Select Committee on Pension Policy

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

Regular Committee Meeting

October 21, 2008
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)**	**State Investment Board Update – Joe Dear, Executive Director, WSIB**
10:20 a.m.	**(3)**	**September 2008 Economic and Revenue Forecast – Arun Raha, Executive Director, ERFC**

Work Session

10:35 a.m.	**(4)**	**Disability Benefits – Dave Nelsen, Senior Policy Analyst**
11:00 a.m.	**(5)**	**SERS Past Part-Time Service Credit – Darren Painter, Policy Analyst**
11:15 a.m.	**(6)**	**OSA Request Legislation – Laura Harper, Policy and Research Services Manager**
11:25 a.m.	**(7)**	**$150,000 Death Benefit – Darren Painter**

Public Hearing with Possible Executive Session

11:40 a.m.	**(8)**	**Fish & Wildlife Service Credit Transfer – Dave Nelsen**

Planning Session

11:50 a.m.	**(9)**	**2009 SCPP Meeting Dates – Kelly Burkhart, Administrative Services Manager**
Noon	**(10)**	**Adjourn**

These times are estimates and subject to change depending on the needs of the Committee.

O:\SCPP\2008\Oct_Full_Agenda.doc

Representative Barbara Bailey

***Don Carlson**
TRS Retirees

Lois Clement
PERS Retirees

***Representative Steve Conway, Vice Chair**

Representative Larry Crouse

Charles E. Cuzzetto
TRS and SERS Employers

Randy Davis
TRS Actives

Representative Bill Fromhold

Senator Steve Hobbs

Senator Janea Holmquist

Robert Keller
PERS Actives

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

***Corky Mattingly**
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Ed Murray

Glenn Olson
PERS Employers

***Senator Mark Schoesler, Chair**

J. Pat Thompson
PERS Actives

***David Westberg**
SERS Actives

Executive Committee

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993
http://www1.leg.wa.gov/SCPP.htm

Select Committee on Pension Policy

2008 Meeting Dates

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

JANUARY

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DECEMBER

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Reserved Subgroup Dates

SHR4
2:00 - 4:00pm - Mondays
January . *none scheduled*
February . *none scheduled*
March . *none scheduled*
April 14, 2008 . *none scheduled*
May 12, 2008 . *none scheduled*
June 16, 2008 . *none scheduled*
July 14, 2008 . *none scheduled*
August 11, 2008 . *canceled*
September 15, 2008 . *none scheduled*
October 20, 2008 . *none scheduled*
November 17, 2008
December 15, 2008

Select Committee on Pension Policy

Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

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

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

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

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

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

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

2007 Rules of Procedure

RULE 1. Membership. The Committee shall consist of 20 members: two from each caucus of the legislature, four active members or representatives of active members of the state retirement systems, two retired members or representatives of retired members of the state retirement systems, four employer representatives, and the Directors of the Department of Retirement Systems and the Office of Financial Management.

The Directors of the Department of Retirement Systems and the Office of Financial Management may appoint alternates from their respective agencies for membership on the SCPP.

RULE 2. Meetings. The Select Committee on Pension Policy (SCPP) will typically meet once each month during the Legislative Interim. Meetings may be called or cancelled by the Chair of the SCPP or Executive Committee as deemed necessary.

RULE 3. Rules of Order. All meetings of the SCPP, its Executive Committee, or any subcommittee created by the SCPP shall be governed by Reed's Parliamentary Rules, except as specified by applicable law or these Rules of Procedure.

RULE 4. Quorum. A majority of the 20 committee members shall constitute a quorum of the Full Committee (11 members). A majority of the members appointed to a subcommittee shall constitute a quorum of the subcommittee.

RULE 5. Voting. A majority of the 20 committee members must vote in the affirmative for an official action of the SCPP to be valid (11 members); a majority of those committee members present must vote in the affirmative on procedural matters (at least six members), unless provided otherwise in statute or these Rules of Procedure. Examples of official actions of the SCPP include: recommendations, endorsements, statements, or requests made by the SCPP to the Legislature, the Pension Funding Council, or any other body; election of officers; approval of minutes; adopting rules of procedure; and adopting goals. Examples of procedural matters include: convening or adjourning meetings; referring issues to the Executive Committee or subcommittees; and providing direction to staff. A majority of the members appointed to a subcommittee must vote in the affirmative for an official action of a subcommittee to be valid; a majority of those subcommittee members present must vote in the affirmative on procedural matters, unless provided otherwise in statute or these Rules of Procedure.

RULE 6. Minutes. Minutes summarizing the proceedings of each SCPP meeting and subcommittee shall be kept. These minutes will include member attendance, official actions taken at each meeting, and persons testifying.

RULE 7. SCPP Chair, Vice Chair, Executive Committee and Subcommittees. An Executive Committee shall be established and shall include six members. Reorganization elections shall take place at the first meeting of the year as follows: First the Chair shall be elected and then the Vice Chair shall be elected. The Chair shall be a member of the Senate in even-numbered years and a member of the House of Representatives in odd-numbered years. The Vice Chair shall be a member of the House in even-numbered years and a member of the Senate in odd-numbered years.
Three members of the Executive Committee shall then be elected, one member representing active members, one member representing employers, and one member representing retirees. In addition, the Director of the Department of Retirement Systems shall serve on the Executive Committee.

Executive Committee members may designate an alternate to attend Executive Committee meetings in the event they cannot attend. Designations shall be made in the following manner:

a. The Chair and Vice Chair shall designate an SCPP member who is a legislator from the same house.
b. The Director of the Department of Retirement Systems shall designate an employee of the department.
c. Active, Employer, and Retiree member representatives shall designate an SCPP member representing their member group.

Subcommittees of the SCPP may be formed upon recommendation of the Executive Committee. The creation of the subcommittee and appointment of members shall be voted on by the full SCPP.

RULE 8. Duties of Officers.

A. The Chair shall preside at all meetings of the SCPP and Executive Committee, except that the Vice Chair shall preside when the Chair is not present. In their absence, an Executive Committee member may preside.

B. The State Actuary shall prepare and maintain a record of the proceedings of all meetings of the SCPP Committee, Executive Committee, and SCPP Subcommittees.

C. The Executive Committee shall perform all duties assigned to it by these Rules of Procedure, such other duties delegated to it by the SCPP, and shall set meeting agendas and recommend actions to be taken by the SCPP.

D. A recommendation to refer an issue to the Assistant Attorney General will be approved by the Chair or by a majority vote of the Executive Committee. The Chair or the Committee will consider priorities of the SCPP of all legal issues and budget constraints in making this decision.

Advice from the Attorney General's Office to the Chair or the Committee may be subject to the attorney client privilege. When subject to the privilege, Committee members are advised to maintain the advice as confidential. The privilege may be waived only by vote of the Committee.

E. The State Actuary may refer requests for information or services by Select Committee on Pension Policy members that are directly related to current Committee projects or proposals and/or require a significant use of OSA resources to either the Chair of the SCPP or the Executive Committee. Such requests will be approved by either the Chair or by a majority vote of the Executive Committee prior to initiation and completion by the OSA. The Executive Committee will consider priorities of all current OSA projects and budget constraints in making this decision.

F. The State Actuary shall submit the following to the Executive Committee and the full SCPP for approval: the biennial budget submission for the OSA, and any personal services contract of $20,000 or more that is not described in the biennial budget submission.

G. The Chair and Vice Chair shall appoint four members of the SCPP to serve on the State Actuary Appointment Committee. At least one member shall represent state retirement systems' active or retired members, and one member shall represent state retirement system employers. The Chair and Vice Chair may designate an alternate for each appointee from the same category of membership.

RULE 9. Expenses. Legislators' travel expenses shall be paid by the member's legislative body; state employees' expenses shall be paid by their employing agency; other SCPP members' travel expenses shall be reimbursed by the Office of the State Actuary in accordance with RCW 43.03.050 and 43.03.060.

RULE 10. Staff. The OSA shall provide staff and technical assistance to the Committee. The State Actuary has the statutory authority to select and employ such research, technical, clerical personnel, and consultants as the State Actuary deems necessary. The State Actuary shall inform the Executive Committee of final personnel actions. Any employee terminated by the State Actuary shall have the right of appeal to the Executive Committee. The State Actuary has also implemented a grievance procedure within the OSA. Any employee who has followed the OSA grievance process and disagrees with the outcome may appeal to the Executive Committee. Employee appeals must be filed in writing with the Chair within 30 days of the action being appealed.

Effective Date June 19, 2007.

Revised June 19, 2007 by the Select Committee on Pension Policy.

Chair - Representative

Vice Chair - Senator

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1. Approval of Minutes

Select Committee on Pension Policy

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

REGULAR COMMITTEE MEETING
September 16, 2008
DRAFT MINUTES

The Select Committee on Pension Policy met in Senate Hearing Room 3 and Senate Hearing Room 4, Olympia, Washington on September 16, 2008.

SENATE HEARING ROOM 3

<u>Pensions 102 – Educational Briefing (optional)</u>

Laura Harper, Policy and Research Services Manager, and Dave Nelsen, Senior Policy Analyst, presented "Pensions 102" an educational briefing. A question and answer period followed.

SENATE HEARING ROOM 4

Committee members attending:

Senator Schoesler, Chair	Senator Hobbs
Representative Conway, Vice-Chair	Robert Keller
Representative Bailey	Sandra Matheson
Don Carlson	Corky Mattingly
Representative Crouse	Doug Miller
Charles Cuzzetto	Glenn Olson
Randy Davis	J. Pat Thompson
Representative Fromhold	David Westberg

Senator Schoesler, Chair, called the meeting to order at 10:10 a.m.

(1) APPROVAL OF MINUTES

Moved, seconded and carried: to approve the July 15, 2008, Full Committee Draft Minutes.

(2) ELECTION OF RETIREE REPRESENTATIVE TO EXECUTIVE COMMITTEE

Moved, seconded and carried: to approve the nomination of Don Carlson to the Executive Committee representing Retirees.

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http://www1.leg.wa.gov/SCPP.htm

(3) PROPOSED 2009-11 OSA BUDGET

Matt Smith, State Actuary, reviewed the "Proposed 2009-11 OSA Budget."

Moved, seconded and carried: to approve the Proposed 2009-11 OSA Budget as submitted.

(4) **FISH AND WILDLIFE SERVICE CREDIT TRANSFER**

Dave Nelsen, Senior Policy Analyst, reported on "Fish and Wildlife Service Credit Transfer."

Supporting the issue:
Beverly Hermanson , Retired Public Employees Council of Washington
Matt Zuvich, Washington Federation of State Employees

No action taken.

(5) INTERRUPTIVE MILITARY SERVICE CREDIT

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

Steve Nelsen, Executive Director, Law Enforcement Officers' and Fire Fighters ' Plan 2 Retirement Board (LEOFF 2 Board) reported that the LEOFF 2 Board has not taken any formal action on this issue.

No action taken.

(6) PLAN 1 COLA PROPOSALS

Darren Painter, Policy Analyst, reported on "Plan 1 COLA Proposals."
Two members asked staff to follow up on questions about the report.

T*estimony given by*:
Leslie Main, Washington State School Retirees' Association
Cassandra dela Rosa, Washington Public Employees Council of Washington
Jim Justin, Association of Washington Cities

Supporting the Issue:
Matt Zuvich, Washington Federation of State Employees
Luis Moscosco, Washington Public Education Association

No action taken.

(7) SCPP RECOMMENDED LEGISLATION TO LOWER GENERAL SALARY INCREASE ASSUMPTION

Laura Harper, Policy and Research Services Manager, reported on the "SCPP Recommended Legislation to Lower General Salary Increase Assumption."

Moved, second, and carried to: submit the SCPP Recommended Legislation to Lower General Salary Increase Assumption to the 2009 Legislature.

The meeting adjourned at 12:00 p.m.

Recorded audio of Select Committee on Pension Policy meetings is often available free of charge at www.tvw.org. Additionally, you may request a CD-ROM copy of the audio. Please contact the Office of the State Actuary for further information.

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2. State Investment Board Update

Washington State
Investment Board

Select Committee on Pension Policy

October 21, 2008
Joe Dear, Executive Director, WSIB

Overview

- What happened
- Capital market environment
- WSIB performance
- Concluding observations
- Questions

What Happened

- Housing prices surged
- Mortgage securities mispriced
- Faulty risk models
- Compromised credit ratings
- Misaligned compensation
- Investor cupidity
- Inadequate/ineffective regulation
- Excess leverage

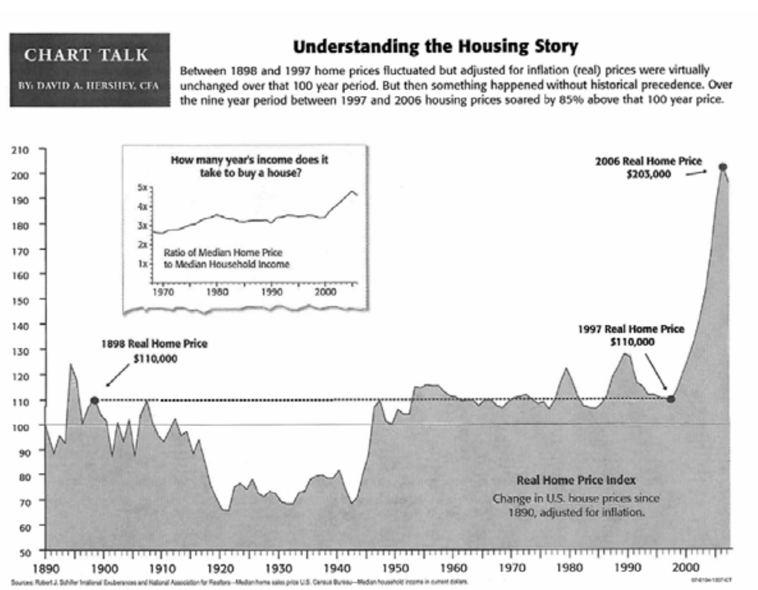
↓

Loss of confidence

↓

Financial system meltdown

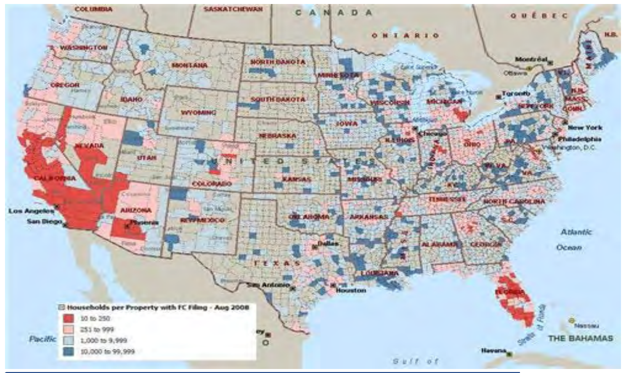
WSIB



WSIB

U.S. Foreclosure Activity 2008

Top 10 Metro Areas with the Highest Foreclosure Rates as of August 31, 2008	
Metro Area, State	**% Households in Foreclosure**
Stockton, CA	2.00%
Merced, CA	1.89%
Modesto, CA	1.70%
Vallejo-Fairfield, CA	1.60%
Riverside - San Bernadino, CA	1.59%
Cape Coral - Ft. Myers, FL	1.52%
Las Vegas - Paradise, NV	1.33%
Bakersfield, CA	1.18%
Salinas - Monterey, CA	1.16%
Sacramento, CA	1.11%



Top 10 States with the Highest Foreclosure Rates as of August 31, 2008			
State Name	**1/Every Household**	**% Change from July 2008**	**% Change from August 2007**
Nevada	91	16.36	88.9
California	130	40.73	75.77
Arizona	182	7.36	62.6
Florida	194	-4.11	29.67
Michigan	332	17.38	-12.59
Georgia	442	-12.98	-10.98
Ohio	444	-15.59	-36.16
Colorado	452	-13.82	-29.65
Illinois	483	20.66	72.91
Indiana	522	10.35	5.39
United States	416	11.65	26.69

WSIB

Source: Courtland Partners, Ltd., RealtyTrac, "2007 U.S. Foreclosure Market Report."

Housing Prices: Downward Pressure

- The residential credit boom led to excess capacity in shelter
- The excess shelter will be absorbed

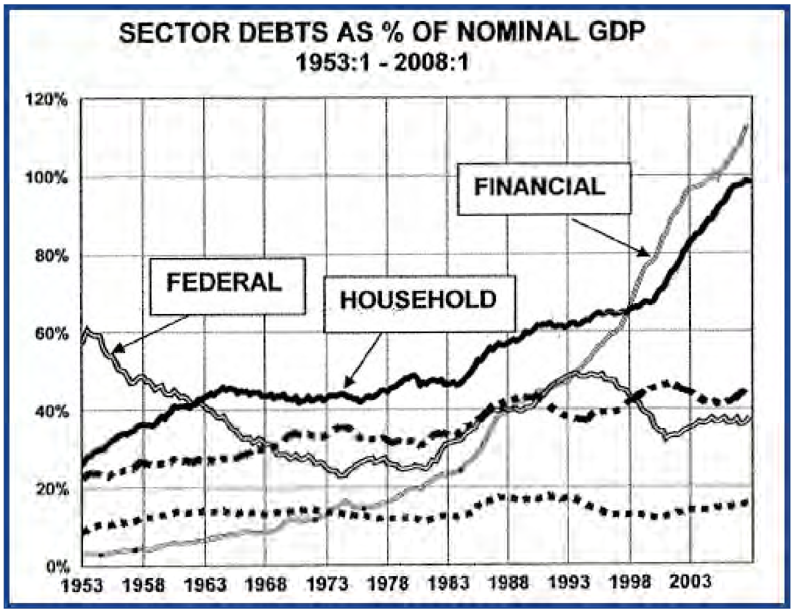
Incremental Home Inventory From:	Home (mm)	Years[1]
A decline in the home ownership rate to 64%	4.4	3.3
Excess existing home inventory on market[2]	1.7	1.3
Excess new home inventory on market[2]	0.2	0.1
Total	6.3	4.7

	Equilibrium Homeownership Rate					
	64.0%	65.0%	66.0%	67.0%	68.0%	69.0%
Years to recovery	4.7	3.9	3	2.2	1.4	0.6
Months to recovery	56	46	36	27	17	7
Date of recovery	Mid 2013	Mid 2012	Mid 2011	Late 2010	Early 2010	Mid 2009

[1] Assuming 1.35 mm of base level of annual demand

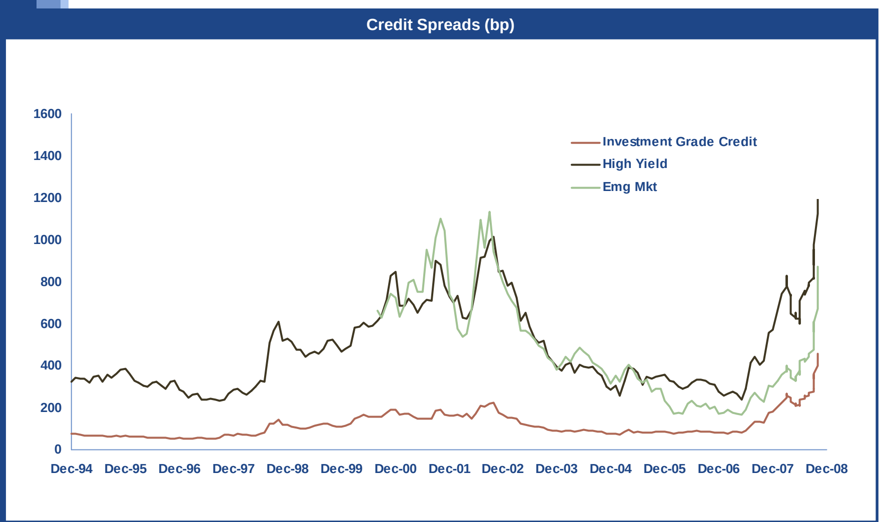
[2] Defined as inventory that would need to be removed to return to normalized levels of monthly supply.

WSIB



WSIB

Credit Spreads Widen – December 1994 – October 10, 2008



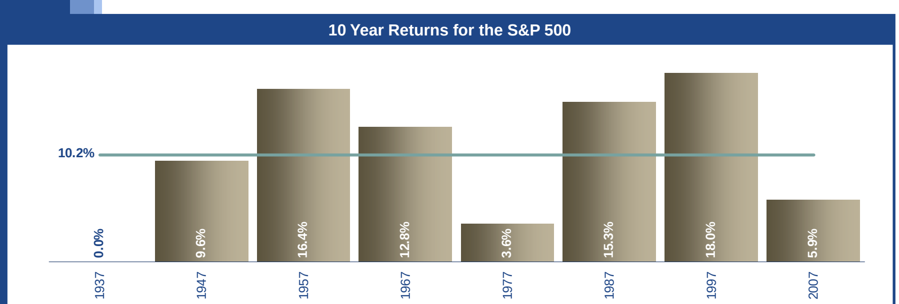
Source: Bloomberg, Lehman Brothers

WSIB

WSIB

Source: Bloomberg

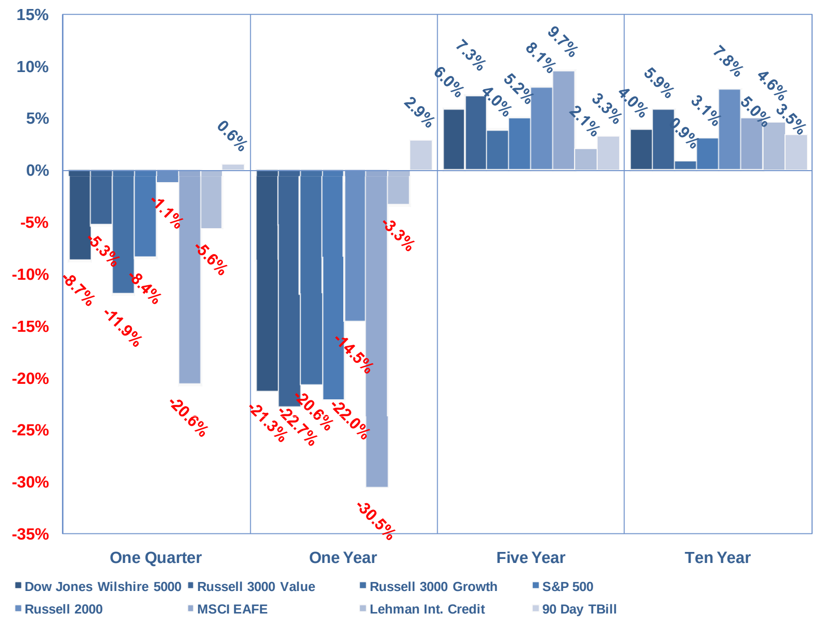
Equity Returns Can be Low for Long Periods



- Equities are not always the highest return asset class
- Long horizon investors can wait out periods of underperformance
- Individuals bear higher risk due to shorter time horizon

WSIB

Capital Market Environment – September 30, 2008



WSIB

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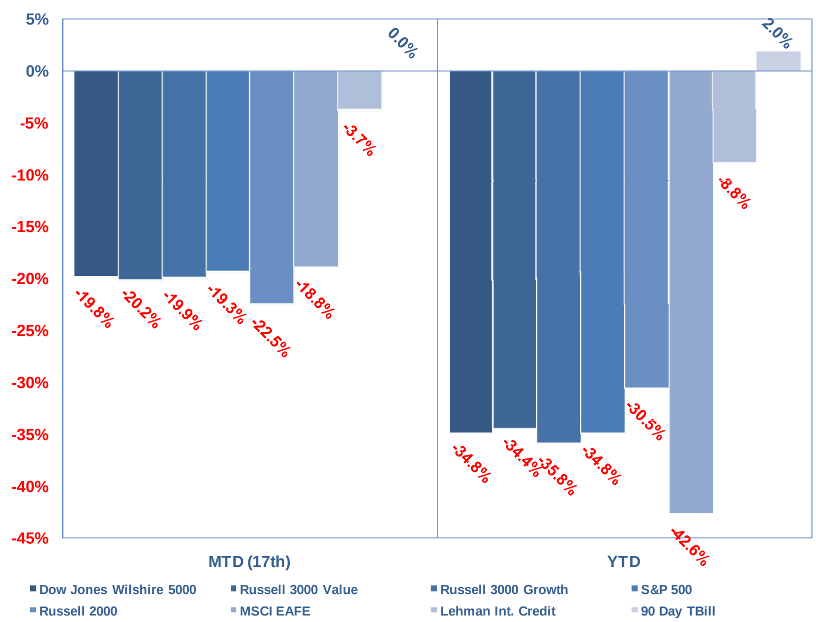
Capital Market Update – Black October (data as of October 17, 2008)



WSIB

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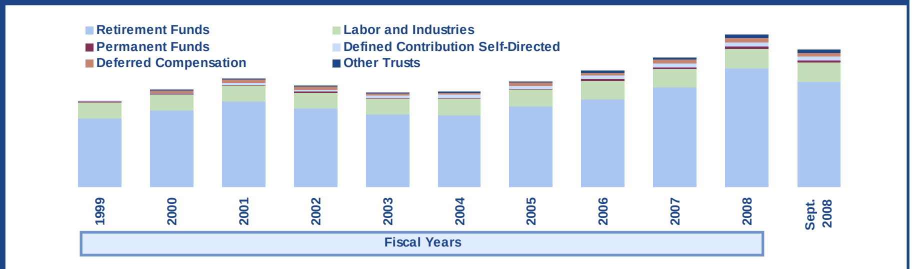
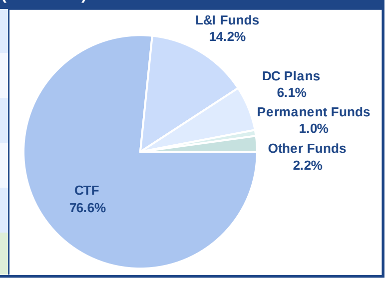
Total Assets Under Management – September 30, 2008

Past 10 Fiscal Years



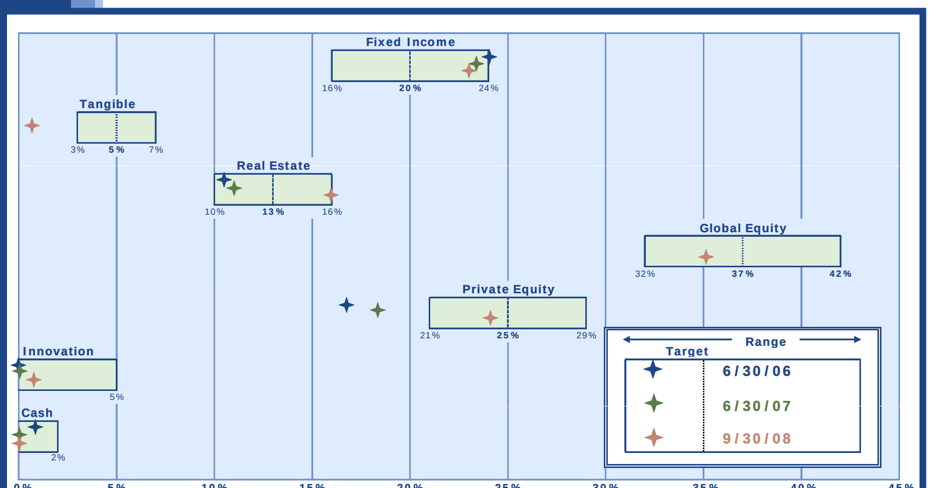
Market Values and Allocation (in billions)

