Select Committee on Pension Policy

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

Regular Committee Meeting

August 14, 2007
10:00 a.m. - 12:00 p.m.
Senate Hearing Room 4
Olympia

AGENDA

10:00 a.m.	**(1)**	**Approval of Minutes**
10:05 a.m.	**(2)**	**OSA Review of Economic Assumptions**, Matthew M. Smith, State Actuary
10:30 a.m.	**(3)**	**OPEB Actuarial Valuation Report**, Troy Dempsey, Actuarial Assistant
11:00 a.m.	**(4)**	**Disability Retirement**, Darren Painter, Research Analyst

PUBLIC HEARING/POSSIBLE EXECUTIVE SESSION

11:30 a.m.	**(5)**	**Indexed $150,000 Death Benefit**, Darren Painter, Research Analyst
11:45 a.m.	**(6)**	**Public Education Experience Program - Waiting Period**, Laura Harper, Senior Research Analyst/ Manager
12:00 p.m.	**(7)**	**Adjourn**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 786-6140. TDD 1-800-635-9993

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Select Committee on Pension Policy

2007 Meeting Dates

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

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

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

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

JANUARY

M	T	W	T	F	S	S
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15	16	17	18	19	20	21
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29	30	31				

FEBRUARY

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MAY

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AUGUST

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27	28	29	30	31		

SEPTEMBER

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OCTOBER

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15	**16**	17	18	19	20	21
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29	30	31				

NOVEMBER

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DECEMBER

M	T	W	T	F	S	S
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31						

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.

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REGULAR COMMITTEE MEETING
DRAFT MINUTES

July 17, 2007

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington on July 17, 2007.

Committee members attending:

Representative Conway, Chair
Senator Schoesler, Vice-Chair
Elaine Banks
Lois Clement
Representative Crouse
Charles Cuzzetto
Randy Davis
Representative Fromhold
Senator Holmquist
Robert Keller
Sandra Matheson
Corky Mattingly
Doug Miller
Glenn Olson
J. Pat Thompson
David Westberg

Representative Conway, Chair, called the meeting to order at 10:00 a.m.

Chair Conway introduced Senator Holmquist, newly appointed member on the Committee.

(1) Approval of Minutes

It was moved to approve the June 19, 2007 Full Committee Draft Minutes. Seconded.

MOTION CARRIED

State Actuary Appointment Committee

Chair Conway announced members from the Select Committee on Pension Policy appointed to the State Actuary Appointment Committee: Representative Conway, Chair; Senator Schoesler, Vice-Chair; Randy Davis, Actives; Glenn Olson, Employers.

(2) Survivor Benefits

Darren Painter, Research Analyst, reported on "Survivor Benefits." *Discussion followed.*

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TDD: 1-800-635-9993

Testimony given by:
John Kvamme - Washington Association of School Administrators and Association of School Principals
Richard Warbrouck - Retired Fire Fighters of Washington

(3) Service Credit Issues
Laura Harper, Senior Research Analyst/Manager, reported on "Service Credit Issues." *Discussion followed.*

(4) Retiree Access to PEBB
Robert Wm. Baker, Senior Research Analyst, reported on "Retiree Access to PEBB." *Discussion followed.*
Dennis Martin, Health Care Authority, answered committee member's questions.

Testimony given by:
Casandra de la Rosa - Retired Public Employees Council
Leslie Main - Washington State School Retirees' Association
John Kvamme - Washington Association of School Administrators and Association of School Principals
Shawn Merchant - Deputy Director, LEOFF Plan 2 Retirement Board
William P. Kantor - Retired

The meeting adjourned at 12:20.

Washington State Legislature

OSA Review Of Economic Assumptions

Matt Smith, FCA, EA, MAAA
State Actuary

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

August 14, 2007

Overview

- Preview
- Explanation
- Your role
- Next steps

Current Economic Assumptions

- Investment return
- Inflation
- Salary increases
- Growth in system membership
- All prescribed in statute

Purpose Of Economic Assumptions

- Estimate future amounts
  - Pension payments
  - Contribution requirements
- Each individual assumption serves a specific purpose

Rate Of Investment Return

- Reflects anticipated returns on plan's current and future assets
- AKA the "valuation" or "discount" rate
- Used to calculate "present value" of future benefits and salaries

Rate Of Inflation

- General economic inflation, typically measured as price changes over the whole economy
- Used for two purposes
  - Projecting future compensation
  - Projecting future post-retirement COLAs

Rate Of General Salary Increases

- Represents rate of change in an individual's compensation
  - Inflation
  - Productivity growth
- Focus here is <u>not</u> merit-based pay increases
- Also used to project future compensation
- Part of many actuarial cost and amortization methods

Growth In System Membership

- Represents rate of change in number of active members covered under retirement system
- Used under current PERS 1 and TRS 1 amortization methods

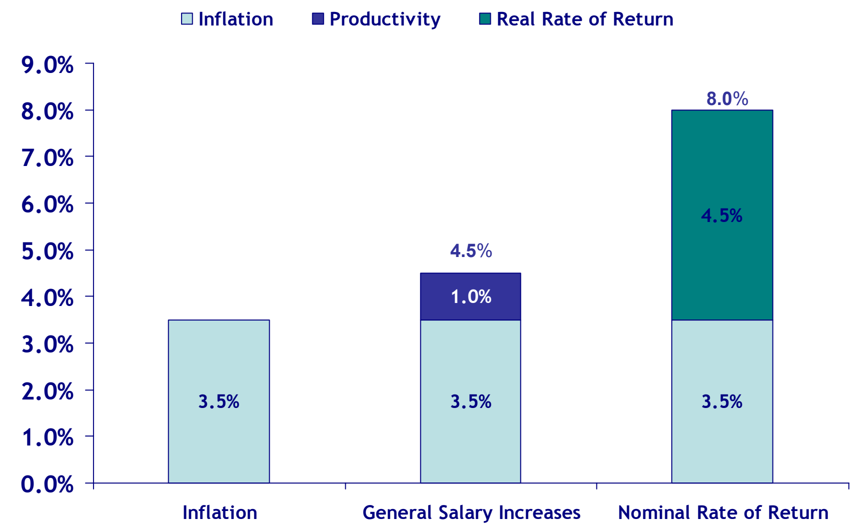
Selecting Economic Assumptions

- No one knows what the future holds
- Actuaries use professional judgment to estimate future outcomes
- Judgment based on past experience and future expectations
- The recent past not necessarily the best indicator of the future
- Economic assumptions typically applied over very long-term periods (50+ years)
- Entire set of economic assumptions should be consistent

Building Block Approach

- Start with inflation
- Inflation is a component of two assumptions
  - Nominal rate of return
  - General salary increases

Building Block Example – Current Assumptions



Analysis Of Inflation

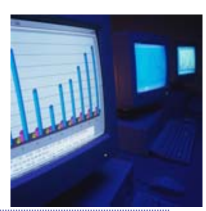
- 3.5% to 3.8% average annual U.S. inflation from 1950 to 2006
- Average annual inflation lower over last 10 and 20 years
- “Consensus” estimate for near-term U.S. inflation (15 years) in the range of 2.5% per year
- Additional uncertainty when applied to 50-plus year timeframe
- Seattle-Tacoma-Bremerton region has experienced higher inflation relative to national average
- Attachment A

Analysis Of General Salary Growth

- 5.5% average annual salary growth from 1984 to 2006
  - All retirement systems combined
- Actual retirement system data
  - Includes all sources of pay increases
  - Merit-based increases will be studied separately
- Average annual salary growth lower over last 5 and 10 years
- Emerging impact of collective bargaining at state level
- Attachment B

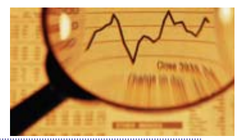
Analysis Of Growth In System Membership

- Average annual system growth from 1980 to 2006
  - 2.3% in LEOFF
  - 2.4% in PERS+SERS+PSERS
  - 1.4% in TRS
- All retirement plans combined for each system
- Average annual system growth lower over last 5 and 10 years
- OFM projects declining growth in State population
  - 2% declining to 0.9% in 2030
- Attachments C,D



Analysis Of Investment Return

- 12.4% average annual ROR from 1982 to 2007
  - Total WSIB performance period
- 9.7% average annual ROR from 1926 to 2007
  - Estimated WSIB returns prior to 1982
- WSIB simulated rates of future return over next 50 years:
  - 75% of simulated returns below 8.8%
  - 25% of simulated returns below 6.4%
  - Expected return of 7.6%
- Achieving returns in the future that rival the past will be a challenge
- Attachments E,F,G



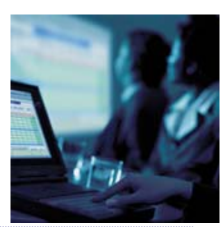
OSA Preliminary Recommendation

Current Assumptions

- 3.5% inflation
- 4.5% general salary growth
- 8% rate of return
- 1.25% membership growth (0.9% in TRS)

Recommended Assumptions

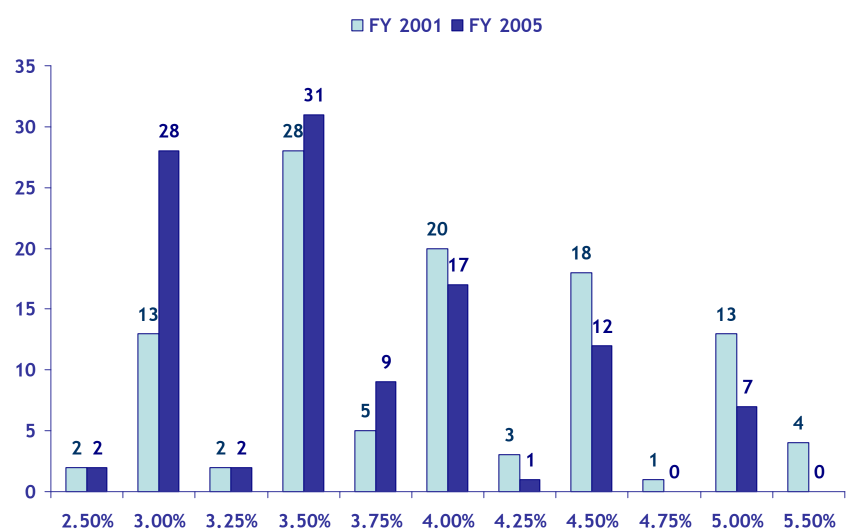
- 3.25% inflation
- 4.25% general salary growth
- 7.75% rate of return
- 0.9% membership growth (all systems)



Preliminary OSA Recommendation

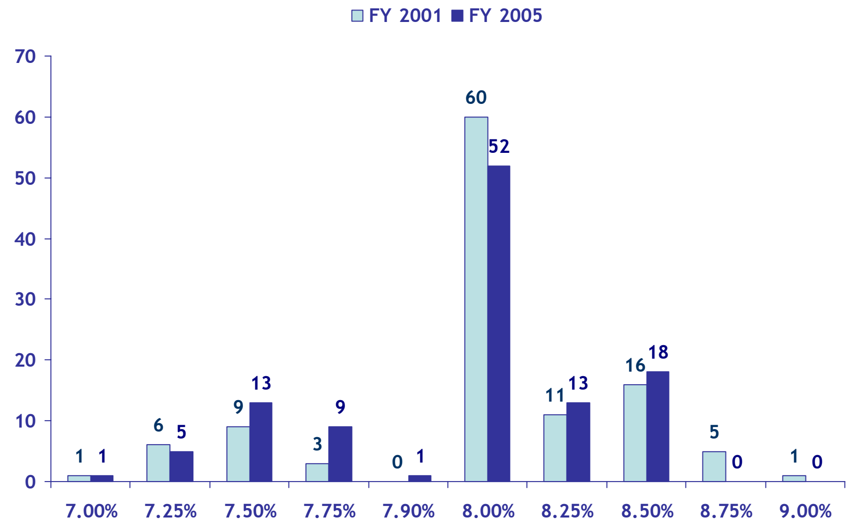
- Currently prescribed assumptions are reasonable
- Preliminary recommendation is my "best estimate"
- OSA recommendation represents a consistent "set" of economic assumptions
  - Consider as a whole
- Assumption changes impact the timing of future pension costs
  - Actual costs emerge with actual experience

