan

member. It may also serve to direct survivor pension dollars to those surviving spouses who do not have access to income from another marriage.

Some restrictions may run counter to broader public policy concerns.

While there are reasons from a plan design perspective to restrict the ability of a spouse to collect a survivor pension, some restrictions may run counter to broader public policy concerns. Restrictions related to the length and timing of marriage may result in a member not being able to provide a survivor annuity for a spouse of many years. Restrictions related to collecting survivor pensions after remarriage may serve as a disincentive for a surviving spouse to ever remarry. For those spouses who do remarry, the loss of a survivor pension may create financial difficulty —particularly if the pension had been collected and relied upon for many years.

Cost Implications

The two stakeholder proposals relating to FRP survivor benefits have very different cost implications. Continuing survivor pension payments that would otherwise be stopped upon the remarriage of the surviving spouse has a direct cost to the plan. Because the FRP has been closed for many years and there are no longer any active members, such additional costs cannot be funded over the working lifetime of plan members. It is unknown whether the tax revenue currently allocated to pay the benefits of the plan is sufficient to cover the cost of any additional benefit improvements.

Providing members a new actuarially equivalent survivor benefit option for otherwise ineligible spouses has no cost to the plan—the benefit is entirely paid for by the member. However, implementing such an option may generate administrative costs for the various local governments that still pay FRP benefits. Plan administrators may need to consult with actuaries or other experts to develop the new survivor option.

Members may wish to consider if policy concerns warrant advancing a legislative proposal with an unknown cost.

The total cost of the stakeholder proposals relating to FRP survivor benefits is indeterminate at this time due to lack of available data (see attached fiscal note). The plan is administered by local boards and there is no State oversight or centralized reporting. The cost of the proposals would be entirely born by the local governments

paying the benefits. SCPP members may wish to consider whether the policy concerns warrant advancing a legislative proposal with an unknown cost.

Conclusion

Stakeholders have made two proposals regarding survivor benefits in the FRP. Both of the proposals generally address the ability of a spouse to collect a survivor pension from the plan. One proposal is to continue paying survivor pensions when a surviving spouse remarries. This proposal has a cost that is indeterminate at the present time due to insufficient data. The other proposal is to provide a new member-paid survivor benefit option for an otherwise ineligible spouse. This proposal has no cost to the plan. Both proposals are consistent with current practice in the LEOFF system.

Executive Committee Recommendations

The Executive Committee has not made a recommendation on this issue. However, staff was directed to prepare a bill draft incorporating both stakeholder proposals.

Bill Draft

A code reviser draft of the bill (Z-0765.1/08) is attached. Staff prepared the bill draft based upon HB 1824 from the 2007 Session and current LEOFF statute. HB 1824 was referred to for language to continue survivor benefits upon remarriage. The actuarially equivalent survivor option for otherwise ineligible spouses was modeled after current provisions in LEOFF Plan 1.

Stakeholder Input

Correspondence from:

Richard Warbrouk,

President, Retired Firefighters of Washington.

Draft Fiscal Note

Attached.

Supporting Information

Appendix A

Plans Covering Fire Fighters in Other States				
State	**Survivor Benefit Ceases on Remarriage**	**Restrictions on Eligible Spouse for Service Retirement Survivor Benefit**	**May Designate a Post-Retirement Spouse for Survivor Benefits**	**Pop-Up**
California				
Employer-Provided	No	Married 1 year prior	No	
Member-Paid	No	No	Yes	Yes
Iowa	No	No	Yes	Yes
Missouri	No	No	No	Yes
Ohio	No	No	Yes	Not specified
Colorado	No	No	Yes	Yes
Florida	No	No	Yes	Not specified
Idaho	No	No	Yes	Yes
Iowa	No	No	No	Yes
Minnesota	No	No	No	Yes
Oregon	No	No	Yes	Yes
Wisconsin	No	No	Yes	Yes

Data obtained from plan administrator websites, member handbooks, and other publications available online as of 11/26/2007.

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The Select Committee on Pension Policy

FRP (Pre-LEOFF) Survivor Benefits

Darren Painter, Policy Analyst
December 18, 2007

Office of the State Actuary
"Securing tomorrow's pensions today."

Issue

- Some spouses are not eligible to receive survivor benefits from the plan
- Stakeholders proposing two changes to expand eligibility

History

- Initial SCPP briefing in July
- Executive Committee discussion in November
  - No specific recommendation
  - Full SCPP briefing
  - Bill draft implementing stakeholder proposals

Firemen's Relief And Pension (FRP)

- Pre-LEOFF plan
  - Covered firefighters employed prior to March 1, 1970
  - Plan closed when LEOFF opened
    - Active members transferred to LEOFF 1
    - Retirees and survivors remained
- Administered by local boards
- Benefits paid by local governments
- Funding received from
  - Property tax levy (22.5 cents per $1,000)
  - Portion of state fire insurance premium taxes (25%)

Survivor Benefits In FRP

- Survivor annuities provided at no additional cost to member
- To qualify for a surviving spouse annuity
  - Married to member
    - 5 years prior to retirement for service
    - At time of death in the line of duty or retirement for disability
  - No provision for post-retirement spouse
- Certain survivors are no longer eligible for survivor annuity if they remarry
  - Disability, line of duty death
  - Payments cease upon remarriage

Stakeholder Proposals

- Create new, member-paid survivor benefit option
  - Spouses not eligible for "free" survivor annuity
  - Member takes actuarially reduced pension
- Continue survivor pensions when a spouse remarries
  - Subject of 2007 legislation
    - HB 1824 (Non-SCPP)
    - Passed House, not heard in Senate
- Both proposals consistent with current practice in LEOFF
- Bill draft provided

Washington Plans

- LEOFF
  - Spouses generally qualify for survivor pensions regardless of when or how long married to member
  - Pensions do not stop if spouse remarries
- Pre-LEOFF Police plan
  - Similar to FRP
  - Same general provisions on spousal eligibility
    - Some spouses don't qualify
    - Pensions may stop upon remarriage

Comparative States

- Generally provide options for most spouses to receive a survivor pension
- Majority (7 of 10) allow post-retirement spouse to qualify
- Do not stop survivor pensions if spouse remarries

Member-paid Vs. "Free" Benefits

- Different views of member-paid and "free" benefits
- Member paid
  - More like member flexibility in payment options
  - Few reasons to limit who qualifies
- Free to member (no additional cost)
  - More like public benefit
  - More reason to limit who qualifies
    - Control costs
    - Prevent abuse
    - Direct benefit dollars to recipients with highest need
- Stakeholder proposal in each category

Fiscal Impact: Proposal 1

- Proposal 1: Create new survivor benefit option
  - Member paid
  - No cost to plan
  - Possible administrative costs

Fiscal Impact: Proposal 2

- Proposal 2: Continue survivor pension on remarriage
  - No member cost
  - Cost to plan (foregone savings)
- Actual cost indeterminate
- Insufficient data
  - Administered by local boards
  - No centralized reporting
- Costs paid entirely by local governments

Procedural Questions/Next Steps

- Should the stakeholder proposals be accepted, or is further studied required?
- Should legislation with an indeterminate fiscal cost be advanced to the legislature?
  - Bill draft contains both proposals
    - New survivor benefit option *(member paid)*
    - Remarriage of surviving spouse *(indeterminate cost)*
- Opportunity for formal action later today

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0765.1/08

ATTY/TYPIST: LL:seg

BRIEF DESCRIPTION: Providing benefits for the survivors of certain firefighters.

AN ACT Relating to benefits for the survivors of certain firefighters; amending RCW 41.18.080 and 41.18.100; and adding a new section to chapter 41.18 RCW.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.18 RCW to read as follows:

(1) Any retired firefighter married to a spouse ineligible for survivor benefits under RCW 41.18.040, 41.18.080, and 41.18.100 may choose an actuarially equivalent benefit adopted by the board that pays the retired firefighter a reduced retirement allowance, and upon death such portion of the retired firefighter's reduced retirement allowance as designated by the retired firefighter shall be continued throughout the life of the spouse. If a payment to any child survivor beneficiary is made under RCW 41.18.040, 41.18.080, and 41.18.100, the benefit paid to a spouse designated under this subsection shall be equivalent to the remainder, if any, of the payment payable to the spouse less the payment made to any child survivor beneficiary.

(2) A retired firefighter who married a spouse ineligible for survivor benefits under RCW 41.18.040, 41.18.080, and 41.18.100 prior

to the effective date of this section has one year after the effective date of this section to designate their spouse as a survivor beneficiary.

(3) The benefit provided to a child survivor beneficiary under RCW 41.18.040, 41.18.080, and 41.18.100 shall not be affected or reduced by the retired firefighter's selection of the actuarially reduced spousal survivor benefit provided by this section, and shall be equivalent to the amount payable as if the choice under subsection (1) of this section was not made.

(4)(a) Any retired firefighter who chose to receive a reduced retirement allowance under subsection (1) of this section is entitled to receive a retirement allowance adjusted in accordance with (b) of this subsection if:

(i) The retiree's survivor spouse designated in subsection (1) of this section predeceases the retiree; and

(ii) The retiree provides to the board proper proof of the designated beneficiary's death.

(b) The retirement allowance payable to the retiree from the beginning of the month following the date of the beneficiary's death shall be the current monthly amount payable as if the selection under subsection (1) of this section was not made.

Sec. 2. RCW 41.18.080 and 2007 c 218 s 49 are each amended to read as follows:

Any firefighter who has completed his or her probationary period and has been permanently appointed, and sustains a disability not in the performance of his or her duty which renders him or her unable to continue his or her service, may request to be retired by filing a written request with his or her retirement board within sixty days from the date of his or her disability. The board may, upon such request being filed, consult such medical advice as it deems fit and proper. If the board finds the firefighter capable of performing his or her duties, it may refuse to recommend retirement and order the firefighter back to duty. If no request for retirement has been received after the expiration of sixty days from the date of his or her disability, the board may recommend retirement of the firefighter. The board shall give the firefighter a thirty-day written notice of its recommendation, and he or she shall be retired upon expiration of said notice. Upon

retirement he or she shall receive a pension equal to fifty percent of his or her basic salary. For a period of ninety days following such disability the firefighter shall receive an allowance from the fund equal to his or her basic salary. He or she shall during said ninety days be provided with such medical, hospital, and nursing care as the board deems proper. No funds shall be expended for such disability if the board determines that the firefighter was gainfully employed or engaged for compensation in other than fire department duty when the disability occurred, or if such disability was the result of dissipation or abuse. Whenever any firefighter shall die as a result of a disability sustained not in the line of duty, his widow or her widower shall receive a monthly pension equal to one-third of his or her basic salary ((~~until remarried~~)); if such widow or widower has dependent upon her or him for support a child or children of such deceased firefighter, he or she shall receive an additional pension as follows: One child, one-eighth of the deceased's basic salary; two children, one-seventh; three or more children, one-sixth. If there be no widow or widower, monthly payments equal to one-third of the deceased firefighter's basic salary shall be made to his or her child or children. The widow or widower may elect at any time in writing to receive a cash settlement, and if the board after hearing finds it financially beneficial to the pension fund, he or she may receive the sum of five thousand dollars cash in lieu of all future monthly pension payments, and other benefits, including benefits to any child and/or children.

Sec. 3. RCW 41.18.100 and 2007 c 218 s 51 are each amended to read as follows:

In the event a firefighter is killed in the performance of duty, or in the event a firefighter retired on account of service connected disability shall die from any cause, his widow or her widower shall receive a monthly pension under one of the following applicable provisions: (1) If a firefighter is killed in the line of duty his widow or her widower shall receive a monthly pension equal to fifty percent of his or her basic salary at the time of his or her death; (2) if a firefighter who has retired on account of a service connected disability dies, his widow or her widower shall receive a monthly pension equal to the amount of the monthly pension such retired

firefighter was receiving at the time of his or her death. If she or he at any time so elects in writing and the board after hearing finds it to be financially beneficial to the pension fund, he or she may receive in lieu of all future monthly pension and other benefits, including benefits to child or children, the sum of five thousand dollars in cash. If there be no widow or widower at the time of such firefighter's death or upon the widow's or widower's death the monthly pension benefits ((~~hereinabove~~)) provided for under this section shall be paid to and divided among his or her child or children share and share alike, until they reach the age of eighteen or are married, whichever occurs first. ((~~The widow's or widower's monthly pension benefit, including increased benefits to his or her children shall cease if and when he or she remarries: PROVIDED, That~~)) No pension payable under the provisions of this section shall be less than that specified under RCW 41.18.200.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**12/6/2007**	**Z-0765.1**

INTENDED USE

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

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

EXECUTIVE SUMMARY

This proposal impacts members of the Firemen's Relief and Pensions Plans (1955 Act) by providing an optional survivor benefit for spouses who are not currently eligible to receive survivor benefits, and by allowing certain survivor benefits to continue after remarriage.

The cost for this proposal is indeterminate as we do not have any data to perform a sufficient analysis.

See the Actuarial Determinations section of this daft fiscal note for additional detail.

SUMMARY OF PROPOSAL

This proposal impacts the Firemen's Relief and Pensions Plans (1955 Act) by providing a new survivor benefit option and allowing certain survivor benefits to continue if the survivor remarries.

This proposal would create a new actuarially equivalent survivor benefit for spouses who are otherwise ineligible to receive ongoing survivor benefits under the plan. If a member who is married to an ineligible spouse elects this option, the member's retirement allowance will be actuarially reduced. Then, upon the death of the member, the reduced

retirement allowance will continue throughout the life of the spouse. The selection of this survivor option will not affect any payments due to child beneficiaries, and payments to the spouse will be offset by any payments made to child beneficiaries. Members who were married to an ineligible spouse prior to the effective date of the act will have one year from the effective date of the act to designate their spouse as a survivor beneficiary. The proposed option also provides a "pop-up" provision in the event the designated spouse predeceases the member. This provision would increase the amount of the member's retirement allowance to the amount the member would have received had the member not selected the option.

This proposal would also allow survivor benefits for members who retired on disability or who died in the line of duty to continue if the survivor remarries.

Assumed Effective Date: 90 days after session.

CURRENT SITUATION

The Firemen's Relief and Pensions Plans (1955 Act) provides retirement, disability, and survivor benefits for paid members of a fire department who are actively employed as a fire fighter or a fire dispatcher. The plan closed to new members on March 1, 1970, and the majority of members were transferred to the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The plan is administered by local governments and benefits are paid out of local government funds.

Currently, the plan provides different survivor benefits depending on the circumstances of the member's death. The surviving spouse of a member who is killed in the line of duty receives a survivor pension of 50% of the member's basic salary. The surviving spouse of a member who dies while retired for service or for a duty-related disability continues to receive the member's benefit. The surviving spouse of a member who dies from a disability not related to duty receives a survivor pension of one-third of the member's basic salary with additional amounts provided for each child. If there is no surviving spouse, the pension that would otherwise have been payable to the spouse is divided among the eligible children in equal shares.

In order to qualify for survivor benefits, a surviving spouse must have been married to the member at the time of the member's death in service or disability, or married five years prior to the member's retirement for service. The survivor benefit paid to a surviving spouse of a member retired for service continues even if the spouse remarries, while in all other cases, the survivor benefits are stopped if the spouse remarries. Survivor benefits paid to child survivors cease when the child attains the age of eighteen or is married.

SUMMARY OF MEMBERS IMPACTED

We do not have any data to determine the number of members impacted by this proposal.

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FISCAL IMPACT

Actuarial Determinations

The FRP Plan is administered by local governments and benefits are paid out of local funds. Neither the LEOFF Plans nor any other State Retirement Plans are impacted by these benefit improvements. The cost associated with this proposal is discussed under each of the benefit provisions below:

(1) The provision of an actuarially equivalent survivor benefit for spouses who are otherwise ineligible is cost neutral as far as the benefit provision itself. An actuarially equivalent benefit is a benefit that has the same present value as the benefit it replaces. There are, however, some intrinsic costs in offering this benefit because the local governments will have to administer this additional benefit and possibly obtain actuarial services to calculate the actuarially equivalent values.

(2) The cost to continue a survivor pension when the survivor remarries is essentially the "loss of savings" to the fund that would have occurred without this provision. We do not have any data to support a fiscal cost determination for this part of the proposal.

Based on information provided in HB 1824 during the 2007 Legislative Session, The City of Seattle, with the largest FRP membership, assumes that no surviving spouse will remarry when budgeting for the Plan. They also report that the number of surviving spouses who remarry is very small. This suggests that the impact of this part of the proposal is a small "loss of savings" to the Plan's fund. If, however, this provision was made retroactive, the cost to provide this benefit back many years, plus the administrative work to find the impacted surviving spouses, could be significant.

