Select Committee on Pension Policy

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

Regular Committee Meeting

December 16, 2008
10:00 a.m. – 12:10 p.m.*
Senate Hearing Room 4
Olympia

AGENDA

10:00 a.m.	**(1)**	**Approval of Minutes**
10:05 a.m.	**(2)**	**Adopt 2009 Meeting Dates – Kelly Burkhart, Administrative Services Manager**

Work Session

10:20 a.m.	**(3)**	**Update on LEOFF 1 Medical Study – Department of Retirement Systems**
10:25 a.m.	**(4)**	**Update on Voluntary Accounts Study – Department of Retirement Systems**
10:30 a.m.	**(5)**	**Update on Washington State Patrol Governance Study – Office of Financial Management**
10:40 a.m.	**(6)**	**Disability Benefits – Dave Nelsen, Senior Policy Analyst**

Public Hearing with Possible Executive Session

10:55 a.m.	**(7)**	**Pre-LEOFF Survivor Benefits - Darren Painter, Policy Analyst**
11:05 a.m.	**(8)**	**Interruptive Military Service Credit - Laura Harper, Policy and Research Services Manager**
11:15 a.m.	**(9)**	**$150,000 Death Benefit - Darren Painter**
11:25 a.m.	**(10)**	**Plan 1 COLA – Darren Painter**
11:40 a.m.	**(11)**	**Disability Benefits - Dave Nelsen**
11:50 a.m.	**(12)**	**Change Membership Default for Plans 2/3 – Dave Nelsen**
Noon	**(13)**	**Fish and Wildlife Service Credit Transfer – Dave Nelsen**
12:10 p.m.	**(14)**	**Adjourn**

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

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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
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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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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 . *none scheduled*
December 15, 2008 . *none scheduled*

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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Preliminary Fiscal Summary

This material is provided by staff to assist the SCPP in its final meeting of the interim. It is not part of any agenda item. The material includes the following:

- Preliminary fiscal summary for legislation already recommended, with 2009-2011, 2011-2013, and 25-year costs.
- Preliminary fiscal summary for proposals being considered at the December meeting (same format), along with a grand total for all proposals.
- Verbal summary of legislation already recommended.

Preliminary Fiscal Summary 2009-11 Biennium

Potential 2008 SCPP Recommendations

(Dollars in Millions)	2009-11 GF-S	2009-11 Local	2009-11 Total ER
Recommended to 2009 Legislature			
Survivors of PERS 1 Inactives	**$0.0**	**$0.0**	**$0.0**
PERS to SERS Auto-Transfer**	**$0.0**	**$0.0**	**$0.0**
HECB Proposal	**$0.0**	**$0.0**	**$0.0**
Military Death Benefits	**$0.0**	**$0.0**	**$0.0**
Lower General Salary Increase Assumption	No Fiscal Impact		
DRS Technical Corrections	No Fiscal Impact		
OSA Request Legislation	No Fiscal Impact		
SERS Past Part-Time Service Credit	**$0.0**	**$0.0**	**$0.0**
Sub Total - Recommended to 2009 Legislature*	**$0.0**	**$0.0**	**$0.0**
December Meeting Proposals			
Revised Disability Benefits with SSA Standard	**$6.6**	**$12.8**	**$25.1**
Change Membership Default for Plans 2/3	**$0.0**	**$0.0**	**$0.1**
Plan 1 COLA	**$6.6**	**$7.3**	**$15.6**
Interruptive Military Service Credit	**$0.0**	**$0.0**	**$0.0**
$150,000 Death Benefit	**$0.0**	**$0.0**	**$0.0**
Fish & Wildlife Service Credit Transfer	**$0.0**	**$0.0**	**$0.0**
Pre-LEOFF Survivor Benefits	Indeterminate Fiscal Cost		
Sub Total - December Meeting Proposals*	**$13.1**	**$20.1**	**$40.7**
Grand Total - Potential 2008 SCPP Recommendations*	**$13.1**	**$20.1**	**$40.7**

Note: Totals may not agree due to rounding.
**All other proposals have no fiscal impact.*
***No Fiscal Impact. Asset / Liability Transfer only.*

Preliminary Fiscal Summary 2011-13 Biennium

Potential 2008 SCPP Recommendations

(Dollars in Millions)	2011-13 GF-S	2011-13 Local	2011-13 Total ER
Recommended to 2009 Legislature			
Survivors of PERS 1 Inactives	**$0.0**	**$0.1**	**$0.1**
PERS to SERS Auto-Transfer**	**$0.0**	**$0.0**	**$0.0**
HECB Proposal	**$0.0**	**$0.0**	**$0.0**
Military Death Benefits	**$0.0**	**$0.0**	**$0.1**
Lower General Salary Increase Assumption	No Fiscal Impact		
DRS Technical Corrections	No Fiscal Impact		
OSA Request Legislation	No Fiscal Impact		
SERS Past Part-Time Service Credit	**$0.0**	**$0.0**	**$0.0**
Sub Total - Recommended to 2009 Legislature*	**$0.0**	**$0.1**	**$0.2**
December Meeting Proposals			
Revised Disability Benefits with SSA Standard	**$7.0**	**$13.3**	**$26.2**
Change Membership Default for Plans 2/3	**$0.9**	**$0.6**	**$1.5**
Plan 1 COLA	**$7.4**	**$8.8**	**$18.3**
Interruptive Military Service Credit	**$0.0**	**$0.1**	**$0.2**
$150,000 Death Benefit	**$0.1**	**$0.2**	**$0.4**
Fish & Wildlife Service Credit Transfer	**$0.0**	**$0.0**	**($0.1)**
Pre-LEOFF Survivor Benefits	Indeterminate Fiscal Cost		
Sub Total - December Meeting Proposals*	**$15.3**	**$23.0**	**$46.6**
Grand Total - Potential 2008 SCPP Recommendations*	**$15.3**	**$23.1**	**$46.8**

Note: Totals may not agree due to rounding.
**All other proposals have no fiscal impact.*
***No Fiscal Impact. Asset / Liability Transfer only.*

Preliminary Fiscal Summary 25 Years

Potential 2008 SCPP Recommendations

(Dollars in Millions)	2009-34 GF-S	2009-34 Local	2009-34 Total ER
Recommended to 2009 Legislature			
Survivors of PERS 1 Inactives	**$0.2**	**$0.7**	**$1.1**
PERS to SERS Auto-Transfer**	**$0.0**	**$0.0**	**$0.0**
HECB Proposal	**$0.0**	**$0.0**	**$0.0**
Military Death Benefits	**$0.6**	**$0.9**	**$1.8**
Lower General Salary Increase Assumption	No Fiscal Impact		
DRS Technical Corrections	No Fiscal Impact		
OSA Request Legislation	No Fiscal Impact		
SERS Past Part-Time Service Credit	**$0.1**	**$0.2**	**$0.4**
Sub Total - Recommended to 2009 Legislature*	**$0.9**	**$1.8**	**$3.3**
December Meeting Proposals			
Revised Disability Benefits with SSA Standard	**$108.7**	**$200.4**	**$399.2**
Change Membership Default for Plans 2/3	**$21.2**	**$16.9**	**$41.7**
Plan 1 COLA	**$60.6**	**$79.2**	**$160.9**
Interruptive Military Service Credit	**$1.1**	**$2.3**	**$3.8**
$150,000 Death Benefit	**$3.5**	**$6.5**	**$11.1**
Fish & Wildlife Service Credit Transfer	**($0.1)**	**($0.3)**	**($0.4)**
Pre-LEOFF Survivor Benefits	Indeterminate Fiscal Cost		
Sub Total - December Meeting Proposals*	**$195.0**	**$305.0**	**$616.4**
Grand Total - Potential 2008 SCPP Recommendations*	**$195.9**	**$306.8**	**$619.7**

Note: Totals may not agree due to rounding.
**All other proposals have no fiscal impact.*
***No Fiscal Impact. Asset / Liability Transfer only.*

SCPP Legislative Proposals For 2009

The SCPP has recommended the following proposals for the 2009 Legislative Session:

1. Survivors of PERS 1 Inactives

Provide the same pre-retirement survivor annuity for inactive members as for active members in the Public Employees' Retirement System (PERS) Plan 1. Recommended May 13, 2008.

2. PERS to SERS Auto-Transfer

End the conditional automatic transfer of membership from PERS to the School Employees' Retirement System and allow certain auto-transferred members to reverse the transfer. Recommended May 13, 2008.

3. HECB Proposal

Allow the Higher Education Coordinating Board to offer Higher Education Retirement Plans to employees not already retired from a state-administered retirement system. Recommended May 13, 2008.

4. Military Death Benefits

Provide an unreduced joint and survivor annuity to the survivor of a member who dies in war while serving in the National Guard or Military Reserves. Recommended July 15, 2008.

5. Lower the General Salary Increase Assumption

Align the statutory general salary increase assumption with the Pension Funding Council's assumption for all plans except the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2. Recommended September 16, 2008.

6. DRS Technical Corrections

Repeal two obsolete sections of Teachers' Retirement System Plan 1 statute. Recommended November 18, 2008.

7. OSA Request Legislation

Clarify how the State Actuary studies salary growth, and codify current practices relating to recommendations of the State Actuary following an actuarial experience study. Recommended November 18, 2008.

8. SERS Past Part-Time Service Credit

Grant half-time service credit to certain Plan 2/3 members who worked at least half-time for an educational employer prior to 1987. Recommended November 18, 2008.

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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
November 18, 2008
DRAFT MINUTES

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington on November 18, 2008.

Committee members attending:

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

Senator Schoesler, Chair, called the meeting to order at 10:20 a.m.

(1) APROVAL OF MINUTES

It was moved, seconded, and carried to: Approve the Regular Committee Meeting October 21, 2008, Draft Minutes.

(2) ASSISTANT ATTORNEY GENERAL REPORT

Mary Ellen Combo, Senior Assistant Attorney General, provided hand-outs entitled,"Attorney-Client Privilege" and "Use of Public Resources and Ballot Measures"and reviewed them with the committee.

No action taken.

(3) VISITING INTERNATIONAL FACULTY

Dave Nelsen, Senior Policy Analyst, reported on "Visiting International Faculty."

No action taken.

(4) CHANGE MEMBERSHIP DEFAULT FOR PLANS 2/3

Dave Nelsen reported on "Change Membership Default for Plans 2/3."

No action taken.

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

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

DRAFT

(5) INTERRUPTIVE MILITARY SERVICE CREDIT

Dave Nelsen reported on "Interruptive Military Service Credit."

No action taken.

(6) PLAN 1 COLA PROPOSALS

Darren Painter, Policy Analyst, reported on "Plan 1 COLA Proposals."

No action taken.

(7) DRS TECHNICAL CORRECTIONS

Darren Painter reported on "DRS Technical Corrections."

It was moved, seconded, and carried to: Recommend "DRS Technical Corrections" bill draft to the 2009 Legislature.

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(8) OSA REQUEST LEGISLATION

Matt Smith, State Actuary, reported on "OSA Request Legislation."

It was moved, seconded, and carried to: Recommend "OSA Request Legislation" bill draft Z-0333.1/09 to the 2009 Legislature.

(9) SERS PAST PART-TIME SERVICE CREDIT

Darren Painter reported on "SERS Past Part-time Service Credit."

It was moved, seconded, and carried to: Recommend "SERS Past Part-Time Service Credit" bill draft to the 2009 Legislature.

Public testimony given by:

Tom Lopp, Public School Employees of Washington

(10) $150,000 DEATH BENEFIT

Darren Painter reported on "$150,000 Death Benefits."

It was moved, seconded, and carried to: Defer action until the December 16, 2008, Regular Committee meeting.

Public testimony given by:

Shawn Merchant, Deputy Director, LEOFF Plan 2 Retirement Board

The meeting adjourned at 11:56 a.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.

2. Adopt 2009 Meeting Dates

Proposed 2009 SCPP Dates

JANUARY						
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FEBRUARY						
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JUNE						
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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

3. Update on LEOFF 1 Medical Study

Presentation by the Department of Retirement Systems

Select Committee on Pension Policy

December 16, 2007

Department of Retirement Systems
Sandy Matheson, Director

Washington Voluntary Accounts

- 2007 legislation directed DRS to design a universal voluntary retirement accounts program
- WVA
  - Defined contribution
  - Available to non-government employers
- DRS Approach
  - Research existing IRS vehicles
  - Research retirement savings status
  - Develop options
  - Legal research on options
  - Stakeholder outreach and comment
  - Submit final report December 2008

LEOFF Plan 1 Medical Benefits

- OPEB liability of cities and counties
- Follow-up to LEOFF Plan 1 report to Governor
- Stakeholder effort in two phases
  - Factbook
  - Solutions
- Progress Report – Phase 1
  - Success in demystifying the facts
  - Positive working group effort
  - Factbook due for review to members
  - Decision on whether to proceed with Phase 2
- No legislative requests anticipated

4. Update on Voluntary Accounts Systems

Presentation by the Department of Retirement Systems

Select Committee on Pension Policy

December 16, 2007

Department of Retirement Systems
Sandy Matheson, Director

Washington Voluntary Accounts

- 2007 legislation directed DRS to design a universal voluntary retirement accounts program
- WVA
  - Defined contribution
  - Available to non-government employers
- DRS Approach
  - Research existing IRS vehicles
  - Research retirement savings status
  - Develop options
  - Legal research on options
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  - Solutions
- Progress Report – Phase 1
  - Success in demystifying the facts
  - Positive working group effort
  - Factbook due for review to members
  - Decision on whether to proceed with Phase 2
- No legislative requests anticipated

5. Update on WSPRS Governance Study

Presentation by the Office of Financial Management

Washington State Patrol Retirement System

Study "the most cost-effective means of ensuring that the pension concerns of the members of the Washington State Patrol Retirement System are adequately and appropriately considered and submitted to the Legislature"

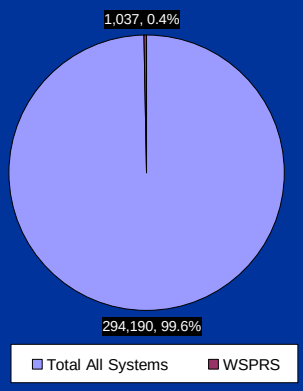
C 128 L 2008 Sec. 102

Office of Financial Management 2008

1947 – WSPRS Board

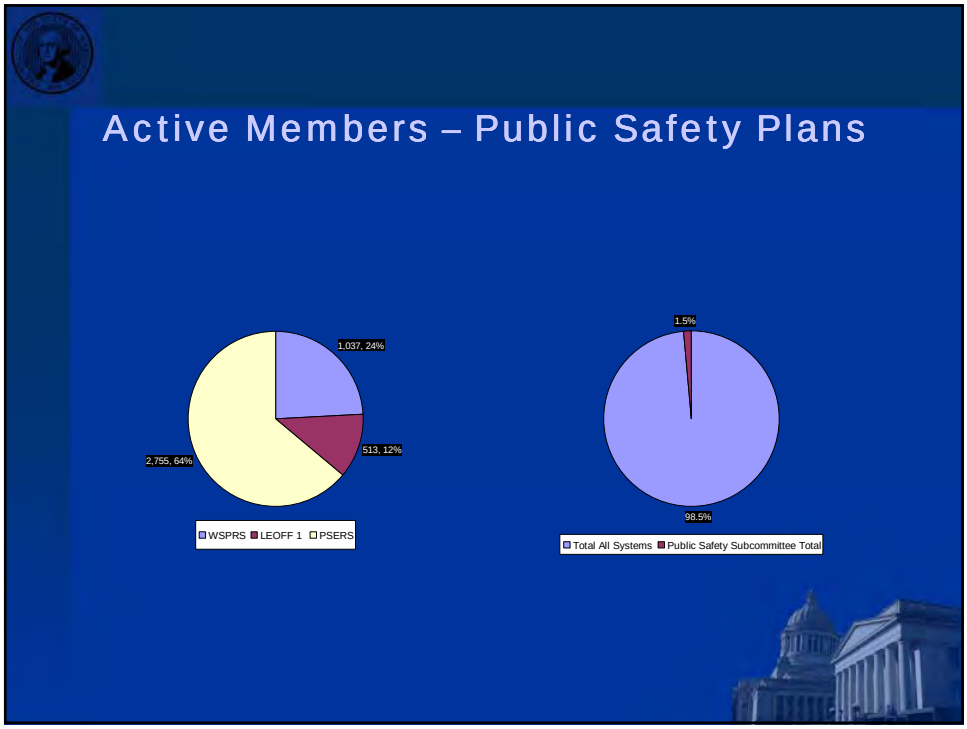
- Chief of the Washington State Patrol (who served as chair);
- Commissioner of Insurance;
- State Auditor;
- Two employee members from western Washington, elected by members of the plan; and
- Two employee members from eastern Washington, elected by members of the plan.