Inflation Assumptions In U.S. Public Plans*



** Source: NASRA, Public Fund Survey*

Investment Return Assumptions In U.S. Public Plans*



** Source: NASRA, Public Fund Survey*

Next Steps

- OSA to finalize recommendation
- OSA recommendation to Pension Funding Council (PFC) by September 1
- PFC may adopt changes to the economic assumptions by October 31

Attachment A

Inflation Data

Year	Seattle-Tacoma-Bremerton, WA CPI-W	U.S. City Average CPI-W	GDP Deflator for Personal Consumption Expenditures	Annual % Change		
				Seattle CPI-W	U.S. CPI-W	GDP PCE
1950	70.3	72.1	16.675	1.4%	1.0%	1.2%
1951	75.7	77.8	17.805	7.7%	7.9%	6.8%
1952	77.6	79.5	18.169	2.5%	2.2%	2.0%
1953	78.6	80.1	18.416	1.3%	0.8%	1.4%
1954	78.6	80.5	18.585	0.0%	0.5%	0.9%
1955	79.0	80.2	18.676	0.5%	-0.4%	0.5%
1956	80.0	81.4	19.059	1.3%	1.5%	2.1%
1957	83.3	84.3	19.639	4.1%	3.6%	3.0%
1958	85.2	86.6	20.117	2.3%	2.7%	2.4%
1959	86.8	87.3	20.432	1.9%	0.8%	1.6%
1960	87.9	88.7	20.767	1.3%	1.6%	1.6%
1961	89.3	89.6	20.985	1.6%	1.0%	1.0%
1962	90.6	90.6	21.232	1.5%	1.1%	1.2%
1963	92.1	91.7	21.479	1.7%	1.2%	1.2%
1964	93.4	92.9	21.786	1.4%	1.3%	1.4%
1965	94.5	94.5	22.103	1.2%	1.7%	1.5%
1966	97.1	97.2	22.662	2.8%	2.9%	2.5%
1967	100.0	100.0	23.237	3.0%	2.9%	2.5%
1968	104.1	104.2	24.151	4.1%	4.2%	3.9%
1969	109.2	109.8	25.255	4.9%	5.4%	4.6%
1970	114.0	116.3	26.448	4.4%	5.9%	4.7%
1971	116.4	121.3	27.574	2.1%	4.3%	4.3%
1972	119.7	125.3	28.528	2.8%	3.3%	3.5%
1973	127.5	133.1	30.081	6.5%	6.2%	5.4%
1974	141.5	147.7	33.191	11.0%	11.0%	10.3%
1975	155.8	161.2	35.955	10.1%	9.1%	8.3%
1976	164.5	170.5	37.948	5.6%	5.8%	5.5%
1977	177.6	181.5	40.410	8.0%	6.5%	6.5%
1978	193.8	195.3	43.248	9.1%	7.6%	7.0%
1979	214.6	217.7	47.059	10.7%	11.5%	8.8%
1980	249.1	247.0	52.078	16.1%	13.5%	10.7%
1981	276.1	272.3	56.720	10.8%	10.2%	8.9%
1982	294.0	288.6	59.859	6.5%	6.0%	5.5%

Attachment A

(Continued)

Inflation Data

Year	Seattle-Tacoma-Bremerton, WA CPI-W	U.S. City Average CPI-W	GDP Deflator for Personal Consumption Expenditures	Annual % Change		
				Seattle CPI-W	U.S. CPI-W	GDP PCE
1983	293.2	297.4	62.436	-0.3%	3.0%	4.3%
1984	302.8	307.6	64.795	3.3%	3.4%	3.8%
1985	309.1	318.5	66.936	2.1%	3.5%	3.3%
1986	311.3	323.4	68.569	0.7%	1.5%	2.4%
1987	318.6	335.0	70.947	2.3%	3.6%	3.5%
1988	329.1	348.4	73.755	3.3%	4.0%	4.0%
1989	344.5	365.2	76.972	4.7%	4.8%	4.4%
1990	369.0	384.4	80.498	7.1%	5.3%	4.6%
1991	389.4	399.9	83.419	5.5%	4.0%	3.6%
1992	403.2	411.5	85.824	3.5%	2.9%	2.9%
1993	415.2	423.1	87.804	3.0%	2.8%	2.3%
1994	430.4	433.8	89.654	3.7%	2.5%	2.1%
1995	442.9	446.1	91.577	2.9%	2.8%	2.1%
1996	457.5	459.1	93.547	3.3%	2.9%	2.2%
1997	471.7	469.3	95.124	3.1%	2.2%	1.7%
1998	484.1	475.6	95.978	2.6%	1.3%	0.9%
1999	499.1	486.2	97.575	3.1%	2.2%	1.7%
2000	517.8	503.1	100.000	3.7%	3.5%	2.5%
2001	536.2	516.8	102.094	3.6%	2.7%	2.1%
2002	545.9	523.9	103.542	1.8%	1.4%	1.4%
2003	553.6	535.6	105.597	1.4%	2.2%	2.0%
2004	562.3	549.5	108.373	1.6%	2.6%	2.6%
2005	579.3	568.9	111.493	3.0%	3.5%	2.9%
2006	600.9	587.2	114.552	3.7%	3.2%	2.7%
	Geometric Averages:					
	All years			3.86%	3.77%	3.46%
	Last 30 years			4.41%	4.21%	3.75%
	Last 20 years			3.34%	3.03%	2.60%
	Last 10 years			2.76%	2.49%	2.05%

Data sources: Department of Labor, Bureau of Labor Statistics (BLS) and Department of Commerce, Bureau of Economic Analysis (BEA)

Attachment B

Growth in Salaries*

Year	LEOFF		PERS		SERS		TRS		WSP		All Systems	
	Average Salary	% Change	Average Salary	% Change	Average Salary	% Change	Average Salary	% Change	Average Salary	% Change	Average Salary	% Change
1984	30,420	6.79%	21,552	6.30%			27,361	8.75%	32,689	9.54%	23,860	7.17%
1985	31,754	5.45%	22,990	9.25%			28,667	5.97%	33,044	2.59%	25,197	7.82%
1986	33,298	6.13%	23,608	5.03%			29,576	4.85%	32,554	-1.59%	25,904	5.01%
1987	33,671	2.29%	24,668	6.49%			30,104	3.21%	34,711	6.98%	26,744	5.14%
1988	35,942	7.73%	25,336	4.59%			31,626	6.41%	34,908	3.75%	27,686	5.37%
1989	37,069	4.00%	26,356	5.98%			33,344	7.11%	36,219	4.89%	28,854	6.16%
1990	39,634	8.19%	27,917	7.93%			35,306	8.02%	37,838	6.09%	30,551	7.97%
1991	41,598	6.16%	29,931	9.45%			38,716	11.16%	42,886	14.13%	32,862	9.73%
1992	43,859	7.00%	30,611	5.12%			40,700	7.50%	43,790	4.17%	33,892	5.94%
1993	45,958	6.34%	31,421	5.78%			42,537	7.03%	43,971	5.19%	34,874	6.17%
1994	48,154	5.91%	31,640	3.17%			42,581	2.72%	44,752	3.78%	35,178	3.24%
1995	50,324	5.51%	32,487	4.23%			42,979	3.19%	46,405	5.21%	36,040	4.03%
1996	52,260	5.03%	33,564	4.97%			44,741	6.00%	49,490	8.24%	37,348	5.29%
1997	54,313	5.21%	34,458	4.14%			45,009	2.47%	54,157	9.88%	38,205	3.76%
1998	57,245	6.55%	35,209	3.82%			46,551	5.17%	56,414	6.85%	39,257	4.44%
1999	59,782	5.59%	36,354	5.05%			46,803	2.52%	59,937	7.80%	40,268	4.39%
2000	62,017	4.94%	42,265	5.49%			49,276	7.54%	60,800	3.19%	45,653	6.04%
2001	63,690	4.15%	43,456	4.60%			50,900	6.11%	61,024	3.41%	46,946	4.98%
2002	66,909	6.42%	45,307	6.07% **	22,705	6.64%	52,496	5.52%	62,075	4.72%	44,389	5.99%
2003	68,927	4.33%	46,457	3.73%	23,866	5.83%	53,589	6.42%	63,202	3.53%	45,752	4.70%
2004	71,401	4.82%	47,427	3.31%	24,278	2.95%	54,180	3.15%	62,630	0.64%	46,583	3.35%
2005	74,336	5.39%	48,674	3.63%	25,026	3.80%	55,500	4.03%	64,667	5.55%	47,908	3.93%
2006	77,448	5.07%	50,798	5.69%	25,713	4.05%	56,667	3.96%	68,792	7.10%	49,621	5.02%

Geometric Averages:

	LEOFF	PERS	SERS	TRS	WSP	All Systems
Total period	5.60%	5.37%	N/A	5.58%	5.41%	5.45%
Last 20 years	5.52%	5.15%	N/A	5.44%	5.72%	5.27%
Last 10 years	5.24%	4.55%	N/A	4.68%	5.24%	4.66%
Last 5 years	5.20%	4.48%	4.65%	4.61%	4.28%	4.59%

** Among those members active at least three years in a row. Excludes first year salary increase.*

*** New system in 2000. The first measurement of members with at least 3 consecutive years' service was in 2002.*

Attachment C

Growth in System Membership Data

Year	LEOFF		PERS		SERS		PSERS		PERS+SERS+PSERS		TRS	
	# of Active Members	Annual Growth	# of Active Members	Annual Growth	# of Active Members	Annual Growth	# of Active Members	Annual Growth	# of Active Members	Annual Growth	# of Active Members	Annual Growth
1980	8,813		110,744						110,744		46,247	
1981	8,912	1.12%	106,125	-4.17%					106,125	-4.17%	46,197	-0.11%
1982	8,975	0.71%	103,284	-2.68%					103,284	-2.68%	44,408	-3.87%
1983	9,187	2.36%	107,777	4.35%					107,777	4.35%	43,449	-2.16%
1984	9,374	2.04%	112,740	4.60%					112,740	4.60%	44,817	3.15%
1985	9,599	2.40%	117,112	3.88%					117,112	3.88%	45,687	1.94%
1986	9,720	1.26%	119,469	2.01%					119,469	2.01%	46,489	1.76%
1987	10,015	3.03%	125,581	5.12%					125,581	5.12%	47,210	1.55%
1988	10,454	4.38%	133,210	6.07%					133,210	6.07%	48,355	2.43%
1989	10,785	3.17%	139,146	4.46%					139,146	4.46%	49,189	1.72%
1990	11,260	4.40%	150,241	7.97%					150,241	7.97%	51,323	4.34%
1991	11,736	4.23%	165,008	9.83%					165,008	9.83%	52,779	2.84%
1992	11,979	2.07%	171,947	4.21%					171,947	4.21%	55,276	4.73%
1993	12,255	2.30%	174,576	1.53%					174,576	1.53%	56,571	2.34%
1994	12,725	3.84%	177,456	1.65%					177,456	1.65%	57,731	2.05%
1995	13,125	3.14%	178,833	0.78%					178,833	0.78%	59,103	2.38%
1996	13,420	2.25%	182,603	2.11%					182,603	2.11%	59,425	0.54%
1997	13,714	2.19%	186,440	2.10%					186,440	2.10%	60,815	2.34%
1998	13,856	1.04%	191,850	2.90%					191,850	2.90%	61,828	1.67%
1999	14,456	4.33%	196,382	2.36%					196,382	2.36%	62,684	1.38%
2000	14,632	1.22%	152,261	-22.47% *	47,725				199,986	1.84%	63,858	1.87%
2001	14,900	1.83%	152,936	0.44%	48,347	1.30%			201,283	0.65%	66,220	3.70%
2002	15,158	1.73%	154,185	0.82%	49,791	2.99%			203,976	1.34%	66,063	-0.24%
2003	15,551	2.59%	154,550	0.24%	49,214	-1.16%			203,764	-0.10%	66,075	0.02%
2004	15,602	0.33%	156,256	1.10%	49,854	1.30%			206,110	1.15%	66,634	0.85%
2005	15,891	1.85%	155,578	-0.43%	50,350	0.99%			205,928	-0.09%	67,270	0.95%
2006	16,314	2.66%	155,027	-0.35%	50,818	0.93% *	2,073		207,918	0.97%	67,736	0.69%
Geometric Averages:												
Total period		2.31%								2.36%		1.42%
Last 20 years		2.62%								2.81%		1.90%
Last 10 years		1.97%								1.31%		1.32%
Last 5 years		1.83%								0.65%		0.45%