DRAFT

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Richard Warbrouck
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October 19, 2007

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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,

R.C. Warbrouck

Richard C. Warbrouck

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The Honorable Senator Craig Pridemore
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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

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

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,

R.C. Warbrouck

Richard C. Warbrouck

7. Retiree Access to PEBB – Stakeholder Proposal

Allow Plan 2 Members Join PEBB as A Separated Employee

Current Situation

Retired or disabled employees of the state, school districts, and participating political subdivisions (PERS, SERS, and TRS) may purchase health care benefits from the Public Employees' Benefits Board (PEBB), administered by the Health Care Authority (HCA). In order for members to be eligible for participation in PEBB benefit offerings the member must start drawing their monthly pension benefit as a retiree upon separation from employment. The exception to this is found in RCW 41.05.011(13) under definitions listed for the HCA. The definition of "separated employees" only includes the separated Plan 3 members of PERS, SERS, and TRS that are at least fifty-five years of age and have served at least ten years of service that are eligible to participate in PEBB benefit offerings. PERS, SERS, and TRS members of Plan 1 and 2 that separate from service and do not start drawing their monthly pension upon separation are not eligible to participate in the PEBB benefit offerings.

History

Legislation has been introduced during past sessions and most recently in the 2007 session through HB 1284 and SB 5427 to allow separating Plan 2 PERS, SERS, and TRS members to participate in the PEBB benefit plan offerings upon separation similar to Plan 3 members age 55 or older and having at least 10 years of service. The fiscal note on HB 1284 included $10.9 million for 2007-09. Almost all of the cost was due to a retroactive provision for PERS 2 members going back to March 2002.

New Proposed Legislation

<u>Legislation proposed would allow Plan 2 PERS, SERS, and TRS members access to the PEBB benefit offerings upon separation from service without beginning to draw a retirement pension at age 55 with a least 20 years of service.</u> The bill proposes to prospectively expand the definition of "separated employees" in RCW 41.05.011(13) to include Plan 2 PERS, SERS, and TRS members who have separated from employment and are at least age 55 and have at least 20 years of service credit. The effective date of the bill is January 1, 2009.

Cost

The HCA assumes the administrative process changes can be accomplished within existing resources. The policy change would have <u>no fiscal impact.</u> The HCA fiscal note states: "Due to this bill, staff considered some separated employees may join PEBB earlier than they originally intended but others would postpone PEBB enrollment longer than they originally intended to coincide with receiving their pension. These offsetting behaviors result in no overall increased cost to the PEBB fund."

Supportive Issues

- Fairness between retirement plans – Plan 3 members can separate at age 55 with 10 years of service and join PEBB benefit plans and Plan 1 members can retire at an earlier age with full benefits thus separation has not been a significant problem. .
- This bill allows members more flexibility in being able to plan possible changes in their lifework while delaying the start of their pension. It allows the member to complete PEBB enrollment or the waiver form and thus not lose the benefit of participating by paying the coverage cost based on the state risk pools rather than going into the private market.
- It is anticipated that many Plan 2 members that entered public employment while in their late 30s or 40s will never reach 30 years of service by the age 65 or 62 and thus cannot qualify for early retirement under EHB 2391. If a member wishes or needs to make a change in their life before age 65 most members would plan to not start drawing a significantly reduced pension at that point but would wait till an older age when the pension takes less of a reduction. Not being able to participate in the PEBB benefit plans for the remainder of the person's life creates a real concern.
- Teachers and certain other public employees often work in a high stress jobs. Some need either lower stress employment or the opportunity to make changes in their lifework without starting to draw on their public pension. The disadvantage of not being able to obtain or keep PEBB benefit plans is significant.

John Kvamme, WASA & AWSP Consultant

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The Select Committee on Pension Policy

Retiree Access To PEBB - Introduction

Laura Harper, Policy and Research Services Manager

December 18, 2007

Office of the State Actuary

"Securing tomorrow's pensions today."

Unique Issue

- Differs from others that have come before you this interim
- Involves stakeholder proposals to allow access to health plans for those who don't currently have it

Background

- Health plan access not within SCPP jurisdiction
  - Public Employees Benefit Board (PEBB) offers health care plans to public employees
  - Administered by Health Care Authority
- Stakeholder proposals do not affect pension statutes
  - Health care statutes affected
  - Fiscal costs determined by Health Care Authority
  - Health care committees typically involved

2007 Interim

- Why has this been on the SCPP's agenda?
  - Retiree health care costs of interest to SCPP
  - These costs affect adequacy of pension benefit
- Stakeholder driven process
  - Proposals developed in cooperation with Health Care Authority (HCA)
  - Proposals staffed by stakeholders and HCA (not OSA or SCPP staff)
- Progress reports to SCPP and Executive Committee throughout interim

Today's Meeting

- Stakeholders are back
  - Final reporting
  - Requests for SCPP support
  - Other public testimony

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: S-3721.1/08

ATTY/TYPIST: KT:cro

BRIEF DESCRIPTION: Participating in insurance plans and contracts by separated plan 2 members of certain retirement systems.

AN ACT Relating to participating in insurance plans and contracts by separated plan 2 members of certain retirement systems; reenacting and amending RCW 41.05.011; and providing an effective date.

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

Sec. 1. RCW 41.05.011 and 2007 c 488 s 2 and 2007 c 114 s 2 are each reenacted and amended to read as follows:

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

(1) "Administrator" means the administrator of the authority.

(2) "State purchased health care" or "health care" means medical and health care, pharmaceuticals, and medical equipment purchased with state and federal funds by the department of social and health services, the department of health, the basic health plan, the state health care authority, the department of labor and industries, the department of corrections, the department of veterans affairs, and local school districts.

(3) "Authority" means the Washington state health care authority.

(4) "Insuring entity" means an insurer as defined in chapter 48.01

RCW, a health care service contractor as defined in chapter 48.44 RCW, or a health maintenance organization as defined in chapter 48.46 RCW.

(5) "Flexible benefit plan" means a benefit plan that allows employees to choose the level of health care coverage provided and the amount of employee contributions from among a range of choices offered by the authority.

(6) "Employee" includes all full-time and career seasonal employees of the state, whether or not covered by civil service; elected and appointed officials of the executive branch of government, including full-time members of boards, commissions, or committees; and includes any or all part-time and temporary employees under the terms and conditions established under this chapter by the authority; justices of the supreme court and judges of the court of appeals and the superior courts; and members of the state legislature or of the legislative authority of any county, city, or town who are elected to office after February 20, 1970. "Employee" also includes: (a) Employees of a county, municipality, or other political subdivision of the state if the legislative authority of the county, municipality, or other political subdivision of the state seeks and receives the approval of the authority to provide any of its insurance programs by contract with the authority, as provided in RCW 41.04.205 and 41.05.021(1)(g); (b) employees of employee organizations representing state civil service employees, at the option of each such employee organization, and, effective October 1, 1995, employees of employee organizations currently pooled with employees of school districts for the purpose of purchasing insurance benefits, at the option of each such employee organization; (c) employees of a school district if the authority agrees to provide any of the school districts' insurance programs by contract with the authority as provided in RCW 28A.400.350; and (d) employees of a tribal government, if the governing body of the tribal government seeks and receives the approval of the authority to provide any of its insurance programs by contract with the authority, as provided in RCW 41.05.021(1) (f) and (g).

(7) "Board" means the public employees' benefits board established under RCW 41.05.055.

(8) "Retired or disabled school employee" means:

(a) Persons who separated from employment with a school district or

educational service district and are receiving a retirement allowance under chapter 41.32 or 41.40 RCW as of September 30, 1993;

(b) Persons who separate from employment with a school district or educational service district on or after October 1, 1993, and immediately upon separation receive a retirement allowance under chapter 41.32, 41.35, or 41.40 RCW;

(c) Persons who separate from employment with a school district or educational service district due to a total and permanent disability, and are eligible to receive a deferred retirement allowance under chapter 41.32, 41.35, or 41.40 RCW.

(9) "Benefits contribution plan" means a premium only contribution plan, a medical flexible spending arrangement, or a cafeteria plan whereby state and public employees may agree to a contribution to benefit costs which will allow the employee to participate in benefits offered pursuant to 26 U.S.C. Sec. 125 or other sections of the internal revenue code.

(10) "Salary" means a state employee's monthly salary or wages.

(11) "Participant" means an individual who fulfills the eligibility and enrollment requirements under the benefits contribution plan.

(12) "Plan year" means the time period established by the authority.

(13) "Separated employees" means persons who separate from employment with an employer as defined in:

(a)(i) RCW 41.32.010(11) on or after July 1, 1996; or

((~~(b)~~)) (ii) RCW 41.35.010 on or after September 1, 2000; or

((~~(c)~~)) (iii) RCW 41.40.010 on or after March 1, 2002;

and who are at least age fifty-five and have at least ten years of service under the teachers' retirement system plan 3 as defined in RCW 41.32.010(40), the Washington school employees' retirement system plan 3 as defined in RCW 41.35.010, or the public employees' retirement system plan 3 as defined in RCW 41.40.010; or

(b) For the purposes of RCW 41.05.080:

(i) RCW 41.32.010 on or after the effective date of this section; or

(ii) RCW 41.35.010 on or after the effective date of this section; or

(iii) RCW 41.40.010 on or after the effective date of this section; and who are at least age fifty-five and have at least twenty years of

service under the teachers' retirement system plan 2 as defined in RCW 41.32.010, the Washington school employees' retirement system plan 2 as defined in RCW 41.35.010, or the public employees' retirement system plan 2 as defined in RCW 41.40.010.

(14) "Emergency service personnel killed in the line of duty" means law enforcement officers and firefighters as defined in RCW 41.26.030, members of the Washington state patrol retirement fund as defined in RCW 43.43.120, and reserve officers and firefighters as defined in RCW 41.24.010 who die as a result of injuries sustained in the course of employment as determined consistent with Title 51 RCW by the department of labor and industries.

(15) "Employer" means the state of Washington.

(16) "Employing agency" means a division, department, or separate agency of state government; a county, municipality, school district, educational service district, or other political subdivision; and a tribal government covered by this chapter.

(17) "Tribal government" means an Indian tribal government as defined in section 3(32) of the employee retirement income security act of 1974, as amended, or an agency or instrumentality of the tribal government, that has government offices principally located in this state.

NEW SECTION. **Sec. 2.** This act takes effect January 1, 2009.

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Part II: Narrative Explanation

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

The eligibility standard for participation in Public Employees' Benefits Board (PEBB) retiree coverage is tied to the eligibility standard for retirement and definition of member in the respective retirement systems. It is also tied to the definition of separated employee in RCW 41.05.011(13). Generally, unless an individual fits the definition of separated employee they must actually begin to receive a monthly pension benefit (full or reduced) in order to be eligible for PEBB retiree coverage. Currently, only Public Employees Retirement System (PERS) 3, Washington School Employees Retirement System (SERS) 3 and Teachers' Retirement System (TRS) 3 members are included in the definition of separated employee. From a retiree insurance coverage point of view the benefit of being included in the definition of separated employee is the ability to access PEBB retiree coverage without taking receipt of retirement benefits. This means that an individual could separate at the earliest age (fifty-five) with the least years of service ~~(ten)~~ (twenty) and maintain eligibility for PEBB retiree coverage without taking an actuarially reduced pension benefit.

This bill proposes to **prospectively** expand the definition of "separated employees" in RCW 41.05.011(13) to include:

- Members PERS Plan 2 , TRS Plan 2 and SERS Plan 2 who have separated from employment; and
- Are at least age 55 and have at least ~~10~~ 20 years of service credit.

~~In addition, this bill proposes to **retroactively** expand the definition of "separated employees" in RCW 41.05.011(13) to include:~~

- ~~Members of the PERS Plan 2 who have separated from employment; and~~
- ~~Are at least age 55 and have at least 10 years of service credit on or after March 1, 2002.~~

Including Plan 2 members in the definition of "separated employees" would remove the requirement for Plan 2 members to:

- Retire before they are eligible for PEBB-sponsored retiree coverage.
- Immediately begin receiving a retirement allowance upon separation.

Operational Impact:

~~By retroactively expanding the definition for PERS Plan 2 members, this bill will provide an additional enrollment opportunity for members who have already separated from employment and would not otherwise be eligible for PEBB retiree coverage. Because of this, we expect an initial increase in retiree enrollment elections. In addition,~~ All Plan 2 members will require information about the new eligibility.

It is likely that:

- ~~The PEBB program's Outreach and Training Unit will see an increase in the number of new retirees, and a higher demand for retiree seminars at the open enrollment benefits fairs.~~

- PEBB Benefits Services staff and Outreach and Training staff would require training/orientation on the change and implementation process.
- PEBB's health plans would need to be informed of the change.
- Outreach and Training staff would need to update the DRS pre-retirement seminar and coach DRS presenters on this change.
- Outreach and Training staff would need to update its K-12 retiree presentation to reflect the change.
- The Outreach and Training Unit would also need to communicate this change to three of its key customer groups including personnel and payroll staff at state agencies, K-12/Educational Service Districts (ESDs), and higher-education/community and technical colleges, so they can appropriately respond to questions and assist separated employees.
- ~~The PEBB program would have to work with Department of Retirement Systems' (DRS) to identify separated employees who meet the age and years of service credit requirements. PEBB would need to create new communication materials specifically for this population.~~

Assumptions

HCA expects no change in future retirement rates for plan 2 members due to this bill. Since participation in the PEBB benefit plans is currently available to all PERS, SERS, and TRS Plan 2 members who retire, this fiscal note does not assume an impact to the Public Employee's and Retiree's Insurance Account (Fund 721) due to the **prospective** expansion of the definition of a "separated employee". HCA assumes this revision will not impact an employee's future decision to enroll or defer enrollment in PEBB plans.

Due to this bill, staff considered some separated employees may join PEBB earlier than they originally intended but others would postpone PEBB enrollment longer than they originally intended to coincide with receiving their pension. These offsetting behaviors result in no overall increased cost to the PEBB fund.

HCA assumes that separated employees will continue comprehensive employer sponsored coverage through a spouse qualified domestic partner or other employer prior to returning to PEBB coverage.

~~The impact of the **retrospective** expansion of the definition of PERS plan 2 separated employee **will** impact the Public Employee' and Retirees' Insurance Account (Fund 721). The Office of the State Actuary (OSA) has identified 1,045 PERS plan 2 people who are vested and have separated from state service since March 2002. These people will have the opportunity to enroll in or defer PEBB retiree coverage. Of the 1,045, we assume 50 percent will decide to enroll in PEBB in Calendar Year (CY) 2008 and 25 percent will choose to defer enrollment because of their eligibility for other employer sponsored coverage. We assume that those who choose to defer coverage will enroll in PEBB retiree coverage by CY 2009.~~

~~This fiscal note assumes an enrollment increase of 522 Plan 2 early retirees in CY 2008 and an additional 262 early retirees in CY 2009 for a total increase in early retiree enrollment of 784 in the Non-Medicare risk pool.~~

~~HCA assumes no impact to the Medicare risk pool.~~

~~In addition to the administrative processes that need to be developed, PEBB contracts are already in effect for CY 2007 so HCA assumes enrollment for the affected PERS Plan 2 employees, who have already separated from state employment, would be offered during the next open enrollment period in the fall of 2007 and coverage would be effective January 1, 2008.~~

HCA assumes the effective date will be January 2009.

HCA assumes the administrative process changes can be accomplished within existing resources.

II. B – Cash Receipts Impact

No fiscal impact.

II. C - Expenditures

No fiscal Impact.

Part IV: Capital Budget Impact

None

Part V: New Rule Making Required

The PEBB program would need to amend retiree and surviving dependent eligibility rules to comply with this legislation.

8. Post-Retirement Employment Under EHB 2391

Post-Retirement Employment Under EHB 2391

In Brief

ISSUE

EHB 2391 provides improved alternate early retirement benefits, but also restricts members who utilize them from drawing their pension if they are rehired as a retiree before age 65. Should the SCPP recommend legislation to delete this restriction?

MEMBER IMPACT

The proposal 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. Expected new retirements under the improved alternate early retirement benefits through 2013 are 26 in PERS, 22 in TRS and two in SERS. (Note: Plans 2 and 3 opened in 1977.)

Laura Harper
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Current Situation

EHB 2391(2007) improved alternate early retirement in Plans 2 and 3. It provides: Beginning July 1, 2008, for Plans 2 and 3 of PERS, and beginning September 1, 2008, for Plans 2 and 3 of TRS and SERS, members 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 also prohibits members who retire under these particular provisions from receiving their pension while participating in post-retirement employment prior to reaching age 65.