CTF	$57.0	76.6%
L&I Funds	$10.6	14.2%
DC Plans	$4.5	6.1%
Permanent Funds	$0.8	1.0%
Other Funds	$1.6	2.2%
Total Assets Under Management	$74.5	



WSIB

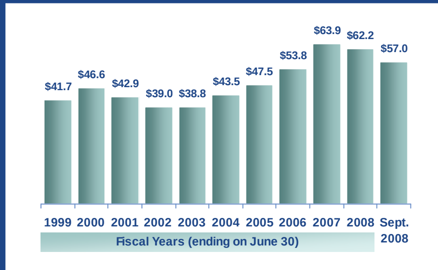
Commingled Trust Fund Strategic Asset Allocation



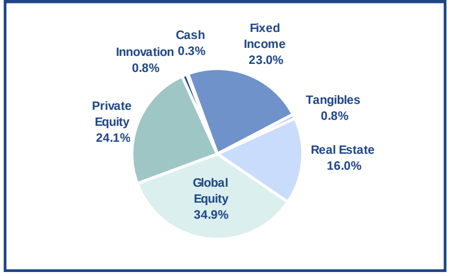
WSIB

Commingled Trust Fund Performance & Market Values – September 30, 2008

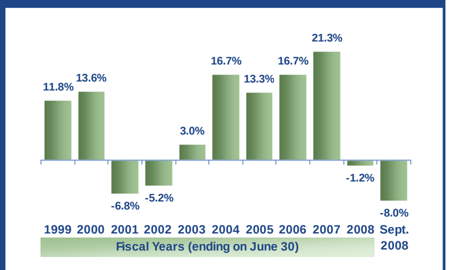
Historical Market Value (billions)



Actual Allocation



Historical Fund Returns



Market Values and Returns – June 30, 2008

Total Commingled Trust Fund (CTF) Retirement Assets: $57.0 billion

	Market Value (000s)	1 Year	3 Year	5 Year	10 Year
Total CTF	$57,021,001,986	-12.85%	7.00%	10.37%	7.63%
Fixed Income	$13,104,659,519	2.60%	4.13%	4.12%	5.67%
Tangibles	$475,858,710				
Real Estate	$9,129,935,715	4.78%	18.90%	18.62%	14.96%
Global Equity	$19,867,838,971	-27.05%	0.98%	7.65%	5.14%
Private Equity	$13,745,331,192	-8.35%	17.21%	20.34%	14.09%
Innovation	$462,311,859	-29.28%	N/A	N/A	N/A
Cash	$152,596,421	3.58%	4.46%	3.29%	3.02%

WSIB

Plan 3 Performance – September 30, 2008

Equity Funds	Qtr.	1 Year	3 Year	5 Year	10 Year
U.S. Stock Fund	**-8.6%**	**-21.4%**	**0.3%**	**5.8%**	**N/A**
Russell 3000	-8.7%	-21.5%	0.3%	5.7%	3.8%
U.S. Large Stock Fund	**-8.3%**	**-21.9%**	**0.3%**	**5.2%**	**3.1%**
S&P 500	-8.4%	-22.0%	0.2%	5.2%	3.1%
U.S. Small Stock Fund	**-1.1%**	**-14.5%**	**1.8%**	**8.2%**	**7.7%**
Russell 2000	-1.1%	-14.5%	1.8%	8.1%	7.8%
International Index Fund	**-19.2%**	**-29.2%**	**1.8%**	**10.1%**	**4.7%**
MSCI EAFE	-20.6%	-30.5%	1.1%	9.7%	5.0%

Balanced Funds	Qtr.	1 Year	3 Year	5 Year	10 Year
WSIB TAP Fund	**-8.0%**	**-12.8%**	**7.0%**	**10.4%**	**7.6%**
Custom Benchmark	-12.0%	-19.2%	1.7%	6.3%	4.8%
Social Balanced Fund	**-4.3%**	**-5.7%**	**3.9%**	**5.5%**	**N/A**
Custom Benchmark	-4.8%	-11.0%	2.1%	4.7%	4.3%
Long-Horizon Fund	**-9.5%**	**-18.0%**	**2.0%**	**6.8%**	**N/A**
Custom Benchmark	-10.4%	-19.3%	1.4%	6.4%	4.8%
Mid-Horizon Fund	**-7.2%**	**-11.5%**	**2.8%**	**5.9%**	**N/A**
Custom Benchmark	-8.9%	-14.2%	1.7%	5.2%	5.0%
Short-Horizon Fund	**-4.4%**	**-5.0%**	**3.6%**	**4.9%**	**N/A**
Custom Benchmark	-6.0%	-7.8%	2.5%	4.2%	4.7%

Bond Funds	Qtr.	1 Year	3 Year	5 Year	10 Year
Bond Market Fund	**-2.6%**	**2.5%**	**3.7%**	**3.4%**	**N/A**
Lehman Intermediate Credit	-5.6%	-3.3%	1.6%	2.1%	4.6%

Cash Funds	Qtr.	1 Year	3 Year	5 Year	10 Year
Money Market Fund	**0.6%**	**3.3%**	**4.5%**	**3.5%**	**3.8%**
One Month LIBOR	0.7%	3.5%	4.7%	3.6%	3.8%

* Uses current managers' returns and is after manager and portfolio expenses, but before the WSIB and record keeping fees.

WSIB

DCP Performance – September 30, 2008

Equity Funds	Qtr.	1 Year	3 Year	5 Year	10 Year
U.S. Stock Market Index Fund	**-8.4%**	**-21.0%**	**0.7%**	**6.1%**	**4.2%**
Dow Jones Wilshire 5000	-8.7%	-21.3%	0.6%	6.0%	4.0%
Active Value Fund	**-6.3%**	**-25.9%**	**-0.9%**	**8.0%**	**N/A**
Russell 1000 Value Index	-6.1%	-23.6%	0.1%	7.1%	5.6%
Active Core Fund	**-9.5%**	**-22.3%**	**-1.0%**	**N/A**	**N/A**
S&P 500	-8.4%	-22.0%	0.2%	5.2%	3.1%
Growth Company Fund	**-18.3%**	**-22.1%**	**2.5%**	**7.2%**	**6.3%**
Russell 3000 Growth	-11.9%	-20.6%	0.2%	4.0%	0.9%
International Stock Fund	**-21.9%**	**-33.0%**	**0.1%**	**N/A**	**N/A**
MSCI EAFE	-20.6%	-30.5%	1.1%	9.7%	5.0%
U.S. Small Stock Fund	**-1.1%**	**-14.5%**	**1.8%**	**8.2%**	**7.7%**
Russell 2000	-1.1%	-14.5%	1.8%	8.1%	7.8%

*Uses current managers' returns and returns from other portfolios with same investment strategy but different fees to produce a ten-year history. Return shown is after manager and portfolio expenses, but before the WSIB and record keeping fees and does not include any return attributed to rebates.

Balanced Funds	Qtr.	1 Year	3 Year	5 Year	10 Year
Long-Horizon Fund	**-9.5%**	**-18.0%**	**2.0%**	**6.8%**	**N/A**
Custom Benchmark	-10.4%	-19.3%	1.4%	6.4%	4.8%
Mid-Horizon Fund	**-7.2%**	**-11.5%**	**2.8%**	**5.9%**	**N/A**
Custom Benchmark	-8.9%	-14.2%	1.7%	5.2%	5.0%
Short-Horizon Fund	**-4.4%**	**-5.0%**	**3.6%**	**4.9%**	**N/A**
Custom Benchmark	-6.0%	-7.8%	2.5%	4.2%	4.7%
Social Balanced Fund	**-4.3%**	**-5.7%**	**3.9%**	**5.5%**	**N/A**
Custom Benchmark	-4.8%	-11.0%	2.1%	4.7%	4.3%

Bond Funds	Qtr.	1 Year	3 Year	5 Year	10 Year
Bond Market Fund	**-2.6%**	**2.5%**	**3.7%**	**3.4%**	**N/A**
Lehman Int. Credit	-5.6%	-3.3%	1.6%	2.1%	4.6%

Cash Funds	Qtr.	1 Year	3 Year	5 Year	10 Year
Savings Pool	**1.1%**	**4.7%**	**4.7%**	**4.7%**	**5.5%**

WSIB

Concluding Observations

- The deleveraging of the financial system is not over
- Returns will revert to long term averages
- Patience and confidence in our strategies will be tested
- The virtues of a globally diversified portfolio of high quality assets managed by skilled investors will be revealed
- Risk management is a priority
- An 8% return is realistic and challenging

- Deleveraging of household and financial services firms will create difficult economic conditions in 2009
- Governments and central banks are demonstrating a total commitment to do whatever it takes to resolve the crisis
- Confidence in the financial system has been shaken
- It will take time to recover
- Time is our ally
- We will work through these difficulties

WSIB

3. September 2008 Economic and Revenue Forecast

State Economic Outlook

Prepared for the Select Committee on Pension Policy

Arun Raha
Executive Director

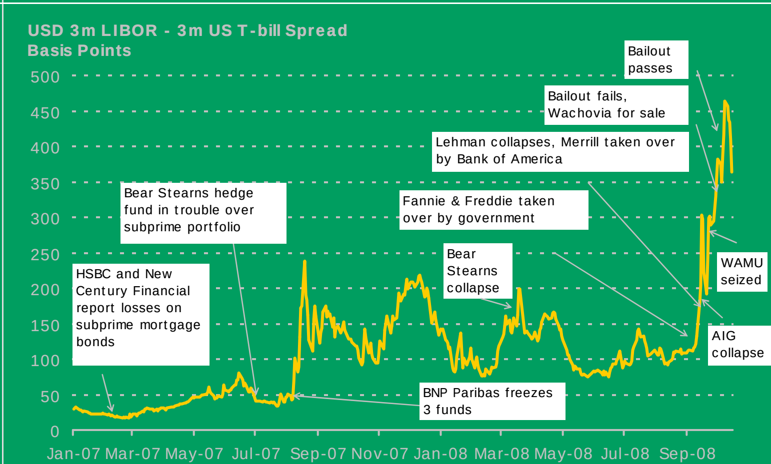
October 21, 2008

Overview

- State of the U.S. economy
- September forecast of WA economy
  - Outlook weakened, expected revenues ↓
  - Financial crisis not factored in
- September revenue forecast changes
- Revisions to Global Insight's U.S. forecast in October
- Summary

Credit markets are still tight

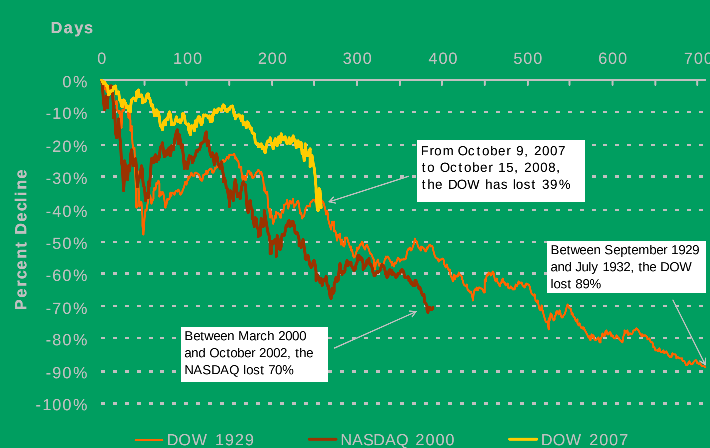
Widening spread indicated that banks are less willing to lend to each other



Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through October 17, 2008

Arun Raha
21 October 2008

We are in a "bear market," but it has been worse before



Source: Yahoo Finance, ERFC

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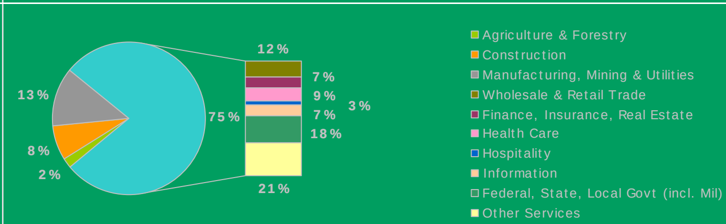
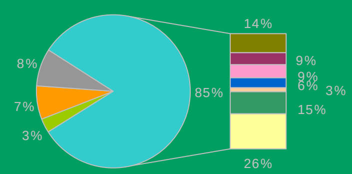
21 October 2008

Washington's economy is diversified

Income Shares



Employment Shares



We are largely a service based economy, both in employment and income generation

Manufacturing hires 8% of the workforce, but generates 13% of the income

Information hires 3% of the workforce, but generates 7% of the income

Source: US Bureau of Economic Analysis, ERFC; 2007 annual data

Arun Raha

21 October 2008

Key drivers of State General Fund revenues

- WA Employment
  - Wages
- WA Construction activity
  - Residential
  - Non-residential
- WA Retail sales
  - Auto sales
  - Furniture and appliances
  - General merchandise sales
- Consumer sentiment

All of these are influenced by the state of the national economy

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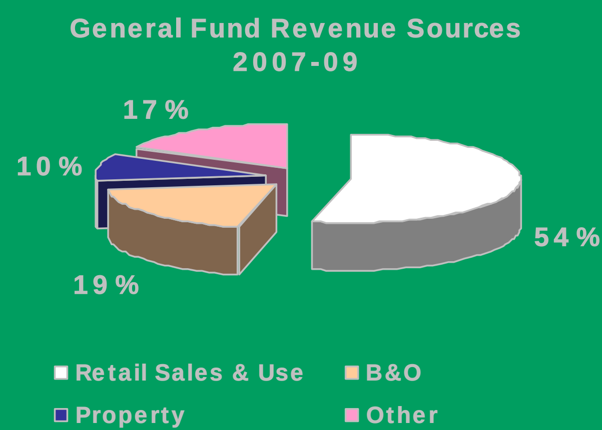
21 October 2008

A majority of General Fund revenues come from retail sales

State revenues are mostly transaction based



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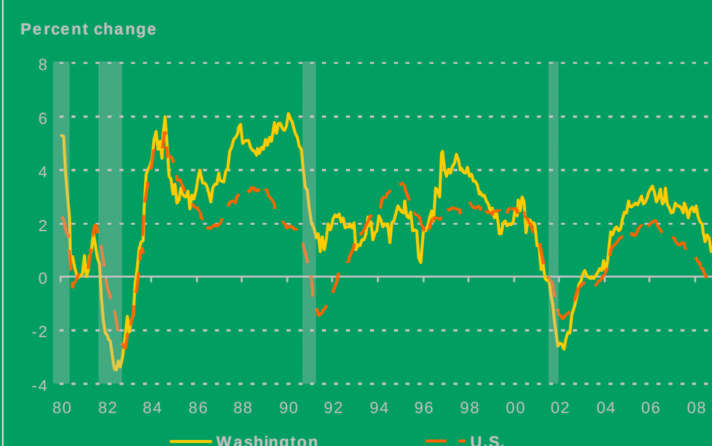
21 October 2008

Slide 6

Washington State Economic and Revenue Forecast Council

Non-farm payroll employment growth

Slowing growth in Washington, but still better than the national economy



Source: Bureau of Labor Statistics; data through September 2008, preliminary

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Slide 7

Washington State Economic and Revenue Forecast Council

Non-farm employment growth:
WA expected to outperform U.S. economy

CAUTION: this forecast was made prior to the financial market turmoil in September

Source: ERFC, September 2008 forecast

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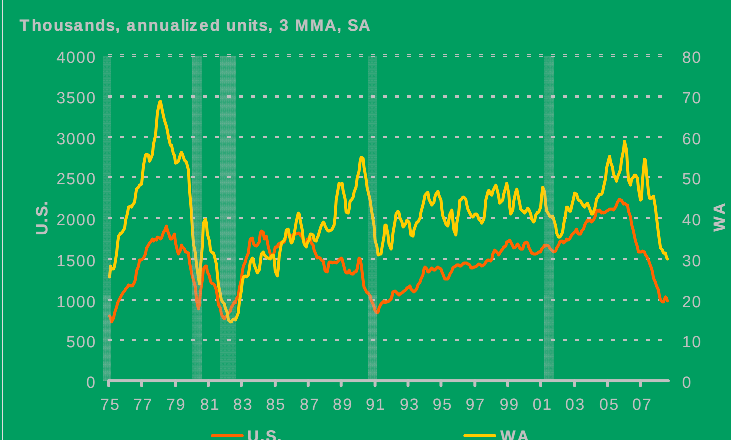
21 October 2008

State housing permit activity has slowed, similar to the national economy



Source: Census Bureau, ERFC

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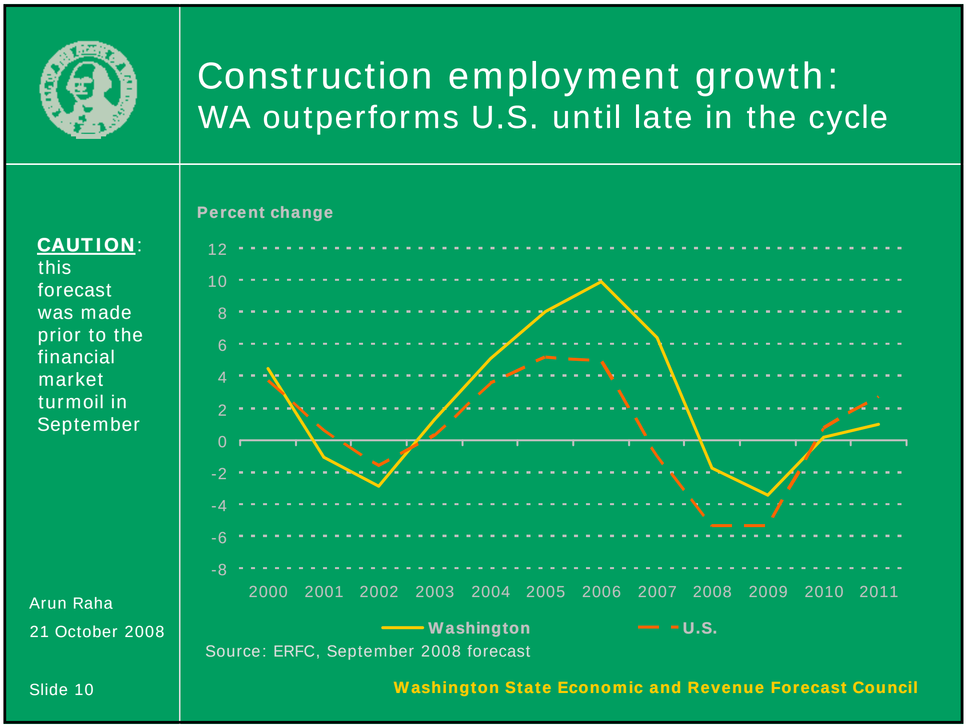
21 October 2008



Construction employment growth:
WA outperforms U.S. until late in the cycle
CAUTION: this forecast was made prior to the financial market turmoil in September
Percent change
12
10
8
6
4
2
0
-2
-4
-6
-8
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
Washington
U.S.
Source: ERFC, September 2008 forecast
Arun Raha
21 October 2008
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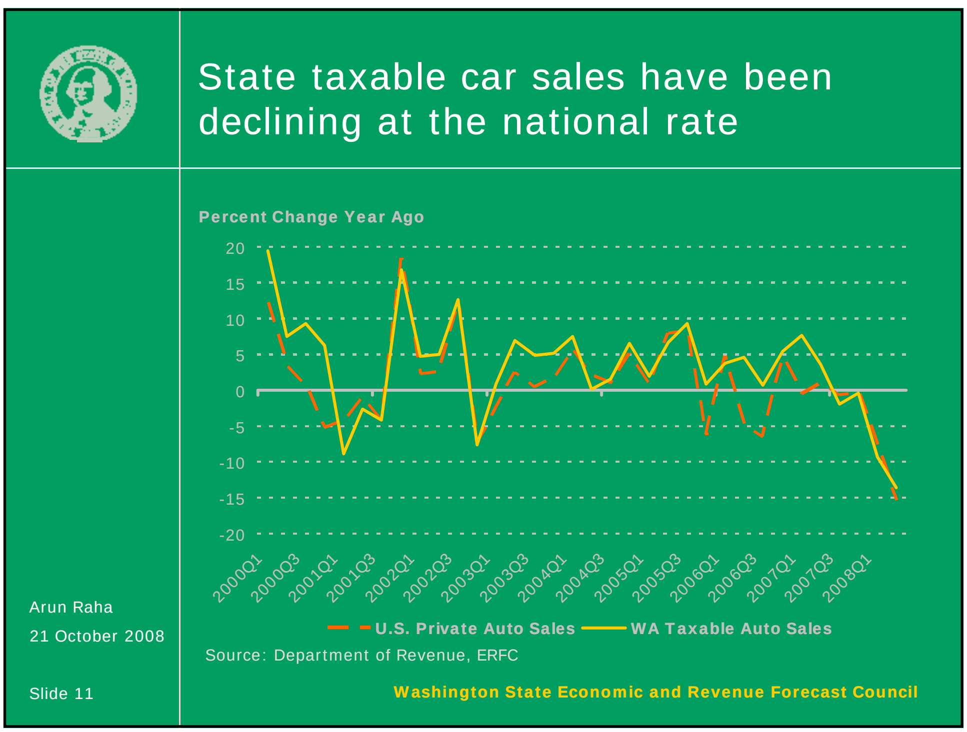
Washington State Economic and Revenue Forecast Council



State taxable car sales have been declining at the national rate
Percent Change Year Ago
20
15
10
5
0
-5
-10
-15
-20
2000Q1 2000Q3 2001Q1 2001Q3 2002Q1 2002Q3 2003Q1 2003Q3 2004Q1 2004Q3 2005Q1 2005Q3 2006Q1 2006Q3 2007Q1 2007Q3 2008Q1
U.S. Private Auto Sales
WA Taxable Auto Sales
Source: Department of Revenue, ERFC
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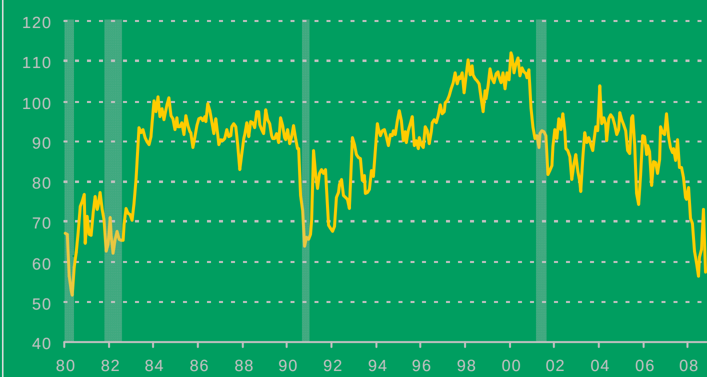
Washington State Economic and Revenue Forecast Council

Consumer sentiment is at recessionary levels

Index, 1966Q1 = 100, SA



Source: University of Michigan

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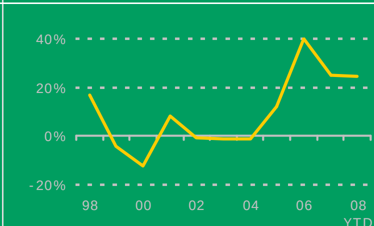
Slide 12

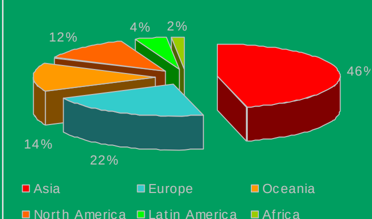
Washington State Economic and Revenue Forecast Council

Exports have been a bright spot, but are moderating

Export Growth



Export shares by destination



Source: WISER

- Exports have been helped by a weak USD
- Global slowdown and strengthening USD will hurt exports
- Economic weakness in Europe will be more pronounced than in Asia
- USD will remain weak against Asian currencies, but strengthen against European currencies

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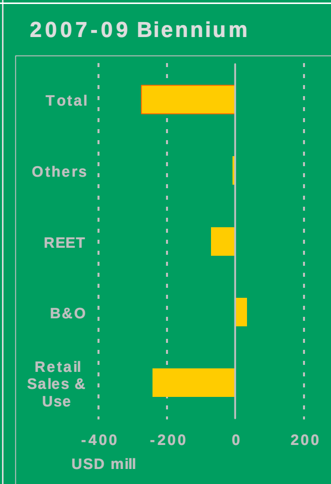
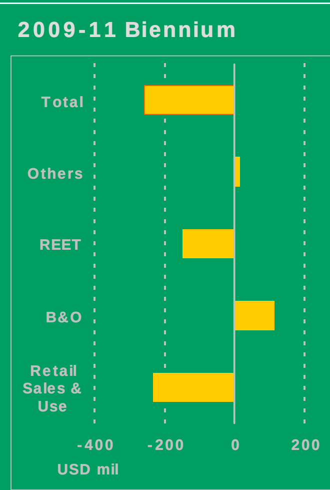
21 October 2008

Slide 13

Washington State Economic and Revenue Forecast Council

Changes to General Fund revenue forecast in September





Source: ERFC

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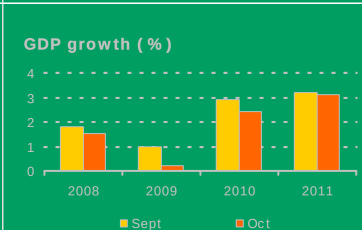
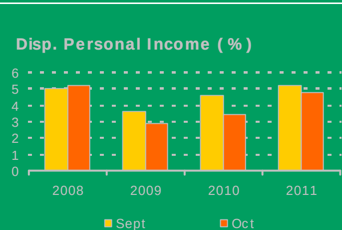
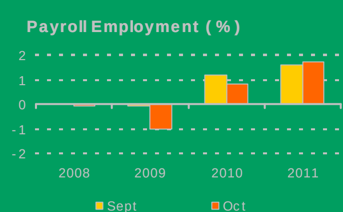
21 October 2008

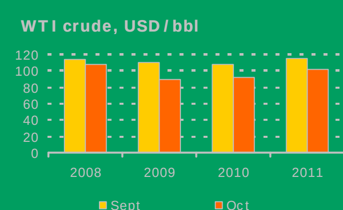
Changes to Global Insight's U.S. forecast since September

October forecast is more pessimistic than September's, especially for employment









Arun Raha

21 October 2008

Summary

- The economic outlook presented in September was weaker than in June
- Washington has a diversified economy and was expected to outperform the national economy
- Since then the outlook has worsened as a result of the heightened turmoil in financial markets in September
- Our next forecast will be presented in November

Arun Raha
21 October 2008

Questions

Economic & Revenue Forecast Council
1025 E. Union Avenue, Suite 544
Olympia WA 98504-0912

www.erfc.wa.gov
360-570-6100

Arun Raha
21 October 2008

Office of the State Actuary

"Securing tomorrow's pensions today."