* *New system.*

Attachment D

Growth in Washington State Population - Historical and Projected*

Historical Growth			Projected Growth			Geometric Averages:	
Year	Count	Annual Growth	Year	Count	Annual Growth		
1980	4,132,156		2007	6,503,545	2.01%	Last 20 years	1.80%
1981	4,229,278	2.35%	2008	6,630,676	1.95%	Last 10 years	1.36%
1982	4,276,549	1.12%	2009	6,751,441	1.82%	Last 5 years	1.31%
1983	4,307,247	0.72%	2010	6,865,990	1.70%		
1984	4,354,067	1.09%	2011	6,975,055	1.59%	Next 5 years	1.81%
1985	4,415,785	1.42%	2012	7,077,871	1.47%	Next 10 years	1.58%
1986	4,462,212	1.05%	2013	7,175,504	1.38%	Next 20 years	1.34%
1987	4,527,098	1.45%	2014	7,270,759	1.33%		
1988	4,616,886	1.98%	2015	7,364,079	1.28%	All years	1.49%
1989	4,728,077	2.41%	2016	7,455,272	1.24%		
1990	4,866,692	2.93%	2017	7,546,113	1.22%		
1991	5,021,335	3.18%	2018	7,636,476	1.20%		
1992	5,141,177	2.39%	2019	7,726,254	1.18%		
1993	5,265,688	2.42%	2020	7,815,252	1.15%		
1994	5,364,338	1.87%	2021	7,903,178	1.13%		
1995	5,470,104	1.97%	2022	7,990,019	1.10%		
1996	5,567,764	1.79%	2023	8,075,689	1.07%		
1997	5,663,763	1.72%	2024	8,160,162	1.05%		
1998	5,750,033	1.52%	2025	8,243,392	1.02%		
1999	5,830,835	1.41%	2026	8,325,246	0.99%		
2000	5,894,121	1.09%	2027	8,403,249	0.94%		
2001	5,974,910	1.37%	2028	8,482,589	0.94%		
2002	6,041,710	1.12%	2029	8,560,671	0.92%		
2003	6,098,300	0.94%	2030	8,637,637	0.90%		
2004	6,167,800	1.14%					
2005	6,256,400	1.44%					
2006	6,375,600	1.91%					

**Source: Office of Financial Management. Additional computations have been performed to summarize data.*

Attachment E

Historical Plan Performance

Fiscal Year Ending June 30th	Investment Return
1982	2.50%
1983	47.30%
1984	-0.03%
1985	29.80%
1986	26.90%
1987	16.90%
1988	4.20%
1989	13.50%
1990	8.30%
1991	9.50%
1992	8.20%
1993	13.07%
1994	2.10%
1995	16.24%
1996	16.49%
1997	20.18%
1998	17.12%
1999	11.76%
2000	13.56%
2001	-6.75%
2002	-5.15%
2003	3.02%
2004	16.72%
2005	13.05%
2006	16.70%
2007	21.33%
Geometric Averages:	
Total Period	12.42%
Last 20 Years	10.38%
Last 10 Years	9.73%

Source: Washington State Investment Board
Returns restated for 1993 and beyond.

Attachment F

Historical Investment Data

Year	Investment Return	Year	Investment Return	Year	Investment Return	Year	Investment Return
1926	8.19%	1947	1.87%	1968	11.63%	1989	13.50%
1927	24.03%	1948	3.57%	1969	-10.60%	1990	8.30%
1928	27.35%	1949	13.81%	1970	4.52%	1991	9.50%
1929	-11.37%	1950	21.58%	1971	13.87%	1992	8.20%
1930	-15.60%	1951	11.15%	1972	11.88%	1993	13.07%
1931	-29.72%	1952	9.83%	1973	-11.99%	1994	2.10%
1932	0.43%	1953	-0.25%	1974	-15.33%	1995	16.24%
1933	51.03%	1954	36.83%	1975	30.50%	1996	16.49%
1934	7.87%	1955	17.84%	1976	27.27%	1997	20.18%
1935	31.46%	1956	1.45%	1977	1.20%	1998	17.12%
1936	29.26%	1957	-4.44%	1978	6.77%	1999	11.76%
1937	-25.42%	1958	29.44%	1979	14.87%	2000	13.56%
1938	22.05%	1959	7.69%	1980	20.45%	2001	-6.75%
1939	1.70%	1960	3.88%	1981	0.22%	2002	-5.15%
1940	-3.62%	1961	18.90%	1982	2.50%	2003	3.02%
1941	-6.18%	1962	-3.29%	1983	47.30%	2004	16.72%
1942	18.00%	1963	15.12%	1984	-0.03%	2005	13.05%
1943	27.85%	1964	13.11%	1985	29.80%	2006	16.70%
1944	19.61%	1965	12.87%	1986	26.90%	2007	21.33%
1945	32.02%	1966	-5.11%	1987	16.90%		
1946	-5.39%	1967	22.62%	1988	4.20%		

Actual investment return for fiscal years ending June 30, 1982 and thereafter. Returns restated for 1993 and beyond. Estimated investment return prior to 1982.

Geometric Averages:

Total Period	9.66%
Last 60 years	10.63%
Last 50 years	10.50%
Last 40 years	10.36%
Last 30 years	12.13%

Rolling 30-year Averages*:

Minimum	7.86%
Maximum	12.32%

** Starting in 1926. Last period ending 2007.*

Assumptions*:

Asset Class	*Allocation*	*Return*
U.S. Equity	*31%*	*S&P 500*
Non-U.S. Equity	*15%*	*S&P 500*
Fixed Income	*25%*	*Average of long-term corporate and government bond index*
Private Equity	*17%*	*U.S. small cap stock index*
Real Estate	*12%*	*Average of long-term corporate and government bond index*

**Constant asset allocation from 1926 through 1981. Based on Washington State Investment Board's 2004 asset allocation.*

Attachment G

WSIB Simulated Future Returns

Portfolio Statistics & Capital Market Assumptions

Asset Class	Target Allocation	Expected 1-Year Return
U.S. Equity	23%	8.50%
Non-U.S. Equity	23%	8.50%
Fixed Income	25%	5.25%
Private Equity	17%	12.50%
Real Estate	12%	8.50%
Cash	0%	3.75%
Total CTF	100%	

Simulated Future Returns

	Measurement Period	
	20 Years	50 Years
75th percentile	9.557%	8.827%
60th percentile	8.320%	8.048%
55th percentile	7.948%	7.813%
Expected Return	**7.622%**	**7.598%**
45th percentile	7.219%	7.352%
40th percentile	6.850%	7.119%
25th percentile	5.643%	6.352%

Source: Washington State Investment Board

OPEB Actuarial Valuation Report

Troy Dempsey, Actuarial Assistant
August 14, 2007

Topics

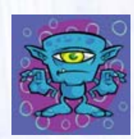
- Overview
- What is OPEB?
- GASB 45 results for PEBB
- Next steps

Actuarial Valuations

	Funding Valuation	Accounting Valuation
Example	Pension AVR	OPEB valuation
Key Results	Contribution rates	Reporting disclosures
Represents	Actual activity	Accrual accounting
Reason	Determine funding requirements	Report in a uniform way across entities

Other Post-Employment Benefits (OPEB)

- Public Employees Benefit Board (PEBB) provides OPEB
  - Medical (implicit and explicit) subsidies
  - Life insurance subsidy
- Three groups in (PEBB)
  - State
  - K-12
  - Political subdivisions



Members Impacted

Membership By Employer		
Active Members	**Subscribers**	**Eligible**
State	106,073	119,280
K-12	2,206	117,718
Political Subdivision	10,970	11,649
Total Active Members	**119,249**	**248,647**
Inactive Members		
State	25,060	25,060
K-12	25,752	25,752
Political Subdivision	807	807
Total Inactive Members	**51,619**	**51,619**
Total	**170,868**	**300,266**

GASB 45

- Must account for OPEB on accrual basis
- Key results
  - AAL – Actuarial Accrued Liability
  - ARC – Annual Required Contribution
  - NOO – Net OPEB Obligation [NOPEBO?!]

AAL – Actuarial Accrued Liability

- Non-contractual
  - Must project benefits as they are currently offered
- Portion of future subsidies that have been earned, in today's dollars

GASB 45 Actuarial Accrued Liability				
(in thousands, 000)	State	K-12	Political Subdivisions	Total
Net Subsidy				
Active Members[1]				
Total Active	2,709,683	2,249,072	306,733	5,265,487
Inactive Members[2]				
Total Inactive	1,089,847	1,106,754	33,239	2,229,840
GASB 45 Liability	$3,799,530	$3,355,826	$339,972	$7,495,328

[1] *Currently employed .*

[2] *Retired members, beneficiaries, and terminated members entitled to a benefit.*

ARC

- ARC is the "income statement expense"
  - The annual amount paid towards benefits
  - Not required to be contributed
- Made up of two components
  - Normal Cost – current year's accrual
  - Amortization – current year's payment toward AAL

Annual Required Contribution (ARC)				
(in thousands, 000)	State	K-12	Political Subdivisions	Total
Total Normal Cost	184,501	172,573	22,215	379,288
Total Amortization	129,469	114,350	11,585	255,404
ARC	$313,970	$286,923	$33,799	$634,692

NOO

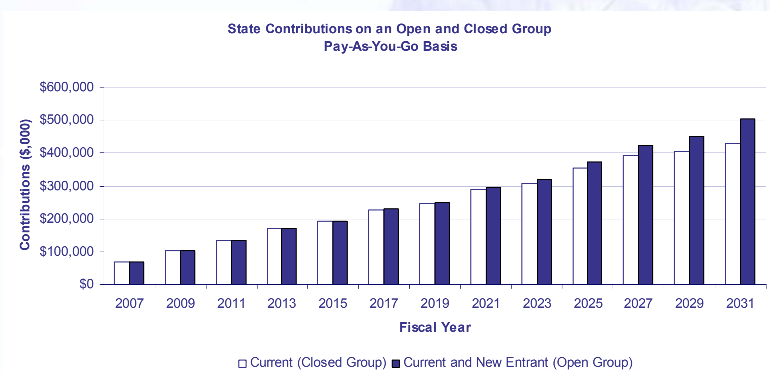
- NOO is the "balance sheet liability"
  - Ongoing record of difference between actual contributions and the ARC
  - Grows when ARC is not contributed

Net OPEB Obligation				
(in thousands, 000)	**State**	**K-12**	**Political Subdivisions**	**Total**
NOO (7/1/2007)	$0	$0	$0	$0
Annual OPEB Cost	313,970	286,923	33,799	634,692
(7/1/2007 - 6/30/2008) Contributions*	(68,115)	(58,353)	(2,541)	(129,010)
NOO (6/30/2008)*	**$245,855**	**$228,570**	**$31,258**	**$505,682**