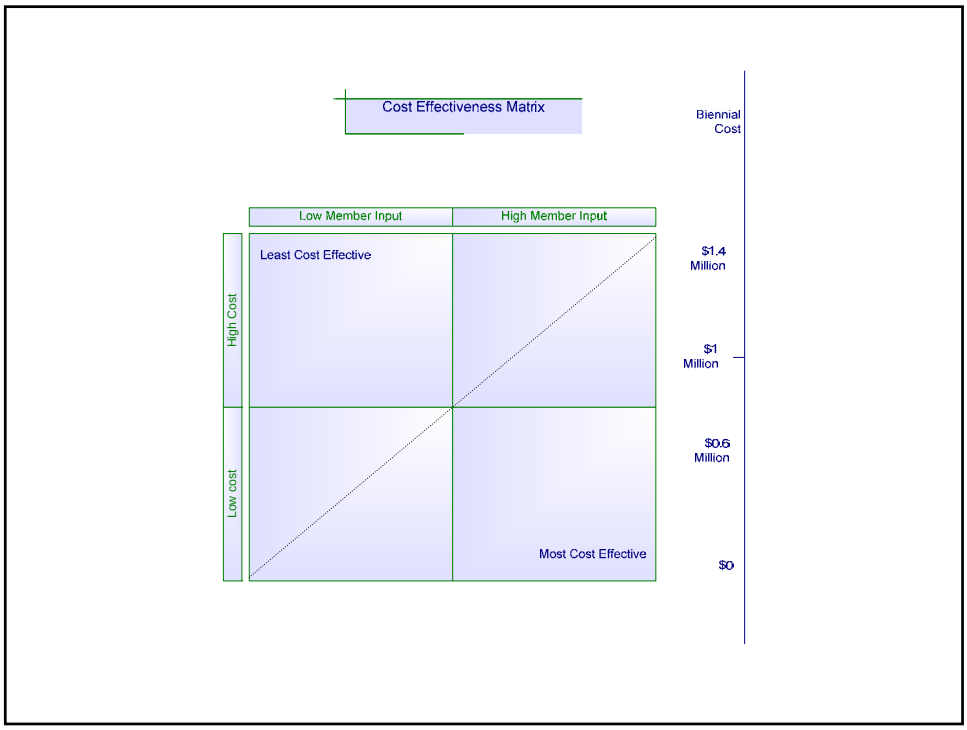
Active Members – WSPRS vs. Total

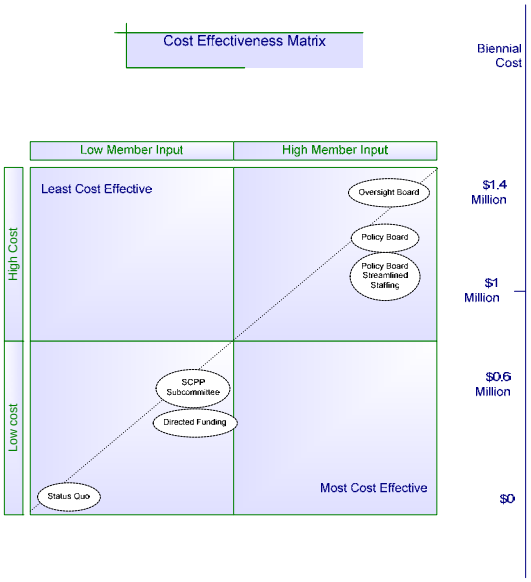


Alternative Structures

- Select Committee on Pension Policy
  - Retain current structure
  - Add WSPRS representative (s)
  - Public Safety Subcommittee
- Policy Board
- Oversight Board


Active Members – Public Safety Plans
1,037, 24%
513, 12%
2,755, 64%
WSPRS
LEOFF 1
PSERS
1.5%
98.5%
Total All Systems
Public Safety Subcommittee Total


Cost Effectiveness Matrix
Biennial Cost
Low Member Input
High Member Input
High Cost
Low cost
Least Cost Effective
Most Cost Effective
$1.4 Million
$1 Million
$0.6 Million
$0



The *directed funding* variation on the existing SCPP is the least expensive approach to providing additional resources to address the concerns of the WSPRS members.

A *standing subcommittee* of the SCPP would provide an ongoing structure and is also relatively low in cost.

A *policy board* would provide the greatest degree of member input of these alternatives, although at a higher cost.

6. 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?

Committee Activity

On October 21, 2008, the Executive Committee instructed staff to draft bill language to implement the stakeholder proposal, and bring the bill draft to the Executive Committee on November 18. The stakeholder proposal called for enhanced pension benefits based upon years of service combined with studying options for broader access to disability insurance for all members.

On November 18, 2008, the Executive Committee voiced concern with two aspects of the stakeholder proposal:

- The cost.
- Whether the current disability standard in the Plans 2/3 was narrow enough to prevent future employment while receiving the enhanced benefits.

The Executive committee directed staff to draft a new bill. The revised proposal would provide the same benefits and insurance study, but the new benefits would be paid only if the members meet the standard of disability used by the Social Security Administration, which is a total disability standard.

Revised Proposal From Executive Committee

- Provide an enhanced earned disability benefit to PERS, SERS, and TRS members with more than ten years of service who meet the standard of disability defined by the Social Security Administration (SSA).

- Supplemental Option: Opt-In Disability Retirement Insurance study performed by the Washington State Institute for Public Policy (WSIPP).

Cost Of The Proposal

Pricing of the revised proposal from the Executive Committee may be available at the December 16, 2008, meeting.

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.
- There are many ways to design a disability benefit within the retirement plans or through insurance products.
- Changing certain aspects of a disability benefit without fully studying the impacts may create additional issues to consider.

Bill Drafts

Three bill drafts are provided

1. Implements the original stakeholder proposal.
2. Implements the revised stakeholder proposal from the Executive Committee which uses the SSA standard for disability.
3. Implements only a study of insurance options by the WSIPP.

Next Steps

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

- Take no further action.
- Recommend a proposal to the 2009 Legislature.
    - See possible options for proposals in Appendix A of the issue paper.
- Study additional options in the next interim.

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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 PERS, TRS, and SERS Plans 2/3 and to study supplemental insurance options.

MEMBER IMPACT

This issue impacts all members of PERS, TRS, and SERS Plans 2/3 who meet the disability standard. See Table 1 for data on current disability retirees in these systems or plans.

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nelsen.dave@leg.wa.gov

Introduction

The Select Committee on Pension Policy (SCPP) is being asked to improve the disability benefits provided in the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS) Plans 2/3. 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 Interims. 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 PERS, TRS, and SERS Plans 2/3, 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.

See Appendix A for new information and analysis specifically related to changing the disability standard in the Plans 2/3.

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 Plans 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.

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

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

A PERS, TRS, or SERS Plan 2 member who becomes disabled and retires at age 50 would receive a benefit 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

Plans 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 PERS, TRS, or SERS Plans 2/3 employees 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 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 Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System 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 interims, 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.

Table3

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 Plans 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, TRS, and SERS 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 Plans 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 Plans 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 Plans 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 Plans 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. Notwithstanding 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 Plans 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. DRS currently doesn't administer insurance benefits, and the HCA 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 Plans 2/3 members regardless of their employer, and for the Plans 2/3 to provide an enhanced earned disability benefit from the pension system.

Committee Activity

On October 21, 2008, the Executive Committee instructed staff to draft bill language to implement the stakeholder proposal, and bring the bill draft to the Executive Committee on November 18. The stakeholder proposal called for enhanced pension benefits based upon years of service combined with studying options for broader access to disability insurance for all members.

On November 18, 2008, the Executive Committee voiced concern with two aspects of the stakeholder proposal:

- The cost.
- Whether the current disability standard in the Plans 2/3 was narrow enough to prevent future employment while receiving the enhanced benefits.

The Executive Committee directed staff to draft a new bill. The new proposal would provide the same benefits and insurance study, but the new benefits would be paid only if the members meet the standard of disability used by the Social Security Administration (SSA), which is a total disability standard. ***See Appendix A for information and analysis of the newly proposed disability standard.***

The Executive Committee also directed staff to bring this new bill draft and any available pricing to the full committee in December for a work session, public testimony, and possible executive action.

Bill Drafts

Three bill drafts are provided:

1. Implements the original stakeholder proposal.
2. Implements the revised proposal from the Executive Committee which uses the SSA standard for disability.
3. Implements only a study of insurance options by the WSIPP.

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.
- Forward a proposal for executive action.
  - See possible options for proposals in Appendix A.
- Study additional options in the next interim.

Appendix A

Changing The Disability Standard In The Plans 2/3

On November 18, 2008, the Executive Committee voiced concern with two aspects of the stakeholder proposal:

- The cost.
- Whether the current disability standard in the Plans 2/3 was narrow enough to prevent future employment while receiving the enhanced benefits.

The Executive Committee directed staff to draft a new bill. The new proposal would provide the same benefits and insurance study, but the new benefits would be paid only if the members meet the standard of disability used by the Social Security Administration, which is a total disability standard.

This appendix will provide information about the current disability standard in the Plans 2/3 and the proposed new standard. It will also attempt to answer the following questions:

1. Will changing the standard address the concerns with the original stakeholder proposal?
2. Does changing the standard impact other aspects of the disability program?

Current Disability Standard In The Plans 2/3

The current "occupational" disability standard in the Plans 2/3 provides benefits to members when they can no longer perform work for a public employer.

Currently, members are eligible to receive their benefit due to disability when they are "totally incapacitated for continued employment by an employer." Administrative code further defines this as "totally incapacitated to perform your job or any other position for an employer for which you are qualified by training or experience." This type of standard is generally referred to as an "occupational" disability standard.

The occupational standard provides benefits to members when they can no longer perform work for a public

employer due to a permanent injury or illness. This benefit is not for disabilities that are likely to improve over time.

Proposed New Standard - The Social Security Standard*

The current proposal to change the eligibility standard in the Plans 2/3 would mirror the standard used by the Social Security Administration for their disability benefit determinations. The general standard for Social Security is based upon an inability to work. Essentially, applicants are approved for a benefit if:

- They cannot do the work they did before.
- SSA decides they cannot adjust to other work because of their medical conditions.
- Their disability has lasted or is expected to last for at least one year or to result in death.

The Social Security Standard is a "total" disability standard, and to qualify members must be unable to perform any substantially gainful employment for any employer, public or private.

This standard is generally considered a "total" disability standard. However, the SSA standard is not necessarily a permanent standard. While most disabilities that are total are also likely to be permanent, some may be total and long-lasting, but not necessarily permanent. Recovery from multiple surgeries related to a serious accident may be an example. Individuals in this situation may have a total disability for a year or more, but they could be reasonably expected to recover and return to work at a later date.

Total disability generally implies the member is no longer able to work in any "substantially gainful" way for any employer, public or private. This determination requires an assessment of whether employees are currently able, or could become able for other employment, based upon their experience, age and education. SSA defines substantially gainful employment as earning at least $980 per month in 2009. This earnings limit is adjusted annually.

* Social Security Administration Website, www.ssa.gov/pgm/links_disability.htm

Analysis

Changing the standard for disability was proposed in response to two voiced concerns with the stakeholder proposal:

- The cost.
- Whether the current disability standard in the Plans 2/3 was narrow enough to prevent future employment while receiving the enhanced benefits.

Attempting to address the concerns by changing the disability standards in the Plans 2/3 raises the following questions:

1. Will changing the standard address the concerns with the original stakeholder proposal?
2. Does changing the standard impact other aspects of the disability program?

Does The Proposed Disability Standard Address The Concerns With The Stakeholder's Proposal?

Cost

The first concern with the original stakeholder proposal was cost. Will changing the standard lower the cost of the proposal? Actuarial pricing for the Executive Committee's revised proposal may be available at the December meeting, but was not available at the time of writing.

Ability To Work While Still Receiving A Disability Benefit

Another concern with the original stakeholder proposal was that the current disability standard in the Plans 2/3 was not strict enough to prevent a recipient from becoming employed elsewhere while still receiving a disability allowance. Is this a likely possibility in the Plans 2/3?

For general government and educational employees there is likely little difference in who qualifies for disability under either an occupational or total disability standard.

The current occupational standard provides benefits to members with permanent disabilities that prevent them from performing *any* work for a public employer for which they are qualified by education/training or experience. It would be rare for public employees and school employees to qualify under this standard and still be able to work elsewhere. Most public and school employers offer some positions that require very little specialized skill or training, such as many entry-level positions. If members' disabilities would allow them to work elsewhere, they would also likely be able to work one of these positions, which would disqualify them under the occupational standard.

There may be more possibility for a teacher with a qualifying disability to work elsewhere. A teacher who meets the occupational standard must be unable to teach. For example, it is possible some medical conditions may prevent teachers from teaching in front of dozens of students, such as anxiety disorders triggered by public speaking, but wouldn't prevent them from other employment without a public speaking requirement.

Does Changing The Standard Impact Other Aspects Of The Disability Program?

Designing a disability program is a combination of complex policy decisions, many of which are often interdependent. Changing certain aspects of that program without fully studying the possible impacts may create additional issues to consider. The following sections address some of the possible impacts of changing the disability standard in this proposal.

Does The Proposed New Standard Match The Design For Providing The Increased Benefit?

The original stakeholder proposal maintained all structures in the current disability program design, but provides more benefit to those who qualify within that design. Implementing a presumably narrower standard for providing increased disability benefits changes one of the structures in the design.