September 23, 2008

Arun Raha, Executive Director
Economic and Revenue Forecast Council
Capital Plaza Building
PO Box 40912
Olympia, Washington 98504-0912

Dear Mr. Raha:

RE: ECONOMIC AND REVENUE FORECAST COUNCIL

On behalf of the Select Committee on Pension Policy, we would like to invite you to our October 21, 2008 meeting. We would very much appreciate the opportunity to meet you and hear about Washington's most recent economic and revenue forecast. We believe this information will be helpful to our committee as we consider our legislative recommendations for 2009.

Our October 21st meeting will be held in Senate Hearing Room 4 of the Cherberg Building starting at 10:00 a.m. We hope you can attend and look forward to hearing from you.

Sincerely,

Mark G. Schoesler

Senator Mark Schoesler, Chair
Select Committee on Pension Policy

Steve Conway

Representative Steve Conway, Vice Chair
Select Committee on Pension Policy

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STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL
Capital Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100

FOR IMMEDIATE RELEASE
For further information, contact
State Representative Jim McIntire
(206) 399-9847

New Forecast Council Executive Director Announced

OLYMPIA, September 2, 2008 --- The Economic and Revenue Forecast Council has named Arun Raha to serve as executive director to replace interim director Steve Lerch and former director ChangMook Sohn.

“We couldn’t have made a better choice,” said State Representative and Forecast Council Chair Jim McIntire. “Dr. Raha’s strong track record and his expertise in global economics and forecasting are a great fit for this very important position, especially at this turbulent time. The Council is delighted to have him return to Washington.”

“I would also like to take this opportunity to express the Council’s appreciation to Dr. Lerch for his timely and very capable assistance,” said McIntire. Lerch will be returning to his regular position with the State Investment Board once the transition is complete.

Raha comes to the Forecast Council with a wealth of experience. Since 2005 he has been Vice-President for Economic Research & Consulting at Swiss Re in New York, the world’s largest reinsurer, headquartered in Zurich, Switzerland. In that capacity he was responsible for forecasts of North American macroeconomic, financial, and property-casualty insurance markets.

Prior to joining Swiss Re, Arun Raha managed Economic Analysis at Eaton Corporation, a global diversified industrial manufacturer. While at Eaton, Raha served on the Ohio Governor’s Council of Economic Advisors. In the late 1990s Raha was Director of the Asia Service at the world’s leading economic and information consulting firm, WEFA (now Global Insight, Inc.).

Raha earned his PhD in economics from Washington State University, and had previously been a member of the Economics faculty at Boise State University where he forecast Idaho State General Fund Revenues for the state legislature.

Raha received the Federal Reserve Bank of Chicago's top overall forecast prize in 2007, as well as the Wall Street Journal's forecasting award in January 2005.

"Arun seemed to have the right mix of education, training, and experience regarding the economy and forecasting as well as an ability to effectively communicate technical information to a broad audience whose expertise lies in areas other than in economics and forecasting," said State Representative Ed Orcutt, Forecast Council member.

Arun Raha has been quoted in the *Wall Street Journal*, *Washington Post, Atlanta Journal Constitution, Montreal Gazette, Business Week, CNN Money, Bloomberg News*, and various trade journals. He has appeared several times on *Bloomberg TV*. He is a former trustee of the Automotive Market Research Council and a past Chair of its Commercial Vehicle Committee.

Arun Raha is on the *Wall Street Journal's* Economic Forecasting Panel and his economic forecasts have been included in *Business Week, Blue Chip, Bloomberg, Reuters* and *Consensus Forecasts*.

"I am excited that we were able to find someone of Arun's caliber. He exemplifies the kind of integrity and objectivity vital to this position. I am confident he will serve us well in the coming years," said Victor Moore, another member of the Forecast Council and the Director of the Office of Financial Management.

Raha will be available for introductions to the press at the Council's Economic Review meeting, Sept. 5th at 2:30 p.m. in JLOB Hearing Room E.

The Forecast Council was formed in 1984 to provide independent and objective forecasts of state revenues to the governor and Legislature. Two of the Council members are appointed by the Governor, and four members are appointed by the Legislature, one each from the two largest caucuses in the Senate and House of Representatives.

# # #

STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capital Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100

FOR IMMEDIATE RELEASE

For further information, contact
Steve Lerch
(360) 570-6105

OLYMPIA, September 18, 2008 ---.The September Washington economic forecast is generally similar to the forecast adopted in June except in the critical areas of housing and construction. Construction employment is expected to decline further than assumed in June and the recovery in housing permits is later and more drawn out. However, the primary source of the revenue forecast revision in September is much weaker spending, especially on automobiles, than assumed in June.

The September 2008 forecast for the 2007-09 biennium is $29,129.3 million, which is $273.1 million lower than expected in the June forecast. Of the $273.1 million reduction, $112.8 million is due to collection experience since the June forecast and $160.2 million is due to a weaker forecast for the remainder of the biennium. The forecast for the 2009-11 biennium is $31,498.3 million, which is $256.2 million lower than expected in the June forecast.

As required by law, optimistic and pessimistic alternative forecasts were developed for the 2007-09 biennium. The forecast based on more optimistic economic assumptions netted $533 million (1.8 percent) more revenue in the 2007-09 biennium than did the baseline while the pessimistic alternative was $483 million (1.7 percent) lower. An alternative forecast based on the average view of the Governor's Council of Economic Advisors yielded $159 million (0.5 percent) less revenue in the 2007-09 biennium than did the baseline forecast.

###

STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL
Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100

October 13, 2008

TO: Representative Jim McIntire, Chair
Senator Joseph Zarelli
Senator Craig Pridemore
Representative Ed Orcutt
Victor Moore, OFM, Director
Cindi Holmstrom, DOR, Director

FROM: Eric Swenson, Senior Economic Forecaster

SUBJECT: OCTOBER 10, 2008 REVENUE COLLECTION REPORT

General Fund-State (GFS) tax payments in the September 11, 2008 - October 10, 2008 collection period returned to the pattern of weakness seen in the July and August collection reports. Receipts for the month were $48.3 million (4.8 percent) lower than expected, due mainly to a $43.5 million shortfall in Revenue Act receipts. All other revenue categories except for cigarette taxes also came in below their forecasted values.

Revenue Act Collections

- Adjusted for special factors ($42.8 million in large audit payments in the September 11 - October 10 collection period of last year), Revenue Act receipts this period, which primarily reflect August 2008 business activity, were 5.6 percent below the year-ago level. Last month adjusted Revenue Act receipts were up 3.8 percent year-over-year, but this was the only collection period that has shown positive year-over-year growth since the May 11-June 10, 2008 period.
- Adjusted year-over-year Revenue Act payments have declined 0.9 percent on average over the last six months of collections. Adjusted year-over year growth in collections from first quarter activity was 2.3 percent, while the second quarter saw a decline of 0.8 percent year-over-year.
- Preliminary industry detail of tax payments for the September 11 - October 10 period from electronic filers shows widespread weakness:
  - Tax payments by firms in the retail trade sector were 7.3 percent below the year-ago level. Last month the sector saw a decline of 4.3 percent. Tax receipts from the retail trade sector have declined year-over-year in eight of the last nine months.
  - Eight of the twelve 3-digit NAICS retail sectors reported declines this month. The sectors with the largest declines were motor vehicle dealers (-18.4 percent), furniture stores (-13.8 percent), building materials/garden supply retailers (-12.5 percent), food and beverage stores (-6.9 percent) and electronics and appliances stores (-5.6 percent). The auto sector, the largest retail trade category, has now reported a year-over-year decline in tax payments for nine consecutive months.
  - Two retailing sectors reported strong gains: gas stations and convenience stores (17.8 percent) and drug and health stores (5.1 percent).

- Excluding several large audit payments in the information sector in the September 11 - October 10 collection period of last year, non-retailing sectors reported a 3.7 percent overall decrease in tax payments. Last month, collections from non-retailing sectors had increased 5.5 percent. The construction sector reported an 8.8 percent decrease in tax payments this month after a 2.9 percent increase in the prior month.

Other Collections

- Non-Revenue Act tax payments were $4.8 million below the estimate for the month. Only cigarette taxes (+$115,000) were above their estimate. The largest negative variances were from property taxes (-$2.4 million) and “other” (-$1.7 million). Real estate excise tax payments came in $750,000 (1.7 percent) below their estimate.
- The year-over-year decline in taxable real estate activity moderated somewhat in September, nevertheless the decline remains sizeable. September 2008 real estate tax receipts excluding penalties and interest were 30.2 percent below the year-ago level. August receipts had declined 50.3 percent year-over-year. Taxable real estate activity has declined twenty-one of the last twenty-three months on a year-over-year basis.
- The weakness in real estate activity is evident both in the number of transactions and in the value per transaction. A breakdown of the number of transactions and value per transaction is not available for September but for the month of August the number of transactions was 33.1 percent below the year-ago level and the average value per transaction declined 25.7 percent. Transactions have declined on a year-over-year basis thirty-two of the past thirty-three months. The value per transaction has declined on a year-over-year basis for eleven of the last twelve months.
- Department of Licensing GFS collections, which primarily reflect payment of various licenses and fees, met their forecasted value of $509,000 for September. There were no timber excise tax transfers to GFS scheduled for this month.

The attached Table 1 compares collections with the September 2008 forecast for the September 11, 2008 - October 10, 2008 collection period and cumulatively since the September 2008 forecast. Table 2 compares revised collection figures with the preliminary numbers reported in last month’s collection report.

TABLE 1
Revenue Collection Report
October 10, 2008 Collections Compared to the September 2008 Forecast
Thousands of Dollars

Period/Source	Estimate*	Actual	Difference Amount	Percent
September 11 - October 10, 2008				
Department of Revenue-Total	$996,030	$947,715	($48,315)	-4.9%
Revenue Act** (1)	939,813	896,300	(43,514)	-4.6%
Non-Revenue Act(2)	56,217	51,415	(4,801)	-8.5%
Liquor Sales/Liter	14,496	14,432	(64)	-0.4%
Cigarette	4,355	4,470	115	2.6%
Property (State School Levy)	(13,566)	(15,964)	(2,398)	-17.7%
Estate	12	6	(6)	-50.2%
Real Estate Excise	45,018	44,268	(750)	-1.7%
Timber (state share)	0	0	0	0.0%
Other	5,902	4,203	(1,699)	-28.8%
Department of Licensing (2)	509	509	0	0.0%
Lottery (5)	0	0	0	0.0%
Total General Fund-State***	$996,539	$948,224	($48,315)	-4.8%
Cumulative Variance Since the September Forecast (September 11, 2008 - October 10, 2008)				
Department of Revenue-Total	$996,030	947,715	(48,315)	-4.9%
Revenue Act** (3)	$939,813	896,300	(43,514)	-4.6%
Non-Revenue Act(4)	56,217	51,415	(4,801)	-8.5%
Liquor Sales/Liter	14,496	14,432	(64)	-0.4%
Cigarette	4,355	4,470	115	2.6%
Property (State School Levy)	(13,566)	(15,964)	(2,398)	17.7%
Estate	12	6	(6)	-50.2%
Real Estate Excise	45,018	44,268	(750)	-1.7%
Timber (state share)	0	0	0	0.0%
Other	5,902	4,203	(1,699)	-28.8%
Department of Licensing (4)	509	426	(83)	-16.4%
Lottery (5)	0	0	0	0.0%
Total General Fund-State***	$996,539	$948,140	($48,399)	-4.9%

1 Collections September 11 - October 10, 2008. Collections primarily reflect August 2008 activity of monthly taxpayers.
2 September 2008 collections.
3 Cumulative collections, estimates and variance since the September 2008 forecast; (September 11 - October 10, 2008) and revisions to history.
4 Cumulative collections, estimates and variance since the September forecast; (September 2008) and revisions to history.
5 Lottery transfers to the General Fund

* Based on the September 2008 economic and revenue forecast.
**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.
*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
October 10, 2008 Collection Report - Revised Data
Thousands of Dollars

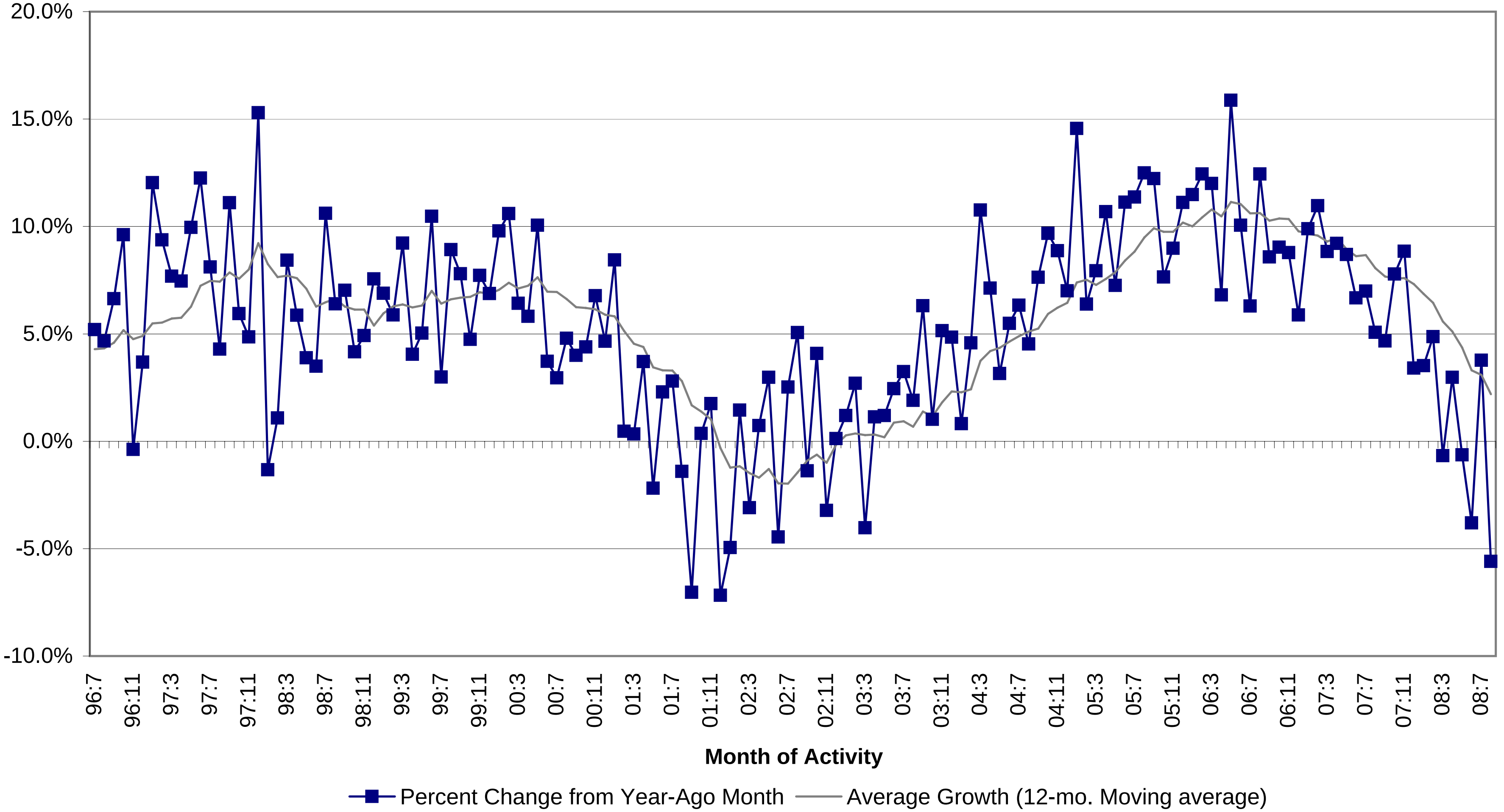
Period/Source	Collections Preliminary	Revised	Difference Amount	Difference Percent
August 11 - September 10, 2008				
Department of Revenue-Total	$985,246	$985,246	$0	0.0%
Revenue Act (1)	936,319	936,319	0	0.0%
Non-Revenue Act(2)	48,927	48,927	0	0.0%
Liquor Sales/Liter	14,259	14,259	0	0.0%
Cigarette	4,214	4,214	0	0.0%
Property (State School Levy)-net	(18,168)	(18,168)	0	0.0%
Estate	134	134	0	0.0%
Real Estate Excise	41,263	41,263	0	0.0%
Timber (state share)	1,453	1,453	0	0.0%
Other	5,772	5,772	0	0.0%
Department of Licensing (2)	965	881	(84)	-8.7%
Lottery (2)	0	0	0	0.0%
Total General Fund-State***	986,210	986,127	($84)	0.0%
Cumulative Receipts: June 11 - September 10, 2008 & Revisions to History				
Department of Revenue-Total	$3,265,664	$3,265,664	($0)	0.0%
Revenue Act (3)	$2,877,492	2,877,492	(0)	0.0%
Non-Revenue Act(4)	$388,173	388,173	(0)	0.0%
Liquor Sales/Liter	$41,307	41,307	(0)	0.0%
Cigarette	$13,168	13,168	0	0.0%
Property (State School Levy)-net after tran	$143,871	143,871	(0)	0.0%
Estate	$488	488	(0)	0.0%
Real Estate Excise	$136,951	136,951	0	0.0%
Timber (state share)	$1,453	1,453	0	0.0%
Other	$50,934	50,934	(0)	0.0%
Department of Licensing (4)	10,448	10,365	(84)	-0.8%
Lottery (4)	0	0	0	0.0%
Total General Fund-State***	$3,276,113	$3,276,029	($84)	0.0%

Preliminary. Reported in the September 10, 2008 collection report.
1 Collections August 11 - September 10, 2008. Collections primarily reflect July 2008 business activity taxpayers.
2 August 1-31, 2008 collections.
3 Cumulative receipts since the June. 2008 forecast: June 11 - September 10, 2008 & revisions to his
4 Cumulative receipts since the June 2008 forecast (June 2008- August 2008) & revisions to history.
* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Economic and Revenue Forecast Council

Revenue Act Collections

Year-over-Year Percent Change



*Growth adjusted for new legislation and unusually large assessment payments, refunds etc.

4. Disability Benefits

Disability Benefits

Description of Issue

The SCPP is being asked to improve the disability benefits provided in the Plans 2/3 of the Public Employees' Retirement System (PERS), the School Employees' Retirement System (SERS), and the Teachers' Retirement System (TRS). This issue raises two immediate policy questions:

- ❖ Should the state assume more responsibility to provide disability protection? If yes,
- ❖ Should the improvements be provided to members through pension enhancements, through insurance products, or both?

Policy Considerations

- ❖ In the design of the Plans 2/3, members have the primary responsibility to provide income replacement if disabled.
- ❖ The Plans 2/3 provide access to the value of the benefit earned to date when members become disabled.
- ❖ Not all employers offer access to disability insurance products.
- ❖ Disability benefits within the retirement system are generally less expensive for the member.
- ❖ Insurance benefits are generally more flexible in providing coverage levels to fit individual circumstances.
- ❖ There are many ways to design a disability benefit within the retirement plans or through insurance products.

Stakeholder Proposal

- ❖ **Provide an enhanced earned disability benefit to PERS, SERS, and TRS members with more than ten years of service, based on thirty-year early retirement reduction factors (ERRFs)**.
    - No change in current rules governing disability eligibility (duty and non-duty)
    - Eligible Plan 2/3 members with twenty or more years of service could retire using an ERFF that is a reduction of 3 percent for each year of age less than 62.

- Eligible Plan 2/3 members with ten or more years of service, but less than twenty could retire using a reduction equal to 3 percent for each year of age under age 65.

❖ **Supplemental Option**: **Opt-In Disability Retirement Insurance provided through either DRS or HCA.**
- The SCPP would ask the Washington State Institute for Public Policy (WSIPP) or other appropriate body, to study, develop proposals, and report back on insurance product options:
  - For members who do not qualify (due to less than ten years of service) for the above disability retirement provisions.
  - For additional replacement income for members that do qualify for the disability retirement proposal (above) but need additional income to compensate for the reduced retirement benefit.
  - Available to all Plan 2/3 members, regardless of who their employer is.

Cost of the Proposal

Pricing of the proposal will be available at the October 21, 2008, meeting.

What is the Next Step?

The Committee may consider a variety of actions in response to the issue. Options include:

❖ Take no further action.

❖ Direct staff to draft legislation based on the stakeholder proposal.

❖ Study additional options.

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Disability Benefits

In Brief

ISSUE

If disability benefits should be improved, should the improvements come through modifying the pension-provided benefits, through insurance products, or both? Stakeholders have made a recommendation to improve the pension-provided benefits in the Plans 2/3 of PERS, TRS, and SERS, and to study supplemental insurance options.

MEMBER IMPACT

This issue impacts all members of PERS, TRS, and SERS Plans 2/3 who become totally unable to continue working for an employer due to a disability. See Table 1 for data on current disability retirees in these systems or plans.

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Introduction

The SCPP is being asked to improve the disability benefits provided in the Plans 2/3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS). This issue raises two immediate policy questions:

- Should the state assume more responsibility to provide disability protection for these members? If yes,
- Should the improvements be provided to members through pension enhancements, through insurance products, or both?

The SCPP has undertaken comprehensive study of disability benefits in the 2005 and 2007 interim. This paper will not seek to reproduce all that same information, but instead will focus on the two primary questions above as it relates to the Plans 2/3 of PERS, TRS, and SERS, the plans addressed in the stakeholder proposal. However, if the committee chooses to move forward on this issue, additional policy considerations could be developed in a future issue paper.

Table 1
Plan 2/3 Disability Retirements
Source: 2007 Actuarial Valuation Report

	PERS		TRS		SERS	
	Plan 2	Plan 3	Plan 2	Plan 3	Plan 2	Plan 3
Count	1,549	48	87	44	156	57
Avg. Current Age	63.7	57.5	62.7	58	61.3	60.5
Avg. Yrs Retired	6.9	2.1	6.3	4.4	3.6	3.3
Avg. Benefit Received	$374	$229	$544	$210	$289	$191

Current Situation in the Plans 2/3

Currently, members have several potential sources that may provide some level of disability benefit. They are:

- Pension provided benefits.
- Insurance provided benefits.

- Other programs.

These three areas of potential disability coverage are explained in greater detail below.

Pension Benefits

A Plan 2/3 member is eligible for a disability benefit from their retirement plan when they are "totally incapacitated for continued employment by an employer." To *qualify* for the benefit, it doesn't matter how you became disabled, your age when you became disabled, or your years of service when you became disabled. An eighteen-year-old employee in their first month of employment can qualify for a disability retirement (although the value of the benefit would be quite small).

Once the Department of Retirement Systems (DRS) approves the disability, members are provided an *earned disability benefit.* This benefit type is calculated using the member's age, salary average, and years of service, and simply provides access to the benefit earned up to the point where the member left employment due to the disability. Since this typically occurs before a member was eligible to begin drawing their retirement benefit, the monthly benefit value is adjusted to reflect the longer time it will be paid out.

This monthly amount can seem small when spread over a long lifetime. It is likely that some disabled members, when shown the small monthly value of their benefit, choose instead to withdraw their contributions and interest.

Table 2 on the next page provides an example of how this type of benefit is calculated.

A Plan 2 member of PERS, TRS, or SERS who becomes disabled and retires at age 50 would receive a benefit reduced to 24 percent of its base amount.

The earned disability benefit for a Plan 2/3 member retiring at age 50 is actuarially reduced to 24 percent of its base amount.

Table 2
PERS, TRS, or SERS Plan 2
Earned Disability Retirement Benefit
Source: OSA

Age	50
Average Final Compensation (AFC)	$4,000
Years of Service	20
Base Percent	40%
Base Benefit (monthly)	$1,600
Actuarial Adjustment Factor (15 yrs early)	24%
Adjusted Benefit (monthly)	$384

Note: A Plan 3 member of the same age and AFC would have a defined benefit based on a 1 percent formula; the base percent, base benefit, and adjusted benefit would be half the amounts in the above table. The Plan 3 member would also have access to the accumulations in their defined contribution account.

Insurance Benefits

In addition to the earned disability benefit within the Plans 2/3, some members may also purchase disability insurance through their employer, though not all employers provide access to insurance for their employees. The state offers benefits to all employees of state agencies and the Legislature through the Public Employees' Benefits Board (PEBB). Local government employers and school districts choose their own benefit packages for employees, of which the benefits offered by PEBB are one option.

Members may also purchase insurance benefits through their employer, though not all employers provide access and not all members with access purchase the coverage.

One example of a disability insurance program is the insurance program offered to all eligible state employees. For state employees, a small insurance benefit is provided, paid for by the state, and the member can purchase additional coverage. However, not all members choose this additional coverage. The Health Care Authority (HCA) statistics show that only 40 percent of eligible state employees actually purchase this benefit.

There is a wide variety of disability insurance benefits programs that public employers can offer. Each program can vary the qualification requirements, the amounts paid, and the time-period over which they are paid. Typically, insurance benefits pay a percentage of the member's salary at the time of injury or illness. The percentage of salary replaced is often a choice of the holder, up to a plan maximum percentage. The policy holder can sometimes pick the period of payments, and many offer lifetime payout options. Insurance companies also offer products to address short-term disabilities and, in many cases, the short-term and long-term benefits are in the same policy. This issue paper will focus on the long-term products, as they are most comparable to pension-provided disability retirement benefits.

Other Disability Benefit Programs

Plan 2/3 members may also receive disability benefits from other state or federal programs. Members disabled because of an on-the-job injury may receive benefits from the Workers' Compensation program through the Department of Labor and Industries (L&I) or a similar "self-insured" workers' compensation program operated by their employer. Also, disability benefits are available for any member covered under the Federal Social Security program. In Washington State, most Plan 2/3 employees of PERS, TRS, or SERS are covered by Social Security.

Background

This section of the issue paper provides some history of the disability provisions within the Plans 2/3, as well as some background about other methods of providing disability benefits within pension systems. Disability benefits in other plans differ from the earned disability benefit provided in the Plans 2/3. Examples of the disability benefits offered in the other retirement systems in Washington will illustrate these differences.

History

With the creation of the Plans 2 in 1977, there was a definitive shift in benefit policy. The Plans 1 in each system tended to provide additional benefits to members other than pure retirement benefits. These benefits included such items as free military service credit, medical benefits, additional survivor payments, and enhanced benefits for disabled members. In the design of the Plans 2, many of those "non-retirement" benefits were eliminated, which reduced the long-term cost of the plans. That policy design regarding additional benefits carried into the design of the Pans 3 in the middle and late 1990s.

Legislative improvements in disability benefits have occurred over the past several years. In 2004, the Select Committee on Pension Policy (SCPP) sponsored legislation that created PSERS. The disability provision in the PSERS plan allows members with ten years of service credit to retire with a benefit actuarially reduced from age sixty, five years earlier than in PERS, TRS, or SERS.

The most recent improvements in disability benefits have focused on LEOFF 2 and have moved the plan away from the earned benefit design for work related disabilities.