*Estimated

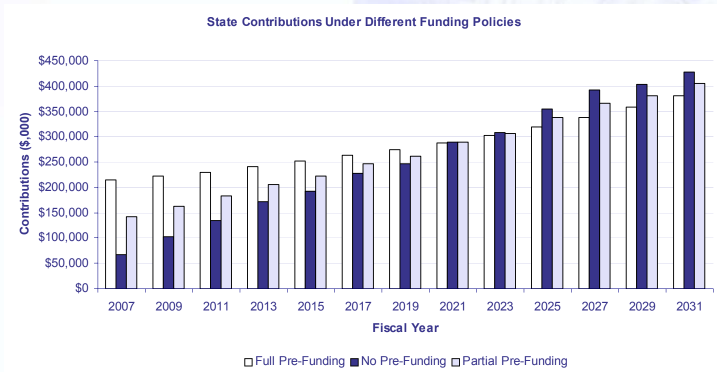
State Payment Projections (Pay-As-You-Go)

- Pay-as-you-go contributions
  - Closed group (no new entrants)
  - Open group (new entrants)



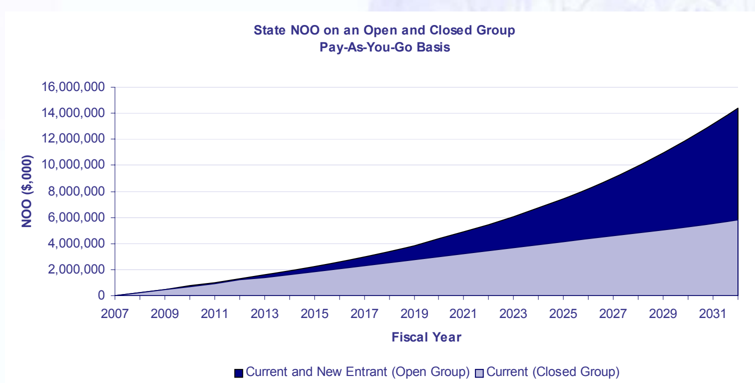
State Payment Projections (Funding)

- Contribution 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



NOO Projection (Balance Sheet)

- NOO
  - Closed group (no new entrants)
  - Open group (new entrants)



State Medical Trend Sensitivity

- Expected starts around 11.0% and ends around 5.0% in 2015 and beyond
- Compare expected to ± 1.0% medical inflation

State Medical Trend Sensitivity Analysis			
(in thousands, 000)	High (+ 1.0%)	Expected (11.0%)	Low (-1.0%)
PVFB	**$ 7,601,705**	**$ 6,036,513**	**$ 4,870,354**
GASB 45 Liability	**$ 4,562,522**	**$ 3,799,530**	**$ 3,202,830**
Normal Cost	235,501	184,501	146,463
Amortization	155,468	129,469	109,137
ARC	**$ 390,970**	**$ 313,970**	**$ 255,600**
Contributions	(68,115)	(68,115)	(68,115)
Ending NOO	**$ 322,854**	**$ 245,855**	**$ 187,485**

State Funding Policy Sensitivity

- Currently pay-as-you-go
- Could partially or fully pre-fund

State Funding Policy Sensitivity Analysis			
(in thousands, 000) *Interest Discount Rate*	No Pre-Funding 4.5%	Partial Pre-Funding 6.0%	Full Pre-Funding 7.5%
PVFB	**$ 6,036,513**	**$ 4,370,112**	**$ 3,293,537**
GASB 45 Liability	**$ 3,799,530**	**$ 2,931,953**	**$ 2,332,569**
Normal Cost	184,501	130,264	95,324
Amortization	129,469	123,715	119,309
ARC	**$ 313,970**	**$ 253,978**	**$ 214,633**
Contributions	(68,115)	(141,374)	(214,633)
Ending NOO	**$ 245,855**	**$ 112,604**	**$0**

Key Assumptions

- Discount rate – 4.50%
- Medical inflation rate – approximately 11% in 2007 to 5% in 2015 and beyond
- Amortization of UAAL – closed, 30-year amortization as a level percent of payroll
- Actuarial cost method – Projected Unit Credit
- Participation rate – 65% for state and political subdivisions, 50% for K-12

Other States

- AAL from other states
  - Washington - $3.8 billion
  - California - $48 billion
  - New Jersey - $58 billion
  - Massachusetts - $13 billion
  - South Carolina - $9 billion
  - Hawaii - $11 billion
- Per capita
  - Washington - $594
  - California - $1,317
  - New Jersey - $6,648
  - Massachusetts - $2,020
  - South Carolina - $2,083
  - Hawaii - $8,557

What's Next?

- OST – disclose in bond prospectus
- Legislature & OFM – determine future funding policy
  - Are these benefits sustainable?
  - Is this level of cost sharing reasonable?
  - Does pre-funding make sense?
- HCA – determine future health cost strategies
- SCPP – level of involvement
  - Not primary jurisdiction, but goal is "adequacy of retirement benefits"
- OSA – work on LEOFF 1 medical study and online estimation tool for small employers

Questions

More information can be found in the report at
http://osa.leg.wa.gov/Whats_New/Whats_new.htm

The Select Committee on Pension Policy

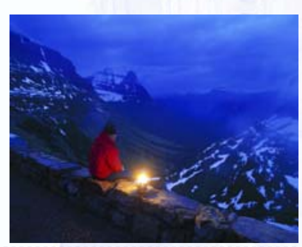
Disability Retirement

Darren Painter, Research Analyst
August 14, 2007

Office of the State Actuary

Overview

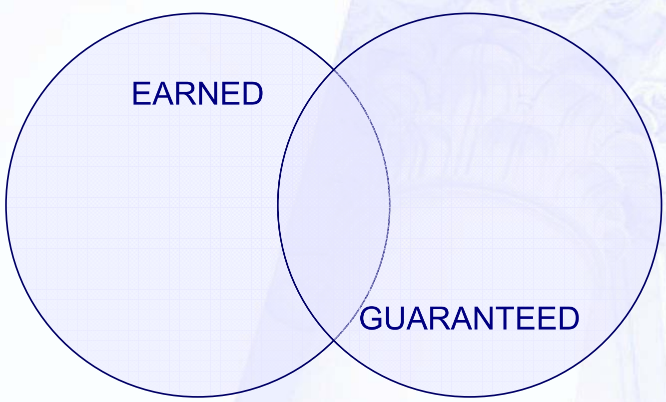
- Background
- Pricing
- Policy



Status

- Issue referred from 2006 SCPP
- Briefing June 2007
- Executive Committee action July 2007
  - Staff directed
    - Cost two benefit designs
    - Report to full committee in August
- Cost information available

Disability Benefit Designs



Earned Benefit

- "Pension" approach
- Member receives accrued pension
  - Earlier access
  - Less service = lower benefit
  - Actuarial reduction
- Duty and non-duty treated the same
- Disincentive to retire early
- Design in most Plans 2/3

Guaranteed Benefits

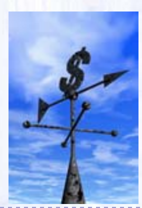
- "Insurance" approach
- Amount not tied to earned pension
  - Less service = same benefit
  - Larger payments for low service
  - No actuarial reduction
- Different benefits for duty & non-duty
- More incentive to retire as soon as possible

Other Sources

- Social Security
- Worker's Compensation
- Long Term Disability Insurance
- Different standards
- May off-set disability pension from retirement system

Benefit Design Pricing

- PERS, SERS, TRS, PSERS Plans 2/3
  - Currently earned benefit design
- Total duty-related disability
  - Social Security Standard
  - Unable to perform *substantial gainful activity*
    - Earnings <= $900 month
    - May be open to interpretation
  - A small portion of all disabilities



Alternative Designs

- Unreduced accrued pension
- 70% Average Final Compensation
- 70% Average Final Compensation with off-sets
- Modeled after LEOFF 2 benefits

Design 1: Unreduced Accrued Pension

- Member's accrued pension
  - No actuarial reduction for early retirement
  - Multiplier (1% or 2%) x AFC x Service
- Enhanced earned benefit design
  - Collect full pension sooner
  - Service based
- Largest increase for earlier ages
- Found in Iowa, Minnesota, Ohio

Design 1: Unreduced Accrued, Preliminary Costs

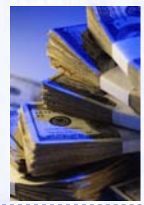
- Employer/Plan 2 Member Contribution Rate Increase
  - 0.02% PERS
  - 0.03% SERS
  - 0.02% TRS
  - 0.02% PSERS
- Total Employer Costs
  - 2007-2009 = $5.8 million
  - 2009-2011 = $6.1 million
  - 25 Year = $106.5 million

Design 2: 70% AFC

- 70% of member's AFC
- Guaranteed benefit design
  - *Not* service based
  - Tax-exempt
- Largest increase for earlier ages or little service
- Found in Florida (minimum 25%-65% AFC)

Design 2: 70% AFC, Preliminary Costs

- Employer/ Plan 2 Member Contribution Rate Increase
  - 0.08% PERS
  - 0.13% SERS
  - 0.11% TRS
  - 0.73% PSERS
- Total Employer Costs
  - 2007-2009 = $31.1 million
  - 2009-2011 = $37.1 million
  - 25 Year = $851.2 million



Design 3: 70% AFC With Off-Sets

- 70% of member's AFC off-set by
  - Workers' Compensation
  - Social Security
  - Combined benefits generally won't exceed 100% AFC
  - Off-sets can't reduce benefit below accrued
- Guaranteed benefit design
  - *Not* service based
  - Tax exempt
- Largest increase for earlier ages or little service
- Found in
  - Missouri (60% AFC off-set by Soc. Sec. & Workers' Comp.)
  - Colorado (60% AFC off-set by Workers' Comp.)

Design 3: 70% Off-Set, Preliminary Costs

- Employer/ Plan 2 Member Contribution Rate Increase
  - 0.01% PERS
  - 0.02% SERS
  - 0.02% TRS
  - 0.08% PSERS
- Total Employer Costs
  - 2007-2009 = $4.6 million
  - 2009-2011 = $6.1 million
  - 25 Year = $161.9 million

Guaranteed Benefit Design Challenges

- Plan 2/3 design
- Off-sets
- Dual members

Plan Design Questions

- The proposed guaranteed benefit designs will result in
  - Plan 3 members receiving larger disability benefits than Plan 2 members
  - Plan 2 members being charged for Plan 3 benefits
- Why?
  - Because of current benefit structure and funding policy
    - Plan 3 is a hybrid plan with a DC component
    - Both plans are combined in a single trust fund
- How should guaranteed benefits work in the Plan 2/3 structure?

Off-Set Design Questions

- Risk of anti-selection
- Members may avoid applying for disability benefits that are fully deducted from plan provided benefit
- Cost transfer to retirement system from
  - Social Security and Workers' Compensation
- Pricing assumes members apply for all available disability benefits
- How should benefit off-sets work?

Dual Member Question

- Dual members receive a benefit from more than one retirement plan
- Dual members may receive higher combined benefits because their service is split among plans
  - Example: 70% AFC from PSERS + 25% AFC from PERS
  - Depends on how 70% guarantee is applied
    - Current plan only or all plans?
- Dual members may use AFC from inactive plan to increase disability benefits in current plan
- How should guaranteed benefits work for dual members?