The current benefit structure provides a higher monthly benefit to those members with a disability who are closest to the normal age of retirement. The structure is based partially on age. The design of providing increased benefits to members in the stakeholder proposal mirrors that structure. Younger or middle aged employees who qualify for the benefits will still have a large reduction in their monthly allowance, but they will likely receive that allowance longer than an older employee. Older employees may see a higher monthly amount, but they will likely receive it for less time.

If members receive more benefit when they have a more severe disability, should age be a factor in how much additional benefit they receive?

Linking a narrower standard to increased benefits implies that those most severely disabled, those most in need, should receive additional benefit. The criteria for providing benefits has now changed. Now, the new value introduced into the design of the program is that severity

or need of the members impacts who receives more benefit. If severity or need determines eligibility to receive additional benefit, should age be a factor in determining the amount of the benefit provided? Does the younger employee with a total disability need less than an older employee, given the same years of service? The current structure may no longer be appropriate if there is a new value introduced into the design of how members qualify for benefits.

Should the enhanced benefits be off-set with other benefits the member may receive, such as Workers Compensation benefits?

Coordination With Other Benefits Received

Making the disability standard more restrictive may increase the likelihood that members qualifying for disability may also qualify for other benefits, such as workers compensation benefits for line of duty injuries or illnesses, or social security benefits. When providing enhanced disability benefits in these situations, there may be increased expectation from the public or others that benefits be coordinated to ensure members aren't receiving significantly more income while disabled than while working.

Administrative Impacts

Applying the SSA standard to increased benefits for Plans 2/3 members adds additional complexity to a labor intensive process. Changing the standard creates two tiers of disability benefits; an occupational benefit where the member receives the earned retirement allowance, and a total disability benefit with an enhanced earned retirement allowance. This second tier involves assessing the ability to work within the comprehensive employment market, a specialized area of expertise not currently required of the DRS.

Changing the disability standard creates two tiers of disability benefits, and may increase the complexity and infrastructure needs of the Department.

Additionally, because the SSA standard only requires the disability to last for one year, this may require more frequent follow-up with recipients than is currently required. As discussed earlier, some members may qualify for disability under the SSA standard even if there is a reasonable expectation of recovery from the disabling condition after a year or more. Under the current occupational standard, the disability must be permanent in order to qualify, so the likelihood of members recovering from their disability is less.

Other Systems

With one exception, the other systems and plans within Washington State use an occupational standard for disability.

With the other systems in Washington State, the standard for disability is an occupational standard, with one exception. Generally, the other systems provide a disability benefit if the member no longer can perform duties for an employer in their system. The lone exception is the benefit provided to LEOFF Plan 2 members who are totally disabled in the line of duty. The standard for qualifying for this benefit is the SSA standard. If members qualify, they are provided 70 percent of their final average salary, which is off-set by Workers' Compensation and Social Security benefits such that they can receive a total amount from all sources no greater than 100 percent of final average salary.

Other States

Eight of twelve of our comparative systems use an occupational disability standard for general government or educational employees. The remaining four use a total disability standard.

When evaluating the disability benefits provided to general government or educational employees in twelve of the systems within our comparative states, four states use a total disability standard similar or exactly the same as the SSA standard. Of these four systems, Iowa, Minnesota, Wisconsin, and Idaho, three off-set the benefits provided with workers' compensation benefits if the members were receiving both.

The remaining eight systems provided benefits based upon an occupational disability standard. Of these eight, only Oregon and Missouri off-set the benefits with workers compensation benefits.

None of the twelve systems had different medical standards for disability based upon duty or non-duty distinctions. Four had years of service requirements for non-duty eligibility and none had a service requirement for duty disability. Only one state provided different benefit amounts based upon duty or non-duty distinctions. Florida provides an unreduced earned benefit for both duty and non-duty disabilities, but the minimum benefit provided is 25 percent for non-duty and 42 percent for duty disabilities.

Conclusion

Designing a disability program is a combination of complex policy decisions, many of which are often interdependent. Changing certain aspects of that program without fully studying the possible impacts may create additional issues to consider.

The proposal to narrow the disability standard to that used by the SSA for increased disability benefits in the Plans 2/3 attempted to accomplish two goals; lowering the cost of the proposal and restricting the eligibility for additional benefits to only those that cannot work anymore. Pricing of the new proposal will likely address whether the first goal is met. Analysis of how the occupational standard is applied to general government and educational employees shows there is likely little difference between either standard in who qualifies for disability.

Additionally, other issues are raised when changing the standard. If members receive more benefit when they are more severely disabled, is age an appropriate criteria in determining how much they receive? Since the narrower disability standard may increase the likelihood of members receiving other benefits, should the increased benefits be off-set? Will there be additional pressure from the public to ensure members don't receive duplicative coverage? Finally, do policy makers want to consider the additional administrative complexity and infrastructure for DRS that changing the standard could create?

Research shows that the standards for disability benefits in the other systems and plans within Washington State are occupational standards, with one exception. The systems within our comparative states tend to use occupational standards, but some do use total disability standards.

Possible Options

Option 1: Use SSA standard and proposed method for increasing benefits.

The first option is to maintain the current revised proposal. This would increase disability benefits only for members who qualify under the Social Security standard for

disability. This option would also retain the insurance study requirement of the WSIPP.

Option 2: Use SSA standard but modify method for increasing benefits.

This option would allow policy makers to match the method for increasing benefits with the presumably narrower standard for qualifying. One approach could be to provide increased benefits, but remove age as a determining factor in how the benefits are calculated. Possible methods of achieving this would be to remove the percentage reduction from the normal retirement age, or to provide a flat percentage of salary regardless of age. Provisions to off-set benefits could also be included. This option would also retain the insurance study requirement of the Washington State Institute for Public Policy.

Option 3: Maintain the current standard of disability and proposed method for increasing benefits.

This is the option originally proposed by the stakeholders. It would maintain the current occupational disability standards used in the Plans 2/3. This option would also retain the insurance study requirement of the. WSIPP

Option 4: Move forward with an insurance study only.

The committee could move forward only with requiring the WSIPP to study insurance options for Plans 2/3 members.

Option 5: Continue to study the issue in the next interim.

This option would allow the committee to continue studying the complex issues with increasing disability benefits in the upcoming interim.

Option 6: Take no action.

O:\SCPP\2008\12-16-08 Full\6.Disability_Benefits_Issue_Paper.docx

-----Original Message-----
From: Matt Zuvich [mailto:MattZ@wfse.org]
Sent: Wednesday, September 10, 2008 3:12 PM
To: Nelsen, Dave; Smith, Matt Cc: Bernal Baca; Bev Hermanson; Pam Crone; Thompson, J. Pat; Ehren Flygare;Carlson, Don; Tom Lopp; Cassandra De La Rosa; Adair Dammann; Mike Ryherd; Randy Parr; Luis Moscoso; Sean Gallegos; Ed Gonion; Leslie Main; John Kvamme
Subject: PEPR Disability retirement proposal

Greetings to all,

Attached you will find the requested draft of our coalitions proposal for Disability Retirement. This draft reflects changes suggested in our meeting with OSA staff and Senate Staff. I hope that this will allow for inclusion to the SCPP agenda as discussed.

Please note one change in the draft that followed our conversation with Senate staff that suggests study by WSIPP or appropriate body. This change accommodates a suggestion by senate staff that the insurance commissioners office may be able to perform the study of opt-in retirement insurance and provide recommendations with less cost than WSIPP. Our coalition has no opinion on this suggestion but wanted to make everyone aware of it in case it was useful. We would support any viable study that was most likely to move the issue forward.

Please contact me with any questions or comments using the contact information below.

Matthew D. Zuvich
Legislative and Political Action,
Washington Federation of State Employees
1212 Jefferson St. SE, Ste. 300
Olympia WA. 98501
Office: 360.352.7603 x 636
E-Mail: mattz@wfse.org

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

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.

Dave Nelsen 360.786.6144
Office of the State Actuary
November 11, 2008 (1:48 PM)

Option 1: Original PEPR Proposal

AN ACT Relating to disability benefits in the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, and the school employees' retirement system plan 2 and plan 3; amending RCW 41.32.790, 41.32.880, 41.35.440, 41.35.690, 41.40.670, 41.40.825; and creating a new section.

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

Sec. 1. RCW 41.32.790 and 1995 c 144 s 15 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department upon recommendation of the department shall be eligible to receive an allowance under the provisions of RCW 41.32.755 through 41.32.825. The member shall receive a monthly disability allowance computed as provided for in RCW 41.32.760 and shall have the allowance ((~~actuarially~~))reduced ((~~to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.~~ as follows:

(a) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(b) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(c) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(2) Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

((~~(2)(a)~~)) (3)(a) If the recipient of a monthly retirement allowance under this section dies before the total of the retirement allowance paid to the recipient equals the amount of the accumulated contributions at the date of retirement, then the balance shall be paid to the member's estate, or the person or persons, trust, or organization as the recipient has nominated by written designation duly executed and filed with the director, or, if there is no designated person or persons still living at the time of the recipient's death, then to the surviving spouse, or, if there is neither a designated person or persons still living at the time of his or her death nor a surviving spouse, then to his or her legal representative.

(b) If a recipient of a monthly retirement allowance under this section died before April 27, 1989, and before the total of the retirement allowance paid to the recipient equaled the amount of his or her accumulated contributions at the date of retirement, then the

department shall pay the balance of the accumulated contributions to the member's surviving spouse or, if there is no surviving spouse, then in equal shares to the member's children. If there is no surviving spouse or children, the department shall retain the contributions.

Sec. 2. RCW 41.32.880 and 1995 c 239 s 114 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department shall be eligible to receive an allowance under the provisions of plan 3. The member shall receive a monthly disability allowance computed as provided for in RCW 41.32.840 and shall have this allowance ((~~actuarially~~))reduced ((~~to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.~~ as follows:

(a) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(b) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(c) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(2) Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

((~~(2)~~)) (3) If the recipient of a monthly retirement allowance under this section dies, any further benefit payments shall be conditioned by the payment option selected by the retiree as provided in RCW 41.32.851.

Sec. 3. RCW 41.35.440 and 1998 c 341 s 105 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department upon recommendation of the department shall be eligible to receive an allowance under the provisions of RCW 41.35.400 through 41.35.599. The member shall receive a monthly disability allowance computed as provided for in RCW 41.35.400 and shall have this allowance ((~~actuarially~~))reduced ((~~to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.))~~ as follows:

(a) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(b) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(c) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(2) Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

((~~(2)~~)) (3) If the recipient of a monthly retirement allowance under this section dies before the total of the retirement allowance paid to the recipient equals the amount of the accumulated contributions at the date of retirement, then the balance shall be paid to the member's estate, or the person or persons, trust, or organization as the recipient has nominated by written designation duly executed and filed with the director, or, if there is no designated person or persons still living at the time of the recipient's death, then to the surviving spouse, or, if there is no designated person or persons still living at the time of his or her death nor a surviving spouse, then to his or her legal representative.

Sec. 4. RCW 41.35.690 and 1998 c 341 s 210 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department shall be eligible to receive an allowance under the provisions of plan 3. The member shall receive a monthly disability allowance computed as provided for in RCW 41.35.620 and shall have this allowance ((~~actuarially~~))reduced ((~~to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.~~))as follows:

(a) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(b) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(c) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(2) Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

((~~(2)~~)) (3) If the recipient of a monthly retirement allowance under this section dies, any further benefit payments shall be conditioned by the payment option selected by the retiree as provided in RCW 41.35.220.

Sec. 5. RCW 41.40.670 and 1995 c 144 s 7 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department upon recommendation of the department shall be eligible to receive an allowance under the provisions of RCW 41.40.610 through 41.40.740. The member shall receive a monthly disability allowance computed as provided for in RCW 41.40.620 and shall have this allowance ((~~actuarially~~)) reduced ((~~to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.~~)) as follows:

(a) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(b) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(c) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(2) Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

((~~(2)~~)) (3) The retirement for disability of a judge, who is a member of the retirement system, by the supreme court under Article IV, section 31 of the Constitution of the state of Washington (Amendment 71), with the concurrence of the department, shall be considered a retirement under subsection (1) of this section.

((~~(3)~~)) (4)(a) If the recipient of a monthly retirement allowance under this section dies before the total of the retirement allowance paid to the recipient equals the amount of the accumulated contributions at the date of retirement, then the balance shall be paid to the member's estate, or the person or persons, trust, or organization as the recipient has nominated by written designation duly executed and filed with the director, or, if there is no designated person or persons still living at the time of the recipient's death, then to the surviving spouse, or, if there is no designated person or persons still living at the time of his or her death nor a surviving spouse, then to his or her legal representative.

(b) If a recipient of a monthly retirement allowance under this section died before April 27, 1989, and before the total of the retirement allowance paid to the recipient equaled the amount of his or her accumulated contributions at the date of retirement, then the department shall pay the balance of the accumulated contributions to the member's surviving spouse or, if there is no surviving spouse, then in equal shares to the member's children. If there is no surviving spouse or children, the department shall retain the contributions.

Sec. 6. RCW 41.40.825 and 2000 c 247 s 310 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department shall be eligible to receive an allowance under the provisions of plan 3. The member shall receive a monthly disability allowance computed as provided for in RCW 41.40.790 and shall have this allowance ((~~actuarially~~))reduced ((~~to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.~~)) as follows:

(a) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(b) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(c) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(2) Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

((~~(2)~~))(3) If the recipient of a monthly retirement allowance under this section dies, any further benefit payments shall be conditioned by the payment option selected by the retiree as provided in RCW 41.40.845.

NEW SECTION. **Sec. 7.** During the 2009 interim, the washington state institute for public policy shall study the options available to the legislature for addressing the need of members of the public employees' retirement system plan 2 and plan 3, the teachers'

retirement system plan 2 and plan 3, and the school employees' retirement system plan 2 and plan 3, to have access to long-term disability insurance coverage. Options could include but are not limited to an insurance product available to all members administered by a state agency, expansion of eligibility for the current long-term disability benefits offered by the public employees' benefits board, or other options as developed by the institute. The institute shall report the findings and recommendations of its study to the select committee on pension policy no later than November 1, 2009.

--- END ---

Dave Nelsen 360.786.6144
Office of the State Actuary
December 02, 2008 (9:19 AM)

Option 2: Revised Disability Standard

AN ACT Relating to disability benefits in the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, and the school employees' retirement system plan 2 and plan 3; amending RCW 41.32.790, 41.32.880, 41.35.440, 41.35.690, 41.40.670, 41.40.825; and creating a new section.

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

Sec. 1. RCW 41.32.790 and 1995 c 144 s 15 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department upon recommendation of the department shall be eligible to receive an allowance under the provisions of RCW 41.32.755 through 41.32.825. The member shall receive a monthly disability allowance computed as provided for in RCW 41.32.760 and shall have the allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

(2)(a) A member of the retirement system who becomes totally disabled and is unable to perform any substantial gainful activity as defined in section (b) due to a physical or mental condition that may be expected to result in death or that has lasted or is expected to last at least twelve months shall be eligible to receive a monthly disability allowance computed as provided for in RCW 41.32.760 and adjusted as follows:

(i) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(ii) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(iii) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(b) Substantial gainful activity is defined as average earnings in excess of nine hundred eighty dollars a month in 2009 adjusted annually as determined by the director based on federal social security disability standards.