The current 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 (five months), 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.

Example 1 – Current Situation
Experienced Ellen, a PERS 2 member, retires at age 62 with 30 years of service. She is not yet 65 so she takes a reduction in her benefit equal to 3 percent per year for three years, or 9 percent. Her retirement is effective January 1, 2005. Experienced Ellen returns to work on February 1, 2005, and plans to work full-time for six months. On May 11, 2005, she exceeds 867 hours of employment for the year. Her pension will be suspended beginning May 12. She can continue working as a retired public employee, but she cannot receive her pension until the beginning of the next calendar year or until she terminates public employment, whichever comes first.

Example 2 – EHB 2391

Under the new law, Experienced Ellen can retire at age 62 with an unreduced pension because she has 30 years of service. When she returns to work in February, she cannot draw her pension. However, once she reaches age 65, she can work up to 867 hours a year while receiving her pension.

History

At their inception the Washington public retirement plans did not allow members to retire, return to public employment, and continuing receiving their pension; rather, the pensions of such members were always suspended until these members terminated employment completely. Retirees have never been under any restriction regarding returning to private employment.

In the mid-1960s, the Legislature opened the door to post-retirement employment. Retirees could return to work in positions requiring 5/12 of a year (five months for PERS, and 75 or days or 525 hours for TRS).

Since that time Plans 2 and 3 were opened and various changes have been made to the post-retirement employment program in all plans. Most of the changes have centered on the number of hours members may work while drawing their pension. Other changes have related to waiting periods and procedural safeguards.

Most of the recent attention to post-retirement employment from the Legislature and the SCPP has been focused on the Plans 1. Since 2001, the Plans 1 have had more generous retire-rehire provisions than those in the Plans 2 and 3. The 2001 program expansion was the subject of legislatively mandated studies by the Office of the State Actuary in 2003 and 2005. Copies are available on the OSA website under "Publications" and "Pension Studies" at http://osa.leg.wa.gov.

In the Plans 1, which have **service-based** retirement eligibility, the average retirement age is approximately 59 (60 in PERS and 58 in TRS). Members may work beyond the 867-hour (or five-month) limit until they accrue 1,500 hours (equivalent to a full school year in TRS or nine months in PERS) without suspension of their pension. There is a 1,900-

The Plans 2 & 3 have higher retirement ages and less generous post-retirement employment benefits than the Plans 1.

hour cumulative lifetime limit on the number of hours that can be worked in excess of 867 hours.

In the Plans 2 and 3, which have **age-based** retirement, members are allowed to return to work for up to 867 hours without suspension of their pension. The normal retirement age for these plans is age 65. The average retirement age for the Plans 2 is 65 and the average retirement age for the Plans 3 is 62.

The post-retirement employment benefit of working up to 867 hours without suspension of the retirement pension is a contractual right for all plans in PERS, TRS and SERS (Plans 1, 2 and 3). In the Plans 1, the right to work beyond 867 hours is a non-contractual right.

For post-retirement employment purposes, the focus in EHB 2391(2007) was on the Plans 2 and 3. Benefit improvements related to alternate early retirement were coupled with a new prohibition against receiving a pension while engaging in any post-retirement employment until age 65. These particular changes in retirement policy were not analyzed by the SCPP prior to passage of the legislation.

Policy Analysis

Early Retirement in Plans 2 and 3 of PERS, SERS and TRS

With the passage of EHB 2391, there will soon be three types of early retirement in the Plans 2/3:

- "Early" retirement (currently available).
- "Traditional" alternate early retirement (currently available).
- "Improved" alternate early retirement (new).

Members who retire under the early retirement provisions of the Plans 2 and 3 (age 55 with 20 years) have their benefits actuarially reduced. Under this option, members pay the full cost of retiring early by taking a lower pension benefit. This might be viewed as "member flexibility at member cost." The post-retirement employment benefit for these members is not restricted. After the required waiting period, retirees may return to work for 867 hours before their pension is suspended.

Employers and members share the cost associated with alternate early retirement. "Traditional" alternate early retirement allows members who reach age 55 with 30 years of service to retire with a 3 percent reduction for each year between retirement and age 65. The employer and other Plan 2 members pick up part of the cost because these members now have 30 years of service instead of 20. Again, the post-retirement employment benefit is not restricted.

For members who retire under "improved" alternate early retirement, the employer and other Plan 2 members are picking up even more of the cost of early retirement, as these members not only have at least thirty years of service, but they are also closer to normal retirement in age. For Plan 2/3 members retiring under the improved alternate early retirement reduction factors of EHB 2391, the Legislature decided that they should not be permitted to utilize their post-retirement employment benefit until reaching age 65.

Retire-rehire and Plan Design

The **age-based** design of the Plans 2/3 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. Also, by setting the normal retirement age as equivalent to the age at which members would leave the work-force, these plans have higher retirement ages. Advocates for members naturally seek to lower the retirement age, while employers tend to seek ways to retain workers in the system.

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, as many members may retire before they are actually ready to leave the work force. 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 restriction on post-retirement employment in the new law is a policy question that goes to the most fundamental questions about the purpose of a retirement benefit.

Whether to eliminate the restriction on post-retirement employment in the new law is a policy question that goes to the most 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 while earning a salary?

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. These views were explored in depth the Office of the State Actuary's 2003 and 2005 Post-Retirement Employment Reports, which are available on the OSA website, http://osa.leg.wa.gov/, under "Publications."

The following comments apply the various "views" to this proposal.

Actuarial View

The improved alternate early retirement reduction factors in EHB 2391 had a cost, as they are assumed to require larger benefit payments over a longer period of time. Limiting post-retirement employment opportunities may partially offset some of these costs by discouraging some members from retiring as early as they might have with the post-retirement employment benefit completely in tact.

Employee View

Employees who are nearing normal retirement age and who have thirty years of public service may be anxious to

retire from full-time employment, but be interested in working less than full time. The post-retirement employment benefit is an incentive to come back to public employment on a part-time basis. Restoring this benefit would help employees to achieve increased financial security and may add opportunities for increased personal enjoyment in their later working years.

Employer View

Some employers are concerned with a shrinking labor pool and others seek to retain as many of their experienced workers as they can for as long as possible. These employers may view post-retirement employment as a tool that will keep people working longer by offering increased flexibility to late-career employees.

Plan Administrator/Retirement System View

Implementing another variation in the post-retirement employment program adds complexity to the retirement system. Removing the restriction would promote consistency in procedures for members of the open plans.

Political View

Some lawmakers may feel that improving early retirement benefits while at the same time allowing post-retirement employment sends a mixed message about the purpose of retirement in the Plans 2/3. They may also be concerned about costs, and seek to limit the post-retirement employment benefit as a way to partially offset costs associated with the improved alternate early benefits.

Other States

A comparison with Washington's comparative systems reveals that two states, Iowa and Minnesota, have earnings limits for those retirees who return to work before reaching age 65 and no earnings limits after 65. In that general sense, there is greater restriction on post-retirement employment for members retiring earlier than age 65 than for those retiring after 65. However, there does not appear to be a provision in Washington's comparative systems that restricts earlier retirement in the same manner as was used in EHB 2391.

Stakeholder Input

This proposal was initiated by John Kvamme for the Washington Association of School Administrators (WASA) and the Association of Washington School Principals (AWSP). Attached is information gathered by Washington School Personnel Association in support of the proposal.

Conclusion

A stakeholder proposal is before the SCPP. The request is that the SCPP recommend a bill that would delete the restriction on post-retirement employment that was tied to improved alternate early retirement benefits in EHB 2391 (2007). This policy decision goes to the most fundamental questions about the purpose of a retirement benefit as well as the relationship between post-retirement employment practices and workforce dynamics.

Executive Committee Recommendation

On November 13, 2007, the Executive Committee forwarded this proposal to the December meeting agenda. No final recommendation was made by the Executive Committee. Therefore, the matter was set for the morning Executive Committee meeting on December 18, 2007. If the Executive Committee moves the item to the full SCPP, there is a slot on the full committee agenda for this proposal to be heard.

Bill Draft

A Code Reviser draft of the bill (H-3755.1) was provided to the Executive Committee by John Kvamme. A copy is attached.

Draft Fiscal Note

Attached.

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The Select Committee on Pension Policy

Post-Retirement Employment Under EHB 2391

Laura Harper, Policy and Research Services Manager

December 18, 2007

Office of the State Actuary

"Securing tomorrow's pensions today."

Issue Today

- Should certain members of Plan 2 and 3 who retire early be restricted from receiving retire-rehire benefits?

Why Is This Before You?

- A new law passed in 2007
- Improved alternate early retirement
  - Applies to Plans 2 and 3
  - Affects members with 30 years of service
  - Allows unreduced retirement at 62
  - Provides improved Early Retirement Reduction Factors (ERFs) prior to age 62
  - Becomes effective in 2008

How Is This Related To Retire-Rehire?

- A condition was added for those retiring early under new law
  - Retirees can return to work
  - But, must wait until age 65 to draw their pension while working
- Current situation in Plans 2 and 3
  - All retirees can return to work <u>and</u> draw pension
  - Pension suspended at 867 hours (5 months)

Example

- Experienced Ellen has 30 years of service
- She retires under the new law at age 62 with an unreduced pension
- After several months she returns to public employment as a retiree
  - Under the new law, Experienced Ellen cannot draw her pension while working
  - Once she reaches age 65, she can work 867 hours in a year before her pension will be suspended

Members Impacted

- Plans 2 and 3 opened in 1977
- Restriction is projected to affect about 50 people through 2013
- As plans mature, more and more will be impacted

Stakeholder Proposal

- Remove retire-rehire restriction
  - Allow those retiring early under new benefits to return to work and receive pension prior to age 65
- Bill draft and supporting information provided to Executive Committee
- Heard this morning in Executive Committee

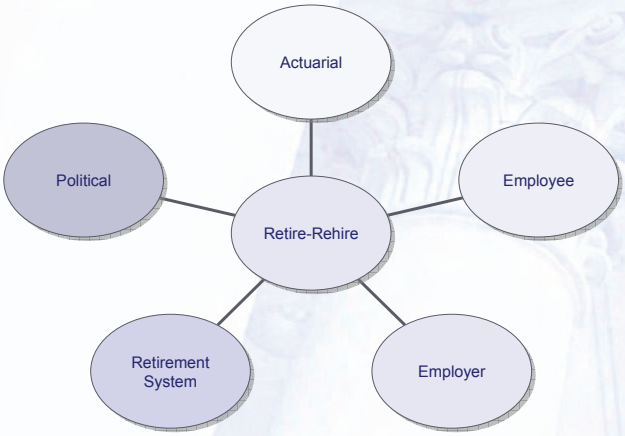
Question For Policy-Makers

- Should the restriction be removed?
- Answer depends partly on:
  - Philosophy of retirement
  - Point of view

Different Philosophies Of Retirement

Plans 1	Plans 2, 3
Service-based retirement	Age-based retirement
Average retirement age 59	Full benefit at 65 (or 62 with 30 years under new law)
More costly plan design	Less costly plan design
More liberal retire-rehire	Less generous retire-rehire
"They earned it"	"Double dipping"

Different Points Of View



Questions Around Timing?

- EHB 2391 is same bill that repealed gain-sharing
- New law is being challenged in court
  - Improved alternate early retirement designed to go away if repeal of gain-sharing is invalidated ("poison pill" language)
  - The poison pill is also being challenged
- Timing for resolution by the courts is unknown

Estimated Fiscal Costs

(In Millions)	2008-2009	2009-2011	25-Year
General Fund-State	$0.3	$0.5	$6.2
Total Employer	$0.4	$1.4	$17.2

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

Options In Response To Stakeholder Proposal

- Sponsor
- Endorse
- No action

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

District	Percentage of Substitutes are Retirees Certificated	Classified	Getting Substitutes Compared to Prior Years
Central Valley	**10%**	**1%**	**Math and Special Education**
Fife	**3%**	**1%**	**Same as last year**
Pasco	**10%**	**12%**	**Worse than last year**
Richland	**2%**	**6%**	**Same as last year**
Spokane	**5%**	**3%**	**Need Plan 2 & 3 to replace Plan 1 subs**
Walla Walla	**15%**	**0%**	**Shortage is worse**
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
Granite 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

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

District	Percentage of Substitutes are Retirees Certificated	Classified	Getting Substitutes Compared to Prior Years
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
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 = 59			
Mean	15%	5%	59% say worse this year
Median	10%	4%	
Mode	10%	0%	

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: H-3755.1/08

ATTY/TYPIST: LL:cro

BRIEF DESCRIPTION: Addressing postretirement employment.

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

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

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

(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.

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

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

(a) Completed ten 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.

Sec. 3. RCW 41.35.420 and 2007 c 491 s 6 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 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.

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

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

(a) Completed ten 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.

Sec. 5. RCW 41.40.630 and 2007 c 491 s 9 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 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.

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

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

(a) Completed ten 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.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**12/5/2007**	**H-3755.1**

INTENDED USE

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

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

EXECUTIVE SUMMARY

This proposal deletes provisions enacted in EHB 2391 (Chapter 491, Laws of 2007) that prohibit those retiring under newly improved alternate early retirement provisions from utilizing post-retirement employment benefits until they reach age 65.

Increase in Actuarial Liabilities

(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits	$29,368	$5	$29,373
Unfunded Actuarial Accrued Liability	5,144	0	5,144
Unfunded Liability (PVCPB)	($3,252)	$7	($3,245)

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

Total Increase in Contribution Rates

Current Biennium	PERS	TRS	SERS
Employee (Plan 2)	0.00%	0.01%	0.00%
Employer	0.00%	0.01%	0.00%

Fiscal Costs (in Millions)

	2008-2009	2009-2011	25-Year
General Fund-State	$0.3	$0.5	$6.2
Total Employer	$0.4	$1.4	$17.2

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

SUMMARY OF PROPOSAL

This proposal impacts members of Plans 2 and 3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS) and the School Employees' Retirement System (SERS) who will be eligible for alternate early retirement on or after July 1, 2008 for PERS and September 1, 2008 for SERS and TRS. The proposed legislation would delete the provisions of law that forbid those retiring under newly improved alternate early retirement provisions from utilizing post-retirement employment benefits until they reach age 65.

Assumed Effective Date: 90 days after session.

CURRENT SITUATION

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 beginning July 1, 2008 for PERS and September 1, 2008 for SERS and TRS. 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 (EHB 2391 found in Chapter 491, Laws of 2007) includes a specific provision prohibiting members retiring under the new provisions from receiving their pension while participating in any post-retirement employment prior to reaching age 65.

The general post-retirement employment provisions found in these plans prior to this new law allow the following: after a 30-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.

SUMMARY OF MEMBERS IMPACTED

We estimate that 125,591 active members out of the total 251,986 active members of PERS, SERS, and TRS Plans 2 and 3 could be affected by this proposal through improved benefits. Any future employees joining these Plans could also benefit from this proposal if they are hired prior to age 35.

The number of current active employees we expect to access the post-retirement employment provisions of this fiscal note is detailed in the Data section.

For a typical member impacted by this proposal, they would be able to retire with subsidized early retirement reduction factors and return to work for up to 867 hours per year while in receipt of their retirement benefits.

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Additionally, the 143,788 current active and all future Plan 2 members of PERS, SERS, and TRS could be affected by this proposal through increased contribution rates.

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

PURPOSE

The purpose of this pricing proposal is to increase the retirement rates for active employees who will become eligible for the enhanced early retirement reduction factors detailed in EHB 2391. The increased retirement rates occur prior to age 65 and reflect an assumption as to employee behavior with the removal of the post-retirement employment restriction that was introduced in EHB 2391.

Providing post-retirement employment provisions in addition to enhanced early retirement reduction factors will encourage more employees to leave service earlier than expected. This behavior will increase the early retirement rates we use to perform our actuarial valuations of the Plans.

If an employee is enticed to leave service early due to post-retirement employment opportunities, this will impact the pension system by triggering an enhanced early retirement benefit that may not have occurred without this provision. This early retirement benefit increases the liabilities for the Plans because the pension starts earlier, is paid longer, and has enhanced reduction factors. Slightly offsetting this liability increase is the reduced service component and final average compensation component of the retirement benefit. The employee does not accrue additional service credits or higher compensation credits, for pension purposes, during their post-retirement employment service.

METHODS

In order to calculate the effect of this proposal, it was necessary for us to develop a new base valuation using the early retirement reduction factors introduced in EHB 2391 and the new retirement rate assumptions that reflect the impact of that bill. These factors only apply with a minimum of 30 years of service.