Policy Drivers

- Changes in disability experience
- Complexity of administration
- Interactions among agencies
- Higher public scrutiny
- Different types of disability

Experience Changes

- May see increase in early retirements for disability
  - Earned benefit design provides incentive for members to remain active as long as possible
  - Removing the actuarial reduction removes incentive to stay
  - Less of an issue with “total” disability
  - Experience depends on how disability standards defined and administered
- Future disability experience difficult to predict
- Major cost driver

Administration

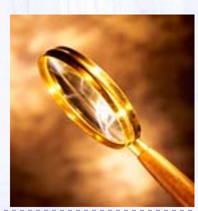
- Determinations may require high degree of judgment
- Involve complex medical evidence and questions of fact
  - Creates need for “Due Process”
- Three basic questions
  - Is the member disabled?
  - To what degree are they disabled?
  - Is the disability duty-related?
- Answers not clear-cut
- Differences of opinion
- May require additional staffing

Agency Interactions

- Determinations may involve multiple agencies
  - State & Federal
    - DRS, L&I, SSA
- Potential for
  - Conflicting standards
  - Duplication of effort
  - Benefit "shopping"
  - Cost transfer
    - (Off-set anti-selection)
- Should agencies work together? If so, how?

Public Scrutiny

- Higher public scrutiny for disability benefits
- Benefit not "earned"
- Negative perceptions if
  - On disability and working physically demanding job
  - Receiving more than pre-disability earnings
- Need for monitoring to maintain public confidence in the integrity of the system



Disability Types

- Different types of disability
  - Partial, Total, Occupational
  - Duty vs. Non-duty
  - Temporary vs. Permanent
- Nature of disability may change over time
- Different groups have different risks/coverage
- No "one size fits all" solution

Policy Implications

- Complex policy landscape
  - Numerous policy decisions
  - Highly technical information
  - Competing interests
- Unknowns
  - Potential unanticipated consequences
  - What can be learned from other plans with guaranteed benefits?
    - LEOFF 2
    - Workers' Compensation
- Potential increased appeals/litigation around claims

Key Policy Implication

- More like developing a new program than a simple benefit improvement
  - Many “behind the scenes” decisions
    - Standards
    - Due process
    - Monitoring
    - Inter-agency coordination
    - Implementation
  - Potential cost impacts for implementing and staffing
- Different process?

Process

- Consult experts in disability plan administration?
- Higher level of collaboration?
  - Plan administrators
  - Members
  - Employers
  - Outside experts
- Study experience of LEOFF 2 and/or Workers’ Compensation disability programs?

Conclusion

- Changing disability benefit designs is like developing a new program
  - Numerous “behind the scenes” decisions
  - Potential cost impacts
  - Policy implications
- May require a different process from typical issue
- Could rival PSERS for effort

In Brief

ISSUE

A $150,000 death benefit is provided to survivors of public employees who die as a result of a duty-related injury or illness. The benefit amount has not changed since 1996.

The issue before the SCPP is whether the amount of the death benefit should be automatically adjusted for inflation by indexing the benefit to changes in the CPI.

The SCPP recommended legislation in 2007 that, among other things, would have indexed the death benefit to changes in the CPI. The indexing provisions were removed from the bill that passed the Legislature.

MEMBER IMPACT

Fewer than 13 duty-deaths are expected each year from a group of over 465,000 current and former public employees.

Darren Painter
Research Analyst
360.786.6155
painter.darren@leg.wa.gov

Indexed $150,000 Death Benefit

Current Situation

Survivors of public employees who die as a result of injuries sustained or illnesses contracted in the course of employment are eligible to receive a lump sum death benefit of $150,000. Determination of eligibility is made by the Department of Labor and Industries (L&I). The benefit amount is set in statute and has not changed since the benefit was first established in 1996. The relative value of the death benefit has declined by 24 percent since its inception, due to inflation.

The death benefit is provided to members of all state retirement systems as well as state, school district, and higher education employees who are not members of a state retirement system.

History

Bills with provisions that would have automatically increased the amount of the $150,000 death benefit for inflation have been introduced during the past two legislative sessions. In both cases, these provisions were removed before the final passage of the bills.

HB 2933/SB 6724 was introduced in the 2006 legislative session. This bill contained a provision that would have annually increased the amount of the $150,000 death benefit in Plan 2 of the Law Enforcement Officers' and Fire Fighters' Retirement System based on changes in the Consumer Price Index (CPI). The practice of linking a benefit amount to changes in the CPI is known as "indexing". The indexing provision was removed from the version of the bill that passed the Legislature.

During the 2006 interim, the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF 2 Board) requested the SCPP study providing an inflationary adjustment to the $150,000 death benefit. The SCPP studied indexing the death benefit during the 2006 interim and recommended legislation for the 2007 session.

The SCPP bill (HB 1266/SB 5177) expanded eligibility for the death benefit to include death from duty-related illness in all plans and indexed the benefit amount for inflation. The proposed index would have annually increased the amount of the death benefit based on cumulative changes in the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W) for Seattle-Tacoma-Bremerton (STB), up to a maximum of 3 percent per year. This is the same increase provided for pensions in the Plan 2 retirement systems.

Bills with provisions indexing the $150,000 death benefit were introduced in 2006 and 2007.

The indexing provisions were removed from the House bill in the Appropriations committee - though they were retained in the Senate version of the bill that passed Ways and Means. The House version of the bill, without the indexing provisions, ultimately passed the Legislature.

The LEOFF 2 Board has requested coordination with the SCPP during the 2007 interim on the issue of providing an inflationary adjustment for the $150,000 death benefit.

Additional information on the history of the death benefit is provided in the 2006 SCPP Interim Issues Report available on the SCPP web site.

Other States

Research done for the 2006 SCPP study of the death benefit found two other states that offered fixed-dollar, lump sum death benefits: California and Iowa. Neither of these states automatically adjusts the benefit amount for inflation; however California does periodically adjust the amount of the death benefit based on changes in the CPI. Additional information on other states is provided in the 2006 SCPP Interim Issues Report available on the SCPP web site.

Policy Analysis

Indexing a lump sum does not provide inflation protection to an individual.

Indexing is an effective way to protect the value of a benefit against inflation. Increasing the amount of a lump sum benefit through indexing, however, does not provide inflation protection to an individual recipient since the payment is not received "over time" - it is received only once. In contrast, indexing a pension does provide inflation protection to an individual by maintaining the relative value of the pension payments over time.

From the perspective of policy makers, there may be less need to automatically adjust a lump sum benefit for inflation, because the benefit does not become part of an individual's ongoing income stream. One reason policy makers may wish to automatically adjust the amount of a lump sum benefit for inflation is to maintain equity in the value of the benefit among successive generations of recipients.

Additional information on policy implications is provided in the 2006 SCPP Interim Issues Report available on the SCPP web site.

Executive Committee Recommendation

The full SCPP received an initial briefing on this issue at its regular meeting on July 17, 2007. Following the meeting, the Executive Committee decided at its regular meeting to recommend that this matter be set for a public hearing before the full committee at its August 14, 2007, meeting.

NEXT STEPS

If the SCPP wishes to forward this proposal to the Legislature, last year's bill will be revised and a new fiscal note prepared.

Bill Draft

Example bill language from the 2007 SCPP bill is attached. In the event that the full committee decides to recommend this legislation in 2008, staff would work with the Code Reviser to prepare a bill draft for the 2008 legislative session.

Stakeholder Input

Correspondence (attached) from:

1. Kelly Fox, Chair, LEOFF Plan 2 Retirement Board

Fiscal Note

Not Available. The 2007 SCPP bill that expanded eligibility for the death benefit and indexed the amount of the benefit showed a small fiscal impact in the Washington State Patrol Retirement System. The 2007 fiscal note should not be relied upon to determine the fiscal impact of simply indexing the death benefit, as the fiscal note includes costs for expanding eligibility for the death benefit and does not take into account legislative changes from the 2007 session.*

**In 2007, the presumption of occupational disease for fire fighters was expanded by HB 1833. This will likely increase the number of fire fighters eligible for the death benefit and increase the cost of indexing the benefit.*

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Darren Painter 786-6155
OSA
July 27, 2007 (1:25 PM)

AN ACT Relating to death benefits for public employees; amending RCW 41.04.017, 41.24.160, 41.26.048, 41.32.053, 41.35.115, 41.37.110, 41.40.0931, 41.40.0932, and 43.43.285; and providing an effective date.

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

Sec. 1. RCW 41.04.017 and 2003 c 402 s 4 are each amended to read as follows:

<u>(1)</u> A one hundred fifty thousand dollar death benefit shall be paid as a sundry claim to the estate of an employee of any state agency, the common school system of the state, or institution of higher education who dies as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter, and is not otherwise provided a death benefit through coverage under their enrolled retirement system under chapter 402, Laws of 2003. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the director of the department of general administration by order under RCW 51.52.050.

(2)(a) Beginning July 1, 2008, and every year thereafter, the department of retirement systems shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

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

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

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

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

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

(c) For the purposes of this section, "index" means, for any calendar year, that year's 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.

Sec. 2. RCW 41.24.160 and 2001 c 134 s 2 are each amended to read as follows:

(1)(a) Whenever a participant dies as the result of injuries received, or sickness contracted in consequence or as the result of the performance of his or her duties, the board of trustees shall order and direct the payment from the principal fund of (i) the sum of one hundred fifty-two thousand dollars to his widow or her widower, or if there is no widow or widower, then to his or her dependent child or children, or if there is no dependent child or children, then to his or her dependent parents or either of them, or if there are no dependent parents or parent, then the death benefit shall be paid to the member's estate, and (ii)(A) the sum of one thousand two hundred seventy-five dollars per month to his widow or her widower during his or her life together with the additional monthly sum of one hundred ten dollars for each child of the member, unemancipated or under eighteen years of age, dependent upon the member for support at the time of his or her death, (B) to a maximum total of two thousand five hundred fifty dollars per month.

(b) Beginning on July 1, 2001, and each July 1st thereafter, the compensation amount specified in (a)(ii)(B) of this subsection shall be readjusted to reflect the percentage change in the consumer price index, calculated as follows: The index for the calendar year preceding the year in which the July calculation is made, to be known as "calendar year A," is divided by the index for the calendar year preceding calendar year A, and the resulting ratio is multiplied by the compensation amount in effect on June 30th immediately preceding the July 1st on which the respective calculation is made. For the purposes of <u>the calculation under</u> this subsection <u>(1)(b)</u>, "index" means the same as the definition in RCW 2.12.037(1).

<u>(c)(i) Beginning July 1, 2008, and every year thereafter, the state board shall determine the following information:</u>

<u>(A) The index for the 2006 calendar year, to be known as "index A";</u>

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

<u>(C) The ratio obtained when index B is divided by index A.</u>

<u>(ii) The value of the ratio obtained shall be the annual adjustment to the original death benefit specified in (a)(i) of this subsection and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:</u>

<u>(A) Produce a benefit which is lower than one hundred fifty-two thousand dollars;</u>

<u>(B) Exceed three percent in the initial annual adjustment; or</u>

<u>(C) Differ from the previous year's annual adjustment by more than three percent.</u>

<u>(iii) For the purposes of the calculation specified in (c) of this subsection, "index" means, for any calendar year, that year's 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.</u>

(2) If the widow or widower does not have legal custody of one or more dependent children of the deceased participant or if, after the death of the participant, legal custody of such child or children passes from the widow or widower to another person, any payment on account of such child or children not in the legal custody of the widow or widower shall be made to the person or persons having legal custody of such child or children. Such payments on account of such child or children shall be subtracted from the amount to which such widow or

widower would have been entitled had such widow or widower had legal custody of all the children and the widow or widower shall receive the remainder after such payments on account of such child or children have been subtracted. If there is no widow or widower, or the widow or widower dies while there are children, unemancipated or under eighteen years of age, then the amount of one thousand two hundred seventy-five dollars per month shall be paid for the youngest or only child together with an additional one hundred ten dollars per month for each additional of such children to a maximum of two thousand five hundred fifty dollars per month until they become emancipated or reach the age of eighteen years; and if there are no widow or widower, child, or children entitled thereto, then to his or her parents or either of them the sum of one thousand two hundred seventy-five dollars per month for life, if it is proved to the satisfaction of the board that the parents, or either of them, were dependent on the deceased for their support at the time of his or her death. In any instance in subsections (1) and (2) of this section, if the widow or widower, child or children, or the parents, or either of them, marries while receiving such pension the person so marrying shall thereafter receive no further pension from the fund.