(c) Any person in receipt of an allowance under the provisions of this section may be required to provide any financial records and is subject to comprehensive medical examinations as deemed necessary by the department in order to determine continued eligibility for such an allowance.

((~~(2)~~))(3)(a) If the recipient of a monthly retirement allowance under this section dies before the total of the retirement allowance paid to the recipient equals the amount of the accumulated contributions at the date of retirement, then the balance shall be paid to the member's estate, or the person or persons, trust, or organization as the recipient has nominated by written designation duly executed and filed with the director, or, if there is no designated person or persons still living at the time of the recipient's death, then to the surviving spouse, or, if there is neither a designated person or persons still living at the time of his or her death nor a surviving spouse, then to his or her legal representative.

(b) If a recipient of a monthly retirement allowance under this section died before April 27, 1989, and before the total of the retirement allowance paid to the recipient equaled the amount of his or her accumulated contributions at the date of retirement, then the department shall pay the balance of the accumulated contributions to the member's surviving spouse or, if there is no surviving spouse, then in equal shares to the member's children. If there is no surviving spouse or children, the department shall retain the contributions.

Sec. 2. RCW 41.32.880 and 1995 c 239 s 114 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department shall be eligible to receive an allowance under the provisions of plan 3. The member shall receive a monthly disability allowance computed as provided for in RCW 41.32.840 and shall have this allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that

a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

(2)(a) A member of the retirement system who becomes totally disabled and is unable to perform any substantial gainful activity as defined in section (b) due to a physical or mental condition that may be expected to result in death or that has lasted or is expected to last at least twelve months shall be eligible to receive a monthly disability allowance computed as provided for in RCW 41.32.840 and adjusted as follows:

(i) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(ii) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(iii) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(b) Substantial gainful activity is defined as average earnings in excess of nine hundred eighty dollars a month in 2009 adjusted annually as determined by the director based on federal social security disability standards.

(c) Any person in receipt of an allowance under the provisions of this section may be required to provide any financial records and is subject to comprehensive medical examinations as deemed necessary by the department in order to determine continued eligibility for such an allowance.

(((~~2~~3))) If the recipient of a monthly retirement allowance under this section dies, any further benefit payments shall be conditioned

by the payment option selected by the retiree as provided in RCW 41.32.851.

Sec. 3. RCW 41.35.440 and 1998 c 341 s 105 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department upon recommendation of the department shall be eligible to receive an allowance under the provisions of RCW 41.35.400 through 41.35.599. The member shall receive a monthly disability allowance computed as provided for in RCW 41.35.400 and shall have this allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

(2)(a) A member of the retirement system who becomes totally disabled and is unable to perform any substantial gainful activity as defined in section (b) due to a physical or mental condition that may be expected to result in death or that has lasted or is expected to last at least twelve months shall be eligible to receive a monthly disability allowance computed as provided for in RCW 41.35.400 and adjusted as follows:

(i) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(ii) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(iii) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(b) Substantial gainful activity is defined as average earnings in excess of nine hundred eighty dollars a month in 2009 adjusted annually as determined by the director based on federal social security disability standards.

(c) Any person in receipt of an allowance under the provisions of this section may be required to provide any financial records and is subject to comprehensive medical examinations as deemed necessary by the department in order to determine continued eligibility for such an allowance.

(((~~2~~3))) If the recipient of a monthly retirement allowance under this section dies before the total of the retirement allowance paid to the recipient equals the amount of the accumulated contributions at the date of retirement, then the balance shall be paid to the member's estate, or the person or persons, trust, or organization as the recipient has nominated by written designation duly executed and filed with the director, or, if there is no designated person or persons still living at the time of the recipient's death, then to the surviving spouse, or, if there is no designated person or persons still living at the time of his or her death nor a surviving spouse, then to his or her legal representative.

Sec. 4. RCW 41.35.690 and 1998 c 341 s 210 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department shall be eligible to receive an allowance under the provisions of plan 3. The member shall receive a monthly disability allowance computed as provided for in RCW 41.35.620 and shall have this allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

(2)(a) A member of the retirement system who becomes totally disabled and is unable to perform any substantial gainful activity as defined in section (b) due to a physical or mental condition that may be expected to result in death or that has lasted or is expected to last at least twelve months shall be eligible to receive a monthly disability allowance computed as provided for in RCW 41.35.620 and adjusted as follows:

(i) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(ii) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(iii) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(b) Substantial gainful activity is defined as average earnings in excess of nine hundred eighty dollars a month in 2009 adjusted annually as determined by the director based on federal social security disability standards.

(c) Any person in receipt of an allowance under the provisions of this section may be required to provide any financial records and is subject to comprehensive medical examinations as deemed necessary by the department in order to determine continued eligibility for such an allowance.

((~~(2)~~))(3) If the recipient of a monthly retirement allowance under this section dies, any further benefit payments shall be conditioned by the payment option selected by the retiree as provided in RCW 41.35.220.

Sec. 5. RCW 41.40.670 and 1995 c 144 s 7 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department upon recommendation of the department shall be eligible to receive an allowance under the provisions of RCW 41.40.610 through 41.40.740. The member shall receive a monthly disability allowance computed as provided for in RCW 41.40.620 and shall have this allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

((2)(a) A member of the retirement system who becomes totally disabled and is unable to perform any substantial gainful activity as defined in section (b) due to a physical or mental condition that may be expected to result in death or that has lasted or is expected to last at least twelve months shall be eligible to receive a monthly disability allowance computed as provided for in RCW 41.40.620 and adjusted as follows:

(i) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(ii) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced

three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(iii) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(b) Substantial gainful activity is defined as average earnings in excess of nine hundred eighty dollars a month in 2009 adjusted annually as determined by the director based on federal social security disability standards.

(c) Any person in receipt of an allowance under the provisions of this section may be required to provide any financial records and is subject to comprehensive medical examinations as deemed necessary by the department in order to determine continued eligibility for such an allowance.

((~~(2)~~))(3) The retirement for disability of a judge, who is a member of the retirement system, by the supreme court under Article IV, section 31 of the Constitution of the state of Washington (Amendment 71), with the concurrence of the department, shall be considered a retirement under subsection (1) or (2) of this section.

((~~(3)~~))(4)(a) If the recipient of a monthly retirement allowance under this section dies before the total of the retirement allowance paid to the recipient equals the amount of the accumulated contributions at the date of retirement, then the balance shall be paid to the member's estate, or the person or persons, trust, or organization as the recipient has nominated by written designation duly executed and filed with the director, or, if there is no designated person or persons still living at the time of the recipient's death, then to the surviving spouse, or, if there is no designated person or persons still living at the time of his or her death nor a surviving spouse, then to his or her legal representative.

(b) If a recipient of a monthly retirement allowance under this section died before April 27, 1989, and before the total of the retirement allowance paid to the recipient equaled the amount of his

or her accumulated contributions at the date of retirement, then the department shall pay the balance of the accumulated contributions to the member's surviving spouse or, if there is no surviving spouse, then in equal shares to the member's children. If there is no surviving spouse or children, the department shall retain the contributions.

Sec. 6. RCW 41.40.825 and 2000 c 247 s 310 are each amended to read as follows:

(1) A member of the retirement system who becomes totally incapacitated for continued employment by an employer as determined by the department shall be eligible to receive an allowance under the provisions of plan 3. The member shall receive a monthly disability allowance computed as provided for in RCW 41.40.790 and shall have this allowance actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

Any member who receives an allowance under the provisions of this section shall be subject to comprehensive medical examinations as required by the department. If these medical examinations reveal that a member has recovered from the incapacitating disability and the member is offered reemployment by an employer at a comparable compensation, the member shall cease to be eligible for the allowance.

<u>(2)(a) A member of the retirement system who becomes totally disabled and is unable to perform any substantial gainful activity as defined in section (b) due to a physical or mental condition that may be expected to result in death or that has lasted or is expected to last at least twelve months shall be eligible to receive a monthly disability allowance computed as provided for in RCW 41.40.790 and adjusted as follows:</u>

<u>(i) Members with less than ten years of service shall receive an allowance that is actuarially reduced to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.</u>

(ii) Members with at least ten years of service but less than twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-five.

(iii) Members with at least twenty years of service shall receive an allowance that is reduced three percent per year to reflect the difference in the number of years between age at disability and the attainment of age sixty-two.

(b) Substantial gainful activity is defined as average earnings in excess of nine hundred eighty dollars a month in 2009 adjusted annually as determined by the director based on federal social security disability standards.

(c) Any person in receipt of an allowance under the provisions of this section may be required to provide any financial records and is subject to comprehensive medical examinations as deemed necessary by the department in order to determine continued eligibility for such an allowance.

((~~(2)~~))(3) If the recipient of a monthly retirement allowance under this section dies, any further benefit payments shall be conditioned by the payment option selected by the retiree as provided in RCW 41.40.845.

NEW SECTION. **Sec. 7.** During the 2009 interim, the washington state institute for public policy shall study the options available to the legislature for addressing the need of members of the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, and the school employees' retirement system plan 2 and plan 3, to have access to long-term disability insurance coverage. Options could include but are not limited to an insurance product available to all members administered by a state agency, expansion of eligibility for the current long-term disability benefits offered by the public employees' benefits board, or other options as developed by the institute. The institute shall report the findings and recommendations of its study to the select committee on pension policy no later than November 1, 2009.

Dave Nelsen 360.786.6144
Office of the State Actuary
December 02, 2008 (9:19 AM)

Option 3: Insurance Study By WSIPP Only

AN ACT Relating to a study of disability insurance options for members in the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, and the school employees' retirement system plan 2 and plan 3; and creating a new section.

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

NEW SECTION. **Sec. 1.** During the 2009 interim, the washington state institute for public policy shall study the options available to the legislature for addressing the need of members of the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, and the school employees' retirement system plan 2 and plan 3, to have access to long-term disability insurance coverage. Options could include but are not limited to an insurance product available to all members administered by a state agency, expansion of eligibility for the current long-term

disability benefits offered by the public employees' benefits board, or other options as developed by the institute. The institute shall report the findings and recommendations of its study to the select committee on pension policy no later than November 1, 2009.

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Dave Nelsen 360.786.6144
Office of the State Actuary
December 16, 2008 (1:10 PM)

Option 5. Disability Benefit Study By WSIPP with Support of OSA

AN ACT Relating to a study of disability benefit options for members of the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, and the school employees' retirement system plan 2 and plan 3; and creating a new section.

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

NEW SECTION. **Sec. 1.** During the 2009 interim, the Washington state institute for public policy, with the assistance and support of the Office of the State Actuary, shall study the options available to the legislature for addressing the needs of members of the public employees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, and the school employees' retirement system plan 2 and plan 3, to have adequate disability benefit coverage through disability benefits under the public pension systems, through access to long-term disability insurance coverage, or

a combination of both. Options could include but are not limited to recommended statutory changes to the public pension systems, an insurance product available to all members administered by a state agency, expansion of eligibility for the current long-term disability benefits offered by the public employees' benefits board, or other options as developed by the institute. The institute shall report the findings and recommendations of its study to the select committee on pension policy no later than November 1, 2009.

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The Select Committee on Pension Policy

Disability Benefits

Dave Nelsen, Senior Policy Analyst

December 16, 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
- Does the SCPP want to recommend a proposal?

Committee Activity

- Work session in October
  - Broader policy
  - Stakeholders' proposal
- Executive Committee recommended proposal in November
  - Revised the stakeholder's proposal
- Work session on Executive Committee recommendation
- Public hearing and possible formal action later in agenda

Key Policy Questions

- Should the Plan 2/3 disability benefits be increased?
- If so, should they be increased through
  - Pensions?
  - Insurance?
  - Both?
- Benefits are a product of the design
  - Needs?
  - Values?
  - Affordability?

Original Stakeholder Proposal

- A combination option:
  - 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
    - WSIPP study and make recommendations to guarantee member access
- Other policy decisions made in the proposal
  - No distinction between duty and non-duty
  - Maintains the current standard for disability qualification
  - Does not call for off-sets with other benefit sources

Revised Proposal

- Executive Committee recommended a revised proposal
  - Must qualify under the disability standard used by Social Security Administration (SSA) to receive enhanced benefits
  - Maintains all other aspects of stakeholder proposal
- Executive Committee considerations behind changing the current standard
  - Concern that current standard allowed members with disabilities to work elsewhere and receive monthly allowance
  - Concern with cost of original proposal

Policy Questions?

- Does changing the standard raise other issues?
- Does changing the standard address the concerns?
  - Working elsewhere while receiving disability allowance
  - Cost

Does Changing Standard Raise Other Issues?

- Creates two tiers of benefits
  - Does new standard work well with the current benefit design?
    - Should benefit amount be partially based on age?
- Should benefits be offset with other benefits?
  - Public expectations
- Administrative impacts
  - Adds complexity
    - May require additional infrastructure and expertise
  - Greater follow-up required
    - SSA standard not necessarily permanent

Working While Receiving A Disability Allowance

- Current standard is occupational disability
  - Qualify if permanently cannot perform any job for an employer
- SSA standard is total disability
  - Qualify if cannot work for at least 12 months
- Little difference for general government employees in who qualifies under either standard
  - Many public employers offer positions with entry-level skills or experience to qualify
- May be some difference in who qualifies for teachers

Cost Of Proposals

Preliminary Total Employer Rate Increase		
System	Option 1 Original Stakeholder Proposal	Option 2 Revised Proposal with New Standard
PERS	0.12%	0.12%
TRS	0.04%	0.02%
SERS	0.10%	0.10%

Cost Of Proposals

Preliminary Fiscal Costs		
($ in millions)	Option 1 Original Stakeholder Proposal	Option 2 Revised Proposal with New Standard
2009-2011		
Total GFS	$7.8	$6.6
Total Employer	$26.9	$25.1
25-Year		
Total GFS	$122.0	$108.7
Total Employer	$419.3	$399.2

What Others Are Doing

- All other systems and plans in Washington, except one, use occupational standard
  - LEOFF 2 total duty disability benefit
- Four of twelve of the systems from other states use a total disability standard
  - Three of these four off-set benefits with Workers Compensation benefits
- Eight of twelve of the systems from other states use an occupational disability standard

In Summary

- Disability program a complex set of interdependent policy decisions
- Changing the standard may raise additional issues
- Changing the standard may have limited impact on the areas of expressed concern

Possible Next Steps

- Recommend a proposal to 2009 Legislature
  - Bill drafts for three options
    1. Original stakeholder proposal (pg. F-67)
    2. Revised proposal with new standard to qualify for enhanced benefits (pg. F-77)
    3. Insurance study only (pg. F-89)
- Take no further action
- Public hearing and possible formal action later in agenda

7. Pre-LEOFF Survivor Benefits

Pre-LEOFF Survivor Benefits

Description Of Issue

The ability of some spouses to collect survivor benefits in the Firemen's Relief and Pension Plans (FRP) is restricted. Some spouses do not qualify for survivor benefits from the plan, and survivor benefits for certain other spouses are stopped upon remarriage.