The other legislative improvements have focused on LEOFF Plan 2 disability benefits, and have moved the plan away from the earned disability benefit design used in the Plans 2/3. Changes passed in the 2004, 2005, and 2006 Legislative sessions provided additional disability benefits to members who suffer a work or duty-related injury or illness.

In the 2005 and 2007 interim, the SCPP studied comprehensive disability benefits policies. However, no proposals were submitted to the legislature based upon either study.

Other Methods of Providing Disability Benefits Within Pension Systems

There are two other primary methods of providing disability benefits within pensions, other than the earned disability benefit method provided by the Plans 2/3. They are:

- Enhanced earned disability benefit.
- Guaranteed disability benefit.

These two methods are explained in greater detail below.

The Enhanced Earned Disability Benefit

The enhanced earned disability benefit is not fully reduced for early retirement.

This method provides members with a benefit calculated like the earned disability benefit in the Plans 2/3, but the benefit is either not fully reduced or not reduced at all for early retirement. Because the benefit is not fully reduced, the member will receive additional value over their lifetime. PERS 1 non-duty disability and TRS 1 disability are examples of enhanced earned disability benefits. Table 3 below shows how the benefits are calculated in these plans.

Table 3 TRS and PERS Plan 1 Enhanced Earned Disability Retirement Benefit Source: OSA		
Plan	**TRS 1**	**PERS 1**
Age	50	50
Average Final Compensation (AFC)	$4,000	$4,000
Years of Service	20	20
Base Percent	40%	40%
Base Benefit (monthly)	$1,600	$1,600
Adjustment Factor (per year early)	0%	2%
Adjusted Benefit (monthly)	$1,600	$1,440

This table shows the increased monthly benefit provided to disabled members in an enhanced earned benefit plan, as compared to the earned disability benefits provided to members of the Plans 2/3 (shown in Table 2), given the same age, salary average, and years of service. Again, the enhanced earned disability benefits provide additional lifetime value to the member.

The Guaranteed Disability Benefit

This type of benefit provides disability retirees with a percentage of their salary at the time they were disabled, regardless of their age and years of service. This type of benefit also typically provides more lifetime benefit than an earned disability benefit.

Table 4 on the following page provides an example of how LEOFF Plan 1 calculates its guaranteed disability benefit.

Table 4
LEOFF Plan 1
Guaranteed Disability Retirement Benefit
Source: OSA

Age	40
Final Average Salary (FAS)	$4,000
Years of Service	20
Base Percent	Always 50%
Benefit (monthly)	$2,000

A guaranteed disability benefit provides a percentage of salary, regardless of age or years of service.

As this example shows, the benefit provided is not based upon age, nor is it based upon years of service. In this guaranteed disability plan, the disabled member will always receive half of his or her salary average, even if the disability occurred in the first month of employment.

Funding the Three Methods of Providing Disability Benefits in Pension Systems

The primary difference between these methods is how they are funded.

As explained earlier in the paper, earned disability benefits, such as in the Plans 2/3, only provide access to the benefit value already earned when the member became disabled. The value of that benefit is spread over a lifetime, resulting in the reduced monthly payment. The benefits received are funded by the individual member and employer contributions, plus interest.

Enhanced disability benefits provide greater lifetime value than the member had earned when they became disabled.

The enhanced earned disability benefit and the guaranteed disability benefit provide **greater** lifetime value to a member than what they had earned when they became disabled. This greater value is funded by additional member and employer contributions paid by *all* plan members. Essentially, the increased value of an enhanced disability benefit is subsidized by all the rest of the plan members and employers. Providing greater benefits for the few based on contributions by all can create additional policy considerations. This is what the stakeholders are proposing, and the considerations of this will be discussed later in the policy section of the issue paper.

Recap

To summarize, the three methods of providing disability benefits in the pensions are:

Earned disability benefit: Reduced benefit to spread value over a lifetime (Plans 2/3).

Enhanced earned disability benefit: Additional value added by eliminating or reducing early retirement adjustments. Additional value funded through additional contributions by all members.

Guaranteed disability benefit: Additional value added by paying a percentage of salary regardless of age or years of service when disabled. Additional value funded through additional contributions by all members.

Stakeholder Proposal

The Public Employees for Pension Reform (PEPR) coalition provided a proposal to the SCPP that increases the Plans 2/3 disability benefits.

The PEPR Coalition provided the committee with a proposal to increase the disability benefits in the Plans 2/3 and to examine options to provide standard disability insurance access to all Plan 2/3 members.

This proposal calls for an enhanced disability benefit within the Plans 2/3. This benefit would be funded by additional contributions by all members and employers. The proposal does not differentiate between duty and non-duty causes of disability (both receive the same level of benefit) nor does it call for the benefits provided to be off-set if receiving benefits from other sources, such as L&I or Social Security. The type of benefit provided is an enhanced earned disability benefit, and the standards to qualify for the benefit would remain unchanged.

The proposal also calls for expanded access to disability insurance products. This would ensure all Plan 2/3 members would have the option to purchase disability insurance, regardless of whether their employer offers the benefit.

The details of their proposal are as follows:

❖ **Provide an enhanced earned disability benefit to PERS, SERS, and TRS Plans 2/3 members with more than ten years of service, based on 30-year early retirement reduction factors (ERRFs).**

- No change in current rules governing disability eligibility (duty and non-duty).
- Eligible Plan 2/3 members with 20 or more years of service could retire using an ERFF that is a reduction of 3 percent for each year of age less than 62.
- Eligible Plan 2/3 members with ten or more years of service, but less than 20 could retire using a reduction equal to 3 percent for each year of age under age 65.

❖ **Supplemental Option**: **Opt-In Disability Retirement Insurance provided through either DRS or HCA.** The SCPP would ask the Washington State Institute for Public Policy (WSIPP) or other appropriate body to study, develop proposals, and report back on insurance product options:
- For members who do not qualify (due to less than ten years of service) for the above disability retirement provisions.
- For additional replacement income for members that do qualify for the disability retirement proposal (above), but need additional income to compensate for the reduced retirement benefit.
- Available to all Plan 2/3 members, regardless of whether their employer offers the benefit.

Policy Analysis

The two primary policy questions regarding disability benefits in the Plans 2/3 are:

1. Should the state assume more responsibility to provide disability protection? If yes,
2. Should the improvements be provided to members through pension enhancements, through insurance products, or both?

The design of the Plans 2/3 placed the responsibility to provide replacement income when disabled primarily on the member.

Should the State Assume More Responsibility?

What role should government play in the lives of its employees? As mentioned earlier, the Plans 2/3 design generally only provides traditional retirement benefits. Consequently, the disability benefit offered within the plans is only the value of the accrued service to the time of disability. This value can seem small on a monthly basis when spread over a long lifetime. However, it was never the intent in the Plan 2/3 design to have the pension system be the primary provider of income should the member become disabled. The design only ensures the member has access to his or her accrued retirement value. In contrast, benefits provided by the other plans are more generous, and provide a more substantial replacement of income when disabled.

If the plan design does not provide the primary source of replacement income, then the burden to provide that income falls to the member. Not withstanding other forms of mandatory disability coverage, such as Social Security benefits or workers' compensation programs, this can be accomplished through employer-provided or individually obtained insurance policies. To decide to assume more responsibility for the state, therefore, would imply a judgment by policy-makers that individual responsibility in this area is not resulting in adequate coverage.

Finally, most employees will one day retire (from some employment, if not necessarily public employment), and most will also have need of medical attention at some point, but the majority of workers will not suffer a career ending disability. Are mandates for all employees appropriate when not all will ever use the benefit? Or, conversely, is the impact of the event when it does happen significant enough from a societal standpoint to ensure all are protected?

Is Individual Responsibility Working?

Many members aren't choosing to purchase insurance coverage. As previously provided, only 40 percent of state employees purchase additional disability insurance. One reason could be lack of information. Perhaps members aren't aware of the benefit, or aren't aware of the value of ensuring adequate replacement income. Another factor could be cost. Paying premiums for a statistically unlikely occurrence may not be a high priority, particularly for new, lower-paid employees entering the workforce.

Other members can't purchase insurance coverage. Not all employers offer this benefit to their employees. Members who don't have access through their employer would have to purchase private insurance. While this is possible for some, this usually requires meeting insurability standards based upon health, age, occupation, and personal practices. These standards can be difficult to meet. Employer-provided insurance usually doesn't require meeting insurability standards if members join within a short time after becoming employed.

Is Individual Responsibility the Standard for Other Benefits?

Should the state assume what is best for the employee and mandate an "acceptable" amount of disability coverage? There are examples of this approach with regard to other government employee benefits.

For some employee benefits, such as retirement, the state assumes more responsibility and requires employee participation.

One example of mandating coverage is the mandatory membership for the retirement plans. Members generally do not have the choice to belong to one of the state-administered retirement plans. If they meet certain eligibility standards, they are *required* to belong and to contribute. It is a condition of their employment. The state also requires medical coverage for its eligible state employees. An eligible employee can only waive participation in the medical programs offered if they are covered by some other medical insurance program, such as through a spouse or other employment.

Conversely, the state does not mandate additional life or disability insurance coverage for its employees. The state pays for minimal life and disability coverage through insurance products, but does not require additional coverage beyond the minimum. While the state offers options for both, participation is voluntary and the employee pays the full cost of additional coverage. This is also true with additional savings programs, such as the deferred compensation program administered by DRS, and the health savings account administered by HCA. Both of these programs are optional to state employees, not required.

Are There Other Options Besides Expanding the Role of the State?

If members aren't purchasing or can't provide their own adequate disability coverage, are there other options besides expanding the role of the state through pension enhancements or insurance products? One other possible approach would be through enhanced education. Perhaps enhanced member education could increase participation in the plans offered if members are choosing not to purchase adequate coverage. If members cannot participate in plans because employers do not offer disability protection as a benefit, perhaps employer education or encouragement to offer the benefits could expand access to members.

Should Disability Improvements be Provided to Members Through the Pension System?

Disability benefits provided by the pension systems are typically lower-cost to members.

If the desire is to assume more responsibility to protect members in the event of a disability, then the next question is how to provide that protection. This can be done through changes to the benefits provided by the retirement systems or through insurance policies. Each of these methods has advantages and disadvantages.

In general, there are several positive aspects to providing enhanced benefits through the retirement systems. First, this method can provide cost advantages. The pension systems provide benefits to all members, regardless of the likelihood of becoming disabled. This means members with low risk of becoming disabled and members with a higher risk of becoming disabled are all in the same "risk pool." Insurance policies are typically purchased by members who may feel they are more likely to need the policy, due to riskier occupation or hobbies, poor health, etc. Therefore, insurance risk pools generally have a higher frequency of claims, which raises costs to the member. Also, unlike an insurance provider, there is no profit margin with pension-provided benefits.

Second, this method would also ensure a standard eligibility criteria and level of coverage for all plan members. Whether members weren't choosing coverage previously, or couldn't, this approach would ensure an enhanced level of protection for all.

Finally, by providing the benefits within the retirement systems, members would have more assurance that their disability coverage would be available throughout their career. State pension law would have to be amended to change the benefits once they are granted.

Disadvantages to Pension-Provided Enhancements

Providing enhanced benefits through the pensions does have some potential disadvantages. In the current situation, employers have the choice to subsidize disability insurance protection for employees. However, the funding policy in the Plans 2/3 would require employers to contribute to this benefit. This is a potential cost increase for employers that currently don't subsidize employee disability coverage.

Also, while providing enhanced benefits may increase the overall replacement income of a disabled member, this coverage may still be insufficient for some members. If they do not have access to additional insurance products, or choose not to purchase additional insurance coverage, there still could be gaps in their level of protection.

Disability benefits provided by the pension systems may still leave gaps in some members' coverage.

Finally, by enhancing the benefits through the pension system, benefits for some are subsidized through contributions by all. As explained earlier in this paper, an enhanced disability beneficiary receives more benefit than they individually have earned or paid for. This invites a higher level of public interest in ensuring only truly eligible members are approved for the benefits, and that additional care is made to validate that they continue to be disabled as time progresses. This level of public protection from fraud can be administratively expensive to provide, and opens the system to public criticism if errors are made. This also requires extensive administrative support to ensure members who are denied benefits have due-process.

Should Enhanced Benefits be Provided Through Insurance Products?

Providing enhanced benefits through insurance products allows great flexibility in developing proposals. As stated earlier in the paper, not all Plan 2/3 members have access to employer provided disability insurance. If policy-makers wish to focus improvements on these members, one approach would be to explore having a state agency offer insurance that would be available to all plan members regardless of who employs them. This would ensure access to coverage without mandating participation. This approach is part of the stakeholder proposal.

With an insurance program, employers also have the flexibility to choose whether or not to subsidize some of the employee cost, and employees may be able to choose a variety of coverage options to match their need. This maintains the flexibility employers and members currently have.

Finally, policy-makers could have the flexibility to design coverage that is mandatory for all plan members, like the pension-provided benefits, or offer other designs that are less prescriptive, such as an "opt-out" provision. This option would initially enroll members into a designated level of insurance coverage, but members would have the option to end or modify their coverage if they desire. Opt-out provisions typically result in higher rates of participation while still providing member choice.

Disadvantages to Insurance Provided Enhancements

There are other considerations to providing enhanced coverage through insurance products. As discussed earlier, disability insurance benefits are generally purchased by individuals more likely to become disabled, which increases individual cost. Insurance companies are in business to make a profit, so cost to the members for similar benefits is typically higher.

Providing enhanced benefits through insurance products is typically more expensive for the member for a given coverage level.

The use of an insurance provider to administer benefits can be a challenging administrative requirement. While the administrator of the contract would not have to develop the infrastructure to satisfy the public interest in ensuring against fraud or providing due process, it does require extensive selection processes and contract oversight. This is particularly true for benefits as sensitive as disability benefits.

Finally, disability coverage through an insurance provider may not be as stable as through the pension system. Each new contract can result in differences in cost and coverage levels, which may present challenges to protecting the long-term affordability of the benefits. The desire of policy-makers to provide the benefit to members could also change over time. It may be easier to discontinue insurance benefits than to remove a pension benefit in statute.

Summary of Pros and Cons

Table 5 below provides a summary of the pros and cons from various views for providing enhanced benefits through the retirement system or through expanded access to insurance products.

Table 5
Views on Disability Benefit Policies

View	Retirement System Provided	Insurance Provided
Fiscal (State)	Costly to the plans, so state carries responsibility	Cost shifts to individuals and employer
Employee	Potential gaps in coverage; less member cost; availability of coverage more secure	More flexibility to vary the timing and amount of coverage; member costs typically higher; less assurance of continued coverage
Employer	Required payments due to plan funding policy	Employer choice to subsidize member cost
Retirement System	Expanded infrastructure to address public expectations for accountability	Expanded contract process and oversight responsibilities
Political	Open to requests from those desiring more coverage.	Broader access to insurance coverage may lead to less criticism of existing pension policy
Public	Greater interest in ensuring against fraud	Greater interest in contract oversight accountability

Other Questions if Expanding Pension-Provided Benefits

There are a number of additional questions that arise, each with policy implications, if the committee decides to provide enhanced disability pension benefits to members.

- ❖ Should benefits be enhanced for duty-related injuries or illnesses only, for non-duty related, or both?
- ❖ Should the additional benefits be off-set by other sources, such as Workers' Compensation or Social Security?
- ❖ Should benefits be enhanced earned or guaranteed benefits?
- ❖ Should the standard for disability be changed or remain as is, and should it differ between PERS,TRS, and SERS?

These questions were raised in 2005 and 2007, and if the decision is to expand the disability retirement provisions, these policy questions can be explored again in a future issue paper.

Disability Benefit Policies in Comparative State Systems

The one provision that is commonplace in the comparative systems is the absence of an early retirement reduction in calculating a duty or non-duty disability benefit.

Among the comparative systems there is similar variability in disability retirement benefit policies as in Washington's systems. Some systems use the enhanced earned benefit policy, while others use the guaranteed benefit policy. The one provision that tends to be commonplace is the absence of any reduction for early retirement in calculating either a duty or non-duty disability benefit. Each of the comparative states provides enhanced benefits within their retirement plan.

Most of the comparative systems use the enhanced earned benefit approach to disability benefits. Iowa and Minnesota provide an enhanced earned benefit without a reduction for early retirement. Florida, Seattle, and Ohio PERS provide the same, but also set minimum benefit percentages (Ohio PERS also has a maximum percentage). Idaho, Oregon, Colorado, and Wisconsin provide disability benefits based on combining what the member has earned plus what the member would have earned up to an assumed "normal" retirement age.

A few other systems use the guaranteed approach to disability benefits. CalSTRS, Ohio TRS, and Missouri all guarantee specific percentages of a member's salary at the time of disability.

Summary of Analysis

The original design in the Plans 2/3 placed more responsibility on the member to ensure their own adequate disability coverage. For some benefits, like retirement and medical, the state assumes more responsibility to ensure the member has adequate coverage. If the choice is to assume more responsibility for the member, then there are pros and cons to enhancing pension-provided benefits or expanding the use of insurance policies.

Pension benefits generally cost less to the member for a given level of coverage than insurance, but may still leave gaps in coverage. Insurance benefits offer more flexibility to fit your coverage to your personal situation, but there is less assurance of stable coverage over the long-term. Expanding the pension-provided benefits raises additional policy questions that can be fully developed if the committee wishes to proceed in that direction.

The Plans 2/3 are the only Washington-administered plans that do not provide enhanced value to the disability benefits provided. An analysis of comparative states shows each system provides some form of enhanced disability benefit within their retirement plan, and none of the systems require any reduction for early retirement.

Possible Options

Option 1: Maintain Current Policy

The first possible option for the committee is to maintain the current policy in the Plans 2/3 and assume no additional responsibility for the disability benefits of the members. The committee could encourage system employers to:

- Provide disability coverage, if they don't already.
- Increase the member education of the benefits of disability protection.

This would add no additional costs to the system and maintain the original plan design.

Option 2: Expand Insurance Coverage

The second possible option is to look into expanding insurance coverage to all members of the Plans 2/3, since some employers do not provide disability insurance access as a benefit to their employees. These insurance benefits would be available to members regardless of their employer.

This would require study by an organization knowledgeable in the insurance industry to ensure adequate options are explored. Some of these options could include mandatory membership, or opt-out provisions for employees. Additionally, this could potentially expand the administrative cost and role of a state agency. The Department of Retirement Systems currently doesn't administer insurance benefits, and the Health Care Authority doesn't provide benefits to all public employees in the state.

Option 3: Enhance the Benefits Provided by the Plans 2/3

A third option is to enhance the disability benefits provided within the Plans 2/3. This would add cost to the system, involve several additional policy decisions, and have administrative impacts.

Option 4: Combination of Previous Options

A fourth option could be to combine elements of the insurance and pension-provided enhancement approaches. The stakeholder proposal does this. Their proposal is a combination of Option 2 and Option 3. The proposal calls for a study of disability insurance options that could be provided to all Plan 2/3 members regardless of their employer, and for the Pans 2/3 to provide an enhanced earned disability benefit from the pension system.

Stakeholder Input

Correspondence from:

Public Employees for Pension Reform (PEPR)

John McGuire

Next Steps

The committee may consider a variety of actions in response to the issue. Options include:

- Take no further action.
- Direct staff to draft legislation based on the stakeholder proposals.
- Study additional options.

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Hyde, Elizabeth

From: Winters, Krista
Sent: Friday, May 09, 2008 7:36 AM
To: Hyde, Elizabeth
Subject: FW: SCPP - Retirement Disability

Elizabeth,

Senator Schoesler asked me to forward this email to the staff. Can you direct it to the right person for me?

Krista

-----Original Message-----
From: yelmite@msn.com [mailto:yelmite@msn.com]
Sent: Thursday, May 08, 2008 11:16 AM
To: Schoesler, Sen. Mark
Subject: NC: SCPP - Retirement Disability

SENATE INTERNET E-MAIL DELIVERY SERVICE

TO: Senator Mark Schoesler

FROM: Mr. John McGuire(Non-Constituent)

STREET ADDRESS:
307 NW LONGMIRE ST
YELM, WA 98597

E-MAIL: yelmite@msn.com

PHONE: (360) 458 - 5374

SUBJECT: SCPP - Retirement Disability

MESSAGE:

I have been writing almost every legislator, both on the House and Senate sides to get some kind of interest in sponsoring a bill for the last and next Legislative Session. I am currently a PERS Plan 2 member with 28+ years of service who has MS, since 1999 as far as the doctors can tell. However, I just turn 51 years old this year and with the current retirement plans if I was to go out on disability I would be losing about 7-8% of my retirement benefits for each year that I am under the age of 65. If I can hang in there and work till I am 55 years of age I will have 32 years of service and still will be penalized with 2% for each year under age 65 years of age reducing my Retirement Benefits.

I just received an estimate if I was to go out on a Disability Separation June 2008 with an average five years monthly salary of $4,800 I would receive a Retirement Benefit of $762 per month, which would barely pay for health insurance through the state PEBB.

I had a Fiscal Tech employee 7 OR 8 years ago, who had about 18 years with the state and he then had a stroke which cause him to go out on a disability. I doubt if he had enough retirement pension to continue his medical coverage. Fiscal Techs did not make that much money in the first place. He had a 10 year old son who was counting on him to continue to bring home the money, because his wife did not work.

What I am asking for, is if you and your fellow members could sponsor a retirement bill changing the rules in regards to Disability Retirement based on medical reasons, such as what is describe by the new definition passed in the 2007 Legislative Session. The disability would have to meet the SSA requirements on disability.

The main reason is to stop the reduction of those State Employees who planned on working for the require amount of time needed to retire, but were dealt a bad hand because of a disability that they did not plan on.

This effects not only State Workers in my District but State Employees in every District throughout the State of Washington. This request is not only for employees in the PERS 2 system, but in the TRS, SERS and so on.

Thank you for hearing me out and I look forward to hear back from you and to see action taken place in the 2009 Legislative Session.

NOTE: We could not determine that this constituent is in your district

RESPONSE REQUESTED: No response required by the sender.

Public Employees for Pension Reform

A coalition of Washington State Public Employee Unions and Retiree Associations serving active and retired state and public employees

Disability Benefits

September 4, 2008

Proposal: **Provide an Earned Disability Benefit to those w/ more than 10 yrs of service, based on 30 yr. ERRF's[1].**

- No change in current rules governing disability eligibility (duty and non-duty)
- Permanently Disabled Individuals with 20 or more years of service could retire using an ERFF that is a reduction of 3% for each year of age less than 62.
- Permanently Disabled Individuals with 10 or more years of service, but less than 20 could retire using a reduction equal to 3% for each year of age under age 65. This would be consistent with the Alternate Early Retirement reduction factors provided in C 247 L 2000. [RCW 41.32.765 (3)(a); 41.35.420 (3)(a); 41.40.630 (3)(a)]

Supplemental Option: **Opt-In Disability Retirement Insurance provided through either DRS or HCA.**

- Insure against the loss of pension benefits for both Duty and non-Duty related catastrophic events to be offered through the Department of Retirement Systems for participation by all system employers.
- The Select Committee on Pension Policy would ask the Washington State Institute for Public Policy (WSIPP) or other appropriate body (Insurance Commissioners office?) to study and develop proposals:
    - For individuals who do not qualify (due to less than 10 years of service) for the above Disability Retirement provisions.
    - For replacement income for individuals that do qualify for the Disability Retirement proposal (above) but need additional income to compensate for the reduced retirement benefit.
- The WSIPP or other appropriate body would report back any results to the SCPP for formulation of any legislative proposals.

---

[1] ERRF is an Early Retirement Reduction Factor

The Select Committee on Pension Policy

Disability Benefits

Dave Nelsen, Senior Policy Analyst
October 21, 2008

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

What Is The Issue?

- SCPP was asked to increase disability benefits for PERS, TRS, & SERS Plan 2/3 members
- Stakeholders have a proposal
  - Pension benefits
  - Insurance products
- Does the SCPP want to develop a proposal?

Today's Briefing

- Work session
- Background and policy of Plans 2/3 disability benefits
  - Broad disability study by committee in 2005 and 2007
- Preliminary pricing of stakeholder proposal
- Materials include
  - Executive summary
  - Issue paper

Key Policy Questions

- Should the Plan 2/3 disability benefits be increased?
- If so, should they be increased through
  - Pensions?
  - Insurance?
  - Both?

What Are The Plan 2/3 Benefits?

- Access to pension benefit already earned
  - Same lifetime value of retirement benefit, spread over a longer period
    - Monthly value can seem small
- Other benefits in certain circumstances
- Remaining coverage through insurance

Benefits Are A Product Of The Design

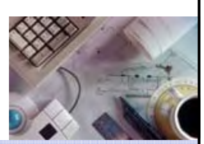
- Needs
  - Income replacement at retirement
- Values
  - Other benefits are an individual responsibility
  - Choice
- Affordability
  - Long-term

Is It Time To Remodel The Plans 2/3?

- Should the Plan 2/3 disability benefits be increased?
- Needs?
  - Workforce is aging
- Values?
  - Some benefits are mandatory
- Affordability?

How Do You Remodel The Plans 2/3?

- Mandate additional coverage?
  - Pensions
  - Insurance
- Maintain individual responsibility and choice?
  - Insurance



A Well Known Approach: Pensions

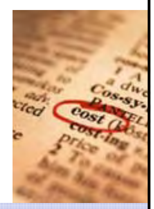
- Member receives more benefit value than what they have earned
- Benefits and limitations are familiar
  - Stable, known benefit applied equally
  - Shared cost
  - Little flexibility in coverage
  - Public expectations
- Decision points are familiar

What Others Are Doing

- All Plan 1 systems in Washington provide enhanced disability pension benefits.
- All twelve of the systems from other states provide enhanced disability pension benefits

A Different Approach: Insurance

- Can still set an amount of coverage required
- Flexibility
  - Benefits provided
  - Cost sharing
- Less member assurance
  - Cost
  - Coverage



Additional Benefits Within The Plan Design

- Insurance products maintain individual responsibility and choice
- Access
  - Universal provider
- Enrollment
  - Opt-out
- Flexibility
- Member assurance

Different Ways To Remodel Plans 2/3

- Require additional coverage
  - Pensions
  - Insurance
- Additional benefits within original design
  - Insurance
- A combination approach

Stakeholder Proposal

- A combination option: Pension enhancement and insurance study
- Pension enhancement
  - Members with 10 years but less than 20 yrs - 3% reduction per year from age 65
  - Members with 20 years or more - 3% reduction per year from age 62
- Insurance study
  - Appropriate body study and make recommendations to guarantee member access to disability insurance coverage

Policy Implications Of Stakeholder Proposal

- Mandates additional coverage within the pension system
  - No distinction between duty and non-duty
  - Does provide enhanced benefits to members with longer service
  - Does not change current standard for qualification
  - Does not call for off-sets with other benefit sources
- Insurance benefits
  - All should have access to optional insurance coverage

Preliminary Fiscal Impact

- Total Employer Rate Increase benefits
  - 0.12% PERS
  - 0.10 SERS
  - 0.04% TRS
- Total GFS Cost benefits ($ millions)
  - $6.5 2009-2011
  - $90.5 25-Year
- Total Employer Cost benefits ($ millions)
  - $26.9 2009-2011
  - $415.2 25-Year
- These costs are preliminary and will be updated for any legislation based on this proposal

Many Ways to Address Plan 2/3 Disability

- Maintain the plan design?
- Increase benefits
  - Mandatory coverage
  - Maintain plan design values
  - Combination of both

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Next Steps

- Options include
  - Take no further action
  - Draft legislation based on stakeholder proposal
  - Study additional options

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5. SERS Past Part-Time Service Credit

SERS Past Part-Time Service Credit

Description of Issue

In the past, some SERS members made contributions to the retirement system without receiving service credit. This occurred because contributions were required even if a member did not work enough hours to qualify for service credit. Current rules do not allow for such "non-credited" service.