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Age	Early Retirement Reduction Factors	PERS & SERS Retirement Rates		TRS Retirement Rates	
		Male	Female	Male	Female
55	20%	0.0840	0.0840	0.0960	0.0600
56	17%	0.0840	0.0840	0.0960	0.0960
57	14%	0.0840	0.0840	0.0960	0.1800
58	11%	0.1680	0.0840	0.0960	0.1800
59	8%	0.1680	0.0840	0.0960	0.1800
60	5%	0.2520	0.2520	0.3600	0.2760
61	2%	0.2520	0.3240	0.7200	0.3600
62	0%	0.7857	0.6122	0.7000	0.6500
63	0%	0.4953	0.5522	0.4500	0.6500
64	0%	0.9263	0.9405	0.9000	0.8000
65		0.5200	0.4900	0.5000	0.5000
66		0.3000	0.3000	0.5000	0.3000
67		0.2200	0.2600	0.5000	0.2500
68		0.2200	0.2600	0.5000	0.2500
69		0.2600	0.2200	0.5000	0.4000
70		1.0000	1.0000	1.0000	1.0000

Once the base valuation was calculated, the retirement rates were further adjusted to reflect the behavior we expect with the elimination of the post-retirement employment restriction. The Plans 2 and 3 retirement rates were increased by a factor of 1.5% for PERS and SERS, and 2.7% for TRS. We arrived at these factors by analyzing the experience of the PERS and TRS Plan 1 retirement rates that were part of a post-retirement employment experience study performed by the Office of the State Actuary in 2005. In addition, we also applied the impact of the TRS 1 post-retirement employment provisions that were put into law during the 2007 legislative session (SHB 1262, Chapter 50, Laws of 2007). We then reduced the Plan 1 average retirement rate increase to 66.7% to arrive at the Plans 2 and 3 rate increase. This reduction reflects the fact that the Plan 1 post-retirement employment allows 1500 hours per year (with a lifetime maximum cap of 1900 hours in excess of 867 hours) in comparison to the 867 hours per year allowed under the Plans 2 and 3(without a lifetime maximum). We view the Plan 1 provisions to be moderately more attractive than the Plan 2/3 provisions.

One further method change was to adjust the age 65 retirement rates so we have the same number of post-age 65 employees as we had under the base valuation. Since we are modeling retirement behavior and this provision impacts pre-65 retirement rates, we expect the same number of employees to remain active at each age past 65 under this proposal as under the base valuation. The resulting Plans 2 and 3 retirement rates for a minimum of 30 years of service are as follows:

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Age	PERS & SERS Retirement Rates		TRS Retirement Rates	
	Male	Female	Male	Female
55	0.0853	0.0853	0.0986	0.0616
56	0.0853	0.0853	0.0986	0.0986
57	0.0853	0.0853	0.0986	0.1849
58	0.1705	0.0853	0.0986	0.1849
59	0.1705	0.0853	0.0986	0.1849
60	0.2558	0.2558	0.3697	0.2835
61	0.2558	0.3289	0.7394	0.3697
62	0.7975	0.6213	0.7189	0.6676
63	0.5027	0.5604	0.4622	0.6676
64	0.9402	0.9546	0.9243	0.8216
65	0.3333	0.2917	0.1818	0.3415
66	0.3000	0.3000	0.5000	0.3000
67	0.2200	0.2600	0.5000	0.2500
68	0.2200	0.2600	0.5000	0.2500
69	0.2600	0.2200	0.5000	0.4000
70	1.0000	1.0000	1.0000	1.0000

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

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

Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Rate increases calculated under the aggregate actuarial cost method are used to determine the increase in funding expenditures for current plan members.

ASSUMPTIONS

We have assumed that the behavior for Plans 2 and 3 post-retirement employment will be similar to the behavior experience of Plans 1 post-retirement employment. TRS 1 has experienced higher early retirement rates than PERS 1 and we carried this relationship through to the Plans 2 and 3. We expect similar, but slightly lower, post-retirement employment for Plans 2 and 3 in comparison to Plans 1 since the post-retirement employment provisions are more favorable in Plans 1. As a result, we reduced the average retirement rate experience of the Plans 1 to 66.7% and applied those new rate increases to Plans 2 and 3.

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

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

DATA

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

The current active members, by plan, that could be eligible for post-retirement employment under this proposal are detailed in the table below. These are current active members that have the potential to satisfy the minimum 30 year service requirement for the favorable early retirement reduction factors under EHB 2391.

Retirement Plan	PERS 2	PERS 3	SERS 2	SERS 3	TRS 2	TRS 3
Eligible Active Employees	59,488	13,238	5,085	9,775	2,908	35,097

The current active members, by plan and by year, that we expect to retire early under the provisions of this fiscal note are detailed below. These retirements are based on the adjustments we've made in our retirement rates to reflect the availability of post-retirement employment under EHB 2391.

New Retirements by Year								
System	**Plan**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
PERS	2	0	0	2	3	5	6	7
	3	0	0	0	0	1	0	2
	All	0	0	2	3	6	6	9
TRS	2	0	0	0	0	1	0	2
	3	0	0	1	2	4	5	7
	All	0	0	1	2	5	5	9
SERS	2	0	0	0	0	0	1	0
	3	0	0	0	0	0	1	0
	All	0	0	0	0	0	2	0

FISCAL IMPACT

Description

The removal of the post-retirement employment restriction under EHB 2391 results in an actuarial cost to PERS, TRS, and SERS. Some employees will be encouraged to leave service earlier than expected and this will trigger the payment of an enhanced early retirement benefit at an earlier age.

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Actuarial Determinations

This proposal will impact the actuarial funding of the system by increasing the present value of benefits payable under the system, decreasing the present value of future salaries, and increasing the required actuarial contribution rates as shown below.

The rounded increase in the required actuarial contribution rates results in the supplemental contribution rates shown below that will be applied in the current biennium. However, the un-rounded rate increase will be used to determine the fiscal costs in subsequent biennia.

(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 2/3	**$19,616**	**$3**	**$19,620**
TRS 2/3	**7,098**	**1**	**7,099**
SERS 2/3	**$2,654**	**$0**	**$2,654**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	**$3,180**	**$0**	**$3,180**
TRS 1	**$1,964**	**$0**	**$1,964**
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 2/3	**($1,971)**	**$4**	**($1,966)**
TRS 2/3	**(970)**	**2**	**(968)**
SERS 2/3	**($311)**	**$0**	**($311)**

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

System/Plan	PERS	TRS	SERS
Current Members			
Employee (Plan 2)	0.005%	0.007%	0.002%
Employer	0.005%	0.007%	0.002%
New Entrants*			
Employee (Plan 2)	0.001%	0.002%	0.001%
Employer	0.001%	0.002%	0.001%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

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Fiscal Budget Determinations

(Dollars in Millions)	Fiscal Costs PERS	TRS	SERS	PSERS	Total
2008-2009					
General Fund	$0.0	$0.3	$0.0	$0.0	$0.3
Non-General Fund	0.0	0.0	0.0	0.0	0.0
Total State	$0.0	$0.3	$0.0	$0.0	$0.3
Local Government	0.0	0.1	0.0	0.0	0.1
Total Employer	$0.0	$0.4	$0.0	$0.0	$0.4
Total Employee	$0.0	$0.1	$0.0	$0.0	$0.1
2009-2011					
General Fund	$0.1	$0.4	$0.0	$0.0	$0.5
Non-General Fund	0.2	0.0	0.0	0.0	0.2
Total State	$0.3	$0.4	$0.0	$0.0	$0.7
Local Government	0.5	0.2	0.0	0.0	0.7
Total Employer	$0.8	$0.6	$0.1	$0.0	$1.4
Total Employee	$0.6	$0.1	$0.0	$0.0	$0.7
2008-2033					
General Fund	$1.5	$4.5	$0.2	$0.0	$6.2
Non-General Fund	2.4	0.0	0.0	0.0	2.4
Total State	$3.9	$4.5	$0.2	$0.0	$8.7
Local Government	6.0	2.2	0.3	0.0	8.5
Total Employer	$10.0	$6.7	$0.5	$0.0	$17.2
Total Employee	$7.5	$1.1	$0.2	$0.0	$8.7

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

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

Sensitivity Analysis

The liability increases, contribution rate increases and corresponding fiscal costs are sensitive to the early retirement rate assumptions we have used in this draft fiscal note.

We tested the effects of changes to these assumptions by varying the percent of Plan 1 average experience that we applied to Plans 2 and 3 rates. We expect some level of behavior change by introducing post-retirement employment provisions so we applied 25% of Plan 1 average experience as a low level sensitivity. We also don't expect Plans 2 and 3 to exceed the behavior analyzed in Plan 1, so we set our high level sensitivity at 100% of Plan 1 average experience. The sensitivity results for these tests are detailed in the table below.

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Plan	Component	Low	Expected	High
		25% of Plan 1 Average Experience	**66.7% of Plan 1 Average Experience**	**100% of Plan 1 Average Experience**
PERS 2/3	Retirement Rate Increase	0.6%	**1.5%**	2.3%
	ER Contribution Rate Increase	0.002%	**0.005%**	0.007%
	Increase in PVFPB ($M)	$1.30	**$3.34**	$5.01
SERS 2/3	Retirement Rate Increase	0.6%	**1.5%**	2.3%
	ER Contribution Rate Increase	0.001%	**0.002%**	0.003%
	Increase in PVFPB ($M)	$0.07	**$0.18**	$0.25
TRS 2/3	Retirement Rate Increase	1.0%	**2.7%**	4.0%
	ER Contribution Rate Increase	0.003%	**0.007%**	0.011%
	Increase in PVFPB ($M)	$0.45	**$1.22**	$1.76

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.

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

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

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9. PERS 1 Window Under SHB 1067

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

This proposal would impact two employees of the PSE.

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Current Situation

The Public School Employees of Washington (PSE) is a labor union dedicated exclusively to representing classified support professionals in K-12 public schools and universities. It is also affiliated with the Service Employees International Union (SEIU) as SEIU Local 1948.

Generally, a new employee of the PSE does not accrue service credit in Washington's public employee retirement systems. However, a PSE employee who is already a member of PERS 1 can continue to accrue service credit in PERS 1 while working for the PSE. The reason for this is that the definition of employer in PERS 1 is broad and includes unions and advocacy associations.

Although PERS 1 has been closed since September 30, 1977, there are currently 25 employees who are still actively working for unions and private associations as advocates for public employees while accruing service credit in PERS 1. Employees of the PSE (and other similar employers) hired after October 1, 1977, 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 in those plans does not include them. Finally, continued TRS 1 membership for employment at the PSE is not an option because the definition of employer for TRS 1 does not include unions and advocacy associations.

Special legislation would be required to allow a new category of PSE employees into PERS 1 at this time. The proposal before the SCPP seeks to temporarily open PERS 1, which is a closed plan. During a 90-day window, certain PSE employees who were previously members of TRS 1 and who have at least ten and not more than twenty years of service would have the opportunity to join PERS 1.

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 system benefits accordingly and retire as dual members under the portability provisions of state law.

Example

Negotiator Ned has 11 years of TRS 1 service. He goes to work for the PSE in 2005. After passage of the proposed bill, Ned elects to join PERS 1. Ned will begin accruing service credit in PERS 1 for his time worked as an employee of the PSE. When Ned retires, he can combine his TRS 1 service with his PERS 1 service as a PSE employee to determine eligibility for his retirement allowance. He can also use his PSE salary to increase the portion of his benefit derived from his TRS 1 service.

History of SHB 1067

The SCPP heard this issue in 2005 and decided not to recommend or endorse 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. SHB 1067 passed the House but did not receive a hearing in the Senate.

Policy Analysis

Whether to open PERS 1 for these PSE employees raises several policy questions for the SCPP.

1. Should closed plans be reopened in order to enhance the benefits of certain employees?
2. Would the IRS have concerns, and if so, is this of concern to the SCPP or the Legislature?
3. Are the provisions for union leave within the open plans sufficient accommodation for those who work for labor organizations? If not, should union employees who have left employment with a governmental employer be able to accrue benefits in the public employee retirement systems?

Opening a Closed Plan/Legislative History

It is not a common practice to temporarily open closed retirement plans, especially plans that have been closed for several decades. A review of Washington's legislative

history back to 1977 (when the Plans 1 were closed) revealed only one instance in which PERS 1 was temporarily opened to allow specified individuals the opportunity to join. This 1987 window applied to legislators.

The 1987 window was somewhat different than the proposal now before the SCPP. In Chapter 192, Laws of 1987, a PERS window was opened for one year, but not for members of the PSE or any other union or association. Rather, this window was a one-year window for elected officials in the legislative and executive branches.

In the history of Washington's plans, only state elected officials have received the kind of special accommodation currently sought by the proponents.

Specifically, the 1987 window allowed TRS members who were also elected officials to join PERS. If the members had joined TRS 1 prior to the closure of Plan 1, they were allowed to join PERS 1 instead of PERS 2 or 3. As a result of this window, a legislator who opted to join PERS 1 and later went to work for the PSE would have been able to accrue PERS 1 service with the PSE, as PSE is an authorized PERS 1 employer.

The 1987 window for legislators was part of portability legislation and addressed issues raised by members of multiple retirement systems (dual members). Since then, policies have been in place to clarify plan membership for dual members. There are also established policies for elected officials who are or have been members of the state retirement systems before becoming elected officials. For example, a newly elected legislator who is a member of TRS 1 continues his or her TRS 1 membership while serving as a legislator. Legislators who have no membership within the retirement systems may join PERS 2 or 3.

The rules for plan membership for elected officials are complex and provide special accommodation and flexibility that is not typically available to the average retirement system member. Whether special accommodation and flexibility should be provided to PSE employees who were formerly TRS 1 members is the issue currently before the SCPP.

The legislative history does not reveal why TRS 1 did not include unions and advocacy associations within the definition of employer. In any event, this historical inconsistency between the employer definitions in the Plans 1 results in inconsistent treatment of PSE employees and their ability to accrue public employee retirement system service credit. A former public employee who is a PERS 1

member can continue retirement system coverage as a PSE employee. A former TRS 1 member has no avenue to continue to accrue retirement system service credit when working for the PSE.

Plan Qualification Issue

PERS Plan 1 closed September 30, 1977. Employees hired by covered PERS employers after that date must join Plan 2 or 3. PERS Plans 2 and 3 define "employer" more narrowly than PERS 1. The reasons for this are unclear, but may be related to requirements under the Internal Revenue Code that are applicable to state retirement systems.

Generally, governmental plans include only governmental employees, although the IRS may allow a "de minimus" number of non-governmental employees.

The IRS contemplates that public employees' retirement systems include only governmental employees in order to 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 the proposed plan amendment would be consistent with IRS requirements.

Accommodating Labor Organizations in the Open Plans

The same policies that were designed for legislators within the State of Washington have not been made available to employees of unions and associations. In fact, unions and associations are no longer part of the definition of "employer" for the open PERS plans.

If the SCPP were to decide to treat PSE employees in a manner similar to legislators, then PERS 2 and 3 would have to be amended to allow these employees to participate in PERS. This could open the door to allowing employees of other unions and associations to do the same. It also could

open the door to allowing these non-governmental employees into the open plans, which is not currently permitted. This option was not pursued by the proponents of SHB 1067. Instead the proponents chose the option of temporarily opening PERS 1. This latter option is simpler, less risky to the plan and more favorable to the individuals who are now permanently employed with PSE.

Currently the open plans award service credit to members on leave of absence to serve as an official of a labor organization, but not to members who have left public employment altogether.

The open plans do accommodate retirement system members who become elected officials of labor organizations and are on union leave. For example, members of all PERS and TRS plans who take an authorized leave of absence to serve as an official of a labor organization, and whose employers pay them while they are on leave subject to reimbursement from the union, will have their pay counted for retirement purposes and service credit will be awarded. The open plans stop short of allowing employees of labor organizations who have separated from governmental service to accrue service credit in the public employee retirement systems.

Other States

Staff has not undertaken a search for examples of similar windows in other states. The window proposed in this instance is meant to address a very specific situation. Even if staff could locate examples of other states that temporarily opened closed plans, the reasons for any such windows are likely to be very different - and therefore of questionable relevance.

Legislative measures for temporary actions affecting small groups of people for a limited period of time are not common, and if they occur, may not be currently codified. Also, such provisions would not normally be discussed in member handbooks. The search for windows in Washington's plans was time-consuming, especially for the periods involving records that cannot be searched electronically. If this kind of search is desired for the comparative systems, more time for study would be required.