Stakeholders are proposing two changes:

- Continue paying survivor benefits when a surviving spouse remarries.
- Provide a new, member-paid survivor benefit option for spouses who are otherwise ineligible to receive a survivor benefit from the plan.

The FRP covered fire fighters prior to the creation of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System in 1970. There are no active members remaining in the FRP plan. It is unknown how many retired members or survivors would be impacted by these proposals since the plan is not administered by the state.

Policy Highlights

- The proposed changes are consistent with earlier changes in LEOFF.
- There is also a pre-LEOFF police system with provisions for surviving spouses similar to the FRP.
- Policy-makers may take different views on this issue depending on whether benefits are member-paid or offered at no additional cost to the member.
- Some restrictions on the ability of a spouse to collect a survivor pension may run counter to broader public policy concerns.

Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 session implementing the proposed changes (HB 3020 / SB 6650). The 2008 SCPP bill did not pass the Legislature, but did pass the House and the Senate Committee on Ways and Means.

Executive Committee Recommendation

Reintroduce the 2008 SCPP bill in the upcoming session.

Next Steps

Public hearing with possible executive action.

Materials

- 2007 Issue Paper.
- 2008 stakeholder correspondence.
- Copy of SCPP Bill from 2008 session (HB 3020).
- Updated draft fiscal note.

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FRP (Pre-LEOFF) Survivor Benefits

In Brief

ISSUE

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

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

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

MEMBER IMPACT

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

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

Current Situation

Stakeholder Proposals

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

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

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

Background

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

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

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

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

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

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

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

History

Survivor Benefits in LEOFF

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

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

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

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

Legislative/SCPP

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

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

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

Examples

Remarriage of Surviving Spouse

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

Ineligible Spouse – Post-Retirement Marriage

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

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

Ineligible Spouse – Married at Retirement

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

Policy Analysis

Other Washington Plans

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

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

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

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

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

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

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

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

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

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

Other States

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

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

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

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

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

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

Free vs. Member-Paid Benefits

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

The two stakeholder proposals on FRP survivor benefits generally address the ability of a spouse to qualify for a survivor pension from the plan. Policy-makers may take different views on this issue depending on whether benefits are member-paid or offered at no additional cost to the member.

When survivor benefits are paid for entirely by the member, they may be viewed more along the lines of providing member flexibility in payment options. There may be little perceived need to place restrictions on who may qualify for such benefits since the cost is entirely born by the member. When survivor benefits are paid for by the member, there is little reason from both a plan design and public policy perspective to either limit a spouse's ability to receive a survivor benefit or to stop survivor benefits if a surviving spouse remarries.

When survivor benefits are provided free to the member, there may be greater reason to limit who qualifies.

In contrast, survivor benefits that are provided free to the member may be viewed more along the lines of a public benefit. In such cases, policy-makers may wish to place restrictions on who qualifies for such benefits and limit the circumstances under which the benefits are paid. Such restrictions may serve many purposes such as:

- Lowering the cost of providing survivor benefits.
- Directing benefit dollars to recipients with the greatest perceived need.
- Preventing perceived abuse.

For example, policy-makers may require a spouse to be married to the member for a certain number of years prior to the member's retirement or death. Such a restriction may serve to ensure survivor benefits are going to spouses who were married to the member for some portion of their public career. It may also serve to prevent "death-bed" marriages—where a member who has a short time to live marries simply to provide the free survivor benefit to someone.

Policy-makers may also choose to stop survivor benefits when a surviving spouse remarries. Such a restriction may serve to prevent a spouse from collecting more than one survivor benefit from the plan if they remarry another plan

member. It may also serve to direct survivor pension dollars to those surviving spouses who do not have access to income from another marriage.

Some restrictions may run counter to broader public policy concerns.

While there are reasons from a plan design perspective to restrict the ability of a spouse to collect a survivor pension, some restrictions may run counter to broader public policy concerns. Restrictions related to the length and timing of marriage may result in a member not being able to provide a survivor annuity for a spouse of many years. Restrictions related to collecting survivor pensions after remarriage may serve as a disincentive for a surviving spouse to ever remarry. For those spouses who do remarry, the loss of a survivor pension may create financial difficulty —particularly if the pension had been collected and relied upon for many years.

Cost Implications

The two stakeholder proposals relating to FRP survivor benefits have very different cost implications. Continuing survivor pension payments that would otherwise be stopped upon the remarriage of the surviving spouse has a direct cost to the plan. Because the FRP has been closed for many years and there are no longer any active members, such additional costs cannot be funded over the working lifetime of plan members. It is unknown whether the tax revenue currently allocated to pay the benefits of the plan is sufficient to cover the cost of any additional benefit improvements.

Providing members a new actuarially equivalent survivor benefit option for otherwise ineligible spouses has no cost to the plan—the benefit is entirely paid for by the member. However, implementing such an option may generate administrative costs for the various local governments that still pay FRP benefits. Plan administrators may need to consult with actuaries or other experts to develop the new survivor option.

Members may wish to consider if policy concerns warrant advancing a legislative proposal with an unknown cost.

The total cost of the stakeholder proposals relating to FRP survivor benefits is indeterminate at this time due to lack of available data (see attached fiscal note). The plan is administered by local boards and there is no State oversight or centralized reporting. The cost of the proposals would be entirely born by the local governments

paying the benefits. SCPP members may wish to consider whether the policy concerns warrant advancing a legislative proposal with an unknown cost.

Conclusion

Stakeholders have made two proposals regarding survivor benefits in the FRP. Both of the proposals generally address the ability of a spouse to collect a survivor pension from the plan. One proposal is to continue paying survivor pensions when a surviving spouse remarries. This proposal has a cost that is indeterminate at the present time due to insufficient data. The other proposal is to provide a new member-paid survivor benefit option for an otherwise ineligible spouse. This proposal has no cost to the plan. Both proposals are consistent with current practice in the LEOFF system.

Executive Committee Recommendations

The Executive Committee has not made a recommendation on this issue. However, staff was directed to prepare a bill draft incorporating both stakeholder proposals.

Bill Draft

A code reviser draft of the bill (Z-0765.1/08) is attached. Staff prepared the bill draft based upon HB 1824 from the 2007 Session and current LEOFF statute. HB 1824 was referred to for language to continue survivor benefits upon remarriage. The actuarially equivalent survivor option for otherwise ineligible spouses was modeled after current provisions in LEOFF Plan 1.

Stakeholder Input

Correspondence from:

Richard Warbrouk,

President, Retired Firefighters of Washington.

Draft Fiscal Note

Attached.

Supporting Information

Appendix A

Plans Covering Fire Fighters in Other States				
State	**Survivor Benefit Ceases on Remarriage**	**Restrictions on Eligible Spouse for Service Retirement Survivor Benefit**	**May Designate a Post-Retirement Spouse for Survivor Benefits**	**Pop-Up**
California				
Employer-Provided	No	Married 1 year prior	No	
Member-Paid	No	No	Yes	Yes
Iowa	No	No	Yes	Yes
Missouri	No	No	No	Yes
Ohio	No	No	Yes	Not specified
Colorado	No	No	Yes	Yes
Florida	No	No	Yes	Not specified
Idaho	No	No	Yes	Yes
Iowa	No	No	No	Yes
Minnesota	No	No	No	Yes
Oregon	No	No	Yes	Yes
Wisconsin	No	No	Yes	Yes

Data obtained from plan administrator websites, member handbooks, and other publications available online as of 11/26/2007.

O:\SCPP\2007\12-18-07 Full\6.FRP_Survivor_Benefits.doc

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Office of
The State Actuary

Richard Warbrouck
President

Bob Burtch
Secretary

September 25, 2008

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

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

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

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

During one of the first meetings in 2008 of the Select Committee on Pension Policy it was suggested that the committee consider all of the bills that were introduced last session. Everyone agreed that it would expedite the committee's work to reconsider these bills and reintroduce those without objection. The interim is quickly coming to the end and I don't believe all of the bills from the last session have been discussed. I would respectfully request that HB 1824 be placed on the October 21, 2008 meeting agenda for the committee's consideration.

Currently a surviving spouse of a firefighter who retired under RCW 41.18, the Fireman's Retirement Act (the Prior Act) on a service pension can retain her pension if she remarries. If a survivor of a member who retired on a disability pension remarries she loses her pension. This bill would amend RCW 41.18 and would allow a surviving spouse of a firefighter who retired with a disability retirement under the Fireman's Pension Act to remarry without forfeiting her pension.

The remarriage penalty was originally included in LEOFF 1 but has since been removed. The bill also included a provision to allow retired members who retired under the Fireman's Retirement

Act and who married after retirement to select a survivor option. By exercising this option the member would receive an actuarial reduction in their current pension benefit to offset the cost of the survivor option. This is the same option that is now in LEOFF 1 and other state retirement systems. There would be no cost to the state's general fund.

The cost for the first amendment would be minimal as these members are older and would have retired before the enactment of LEOFF 1 in 1970. Any cost would be paid by the Fireman's Pension Act. The pension funds under this act are currently receiving one mill in property tax revenue and a portion of the tax the state collects on fire insurance premiums.

This bill passed the House Appropriations Committee and was passed in the House in 2007.

In 2008 the bill was voted out of the House, passed out of the Senate Ways and Means Committee and died in Senate Rules at the cut-off.

Thank you for your consideration of this request.

Sincerely,

Dick Warbrouck

Richard C. Warbrouck

Wallis, Keri

From: halcon [halcon@nctv.com]
Sent: Monday, November 24, 2008 7:04 PM
To: Office State Actuary, WA
Subject: Firemen's Pension Fund HB 1824.

I am writing to request that the committee support the amendment to RCW 41.18

Firemen's Pension Fund HB 1824.

Harold Kershner, Seattle Fire Department
Retired

Z-0765.2

HOUSE BILL 3020

State of Washington 60th Legislature 2008 Regular Session

By Representatives Chase, Conway, Fromhold, Bailey, Crouse, Liias, VanDeWege, Hurst, McDonald, Kenney, Simpson, Linville, Ormsby, and Kelley; by request of Select Committee on Pension Policy

Read first time 01/21/08. Referred to Committee on Appropriations.

AN ACT Relating to benefits for the survivors of certain firefighters; amending RCW 41.18.080 and 41.18.100; and adding a new section to chapter 41.18 RCW.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.18 RCW to read as follows:

(1) Any retired firefighter married to a spouse ineligible for survivor benefits under RCW 41.18.040, 41.18.080, and 41.18.100 may choose an actuarially equivalent benefit adopted by the board that pays the retired firefighter a reduced retirement allowance, and upon death such portion of the retired firefighter's reduced retirement allowance as designated by the retired firefighter shall be continued throughout the life of the spouse.

(2) A retired firefighter who married a spouse ineligible for survivor benefits under RCW 41.18.040, 41.18.080, and 41.18.100 prior to the effective date of this section has one year after the effective date of this section to designate their spouse as a survivor beneficiary.

(3) The benefit provided to a child survivor beneficiary under RCW 41.18.040, 41.18.080, and 41.18.100 shall not be affected or reduced by the retired firefighter's selection of the actuarially reduced spousal survivor benefit provided by this section, and shall be equivalent to the amount payable as if the choice under subsection (1) of this section was not made.

(4)(a) Any retired firefighter who chose to receive a reduced retirement allowance under subsection (1) of this section is entitled to receive a retirement allowance adjusted in accordance with (b) of this subsection if:

(i) The retiree's survivor spouse designated in subsection (1) of this section predeceases the retiree; and

(ii) The retiree provides to the board proper proof of the designated beneficiary's death.

(b) The retirement allowance payable to the retiree from the beginning of the month following the date of the beneficiary's death shall be the current monthly amount payable as if the selection under subsection (1) of this section was not made.

Sec. 2. RCW 41.18.080 and 2007 c 218 s 49 are each amended to read as follows:

Any firefighter who has completed his or her probationary period and has been permanently appointed, and sustains a disability not in the performance of his or her duty which renders him or her unable to continue his or her service, may request to be retired by filing a written request with his or her retirement board within sixty days from the date of his or her disability. The board may, upon such request being filed, consult such medical advice as it deems fit and proper. If the board finds the firefighter capable of performing his or her duties, it may refuse to recommend retirement and order the firefighter back to duty. If no request for retirement has been received after the expiration of sixty days from the date of his or her disability, the board may recommend retirement of the firefighter. The board shall give the firefighter a thirty-day written notice of its recommendation, and he or she shall be retired upon expiration of said notice. Upon retirement he or she shall receive a pension equal to fifty percent of his or her basic salary. For a period of ninety days following such disability the firefighter shall receive an allowance from the fund

equal to his or her basic salary. He or she shall during said ninety days be provided with such medical, hospital, and nursing care as the board deems proper. No funds shall be expended for such disability if the board determines that the firefighter was gainfully employed or engaged for compensation in other than fire department duty when the disability occurred, or if such disability was the result of dissipation or abuse. Whenever any firefighter shall die as a result of a disability sustained not in the line of duty, his widow or her widower shall receive a monthly pension equal to one-third of his or her basic salary ((~~until remarried~~)); if such widow or widower has dependent upon her or him for support a child or children of such deceased firefighter, he or she shall receive an additional pension as follows: One child, one-eighth of the deceased's basic salary; two children, one-seventh; three or more children, one-sixth. If there be no widow or widower, monthly payments equal to one-third of the deceased firefighter's basic salary shall be made to his or her child or children. The widow or widower may elect at any time in writing to receive a cash settlement, and if the board after hearing finds it financially beneficial to the pension fund, he or she may receive the sum of five thousand dollars cash in lieu of all future monthly pension payments, and other benefits, including benefits to any child and/or children.

Sec. 3. RCW 41.18.100 and 2007 c 218 s 51 are each amended to read as follows:

In the event a firefighter is killed in the performance of duty, or in the event a firefighter retired on account of service connected disability shall die from any cause, his widow or her widower shall receive a monthly pension under one of the following applicable provisions: (1) If a firefighter is killed in the line of duty his widow or her widower shall receive a monthly pension equal to fifty percent of his or her basic salary at the time of his or her death; (2) if a firefighter who has retired on account of a service connected disability dies, his widow or her widower shall receive a monthly pension equal to the amount of the monthly pension such retired firefighter was receiving at the time of his or her death. If she or he at any time so elects in writing and the board after hearing finds it to be financially beneficial to the pension fund, he or she may

receive in lieu of all future monthly pension and other benefits, including benefits to child or children, the sum of five thousand dollars in cash. If there be no widow or widower at the time of such firefighter's death or upon the widow's or widower's death the monthly pension benefits ((~~hereinabove~~)) provided for under this section shall be paid to and divided among his or her child or children share and share alike, until they reach the age of eighteen or are married, whichever occurs first. ((~~The widow's or widower's monthly pension benefit, including increased benefits to his or her children shall cease if and when he or she remarries: PROVIDED, That~~)) No pension payable under the provisions of this section shall be less than that specified under RCW 41.18.200.