SERS members have suggested that the current, more generous, service credit rules be retroactively applied to their non-credited past service.

Nearly 4,000 SERS members and over 15,000 members of other systems may have non-credited past service.

Policy Highlights

- Impacts more than SERS.
- Legislature has dealt with this before (1986 and 1991). Didn't change past non-credited service–except for some teachers.
- Differs from other retroactive benefit increases since contributions were already collected.
- A 2008 non-SCPP bill would have given SERS members credit for non-credited past service (HB 3182, no hearing).
- Idaho refunds contributions for non-credited service at retirement.

Policy Options

- **Refund Contributions for Non-credited Service.**
    - Doesn't require a retroactive policy change.
    - Consistent with past legislative actions in not retroactively changing service credit policy.
    - Less generous than granting service credit.
- **Apply Current Service Credit Rules to Past Service.**
    - Requires a retroactive policy change.
    - Inconsistent with past legislative actions.

- Ensures that members receive some service credit for any hours worked.
- May be targeted to educational employees only.

❖ **Apply Current Half-Time Service Credit Rules to Past Service.**

- Requires a limited retroactive policy change.
- Consistent with an earlier retroactive service credit change provided for teachers.
- Only impacts educational employees working at least half-time.

❖ **Take No Action.**

- Generally consistent with past legislative actions.
- No cost impact.

What is the Next Step?

The committee will decide if they want to develop a legislative proposal based on one or more of the policy options presented. If so, staff will prepare draft legislation for a public hearing.

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SERS Past Part-Time Service Credit

In Brief

ISSUE

In the past, some SERS members have made contributions for work covered by the retirement system without receiving service credit. This occurred because contributions were required even if a member did not work enough hours to qualify for service credit. Current rules do not allow for such "non-credited" service.

Stakeholders are suggesting that the current, more generous, service credit rules be retroactively applied to their past service.

MEMBER IMPACT

As of 2008, nearly 4,000 SERS members and over 15,000 members of other systems may have non-credited service.

Darren Painter
Policy Analyst
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Current Situation

Some members of the School Employees' Retirement System (SERS) who worked prior to January 1, 1987, have made contributions to the retirement system for part-time or partial-month work for which they did not receive any service credit. This occurred because, under the rules in place at that time, contributions were required even if a member did not work enough hours to qualify for service credit. This situation no longer occurs under current rules. *Service for which contributions were made but no service credit granted will be referred to as "non-credited" service throughout this paper.*

How Service Credit Works

Classified (i.e. non-teachers) school employees in retirement-system eligible positions make contributions to the retirement system on their salaries and receive service credit under applicable rules. Service credit is granted on either a monthly or yearly basis. Employees working in positions that are ineligible for retirement system participation (generally temporary or requiring few hours) do not pay any contributions or earn any service credit.

Currently, service credit is earned and contributions are made for any hours worked in an eligible position. Members who do not work enough hours to receive full service credit for the year or month will receive partial service credit for the year or month. Thus, under current rules, some service credit is always earned for periods in which contributions are made. See **Appendix A** for details of current service credit provisions.

How Did This Issue Come About?

The current rules allowing for partial service credit were put into place on September 1, 1991. Prior to that, service credit rules used to grant service credit on an all-or-nothing basis. Members who worked the minimum number of hours

(90 hours in a month or 810 hours for a full school year) received full service credit for the period. Members who worked less than the minimum hours in a month did not receive any service credit for the month at all.

Some members might have made contributions for months in which service credit was not earned, depending on the contribution policy in effect. Prior to January 1, 1987, contributions were paid on all salaries in eligible positions whether or not service credit was earned. Beginning January 1, 1987, contributions were not required for any month in which service credit was not granted.

History

Service credit rules and contribution policies related to part-time and partial-month service credit have changed over time. Two bills are particularly relevant to an understanding of how this issue evolved. There has also been recent legislative activity on this issue.

Background on Service Credit and Contributions

Until 1987, contributions were required whether or not service credit was earned.

Prior to September 1, 1991, partial service credit was generally not provided in Washington State retirement systems.* However, until 1987, members were required to make contributions on salaries earned in an eligible position—whether or not service credit was also earned for the month.

All classified school employees were covered by the Public Employees' Retirement System (PERS) prior to 2000, and their service credit was granted under PERS rules. In 2000, classified school employees in PERS 2 were transferred to SERS. Classified school employees in PERS 1 remained in PERS.

**Except for Plan 1 of the Teachers' Retirement System, which did provide partial service credit at that time.*

Contribution Policy Changed in 1987

In 1986, a bill was passed that changed the contribution policy in relation to service credit for PERS, the Teachers' Retirement System (TRS), and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). (See

Chapter 268, Laws of 1986.) Under the new policy, no member or employee contributions were required for any calendar month in which the member did not receive service credit. This change went into effect January 1, 1987, and did not apply to contributions made prior to the effective date. Ultimately, the provision was not administrable due to limitations in the way payrolls were processed.

After 1987, contributions weren't required unless service credit was earned.

JCPP Studied Part-Time Employment in 1990

In 1990, the Joint Committee on Pension Policy (JCPP) studied issues related to part-time employment. The JCPP looked at retirement benefits for job-share and other part-time positions as well as current and past contribution requirements for such positions. The JCPP recommended legislation on this topic for the 1991 session.

Partial Service Credit Rules Established in 1991

In 1991, a version of the JCPP's bill on part-time employment passed the Legislature (Chapter 343, Laws of 1991). This bill made several changes related to service credit including:

- Setting forth a new legislative retirement policy that persons hired into eligible positions shall earn some service credit for any service rendered.
- Establishing the current structure for granting partial service credit for service rendered after September 1, 1991, in PERS, TRS 2, and LEOFF 2.
- Requiring refunds of contributions paid on and after January 1, 1987, for non-credited service. These refunds were made to members of PERS, TRS 2, and LEOFF 2. (This provision ensured compliance with the earlier contribution policy change.)
- Granting half-time service credit for TRS 2 members who worked under half-time contracts prior to December 31, 1986.

In 1991, service credit was granted for all work in an eligible position.

Recent Legislation on This Issue

A non-SCPP bill was introduced in 2008 that would have given SERS members non-credited past service.

During the 2008 Legislative session, a non-SCPP bill was introduced that dealt with non-credited past service for SERS members. HB 3182 would have allowed active SERS members to receive service credit for any non-credited service in an eligible position prior to September 1, 1987. The bill would allow service credit to be granted for those months based on current service credit rules; no additional contributions would be required. The fiscal note indicated a cost to the system and a rate impact in the current biennium. This bill did not receive a hearing.

Example

Sally is a food service worker for a school district. She worked part-time for the district between 1978 and 1987 before becoming a full-time employee. Sally's part-time position was eligible for participation in the retirement system. During the years that Sally worked part-time, she made contributions to the system on her earnings each month. During some months Sally was not able to work the 90 hours required to receive service credit under the rules in place at that time. For these months, Sally received no service credit but still paid her contributions to the system. These non-credited months were often months with fewer scheduled classroom days such as December, April, and June.

Policy Analysis

Impact on Members

The impact of non-credited service varies based on a couple of factors. One factor is whether members draw a pension from the plan and the other factor is what plan they are in.

Some members receive value from contributions for non-credited service, while others do not.

Non-credited service is not used in the calculation of pensions. Members with non-credited service who receive their contributions back with interest do get added value from contributions made for that service. Included in this group are Plan 3 members, and Plan 2 members who withdraw from the system (hence giving up their rights to a pension). In contrast, Plan 2 members who go on to receive a pension do not get any added value from contributions for non-credited service. In effect, these Plan 2 members end up paying more for their pension. However, they will still receive back more in pension payments than they paid in contributions. This is because pensions are also paid for by employer contributions and investment earnings.

Other Examples of Paying Without Adding Value

The previous section explored how Plan 2 members with non-credited past service pay more for their pension without receiving any added value. Are there other examples within Washington's retirement systems of members paying without adding value to their retirement benefit? The answer is yes.

There are other examples in Washington's systems of members paying without receiving added value.

One example is the recently enacted subsidized early retirement factors for Plan 2/3 members with 30 years of service. All Plan 2 members will pay for this through higher contribution rates. However, some members will never be able to take advantage of the new factors because they won't earn the required service prior to age 65.

Service credit rules provide another example. Members who work more than the minimum number of hours required for full service credit effectively pay extra for their service. They pay contributions on all hours worked over the minimum but receive no additional service credit.

To illustrate, consider two SERS members. One member works 90 hours in a month, the other works 160 hours. Both members contribute for all hours worked and both members receive exactly one month of service credit. Salary considerations aside, the member who worked 160 hours will not receive any extra pension value for the contributions made for hours worked over 90.

Other Washington Plans

Over 15,000 non-SERS members might have non-credited past service.

The Department of Retirement Systems estimates that, as of April, 2008, over 15,000 members of the State's other retirement systems might have non-credited past service. This includes both active and inactive, non-retired members.

Members of PERS, TRS 2, and LEOFF 2 who worked prior to January 1, 1987, might have contributed to the retirement system during months in which they did not work enough hours to earn service credit. PERS members are the most likely to be impacted since there are more part-time positions in PERS than the other systems. (Note: Impacted Plan 2 members of PERS and TRS may have since transferred to Plan 3.)

Current and future members of LEOFF Plan 1 and the Washington State Patrol Retirement System (WSPRS) might be impacted as well. LEOFF Plan 1 and WSPRS do not provide partial service credit. Members in these plans who work less than 70 hours a month in an eligible position do not receive any service credit for the month. However, they are still required to make contributions for the month. Since these plans are only open to full-time employees, members are most likely impacted if they are hired near the end of a month or leave near the beginning.

While this issue may impact members of other systems, only SERS members are seeking a solution at this time.

Other States

Idaho refunds contributions for non-credited service.

Idaho is the only one of ten Washington peer states in which classified school employees might be required to make contributions to a defined benefit plan without earning service credit. However, any contributions made for non-credited service are refunded to the member with interest when they withdraw or retire from the system. Members who retire receive the refunded contributions in addition to their service-based pension. Generally, only members who withdraw from the system can have their contributions refunded (as with Plans 1 and 2 of Washington's systems).

Implications of Retroactive Policy Changes

This issue illustrates what often happens when retirement policy is changed midstream. Inconsistencies might be created in benefits among various generations of workers. Consequently, members may seek to have the more favorable policy applied to past service. In this instance, members are suggesting that the current, more generous, service credit rules be applied to service rendered prior to when the rules were adopted. Changes applied to past service are often referred to as "retroactive" changes.

What happens when a benefit change is retroactively applied? In most cases, the cost of the improvement is spread to future workers and taxpayers since the benefit was not funded when it was earned. However, this issue differs in that contributions were collected while the member was working, but no additional pension benefit was provided.

It could be claimed that non-credited past service has already been paid for.

While it could be claimed that members and taxpayers have already paid for the cost of the non-credited past service, there is still a cost to grant this service today. This is because the retirement system has already realized a gain for non-credited service. (The system "gains" when contributions are collected but no pension benefit is provided.) There will be a cost to the retirement system if the prior gains realized for non-credited service are given back in new benefit improvements.

Legislative Precedent on Non-Credited Past Service

With one exception, the Legislature has chosen to not retroactively apply a solution.

At least twice, the Legislature has had the opportunity to address the issue of non-credited past service. With one limited exception, the Legislature has chosen to not retroactively apply a solution. One opportunity was in 1986 when the Legislature established the policy that contributions were not required when service credit was not granted. At that time, the Legislature did not require a refund of contributions for past non-credited service. A second opportunity occurred in 1991 when the Legislature established the policy that persons hired into eligible positions shall earn service credit for all service rendered. The resulting new service credit rules were not applied to prior service. (The Legislature did create a special service credit rule that retroactively applied to half-time teachers.)

Why Not Make Policy Changes Retroactive?

There are many reasons that policy makers may not apply a policy change retroactively. It might be a matter of practicality: it costs too much or is too difficult to administer. Policy makers may also be concerned about maintaining fairness across generations by not shifting costs to future generations (less of an issue with non-credited service). Another reason is that policy makers may wish to support the flexibility of the retirement systems. Requiring every policy change to apply retroactively might hamper the ability of policy makers to adapt retirement systems to changing circumstances.

Implications for Recent SCPP Work on Service Credit

Retroactive changes for non-credited past service may lead to calls for the recent TRS and SERS half-year contract changes to be applied retroactively as well. In 2007, the SCPP recommended new, more generous, service credit rules for teachers and school employees working half-year contracts. The changes that were recommended by the SCPP and passed by the Legislature did not apply to prior service.

Policy Implications of HB 3182

HB 3182 requires a retroactive application of service credit rules and only applies to SERS.

HB 3182 is a non-SCPP bill introduced in 2008 that addresses the issue of non-credited past service. (Refer to the **History** section of this paper for a more complete description.) This bill requires a retroactive application of current service credit rules and only applies to active SERS members. The earlier discussion of the policy implications of retroactive changes and impacts on other Washington retirement systems apply to HB 3182.

Also, there is likely a technical problem with the date used in the bill draft for granting non-credited past service. The date used in the bill (September 1, 1987) falls after the date when contributions for non-credited service were refunded (January 1, 1987).

Conclusion

The issue of non-credited past service has implications around retroactive policy changes and equity across systems. It also raises questions about charging members without providing additional value in retirement benefits. The issue was first identified many years ago and the Legislature has had opportunities to address it. A bill was introduced in 2008 that proposes one possible solution for some impacted members. The State of Idaho has found a different way to address non-credited service. SCPP members may wish to consider both these and other options in response to this issue.

Committee Activity

The full committee was first briefed on this issue at the June 17th meeting. The Executive committee directed staff to develop new policy options and bring those options back to the full committee with pricing. One option staff were directed to consider was granting half-time service credit to members who were working half-time.

Policy Options

The way policy makers respond to this issue will likely depend upon how they view the issue. Policy makers may view this in one of two ways:

Policy makers may view this issue in one of two ways....

- As a contribution policy issue, or
- As a service credit issue.

Policy makers who view this as a contribution policy issue may be more inclined to consider refund options. Policy makers who view this as a service credit issue may be more inclined to consider options that grant additional service credit. No matter what their view, some policy makers may be inclined to take no action on this issue for various policy reasons.

Policy options for each view are discussed below. These options are not necessarily mutually exclusive. Policy makers may elect to provide a combination of options that grant refunds in some cases and grant service credit in others.

Service credit options are limited to those that retroactively apply current service credit rules to periods of past service. Other service credit approaches touch on the fundamental policies of how service credit should be awarded. This is a much larger issue with potentially greater impacts and very different policy considerations.

The policy options apply to a broader group of members than just SERS.

This issue was originally brought before the Legislature as a SERS issue. Subsequent research by staff revealed that non-credited service impacts members of most Washington plans. The policy options provided are designed to apply to a broader group of members than just SERS.

Preliminary pricing for each of the policy options will be available at the October meeting.

Option1: Refund Contributions for Non-credited Service

This option provides a refund of contributions with interest at retirement for members who made contributions for a month in which they did not receive any service credit.

This option does not require a retroactive policy change, which is consistent with past legislative actions.

This option has several broad policy implications. It does not require a retroactive policy change, which is consistent with past legislative actions. This option ensures that members will receive some benefit for all contributions made—though refunds are less generous to members than granting additional service credit. In addition to taking care of past, non-credited service, this option would address future non-credited service in those plans where it may still occur— without opening up the issue of service credit in general. This option will not lead to earlier retirements because it does not impact service credit. This option is relatively easy to administer and refunds would be provided without requiring the member to separately apply or provide proof of hours worked.

This option impacts Plans 1 and Plans 2 members of PERS, TRS, SERS, LEOFF, and WSPRS. Plans 3 members currently receive their contributions with interest if they retire. Other systems are not impacted by non-credited service.

Option 2: Apply Current Service Credit Rules to Past Service

This option would retroactively apply current service credit rules to periods of service prior to January 1, 1987.

This option is modeled after the legislation that was introduced in the 2008 Session (HB 3182). A window is provided for active members to apply for past, non-credited service. Members must provide proof of the hours worked for months in which they are seeking service credit. Once proof is provided, the members will receive credit for past, non-credited service based on the current, more generous, service credit rules. No additional contributions are required.

This option requires a retroactive policy change and is a departure from past legislative actions.

This option has several broad policy implications. It requires a retroactive policy change by applying current service credit policy to periods of past service rendered under different policy. This is a departure from the actions of past Legislatures that generally didn't choose to retroactively apply service credit rules. (See the Policy Analysis section for a more thorough discussion of retroactive policy changes.) This option is the most generous to members. It ensures that members receive some service credit for any hours worked. This option may lead to earlier retirements since it increases service credit and service credit is a factor in the ability to access improved retirement benefits.

Service credit may be granted for all non-credited service, or limited to non-credited service with an educational employer. One policy reason for limiting it to educational employment is that part-time educational employees may have been disadvantaged due to the nature of educational employment. During some months, part-time educational employees may not have been able to work enough hours to earn service credit under the past rules because schools were closed for holidays and other breaks.

This option would only apply to PERS, TRS 2/3, SERS, and LEOFF 2. These are the only plans where service credit policy was changed to address non-credited service.

Option 3: Apply Current Half-Time Service Credit Rules to Past Service

This option is similar to Option 2 except that it would retroactively apply only the current **half-time** service credit rules for educational employees to periods of service prior to January 1, 1987.

This option would allow educational employees who, in the past, worked at least 630 hours but less than 810 hours in a full school year to receive six months of service credit for the year. This option would require members to apply using the process discussed under Option 2.

This option is consistent with an earlier retroactive service credit change provided for teachers.

This option is consistent with a retroactive service credit change that was provided for half-time teachers in 1991 (see **History** section). In other respects, this option has broad policy implications similar to Option 2. This option is less generous than Option 2 since it only impacts members who were working at least half-time. Members working less than half-time will not benefit under this option.

This option would only apply to educational employees in PERS Plans 2/3 and SERS Plans 2/3. Half-time service credit rules only apply to Plans 2/3 educational employees, and non-credited past service for half-time teachers was addressed in 1991.

Option 4: Take No Action

Policy makers may choose to take no action for a variety of reasons.

Policy makers who view this as a service credit issue may choose to take no action if they want to avoid retroactive policy changes or are not overly concerned that prior service credit rules were not as generous as they could have been.

Policy makers who view this as a contribution issue may choose to take no action for a couple of reasons related to the underlying plan design:

- The benefits in a Defined Benefit (DB) plan like the Plans 1 and Plans 2 are not determined by the contributions made.
- It is not uncommon in a DB plan for members to pay additional contributions without adding additional value to their retirement benefits.

This option has no cost impact and is consistent with the general approach taken by the Legislature in the past.

Stakeholder Input

Correspondence from:

Carey Ensign, (e-mail and related attachment), received 1/30/2008.

Next Steps

The committee will decide if they want to develop a legislative proposal based on one or more of the policy options presented. If so, staff will prepare draft legislation for a public hearing.

Appendix A
Service Credit Rules

Plan 2/3 Service Credit Rules

Educational Employees

Plan 2/3 members working for an educational employer (includes all SERS, all TRS, and some PERS members) earn service credit as follows*:

- At least 810 hours worked in a full school year = 12 months of service credit.
- At least 630 hours but less than 810 hours worked in a full school year = 6 months of service credit.
- At least 630 or more hours worked in five months of a six month period within a school year = 6 months of service credit.

Educational employees who work less than a full school year or less than 630 hours earn service credit on a month by month basis as described for non-educational employees.

Non-Educational Employees

Plan 2/3 members working for non-educational employers (includes PERS and LEOFF) earn service credit on a month by month basis as follows:

- 90 hours or more in a month = 1 month of service credit.
- At least 70, but less than 90 hours in a month = ½ month of service credit.
- Less than 70 hours in a month = ¼ month of service credit.

**Note: Members are awarded service credit under whichever rule provides the most service credit.*

PERS Plan 1 Service Credit Rules

Educational Employees

PERS 1 members working for an educational employer earn one year of service credit if they work at least 630 hours in a full school year.

Non-Educational Employees

PERS 1 members working for non-educational employers receive service credit on a month by month basis as follows:

- 70 hours or more in a month = 1 month of service credit.
- Less than 70 hours in a month = ¼ month of service credit.

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Hyde, Elizabeth

From: Harper, Laura
Sent: Friday, April 11, 2008 10:52 AM
To: Hyde, Elizabeth; Winner, Charlene
Cc: Burkhart, Kelly; Smith, Matt
Subject: FW: HB 3182

Attachments: HOUSE BILL 3182.doc

HOUSE BILL 3182.doc (26 KB) Please incorporate this into the SCPP correspondence log and bring copies of the e-mail and attachment to the Tuesday, April 15th meeting.

Thank you!

-----Original Message-----
From: Smith, Matt
Sent: Wednesday, January 30, 2008 4:15 PM
To: Harper, Laura
Cc: Burkhart, Kelly
Subject: FW: HB 3182

---- Original Message ----
From: "Dave Westberg" <iuoe609@qwestoffice.net>
Date: 1/30/08 3:33 pm
To: "Smith, Matt" <Smith.Matt@leg.wa.gov>
Cc: "Conway, Rep. Steve" <Conway.Steve@leg.wa.gov>
Subj: Fw: HB 3182
Matt

Please put this issue on the agenda for the upcoming interim.

Thank you

Dave Westberg

-----Original Message-----
From: "Tim & Carey Ensign" <tcensign@msn.com>

Date: Tue, 29 Jan 2008 19:36:31
To:<iuoe609@qwestoffice.net>
Subject: Fw: HB 3182

----- Original Message -----
From: Tim & Carey Ensign <mailto:tcensign@msn.com>
To: iuoe609@questoffice.net <mailto:iuoe609@questoffice.net>
Sent: Tuesday, January 29, 2008 7:30 PM
Subject: HB 3182

David - thank you for you call today. I am very excited that you will be following and helping with this bill. Please keep me updated on it's progress.

Attached is an informational piece I put together for my local chapter president, to outline the background on this bill. Please let me know if there is something I can do to help.

Carey Ensign
home - 360-871-3127
work - 360-443-3316
ensign@skitsap.wednet.edu <mailto:ensign@skitsap.wednet.edu>
tcensign@msn.com <mailto:tcensign@msn.com>

HOUSE BILL 3182

On January 22, 2008, House Bill 3182 was introduced in the Washington State House of Representatives by Representative Patricia Lantz of the 26TH District. House Bill 3182 would authorize application for past part-time service credit for members of the School Employees' Retirement System. To view the text of the bill, go to the Washington State Legislature website, click on Bill Information, and search for 3182.

Background:

In 1977, PERS (Public Employees Retirement System) Plan II was created. Prior to Plan II, PERS Plan I required 70 hours per month for a month's service credit. The threshold for service credit changed to 90 hours per month in PERS Plan II. Certificated school employees (teachers) and classified school employees (secretaries, custodians, bus drivers, etc.) were members of the PERS I and PERS II retirement systems. Many school districts did not pick up on the change from 70 hrs. to 90 hrs., and erroneously continued to consider employees eligible for PERS II at the threshold of 70 hours. Many part-time school employees across the state were paying into the PERS II retirement system, as well as the school districts on their behalf. The Washington State Department of Retirement Systems accepted these contributions and sent yearly statements to employees. These statements, however, did not include a summary of service credit earned, so there was no way for the employee to know that they were not earning service credit for all months worked. A DRS audit in 1984 revealed these errors. However, those employees identified in the audit (and, by 1984 were working more hours and, thus, eligible for service credit in PERS II) were not notified of their prior missing service credit. An employee of the South Kitsap School District discovered this problem in 1985 and contacted the Public School Employees (PSE) of Washington, the union representing classified school employees in her school district. PSE filed a class action lawsuit in the Superior Court of Thurston County, seeking a remedy for all school employees affected. The lawsuit was put on hold at the request of DRS to pursue an administrative solution. After several years, PSE reactivated the lawsuit when no satisfactory solution was found.

In 1991, the legislature enacted a statute allowing PERS Plan II members to earn less than one month's service credit if they did not work the requisite 90 hours. Prior to that time, it was all or nothing. That is, if you worked 89 hours in a month, you received zero retirement service credit for that month in Plan II. The partial service credit statue of 1991 was applied retroactively for teachers, but not classified employees.

In June of 1998, Public School Employees of Washington appeared before the Division II Court of Appeals regarding the case brought by PSE a number of years prior. PSE challenged the DRS interpretation of the partial service credit statute which DRS said applied only prospectively. PSE asked the Court of Appeals to apply the statute retroactively for classified school employees as it was applied retroactively for teachers. The Appeals Court acknowledged the unfairness, however, ruled that the courts have no authority to read retroactivity into the statute. That decision was the end of the line for a remedy through the court system.

The only avenue remaining is a legislative fix. Money from both employees and employers has been in the retirement system al these years and should rightfully benefit those employees. House Bill 3182 would solve this problem.

The Select Committee on Pension Policy

SERS Past Part-Time Service Credit

Darren Painter, Policy Analyst
October 21, 2008

Office of the State Actuary
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What Is The Issue?

- Some members made contributions in the past without receiving service credit
- SERS members want credit for this past service
- Does the SCPP want to develop a proposal?