(3) In the case provided for in this section, the monthly payment provided may be converted in whole or in part into a lump sum payment, not in any case to exceed twelve thousand dollars, equal or proportionate, as the case may be, to the actuarial equivalent of the monthly payment in which event the monthly payments shall cease in whole or in part accordingly or proportionately. Such conversion may be made either upon written application to the state board and shall rest in the discretion of the state board; or the state board is authorized to make, and authority is given it to make, on its own motion, lump sum payments, equal or proportionate, as the case may be, to the value of the annuity then remaining in full satisfaction of claims due to dependents. Within the rule under this subsection the amount and value of the lump sum payment may be agreed upon between the applicant and the state board.

Sec. 3. RCW 41.26.048 and 2006 c 351 s 1 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit 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 death benefit 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) The benefit under this section shall be paid only when death occurs: (a) As a result of injuries sustained in the course of employment; or (b) as a result of an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

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

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

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

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

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

(c) For the purposes of this section, "index" means, for any calendar year, that year's 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.

Sec. 4. RCW 41.32.053 and 2003 c 402 s 2 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or

organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

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

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

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

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

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

(c) For the purposes of this section, "index" means, for any calendar year, that year's 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.

Sec. 5. RCW 41.35.115 and 2003 c 402 s 3 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or

organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

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

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

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

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

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

(c) For the purposes of this section, "index" means, for any calendar year, that year's 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.

Sec. 6. RCW 41.37.110 and 2004 c 242 s 14 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or the person or persons, trust, or

organization the member has nominated by written designation duly executed and filed with the department. If the designated person or persons are not still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

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

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

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

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

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

(c) For the purposes of this section, "index" means, for any calendar year, that year's 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.

Sec. 7. RCW 41.40.0931 and 1998 c 157 s 1 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit for members who had the opportunity to transfer to the law enforcement officers'

and fire fighters' retirement system pursuant to chapter 502, Laws of 1993, but elected to remain in the public employees' retirement system, shall be paid to the member's estate, or such person or persons, trust, or organization as the member has 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 death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) Subject to subsection (3) of this section, the benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment as a general authority police officer; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3) The benefit under this section shall not be paid in the event the member was in the act of committing a felony when the fatal injuries were suffered.

(4)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

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

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

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

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

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

(c) For the purposes of this section, "index" means, for any calendar year, that year's 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.

Sec. 8. RCW 41.40.0932 and 2003 c 402 s 1 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:

(i) The index for the 2006 calendar year, to be known as "index A";

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

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

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than one hundred fifty thousand dollars;

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

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

(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items,

<u>compiled by the bureau of labor statistics, United States department of labor.</u>

Sec. 9. RCW 43.43.285 and 1996 c 226 s 2 are each amended to read as follows:

(1) A one hundred fifty thousand dollar death benefit 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 death benefit 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) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

<u>(3)(a) Beginning July 1, 2008, and every year thereafter, the department shall determine the following information:</u>

<u>(i) The index for the 2006 calendar year, to be known as "index A";</u>

<u>(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and</u>

<u>(iii) The ratio obtained when index B is divided by index A.</u>

<u>(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:</u>

<u>(i) Produce a benefit which is lower than one hundred fifty thousand dollars;</u>

<u>(ii) Exceed three percent in the initial annual adjustment; or</u>

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

<u>(c) For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index -- Seattle, Washington area for urban wage earners and clerical workers, all items,</u>

compiled by the bureau of labor statistics, United States department of labor.

NEW SECTION. **Sec. 10.** This act takes effect July 1, 2008.

--- END ---

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

June 5, 2007

RECEIVED
JUN 5 - 2007
Office of
The State Actuary

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

Dear Honorable Members of the Select Committee on Pension Policy:

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

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

Deferred Compensation

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

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

Purchase of Annuity

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

- Can defined contribution assets be used to purchase additional defined benefits that would exceed the equivalent value of purchasing five years of service credit?

- Should all other Washington State pension plans be provided a similar enhancement?

Inflationary Adjustment for $150,000 Death Benefit

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

Military Service Death Benefit

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

Fish and Wildlife Enforcement Officer Service Credit Transfer

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

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

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

Sincerely,

Kelly L Fox

Kelly Fox, Chair

cc: Matt Smith, State Actuary

In Brief

ISSUE

The issue before the SCPP is whether to decrease the waiting period ***from five to two years*** *for teachers who choose to purchase service credit for out-of-state public education experience at full actuarial cost.*

MEMBER IMPACT

This proposal impacts certain active members of Plans 2 and 3 of the Teachers' Retirement System (TRS) who have qualifying public education experience outside of the Washington State Retirement System. There are currently 501 out of 7,025 active Plan 2 members and 17,597 out of 51,473 active Plan 3 members with less than five years of service in TRS who could benefit from the proposed change in the waiting period if they have qualifying out-of-state service.

Laura Harper
Senior Research Analyst/
Manager
360.786.6145
harper.laura@leg.wa.gov

Public Education Experience Program – Waiting Period

Current Situation

As of January 1, 2007, members of Teachers' Retirement System (TRS) Plans 2 and 3 may purchase service credit for public education experience outside the Washington State Retirement Systems as follows:

1. **The member must have five years of TRS service credit.**
2. The member may make a one-time purchase of up to seven years of service credit for public education experience (state and/or federal) outside the Washington State Retirement Systems.
3. The public education experience must be earned in a teaching position covered by a governmental retirement or pension plan. A member may not purchase public education experience for which the member is currently receiving a benefit or is currently eligible to receive an unreduced retirement benefit.
4. Participating members pay the full actuarial value of the resulting increase in their TRS benefit; however employers of members may pay part or all of member costs.
5. The purchased service credit becomes membership service in TRS and may be used to qualify for a benefit and increase the benefit amount.

Example

A teacher is recruited to work in Vancouver, Washington. This teacher has 5 years of teaching experience in Oregon and two years of teaching experience with the federal government in Fort Bragg, North Carolina. After five years of being a member of TRS 3, this member can make a one-time purchase of 7 years of out-of-state public education experience at full actuarial cost. Under the proposal before the committee, this member could make the purchase after two years in TRS 3.

See the attached DRS publication "Using Service Credit Earned Outside the Washington State Teachers' Retirement System" for other examples.

History

The "public education experience program" was designed by a subgroup of the Select Committee on Pension Policy (SCPP) in the 2004 interim. The SCPP's version of the program was substantially identical to the current one, except that the cost to members was less than the full actuarial value of the increase in their benefits. Under the original program design, members would have paid the following: the product of the sum of the applicable employer and employee contribution rates, multiplied by the member's salary at the time of purchase, and further multiplied by the total number of years of service credit to be purchased, plus compound interest for the period for which the service credit is purchased, at a rate equal to the current investment rate of return assumption [(employer rate + employee rate) x salary x years of service + compounded interest at 8 percent].

This service credit purchase program was designed by the SCPP as a recruitment tool for teachers; however it did not pass the Legislature until after the Senate amended the bill to require members to pay the full actuarial cost.

The original proposed public education experience program was designed as a recruitment tool for teachers to help implement Goal #2 of the SCPP's Goals for Washington State Pension Plans. Goal #2 is: "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."

In the 2005 session the SCPP's bill was introduced as HB 3122/SB 5489. The bill did not move from House Appropriations and did not receive a hearing in Senate Ways and Means. The 2005 fiscal note indicated a 25-year employer cost of $130 million.

The SCPP recommended this legislation again in 2006 as HB 2680. The bill was successful, but only after the Senate amended the proposal to eliminate its cost by requiring TRS members to pay the full actuarial value of the increased benefit attributed to the service credit. After session, stakeholders indicated that leaving the five-year waiting period alone after the cost provisions were amended was an oversight. In their view, the five-year waiting period made sense when members were paying less than actuarial cost, as the five years would have demonstrated commitment to the State of Washington; however, with members paying the full actuarial cost, there is no public "investment" in the service credit and therefore the waiting period should have been shorter (i.e. two years) in order to make the program more attractive to teachers.

A bill to reduce the waiting period was introduced in the 2007 session as HB 1200. The bill was not part of the SCPP's recommended legislation for 2007. The bill passed the House but not the Senate. The House also amended SB 5174 (Technical Corrections) to reduce the waiting period, but the Senate did not concur and the House receded from the amendment.

Now that members are paying the full actuarial cost, the need for a five-year waiting period may no longer exist.

Policy Analysis

Because the proposal is a narrow one – limited to changing only the length of the waiting period for participating in the optional "public educational experience program," the policy implications of the change are also narrow. According to the stakeholder point of view, it should make little difference to state or local governments whether the waiting period is reduced, as public employers have no money "invested" in the purchase of service credit for members. Also, because members must pay the full actuarial cost, the program is less attractive to new teachers than it was originally.

The two-year waiting period may at least encourage more teachers to see value in the program. For most members, the earlier in their career they purchase out-of-state service credit, the lower the purchase price.

The stakeholder views seem consistent with the SCPP subgroup's original desire to offer the public education experience program as a recruitment tool for teachers working outside the Washington State Retirement Systems. The program clearly became less attractive to teachers when the purchase subsidy was removed. Perhaps reducing the waiting period would at least be a step in the direction of making the program more desirable to teachers.

The program just became effective January 1, 2007, so it will take time to generate meaningful data concerning utilization of the program.

Other States

When this program was originally designed by the SCPP, a complete policy discussion and comparative analysis was available to the committee. See 2005 Interim Issues, "TRS Out-of-State Service Credit," December 15, 2005. As reported at that time, half of the SCPP's ten comparative states charged "actuarial cost" for out-of-state service credit purchases: Colorado, Idaho, Iowa, Oregon and Wisconsin.

Staff recently examined the websites of those five states to determine what kind of waiting period (if any) is required for members to participate in those service credit purchase programs. As of July 23, 2007, website materials for members participating in those five states indicated the following:

Waiting Periods for Purchasing Out-of-State Service at Actuarial Cost	
Colorado	1 year
Idaho	None
Iowa	Must be vested with 4 years of service, or a contributing member and age 55.
Oregon	Purchase can only occur within 90 days of member's effective retirement date
Wisconsin	None

NEXT STEPS

If the SCPP wishes to forward this proposal to the legislature, last year's bill will be submitted to the Code Reviser and the fiscal note (no impact) will be updated.

Executive Committee Recommendation

The full SCPP received an initial briefing on this issue at its regular meeting on July 17, 2007. Following the meeting, the Executive Committee recommended that the change in the waiting period from five to two years be placed on the full committee agenda and set for public hearing on August 14, 2007.

STAKEHOLDER INPUT

Correspondence (attached) from:

1. Washington Association of School Administrators (WASA) and Washington Association of School Principals (WASP).

2. Washington Education Association (WEA).

Bill Draft

A copy of SHB 1200 (2007) is attached. In the event that the full committee decides to recommend this legislation in 2008, staff would forward a new version of the same bill to the Code Reviser in preparation for the 2008 legislative session.

Fiscal Note

The fiscal note for SHB 1200 (2007) is attached. In the event that the full committee decides to recommend legislation reducing the waiting period from five to two years, a new draft fiscal note (showing no fiscal impact) would be prepared for the bill.

O:\SCPP\2007\8-14-07 Full\6.Pub_Educ_Exp_ Prog_ Waiting_ Period_07.doc

PLAN
TRS
3

Using service credit earned outside the Washington State Teachers' Retirement System

If you are a member of the Washington State Teachers' Retirement System (TRS), you have two options that allow you to use service credit earned as a teacher outside TRS:

- Out-of-State Service Credit Program - page 2
- Public Education Experience Program - page 4

You may take advantage of one or both of these programs. For example, if you have three years of eligible out-of-state service credit, you may use one of the years to qualify for early retirement, and you may purchase the remaining two years to increase your TRS service credit. See example on page 6.