Conclusion

The proponents seek legislation that would allow certain former public employees who now work full time for PSE the opportunity to accrue Plan 1 service credit. This proposal, if passed, would require opening a plan that has been closed since 1977. It would add a very small number of employees of a non-governmental entity to a governmental plan, which could have an element of risk in terms of IRS plan qualification. If passed, the proposal would provide consistency with PERS 1 for certain former TRS 1 members who left public employment to work for the PSE. This kind of accommodation has not been historically available to any groups other than Plan 1 members who have become state elected officials.

Executive Committee Recommendation

The Executive Committee did not forward a recommendation on this proposal. The matter was placed on the December 18, 2007, agenda to allow the full SCPP to determine whether to recommend the proposal to the legislature.

Bill Draft

A Code Reviser draft of the bill (Z-0768.1) is attached. This version is identical to SHB 1067(2007), except the dates of the window have been updated to 2008.

Draft Fiscal Note

Attached.

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The Select Committee on Pension Policy

PERS 1 Window Under SHB 1067

Laura Harper, Policy and Research Services Manager

December 18, 2007

Office of the State Actuary

"Securing tomorrow's promises today."

Issue

- Should the SCPP recommend legislation to open PERS 1, a closed plan, in order to increase the retirement benefits of the affected individuals?

History

- Stakeholder proposal
- SCPP first heard proposal in 2005
  - SCPP did not sponsor or endorse
- Bill introduced in 2007
  - Passed the House, not heard in Senate
  - Still alive for 2008
  - SCPP did not sponsor or endorse; is being asked to now
- No recommendation from Executive Committee

Overview Of Proposal

- Who does it affect?
- How does it work?
- Why do the proponents want it?
- Has it been done before?
- Policy implications?

Who Does It Affect?

- Expected to affect two people
- Eligible members must:
  - Have 10-20 years of TRS 1 service credit
  - Be employed by the Public School Employees of Washington (PSE)
    - PSE is a labor union, not a governmental employer
    - PSE represents classified support professionals in K-12 public schools and universities

How Does It Work?

- Ninety-day window to open a closed plan
  - July 1, 2008 – September 1, 2008
  - Irrevocable election to join PERS 1
  - Start accruing service in PERS 1
- Retire as dual members
  - Combine service credit for benefit eligibility
  - At retirement, use higher PSE salaries to increase TRS 1 benefits
    - PSE salaries much higher than TRS 1 salaries
    - See fiscal note for effect on TRS 1 liability

Why Do Proponents Want It?

- Increases final retirement benefit
  - Currently, PERS 1 participation is not allowed for these members
    - No past service in PERS 1
    - No coverage under PERS 2 or 3
  - Open window allows accrual of PERS 1 service credit
  - Higher PSE salary increases the value of the TRS 1 benefit

Has It Been Done Before?

- Only one example of a PERS 1 window since plan closed in 1977
- Window opened for certain state elected officials in 1987
  - Allowed them to accrue PERS 1 service credit
  - Part of portability legislation
  - Example: a former TRS 1 member could join PERS 1 instead of PERS 2 or PERS 3 in order to accrue service credit for time as a legislator

Questions About Consistency

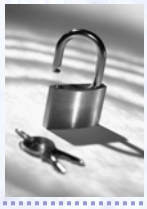
- Should there be consistent treatment between state elected officials in 1987 and employees of unions and associations today?
- Should there be consistency with former PERS 1 members who might be working for a labor union today?
  - PERS 1 definition of employer included groups like PSE
  - TRS 1 did not
  - There are still approximately 25 active employees of unions and associations that are accruing service credit in PERS 1

Opening A Closed Plan

- Should the SCPP recommend opening a closed plan?
  - Plans 1 have been closed since 1977
  - Opening this window will add to the Plan 1 unfunded liability
    - See fiscal note for details
- Will others want similar accommodation?

Implications For Plan Qualification?

- IRS has rules for public pension plans
  - Generally, IRS does not allow non-governmental employees in a governmental plan
  - PSE is not a governmental employer
- IRS has found that a *de minimus* number of non-governmental employees will not defeat qualified status
  - Decided on a case by case basis
  - Not done in WA's open plans (Plans 2 and 3)



Estimated Fiscal Costs

(In Millions)	2008-2009	2009-2011	25-Year
General Fund-State	$0.0	$0.0	$0.4
Total Employer	$0.0	$0.1	$0.6

- No increase in contribution rates for current biennium

Options For 2008

- Sponsor
- Endorse
- No action

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0768.1/08

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Authorizing certain members of the teachers' retirement system plan 1 to join the public employees' retirement system plan 1.

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

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

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

(1) Beginning July 1, 2008, and ending September 30, 2008, an eligible member of plan 1 of the teachers' retirement system may make a one-time irrevocable election, filed in writing with the department, to leave any service credit earned as a member of plan 1 of the teachers' retirement system in that system and join plan 1 of the public employees' retirement system. An eligible member who makes such an election may, upon satisfying the requirements of chapter 41.54 RCW, become a dual member of the two systems in order to combine service in each system for the purpose of determining benefit eligibility.

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

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

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**12/6/2007**	**Z-0768.1**

INTENDED USE

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

The proposal would allow 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 elect to join PERS 1 during a window beginning July 1, 2008 and ending September 30, 2008.

Increase in Actuarial Liabilities			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits	$50,327	0.6	$50,328
Unfunded Actuarial Accrued Liability	5,172	0.4	5,172
Unfunded Liability (PVCPB)	$2,644	0.4	$2,644

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

Fiscal Costs			
(*Dollars in Millions*)	**2008-2009**	**2009-2011**	**25-Year**
General Fund-State	$0.0	$0.0	$0.4
Total Employer	$0.0	$0.1	$0.6

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

SUMMARY OF PROPOSAL

This proposal impacts the Public Employees' Retirement System (PERS) Plan 1 and the Teachers' Retirement System (TRS) Plan 1 by allowing a specifically-defined category of members to make a one-time irrevocable election to join PERS 1. To be eligible, the employee must be a member of TRS 1 who, at the time of election, has at least ten but not more than twenty years of service credit in TRS 1 and who is employed by the Public School Employees of Washington. Eligible members would have a window from July 1, 2008 through September 30, 2008 to file their written election with the Department of Retirement Systems. Members who make this election would become dual members in order to combine service in each system for the purpose of determining benefit eligibility. These dual members would also be entitled to a benefit based on their highest base salary in either system.

Assumed Effective Date: 90 days after session.

CURRENT SITUATION

Currently two Public School Employees of Washington (PSE) employees who are seeking to join PERS for the first time have no avenue for membership. The PERS 1 definition of employer is broad and includes such entities 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 for these open plans specifically excludes such groups.

SUMMARY OF MEMBERS IMPACTED

We estimate that 2 members out of the total 9,263 active and terminated members of TRS Plan 1 would be affected by this proposal through improved benefits.

We estimate that for a typical member impacted by this proposal, the increase in benefits would be the ability to join PERS Plan 1 and become a dual member of PERS 1 and TRS 1, which would increase the member's TRS 1 benefit and allow them to earn a benefit in PERS Plan 1. We estimate the increase in benefits to be a present value liability of approximately $583,000 for the two members involved, which would mean an average increase in liabilities of approximately $292,000 per person.

In addition, the 2 impacted members would be required to make contributions to PERS 1 at the rate of 6 percent of salary that they are not currently making.

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METHODS

For this proposal, we needed to determine the liability impact on both PERS 1 and TRS 1. Additionally, we needed to find the impact on the present value of future salaries (PVFS) for PERS 1 in order to determine how much these members would contribute over their working lifetimes.

For PERS 1, we determined the likelihood of the member leaving employment at each future age. We multiplied this likelihood by the present value of their expected benefit for each age at which they could leave employment. We found the PERS 1 liability increase by summing each of these present values. Similarly, we found the PERS 1 PVFS impact by multiplying the likelihood that the member would still be employed at each age by the present value of their future salary. Again, we summed these present values to find the PVFS impact.

Next, we determined the liability impact on TRS 1 in a similar manner as PERS 1. We adjusted our TRS 1 assumptions based on the expectation that the members will behave like PERS 1 members. In other words, the members will leave employment and live as long as PERS 1 members.

For each age we determined the likelihood of the members leaving PERS 1 employment (this is important because they will start drawing their TRS 1 benefits at this time and the benefit will be based on their PERS 1 salaries). We then determined what the present value of their future benefits would be based on their old TRS 1 salaries and their new PERS 1 salaries ("benefit increase"). Similar to the PERS 1 calculation, we then multiplied the likelihood of the members leaving employment at each age by the "benefit increase." We then summed these present values to determine the TRS 1 liability impact.

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 that only two members will be impacted by this proposal. Also, we further assumed these two members will not leave employment via retirement or termination in the first two years in order to establish their higher salaries in their TRS 1 benefit calculations. We assumed that, after two years, these members would behave similarly to the general PERS 1 population, including the rate at which they leave employment, how long they are projected to live, and the rate at which their salaries will increase.

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Because these members will become dual PERS 1 and TRS 1 members under this proposal, we based our assumed termination rates on the members' total projected service in PERS and TRS. For example, a member with 20 years of service in TRS 1 and three years of service in PERS 1 has 23 total years of membership service. For purposes of pricing this proposal, we assumed this member would terminate with the same probability as any PERS 1 member with 23 years of service.

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

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

DATA

We relied on PSE to identify the members impacted including their current salaries. We also relied on the Department of Retirement Systems (DRS) for the members' average final salaries that would be used to calculate their current deferred retirement benefit in TRS 1.

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

FISCAL IMPACT

Description

This proposal impacts the costs of both PERS 1 and TRS 1. PERS 1 is impacted because more members will be allowed to accrue a benefit. This cost will be partially offset by the expected future contributions made by the impacted members. TRS 1 is impacted because the accrued benefits of the affected members will be based on higher salaries than they are currently.

Actuarial Determinations

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

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

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(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$13,723	$0.2	$13,723
PERS 2/3	18,966	0.0	18,966
PERS Total	**32,689**	**0.2**	**32,689**
TRS 1	10,834	0.4	10,834
TRS 2/3	6,804	0.0	6,804
TRS Total	**$17,638**	**$0.4**	**$17,638**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	**$3,196**	**$0.1**	**$3,196**
TRS 1	**$1,976**	**$0.4**	**$1,976**
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 1	$3,750	$0.0	$3,750
PERS 2/3	(2,338)	0.0	(2,338)
PERS Total	**1,412**	**0.0**	**1,412**
TRS 1	2,348	0.4	2,348
TRS 2/3	(1,116)	0.0	(1,116)
TRS Total	**$1,232**	**$0.4**	**$1,232**

Note: Totals may not agree due to rounding.

Increase in Contribution Rates: (Effective 9/1/2008)

System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**
Current Members				
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Employer	0.000%	0.001%	0.000%	0.000%
New Entrants*				
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Employer	0.000%	0.000%	0.000%	0.000%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

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Fiscal Budget Determinations

	Fiscal Costs				
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
2008-2009					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	0.0	0.0	0.0	0.0	0.0
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0
2009-2011					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	0.0	0.1	0.0	0.0	0.1
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0
2008-2033					
General Fund	$0.0	$0.4	$0.0	$0.0	$0.4
Non-General Fund	0.0	0.0	0.0	0.0	0.0
Total State	0.0	0.4	0.0	0.0	0.4
Local Government	0.0	0.2	0.0	0.0	0.2
Total Employer	0.0	0.6	0.0	0.0	0.6
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0

Note: Totals may not agree due to rounding.

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

Sensitivity Analysis

Most of the assumptions that we have used to value the liability increase are made based on assumptions that apply to a large group of people. They are meant to value the group of people *on average*. These assumptions are still our best estimate for how the two members impacted by this proposal will behave. However, there is a lot more variability when these average assumptions are applied to a very small group of members. The reason for this is because with a large group of members, if a member acts above the average there are plenty more members to act below the average and balance it out. However, with only one member being valued there is no one else to balance it out. In this case, the retirement age of the member will drive the actual cost of the proposal.

The lowest cost of this proposal would be if the two members terminated right after entering PERS 1. This would lower the liability impact of this proposal from $583,000 to approximately $0 (depending on when they actually terminated). The highest cost of this proposal would be if they both retired at the optimal retirement age. This would increase

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the liability impact of this proposal from $583,000 to $663,000. As you can see, the group assumptions result in an expected value between the two extremes. However, the two individual members' choices will impact the results quite a bit, whereas it is less likely that a large group of people would all retire at the optimal retirement age.

Since PSE is not a government agency, we will also take a look at how the results would be affected based on how their salaries increase in future years. If their salaries were expected to grow at 3.5% per year instead of 4.5%, then the liability impact would decrease from $583,000 to $541,000. If their salaries were expected to grow at 5.5% per year instead of 4.5%, then the liability impact would increase from $583,000 to $627,000.

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.

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

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

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10. Military Death Benefits

Please see agenda item 4 from this mornings' meeting.

11. Interruptive Military Service Credit

Please see agenda item 5 from this mornings' meeting.

12. FRP (Pre-LEOFF) Survivor Benefits

Please see agenda item 6 from this mornings' meeting.

13. Retiree Access to PEBB – Stakeholder Proposal

Please see agenda item 7 from this mornings' meeting.

14. Post-Retirement Employment Under EHB 2391

Please see agenda item 8 from this mornings' meeting.

15. PERS 1 Window Under SHB 1067

Please see agenda item 9 from this mornings' meeting.

16. PERS to SERS Auto Transfer

PERS to SERS Auto-Transfer

Bill Summary

- **Discontinues the automatic transfer provisions of Public Employees' Retirement System (PERS) Plan 2 members who become employed in a School Employees' Retirement System (SERS) eligible position, effective July 1, 2008.**
- **Provides a window for previously auto-transferred members of PERS or SERS Plan 2 with no educational experience prior to their auto-transfer to choose to restore the transferred service and funding back to PERS Plan 2.**
- **Contains a funding provision to offset the liabilities transferred from SERS to PERS.**

Current Situation

All prior PERS Plan 2 members hired into SERS eligible positions after September 1, 2000 have their PERS Plan 2 membership automatically transferred to SERS Plan 2. Additionally, SERS Plan 2 members who have withdrawn prior PERS Plan 2 service must restore that service in SERS Plan 2, and educational PERS Plan 2 members that retired prior to September 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.

Draft Bill

A Code Reviser draft of the bill (Z-0764.1) is attached.

Draft Fiscal Note

Attached.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0764.1/08

ATTY/TYPIST: LL:ean

BRIEF DESCRIPTION: Transferring public employees' retirement system plan 2 members to the school employees' retirement system plan 2.

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

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

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

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

(2)(a) The membership and previous service credit of a plan 2 member not employed in an eligible position on September 1, 2000, will be transferred to the Washington school employees' retirement system plan 2 when he or she becomes employed in an eligible position <u>prior to July 1, 2008</u>. Plan 2 members not employed in an eligible position on

September 1, 2000, who have withdrawn their member contributions for prior plan 2 service may restore contributions and service credit to the Washington school employees' retirement system plan 2 as provided under RCW 41.40.740, if they first establish eligibility in the Washington school employees' retirement system plan 2 prior to July 1, 2008.

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

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

(4) From September 1, 2008, through November 30, 2008, upon written request to the department, members and former members transferred under subsection (2) of this section who did not establish membership and earn service credit for employment with a school district or educational service district prior to the transfer, and who have not transferred to plan 3 of the Washington school employees' retirement system or plan 3 of the public employees' retirement system, may restore their transferred membership and previous service credit to plan 2. All previously transferred contributions and interest, and additional interest as determined by the department, shall be returned to plan 2. An additional amount shall be transferred from the Washington school employees' retirement system sufficient to offset the liabilities returned to plan 2 under this subsection, as determined by the state actuary.

--- 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.

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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.

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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.

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

  (AFC Factor x Annuity Factor) / 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.

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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.

Table 1 – Summary Counts of Excluded Records by Cause of Exclusion

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.

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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	
(Dollars in millions)	**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.

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

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

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17. Salary Bonuses in TRS

Salary Bonuses In TRS

Bill Summary

- **Removes the statutory exclusion of bonuses for teachers who are certified by the National Board for Professional Teaching Standards. This would result in the payments being reported for retirement purposes.**
- **Affects all plans within the Teachers' Retirement System.**

Current Situation

Teachers receive annual bonuses for certification by the National Board for Professional Teaching Standards: at least $5,000 for each year they hold a valid certificate, and an additional $5,000 per year for teaching in a school where 70 percent of the students qualify for the free or reduced-price lunch program.