Status

- Full briefing in June
- Executive Committee directed staff to prepare options and pricing
- Work session on options
- Materials include
  - Executive summary
  - Issue paper

Different Views Of Issue

- Contribution policy issue
  - Members made contributions without added benefit
  - Options to refund contributions
- Service credit issue
  - Members worked without receiving service credit
  - Options to credit service
- Either view may consider taking no action

Policy Highlights

- Impacts all the state's major retirement systems
- The Legislature has addressed this issue before
  - Rules changed going forward (1991)
  - Not retroactive except for some teachers
- Differs from other retroactive benefit increases

Three Basic Approaches

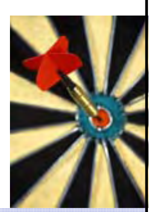
- Approaches
  - Refund contributions
  - Granting service credit
  - No action
- Not mutually exclusive
- Multiple options for service credit approach

Option 1: Refund

- Refund contributions for non-credited service
- Doesn’t require retroactive policy change
- Less generous than granting service
- Impacts 11,800 members

Option 2: Apply Current Rules

- Apply current service credit rules to past service
  - Modeled after 2008 non-SCPP bill for SERS
- Requires retroactive policy change
- Service credit for any hours
- May be targeted
  - All employees (Option 2A)
    - Impacts 13,200 members
  - School employees only (Option 2B)
    - Disadvantaged by nature of school employment?
    - Impacts 7,000 members



Option 3: Apply Half-Time Rules

- Apply current half-time rules to past service
- Limited retroactive policy change
- Consistent with earlier change for teachers
- Only impacts school employees

Preliminary Total Employer Rate Increase

System	Option 1 Refund	Option 2A Apply Current Rules: All	Option 2B Apply Current Rules: School	Option 3 Apply Half-Time Rules
PERS	*	*	*	Unknown
TRS	*	.01%	.01%	n/a
SERS	*	.01%	.01%	Unknown
PSERS	*	*	n/a	n/a
LEOFF	*	*	n/a	n/a
WSPRS	*	n/a	n/a	n/a

n/a: Option does not apply to system.
**Insufficient to immediately impact rates.*

Preliminary Fiscal Costs

($ in Millions)	Option 1 Refund	Option 2A Apply Current Rules: All	Option 2B Apply Current Rules: School	Option 3 Apply Half-Time Rules
2009-2011				
Total GFS	$0.0	$0.7	$0.7	Unknown
Total Employer	0.0	1.1	1.1	Unknown
25-Year				
Total GFS	1.4	7.6	6.2	Unknown
Total Employer	$3.8	$18.6	$11.0	Unknown

Take No Action

- Contribution policy view
  - DB benefits aren't determined by contributions made
  - Common in DB to pay contributions without adding value
- Service credit view
  - Avoid retroactive policy changes
  - Not significant concern that prior rules less generous
- Generally consistent with past legislative approach

Next Steps

- Decide if SCPP wants to develop a proposal based on one or more options
  - Staff will prepare draft legislation
  - Public hearing on draft legislation
- Consider this briefing informational and take no further action

6. OSA Request Legislation

OSA Request Legislation

1. **Clarifies how the State Actuary studies certain assumptions.**
   - Total salary growth is an actuarial assumption with both economic and demographic components.
     - Current statute can be read to suggest that components are studied at different times.
   - State Actuary studies components of total salary growth at the same time.
     - Each component affects total.
     - State Actuary studies components and makes recommendations as needed.
     - New law would clarify this process.
     - Consistent with Actuarial Standards of Practice.
2. **Codifies current practice.**
   - Experience studies are used to evaluate demographic assumptions.
   - Under current practice and based on experience study results, the State Actuary makes recommendations to the Pension Funding Council (PFC) concerning long-term demographic assumptions. The PFC considers these recommendations when adopting biennial contribution rates.
     - Current statute does not require these steps.
       - Only requires State Actuary to file experience study results.
     - New law would codify current practice.
     - Consistent with Actuarial Standards of Practice.
3. **No fiscal impact.**

Options for SCPP

1. Recommend as SCPP request legislation.
2. Endorse as OSA request legislation.
3. Take no action.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0222.1/09
ATTY/TYPIST:	LL:seg
BRIEF DESCRIPTION:	Addressing the state actuary's recommendations for assumptions used in the actuarial funding of the state retirement systems.

AN ACT Relating to the state actuary's recommendations for assumptions used in the actuarial funding of the state retirement systems; and amending RCW 41.45.030 and 41.45.090.

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

Sec. 1. RCW 41.45.030 and 2007 c 280 s 1 are each amended to read as follows:

(1) Beginning September 1, 2007, and every two years thereafter, the state actuary shall submit to the council information regarding the experience and financial condition of each state retirement system, and make recommendations regarding the long-term economic assumptions set forth in RCW 41.45.035. <u>When making recommendations regarding the general salary increase assumption, the state actuary may also consider the demographic components of total salary growth and make recommendations to the council concerning any changes to the demographic assumptions within total salary growth.</u> The council shall review this and such other information as it may require.

(2) By October 31, 2007, and every two years thereafter, the council, by affirmative vote of four councilmembers, may adopt changes

to the long-term economic assumptions established in RCW 41.45.035. Any changes adopted by the council shall be subject to revision by the legislature.

The council shall consult with the economic and revenue forecast supervisor and the executive director of the state investment board, and shall consider long-term historical averages, in reviewing possible changes to the economic assumptions.

(3) The assumptions and the asset value smoothing technique established in RCW 41.45.035, as modified in the future by the council or legislature, shall be used by the state actuary in conducting all actuarial studies of the state retirement systems, including actuarial fiscal notes under RCW 44.44.040. The assumptions shall also be used for the administration of benefits under the retirement plans listed in RCW 41.45.020, pursuant to timelines and conditions established by department rules.

Sec. 2. RCW 41.45.090 and 2003 c 295 s 9 are each amended to read as follows:

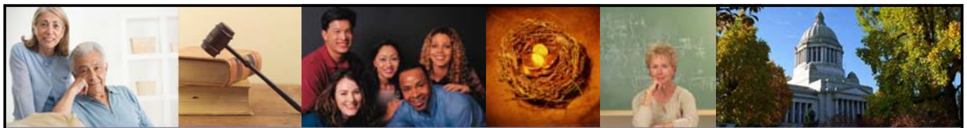
(1) The department shall collect and keep in convenient form such data as shall be necessary for an actuarial valuation of the assets and liabilities of the state retirement systems, and for making an actuarial investigation into the mortality, service, compensation, and other experience of the members and beneficiaries of those systems. The department and state actuary shall enter into a memorandum of understanding regarding the specific data the department will collect, when it will be collected, and how it will be maintained. The department shall notify the state actuary of any changes it makes, or intends to make, in the collection and maintenance of such data.

(2) At least once in each six-year period, the state actuary shall conduct an actuarial experience study of the mortality, service, compensation, and other experience of the members and beneficiaries of each state retirement system((~~, and into the financial condition of each system~~)). The state actuary shall make recommendations to the council regarding the long-term demographic assumptions for the state retirement systems. Concurrently, when considering the demographic components of total salary growth, the state actuary may also study the general salary increase assumption and make recommendations to the council regarding any change to the noninflationary component of that

economic assumption. The council shall review the experience study results, the recommendations of the state actuary, and other information as it may require.

The results of each investigation shall be filed with the department, the office of financial management, the budget writing committees of the Washington house of representatives and senate, the select committee on pension policy, and the pension funding council. Upon the basis of such actuarial investigation the department shall adopt such tables, schedules, factors, and regulations as are deemed necessary in the light of the findings of the actuary for the proper operation of the state retirement systems.

--- END ---



The Select Committee on Pension Policy

OSA Request Legislation

Laura Harper, Policy and Research Services Manager
October 21, 2008

Office of the State Actuary
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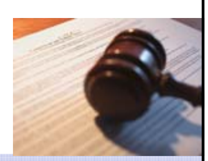
What Would The Bill Do?

- Clarify
  - How the State Actuary studies total salary growth
- Codify
  - Current practices related to experience study results
- Affects process only; no fiscal impact



Clarify How Total Salary Growth Is Studied

- Total salary growth assumption has two parts
  - Economic (“general salary increase assumption”)
    - Inflationary and non-inflationary components
  - Demographic (“service-based salary assumption”)
- Current statute can be read to suggest that each part is studied at a different time
- State Actuary studies them together
  - Each part affects total
  - State Actuary makes recommendations as needed
- New law would clarify this process

Codify Practices Related To Experience Studies

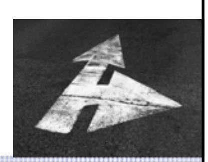
- Experience study checks demographic assumptions against what actually happened
  - Required at least every six years
- Based on study, State Actuary makes recommendations to Pension Funding Council (PFC)
  - PFC considers these when adopting contribution rates
- Current statute does not require these steps
  - Only requires State Actuary to <u>file</u> the study results
- New law would codify current practice

Recap Of Proposed New Law

- Clarify how the State Actuary studies total salary growth
  - Study components at the same time
  - Make recommendations as needed
- Codify what happens when experience study is complete
  - State Actuary does not just file the results; he makes recommendations to the PFC
  - PFC reviews State Actuary's recommendations
- Consistent with Actuarial Standards of Practice
- No fiscal impact

Possible Next Steps

- SCPP recommends proposal as SCPP request legislation
- Proposal proceeds as OSA request legislation
  - SCPP could endorse the proposal
  - SCPP could receive as information and take no action



7. $150,000 Death Benefit

$150,000 Death Benefit

Description of Issue

The retirement systems provide a $150,000 death benefit for public employees who die as a result of a duty-related injury or illness. The benefit amount has not changed since the benefit was first established in 1996. Stakeholders are asking the SCPP to revisit adjusting the amount for inflation.

Actuaries expect fewer than 13 duty-deaths each year from a group of over 290,000 public employees.

This issue raises two basic policy questions:

- ❖ Is the current amount of the death benefit sufficient, or should it be increased for past inflation?
- ❖ Should the death benefit be protected against future inflation?

Policy Highlights

- ❖ The relative value of the death benefit has declined 27 percent due to past inflation.
- ❖ COLAs for lump-sums provide equity across generations—not inflation protection for an individual's income.
- ❖ Some policy makers may prefer an insurance approach rather than a COLA approach.
- ❖ Automatic and ad-hoc COLAs can be equally effective in maintaining the value of benefits—with different implications for control.
- ❖ The Legislature has previously rejected automatic COLAs for the death benefit.
- ❖ The SCPP recommended legislation on this issue in 2007 and 2008.

Options for Adjusting the Duty-Death Benefit

Policy makers who feel the current death benefit should be adjusted for inflation may consider the following options:

- **Provide a One-Time Adjustment for Past Inflation.**
  - Restores the relative value of the benefit to its original level.
  - Doesn't prevent future loss in value due to inflation.

- **Provide an Automatic CPI-Based COLA.**
  - Doesn't recover value already lost due to inflation.
  - Generally prevents further loss of value due to inflation.
  - Requires policy makers to give up some control over the benefit, but may reduce the need to revisit this in the future.
- **One-Time Adjustment Plus Automatic COLA.**
  - Recovers past value and generally prevents future loss of value.
  - Requires policy makers to give up some control over the benefit, but may reduce the need to revisit in the future.

Preliminary pricing for these options will be available at the October meeting.

What is the Next Step?

The committee will decide if they want to develop a legislative proposal based on one of the policy options presented. If so, staff will prepare draft legislation for a public hearing.

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$150,000 Death Benefit

Current Situation

The retirement systems provide a $150,000 lump sum (or one-time) death benefit for public employees who die as a result of a duty-related injury or illness. The benefit amount is set in statute and has not changed since the benefit was first established in 1996. The benefit is not subject to federal income tax.

The benefit is available to members of all state retirement systems*. Determination of eligibility is made by the Department of Labor and Industries (L&I).

The Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF 2 Board) has asked the SCPP to consider adjusting the amount of this benefit for past inflation and adding an automatic COLA to address future inflation.

**Also state, school district, and higher education employees who are not members of a state retirement system; paid from the state general fund.*

History

History of the $150,000 Death Benefit

The $150,000 death benefit was first established in the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) and the Washington State Patrol Retirement System (WSPRS) in 1996. The benefit was subsequently extended to various other groups of public employees over a period of several years. See **Appendix A** for a legislative history of the benefit.

Fifty-four $150,000 death benefits have been paid out since the benefit was first established—the majority being paid for LEOFF members (see **Figure 1**).

In Brief

ISSUE

The retirement systems provide a $150,000 death benefit for public employees who die as a result of a duty-related injury or illness. The benefit amount has not changed since 1996.

The LEOFF 2 Board has asked the SCPP to consider adjusting the amount of this benefit for past inflation and adding an automatic COLA to address future inflation.

The SCPP has twice recommended legislation that would have applied an automatic COLA to the death benefit. The COLA provisions did not pass the Legislature.

MEMBER IMPACT

Actuaries expect fewer than 13 duty-deaths each year from a group of over 290,000* public employees.*

**As of June 30, 2007.*

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

Figure 1

Number of $150,000 Death Benefits Paid*	
System	**Benefits Paid**
LEOFF	32
PERS	14
VFF	2
TRS	1
SERS	1
WSPRS	1
Unknown (paid from general fund)	3
Total	**54**

**As of 9/25/2008. Length of reporting period varies among systems.*

The SCPP has Recommended Bills on the Death Benefit

The SCPP studied this issue in coordination with the LEOFF 2 Board in 2006 and 2007. The committee recommended legislation in the 2007 and 2008 sessions that would have applied an automatic cost-of-living-adjustment (COLA) to the death benefit. The COLA provisions did not pass the Legislature. See below for more details concerning the SCPP legislation.

The Legislature has Rejected COLAs for the Death Benefit

Bills with provisions that would have automatically increased the amount of the $150,000 death benefit for inflation were introduced in the past three legislative sessions. None of the bills passed the Legislature with the COLA provisions intact.

Bills that would have automatically increased the amount of the $150,000 death benefit for inflation were introduced in the past three legislative sessions.

2006 Session

HB 2933/SB 6724 expanded the eligibility for the death benefit and provided an automatic COLA on the benefit amount for LEOFF Plan 2. The proposed COLA 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 for Seattle-Tacoma-

Bremerton (CPI-W, STB), up to a maximum of 3 percent per year. This is the same increase provided for pensions in the Plan 2/3 retirement systems. The COLA was removed before the bill passed the Legislature.

2007 Session

HB 1266/SB 5177, an SCPP bill, made similar changes to the death benefit as the 2006 bill except it applied to all plans. The COLA was removed from the House bill in the Appropriations Committee but was retained in the Senate version of the bill that passed Ways and Means. The House version of the bill, without the COLA, ultimately passed the Legislature.

2008 Session

HB 3026/SB 6664, another SCPP bill, contained the same COLA provisions as introduced in the earlier legislation. The bill was heard in the Senate Ways and Means Committee and received no hearing in the House.

Comparisons

Other Death Benefits Provided

The $150,000 death benefit is one of many death benefits that are provided for members*. Others include:

Many death benefits are provided for members.

- Survivor and death benefits from the retirement plan.
- L&I death benefits.
- Social Security survivor benefits.
- Federal public safety officers death benefits.
- Reimbursement of premiums paid to the Health Care Authority.

A detailed list of the various death benefits provided is contained in **Appendix B**. Among these, the most significant other lump sum death benefit provided is the federal Public Safety Officers' Benefits Death Benefit. This benefit ($315,746 in 2008) is payable to survivors of law enforcement officers, fire fighters, and other public safety personnel who die in the line of duty. The benefit is annually adjusted for inflation.

**Employer provided life insurance is beyond the scope of this paper and is not considered among the death benefits provided.*

Death Benefits in Comparative Systems

Most of Washington's comparative systems provide survivor annuities similar to those in Washington's retirement systems. The annuities are generally based on the member's earned benefit or some percentage of the member's salary.

Five of Washington's comparative systems also provide some type of lump sum death benefit (see **Figure 2**). The three systems (California, Idaho, and Iowa) that provide fixed-dollar lump sum benefits similar to Washington do not automatically increase the benefit amount for inflation. Three systems (Colorado, Idaho, and Wisconsin) provide a lump sum based on the member's contributions. Since contributions are based on salaries, and salaries grow with inflation, contribution-based lump sums effectively have built-in inflation adjustments. One system (California) provides a lump sum that is "periodically adjusted." Idaho and Iowa provide an enhanced return of contributions and a special duty-related lump sum death benefit for public safety employees.

Figure 2

Lump Sum Death Benefits in Comparative Systems*

System	Benefit Amount	COLA
California CALSTRS	$24,652	Periodically adjusted
Colorado PERA	200% return of contributions plus interest (ROC)	None
Idaho PERSI	200% ROC also $100,000 for police and firefighters killed in line of duty	None
Iowa IPERS	100% ROC plus additional amount based on salary and service also $100,000 for public safety killed in line of duty	None
Wisconsin WRS	200% ROC	None

**Source: Member handbooks published on system administrator's web sites as of 10/08/2008.*

Policy Analysis

This Issue Raises Two Basic Policy Questions

The issue of whether or not to adjust the $150,000 death benefit for inflation raises two basic policy questions:

- Is the current amount of the death benefit sufficient, or should it be increased for past inflation?
- Should the death benefit be protected against future inflation?

The way policy makers respond will likely depend upon three key factors.

The way policy makers respond to these questions will likely depend upon three key factors:

- How they choose to apply policy on inflation protection to the death benefit.
- How they view the purpose of the death benefit.
- How much control they wish to keep over the death benefit.

The rest of this paper will explore these and other factors that policy makers may consider in addressing this issue.

Inflation Erodes the Relative Value of the Death Benefit

The value of the death benefit has declined 27 percent since 1996.

Inflation erodes the relative value of a fixed dollar amount over time. The $150,000 death benefit was first established in 1996. The cumulative effect of inflation since then has eroded 27 percent* of the relative value of the benefit. Put another way, the amount of the death benefit would need to be increased to $205,000 to provide the same level of purchasing power that it did in1996. Absent any adjustment, inflation will continue to erode the value of the death benefit in the future.

**Based on the Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB), all Items.*

The State has Policy on Inflation Protection for Pensions

State policy on protecting retirement benefits from inflation can be found in existing policy statements and further inferred from plan design. The SCPP has adopted as a stated goal ". . . to increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS. . . ." The Plans 2/3 of the State's retirement systems, the most recently created tiers, provide an annual COLA on retirement pensions. The Plan 2/3 COLA is based on inflation as measured by changes in a Consumer Price Index (CPI). The inclusion of this COLA in the Plan 2/3 design indicates a clear desire to protect retirement pensions from the effects of inflation.

Policies on inflation protection were not necessarily designed for lump sum benefits.

These policies around inflation protection were designed to apply to ongoing *pension* benefits and not necessarily one-time *lump sum* benefits. Policy makers may wish to consider to what extent, if any, inflation protection policies apply to non-pension benefits like the $150,000 death benefit.

COLAs for Pensions and Lump Sums have Different Policy Implications

Why would the nature of the benefit matter when considering inflation protection policies? COLAs for ongoing pensions have different policy implications than COLAs for one-time lump sum benefits. One provides inflation protection, while the other provides equity across generations.

Providing a COLA for a pension or other annuity-type benefit provides inflation protection for an *individual's* income. The COLA helps maintain the relative value of the pension payments over time by offsetting the effects of inflation.

COLAs for lump sums maintain value among generations.

In contrast, providing a COLA for a lump sum benefit maintains the value of the benefit among successive *generations* of recipients. It ensures that later recipients are able to purchase the same amount of goods and services with the benefit that earlier recipients could. It does not provide inflation protection for an individual's income. Why not? A lump sum payment is only received once. It doesn't become part of the recipient's ongoing income stream and consequently doesn't lose its value (from the recipient's perspective) over time.

Lump Sum Death Benefits are Less Likely to have COLAs

Given the different policy implications of COLAs for annuities and lump sums, policy makers may wish to consider current practice in this area. **Figure 3** shows that death benefits for retirement system members paid in the form of a monthly annuity are more likely to have inflation protection than benefits paid in a lump sum. A detailed list of the various death benefits provided is contained in **Appendix B**.

Figure 3

Death Benefits Provided*			
Type	**Total**	**COLA**	**%COLA**
Annuity	9	7	78%
Lump Sum	7	3	43%

**Similar benefits in state retirement systems are considered a single type.*

In the preceding figure, the "Total" column shows the total number of benefits of each type (annuity or lump sum); the "COLA" column shows how many include an automatic COLA; and the "%COLA" column shows the percentage of annuity and lump sum benefits with an automatic COLA.

The Death Benefit is Designed to Provide Temporary Assistance

A key policy consideration is the intended purpose of the benefit.

Policy makers may consider the purpose of the $150,000 death benefit in determining how to apply policy on inflation protection. Is the benefit intended to replace income and support an ongoing standard of living? Or, is the benefit intended to provide one-time relief for specific situations? The answers to these questions have implications for policy decisions.

The death benefit is a one-time payment that is not related to a member's salary. Recipients may do with the payment whatever they wish—including spending the entire amount at once. Given this design, it is unlikely that the benefit was intended to replace income and support an ongoing standard of living. Rather, it is more likely that the death benefit was primarily intended to provide temporary financial assistance following the death of a member.

The purpose of the benefit may affect how policy makers view this issue. From the perspective of policy makers, there may be less need to adjust for inflation a benefit that is transitional and does not serve to replace income or maintain an ongoing standard of living.

Policy Makers May Take an Insurance-Based Approach

The death benefit more closely resembles an insurance benefit than a pension.

The design and purpose of the $150,000 death benefit more closely resembles an insurance benefit than a traditional pension benefit. It is a one-time payment of a fixed-dollar amount that provides temporary financial assistance—much like term life insurance. Policy makers who view this as an insurance-type benefit may be inclined to take more of an insurance-based approach to this issue. An insurance approach would involve periodically reviewing the "policy" and adjusting the coverage amount based on the risks and needs at that time. Under this approach, the policy focus shifts away from COLAs and more towards the adequacy of the benefit provided.

Assessing the Adequacy of the Death Benefit may be Challenging

Policy makers may find it challenging to assess the adequacy of a benefit (like the $150,000 death benefit) that is not dedicated to a specific purpose. Since the value of the benefit can't easily be measured against a specific outcome, assessments of adequacy will likely be highly subjective. Such assessments may involve considering how the $150,000 death benefit fits in with all the other death benefits provided—many of which are pension benefits that do have inflation protection. This could be a complex task given the number and variety of different death benefits provided, and the fact that survivors may qualify for multiple death benefits (see **Appendix B**).

Policy makers may assume the amount was adequate when the benefit was first enacted.

For the sake of simplicity, some policy makers may assume the amount was adequate when the benefit was first enacted in 1996. Under this assumption, all that is needed to ensure the adequacy of the benefit today is to adjust the amount of the benefit for past inflation.

Duty-Related Death Benefits may Impact Recruitment

When contemplating adjustments to the $150,000 death benefit, policy makers may also consider the purpose and adequacy of benefit from an employer perspective. Duty-related death benefits may impact the ability of employers to recruit for high-risk occupations. The availability and generosity of such benefits may serve as an added inducement for employees considering such occupations. This would likely have the greatest impact for public safety employers. The fact that the $150,000 death benefit was first established for police and fire fighters (see **History**) may be indicative of a greater interest in duty-related death benefits by public safety groups.

Automatic and Ad-Hoc COLAs can be Equally Effective in Maintaining the Value of Benefits

Policy makers who feel the $150,000 death benefit should be adjusted for inflation will likely consider how to adjust it. Most likely, this will involve some form of a COLA—since COLAs are a common and effective way to adjust benefits for inflation. There are two basic approaches to COLAs that policy makers may wish to consider: ad-hoc and automatic. The approach chosen has implications for how much control policy makers retain over the benefit.

Policy makers who want the most control will likely prefer an ad-hoc approach.

Ad-hoc COLAs are one-time increases. Ad-hoc COLAs are generally more backward-looking. They can be very effective at making up for past inflation, but usually do little to address future inflation. Ad-hoc COLAs can give policy makers the most flexibility in reacting to specific situations and in controlling costs. Policy makers who want to maintain the most control in adjusting benefits will likely prefer an ad-hoc approach.

Policy makers who want less involvement will likely prefer an automatic approach.

In contrast, automatic COLAs are ongoing increases and tend to be more forward-looking. Automatic COLAs can be very effective at protecting benefits against future inflation, but may do little to address lost purchasing power due to past inflation. Automatic COLAs may be preferred from the member viewpoint since they are ongoing and don't require continual action by policy makers. However, for the same reasons, it may be more difficult to fine-tune an automatic COLA for a specific situation. Policy makers who want less involvement in the process of adjusting benefits will likely prefer an automatic approach.

A common way of implementing automatic COLAs is to base the COLA on a measure of inflation such as the Consumer Price Index (CPI). This process of linking a benefit to an underlying measure of inflation is known as *indexing*. Indexing is a direct and effective way to protect benefits against inflation. This is the method chosen by the SCPP in prior years when the committee recommended applying an automatic COLA to the death benefit (see **History**). **Appendix C** contains a more complete discussion on the various ways to index a benefit.

Periodically granting ad-hoc COLAs can have much the same effect as an automatic COLA.

Ad-hoc COLAs can be as effective in maintaining the value of a benefit as automatic COLAs, depending on how they are administered. Periodically granting ad-hoc COLAs to make up for past inflation can have much the same effect as providing an automatic COLA. The main difference is that ad-hoc COLAs may occur less frequently than every year. When this happens, the benefit loses more value in the years between ad-hoc COLAs than it would lose under an automatic COLA. Given that both approaches can be equally effective in maintaining value, the approach taken will likely depend on how much control and involvement policy makers want in the process of adjusting benefits.

Conclusion

The issue of adjusting the $150,000 death benefit for inflation raises two basic policy questions. Is the current amount sufficient or should it be increased for past inflation? Should it be protected against future inflation?

How policy makers respond to these questions will likely depend upon three key factors:

- How they choose to apply policy on inflation protection to the death benefit.
- How they view the purpose of the death benefit.
- How much control they wish to keep over the death benefit.

Some policy makers may prefer to take an insurance-based approach to this issue rather than the COLA-based approach taken in the past.

Committee Activity

During their September meeting, the Executive Committee directed staff to develop policy options and bring those options back to the full committee with pricing.

Possible Options

Policy makers who feel the current amount of the death benefit is sufficient for its intended purpose will likely be inclined to take no further action at this time. Policy makers who feel the current death benefit should be adjusted for inflation may consider one of the options below.

Preliminary pricing for each of the policy options will be available at the October meeting.

Option 1: Provide a One-Time Adjustment for Past Inflation

This option restores the relative value to its original level.

This option would grant an ad-hoc COLA on the amount of the death benefit to make up for past inflation. The amount of the death benefit would be increased to $205,000.

This option would restore the relative value of the death benefit to its original level but wouldn't prevent future loss in value due to inflation.

Option 2: Provide an Automatic CPI-Based COLA

This option generally prevents further loss of value.

This option would apply an automatic CPI-based COLA to the death benefit. The COLA would be modeled after the COLA provided for pensions in the Plans 2/3. The amount of the death benefit would annually increase based on cumulative changes in the CPI-W, STB, up to a maximum of 3 percent per year. This is the approach that has been taken by the SCPP in the past and has been rejected by the Legislature (see **History**).

This option would generally not recover value already lost due to past inflation since the annual increases are capped at 3 percent. The 3 percent cap is a cost control feature originally intended for pension benefits. It may be of limited value for a death benefit that is paid out infrequently. This option would generally prevent further loss of value due to inflation—as long as long-term inflation averages 3 percent or less. This approach requires policy makers to give up some control over the benefit amount, but may reduce the need to revisit this in the future.

Option 3: One-Time Adjustment and Automatic CPI-Based COLA

This option combines the previous two options. It would increase the amount of the death benefit to $205,000 and apply an automatic CPI-based COLA on the new amount.

This option recovers lost value and generally prevents further loss.