--- END ---

DRAFT
ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**11/24/2008**	**Pre-LEOFF Survivor Benefits**

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 impacts the Firemen's Relief and Pensions (FRP) Plans (1955 Act) by providing a new survivor benefit option and allowing certain survivor benefits to continue if the survivor remarries.

The cost for this proposal is indeterminate as we do not have any data to perform a sufficient analysis.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This proposal impacts the FRP Plans (1955 Act).

This proposal will create a new actuarially equivalent survivor benefit for spouses who are otherwise ineligible to receive ongoing survivor benefits under the plan. If a member who is married to an ineligible spouse elects this option, the member's retirement allowance will be actuarially reduced. Then, upon the death of the member, the reduced retirement allowance will continue throughout the life of the spouse. The selection of this survivor option will not affect any payments due to child beneficiaries. Members

married to an ineligible spouse prior to the effective date of this proposal will have one year from the effective date of this proposal to designate their spouse as a survivor beneficiary. This new survivor option also provides a “pop-up” provision in the event the designated spouse predeceases the member. This provision would increase the amount of the member’s retirement allowance to the amount the member would have received had the member not selected the option.

This proposal also allows survivor benefits, for members who retired on disability or who died in the line of duty, to continue if the survivor remarries.

Assumed Effective Date: 90 days after session.

What Is The Current Situation?

The FRP Plans (1955 Act) provides retirement, disability, and survivor benefits for paid members of a fire department who are actively employed as a fire fighter or a fire dispatcher. The plan closed to new members on March 1, 1970, and the majority of members transferred to the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The plan is administered by local governments with benefits paid out of local government funds.

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

In order to qualify for survivor benefits, a surviving spouse must have been married to the member at the time of the member’s death in service or disability, or married five years prior to the member’s retirement for service. The survivor benefit paid to a surviving spouse of a member retired for service continues even if the spouse remarries, while in all other cases, the survivor benefits stop if the spouse remarries. Survivor benefits paid to child survivors cease when the child marries or attains the age of eighteen.

Who Is Impacted And How?

We do not have any data to determine the number of members impacted by this bill.

DRAFT

WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

Some intrinsic costs exist when offering an actuarially equivalent survivor benefit because local governments will have to administer this additional benefit and possibly obtain actuarial services to calculate the actuarially equivalent values.

The cost to continue a survivor pension when the survivor remarries equals the cost of a benefit continuing when otherwise it would have stopped under the current terms of the plan.

Who Will Pay For These Costs

Local governments administer the FRP Plan with benefits and administrative costs paid out of local funds. The benefit improvements do not impact the LEOFF Plans or any other State retirement plans.

HOW WE VALUED THESE COSTS

The provision of an actuarially equivalent survivor benefit for spouses who are otherwise ineligible is cost neutral as far as the benefit provision itself. An actuarially equivalent benefit has the same present value as the benefit it replaces.

The cost to continue a survivor pension when the survivor remarries is essentially the "loss of savings" to the fund that would have occurred without this provision. We do not have any data to support a fiscal cost determination for this part of the proposal.

Based on information provided in HB 3020 during the 2008 Legislative Session, The City of Seattle, with the largest FRP membership, assumes that no surviving spouse will remarry when budgeting for the Plan. They also report that the number of surviving spouses who remarry is very small. This suggests that the impact of this part of the proposal is a small "loss of savings" to the Plan's fund. If, however, this provision was made retroactive, the cost to provide this benefit back many years, plus the administrative work to find the impacted surviving spouses, could be significant.

DRAFT

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. This draft fiscal note has been prepared for the Select Committee on Pension Policy.
2. 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 1 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

DRAFT

GLOSSARY OF ACTUARIAL TERMS

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

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

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

DRAFT

The Select Committee on Pension Policy

Pre-LEOFF Survivor Benefits

Darren Painter, Policy Analyst

December 16, 2008

Office of the State Actuary

"Securing tomorrow's pensions today."

What Is The Issue?

- Some spouses are not eligible for survivor benefits in the Firemen's Relief and Pension plan
  - Spouses married after retirement
  - Certain surviving spouses who remarry
- The plan covered fire fighters prior to LEOFF (1970)
  - No active members remaining
  - Administered by local governments

Committee Activity

- Studied in 2007
- Recommended bill in 2008 Session
  - Passed House
  - Passed Senate Ways & Means
- Executive Committee recommends reintroducing the 2008 bill
- Opportunity for formal action today

2008 Bill / Executive Committee Recommendation

- Provide a new, member-paid survivor benefit option for spouses not eligible for a benefit from the plan
- Continue paying survivor benefits when a surviving spouse remarries

Policy Highlights

- Consistent with earlier changes in LEOFF
- There is a pre-LEOFF system for police
- Policy-makers may take different views on member-paid vs. free-to-member benefits
- Not providing survivor pensions may raise broader public policy concerns around
  - Supporting spouses
  - Discouraging marriage

Indeterminate Fiscal Impact

- Proposed changes have different cost implications
  - New survivor option is no cost to plan
  - Continuing survivor benefits after remarriage has a cost to plan
- Insufficient data to perform analysis
  - Cost impacts local government only
  - No impact on General Fund

Possible Next Steps

- Reintroduce the 2008 bill to Legislature
  - Bill draft and draft fiscal note in materials
- Take no further action

8. Interruptive Military Service Credit

Interruptive Military Service Credit

Description Of Issue

Should members receive up to five years of free service credit for periods of public employment that were interrupted by military service during a period of war?

After studying this issue in 2007, the SCPP answered yes and proposed a bill to add this benefit to the open plans (Plans 2 and 3). In the 2008 Session SSB 6645 passed Senate Ways and Means but was not heard in the House.

The LEOFF 2 Board asked the SCPP to consider this issue again this interim and to examine more closely how the benefit would be applied.

SCPP Considered Four Options For Applying The Benefit

1. Apply only to service in a period of war that occurs after the bill's effective date (prospective).
2. Apply to all service in a period of war in the member's career; no refunds if a member already purchased past service credit.
3. Apply to all service in a period of war in the member's career; refunds only for ongoing conflicts (Operation Iraqi Freedom and Operation Enduring Freedom, including Afghanistan).
4. Apply to all service in a period of war in the member's career; refunds for any period of war in the member's career.

Executive Committee Recommendation

Option 3: Allow free interruptive military service credit for up to five years of service in a period of war at any time during the member's career, with refunds for payments already made for service in ongoing conflicts.

Next Steps

The matter is scheduled for public hearing and possible executive action.

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Interruptive Military Service Credit

In Brief

ISSUE

Should members receive up to five years of free service credit for periods of public employment that are interrupted by military service during a period of war? If so, should this benefit be applied to past service? Should members who already paid to reinstate past service receive refunds?

MEMBER IMPACT

All active members of the open plans in all systems could potentially be impacted, since all plans provide for interruptive military service credit. OSA estimates that one out of 4,000 members could be impacted by this proposal in a given year.

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

Current Situation

"Interruptive military service" includes the following:

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

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

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

A member who cannot return to public employment due to a total disability must also repay contributions to receive interruptive military service credit. In the case of a military death, the member's survivor can pay what would have been the member cost to receive the service credit.

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

member cost within five years or prior to receiving a benefit.

When the benefit is more generous than what USERRA provides, the Legislature can set parameters for granting the benefit.

The state can be more generous to members than required by USERRA if it so chooses. For example, the Legislature may choose to provide free service credit for members whose public employment is interrupted by military service during a period of war. When the benefit is more generous than what is already provided under federal law, the Legislature can set its own parameters for granting the additional benefit.

Example A

A member voluntarily joins the armed forces during peace time. The member's military service interrupts public employment and the member serves honorably. The member complies with USERRA and repays contributions. The state retirement system must grant interruptive military service credit to the member.

Example B

The Legislature chooses in an upcoming session to improve benefits. The retirement system already complies with USERRA, but the Legislature decides to amend the retirement plan to provide up to five years of free interruptive military service credit for serving honorably during a period of war. [See RCW 41.04.005(2), attached, which defines "period of war."] A plan member can then apply for **free** service credit for those periods of interruptive military service that are defined in **state** law. The parameters for granting free service credit (Example B) are more strict than those for granting standard interruptive military service credit (Example A).

History

The SCPP first studied interruptive military service credit in the 2004 Interim. At that time, the SCPP concluded that USERRA did not adequately address members who were unable to return to public employment due to a death or total disability while serving in the uniformed services. As a result, the SCPP recommended legislation to address this

issue. Chapter 64, Laws of 2005 provided that a member with a total disability or a survivor of a deceased member may purchase service credit for interruptive military service up to the date of death or disability. The law requires repayment of member contributions to reinstate service credit for the period of interruptive military service.

The SCPP also studied interruptive military service in the 2007 Interim. The Committee decided that more should be done for retirement system members whose public employment was interrupted by military service during a period of war.

The SCPP recommended a bill for the 2008 Legislative Session that would have granted up to five years of free service credit for interruptive military service during a period of war.

The SCPP recommended a bill for the 2008 Legislative Session that would have granted up to five years of free service credit for interruptive military service during a period of war. Period of war is defined in RCW 41.04.005(2) (copy attached). The bill was endorsed by the Law Enforcement Officers' and Fire Fighters' Plan 2 Board (LEOFF 2 Board). SSB 6645 (2008) passed Senate Ways and Means and was not heard in the House.

During the current interim, the SCPP received correspondence from the LEOFF 2 Board requesting that the Board and the SCPP work cooperatively to submit a bill in 2009 on this issue. The LEOFF 2 Board seeks to eliminate members' obligation to pay contributions to obtain service credit for interruptive military service during a period of war. The Board identified the issue as priority number three out of five issues for SCPP coordination. The LEOFF 2 Board also requested that the SCPP explore possible retroactive application of the bill.

Policy Analysis

The SCPP Can Give Better Benefits Than Those Required By Federal Law.

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

USERRA treats employees as if they had been continuously employed during the period of interruptive military service.

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

USERRA pre-empts state retirement policy in that all public employers must meet the minimum requirements of this federal law. However as mentioned above, employers have the discretion to go beyond USERRA and grant benefits for periods of interruptive service that are more generous than those available under the act. Employers who choose to go beyond USERRA may do so by using a variety of methods. They can grant free service credit for periods of interruptive military service. They can reward active duty by paying all or part of the contributions that the member would have paid during the period of active duty. Employers may also provide all or part of the member's salary during such periods. Enhanced benefits can be limited as long as the basic USERRA protections remain intact for all interruptive military service in the uniformed services.

Most of Washington's closed plans provide free interruptive military service credit.

Comparison With Other Washington Plans

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

Comparison With Other States

California, Idaho, Iowa, and Wisconsin provide free interruptive military service credit. None of these states limit free credit to declared wars or armed conflicts.

Washington's peer states are split on the issue.

Ohio allows members to purchase interruptive military service credit under USERRA, and also grants free service credit to members under more restrictive conditions, including requirements that members participate in the retirement system on a contributing basis for one year prior to and one year after the interruptive military service.

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

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

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

Reasons For And Against Providing Free Service Credit

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

Free military service credit has pros and cons.

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

The LEOFF 2 Board asked the SCPP to give additional consideration to how the benefit is applied. Four options are outlined here.

How Should The Benefit Be Applied?

In testimony before the SCPP at its July 15, 2008, meeting, the LEOFF 2 Board's Executive Director asked that the SCPP consider possible retroactive application of the bill. There are several options that policy-makers might choose for determining who would be eligible to receive free interruptive military service credit for periods of war. The options range from a prospective application of the benefit to a retroactive application with refunds.

Option 1 – Prospective Service Only

Under this option, only up to five years of interruptive military service after the effective date of the bill would be free and credited to members without repayment of member contributions. This approach is the least generous to members of the four options described but is also the least costly. It is the more common approach to benefit improvements, as it allows for contributions to be adjusted along with the implementation of the benefit improvement. This approach is also consistent with principles of intergenerational equity (meaning that each generation of taxpayers should pay only for the benefits associated with the services rendered to that generation of taxpayers). One possible concern with this approach is that service within the same conflict is treated differently – some is free and some is not.

Option 2 – Past and Prospective Service with No Refunds

Under this option, up to five years of free interruptive military service credit would be available to members who apply for the service credit after the effective date of the bill. Members can apply for interruptive military service credit any time up to their retirement. Thus, active members who have not yet retired could pick up five years of free service credit for any periods of war in their career for which service credit was not already restored by repaying contributions– even those periods that were prior to the effective date of the bill. This option corresponds to last year's SCPP bill.

The SCPP's 2008 bill did not provide for refunds. A concern with this approach has been that persons who already paid for their interruptive military service credit may feel that they are being unfairly treated.

Option 3 – Past and Prospective Service with Refunds for Recent Service

This option seeks to provide the same free service as in Option 2, but would also pay refunds to those who already reinstated service credit for the following periods of war: Operation Iraqi Freedom (Persian Gulf) and/or Operation Enduring Freedom (southern or central Asia, including Afghanistan).

Refunding member contributions creates administrative burdens and increases cost. On the other hand, this approach may provide consistent benefits for all members participating in ongoing periods of war.

Option 4 – Past and Prospective Service with Refunds for All Service

This option would provide the same free service as in Option 2, but would also pay refunds to those who already reinstated service credit for any period of war during their career. Even more refunds would be paid from plan funds than under Option 3. This option would be the most generous to members, the most costly and the hardest to administer. It may help provide consistent benefits for members who participated in periods of war.

Committee Activity

The SCPP had a work session on this issue at its September meeting. The Executive Committee directed staff to bring back preliminary pricing on Options 3 and 4. Staff also updated the pricing for Option 2, which is the same as last year's SCPP-sponsored bill. The SCPP considered this information at its second work session on November 18, 2007.

Executive Committee Recommendation

On November 18, 2008, the Executive Committee recommended Option 3: Allow members to receive up to five years of free service credit for military service in any period of war in the member's career, with refunds for payments already made for service credit during Operation Enduring Freedom or Operation Iraqi Freedom.

Stakeholder Input

Copies of 2008 correspondence from LEOFF 2 Board are attached.

Next Steps

The matter is scheduled for public hearing and possible executive action.

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RCW 41.04.005
"Veteran" defined for certain purposes.

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

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

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

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

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

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

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

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

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

(2) A "period of war" includes:

(a) World War I;

(b) World War II;

(c) The Korean conflict;

(d) The Vietnam era, which means:

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

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

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

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

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

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

Notes:

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

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

RCW 1.12.025(1).

Severability -- 2005 c 247: "If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected." [2005 c 247 § 3.]