These bonus payments are specifically excluded in statute from being reported to the Department of Retirement for retirement benefit purposes. The Department has determined the bonuses would qualify as earnable compensation if the statutory exclusion were removed.

Draft Bill

A Code Reviser draft of the bill (Z-0763.1) is attached.

Draft Fiscal Note

Attached.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0763.1/08

ATTY/TYPIST: LL:cro

BRIEF DESCRIPTION: Including salary bonuses for individuals certified by the national board for professional teaching standards as earnable compensation.

AN ACT Relating to salary bonuses for individuals certified by the national board for professional teaching standards; amending RCW 28A.405.415; and reenacting and amending RCW 41.32.010.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the

individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

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

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

(v) "Earnable compensation" does not include:

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

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

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

(b) "Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, ((~~bonuses for certification from the national board for professional teaching standards authorized under RCW 28A.405.415,~~)) or any form of severance pay.

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

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

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

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

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

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

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

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

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

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

(16) "Membership service" means service rendered subsequent to the first day of eligibility of a person to membership in the retirement system: PROVIDED, That where a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered. The provisions of this subsection shall apply only to plan 1 members.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(36) "Substitute teacher" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(46) "Annual increase" means, initially, fifty-nine cents per month

per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(47) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

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

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

Sec. 2. RCW 28A.405.415 and 2007 c 398 s 2 are each amended to read as follows:

(1) Certificated instructional staff who have attained certification from the national board for professional teaching standards shall receive a bonus each year in which they maintain the certification. The bonus shall be calculated as follows: The annual bonus shall be five thousand dollars in the 2007-08 school year. Thereafter, the annual bonus shall increase by inflation.

(2) Certificated instructional staff who have attained certification from the national board for professional teaching standards shall be eligible for bonuses in addition to that provided by subsection (1) of this section if the individual is in an instructional assignment in a school in which at least seventy percent of the students qualify for the free and reduced-price lunch program.

(3) The amount of the additional bonus under subsection (2) of this section for those meeting the qualifications of subsection (2) of this section is five thousand dollars.

(4) The bonuses provided under this section are in addition to compensation received under a district's salary schedule adopted in accordance with RCW 28A.405.200 and shall not be included in calculations of a district's average salary and associated salary limitations under RCW 28A.400.200.

(5) The bonuses provided under this section shall be paid in a lump sum amount ((~~and shall not be included in the definition of "earnable compensation" under RCW 41.32.010(10)~~)).

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**10/31/07**	**Salary Bonuses in TRS**

INTENDED USE

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

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

EXECUTIVE SUMMARY

Teachers who become certified by the National Board for Professional Teaching Standards (the Board) receive an annual bonus. This proposal would make that bonus includable in salary for pension calculations and subject to collection of contribution rates.

Increase in Actuarial Liabilities			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits	$17,638	$82	$17,720
Unfunded Actuarial Accrued Liability	1,976	6	1,982
Unfunded Liability (PVCPB)	$1,232	$35	$1,267

Total Increase in Contribution Rates	
Current Biennium	**TRS**
Employee (Plan 2)	0.14%
Employer	0.15%

	Fiscal Costs		
(Dollars in Millions)	**2008-2009**	**2009-2011**	**25-Year**
General Fund-State	$4.1	$8.4	$99.9
Total Employer	$6.0	$12.4	$148.0

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

SUMMARY OF PROPOSAL

This proposal impacts the Teachers' Retirement System (TRS) Plans 1, 2, and 3 by:

Amending RCW 41.32.010 to remove from the definition of earnable compensation the statutory exclusion of bonuses paid to teachers certified by the National Board for Professional Teaching Standards.

Assumed Effective Date: 90 days after session

CURRENT SITUATION

All teachers who obtain certification by the National Board for Professional Teaching Standards are entitled to:

- A lump sum annual payment of $5,000 for the 2007-2008 school year, which shall be annually increased by inflation,
- an additional $5,000 annual payment if they teach in a school where 70 percent of the students qualify for the free or reduced lunch program.

These payments are statutorily excluded from the definition of earnable compensation for retirement purposes. To be eligible to apply for the National certificate, teachers must have at least three years of teaching experience. Once certified, the certificate is valid for ten years. Teachers must apply for the recertification program and receive recertification prior to the expiration of the certificate. If the certificate expires prior to recertification, the teacher must go through the certification program again.

SUMMARY OF MEMBERS IMPACTED

We estimate that all 67,736 current active and all future members of TRS could be affected by this proposal through improved benefits. There are currently 1,313 teachers certified by the Board. Of those, 409 were approved who applied in 2006 (the most approvals in any single year to date). An additional 1,377 teachers have applied for certification in 2007 (the most applied in a single year to date).

We estimate that for a typical member impacted by this proposal, the increase in benefits would be the inclusion of the bonus in their Average Final Compensation (AFC). This would result in higher pension benefits for teachers certified by the Board. Certified teachers and their employers would have to pay contributions on the bonus.

Additionally, the 6,983 current active and all future Plan 2 members of TRS would be affected by this proposal through increased contribution rates.

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

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PURPOSE

The purpose of this pricing proposal is to increase the salaries of teachers who have been certified by the Board and determine what effects those increases may have on TRS. The increase in salaries would result in an increase in liabilities since the majority of TRS benefits are based on the members' AFC. The increase in salary would also increase the Present Value of Future Salaries (PVFS) for TRS. In general, increases in liability increase contribution rates and increases in PVFS decrease contribution rates.

Under this proposal, the increase in contribution rates attributable to increases in liability would be partially offset by the decrease in contribution rates attributable to increases in PVFS. The increase in contribution rates would be completely offset if the salary increases only occurred at the beginning of a teacher's career. Since this bonus is potentially included in all teachers' salaries (any teacher could apply for this certification as long as they have been teaching three years), regardless of how long they have been teaching, this proposal would result in an increase in contribution rates.

The valuation data does not contain any information regarding teachers who are certified. We were not provided any data identifying exactly which teachers are currently certified. We were provided information regarding certification counts and historical approval rates for teachers who apply to be certified. Since we cannot identify specific teachers as being certified we have developed an average increase in salary per member and applied this increase to all teachers. We have modeled the increase in certified teachers as a percent of all teachers into the future as well as the growth of the bonus with inflation.

METHODS

We replaced every TRS member's current salary in our valuation data with the average assumed increase in salary resulting from the inclusion of the bonus in pensionable earnings. In the base valuation (before the proposed change) we apply the assumed 4.5 percent general salary assumption and TRS merit scale assumption (a service based salary growth assumption) to the current salary. The bonus for being certified by the Board is indexed to inflation, but we have not assumed a service based growth assumption. Instead, we have assumed growth in the number of certified teachers as a percent of all teachers using a select and ultimate growth model as described in the Assumptions section below.

Another modification we made from our base valuation was the method used to allocate salaries in the first year of the valuation. In the base valuation we use the previous year's salary for a given member to project the salaries in the first valuation year. This assumes we have a historical salary and do not know the exact salary for members after the valuation date. Since the bonus for being certified is known for the first valuation year ($5,000 or $10,000) we have ensured that the salary in the first year matches the assumed average bonus per member. Since, in the pricing valuation, each person has the same

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salary and expected growth in salary, we were able to isolate the impact on both the liabilities and present value of future salaries of this proposal.

Otherwise, costs were developed using the same methods as those disclosed in the September 30, 2006 Actuarial Valuation Report (AVR).

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

Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Rate increases calculated under the aggregate actuarial cost method are used to determine the increase in funding expenditures for current plan members.

ASSUMPTIONS

The factor driving the cost of this pricing exercise is the average salary applied to each member. We had to make assumptions to answer the following questions:

1. Which teachers are likely to apply for certification?

2. How many of the 1,377 teachers who applied for certification in 2007 would actually be granted certifications at the end of 2007?

3. Would the number of certified teachers grow as a percent of all teachers in the future?

4. If the answer to question 3 is yes, in what way would this growth occur? How long would we expect this growth to continue?

5. The bonus is indexed to inflation. Which measurement of inflation will be used?

6. What percent of certified teachers will qualify for the additional bonus (total bonus of $10,000 per year)?

The following assumptions were used to develop the average salary per member:

1. Which teachers are likely to apply for certification? We know that teachers must have three years of teaching experience to apply for certification. We also have a distribution of currently certified teachers by years of service as of December of 2006 (please see Table 2 in the Data section). New certifications will be announced in December of 2007. As Table 3 shows, teachers who have been certified have evenly distributed service levels; therefore, we have assumed that

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any teacher, regardless of plan, age, or years of service would potentially apply for certification.

2. How many of the 1,377 teachers who applied for certification in 2007 would actually be granted certifications at the end of 2007? The Office of the Superintendent of Public Instruction (OSPI) provided us with the historical rate of approval for teachers applying for certification. OSPI indicated that approximately 60 percent of teachers who apply for certification in a given year receive certification in that year. We assumed that 60 percent of the 1,377 teachers who applied in 2007 will receive certification in December of 2007. That is, we assumed 826 (1377 x 60% = 826.2) new certifications would be granted in 2007 to bring the total number of certified TRS members to 2,139 (1,313 + 826 = 2,139). That is a growth rate of 62.9 percent in 2007.

3. Would the number of certified teachers grow as a percent of all teachers in the future? We believe the number of teachers who are certified by the Board will increase as a percent of all teachers. We have reached this conclusion for several reasons. First, the value of the certification in terms of guaranteed salary has drastically increased with the passage of SHB 2262 during the 2007 Legislative Session. This bill set the bonus level at $5,000 for the life of the certificate (ten years) and provided for the additional $5,000 for teachers employed in schools with more than 70 percent of the students in the Free or Reduced Lunch Program (referred to in the remainder of this draft fiscal note as the additional bonus). Previously the bonus was $3,500 a year for the current biennium without any guarantee of future bonuses. Therefore, the initial cost of applying for the certificate – $2,500 on average – was only going to pay up to $7,000. After the passage of SHB 2262, the $2,500 initial outlay would pay between $50,000 and $100,000, guaranteed, prior to the renewal date of the certificate. This proposal would further increase the value of the bonus by including it in the definition of earnable compensation, thereby increasing the value of a certified teacher's pension benefit.

   The following information was provided by OSPI and further support our assumption that the percent of certified teachers will increase: school districts are offering more scholarships and mentoring programs to help teachers become certified, the bonus will increase annually with inflation, continuing education requirements for the certificate issued by the Board satisfy the requirements for continuing education of a teacher's normal teaching certificate, and being certified by the Board is recognized by Master's programs; that is, a teacher certified by the Board can receive credit hours towards their Master's Degree at some institutions. Finally, we expect the number of certified teachers to increase because Master's Programs in certain institutions (University of Washington) are incorporating this certification into the curriculum of their programs. Teachers participating in these programs could receive their Master's Degree and their Board certification while enrolled in a participating institution.

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4. If the answer to question 3 is yes, in what way would this growth occur? How long would we expect this growth to continue? As indicated above, we believe the answer to question 3 is yes. The salary scale for teachers in 2006 shows a difference in salaries of approximately $7,000 between teachers who have a Master's Degree and teachers who have a Bachelor's Degree. This represents the permanent base salary increase for earning a Master's Degree in the teaching profession. The base salary increase for becoming certified is either $5,000 or $10,000 guaranteed for ten years prior to renewal. In general, the cost and investment of time in earning a Master's Degree is greater than becoming certified by the Board, but the increase in base salary for earning a Master's Degree is also greater than becoming certified by the Board. Therefore, we believe the percent of teachers who are certified by the Board will grow to approximately the same level as the percent of teachers who earn their Master's Degree after they have been teaching for a few years. We believe 20-25 percent of teachers get their Master's Degree after they begin their teaching careers. We requested data from OSPI regarding this percentage, but had not received any by the date of this draft fiscal note. We have assumed a long-term expected certification ratio of 25 percent for this pricing exercise. Assuming a lower percent would result in a lower cost.

   We believe it will take 10 to 15 years for the percent of teachers certified to increase to 25 percent of all teachers. In actuarial terms, the growth period is referred to as the select period. After the select period we expect the percent of certified teachers to remain constant. This period of no growth is referred to as the ultimate period. For this pricing we have assumed a 15 year select period beginning in 2007. A shorter select period would result in a larger cost. The annual growth rate during the select period that results in the desired 25 percent target in 2021 is 15.82 percent per year. The annual growth rate during the ultimate period that results in a constant rate of 25 percent of teachers being certified is 0.90 percent. We set this ultimate growth rate equal to the annual system growth rate of TRS. The assumed annual growth rates are summarized in Table 1 below.

5. The bonus is indexed to inflation. Which measurement of inflation will be used? The definition of how the certification bonus will grow by inflation is not specified in statute. Furthermore, the statute is not clear about whether or not the additional bonus will be indexed with inflation. We assumed that both the base bonus amount of $5,000 and the additional bonus amount of $5,000 would be indexed by 3.5 percent annual inflation. This assumption is consistent with the assumed rate of annual inflation in the 2006 AVR. The assumed annual growth rates with inflation are summarized in Table 1 below.

6. What percent of certified teachers will qualify for the additional bonus (total bonus of $10,000 per year)? The OSPI provided us with the fact that 6 percent of the 1,313 certified teachers as of December 2006 qualify for the additional bonus. This percentage represents the historical ratio of teachers who become qualified

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for the additional bonus when the additional bonus did not exist. That is, the 6 percent of teachers who are certified by the Board and who teach in schools where more than 70 percent of the students are enrolled in the Free or Reduced Lunch Program (the Program) did not have any additional incentive to become certified than teachers who taught in schools with fewer than 70 percent of the students in the Program. Because of SHB 2262, there is additional incentive for these teachers to become certified at a higher rate than historically observed. We assumed that 10 percent of all teachers in the future would be employed by schools with more than 70 percent of the students in the Program and be eligible for the additional bonus.

Table 1 – Assumed Select and Ultimate Annual Growth Rates

	Rates without Inflation	Rates with Inflation*
Growth during Select Period (15 years)**	15.82%	19.88%
Growth during Ultimate Period**	0.90%	4.43%

**3.5 percent annual inflation has been included in the growth rates. We assumed the growth rates would have a multiplicative relationship with inflation. That is, Growth during select and ultimate period with inflation equals growth without inflation times 1.035.*
***From question 4 above*

The average annual salary was computed using the following assumptions:

(1) = 2,139 currently certified teachers in 2006.

(2) = 67,736 active members in TRS in 2006.

(3) = $5,000 bonus amount.

(4) = 1.1 – factor representing 90 percent of teachers receiving the base bonus plus 10 percent receiving both base and additional bonus (2 times bonus; 0.9 + 2*0.1 = 1.1).

The average initial annual salary was assumed to be $173.70 for each active TRS member. This amount was calculated as follows:

(1) * (3) * (4) / (2) = $173.70

We have assumed that once a teacher becomes certified by the Board they remain certified for the remainder of their career. We feel this is reasonable because the renewal process is much simpler than the initial certification process.

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

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

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DATA

We do not have any data identifying which teachers are currently certified by the Board. Most of the data used to set assumptions in this draft fiscal note were found on the OSPI website (http://www.k12.wa.us/certification/nbpts/default.aspx) or were provided to us by OSPI staff. We were unable to verify any of the information we received from OSPI via independent sources and have subsequently relied on this information as accurate. We have requested more information regarding the breakdown of certified teachers by plan. We have also requested information regarding the number of teachers who pursue a Master's Degree after they begin their teaching careers.

We are aware that only teachers and counselors are eligible to be certified by the Board. OSPI has suggested that there are approximately 63,000 teachers and counselors in TRS as of the end of the 2006 school year. Administrators and other TRS members are not eligible to be certified by the Board. Our 2006 valuation data contains 67,736 active members. We have calculated the amount of the average annual salary increase due to the bonus based on total active TRS membership. To be consistent with this calculation we have applied the calculated average annual salary to all active TRS members. This is potentially overstating the average annual salary increase, but we do not have any way to identify administrators in our active valuation data.

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

The following information was provided by OSPI:

Table 2 – Breakdown of Currently Certified Teachers by Current Years of Service*

Years of Service**	Percent of Certified Teachers
3-10	30%
11-15	23%
15-20	19%
More than 20	27%

**The Board began certifying teachers in 1989. There are 1,313 teachers certified in TRS. Of these 409 (over 31 percent) were certified in 2006.*
***The average years of service for the 1,313 certified teachers is 16.*

FISCAL IMPACT

Description

The inclusion of the annual bonus paid to teachers who are or become certified by the Board in the definition of earnable compensation results in an actuarial cost to TRS because the contributions collected on the additional salary will not be sufficient to fund the additional pension benefits entirely. This is because the average certified teacher has 16 years of service and does not have their entire career to pay contributions on the certification bonus (nor does their employer).