This option would recover all value lost to past inflation as well as generally prevent further loss of value due to inflation—as long as long-term inflation averages 3 percent or less. This option has the same policy implications regarding the cap on the automatic COLA as discussed under Option 2. This approach also requires policy makers to give up some control over the benefit amount, but may reduce the need to revisit this in the future.

Stakeholder Input

Correspondence from:

Kelly Fox, Chair, LEOFF 2 Board. Received 5/12/2008.

Next Steps

The committee will decide if they want to develop a legislative proposal based on one of the policy options presented. If so, staff will prepare draft legislation for a public hearing.

Appendix A: History of Legislative Changes to the $150,000 Death Benefit*

History of Legislative Changes to the $150,000 Death Benefit		
Year	**Bill**	**Effect**
1996	E2SSB 5322	$150,000 death benefit established for LEOFF and WSP.
1998	SB 5217 ESB 6305	$150,000 death benefit established in VFF. $150,000 death benefit is established for survivors of PERS 1 port and university police officers.
1999	ESSB 5180 (Budget)	$150,000 death benefit provided to teachers and paid as sundry claim from general fund. Expired 6/30/2001.
2000	EHB 2487 (Budget)	$150,000 death benefit provided to school district employees and paid as sundry claim from general fund. Expired 6/30/2001.
2001	ESSB 6153 (Budget)	$150,000 death benefit provided to state, school district, and higher education employees and paid as sundry claim from general fund. Expired 6/30/2003.
2003	HB 1207	$150,000 death benefit established in PERS, TRS, and SERS. Benefit also provided as a sundry claim to the general fund for state, school district, and higher education employees who are not eligible to receive the benefit from a state retirement system.
2006	SHB 2933	Eligibility for the $150,000 death benefit expanded to include death from duty-related illness for LEOFF 2.
2007	SHB PL 1266	Eligibility for the $150,000 death benefit expanded to include death from duty-related illness for all plans.

*See **Appendix D** for a description of the plan acronyms used.*

Appendix B: Death Benefit Provided for Public Employees*

Death Benefits Provided for Public Employees[1]				
Benefit	**Normal Form**	**Eligible Deaths**	**Amount**	**Annual Adjustment[2]**
LEOFF & WSP Plan 1 Survivor Pension	Annuity	Duty & Non-Duty	50%-60% of AFC	Indexed to CPI
PERS & TRS Plan 1 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or return of contributions with interest (ROC)[3]	Uniform COLA on annuity -- indexed by level 3%
Plans 2/3 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or ROC[3,4]	Annuity Indexed to CPI
VFF Survivor Benefit	Annuity	Duty & Non-Duty	Member's earned benefit	None -- Benefits periodically increased by Board
VFF Duty-Death Survivor Pension	Annuity	Duty	$1,589/month +$137/month per child. As of 7/1/2008.	Indexed to CPI
HIED Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Payout of member's account	None
LEOFF Plan 2 Survivor Health Care	Annuity	Duty	Reimbursement of premiums paid to Health Care Authority—up to $839/month for 2008	Indexed to Health Care Authority medical and dental premiums
L&I Death Benefit	Annuity	Duty	60%-70% of gross wages up to 120% of state average wage[5]	Indexed to state average wage[5]
Social Security Survivor Benefit	Annuity	Duty & Non-Duty	75%-100% of employees earned Social Security benefit	Indexed to CPI
$150,000 Death Benefit	Lump Sum	Duty	$150,000 (+$2,000 in VFF)	None
VFF Funeral Benefit	Lump Sum	Duty	$2,000	None
TRS 1 Death Benefit	Lump Sum	Duty & Non-Duty	$400 or $600	None
L&I Death Lump Sum	Lump Sum	Duty	100% state average monthly wage[5]	Indexed to state average wage[5]
L&I Burial Benefit	Lump Sum	Duty	Up to 200% state average monthly wage[5]	Indexed to state average wage[5]
Social Security Burial Benefit	Lump Sum	Duty & Non-Duty	$255	None
Federal Public Safety Officers' Death Benefit	Lump Sum	Duty	$315,746 as of 10/01/2008	Indexed to CPI

1. *Eligibility varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. Excludes employer provided life insurance.*
2. *Excludes optional COLAs purchased by recipient.*
3. *Actuarial reduction applied if death is not duty-related.*
4. *150% ROC for LEOFF Plan 2; payout of member's DC account for Plans 3.*
5. *$3,727 as of 7/01/2008.*

*See **Appendix D** for a description of the plan acronyms used.*

Appendix C: Indexing Benefits

A frequently used method of protecting the value of a benefit against inflation is indexing. Indexing involves making annual adjustments to the benefit amount based on changes in an underlying measure of inflation.

One of the most commonly used measures of inflation is the Consumer Price Index (CPI). The CPI records changes in the price of a set "market basket" of goods and services at different points in time. The U.S. Department of Labor publishes numerous indexes that measure inflation based on different market baskets and geographic regions. Each CPI produces a slightly different measure of inflation. The CPI most commonly used in Washington State's retirement systems is the Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB). An individual may experience inflation quite different from that measured by the CPI if the goods and services purchased by the individual do not closely match the market basket used by the CPI.

A key issue in indexing benefits is the amount of inflation protection to provide. The value of a benefit may be:

- Fully protected from inflation (full indexing).
- Protected up to a maximum amount of inflation (partial indexing).
- Protected against a set amount of inflation (level indexing).

A **fully indexed** benefit increases at the same percentage change as inflation each year. This method ensures the full purchasing power of the benefit is always maintained, but can lead to greater than expected costs if actual inflation exceeds the amount assumed for funding the benefit. Examples of fully indexed retirement benefits include Social Security, which is indexed to the CPI-W, All U.S. Cities; and the LEOFF Plan 1 pension, which is indexed to the CPI-W, STB.

A **partially indexed** benefit increases with the percentage change in inflation each year up to a maximum percentage. In years where inflation exceeds the maximum, the benefit will lose some purchasing power.

The index can be designed to allow the benefit to recover lost purchasing power during periods when actual inflation is lower than the maximum. This method can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Examples of partially indexed retirement benefits are Plan 2/3 pensions, which are indexed to the CPI-W, STB, to a maximum of 3 percent.

A **level indexed** benefit increases by a fixed percentage every year. Purchasing power is lost in years when inflation exceeds the fixed percentage and is gained in years when inflation is less than the fixed percentage. This method is simple to administer and can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Under this method, if actual inflation is consistently less than the fixed amount, the purchasing power of the benefit will increase. An example of a level indexed retirement benefit is the PERS and TRS Plan 1 Uniform COLA, which increases by 3 percent each year.

Appendix D: Plan Acronyms

- Public Employees' Retirement System (PERS)
- Teachers' Retirement System (TRS)
- School Employees' Retirement System (SERS)
- Public Safety Employees' Retirement System (PSERS)
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
- Washington State Patrol Retirement System (WSPRS)
- Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFF)
- Judicial Retirement System (JRS)
- Higher Education Retirement Plans (HIED)

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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

May 12, 2008

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 the cooperative working relationship we have shared in the past and look forward to a similar partnership in the future.

I would like to bring several topics back to your attention as you begin preparation for the 2008 interim. It is our hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to once again develop legislation. I have provided a brief summary of each topic for your reference:

Interruptive Military Service Credit

Working cooperatively last interim, the Board and the SCPP jointly endorsed a bill that would have eliminated a member's obligation to pay for interruptive military service credit if the member served during a period of war. The Board is once again interested in working cooperatively with the SCPP on the issue and feels the following additional question will need to be further explored:

- Should the benefit apply to all periods of interruptive military service which have not yet been recovered?

Inflationary Adjustment for $150,000 Death Benefit

The Board is interested in once again working with the SCPP to further study the effect of adding an inflationary adjustment to all the state retirement plans that provide the $150,000 death benefit. In addition to last year's study the Board feels following issues will need to be explored further:

- Should an adjustment in the lump sum amount be made to account for inflation since the creation of the benefit?

- Should both the lump sum adjustment and the addition of the inflationary adjustment be included in the bill?

Military Service Death Benefit

The Board and the SCPP jointly recommended legislation to the 2008 Legislature, which would have provided an unreduced annuity to qualifying survivors of members of all plans, who leave employment due to service in the National Guard or Reserves and die while in military service, during a period of war. The Board would like to continue our joint work to eliminate the "early retirement" actuarial reduction applied to the pensions of members who die while honorably serving our country.

Fish and Wildlife Enforcement Officer Service Credit Transfer

The Board and the SCPP also jointly recommended legislation last session that would have permitted Department of Fish and Wildlife Enforcement Officers to transfer service credit earned in the Public Employees' Retirement System (PERS) Plan 2 as enforcement officers into the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. The Board feels the following issue may need to be further explored as well:

- Should PERS 3 members be included in the transfer group?

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

The Select Committee on Pension Policy

$150,000 Death Benefit

Darren Painter, Policy Analyst

October 21, 2008

Office of the State Actuary

"Securing tomorrow's pensions today."

What Is The Issue?

- Amount of death benefit hasn't changed since 1996
- LEOFF 2 Board asked SCPP to revisit inflation adjustment
- Does the SCPP want to develop a proposal?
  - Options prepared

What Is The Benefit?

- $150,000 lump sum for duty-related death (injury or illness)
  - Provided in all retirement systems
  - Designed to provide temporary financial assistance
  - More resembles an insurance payment than pension
- Amount hasn't changed since benefit established
- Actuaries expect fewer than 13 duty-deaths a year

Policy Highlights

- Relative value of benefit has declined by 27 percent
  - $205,000 for same purchasing power today
- COLAs on lump sums and pensions are different
  - Lump sums = equity across generations
  - Pensions = inflation protection for income
- Some may prefer an insurance approach
  - Is amount adequate for purpose of benefit?
- Automatic and ad-hoc COLAs can maintain value
  - Different implications for control
- Legislature has previously rejected automatic COLAs
  - House removed COLA provisions

SCPP Recommended Legislation in 2008

- Automatic CPI-based COLA for benefit
- Jointly sponsored with LEOFF 2 Board
- 2008 bill didn't pass fiscal committee
  - Heard in Ways & Means
  - Not heard in House
- LEOFF 2 Board asked SCPP to look at additional options

Three Options To Adjust For Inflation

- Adjust for past inflation
- Automatically adjust for future inflation
- Combination

Option 1: One-time Adjustment For Past Inflation

- Increase benefit to $205,000
- Restores relative value to original level
- Doesn’t protect against future inflation

Option 2: Automatic CPI-Based COLA

- Provide COLA on current amount ($150,000)
- Modeled after Plan 2/3 COLA
  - Same as prior SCPP bills
- Doesn’t recover value already lost
- Protects against future loss of value
- Give up some control but possibly less need to revisit

Option 3: One-time Adjustment + Automatic COLA

- Provide COLA on increased amount ($205,000)
- Recovers past value
- Protects future value
- Give up some control but possibly less need to revisit

Preliminary Total Employer Rate Increase

	Option 1 One-time Adjustment	Option 2 Automatic CPI-based COLA	Option 3 One-time Adjustment+ Automatic COLA
PERS	*	*	*
TRS	*	*	*
SERS	*	*	.01%
PSERS	*	*	*
LEOFF	.01%	.01%	.01%
WSPRS	.01%	*	.01%

**Insufficient to immediately impact rates*

Preliminary Fiscal Costs

($ in Millions)	Option 1 One-time Adjustment	Option 2 Automatic CPI-based COLA	Option 3 One-time Adjustment+ Automatic COLA
2009-2011			
Total GFS	$0.0	$0.0	$0.4
Total Employer	0.3	0.3	0.9
25 Year			
Total GFS	6.8	2.4	10.4
Total Employer	$22.5	$7.6	$33.0

Next Steps

- Decide if SCPP wants to develop a proposal based on options presented
  - Staff will prepare draft legislation
  - Public hearing on draft legislation
- Study other options
- Consider this briefing informational and take no further action

8. Fish & Wildlife Service Credit Transfer

Fish And Wildlife Service Credit Transfer

Description of Issue

Fish and Wildlife enforcement officers were mandated into Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System beginning July 23, 2003. When this occurred, existing employees were not allowed to transfer prior Public Employees' Retirement System (PERS) service as Fish and Wildlife Officers into LEOFF Plan 2. Enforcement officers that were members of PERS Plan 1 remained in Plan 1.

Previous bills introduced on this issue only authorized the transfer of prior PERS Plan 2 service to LEOFF Plan 2. The LEOFF Plan 2 Board has asked the Select Committee to consider also allowing prior PERS Plan 3 service to transfer to LEOFF Plan 2. (See attached issue paper for more details.)

Recent Activity on This Issue

The SCPP studied the Fish and Wildlife Service Credit Transfer in 2007. The committee looked at whether to authorize the transfer or not, as well as various methods of funding this transfer. Ultimately, the committee recommended allowing the transfer of prior service and requiring payments by members and the Department of Fish and Wildlife sufficient to keep from increasing the LEOFF Plan 2 contribution rates. (See attached fiscal note for more details.)

Bills to implement the SCPP proposal were introduced in the 2008 Session but did not pass the Legislature (HB 3023/SB 6653). The Senate bill passed the Senate.

Other Materials Included

- Code reviser draft of proposal including Plan 3 members, Z-0217.2.
- Fiscal Note for Z-0217.2

What is The Next Step?

This issue is scheduled for public testimony and possible executive session in the October 21, 2008, SCPP meeting. Members may decide whether or not to recommend the Fish and Wildlife Service Credit transfer proposal to the 2009 Legislature.

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Fish and Wildlife Service Credit Transfer

In Brief

ISSUE

Should the committee once again jointly recommend to the Legislature a proposal to allow Fish and Wildlife enforcement officers to transfer prior PERS Plan 2 service into LEOFF Plan 2? The LEOFF Plan 2 Board has requested the committee jointly recommend this proposal. Additionally, the board has requested the committee study allowing officers with prior service in PERS Plan 3 to also transfer their service into LEOFF Plan 2.

MEMBER IMPACT

This proposal would impact an estimated 81 active members of LEOFF Plan 2 serving as Fish and Wildlife Enforcement Officers with prior PERS Plan 2 or Plan 3 service. 72 officers have prior Plan 2 service, and nine have prior Plan 3 service.

Dave Nelsen
Senior Policy Analyst
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Current Situation

Fish and Wildlife enforcement officers who were members of the Public Employees' Retirement System (PERS) Plan 2 or PERS Plan 3 on or before January 1, 2003, and were employed on July 23, 2003, are required by legislation passed in 2003 to be members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. Service as an enforcement officer prior to that date remains in PERS. Enforcement officers that were members of PERS Plan 1 remained in Plan 1.

History

Prior to the passage of HB 1205 in the 2003 Legislative session, all enforcement officers hired by the Department of Fish and Wildlife were placed into the PERS retirement system. The employees had long sought membership in the LEOFF system, but the responsibilities and authority of these officers were somewhat different than LEOFF-eligible police officers. Generally, the eligibility of a group of employees for membership in LEOFF Plan 2 as law enforcement officers is determined by three things:

- They must be full-time, fully authorized law enforcement officers commissioned and employed to enforce the criminal laws in general.
- Their employer must be a general authority law enforcement agency that has as its primary function the enforcement of the traffic and criminal laws of the state in general.
- They must meet certain qualifications, including the Criminal Justice Training Commission basic law enforcement course.

As summarized by Office of the State Actuary staff in an October 18, 2000, letter to the Joint Committee on Pension Policy, enforcement officers were considered limited authority peace officers prior to 2002, with their primary responsibility to enforce the laws and regulations related to Fish and Wildlife. However, staff research at the time showed their duties often placed them in cooperative working situations with local law enforcement agencies, assisting with actions clearly outside the enforcement of Fish and Wildlife regulations. These situations were fairly common, particularly in the rural areas of the state.

Legislation in 2002 explicitly authorized Fish and Wildlife enforcement officers to be general authority enforcement officers, and designated the Department of Fish and Wildlife as a general authority enforcement agency. This legislation also kept the enforcement officers from qualifying for LEOFF by excluding the employer from the employer definition section in the LEOFF statute.

The legislation in 2003 established the future eligibility in LEOFF Plan 2 for existing employees and all new hires into these positions, but specifically did not allow the transfer of prior PERS service credit earned as enforcement officers into the LEOFF Plan 2 system. These existing members would be dual members in the PERS and LEOFF systems. Public testimony from both labor and employer representatives at the time agreed that they were asking only for prospective LEOFF eligibility, without a transfer of prior service.

The legislative request in 2003 to allow enforcement officers membership in LEOFF Plan 2 did not include the ability to transfer prior PERS service into LEOFF Plan 2.

Since that time, the LEOFF Plan 2 Board endorsed legislation for the 2006 and 2007 Legislative sessions that would have allowed for the transfer of prior PERS Plan 2 service into LEOFF Plan 2. Neither effort was passed by the Legislature. The committee jointly recommended with the LEOFF Plan 2 Board a proposal to the Legislature in 2008 that also allowed the transfer of prior PERS Plan 2 service. This bill passed in the Senate, but did not pass the House.

For the 2009 Legislative session, the LEOFF Plan 2 Board has again requested the committee jointly recommend a transfer proposal. They have also recommended the committee study allowing officers with prior service in PERS Plan 3 to also transfer their PERS service into LEOFF Plan 2.

Examples

The following examples highlight the difference in the total retirement benefit amount between an enforcement officer that retires at the normal age in LEOFF Plan 2 as a dual member or retires with all prior service transferred into LEOFF Plan 2. Dual members are members who retain service in the retirement system they were members of previously. When they retire, they receive a benefit from each system, calculated under each system's rules.

A Fish and Wildlife Enforcement officer had ten years of prior PERS Plan 2 time as an enforcement officer, worked 15 years in LEOFF Plan 2, and now is retiring at age 53, with a Final Average Salary of $50,000 per year.

Members who transfer their prior service to LEOFF Plan 2 will likely receive higher retirement benefits.

Example 1: Retiring as a Dual Member

15 yrs X 2% X $50,000 = LEOFF Plan 2 annual benefit of $15,000

10 yrs X 2% X $50,000 X .31 (reduction factor for 12 year early retirement) = PERS Plan 2 annual benefit of $3,100

Total annual benefit of ***$18,100.***

Example 2: Retiring With All Service in LEOFF

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

Policy Analysis

The policy question is whether the current LEOFF Plan 2 Fish and Wildlife Enforcement Officers should be allowed to transfer prior PERS service as enforcement officers into the LEOFF Plan 2 system.

Dual membership provisions help members retain the value of the retirement benefit they will receive for the time worked in their previous retirement system.

Currently, the policy of dual membership is in place to provide a cost effective way to help retain the value of service credit earned in a prior system under the prior system's rules. Are there compelling reasons why the dual membership status is insufficient in this situation?

Additionally, when service from one system is transferred to a system with a higher level of benefits, a financial liability is created. How that liability is paid for becomes part of the policy deliberations about the transfer. Should the affected members and employers be the only parties that pay for the transfer, and if so, in what proportion for each? Alternatively, should the costs be socialized throughout the plan so everyone in the plan pays through increased contribution rates, if necessary?

There are two key questions:

1. *Do you keep the policy of dual membership in place and not allow the transfer of prior service?*
2. *If the transfer is allowed, then who pays for the increased cost of moving the PERS service to LEOFF Plan 2?*

To address these questions, we can first look at what has been the historical practice in LEOFF Plan 2 when eligibility has been expanded to include former PERS duties. There have been four prior instances where other PERS members were allowed to become members of LEOFF. In each case, prior PERS service was allowed to be transferred, although the funding models to pay for the increased liabilities varied.

The following chart displays information about these four prior situations, including the year the expansion took place, what members were included in the eligibility change, what payment was required of the affected member to transfer prior service, what corresponding payment was required of the affected member's employer if the member paid their share, and finally, was their additional liability socialized over all members and employers of the plan?

YEAR	Members Affected	Cost to Affected Member	Cost to Affected Employer	Additional liability socialized by plan? (Y/N)
1993 SHB 1744	Port and university police officers	Difference in member contribution rates, plus interest	Difference in PERS employer rate and the LEOFF employer and state contribution rates, plus interest amount sufficient to prevent increased rates	N
1996 SHB 2191	Higher Ed fire fighters	Difference in member contribution rates, plus interest	Difference in PERS employer rate and the LEOFF employer and state contribution rates, plus interest, and an additional amount sufficient to ensure the LEOFF rates would not increase due to the transfer	N
2003 SHB 1202	Prior PERS EMTs whose jobs were relocated to a fire district and they became fire fighters	Difference in member contribution rates, plus interest	None	Y
2005 HB 1936	Current PERS EMTS working for a LEOFF employer	Difference in member contribution rates, plus interest	An amount sufficient to ensure the LEOFF contribution rates will not increase due to the transfer	N

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

In each of the four above cases, the member's prior time in PERS was allowed to transfer into LEOFF. The only consistency in the funding, however, was the amount required to be paid by the member. The nature of the prior service in the four instances also varied. For example, EMT service alone had long been considered PERS service, until 2005 Legislation amended the definition of LEOFF-eligible duty to include EMT time. As discussed earlier, for the Fish and Wildlife Enforcement Officers, the duties and authority granted them over time grew into more LEOFF-like service, but may not have always been as similar as they were in 2003.

Other Systems

There are also examples within the other retirement systems administered by the State of individuals performing the same job who are moved to a different retirement system.

- In 2000, existing PERS Plan 2 members of school and educational service districts had all their prior service transferred to the School Employees' Retirement System (SERS) Plan 2.
- In 2002, PERS Commercial Vehicle Enforcement Officers (CVEO) became eligible for the WSPRS, and prior service as a CVEO was allowed to be transferred.
- In 2006, PERS Plan 2 and 3 members could transfer to the Public Safety Employees' Retirement System (PSERS), but their prior PERS service remained in PERS.

Other Washington State systems addressed prior service transfers based upon the unique circumstances of the situation.

There doesn't appear to be a consistent application of a prior service transfer policy to each of the above situations. All but PSERS allowed prior service to transfer, and the SERS example mandated the transfer. The SERS example is the only situation where the benefits in the two systems affected were equivalent and where the affected individuals were not moving to a system with a higher benefit level. What the disparity shows, is that each situation was treated uniquely, and may have had other compelling reasons to justify the decisions made regarding the transfer of prior service.

Other States

Other peer state's systems have expanded eligibility. However, as in Washington, it appears the decision whether to allow the transfer of prior service was made based on the circumstances of each expansion.

A look at similar situations in our comparative states provides a general mix of how this situation has been handled over time, even within the same state. The state of California, for example, is indicative of other states' practice, and has seen significant expansion of their public safety plan. In all cases save one, where the public safety eligibility requirements were expanded to include members previously reported in their general plan, the prior service was also moved into the public safety plan. The only exception to allowing prior service was the latest transfer, in 2005, where some 4,000 employees in various job classes were allowed into the system, but only on a prospective basis. According to staff of the system, the main reason for disallowing the transfer in this case was the cost.

Possible Options

The Committee has two primary options:

Option 1: Maintain the current policy of dual membership for the prior service in PERS.

Option 2: Recommend allowing some form of prior service transfer.

The **first option** allows the enforcement officers to maintain value of their prior service according to the original plan rules through dual membership, and is in keeping with the original requests of the labor and employer representatives who backed the legislation in 2003. While this doesn't appear to be consistent with the past practice in LEOFF Plan 2, the examples from the other systems show in those cases that prior service transfers were addressed based upon their own unique circumstances.

One argument against dual membership in these situations was in the House bill analysis for HB 1202. The argument made was that though the dual membership provisions exist, given the wide difference in the normal retirement ages for PERS Plan 2 and LEOFF Plan 2 (age 65 and age 53), only a greatly reduced PERS 2 benefit would be available to the member at the LEOFF 2 normal retirement age. This reduction was demonstrated in our earlier example.

The **second option** is consistent with past practice in LEOFF Plan 2, and represents the current wishes of the affected stakeholders. While it doesn't match with the use of dual membership, it recognizes the impact of disparate normal ages of retirement.

Funding the Transfer

If the committee recommends the option to transfer prior PERS service, several questions arise regarding the funding of the transfer:

1. If a member payment is required, how much should it be and how long should the member have to elect and pay for the transfer of service?
2. If an employer payment is required, how much should it be and how long should the employer have to pay?
3. Should any amount of the liability be socialized over all members and employers in the plan?

With regard to the first question, past practice in LEOFF Plan 2 has required the member to pay the difference in the PERS 2 member contributions and the LEOFF 2 member contributions, plus interest, and provide a window to complete that payment, usually five years. There is no past practice for transferring prior PERS Plan 3 service. However, other payment options exist. For example, the proposal could require the employee to pay the full actuarial cost of the prior service in the LEOFF system. Given the value of the service, the cost could be high, but it would be a compromise between the current dual membership status and the employer paying for the benefit enhancement.

As to the employer payment, the past practice is generally to pay an amount sufficient to keep contribution rates from ever increasing due to the transfer. A payment of this nature makes the question of socialization moot. The one time in LEOFF Plan 2 the employer didn't make this type of payment was the 2003 EMT legislation. In that situation, the remaining liability was socialized throughout the plan. However, the socialized cost would not have been sufficient to cause an immediate rate increase in the 2003-2005 Biennium.

New Consideration for this Interim

The LEOFF Plan 2 Board has again requested the committee jointly recommend this transfer proposal. Additionally, the board has requested the committee study allowing officers with prior service in PERS Plan 3 to also transfer their service into LEOFF Plan 2.

For the 2009 Legislative session, the LEOFF Plan 2 Board has again requested the committee jointly recommend a transfer proposal. The board also recommended the committee study allowing officers with prior service in PERS Plan 3 to also transfer their PERS service into LEOFF Plan 2.

The proposal to the Legislature on this issue in 2006 and 2007 from the LEOFF Plan 2 Board, and the jointly recommended proposal of the committee and the board in 2008, allowed the transfer of prior PERS Plan 2 service to the LEOFF system. The details of the proposals are as follows:

- Members who elect to transfer their prior service pay the difference in the member contribution rates between PERS 2 and LEOFF 2, plus interest.
- Members would have five years to complete payment, but service credit would not be transferred prior to the end of the five-year waiting period.
- Upon completion of the five-year waiting period, the Department of Fish and Wildlife would have one year to pay a sum sufficient to ensure the LEOFF Plan 2 rates would not increase at any time due to this transfer.

Why Didn't the Proposals Include Members with Prior PERS Plan 3 Service?

Enforcement Officers with prior PERS Plan 3 service were excluded from earlier proposals due to possible IRS concerns. DRS clarified with tax counsel that these concerns do not likely apply to this situation.

At the time of the previous proposals on this issue, concern existed about the Internal Revenue Service (IRS) disallowing an additional transfer choice between a Plan 3 and a Plan 2. The Department of Retirement Systems (DRS) has since consulted with tax counsel and clarified the parameters around that IRS concern. This transfer of service from a Plan 3 to a Plan 2 *would not likely cause IRS concern* for the following reasons:

- The transfer that would occur is between two separate systems, PERS and LEOFF.
- The transfer would not affect future contribution rates within the same defined benefit plan.

Should Prior PERS Plan 3 Service be Allowed to Transfer?