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

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

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

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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 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 Fox, Chair

cc: Matt Smith, State Actuary

Laura Harper 360-786-6145
Office of the State Actuary
December 4, 2008 (9:10 AM)

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

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

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

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

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

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

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

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

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

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

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

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

(i) Within ninety days of the member's honorable discharge from the uniformed services of the United States, the member applies for

reemployment with the employer who employed the member immediately prior to the member entering the uniformed services; and

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

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

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

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

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased member made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or eligible child or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

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

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

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

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

director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased

member made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the

department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

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

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

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

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

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

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

<u>(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive</u>

military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased member made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom

and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be

paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

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

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

The department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.35.720 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department ((~~.~~)), or prior to retirement, the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased member made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

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

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

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

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

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

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

<u>(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.</u>

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

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be

estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

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

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

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

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

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased member made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

(2) A member who receives compensation from an employer while on an authorized leave of absence to serve as an elected official of a labor organization, and whose employer is reimbursed by the labor

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

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

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

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

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

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

The department shall establish the member's service credit and shall bill the employer for its contribution required under chapter 239, Laws of 1995 for the period of military service, plus interest as determined by the department. Service credit under this subsection

may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department((.)), or prior to retirement, the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased member made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

(iii) The member pays the employee contributions required under this subsection within five years of the director's determination of total disability or

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the

respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

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

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

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

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

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

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

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

(c) The contributions required under (a)(ii), (d)(iii), or (e)(iii) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be

estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

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

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

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

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

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased member made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with multiple periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

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

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

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

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

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

(D) If the member was commissioned on or after January 1, 2003 and, prior to retirement, the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and who was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

(iii) The contributions required under (b)(i)(B), (b)(iv)(C), and (b)(v)(C) of this subsection shall be based on the compensation the member would have earned if not on leave, or if that cannot be estimated with reasonable certainty, the compensation reported for the member in the year prior to when the member went on military leave.

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

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

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

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

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

(D) If the member was commissioned on or after January 1, 2003 and, prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased member made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

(A) The member obtains a determination from the director that he or she is totally incapacitated for continued employment due to

conditions or events that occurred while serving in the uniformed services;

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

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

(D) If the member was commissioned on or after Janaury 1, 2003 and, prior to retirement, the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

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

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

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

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

For the purposes of this section, "index" means, for any calendar year, that year's average consumer price index for the Seattle-Tacoma-Bremerton Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

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

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

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

(iv) Prior to the distribution of any benefit, provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. If the deceased member made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badge or medal for that service as required in RCW 41.04.005, the surviving spouse or eligible child or children may, prior to the distribution of any benefit and on a form provided by the department, request a refund of the funds standing to the deceased member's credit for up to five years of such service, and this amount shall be paid to the surviving spouse or children. Members with one or more periods of interruptive military service during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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

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

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

(iii) The member pays the employee contributions required under chapter 41.45 RCW within five years of the director's determination of

total disability or prior to the distribution of any benefit, whichever comes first((.)); or

(iv) Prior to retirement the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005. Any member who made payments for service credit for interruptive military service during Operation Enduring Freedom or Operation Iraqi Freedom and was awarded the respective campaign badger or medal for that service as required in RCW 41.04.005 may, prior to retirement and on a form provided by the department, request a refund of the funds standing to his or her credit for up to five years of such service, and this amount shall be paid to him or her. Members with one or more periods of interruptive military service credit during a period of war may receive no more than five years of free retirement system service credit under this subsection.

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ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/03/08**	**Interruptive Mil. Service Credit**

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 and Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System Plan 2 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 up to five years free retirement system service credit for members whose interruptive military service is during a period of war as defined in RCW 41.04.005. It would also provide refunds to members who have already made payments for service during Operation Enduring Freedom and Operation Iraqi Freedom.

Impact on Pension Liability

(Dollars in Millions)	Current	Increase	Total
Today's Value of All Future Pensions	$67,081	$1.3	$67,082
Earned Pensions Not Covered by Today's Assets	$4,957	$0.0	$4,957

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employer:						
Current Annual Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%	0.00%	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	$1.1
Total Employer	$0.0	$0.2	$3.8

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

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement/Change

This proposal impacts the following systems:

- Public Employees' Retirement System (PERS) Plans 2, 3
- Teachers' Retirement System (TRS) Plans 2, 3
- School Employees' Retirement System (SERS) Plans 2, 3
- Public Safety Employees' Retirement System (PSERS)
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
- Washington State Patrol Retirement System (WSPRS) Plan 2

The proposal would eliminate the member obligation to repay member contributions in order to receive up to five years of service credit for interruptive military service during a period of war. In the case of a military death, the survivor would also be relieved of paying the member cost for interruptive military service credit during a period of war. "Period of war" is defined in RCW 41.04.005.

The proposal also provides for refunds of member payments made for up to five years of interruptive military service credit during Operation Enduring Freedom or Operation Iraqi Freedom.

Assumed Effective Date: 90 days after session.

What Is The Current Situation?

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

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

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Who Is Impacted And How?

We estimate that all 120,625 active members of PERS Plan 2, all 24,422 active members of PERS Plan 3, all 6,752 active members of TRS Plan 2, all 51,856 active members of TRS Plan 3, all 17,767 active members of SERS Plan 2, all 33,058 active members of SERS Plan 3, all 2,755 active members of PSERS Plan 2, all 16,099 active members of LEOFF Plan 2, and all 152 active members of WSP Plan 2 could be affected by this bill through improved benefits. However, we only expect approximately 1 out of 4,000 to be impacted in a given year.

We estimate that for a typical Plan 2 member impacted by this bill, the increase in benefits would be free interruptive military service credit versus the choice to pay for interruptive military service credit. For example, a 36 year old male in PERS 2 with 7 years of service and a $46,600 salary would receive free interruptive military service credit valued at approximately $2,500 per year of military service, whereas without this benefit the member could choose to purchase interruptive military service credit for that same amount.

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

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

WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This bill has a cost because the system will now absorb the value of the portion of interruptive military service credit that is free to the affected members.

Who Will Pay For These Costs?

This bill does not allow for an alternate funding method. The individual plans will subsidize the increase in liability that results from this bill in the usual way. The result may be an increase in future contribution rates for members and employers of the respective systems.

HOW WE VALUED THESE COSTS

Assumptions We Made

We valued two pieces separately – future purchases of service credit and refunds of past purchases of service credit.

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For the future purchases of service credit we assumed a certain number of members would purchase service in a given year. We adjusted this number based on which plan the member was in. For example, we assumed that more members in public safety plans would purchase interruptive military service than members in TRS.

Next, we assumed how much service they would buy. We based this assumption on past data. Lastly, based on the same data, we assumed when the service would be purchased. The time when the service is purchased is important because it costs a lot more if it is purchased at retirement rather than within five years of the interruptive military service.

For the refunds of past purchases we used data provided by the Department of Retirement Systems (DRS) to determine how many members will get refunds. Based on the date of interruptive military service we assumed that all military service beginning in 2001 or later would qualify for this proposal.

For more detail please see Appendix A.

How We Applied These Assumptions

We valued two pieces separately – future purchases of service credit and refunds of past purchases of service credit.

For the future purchases of service credit we gathered grouped data for the members of each system. We ran the grouped data through a spreadsheet which models the likelihood of purchasing service credit and the associated cost of the service credit purchase.

For the refunds of past purchases we used the data provided by DRS. We started with the amount of the purchase and added interest until the effective date of this proposal. We then discounted the amount back to 6/30/2007 to be consistent with the future purchases portion.

For more detail please see Appendix B.

Special Data Needed

DRS sent us a file containing all past purchases that have been made for interruptive military service credit. The file contained the member's system, payment date, death date (if applicable), months of service credit purchased, begin date of interruptive service, end date of interruptive service, and payment amount. We relied on all the information provided as complete and accurate.

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

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ACTUARIAL RESULTS

How The Liabilities Changed

This proposal will impact the actuarial funding of the systems by increasing the present value of future benefits payable under the systems as shown below.

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 1	$14,061	$0.0	$14,061
PERS 2/3	20,634	0.5	20,635
PERS Total	**$34,695**	**$0.5**	**$34,696**
TRS 1	11,021	0.0	11,021
TRS 2/3	7,078	0.0	7,078
TRS Total	**$18,099**	**$0.0**	**$18,099**
SERS 2/3	**$2,698**	**$0.0**	**$2,698**
PSERS 2	**$225**	**$0.0**	**$225**
LEOFF 1	4,358	0.0	4,358
LEOFF 2	6,149	0.7	6,150
LEOFF Total	**$10,507**	**$0.7**	**$10,508**
WSPRS 1/2	**$856**	**$0.0**	**$856**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$0.0**	**$3,609**
TRS 1	**2,288**	**0.0**	**2,288**
LEOFF 1	**($939)**	**$0.0**	**($939)**
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 1	$3,990	$0.0	$3,990
PERS 2/3	(2,470)	0.3	(2,469)
PERS Total	**$1,520**	**$0.3**	**$1,521**
TRS 1	2,552	0.0	2,552
TRS 2/3	(1,229)	0.0	(1,229)
TRS Total	**$1,323**	**$0.0**	**$1,323**
SERS 2/3	**($443)**	**$0.0**	**($443)**
PSERS 2	**($2)**	**$0.0**	**($2)**
LEOFF 1	(975)	0.0	(975)
LEOFF 2	(974)	0.4	(973)
LEOFF Total	**($1,949)**	**$0.4**	**($1,948)**
WSPRS 1/2	**($121)**	**$0.0**	**($121)**

Note: Totals may not agree due to rounding.

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How Contribution Rates Changed

The increase in the required actuarial contribution rate does not round up 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 un-rounded rate increase to measure the fiscal budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2009)

System/Plan	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Current Members						
Employee (Plan 2)	0.000%	0.000%	0.000%	0.001%	0.002%	0.000%
Employer:						
Normal Cost	0.000%	0.000%	0.000%	0.001%	0.001%	0.000%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.000%	0.000%	0.000%	0.001%	0.001%	0.000%
State					0.001%	
New Entrants*						
Employee (Plan 2)	0.000%	0.000%	0.000%	0.001%	0.002%	0.000%
Employer:						
Normal Cost	0.000%	0.000%	0.000%	0.001%	0.001%	0.000%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.000%	0.000%	0.000%	0.001%	0.001%	0.000%
State					0.001%	

**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.*

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How This Impacts Budgets And Employees

	Budget Impacts						
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**	**Total**
2009-2011							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employer	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2011-2013							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.1**
Local Government	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Total Employer	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.1**	**$0.0**	**$0.2**
Total Employee	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.1**	**$0.0**	**$0.1**
2009-2034							
General Fund	$0.3	$0.0	$0.0	$0.0	$0.7	$0.0	$1.1
Non-General Fund	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Total State	**0.7**	**0.0**	**0.0**	**0.0**	**0.7**	**0.0**	**1.5**
Local Government	1.1	0.0	0.0	0.0	1.1	0.0	2.3
Total Employer	**1.8**	**0.1**	**0.1**	**0.0**	**1.8**	**0.0**	**3.8**
Total Employee	**$1.3**	**$0.0**	**$0.0**	**$0.0**	**$1.8**	**$0.0**	**$3.2**

Note: Totals may not agree due to rounding.

The analysis of this proposal does not consider any other proposed changes to the systems. 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 draft fiscal note to the extent that actual experience differs from the actuarial assumptions.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions or methods selected for this pricing we varied the following assumption:

- The number of members expected to purchase free interruptive military service credit in the future.

The number of members expected to purchase free interruptive military service credit in the future would have to increase dramatically for this proposal to impact contribution rates in the current biennium. The table below shows the multiple of how many more

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members would need to receive free military service credit before the rate impact would reach 0.005% for each system. For example, in LEOFF 2, the employee rate impact would reach 0.005% if three times as many members as expected receive free interruptive military service credit in the future.

System	Multiple
PERS	16
TRS	175
SERS	67
PSERS	8
LEOFF	3
WSP	35

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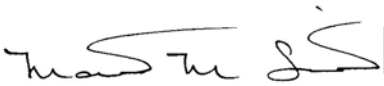
ACTUARY'S CERTIFICATION

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 and Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board.
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 1 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

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APPENDIX A – ASSUMPTIONS WE MADE

We valued two pieces separately – future purchases of service credit and refunds of past purchases of service credit.

For the future purchases of service credit we assumed a certain number of members would purchase service in a given year. We used data from a DRS service credit report dated September 30, 2006 to estimate the number of members who would purchase future service. We used the average number of members from PERS over the 5-year period, which resulted in an assumption of 0.000214, or 1 in every 4,700 per year. We adjusted this number based on which plan the member was in. For example, we assumed that more members in public safety plans would purchase interruptive military service than members in TRS. More specifically, TRS and SERS were assumed to be at half of the assumed rate, whereas PSERS was assumed to be 1.5 times the assumed rate, and LEOFF and WSPRS were assumed to be at twice the assumed rate.

Next, we assumed how much service they would buy. We based this assumption on the same service credit report mentioned above. The average amount of service credit purchased was 10.6 months, which we used as the assumption in this pricing.

Lastly, based on the same data, we assumed when the service would be purchased. The time when the service is purchased is important because it costs a lot more if it is purchased at retirement rather than within five years of the interruptive military service. 209 of the 214 purchases were made within five years of the interruptive military service, while 5 of the 214 purchases were made at retirement. We used this data for our assumption of future purchases.

For simplicity, we assumed the population affected would be 100 percent male.

For the refunds of past purchases we used data provided by the DRS to determine how many members will get refunds. We assumed that all military service beginning in 2001 or later would qualify for refunds.

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

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APPENDIX B – HOW WE APPLIED THESE ASSUMPTIONS

We valued two pieces separately – future purchases of service credit and refunds of past purchases of service credit.

For the future purchases of service credit we gathered average salary, average years of service, and total count for each age group of each system. We ran the grouped data through a spreadsheet which models the likelihood of purchasing service credit and the associated cost of the service credit purchase for each year of their future service. The likelihood of purchasing credit was based on the assumed rate of 0.000214, adjusted by system. The cost of the service credit purchase was the probability of purchasing the service within five years times the missed contributions times the assumed 10.6 months of service purchased plus the probability of purchasing the service at retirement times the actuarial value. This formula is shown below:

[209/214 * average of last 5 year's contribution rates * salary *10.6/12 months + 5/214 * Early Retirement Factor (ERF) * annuity factor * 0.02 * 10.6/12 months * final average salary]

Within the formula, future contribution rates must be assumed. Future contribution rates are consistent with contribution rates found on our website. Future contribution rates beyond 2013 are equal to the 2013 contribution rates.

The result for each grouping was multiplied by survivorship and discounted with 8 percent annual interest to determine the present value of future benefits. The sum of the present value of future benefits for each group was added up to determine the liability for each system.

For the refunds of past purchases we used the data provided by DRS. We started with the amount of the purchase and added 5.5 percent annual interest until the effective date of this proposal September 1, 2009. We then discounted, at 8 percent, the amount back to June 30, 2007, to be consistent with the future purchases portion.

Otherwise, we developed these costs using the same methods as disclosed in the June 30, 2007 AVR.

We used the Entry Age Normal Cost Method to determine the fiscal budget changes for future new entrants. We used the Aggregate actuarial funding method to determine the fiscal budget changes for current plan members.

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GLOSSARY OF ACTUARIAL TERMS

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

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

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

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The Select Committee on Pension Policy

Interruptive Military Service Credit

Laura Harper, Policy and Research Services Manager

December 16, 2008

Office of the State Actuary

"Securing tomorrow's pensions today."