Actuarial Determinations

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

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown below that will be applied in the current biennium. However, the un-rounded rate increase will be used to determine the fiscal costs in subsequent biennia.

(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
TRS 1	$10,834	$9	$10,843
TRS 2/3	6,804	73	6,877
TRS Total	**$17,638**	**$82**	**$17,720**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
TRS 1	**$1,976**	**$6**	**$1,982**
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
TRS 1	$2,348	$8	$2,356
TRS 2/3	(1,116)	27	(1,089)
TRS Total	**$1,232**	**$35**	**$1,267**

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

Increase in Contribution Rates:
(Effective 9/1/2008)

System/Plan	**TRS**
Current Members	
Employee (Plan 2)	0.141%
Employer	0.155%
New Entrants*	
Employee (Plan 2)	0.055%
Employer	0.055%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

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Fiscal Budget Determinations

Fiscal Costs *(Dollars in Millions)*	TRS
2008-2009	
General Fund	$4.1
Non-General Fund	0.0
Total State	4.1
Local Government	2.0
Total Employer	6.0
Total Employee	$0.8
2009-2011	
General Fund	$8.4
Non-General Fund	0.0
Total State	8.4
Local Government	4.0
Total Employer	12.4
Total Employee	$1.4
2008-2033	
General Fund	$99.9
Non-General Fund	0.0
Total State	99.9
Local Government	48.1
Total Employer	148.0
Total Employee	$25.2

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

Sensitivity Analysis

The liability increases, contribution rate increases and corresponding fiscal costs are sensitive to the average annual salary we applied to each TRS member and to the growth rate of certified teachers.

We tested the effects of changes in the various assumptions used to develop the average annual salary associated with this proposal. We varied the percent of teachers eligible for the additional bonus and the assumed percent of teachers who applied in 2007 (1,377) that will be certified in December of 2007. The following table summarizes the assumptions for each test and the resulting liability increase and total employer rate increase. If an assumption was left the same as disclosed previously in the fiscal note, then that assumption is listed as “Base” in the table below.

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Percent Eligible for Additional Bonus	Select Growth Rate	2007 Approval Rate	Assumed Average Annual Salary	Liability Increase – All Plans *($ in millions)*	Total Employer Rate Increase
Base	Base	Base	$173.70	$82	0.16%
0%	Base	50%	$147.74	$70	0.13%
25%	Base	70%	$210.09	$99	0.19%

In addition, we performed sensitivity analysis on the growth rate of certified teachers. We looked at two key assumptions used to determine this growth rate. The first assumption is the length of the select period. The select period determines how fast we get to the long term expected certification ratio. The second assumption is the long term expected certification ratio. This ratio reflects the number of teachers certified as a percent of all teachers in TRS. The table below shows the sensitivity of the assumption changes in relation to the Base assumptions used in pricing this fiscal note.

Select Period	Select Growth Rate with Inflation	Ultimate Growth Rate with Inflation	Long Term Expected Certification Ratio	Liability Increase - All Plans *($ in millions)*	Total Employer Contribution Rate Increase
15 *	19.88% *	4.43% *	25% *	$82	0.15%
10	28.43%	Base	Base	$99	0.18%
20	15.81%	Base	Base	$70	0.13%
Base	18.11%	Base	20%	$69	0.13%
Base	21.34%	Base	30%	$95	0.18%

**Base Assumptions used to price this fiscal note.*

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

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

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

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18. Fish and Wildlife Service Credit Transfer

Fish & Wildlife Service Credit Transfer

Bill Summary

- **Provides Department of Fish and Wildlife (DFW) enforcement officers in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 a five-year window to transfer their prior Public Employees' Retirement System (PERS) Plan 2 service credit earned as enforcement officers into LEOFF Plan 2.**
  - **Early transfer of service provisions are provided for members who are disabled or die during the five-year window.**
  - **The member cost for the service credit is the difference between the PERS Plan 2 contributions paid by the member, and the contributions that the member would have paid as a member of LEOFF Plan 2, plus interest as determined by the Director of the Department of Retirement Systems. The deadline for payment is June 30, 2013.**
  - **The DFW must pay, by June 30, 2014, an amount sufficient to ensure the contribution rates in LEOFF Plan 2 do not increase due to this transfer. Payment provisions for DFW prior to June 30, 2014, are provided.**

- **Affects members within the LEOFF Plan 2.**

Current Situation

Currently, DFW enforcement officers in LEOFF Plan 2 with prior PERS Plan 2 service as enforcement officers have no ability to transfer their prior PERS 2 service to LEOFF 2; rather, they are dual members of PERS Plan 2 and LEOFF Plan 2 and can retire under provisions of the portability chapter (RCW 41.54).

Draft Bill

A Code Reviser draft of the bill (Z-0766.1) is attached.

Draft Fiscal Note

Attached.

O:\SCPP\2007\12-18-07 Full\18.Fish-Wildlife_Service_Credit_Transfer.doc

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0766.1/08

ATTY/TYPIST: LL:rmh

BRIEF DESCRIPTION: Allowing department of fish and wildlife enforcement officers to transfer service credit.

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

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

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

(1) A member of plan 2 who was a member of the public employees' retirement system plan 2 while employed as an enforcement officer for the department of fish and wildlife has the option to make an election no later than June 30, 2013, filed in writing with the department of retirement systems, to transfer service credit previously earned as an enforcement officer in the public employees' retirement system plan 2 to the law enforcement officers' and firefighters' retirement system plan 2. Service credit that a member elects to transfer from the public employees' retirement system to the law enforcement officers' and firefighters' retirement system under this section shall be transferred no earlier than June 30, 2013, and only after the member completes payment as provided in subsection (2) of this section.

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

(b) A member who elects to transfer service credit under this subsection shall pay, for the applicable period of service, the difference between the contributions the employee paid to the public employees' retirement system plan 2 and the contributions that would have been paid by the employee had the employee been a member of the law enforcement officers' and firefighters' retirement system plan 2, plus interest on this difference as determined by the director. This payment must be made no later than June 30, 2013, and must be made prior to retirement.

(c) No later than June 30, 2014, the department of fish and wildlife shall pay an amount sufficient to ensure that the contribution level to the law enforcement officers' and firefighters' retirement system will not increase due to this transfer. Payments made prior to June 30, 2014, are authorized as determined by the department and coordinated with the state actuary.

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

(e) If a member who elected to transfer pursuant to this section dies or retires for disability prior to five years from their election date, the member's benefit is calculated as follows:

(i) All of the applicable service credit, accumulated contributions, and interest is transferred to the law enforcement

officers' and firefighters' retirement system plan 2 and used in the calculation of a benefit.

(ii) If a member's obligation under (b) of this subsection has not been paid in full at the time of death or disability retirement, the member, or in the case of death the surviving spouse or eligible minor children, have the following options:

(A) Pay the bill in full;

(B) If a continuing monthly benefit is chosen, have the benefit actuarially reduced to reflect the amount of the unpaid obligation under (b) of this subsection; or

(C) Continue to make payment against the obligation under (b) of this subsection, provided that payment in full is made no later than five years from the member's original election date.

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

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**12/3/07**	**F&W Service Credit 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 and the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board during the 2007 Interim only.

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

EXECUTIVE SUMMARY

This proposal would allow enforcement officers for the Department of Fish & Wildlife to convert prior PERS 2 service to LEOFF 2 by paying the difference in contribution rates.

Increase in Actuarial Liabilities			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits	$24,970	5	$24,975
Unfunded Actuarial Accrued Liability	2,494	0	2,494
Unfunded Liability (PVCPB)	($2,859)	5	($2,854)

Total Increase in Contribution Rates		
Current Biennium	**PERS**	**LEOFF**
Employee (Plan 2)	0.00%	0.00%
Employer	N/A	N/A
State		0.00%

	Fiscal Costs		
(Dollars in Millions)	**2008-2009**	**2009-2011**	**25-Year**
General Fund-State	$0.0	$0.0	$0.0
Total Employer	$0.0	$0.0	$0.0

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

SUMMARY OF PROPOSAL

This proposal impacts Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System and Plan 2 of the Public Employees' Retirement System (PERS). This proposal allows LEOFF 2 members to transfer into LEOFF 2 their prior PERS 2 service credit for periods of employment as enforcement officers for the Department of Fish and Wildlife (DFW). There is a waiting period for transferring the service credit, as the proposal provides that it shall be transferred no earlier than June 30, 2013, and only after the member completes payment, which must be made no later than June 30, 2013. Allowances for early transfer are provided for members who become disabled or die during the waiting period.

The member cost for the service credit is the difference between the PERS 2 contributions paid by the member, and the contributions that the member would have paid as a member of LEOFF 2. These amounts are then subject to interest as determined by the director. The assets associated with the PERS 2 member and employer contributions will be transferred from the PERS 2 assets to LEOFF 2 and will be used to further offset the cost to the DFW.

The proposal also provides that no later than June 30, 2014 the DFW would be required to pay an amount sufficient to ensure that the contribution rate in LEOFF 2 will not increase due to the specified transfer of funds and service credit. The proposal also allows for payments prior to 2014 as determined by the Department of Retirement Systems (DRS) in consultation with the Office of the State Actuary.

Finally, the proposal provides that members who elect to transfer their service credit must transfer all their service as an Enforcement Officer with DFW under PERS 2. Furthermore, these members are thereafter permanently excluded from membership in PERS for all service related to time served as an enforcement officer with the DFW in PERS 2.

Assumed Effective Date: 90 days after session

CURRENT SITUATION

Currently, LEOFF 2 members who transferred from PERS 2 while serving as enforcement officers for DFW have no ability to transfer their prior PERS 2 service to LEOFF 2; rather, they are dual members of PERS 2 and LEOFF 2 and can retire under provisions of the portability chapter (RCW 41.54).

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SUMMARY OF MEMBERS IMPACTED

We estimate that 67 members out of the total 108 active DFW enforcement officers have eligible prior service credit in PERS 2 and could be affected by this proposal. We believe that 60 of those members would receive improved benefits from this proposal. The remaining seven members would not elect to transfer service credit since they will be retiring prior to culmination of the waiting period. Thus the option to transfer their service credit is not financially advantageous for their situation. This proposal would not affect inactive members.

We estimate that for a typical member impacted by this proposal, the increase in benefits would be the opportunity for a full retirement at age 53 instead of 65, or a benefit at age 50 with 20 years of service reduced 3% for each year under age 53. The affected members would also be required to pay the difference in the member contribution rates as though they had been in LEOFF 2 instead of PERS 2 for the period of service they transfer, with interest.

Furthermore, the Department of Fish and Wildlife would be required to pay an amount sufficient to ensure that the contribution rate in LEOFF 2 will not increase due to the specified transfer of funds and service credit.

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

METHODS

The proposal provides that there shall be no increase in unfunded liability to LEOFF 2 resulting from the additional service being transferred from PERS 2, that DFW would pay any additional cost not covered by the asset transfer, and additional member contributions. The purpose of this pricing exercise was to isolate the total cost to DFW which is equal to the amount of remaining LEOFF 2 liability after the associated PERS 2 assets and member contributions are subtracted from the total transferred liability. The PERS 2 assets are equal to two times the members' PERS savings funds which were provided in the data.

The liability increase to LEOFF 2 resulting from this proposal is equal to the present value of the additional benefits resulting from the transferred service credit.

Otherwise, costs were developed using the same methods as those disclosed in the September 30, 2006 Actuarial Valuation Report (AVR).

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

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ASSUMPTIONS

We assumed for this pricing exercise that all past PERS 2 service is eligible for transfer to LEOFF 2. We also assumed that only members of PERS 2 are eligible to transfer. We assumed that this service transfer is only available to active DFW enforcement officers. We assumed that all PERS 2 members who are eligible to transfer service credit would elect to transfer that service if the value of the additional benefit is greater than the sum of double their PERS 2 member account plus the contributions required from the member (that is true for approximately 60 out of the 67 members with eligible service to transfer). It is assumed that members who transfer service will not receive additional benefits as a result of the transfer until after June 30, 2013. We assume that the calculation of the cost to DFW will be administered using annuity factors that assume no pre-retirement decrements other than mortality.

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

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

DATA

Of the 108 DFW enforcement officers active as of September 30, 2006, we were provided information for 67 who had eligible prior service credit in PERS 2. Among the DFW active records were a handful of members with more than the approximately 3.2 years of service they could have earned in their current positions since joining LEOFF 2. These members most likely have past service with other LEOFF agencies. There are also a few active members with no past service in PERS because they entered after July 2003. Of the 67 LEOFF members with prior PERS service, we found that 60 members were vested in their respective plans under the provisions of portability. The remaining seven Plan 2 members were not vested. The vested status for these members was determined utilizing their total service from both the PERS and LEOFF retirement systems. A demographic summary of the affected members is shown below:

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Demographic Summary of the Affected Members				
	Count	Average Service (Years)	Average Savings Fund	Average Current Salary*
LEOFF Actives	108	3.52	$14,212	$63,468
LEOFF Actives with PERS Service	60	8.58	$20,749	$68,215
PERS 2 Service Range (Rounded, in years)				
0 - 2	15	1.22	$551	$63,324
3 - 5	14	3.38	$2,519	$67,031
6 - 10	8	7.82	$12,398	$68,938
11 - 15	11	13.71	$34,468	$72,240
16 - 20	8	17.96	$53,810	$72,126
21+	4	22.98	$73,144	$70,362

**LEOFF 2 salary, effective September 30, 2006, is used for all records, including PERS inactive records.*

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

FISCAL IMPACT

Description

This bill would increase the liability in LEOFF 2 by about $7 million. This would be offset by the approximately $2 million transferred from the PERS 2 assets, $2 million in additional contributions from Fish and Wildlife members, and a $3 million contribution from DFW.

The liability reduction in PERS 2 due to the proposed service transfer is about $2 million. This amount is offset by the estimated transfer of assets from PERS 2 to LEOFF 2 of about $2 million, which consists of the member and employer contributions, with interest. The PERS 2 contribution rates will not be affected by this service credit transfer. The members eligible to transfer service credit are currently dual members eligible for portability. The transfer could result in additional experience gains for PERS Plan 2.

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

Summary of Costs/(Savings) for All Parties			
(Dollars are in Millions)	**PERS 2**	**LEOFF 2**	**Total**
Change in Present Value of Fully Projected Benefits			
(The Value of the Total Commitment to all Current Members)	($2)	$7	$5
Assets Transferred from PERS to LEOFF 2	$2	($2)	$0
Additional Member Contributions	$0	($2)	($2)
Payment from Department of Fish and Wildlife	$0	($3)	($3)
Net Change in Present Value of Unfunded Fully Projected Benefits	$0	$0	$0

These costs are based on the assumption that 60 out of 67 eligible DFW enforcement officers will transfer past PERS 2 service credit to LEOFF 2. The actual cost of this bill will be determined by the actual number of affected members who elect to transfer past service.

Actuarial Determinations

The bill will not increase the present value of **unfunded** fully projected benefits of the affected systems.

(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 2/3	$18,966	($2)	$18,964
LEOFF 2	$6,004	$7	$6,011
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	$3,196	$0	$3,196
LEOFF 1	($702)	$0	($702)
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 2/3	($2,338)	$0	($2,338)
LEOFF 2	($521)	$0	($521)

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

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Increase in Contribution Rates:	(Effective 9/1/2008)	
System/Plan	**PERS**	**LEOFF**
Current Members		
Employee (Plan 2)	0.00%	0.00%
Employer	N/A	N/A
State		0.00%
New Entrants*		
Employee (Plan 2)	0.00%	0.00%
Employer	N/A	N/A
State		0.00%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations

There is no fiscal impact to members or employers in the affected systems with the exception of members electing to transfer service and the estimated $3 million payment required from DFW.

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

Sensitivity Analysis

The amount that DFW will be responsible to pay is sensitive to the assumption regarding the number of members who transfer. For the pricing, we assumed the members that benefit from making the transfer would be the members who elect to transfer their past service. For the sensitivity analysis, we assumed that the members with the greatest benefit from making the transfer would be the members who elect to transfer their past service. If between 41 and 60 members with the greatest benefit transfer, the cost to DFW would still be about $3 million. If between 18 and 40 members with the greatest benefit transfer, the cost to DFW would be about $2 million. If less than 18 members transfer, the cost to DFW would be about $1 million. More likely than not, the number of members who transfer will be between 41 and 60, and the cost to DFW would be about $3 million.