Given that this would not cause IRS concern, is there another reason to exclude these officers from transferring their prior service? Except for transferring to PERS Plan 3, there are no other distinguishing differences between these members and the PERS Plan 2 members. Both groups of members perform the same duties and have the same varying levels of experience as enforcement officers. There are currently nine enforcement officers mandated into LEOFF Plan 2 whose prior service is in PERS Plan 3. All nine of the Plan 3 members are younger than the normal age of retirement in Plan 3 and could potentially benefit from the prior service transfer. The additional members in the proposal could increase the cost to the Department of Fish and Wildlife to ensure the rates in LEOFF Plan 2 do not ever increase due to the transfer.

Conclusion

In determining whether to allow the transfer of prior service, the historical practice in LEOFF Plan 2 has been to allow the members moving to the new system the option to transfer their prior service. However, a prior service transfer was not part of the original request by the stakeholders in the 2003 legislation that moved the members into LEOFF Plan 2. Other systems administered by the state of Washington have addressed this issue in variety of ways, each situation based upon their own unique circumstances.

When the transfer has been allowed, the funding of the transfer has generally required:

- A member payment of the difference in contributions between the systems, plus interest.
- An employer payment sufficient to keep the LEOFF 2 rates from ever increasing due to the transfer.

Finally, the clarification of the possible IRS issues with transferring prior PERS Plan 3 service to LEOFF Plan 2 removes the primary reason for excluding these members from past proposals. However, including them in the proposal could result in additional cost to the Department of Fish and Wildlife.

Bill

Attached is a code reviser draft of bill Z-0217.2. This bill draft includes provisions to allow the transfer of prior PERS Plan 3 service.

Stakeholder Input

Correspondence from Kelly Fox, LEOFF Plan 2 Board Chair, is attached.

Fiscal Note

Attached.

Next Steps

This issue is scheduled for public testimony and possible executive session in the October 21, 2008, SCPP meeting. Members may decide whether or not to recommend the Fish and Wildlife Service Credit transfer proposal to the 2009 Legislature.

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The State Actuary

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

May 12, 2008

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 the cooperative working relationship we have shared in the past and look forward to a similar partnership in the future.

I would like to bring several topics back to your attention as you begin preparation for the 2008 interim. It is our hope that the Select Committee on Pension Policy (SCPP) and the Board can work cooperatively on these issues to once again develop legislation. I have provided a brief summary of each topic for your reference:

Interruptive Military Service Credit

Working cooperatively last interim, the Board and the SCPP jointly endorsed a bill that would have eliminated a member's obligation to pay for interruptive military service credit if the member served during a period of war. The Board is once again interested in working cooperatively with the SCPP on the issue and feels the following additional question will need to be further explored:

- Should the benefit apply to all periods of interruptive military service which have not yet been recovered?

Inflationary Adjustment for $150,000 Death Benefit

The Board is interested in once again working with the SCPP to further study the effect of adding an inflationary adjustment to all the state retirement plans that provide the $150,000 death benefit. In addition to last year's study the Board feels following issues will need to be explored further:

- Should an adjustment in the lump sum amount be made to account for inflation since the creation of the benefit?

- Should both the lump sum adjustment and the addition of the inflationary adjustment be included in the bill?

Military Service Death Benefit
The Board and the SCPP jointly recommended legislation to the 2008 Legislature, which would have provided an unreduced annuity to qualifying survivors of members of all plans, who leave employment due to service in the National Guard or Reserves and die while in military service, during a period of war. The Board would like to continue our joint work to eliminate the "early retirement" actuarial reduction applied to the pensions of members who die while honorably serving our country.

Fish and Wildlife Enforcement Officer Service Credit Transfer
The Board and the SCPP also jointly recommended legislation last session that would have permitted Department of Fish and Wildlife Enforcement Officers to transfer service credit earned in the Public Employees' Retirement System (PERS) Plan 2 as enforcement officers into the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. The Board feels the following issue may need to be further explored as well:

- Should PERS 3 members be included in the transfer group?

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

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 30, 2008

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:

At the recent meeting of the Select Committee on Pension Policy (SCPP) the chairman requested that the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF 2 Board) provide a prioritized list of the suggested joint topics that the LEOFF 2 Board would like to work on cooperatively with the SCPP.

During the course of the most recent LEOFF 2 Board meeting we prioritized the suggested topics for cooperation in the following order:

1. **Fish and Wildlife Enforcement Officer Service Credit Transfer**
   Allow FWEO members to transfer their PERS Plan 2 service as enforcement officers to LEOFF Plan 2.

2. **Inflationary Adjustment for $150,000 Death Benefit**
   The $150,000 lump-sum death benefit paid to survivors of public employees who die in the line of duty is not adjusted for inflation.

3. **Interruptive Military Service Credit**
   Members whose public employment is interrupted by military service are required to pay member contributions in order to purchase service credit.

4. **Military Service Death Benefit**
   Beneficiaries of members who die while serving on active duty with the United States Military do not qualify for duty related death benefits.

5. **Purchase of Annuity**
   Members are limited in the amount of money they can convert to a defined benefit by the amount required to purchase 5 years of service.

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.

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

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0217.2/09 2nd draft
ATTY/TYPIST:	LL:cro
BRIEF DESCRIPTION:	Allowing department of fish and wildlife enforcement officers to transfer service credit.

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

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

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

(1) A member of plan 2 who was a member of the public employees' retirement system plan 2 or plan 3 while employed as an enforcement officer for the department of fish and wildlife has the option to make an election no later than December 31, 2009, filed in writing with the department of retirement systems, to transfer all service credit previously earned as an enforcement officer in the public employees' retirement system plan 2 or plan 3 to the law enforcement officers' and firefighters' retirement system plan 2. Service credit that a member elects to transfer from the public employees' retirement system to the law enforcement officers' and firefighters' retirement system under this section shall be transferred no earlier than June 30, 2014, and only after the member completes payment as provided in subsection (2) of this section.

(2)(a) A member who elects to transfer service credit under subsection (1) of this section shall make the payments required by this subsection prior to having service credit earned as an enforcement officer with the department of fish and wildlife under the public employees' retirement system plan 2 or plan 3 transferred to the law enforcement officers' and firefighters' retirement system plan 2.

(b) A member who elects to transfer service credit from the public employees' retirement system plan 2 under this subsection shall pay, for the applicable period of service, the difference between the contributions the employee paid to the public employees' retirement system plan 2 and the contributions that would have been paid by the employee had the employee been a member of the law enforcement officers' and firefighters' retirement system plan 2, plus interest on this difference as determined by the director. This payment must be made no later than June 30, 2014, and must be made prior to retirement.

(c) A member who elects to transfer service credit from the public employees' retirement system plan 3 under this subsection shall transfer to the law enforcement officers' and firefighters' retirement system plan 2, for the applicable period of service, the full balance of the member's defined contribution account within plan 3 as of the effective date of the transfer. At no time will the member pay, for the applicable period of service, a sum less than the contributions that would have been paid by the employee had the employee been a member of the law enforcement officers' and firefighters' retirement system plan 2, plus interest as determined by the director. This transfer and any additional payment, if necessary, must be made no later than June 30, 2014, and must be made prior to retirement.

(d) No later than June 30, 2015, the department of fish and wildlife shall pay an amount sufficient to ensure that the contribution level to the law enforcement officers' and firefighters' retirement system will not increase due to this transfer. Payments made prior to June 30, 2015, are authorized as determined by the department and coordinated with the state actuary.

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

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

(g) If a member who elected to transfer pursuant to this section dies or retires for disability prior to June 30, 2014, the member's benefit is calculated as follows:

(i) All of the applicable service credit, accumulated contributions, and interest is transferred to the law enforcement officers' and firefighters' retirement system plan 2 and used in the calculation of a benefit.

(ii) If a member's obligation under (b) or (c) of this subsection has not been paid in full at the time of death or disability retirement, the member, or in the case of death the surviving spouse or eligible minor children, have the following options:

(A) Pay the bill in full;

(B) If a continuing monthly benefit is chosen, have the benefit actuarially reduced to reflect the amount of the unpaid obligation under (b) or (c) of this subsection; or

(C) Continue to make payment against the obligation under (b) or (c) of this subsection, provided that payment in full is made no later than June 30, 2014.

(h) Upon transfer of service credit, contributions, and interest under this subsection, the employee is permanently excluded from membership in the public employees' retirement system for all service related to time served as an enforcement officer with the department of fish and wildlife under the public employees' retirement system plan 2 or plan 3.

--- END ---

DRAFT
ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**10/13/08**	**Z-0217.2**

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this draft fiscal note based on our understanding of the proposal as of the date shown above. We intend this draft fiscal note to be used by the Select Committee on Pension Policy throughout the 2008 Interim only. If a legislator introduces this proposal as a bill during the next Legislative Session, we will prepare a final fiscal note based on that bill language. The actuarial results shown in this draft fiscal note may change when we prepare our final version for the Legislature.

We advise readers of this draft fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this draft fiscal note as a whole. Distribution of or reliance on only parts of this draft fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This proposal would allow enforcement officers for the Department of Fish & Wildlife (DFW) to convert prior PERS Plan 2 or PERS Plan 3 service to LEOFF Plan 2.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$26,784	$4.2	$26,788
Earned Pensions Not Covered by Today's Assets	N/A	N/A	N/A

Impact on Contribution Rates: (Effective 09/01/2009)

2009-11 State Budget	**PERS**	**LEOFF**
Employee (Plan 2)	0.00%	0.00%
Employer:		
Current Annual Cost	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%
Total	0.00%	0.00%
State		0.00%

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.0	$0.0	($0.1)
Total Employer	$0.0	($0.1)	($0.4)

See the Actuarial Results section of this draft fiscal note for additional detail.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This proposal impacts Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF 2) Retirement System, as well as Plans 2 and 3 of the Public Employees' Retirement System (PERS). This proposal allows LEOFF 2 members to transfer into LEOFF 2 their prior PERS 2 or PERS 3 service credit for periods of employment as enforcement officers for DFW. The proposal specifies Department of Retirement Systems (DRS) may not transfer the service credit prior to June 30, 2014, except for members who become disabled or die during the waiting period. Members have until June 30, 2014, to make their payments. The proposal also specifies the DRS may only transfer service credit after members complete their payments.

Finally, the proposal provides that members who elect to transfer their service credit must transfer all their service as an enforcement officer with DFW under PERS 2 or PERS 3. Furthermore, upon transfer this proposal permanently excludes members from using service related to time served as an enforcement officer with the DFW in PERS 2 or PERS 3.

Effective Date: 90 days after session.

What Is The Current Situation?

Currently, LEOFF 2 members who were members of PERS 2 or PERS 3 while serving as enforcement officers for DFW cannot transfer their prior PERS service to LEOFF 2. They are dual members of PERS 2 or PERS 3 and LEOFF 2 and can retire under portability provisions (Chapter 41.54 RCW).

Who Is Impacted And How?

We estimate this proposal could affect 81 members out of the total 104 active DFW enforcement officers because they have eligible prior service credit in PERS. Furthermore, we expect 61 members will actually receive improved benefits. We expect the remaining members would not elect to transfer service credit because it would not be financially advantageous for them. This proposal would not affect inactive members in LEOFF 2.

We estimate that for a typical member impacted by this proposal, the increase in benefits would be the opportunity for a full retirement at age 53 instead of 65, or a benefit at age 50 with 20 years of service reduced 3 percent for each year under age 53.

This proposal requires Plan 3 members who elect to transfer their eligible service to transfer their entire defined contribution (DC) account balances attributable to the transferred service.

The terms of this proposal include transfer payments made by members and the employer from PERS to LEOFF Plan 2.

Please see Appendix A for more details.

WHY THIS PROPOSL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This proposal has a cost because service credit in LEOFF 2 is more valuable than service credit in PERS. However, it also provides that there shall be no impact to LEOFF 2 contribution rates. Any costs that result from this proposal will be paid as described below.

This proposal also results in a slight savings in PERS because the reduction in liability from the service credit transfer exceeds the value of assets transferred from PERS to LEOFF Plan 2.

Who Will Pay For These Costs?

Members electing to transfer eligible service pay the difference between the PERS contributions they paid while earning the service credit and the contributions they would have paid as a member of LEOFF 2. Members with past service in PERS 3 must pay the balance in their DC accounts attributable to service credit earned as an enforcement officer in DFW, plus an additional amount, if any, to cover the difference between that balance and the contributions they would have paid in LEOFF 2. These amounts are increased with interest as determined by the director of DRS. DRS will transfer the assets associated with the PERS 2 member and PERS employer contributions with interest from PERS to LEOFF 2.

The proposal provides that no later than June 30, 2015, DFW will pay an additional amount to ensure the LEOFF 2 contribution rates do not change. The proposal also allows for payments prior to 2015 as determined by DRS in consultation with the Office of the State Actuary.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed this proposal makes all past PERS service with DFW eligible for transfer to LEOFF 2, and only active DFW enforcement officers may transfer prior service. We assumed members eligible to transfer service credit would elect to transfer that service if the increase in benefits exceeds the additional costs they must pay. See Appendix A for more detail.

We assumed members who transfer service will not receive additional benefits from the transfer until after June 30, 2014. We assumed DRS will perform the calculation of the cost to DFW using annuity factors that use no pre-retirement decrements other than mortality.

We assumed DRS would charge 8 percent interest when calculating additional contributions due from members electing to transfer their service to LEOFF 2. We also assumed an 8 percent rate of return on DC accounts for Plan 3 members.

Otherwise, we developed these costs using the same assumptions as disclosed in the 2007 Actuarial Valuation Report (AVR).

How We Applied These Assumptions

The proposal gives DFW the responsibility for funding the liability increase to LEOFF 2 not covered by the additional member contributions and assets transferred from PERS.

We calculated the additional contributions for each member with prior eligible PERS 2 service by finding the difference between historical LEOFF 2 and PERS 2 contribution rates and multiplying that difference by their estimated past salaries. We estimated salaries at the time the service was earned. We accumulated those contributions with interest to the present. For members with past PERS 3 service, we calculated the contributions they would have paid if they had been in LEOFF 2, accumulated the contributions with interest to the present, and subtracted their DC account balances.

We estimated the assets transferred from PERS 2 to LEOFF 2 as twice the members' contribution account balances. The assets transferred from PERS 3 to LEOFF 2 equal the employer contributions made during the PERS 3 service, with interest.

To estimate the liability in LEOFF 2, we projected members' age, service, and salary to June 30, 2014 or their LEOFF 2 normal retirement age, whichever was later. Then we calculated the members' final average salary at retirement and multiplied it by a deferred annuity factor.

This proposal also affects PERS by decreasing liabilities and assets when members transfer their service to LEOFF. We used a similar method to find the liability savings in PERS, except we found age, service, and salary for these members under PERS rules for retirement.

Otherwise, we developed these costs using the same methods as those disclosed in the AVR.

Special Data Needed

We relied in part on information from the LEOFF Plan 2 Retirement Board and DRS to determine members eligible for the improved benefits under this proposal. The PERS 3 DC balances for eligible members came from annual data provided by DRS. Otherwise, we developed these costs using the same assets and data as disclosed in the AVR.

Please see Appendix A for a detailed description of how we determined who we expect to transfer service under this proposal.

ACTUARIAL RESULTS

How The Liabilities Changed

This proposal would increase the liability in LEOFF 2 by about $7 million. Assets transferred from PERS, additional member contributions, and a payment by DFW will completely offset this cost.

The liability in PERS would decrease by about $2.7 million under this proposal. The estimated transfer of assets from PERS to LEOFF 2, which consists of the member and employer contributions, with interest, would not completely offset this gain to PERS. This results in a small contribution decrease in PERS.

The members eligible to transfer service credit are currently dual members eligible for portability benefits. The transfer could result in additional experience gains for PERS Plans 2 and 3.

The next table shows a summary of costs/(savings) for all parties:

Summary of Costs/(Savings) for All Parties

(Dollars in Millions)	**PERS**	**LEOFF 2**	**Total**
Change in Present Value of Fully Projected Benefits			
(The Value of the Total Commitment to all Current Members)	($2.7)	$7.0	$4.2
Assets Transferred from PERS to LEOFF 2	2.3	(2.3)	0.0
Additional Member Contributions	0.0	(1.8)	(1.8)
Payment from Department of Fish and Wildlife	0.0	(2.9)	(2.9)
Net Change in Present Value of Unfunded Fully Projected Benefits	($0.5)	$0.0	($0.5)

Note: Totals may not agree due to rounding.

We based these costs on the assumption that 61 out of 81 eligible DFW enforcement officers will transfer past PERS service credit to LEOFF 2. The actual cost of this proposal will depend on the number of affected members who elect to transfer past service.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 2/3	**$20,634**	**(2.7)**	**$20,632**
LEOFF 2	**$6,149**	**7.0**	**$6,156**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 2/3	**N/A**	**N/A**	**N/A**
LEOFF 2	**N/A**	**N/A**	**N/A**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not Covered by Current Assets)			
PERS 2/3	**($2,470)**	**(0.5)**	**($2,470)**
LEOFF 2	**($974)**	**0.0**	**($974)**

How Contribution Rates Changed

The decrease in the required actuarial contribution rate does not round down to the minimum supplemental contribution rate of (0.01 percent); therefore, the proposal will not affect contribution rates in the current biennium. However, we will use the unrounded rate decrease to measure the budget changes in future biennia.

Impact on Contribution Rates: (Effective 09/01/2009)		
System/Plan	**PERS**	**LEOFF**
Current Members		
Employee (Plan 2)	0.000%	0.000%
Employer:		
Normal Cost	0.000%	0.000%
Plan 1 UAAL	0.000%	0.000%
Total	0.000%	0.000%
State		0.000%
New Entrants*		
Employee (Plan 2)	0.000%	0.000%
Employer:		
Normal Cost	0.000%	0.000%
Plan 1 UAAL	0.000%	0.000%
Total	0.000%	0.000%
State		0.000%

**Rate change applied to future new entrant payroll and used to determine budget impacts only.*
Current members and new entrants pay the same contribution rate.

How This Impacts Budgets And Employees

We have not included the estimated $3 million payment by DFW in the budget impacts below.

Budget Impacts			
(Dollars in Millions)	**PERS**	**LEOFF**	**Total**
2009-2011			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0
Total State	**0.0**	**0.0**	**0.0**
Local Government	0.0	0.0	0.0
Total Employer	**0.0**	**0.0**	**0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**
2011-2013			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0
Total State	**0.0**	**0.0**	**0.0**
Local Government	0.0	0.0	0.0
Total Employer	**(0.1)**	**0.0**	**(0.1)**
Total Employee	**$0.0**	**$0.0**	**$0.0**
2009-2034			
General Fund	($0.1)	$0.0	($0.1)
Non-General Fund	(0.1)	0.0	(0.1)
Total State	**(0.2)**	**0.0**	**(0.2)**
Local Government	(0.2)	0.0	(0.3)
Total Employer	**(0.4)**	**0.0**	**(0.4)**
Total Employee	**($0.3)**	**$0.0**	**($0.3)**

Note: Totals may not agree due to rounding.

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

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

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The estimated cost to DFW under this proposal is sensitive to the number of members we assume will transfer their PERS service to LEOFF 2. For this pricing exercise we assumed the members who benefit financially from making the transfer would do so. For the sensitivity analysis, we assumed that the members who benefit the most would be the members most likely to transfer their service.

If only the 14 most costly members transfer, the cost to DFW would be $1 million. If between 15 and 33 of the most expensive transfers occur, DFW would be required to contribute about $2 million. If the top 34 or more members transfer, DFW would pay around $3 million. We assumed 61 members would transfer and this generates a $3 million estimated cost for DFW.

Plan 3 members' DC accounts can be impacted by poor stock market performance. We found our estimated Plan 3 transfer count by comparing their DC account balances to the increased value of their benefits if they were to transfer to LEOFF (see Appendix A for more detail). Therefore, given recent economic events, the number of members electing to transfer their past service from PERS to LEOFF could differ from our assumptions.

To model this sensitivity, we decreased the DC account balance for each Plan 3 member by 25 percent and compared the new balances to the increased value of benefits under this proposal. We found an additional four of the nine PERS 3 members would transfer under these conditions. The table below shows that under this scenario, the liability in LEOFF 2, member contributions, asset transfers from PERS to LEOFF, and the charge to DFW would all increase. There would still be a net liability decrease in PERS, but it would be slightly smaller.

Summary of Costs/(Savings) for All Parties if PERS 3 DC Balances were 25% Lower

(Dollars in Millions)	**PERS**	**LEOFF 2**	**Total**
Change in Present Value of Fully Projected Benefits			
(The Value of the Total Commitment to all Current Members)	($2.8)	$8.3	$5.5
Assets Transferred from PERS to LEOFF 2	2.5	(2.5)	0.0
Additional Member Contributions	0.0	(2.4)	(2.4)
Payment from Department of Fish and Wildlife	0.0	(3.4)	(3.4)
Net Change in Present Value of Unfunded Fully Projected Benefits	($0.3)	$0.0	($0.3)

Note: Totals may not agree due to rounding.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this draft fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. This draft fiscal note has been prepared for the Select Committee on Pension Policy.
6. This draft fiscal note has been prepared, and opinions given, in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page one of this draft fiscal note.

This draft fiscal note is a preliminary actuarial communication and the results shown may change. While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Matthew M. Smith, FCA, EA, MAAA
State Actuary

APPENDIX A – Additional Information About the Data We Used

Of the 104 DFW enforcement officers active as of June 30, 2007, we found 81 who had prior service credit in PERS Plans 2 and 3. Among the DFW active records we found a few members with more than the approximately four years of service they could have earned in their current positions since joining LEOFF 2 in 2003. These members probably have past service with other LEOFF agencies. We also observed some active members with no past service in PERS because they began employment after July 2003. Of the LEOFF members with prior PERS service, we found 61 who would likely transfer that service. To determine which members we expect to transfer prior service, we compared estimated liabilities in LEOFF 2 under this proposal with liabilities under current benefit provisions.

We excluded members who become eligible for normal retirement in PERS by June 30, 2014. These members would get the same benefits under portability as provided in this proposal. We also excluded members who become eligible for alternate early retirement in PERS by June 30, 2014. These members would receive smaller reductions in their benefits for early retirement than members with less than 30 years of service. The reduction in PERS benefits would be less costly than the additional contributions they would pay to transfer their PERS service to LEOFF 2.

We excluded members with prior PERS 3 service whose DC account balances were more valuable than the increased lifetime LEOFF benefits they would get under this proposal. These members received a transfer bonus of about 100 percent when they moved their service to Plan 3. Investment returns for these accounts had also been higher than expected from 2003 through 2007. As a result, we found that only two of nine eligible members with past Plan 3 service would likely transfer that service.

If we consider the current market volatility in our analysis, we realize this estimate could change. Recent losses in the stock market could translate to lower future DC account balances. If so, more Plan 3 members might elect to transfer their past service to LEOFF. Please see the section "How the Results Change When the Assumptions Change" for a more thorough description.

The table on the following page shows a demographic summary of the affected members under our best estimate analysis.

Demographic Summary of the Affected Members				
	Count	**Average Service (Years)**	**Average Savings Fund***	**Average Current Salary****
LEOFF Actives	104	4.42	$19,657	$68,776
LEOFF Actives with PERS Service	61	7.76	$18,691	$71,214
PERS Service Range (Rounded, in years)				
0 - 2	17	1.11	$607	$66,981
3 - 5	14	3.38	2,624	70,273
6 - 10	8	7.82	12,916	71,322
11 - 15	12	13.63	36,009	75,197
16 - 20	9	17.69	54,475	75,779
21+	1	22.00	$67,355	$66,621

**PERS 3 amounts represent DC account balances as of June 30, 2008.*

***We use LEOFF 2 salary, effective June 30, 2007, for all records including PERS inactive records.*

GLOSSARY OF ACTUARIAL TERMS

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

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

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

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

- Normal cost.
- Amortization of the unfunded liability.

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

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

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

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

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

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

The Select Committee on Pension Policy

Fish and Wildlife Service Credit Transfer

Dave Nelsen, Senior Policy Analyst
October 21, 2008

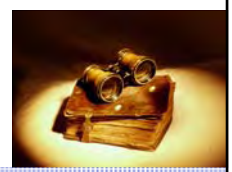
Office of the State Actuary
"Securing tomorrow's pensions today."

The Issue Is…

- Department of Fish and Wildlife (F&W) Enforcement Officers were mandated into LEOFF Plan 2
- Should they be allowed to transfer prior PERS Plan 2 or Plan 3 service into their new plan?

How Did This Issue Get Here?

- Work session in September
- Executive committee forwarded proposal for a public hearing and possible executive session
- SCPP jointly recommended proposal with LEOFF 2 Board to 2008 Legislature
- LEOFF 2 Board requested coordination and to study allowing Plan 3 service to also transfer



The Proposal Before The Committee

- Allows the transfer of prior PERS service
  - Could be PERS Plan 2 or Plan 3 service
- Must be prior service as an enforcement officer
- Affected members and F&W share cost

Why Weren't Plan 3 Members Included?

- Possibility that including them would cause Internal Revenue Service (IRS) concern
- Department of Retirement Systems (DRS) has since clarified possible IRS concern with tax attorneys

Cost Of The Proposal

- Members
  - Plan 2: Difference in contributions and interest
  - Plan 3: Greater of DC account balance or LEOFF Plan 2 contributions and interest
- F&W
  - $3 million by June 30, 2015
    - Total cost in fiscal note based on assumption of the number of officers who will transfer prior service
    - Analysis of cost sensitivity to assumptions in fiscal note
- No impact to LEOFF Plan 2
  - F&W pays the balance of the full actuarial cost

Next Steps For The Committee

- Recommend proposal to the 2009 Legislature
- Take no action

9. 2009 SCPP Meeting Dates

Proposed 2009 SCPP Dates

JANUARY

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

FEBRUARY

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28

MARCH

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

APRIL

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

MAY

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

JUNE

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

JULY

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

AUGUST

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	25	27	28	29
30	31					

SEPTEMBER

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

OCTOBER

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

NOVEMBER

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

DECEMBER

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

Proposed 2009 SCPP Dates

Legend

2009 Session - January 12 - April 26

2009 Holidays

SCPP suggested meeting dates - Tuesday

SCPP suggested subgroup reserved - Monday

NCSL Conference, July 20-25, Philadelphia

Tentative Legislative Assembly Days (*determined Spring 2009)*

SIB - July 16-17 Retreat

SIB - third Thursday *(no meeting in August)*

LEOFF 2 Board - tenative dates, fourth Wednesday

LEAP - No recurring meetings

JLARC - tentative dates, third Wednesday *(varies)*

Election Dates - primary, general

2009 Proposed Dates

Full & Executive	*Subgroup (reserved 2-4 pm)*
January 20	*none scheduled*
February 17	*none scheduled*
March 17	*none scheduled*
April 21	*none scheduled*
May 19	May 18
June 16	June 15
July 14	July 13
August, *no meeting*	*none scheduled*
September 15	September 14
October 20	October 19
November 17	November 16
December 15	December 14