How do I decide which way to use service credit earned outside TRS?

This will depend on your personal situation, and the eligibility rules as described inside this brochure. However, the table below shows some of the key differences between each of the two ways you may use service credit.

Out-of-State Service Credit Program	Public Education Experience Program
Only allows you to qualify for early retirement	Adds to your TRS membership service and allows you to qualify for early retirement
Retirement benefit is based only on your Washington state service credit; the out-of-state service credit is not used in your benefit calculation	Retirement benefit is based on both your Washington state service credit and the service credit you purchase
No payment required	Payment is required
Service credit must be earned in an out-of-state public retirement system that covers teachers	Service credit must be earned as a teacher in a public school in another U.S. state or with the U.S. federal government and covered by a retirement or pension plan
Must be a vested member of TRS	Must be an active member with five years of TRS service credit
No limit to how much out-of-state service credit you may use	You may purchase up to seven years of service credit for this purpose

A complete description of the Out-of-State Service Credit Program begins on page 2.
A complete description of the Public Education Experience Program begins on page 4.

DRS
WASHINGTON STATE
Department of
Retirement Systems

Out-of-State Service Credit Program

If you are a vested member of the Teachers' Retirement System (TRS) Plan 3 you may use service credit earned in an out-of-state public retirement system that covers teachers to qualify for early retirement. Out-of-state service credit may be used to meet the years of service requirement for either of the two early retirement provisions described below. However, if you use out-of-state service credit, it's important to remember that only your Washington state service credit will be used to calculate your retirement benefit, and that your benefit will be reduced for each year of out-of-state service credit used to meet early retirement eligibility.

To qualify for early retirement you must meet one of the two early retirement provisions:

- *Early Retirement* - allows a member who is at least age 55 to retire with at least 10 years of service. The member's benefit is reduced based on each year the member is under age 65. The reduction is based on early retirement factors provided by the Office of the State Actuary (OSA).
- *Alternate Early Retirement* - allows retirement for a member who is at least age 55, with 30 years of service. The benefit is reduced three percent for each year the member is under age 65.

You may use out-of-state service credit to qualify for one of these early retirement provisions.

Is it to my advantage to use out-of-state service credit?

If you have enough Washington state service credit to qualify for retirement, there is no need to use your out-of-state service credit. Only service credit earned in Washington state will be used to calculate your monthly retirement benefit.

If you **do not** have enough Washington state service credit to retire before age 65, you may use your out-of state service credit to qualify for retirement and begin collecting a benefit. However, if you retire earlier than you could based on your Washington state service alone, your benefit will be reduced. The reduction is based on the difference between the age you retire using the out-of-state service credit and the age you could retire using Washington state service credit alone.

If I use my out-of-state service credit, how do the benefit reductions apply under *Early Retirement*?

Under the *Early Retirement* provision, your monthly benefit is reduced based on the number of years between your age at retirement and age 65.

<u>Example</u>: Suppose you are 57 years of age with seven years of Washington state service credit (with 12 months earned after age 44) and a monthly average final compensation (AFC)* of $5,000. You have three years of out-of-state service credit that you would like to use to meet the 10-year service requirement under the *Early Retirement* provision. Your benefit would be reduced based on your age (57) and the full retirement age (65). *Note*: The member's benefit is calculated using only the seven years of Washington state service credit.

Here's how the calculation works:

service credit years x 1% x AFC x
early retirement factor = monthly benefit
7 x 1% x $5,000 x .43 = $150.50

Your monthly retirement benefit would be $150.50.

How do the benefit reductions apply under *Alternate Early Retirement*?

Although the reduction to your benefit is set at three percent per year for each year you are under age 65, a reduction based on early retirement factors (as listed in the table at right) is applied to each year of out-of-state service credit that you use to meet the *Alternate Early Retirement* provision.

<u>Example</u>: Suppose you are 57 years of age with 25 years of Washington state service credit and a monthly AFC of $5,000. You have five years of out-of-state service credit that you would like to use to meet the 30-year service requirement for *Alternate Early Retirement*. In this case, you are eight years under age 65. Your benefit will be reduced based on early retirement factors for each of the five out-of-state service credit years (in this case, the reduction factor for these five years is .61). Next, the three percent (per year) reduction, as described on page 2, under the *Alternate Early Retirement* provision, will be applied to the remaining three years that make up the difference between your age (57) and the full retirement age (65). Your benefit is calculated using only the 25 years of Washington state service credit.

Here's how the calculation works:

service credit years x 1% x AFC x
early retirement factor = monthly benefit

25 x 1% x $5,000 x .61* = $762.50
$762.50 x 9% (3% per year x 3 years) = $68.63
$762.50 - $68.63 = $693.87

Your monthly retirement benefit would be $693.87.

Note: You also have a defined contribution component to your retirement benefit that is not affected by the use of out-of-state service.

* For more information about AFC, early retirement factors and how a retirement benefit is determined, please consult your *TRS Plan 3 Member Handbook*. You may obtain a copy from your employer, or on the DRS Web site at *www.drs.wa.gov*.

Early Retirement Reduction Factors	
Years to unreduced retirement allowance	**Reduction Factor**
10	.37
9	.40
8	.43
7	.49
6	.55
5	.61
4	.67
3	.73
2	.82
1	.91

How do I apply to use out-of-state service credit?

If you decide to use out-of-state service credit, contact DRS for a copy of the *Application for Proof* of *Proof of Out-Of-State Service and/or to Purchase Public Education Experience*. Complete Section One of this application and then send it to the retirement system where you earned the service credit. The retirement system will complete Section Two and return the form to the Department of Retirement Systems (DRS).

Public Education Experience Program

Beginning January 1, 2007, eligible members of Teachers' Retirement System (TRS) Plan 3 will have an opportunity to purchase service credit for public education experience earned as a teacher* outside TRS. The service credit they purchase will be considered membership service and may be used to qualify for retirement or early retirement.

To be eligible for this opportunity, you must:

- Be an active member of TRS Plan 3; and
- Have earned at least five years of TRS service credit.

How much service credit may I purchase?

You may purchase up to seven years of service credit in a single purchase. Multiple purchases are not allowed. For example, if you purchase four years of public education experience in January 2007, you will not be able to purchase additional public education experience service credit again.

What type of public education experience qualifies for service credit purchase?

Qualifying public education experience is that which you have earned as a teacher* in a public school in another U.S. state or with the U.S. federal government. Your former employer must have granted you service credit for performing as a teacher* and provided you with a retirement or pension plan. Also, your former retirement system will be required to verify this information on the service credit purchase application.

How much does it cost to purchase the service credit?

You must pay the actuarial equivalent value of the resulting increase in your future benefit. The actuarial equivalent value is the amount we need today to pay for the increase in your monthly benefit over your lifetime.

We use this service credit purchase cost formula to calculate your cost:

Cost = Annual Average Final Compensation (AFC) x Service Credit Being Purchased x Factor 1

Annual Average Final Compensation is your highest average earnings over a five year period at the time of purchase.

Service Credit Being Purchased is the amount of service credit you would like to purchase.

Factor 1 is from the Actuarial Factor Table provided by the Office of the State Actuary. The factor is based on the number of months between your age at the date you purchase the service credit and the age at which you would be eligible to retire with an unreduced retirement allowance (URA). See table on page 6.

The example below shows you how the service credit purchase cost formula works.

Ron is an active TRS Plan 3 member who currently has 17 years of service. Ron is 61. His annual AFC is $50,000. Ron wants to purchase three years of his eligible public education experience service credit to add to his current TRS service credit.

TRS Plan 3 members can get an unreduced retirement allowance (URA) at 65. Since Ron is currently 61, he is eligible for a URA in 48 months. The factor for TRS Plan 3 with a URA of 48 months is 0.2151.

We calculate the cost of Ron's service credit purchase like this:

Cost = $50,000 x 3 years x 0.2151 = $32,265

Ron's total cost to purchase three years of service credit is **$32,265**.

* *As defined by your former retirement system.*

Do I need to give up my right to a benefit from my previous retirement system for the service credit I purchase in TRS?

No. At the time you purchase service credit in TRS, you only need to prove that:

- You are **not currently** receiving a benefit from your previous system; and that
- You are **not currently** eligible for an unreduced benefit.

Your former retirement system must verify this information on the application.

How do I apply for the service credit purchase?

Contact DRS for a copy of the *Application for Proof of Proof of Out-Of-State Service and/or to Purchase Public Education Experience*. Complete Section One of this application and then send it to the retirement system where you earned the service credit. The retirement system will complete Section Two and return the form to the Department of Retirement Systems (DRS).

When do I pay?

You must pay your service credit bill in full within 90 days of the bill due date. You will receive your bill **after** we receive your application.

Can I make installment payments?

You are not allowed to make installment payments.

What type of payments do you accept?

You may make your payment with an eligible rollover, a direct rollover, or a trustee-to-trustee transfer from an eligible retirement plan. You may also make your payment with a personal check, cashier's check or money order. But IRS regulations limit the amount of after-tax dollars, such as those from your personal savings account, you can use for this type of purchase. Please consult a tax advisor for more information.

Can I retire before I send DRS my payment?

No. We must receive your complete payment before you retire.

Can my employer choose to contribute to the purchase?

Your employer may choose to contribute to the cost of the service credit purchased as part of your payment. Payments sent in by employers must reference your bill number on their check.

Can I purchase this service credit if I am a substitute teacher?

Yes. But only if you are a substitute teacher who is currently reported by your employer as an active substitute and you meet the eligibility requirements.

How is my payment applied to my account?

As a Plan 3 member, 50 percent of the amount you pay will go to your defined contribution account and the remainder will go to your defined benefit account.

What happens to my payment if I quit work and withdraw my contributions?

When you separate from employment and request a refund of your contributions, the 50 percent that went to your defined contribution account will be refunded to you based on the market value of your contributions, including earnings and losses, at the time you withdraw. The 50 percent that went to the defined benefit side will be used to help fund your monthly benefit payments once you become eligible. If you do not become eligible to receive benefits, that portion will remain within the Plan 3 trust fund.

Example of taking advantage of both programs (see front page).

Suppose you are 60 years of age with seven years of Washington state service credit (with 12 months earned after age 44) and you would like to retire. The earliest you can retire with a reduced benefit is age 55 with 10 years of service credit. You have three years of service credit earned in another state that you can use to meet the 10-year service requirement for early retirement. You decide to purchase two years under the Public Education Experience Program and use one year to qualify under the Out-of-State Service Credit Program. You must purchase your Public Education Experience Service Credit while you are an active member. Below is an example of the cost to purchase this:

Annual AFC* x Service Credit Being Purchased x Factor 1 (see purchase factors table below) = Cost
$52,000 x 2 x .2081* = $21,642

Your total cost to purchase two years of service credit is $21,642.

Once you have purchased the two years of service credit, it is applied to your total membership service. Now you have nine years of service credit. If you use your other year to qualify for early retirement your benefit will be reduced based on your age (60) and the full retirement age (65). In this case an early retirement factor of .61 would be applied. Your benefit will be calculated using only the nine years of Washington state service credit. Below is an example of how the calculation works:

Service Credit Years x 1% x AFC* x early retirement factor (see table on page 3) = monthly benefit
9 x 1% x $4,500 x .61* = $247

Your monthly retirement benefit would be $247.

Public Education Experience Program Purchase Factors	
Years to unreduced retirement allowance	**Factor**
0	0.2454
1	0.2374
2	0.2297
3	0.2223
4	0.2151
5	0.2081
6	0.2014
7	0.1949
8	0.1885
9	0.1824
10	0.1765

* For more information about AFC, early retirement factors and how a retirement benefit is determined, please consult your *TRS Plan 3 Member Handbook*. You may obtain a copy from your employer, or on the DRS Web site at *www.drs.wa.gov*.

How do I contact DRS?