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

DRAFT

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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19. HECB Proposal

HECB Proposal

Bill Summary

- **Authorizes the Higher Education Coordinating Board (HECB) to offer higher education retirement plans to its employees.**

Current Situation

The higher education statutes specify which employers may offer higher education retirement plans to its employees:

- Board of Regents of the State Universities
- Boards of Trustees of the Regional Universities
- The Evergreen State College
- The State Board for Community College Education

The HECB does not currently have this authority. Currently, all of the HECB's employees are covered in PERS.

Updated Stakeholder Input

Attached.

Bill Draft

The HECB's proposed bill, Code Reviser draft Z-0637.1, is attached.

Draft Fiscal Note

Attached.

O:\SCPP\2007\12-18-07 Full\19.HECB_Bill_Summary.doc

Bill Grinstein
Chair

Ann Daley
Executive Director

STATE OF WASHINGTON
HIGHER EDUCATION COORDINATING BOARD
917 Lakeridge Way • PO Box 43430 • Olympia, WA 98504-3430 • (360) 753-7800 • FAX (360) 753-7808 • www.hecb.wa.gov

December 4, 2007

TO: Members, Select Committee on Pension Policy

FROM: Don Bennett, Deputy Director
Higher Education Coordinating Board

SUBJECT: Purchased annuity and retirement income plans

Purpose. Request the Select Committee on Pension Policy take favorable action to sponsor or endorse the proposed amendment to RCW 28B.10.400 *et seq* to authorize the Higher Education Coordinating Board to offer certain of its employees the option to participate in purchased annuity and retirement income plans.

The proposed legislation puts the Higher Education Coordinating Board on better footing to attract, recruit and retain mid-career academic professionals to its staff. Experienced academic professionals working on HECB staff support the Board with quality research and analysis to inform higher education policy development. The Legislature, the Governor, and the broader higher education community all benefit from this expertise and advice in deliberations on public policy issues in higher education.

Higher education retirement plans, such as those provided by the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), are commonly offered by colleges and universities throughout the country. Faculty and other academic professionals are better able to prepare and save for retirement through such plans during their careers, even as they move from one state or institution to another. Under current law in Washington, higher education institutions and the State Board for Community and Technical Colleges are authorized to offer purchased annuity and retirement income plans.

Policy issues. The issue paper prepared for the SCPP November 13, 2007 meeting raised several questions for consideration: the impact on PERS, the impact on benefits policy, the impact on higher education institutions, and whether the Higher Education committees should be involved in any policy change.

Impact on PERS. The HECB staff organization is authorized 98.9 FTE for fiscal year 2008. A small number of positions (~10-12) in academic and fiscal policy could potentially be held by employees with previous participation in TIAA-CREF type plans, although only three incumbents may consider enrollment if the option becomes available. Future participation is difficult to predict

because each new employee makes an election based on his or her circumstances. Active PERS members with substantial years of service would likely decide to continue in that system. The intent of the legislation is to recruit and retain academic professionals, not to provide an alternate retirement plan for existing PERS members.

Impact on benefits policy. The HECB has unique responsibilities for policy development, planning and research in higher education. Staff expertise in these issues depends on hiring employees with experience in academic settings, such as teaching, research and administration. HECB employees are eligible for PERS membership only, even though the 'industry standard' in higher education is purchased annuity and retirement income plans. Offering an appropriate retirement plan to these employees is not unlike agencies with a combination of law enforcement and general government employees in different plans.

Restrictions on post-retirement employment that apply to PERS retirees (e.g., RCW 41.04.037) do not apply to positions covered by higher education retirement plans. Whether additional limitations should be imposed for the narrow circumstance in which a PERS retiree is employed by a higher education employer is a markedly different policy issue than addressed by the proposed legislation. PERS retirees seeking post-retirement employment at the HECB are bound by the limitations in current law. No change in that law is suggested by the proposed legislation. Again, the aim of the HECB proposal is to attract and retain experienced academics and offer them appropriate retirement benefits, not to create post-retirement employment for PERS retirees.

Impact on higher education institutions. HECB staff have discussed the proposed legislation with some institutional representatives, Council of Presidents staff, and administrators at the State Board for Community and Technical Colleges. All understand the difficulty of recruiting experienced professionals to leave higher education institutions for employment in state agencies due to the inability to continue participation in TIAA-CREF. Those consulted support HECB efforts to add such staff expertise and have been recently involved in recruitment and interviewing candidates for a new HECB policy deputy. Preliminary discussions about plan administration issues, experience with tax code compliance, and the potential for an interagency agreement to avoid duplicative effort have also taken place with SBCTC staff.

Higher Education committees review. HECB welcomes additional hearing and review of the proposal by the legislative Higher Education committees during the 2008 session. Such a forum would permit further consideration of relevant policy issues by those committees and allow institutions and others to evaluate the proposed legislation. However, favorable action by the Select Committee on Pension Policy would carry substantial weight in assuring that the impacts of the HECB proposal on the state retirement system have been fully analyzed.

<u>Conclusion</u>. The Higher Education Coordinating Board is the only higher education agency (college, university or related board) in the state of Washington that does not have the authority to offer its employees a purchased annuity and retirement income plan. The proposed legislation improves the ability to attract, recruit and hire academic professionals with vital higher education experience for key positions on HECB staff.

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: Z-0637.1/08

ATTY/TYPIST: SCG:seg

BRIEF DESCRIPTION: Regarding the administration of higher education employees' annuities and retirement plans.

AN ACT Relating to higher education employees' annuities and retirement income plans; and amending RCW 28B.10.400.

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

Sec. 1. RCW 28B.10.400 and 1979 ex.s. c 259 s 1 are each amended to read as follows:

The boards of regents of the state universities, the boards of trustees of the regional universities and of The Evergreen State College, ((~~and~~)) the state board for community and technical colleges ((~~education~~)), and the higher education coordinating board are authorized and empowered:

(1) To assist the faculties and such other employees as any such board may designate in the purchase of old age annuities or retirement income plans under such rules ((~~and regulations~~)) as any such board may prescribe. County agricultural agents, home demonstration agents, 4-H club agents, and assistant county agricultural agents paid jointly by the Washington State University and the several counties shall be deemed to be full time employees of the Washington State University for the purposes hereof;

(2) To provide, under such rules ((~~and regulations~~)) as any such board may prescribe for the faculty members or other employees under its supervision, for the retirement of any such faculty member or other employee on account of age or condition of health, retirement on account of age to be not earlier than the sixty-fifth birthday: PROVIDED, That such faculty member or such other employee may elect to retire at the earliest age specified for retirement by federal social security law: PROVIDED FURTHER, That any supplemental payment authorized by subsection (3) of this section and paid as a result of retirement earlier than age sixty-five shall be at an actuarially reduced rate;

(3) To pay to any such retired person or to his or her designated beneficiary(s), each year after his retirement, a supplemental amount which, when added to the amount of such annuity or retirement income plan, or retirement income benefit pursuant to RCW 28B.10.415, received by ((~~him or his~~)) the retired person or the retired person's designated beneficiary(s) in such year, will not exceed fifty percent of the average annual salary paid to such retired person for his or her highest two consecutive years of full time service under an annuity or retirement income plan established pursuant to subsection (1) of this section at an institution of higher education: PROVIDED, HOWEVER, That if such retired person prior to ((~~his~~)) retirement elected a supplemental payment survivors option, any such supplemental payments to such retired person or ((~~his~~)) the retired person's designated beneficiary(s) shall be at actuarially reduced rates: PROVIDED FURTHER, That if a faculty member or other employee of an institution of higher education who is a participant in a retirement plan authorized by this section dies, or has died before retirement but after becoming eligible for retirement on account of age, the designated beneficiary(s) shall be entitled to receive the supplemental payment authorized by this subsection ((~~(3) of this section~~)) to which such designated beneficiary(s) would have been entitled had said deceased faculty member or other employee retired on the date of death after electing a supplemental payment survivors option: PROVIDED FURTHER, That for the purpose of this subsection, the designated beneficiary(s) shall be (a) the surviving spouse of the retiree; or, (b) with the written consent of such spouse, if any, such other person

or persons as shall have an insurable interest in the retiree's life and shall have been nominated by written designation duly executed and filed with the retiree's institution of higher education.

--- END ---

DRAFT FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**12/6/2007**	**Z-0637.1**

INTENDED USE

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

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

EXECUTIVE SUMMARY

This proposal would amend the higher education statutes to authorize the Higher Education Coordinating Board (HECB) to offer participation in higher education retirement plans to any or all of its employees.

Increase in Actuarial Liabilities

(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits	$32,689	(2)	$32,687
Unfunded Actuarial Accrued Liability	3,196	0	3,196
Unfunded Liability (PVCPB)	$1,412	(1)	$1,411

Note: Totals may not agree due to rounding.

Total Increase in Contribution Rates

Current Biennium	PERS
Employee (Plan 2)	0.00%
Employer	0.00%

Fiscal Costs

(Dollars in Millions)	2008-2009	2009-2011	25-Year
General Fund-State	$0.0	$0.0	($0.3)
Total Employer	$0.0	($0.3)	($2.2)

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

SUMMARY OF PROPOSAL

The proposal is to amend the higher education statutes to include the HECB as an entity authorized to offer higher education retirement plans to its employees. This proposal impacts potentially all plans of the Public Employees' Retirement System (PERS), but only the members of those plans who are HECB employees in positions chosen by HECB to be covered by a higher education retirement plan (HERP).

Assumed Effective Date: 90 days after session.

CURRENT SITUATION

Currently employees of the HECB are covered in PERS. The HECB is not currently authorized to offer higher education retirement benefits to its members, as only the following groups have this statutory authority: Board of Regents of the State Universities, Boards of Trustees of the Regional Universities, the Evergreen State College, and the State Board for Community and Technical Colleges (SBCTC). Typically, these groups define which of their employees are eligible to participate in the HERP. Once the eligible positions are determined, employees in those positions are mandated into the HERP; however, employees who have prior PERS service are typically offered the choice to remain in PERS. The SBCTC, another higher education agency, currently reports approximately 60 of its 94 employees in PERS and the rest are covered under a HERP known as the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF).

SUMMARY OF MEMBERS IMPACTED

If this proposal is passed, it could result in a loss of PERS members to the extent that HECB employees who are currently covered in PERS plans are offered the choice to either remain in PERS or to participate in a higher education retirement plan (HERP). In addition, the plans are impacted to the extent that future employees who would have otherwise been covered in PERS could be covered by a HERP. The HECB would determine the scope of the offering.

There are 87 active members out of the total 155,027 active members of PERS Plans 1, 2, and 3 that could be affected by this proposal. We have assumed that 17 of these 87 employees will be eligible for a HERP. We do not have any data to assess the value of benefits that will be provided by a HERP for the impacted members.

Additionally, this proposal could impact contribution rates for the 118,341 current active and all future PERS 2 members. See the Data section of this draft fiscal note for more details.

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METHODS

To calculate the cost of this proposal, we determined the impact on the Plan if the 17 highest paid current HECB employees terminated their PERS membership to join a HERP. The PERS Plans would be impacted by a loss of liabilities for future service credit and a loss of future contributions associated with these employees.

We calculated the Present Value of Future Benefits (PVFB), the Present Value of Accrued Benefits (PVAB), and the total savings fund (SF) for the 17 highest paid current HECB members. The PVFB is calculated for all 17 employees while the PVAB is calculated for the vested employees and the SF is calculated for the non-vested employees. The difference between these numbers (PVFB - PVAB - SF) represents the decrease in liabilities for future service.

In order to determine the impact due to the loss of future contributions, we calculated the Present Value of Future Salaries (PVFS) for the 17 HECB employees. We reduced the total PERS Plan PVFS by this amount. The resulting PVFS is used, as appropriate by Plan, to determine contributions for the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) and any impact on contribution rates for Plan 2 members and all PERS employers.

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

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

ASSUMPTIONS

The HECB expects 10 – 20 of their employees will be eligible for a HERP but they have requested authority to offer this to all employees. Since we did not have any data as to which employees will be eligible for the HERP and what level of benefits will be provided under the HERP, we assumed the highest paid 17 employees/positions would leave the PERS Plan and join a HERP.

We sorted the HECB active employee data by salary and found a reasonable break in salaries at $70,000. This provided us with 17 employees above $70,000 followed by a large group of employees in the $65,000 - $69,000 range.

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

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

DATA

Using the most recent valuation data file we were able to isolate the 87 HECB active members in the PERS Plans based on their department codes. This allowed us to review the data and select a reasonable group that we expect would be offered a HERP. We selected the 17 highest paid employees and produced a new database with those employees to process through our valuation software. Processing these members separately allowed us to determine their values in order to compare them to the whole of the PERS active population, which includes all HECB members, as valued in the last AVR.

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

FISCAL IMPACT

Description

If the 17 highest paid HECB employees leave the PERS system, the PERS Plans will see a small loss of actuarial liabilities for future service credits since these members will not continue to accrue service under PERS and will not have their future salary increases used in the calculation of their final benefits.

There is a small impact on Plan 2 employee contribution rates and all PERS employer contribution rates due to the loss of liabilities and loss of future contributions of the HECB employees.

There will also be a small loss of future contributions being made to the Plan 1 UAAL by the HECB employer on behalf of these 17 employees.

Actuarial Determinations

The proposal will impact the actuarial funding of the system by decreasing the present value of benefits payable under the system and decreasing the required actuarial contribution rates as shown below.

The rounded decrease in the required actuarial contribution rate does not round to the minimum supplemental contribution rate of 1 basis point. As a result, the proposal will not affect contribution rates in the current biennium. However, the un-rounded rate decreases shown below are applied to all subsequent biennia.

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(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$13,723	$0	$13,723
PERS 2/3	18,966	(2)	18,964
PERS Total	**$32,689**	**(2)**	**$32,687**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	**$3,196**	**$0**	**$3,196**
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 1	$3,750	$0	$3,750
PERS 2/3	(2,338)	(1)	(2,339)
PERS Total	**$1,412**	**(1)**	**$1,411**

Note: Totals may not agree due to rounding.

Increase in Contribution Rates: (Effective 9/1/2008)

System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**
Current Members				
Employee (Plan 2)	(0.001%)	0.000%	0.000%	0.000%
Employer	(0.002%)	0.000%	0.000%	0.000%
New Entrants*				
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Employer	0.000%	0.000%	0.000%	0.000%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

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Fiscal Budget Determinations

	Fiscal Costs				
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
2008-2009					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	0.0	0.0	0.0	0.0	0.0
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0
2009-2011					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	(0.1)	0.0	0.0	0.0	(0.1)
Total State	(0.1)	0.0	0.0	0.0	(0.1)
Local Government	(0.2)	0.0	0.0	0.0	(0.2)
Total Employer	(0.3)	0.0	0.0	0.0	(0.3)
Total Employee	($0.1)	$0.0	$0.0	$0.0	($0.1)
2008-2033					
General Fund	($0.3)	$0.0	$0.0	$0.0	($0.3)
Non-General Fund	(0.6)	0.0	0.0	0.0	(0.6)
Total State	(0.9)	0.0	0.0	0.0	(0.9)
Local Government	(1.4)	0.0	0.1	0.0	(1.3)
Total Employer	(2.3)	0.0	0.1	0.0	(2.2)
Total Employee	($1.1)	$0.0	$0.0	$0.0	($1.1)

Note: Totals may not agree due to rounding.

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

Sensitivity Analysis

In determining the cost of this proposal, we assumed the 17 highest paid employees would move out of the PERS Plans and into a HERP. The decision to leave PERS and join the HECB HERP will depend on the level of benefits provided under the HERP, which are not defined under the proposal. If a smaller number of employees actually leave the PERS Plans, the cost savings would be less than outlined in this draft fiscal note.

If more HECB employees leave the system than assumed, we would see a higher cost savings to the Plans. If the HECB offered a HERP to all of its employees and all 87 employees left the PERS Plans, the impact would be a decrease in liabilities of $6.5M versus the $2.3M under our assumptions.

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There is a possibility that the HERP offering would be to a different number of employees or to a different salary range of employees versus what we have assumed. In addition, some employees that are offered the HERP may choose to remain in PERS. However, from a long term perspective, those positions that are selected by the HECB are likely to transition to non-PERS positions. In any case, we expect that the financial impact to the PERS Plans will be a cost savings with a magnitude that will not impact contribution rates in the next biennium.

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

DRAFT

GLOSSARY OF ACTUARIAL TERMS:

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

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

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

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

- Normal cost; plus
- Amortization of the unfunded liability

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

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

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

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

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