If you have questions, or would like more information about using service credit earned as a teacher outside the Washington state retirement system, contact DRS:

Telephone:	Toll-free at 1-800-547-6657 in the Olympia area (360) 664-7000
Email:	*recep@drs.wa.gov*
U.S. Mail:	Department of Retirement Systems PO Box 48380 Olympia WA 98504-8380
Web site:	*www.drs.wa.gov*

H-1416.1

SUBSTITUTE HOUSE BILL 1200

State of Washington 60th Legislature 2007 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Conway, Darneille, Haler, Simpson, Hasegawa and Haigh)

READ FIRST TIME 01/30/07.

AN ACT Relating to purchasing service credit in plan 2 and plan 3 of the teachers' retirement system for public education experience performed as a teacher in a public school in another state or with the federal government; and amending RCW 41.32.813 and 41.32.868.

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

Sec. 1. RCW 41.32.813 and 2006 c 257 s 1 are each amended to read as follows:

(1) An active member who has completed a minimum of ((~~five~~)) <u>two</u> years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government; ((~~and~~))

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government; and

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the actuarial value of the resulting increase in the member's benefit calculated in a manner consistent with the department's method for calculating payments for reestablishing service credit under RCW 41.50.165.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer also may pay all or a portion of the member's cost of the service credit purchased under this section.

Sec. 2. RCW 41.32.868 and 2006 c 257 s 2 are each amended to read as follows:

(1) An active member who has completed a minimum of ((~~five~~)) <u>two</u> years of creditable service in the teachers' retirement system may, upon written application to the department, make a one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system, subject to the following limitations:

(a) The public education experience being claimed must have been performed as a teacher in a public school in another state or with the federal government;

(b) The public education experience being claimed must have been covered by a retirement or pension plan provided by a state or political subdivision of a state, or by the federal government; and

(c) The member is not currently receiving a benefit or currently eligible to receive an unreduced retirement benefit from a retirement or pension plan of a state or political subdivision of a state or the federal government that includes the service credit to be purchased.

(2) The service credit purchased shall be membership service, and may be used to qualify the member for retirement.

(3) The member shall pay the actuarial value of the resulting increase in the member's benefit calculated in a manner consistent with the department's method for calculating payments for reestablishing service credit under RCW 41.50.165.

(4) The member may pay all or part of the cost of the service credit to be purchased with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The department shall adopt rules to ensure that all lump sum payments, rollovers, and transfers comply with the requirements of the internal revenue code and regulations adopted by the internal revenue service. The rules adopted by the department may condition the acceptance of a rollover or transfer from another plan on the receipt of information necessary to enable the department to determine the eligibility of any transferred funds for tax-free rollover treatment or other treatment under federal income tax law.

(5) The employer also may pay all or a portion of the member's cost of the service credit purchased under this section.

--- END ---

Multiple Agency Fiscal Note Summary

Bill Number: 1200 S HB	**Title:** TRS service credit

Estimated Cash Receipts

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

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

Estimated Expenditures

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

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

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 2/ 5/2007

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

** See local government fiscal note

FNPID: 15476

Individual State Agency Fiscal Note

Bill Number: 1200 S HB	Title: TRS service credit	Agency: 035-Office of State Actuary

Part I: Estimates

☒ **No Fiscal Impact**

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

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2007
Agency Preparation:	Darren Painter	Phone: 360-786-6155	Date: 02/01/2007
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 02/02/2007
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/02/2007

FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. BILL NUMBER:
Office of the State Actuary	035	2/1/07	SHB 1200

INTENDED USE

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

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

SUMMARY OF BILL

This bill impacts the Teachers' Retirement System (TRS) Plans 2 and 3. This bill would reduce from five years to two years the amount of TRS service credit a member must have in order to purchase out of state service credit for public education experience.

Effective Date: 90 days after session

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

CURRENT SITUATION

Currently, members of TRS Plans 2 and 3 who have five years of TRS service credit may make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience must be earned in a teaching position covered by a governmental retirement or pension plan. Public education experience for which the member is currently receiving a benefit or is currently eligible to receive an unreduced retirement benefit may not be purchased. The member pays the full actuarial value of the resulting increase in their TRS benefit, however, the employer of the member may also pay part or all of the member's cost. The purchased service credit becomes membership service in TRS and may be used to qualify for benefits and to determine the benefit amount.

SUMMARY OF MEMBERS IMPACTED

This bill would affect active members with less than five years of service credit in TRS who have qualifying public education experience outside of the Washington State Retirement System. There are currently 501 out of 7,205 active TRS Plan 2 members, and 17,597 out of 51,473 active TRS Plan 3 members with less than five years of service in the retirement system.

We estimate that a typical member impacted by this bill could purchase out-of-state service up to three years earlier under this bill.

ASSUMPTIONS

1. We assume that lowering the number of years a teacher must wait before purchasing out-of-state service credit will not change the number of members who elect to purchase out-of-state service or change future retirement behavior.

2. We assume that members who elect to purchase out-of-state service credit will not separate before they are vested in the retirement system.

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

DATA

The estimate of members impacted was developed using the same data as disclosed in the September 30, 2005 actuarial valuation report.

FISCAL IMPACT

None. There would be no impact on contribution rates since the member pays the full actuarial value of the service credit purchased and the proposed changes would not alter expected retirement behavior for the plan.

Individual State Agency Fiscal Note

Bill Number: 1200 S HB	Title: TRS service credit	Agency: 124-Department of Retirement Systems

Part I: Estimates

☒ **No Fiscal Impact**

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

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/01/2007
Agency Preparation:	Jeff Wickman	Phone: (360) 664-7303	Date: 02/05/2007
Agency Approval:	Marcie Frost	Phone: (360)664-7224	Date: 02/05/2007
OFM Review:	Doug Jenkins	Phone: 360-902-0563	Date: 02/05/2007

Part II: Narrative Explanation

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

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

This substitute bill would change the requirement to have a minimum of five service credit years to a minimum of two service credit years in the Teachers' Retirement System for members to make the one-time purchase of up to seven years of service credit for public education experience outside the Washington state retirement system.

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

II. B - Cash receipts Impact

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

No impact.

II. C - Expenditures

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

No impact.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

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

No impact.

WASA & AWSP Tentative 2007 Interim Retirement Issues

- **Plan 3 Vesting**: Take away the age requirement for vesting in Plan 3. Make vesting available after five years of service like other retirement plans. HB 1941 from the 2007 session would accomplish this issue. We recommend that the SCPP recommend such legislation.

- **Survivor Benefits**: Provide improved survivor benefits to members of TRS, SERS and PERS in Plans 1, 2 and 3. As a start provide survivor benefits to those members that are qualified to retire under early or regular retirement in each of the plans. HB 1838 from the 2007 session was one attempt at getting started with this issue. It would have provided the survivors of Plan 1 TRS or PERS both the employee and employer contributions plus interest if the member had at least 30 years of service. Another approach would be to provide the survivor 200% of the employee's contributions similar to what was done in an amendment to 2SHB 1266, death benefit bill, from the 2007 session. We recommend that the SCPP study this whole issue and make recommendations to the 2008 session.

- **Plan 3 Improvement**: Many Plan 3 members felt short-changed in the 2007 session bill EHB 2391, gain-sharing trade-off. Probably SERS 3 members received the smallest trade since more than a majority of these members will not attain 30 years in the system and, therefore will not benefit from the new early retirement reductions. Also, any Plan 3 member that is already retired receives no trade and that retiree loses the benefit of future gain-sharing distributions. We recommend that the SCPP examine this issue during the interim and make recommendations for improved trade-off for some of these Plan 3 members and retirees.

- **Plan 1, 2 & 3 Military Service**: Allow Plan 1 TRS members after 25 years of service to purchase up to five years of service credit for uninterrupted military service. During the 2007 session HB 1843 and SB 5695 were introduced. Presently PERS Plan 1 members receive this service credit without paying for it. HB 1843 and SB 5695 lower the cost of the Plan 1 military bills significantly by requiring the member to pay one-half of the actuarially equivalent value of the increase in the member's benefit. Also during the 2007 session SB 6009, Plan 2 Military Service Credit, was introduced and received a hearing in Senate Ways and Means. It called for PERS members with 25 years of creditable service to receive, without cost up, to five years of service credit for interrupted or uninterrupted military service. We recommend that the SCPP review these military service credit issues and approve recommendations to the 2008 legislature.

- **Plan 2 & 3 Final Year Contract**: Make provision so that TRS Plan 2 and 3 members can receive a full year (12 month) service credit for their final year's work when retiring on July 1. We recommend that the SCPP review this issue and make recommendation regarding any possible legislation that could alleviate this situation.

- **Out of State Service:** Allow TRS Plan 2 and 3 members to purchase out-of-state service credit after serving two years in this state instead of five as proposed in SHB 1200 from the 2007 legislative session. We recommend that the SCPP make recommendation regarding this issue.

- **Plan 2 Access to PEBB**: Allow Plan 2 members access to the Public Employee Benefit Board (PEBB) health plans upon separation (not just retirement) from service at age 55 with at least 10 years of service. HB 1284/SB 5427 from the 2007 legislative session would accomplish this issue.

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Office of
The State Actuary

WEA
WASHINGTON
EDUCATION
ASSOCIATION

724 Columbia St. N.W., #220
Olympia, WA 98501
telephone: 360-943-3150
fax: 360-352-3986
www.washingtonea.org

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Office of
The State Actuary

Charles Hasse, President
David Scott, Vice President
Armand L. Tiberio, Executive Director
Miebeth Bustillo-Booth, Director of Public Policy

May 22, 2007

Select Committee on Pension Policy
Executive Committee Members
P.O. Box 40914
Olympia, WA 98504-0914

Dear Executive Committee Members:

On behalf of the Washington Education Association, I would like to submit requests for your consideration as you plan your interim issues in preparation for the 2008 Legislative Session.

There are several important items which we pursued this year in the Legislature which we would like to see the Committee take up in the interim for follow through in the 2008 session.

Old Business:

1.) HB 1200: TRS Out of State Service Credit—simple, no-cost-to-the-state amendment to policy bill requested by SCPP which passed the Legislature in 2006.
2.) HB 1941: Vesting after five years of service in the defined benefit portion of PERS, SERS AND TRS Plan 3.
3.) HB 1199: Rule of 85

There are also several new items which we would like the Executive Committee to consider.

1.) Allow the additional salary bonuses that were awarded this session to the National Board Certified Teachers to be included in their pension calculations.
2.) Allow retirees in all plans to continue paying health care benefits on a pre-tax basis. Currently, active state employees get their health care contributions taken out of their salary and sent to the HCA on a pre-tax basis. But when employees retire, the health care cost, rising as it does well in excess of any increases in retirement benefits, is subject to taxes. We would like to request the SCPP to look into some form of tax deferral for health care premiums for retirees of SERS, PERS, TRS Plans 1, 2, and 3. This was of particular interest to our Plan 1 members concerned about a meaningful improvement for retirees who do not receive a COLA until age 66.

(Continued...)

3.) Amend RCW 41.32.010 to allow TRS and SERS Plan 2 and 3 employees who work half-time for at least five months of the year, to receive a full .5 or half credit per month of employment. Currently, such employees receive less than half a service credit per month if they do not work at least 9 months of the year, thus, arguably, getting "shortchanged" because the law doesn't recognize half-year contracts, even with requisite hours of employment. We think this will have little to no cost to the state or increase on contribution rates.
4.) Resolve a new issue that has emerged for certain categories of education employees such as speech language pathologists and other educational staff associates. Those who had careers in their fields in other state employment who come to work in school districts have been mandated into TRS Plan 3 for many years now. Many of them would prefer to return to the PERS plan they were in as employees of a different state system. We would like to see this option opened up for the 25 – 50 people whom this concerns.

We will be happy to discuss these and other issues with you in more detail and to help in determining the best way to achieve these ends. Thanks for your consideration.

Sincerely,

Wendy Rader-Konofalski

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