The Issue Today

- Whether members should receive up to five years of free interruptive military service credit

Currently, Plan 2/3 Members Must Pay

- Apply for service credit any time prior to retirement
- Restore member contributions if within five years
- Pay actuarial cost if after five years

Proposal

- Relieve members from paying
  - Up to five years of free service credit
- Service must be during a "period of war" as defined in state law
  - Declared wars
  - Armed conflicts

SCPP Activity

- SCPP's 2008 bill did not pass
- LEOFF 2 Board asked SCPP to look more closely at how benefit is applied
  - Complaints that members who already made payments were, in effect, penalized
  - Inconsistent treatment for members who served in same period of war
- SCPP looked at several new options in September and November
  - Which service?
  - Refund policy?

Options For Applying The Benefit

- Option 1: Future service only
- Option 2: All service in member's career, no refunds
- Option 3: All service in member's career, refunds for ongoing conflicts
  - Operation Iraqi Freedom - began 3/4/03
  - Operation Enduring Freedom (including Afghanistan) – began 10/7/01
- Option 4: All service in member's career, refunds for all service

Executive Committee Recommendation

- Option 3
  - All eligible service in member's career
  - Refunds for ongoing conflicts
- Bill draft and draft fiscal note provided

Preliminary Fiscal Costs

($ in millions)	**Option 3**
2009-2011	
Total GFS	$0.0
Total Employer	0.0
25-Year	
Total GFS	1.1
Total Employer	$3.8

Next Steps

- Scheduled today for public hearing and possible executive action

9. $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.

Committee Activity

Staff briefed the full committee on Options 1 through 3 at the October meeting. At the November meeting, staff briefed the full committee on Option 4 and a public hearing was held. (See next page for options.) The full committee moved this issue to December for another public hearing.

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:

- **Option 1: 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.

- **Option 2: 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.

- **Option 3: 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.

- **Option 4: Increase To $175,000.**
  - Recovers some value lost due to past inflation.
  - Doesn't prevent future loss in value due to inflation.

Executive Committee Recommendation

None.

Next Steps

Public hearing with possible executive action.

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$150,000 Death Benefit

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 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 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
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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' (LEOFF) Plan 2 Retirement Board asked the SCPP to consider adjusting the amount of this benefit for past inflation and adding an automatic Cost-Of-Living-Adjustment (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 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**).

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.*

SCPP Has Recommended Death Benefit Bills

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 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 Death Benefit COLAs

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 dealt with the death benefit for LEOFF Plan 2. The bill expanded eligibility and provided an automatic COLA on the benefit amount. 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 Plans 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 officer 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's 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 Plans 2/3 COLA is based on inflation as measured by changes in a Consumer Price Index (CPI). The inclusion of this COLA in the Plans 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 the 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 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.

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 was provided at the November 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—while 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 recovers lost value and generally prevents further loss.

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 would recover all value lost to past inflation as well as generally prevent further loss of value due to inflation—while 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.

Option 4: Increase To $175,000

This option recovers some lost value.

This option would increase the amount of the death benefit to $175,000. This option would recover some of the value of the benefit lost to past inflation, but would not fully restore the benefit to its original level. This option would not prevent further loss in value due to future inflation.

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.

Staff briefed the full committee on the first three options at the October meeting. Following the meeting, the Chair requested staff to prepare draft legislation and pricing for an additional option of increasing the benefit to $175,000.

At the November meeting, staff briefed the full committee on Option 4 and a public hearing was held. The full committee moved this issue to December for another public hearing.

Executive Committee Recommendation

None.

Next Steps

Public hearing with possible executive action.

Bill Draft

An OSA bill draft to implement Option 4 is attached.

Draft Fiscal Note

Attached.

Stakeholder Input

Correspondence from:

Kelly Fox, Chair, LEOFF 2 Board, received 5/12/2008 and 6/30/2008.

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 Plans 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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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 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 Fox, Chair

cc: Matt Smith, State Actuary

Darren Painter 786-6155
OSA
November 4, 2008 (12:14 PM)

AN ACT Relating to increasing the duty-related death benefit for public employees to $175,000; amending RCW 41.04.017, 41.24.160, 41.26.048, 41.32.053, 41.35.115, 41.37.110, 41.40.0931, 41.40.0932, 43.43.285; and declaring an emergency.

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

Sec. 1. RCW 41.04.017 and 2007 c 487 s 1 are each amended to read as follows:

A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit shall be paid as a sundry claim to the estate of an employee of any state agency, the common school system of the state, or institution of higher education who dies as a result of (1) injuries sustained in the course of employment; or (2) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter, and is not otherwise provided a death benefit through coverage under their enrolled retirement system under chapter 402, Laws of 2003. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and

industries. The department of labor and industries shall notify the director of the department of general administration by order under RCW 51.52.050.

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

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

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

(2) If the widow or widower does not have legal custody of one or more dependent children of the deceased participant or if, after the death of the participant, legal custody of such child or children passes from the widow or widower to another person, any payment on account of such child or children not in the legal custody of the widow or widower shall be made to the person or persons having legal custody of such child or children. Such payments on account of such child or children shall be subtracted from the amount to which such widow or widower would have been entitled had such widow or widower had legal custody of all the children and the widow or widower shall receive the remainder after such payments on account of such child or children have been subtracted. If there is no widow or widower, or the widow or widower dies while there are children, unemancipated or under eighteen years of age, then the amount of one thousand two hundred seventy-five dollars per month shall be paid for the youngest or only child together with an additional one hundred ten dollars per month for each additional of such children to a maximum of two thousand five hundred fifty dollars per month until they become emancipated or reach the age of eighteen years; and if there are no widow or widower, child, or children entitled thereto, then to his or her parents or either of them the sum of one thousand two hundred seventy-five dollars per month for life, if it is proved to the satisfaction of the board that the parents, or either of them, were dependent on the deceased for their support at the time of his or her death. In any instance in subsections (1) and (2) of this section, if the widow or widower, child or children, or the parents, or either of them, marries while receiving such pension the person so marrying shall thereafter receive no further pension from the fund.

(3) In the case provided for in this section, the monthly payment provided may be converted in whole or in part into a lump sum payment, not in any case to exceed twelve thousand dollars, equal or proportionate, as the case may be, to the actuarial equivalent of the monthly payment in which event the monthly payments shall cease in whole or in part accordingly or proportionately. Such conversion may

be made either upon written application to the state board and shall rest in the discretion of the state board; or the state board is authorized to make, and authority is given it to make, on its own motion, lump sum payments, equal or proportionate, as the case may be, to the value of the annuity then remaining in full satisfaction of claims due to dependents. Within the rule under this subsection the amount and value of the lump sum payment may be agreed upon between the applicant and the state board.

Sec. 3. RCW 41.26.048 and 2007 c 487 s 2 are each amended to read as follows:

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

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

Sec. 4. RCW 41.32.053 and 2007 c 487 s 3 are each amended to read as follows:

(1) A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written

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

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

Sec. 5. RCW 41.35.115 and 2007 c 487 s 4 are each amended to read as follows:

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

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

Sec. 6. RCW 41.37.110 and 2007 c 487 s 5 are each amended to read as follows:

(1) A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit shall be paid to the member's estate, or the person or persons, trust, or organization the member has nominated by written designation duly executed and filed with the department. If the designated person or persons are not still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

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

Sec. 7. RCW 41.40.0931 and 2007 c 487 s 6 are each amended to read as follows:

(1) A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit for members who had the opportunity to transfer to the law enforcement officers' and firefighters' retirement system pursuant to chapter 502, Laws of 1993, but elected to remain in the public employees' retirement system, shall be paid to the member's estate, or such person or persons, trust, or organization as the member has nominated by written designation duly executed and filed with the department. If there is no designated person or persons still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

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

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

Sec. 8. RCW 41.40.0932 and 2007 c 487 s 7 are each amended to read as follows:

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

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

Sec. 9. RCW 43.43.285 and 2007 c 488 s 1 are each amended to read as follows:

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

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

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

NEW SECTION. **Sec. 10.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

--- END ---

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ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/02/2008**	**$150,000 Death Benefit**

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 and the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board 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 increases the amount of the duty-related death benefit from $150,000 to $175,000. Current law provides the duty-related death benefit to members of all state retirement systems and other public employees who die from duty-related illnesses or injuries.

Impact on Pension Liability

(Dollars in Millions)	Current	Increase	Total
Today's Value of All Future Pensions	$67,081	$2.6	$67,083
Earned Pensions Not Covered by Today's Assets	$4,957	$0.1	$4,957

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employer:						
Current Annual Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
State					0.00%	

Budget Impacts

(Dollars in Millions)	2009-2011	2011-2013	25-Year
General Fund-State	$0.0	$0.1	$3.5
Total Employer	$0.0	$0.4	$11.1

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 the following retirement systems and public employees:

- 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 Firefighters' Relief and Pension Fund (VFF).
- Members of the Judicial Retirement System (JRS).
- Members of the Higher Education Retirement Plans (HIED).
- State, school district, and higher education employees who aren't members of a state retirement system.

This proposal increases the amount of the duty-related death benefit from $150,000 to $175,000.

Assumed Effective Date: Immediately upon passage

What Is The Current Situation?

The retirement systems and, in some cases, the state general fund pay a lump-sum death benefit for public employees who die as a result of a duty-related injury or illness. The amount of the benefit is currently $150,000. This benefit is provided for all members of PERS, TRS, SERS, PSERS, LEOFF, WSPRS, VFF, JRS, and HIED; and to state, school district and higher education employees who aren't members of a state retirement system. The lump-sum death benefit in VFF includes an additional $2,000.

Who Is Impacted And How?

This proposal could affect all 308,267 active members of the systems listed above through improved benefits. In addition, this proposal could affect 577 inactive fire fighters of LEOFF who are eligible for the benefit up to five years after separation of service. However, we only expect this benefit to be paid to about one member out of 24,500 members per year.

This proposal will increase the lump-sum death benefit by $25,000 for any member that dies as a result of a duty-related injury or illness.

Although this proposal does not produce supplemental contribution rate increases in the current biennium, this proposal impacts all 165,035 Plan 2 members of these systems through increased contribution rates in future biennia. With the exception of WSPRS members, this proposal will not affect member contribution rates in Plan 1 since they are

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fixed in statute. Additionally, this proposal will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This proposal increases the amount of the lump-sum death benefit by $25,000. This increases the present value of future benefits of the affected systems. This proposal will not result in more lump-sum death benefits being paid, but when the benefits are paid, the amount will be larger.

Who Will Pay For These Costs?

Each system will subsidize the increase in liability that results from this proposal in their normal funding method:

- LEOFF 2: 50 percent member, 30 percent employer, and 20 percent State
- Plan 1: 100 percent employer
- Plan 2: 50 percent member and 50 percent employer
- Plan 3: 100 percent employer

HOW WE VALUED THESE COSTS

We changed the lump-sum duty death benefit to provide a $175,000 benefit in place of the current $150,000 benefit. We assumed no members of JRS will die from a duty-related illness or injury and have excluded these members from this pricing.

Otherwise, we developed these costs using the same assumptions, methods, assets, and data as disclosed in the June 30, 2007 Actuarial Valuation Report (AVR).

We used the Entry Age Normal actuarial funding method to determine the fiscal budget changes for future new entrants. We used the Aggregate actuarial funding method to determine the fiscal budget changes for current plan members.

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ACTUARIAL RESULTS

How The Liabilities Changed

This proposal will impact the actuarial funding of the plans by increasing the present value of future benefits payable under the plans as shown in the following table.

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 1	$14,061	$0.0	$14,061
PERS 2/3	20,634	0.7	20,635
PERS Total	**34,695**	**0.7**	**34,696**
TRS 1	11,021	0.0	11,021
TRS 2/3	7,078	0.1	7,078
TRS Total	**18,099**	**0.1**	**18,099**
SERS 2/3	**2,698**	**0.2**	**2,698**
PSERS 2	**225**	**0.0**	**225**
LEOFF 1	4,358	0.1	4,358
LEOFF 2	6,149	1.5	6,151
LEOFF Total	**10,507**	**1.6**	**10,509**
WSPRS 1/2	**$856**	**$0.0**	**$856**
Unfunded Actuarial Accrued Liability *(The Portion of the Plan 1 Liability that is Amortized to 2024)*			
PERS 1	**$3,609**	**$0.0**	**$3,609**
TRS 1	**2,288**	**0.0**	**2,288**
LEOFF 1	**($939)**	**$0.1**	**($939)**
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 1	$3,990	$0.0	$3,990
PERS 2/3	(2,470)	0.7	(2,469)
PERS Total	**1,520**	**0.7**	**1,521**
TRS 1	2,552	0.0	2,552
TRS 2/3	(1,229)	0.1	(1,229)
TRS Total	**1,323**	**0.1**	**1,323**
SERS 2/3	**(443)**	**0.2**	**(443)**
PSERS 2	**(2)**	**0.0**	**(2)**
LEOFF 1	(975)	0.1	(975)
LEOFF 2	(974)	1.5	(972)
LEOFF Total	**(1,949)**	**1.6**	**(1,947)**
WSPRS 1/2	**($121)**	**$0.0**	**($121)**

Note: Totals may not agree due to rounding.

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In addition, this proposal increases the pension liability of the VFF pension plan by $128,000.

We did not value the impact of this proposal on the following members since we do not currently value them in any of our actuarial valuations:

- 2,854 Volunteer Fire Fighters that are not members of the pension plan;
- Members of HIED; and
- State, school district, and higher education employees who aren't members of the Washington State Retirement Systems.

How Contribution Rates Changed

The increase in the required actuarial contribution rate does not round up to the minimum supplemental contribution rate of 0.01%, therefore the proposal will not affect contribution rates in the current biennium. However, we will use the un-rounded rate increase to measure the fiscal budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2009)

System/Plan	PERS	TRS	SERS	PSERS	LEOFF	WSPRS
Current Members						
Employee (Plan 2)	0.001%	0.000%	0.001%	0.000%	0.005%	0.003%
Employer:						
Normal Cost	0.001%	0.000%	0.001%	0.000%	0.003%	0.003%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.001%	0.000%	0.002%	0.000%	0.003%	0.003%
State					0.002%	
New Entrants*						
Employee (Plan 2)	0.001%	0.000%	0.002%	0.001%	0.008%	0.005%
Employer:						
Normal Cost	0.001%	0.000%	0.002%	0.001%	0.005%	0.005%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.001%	0.000%	0.002%	0.001%	0.005%	0.005%
State					0.003%	

**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.*

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How This Impacts Budgets And Employees

	Budget Impacts						
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**	**Total**
2009-2011							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employer	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2011-2013							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.1	$0.0	$0.1
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.2**
Local Government	0.1	0.0	0.0	0.0	0.1	0.0	0.2
Total Employer	**0.1**	**0.0**	**0.1**	**0.0**	**0.2**	**0.0**	**0.4**
Total Employee	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.2**	**$0.0**	**$0.3**
2009-2034							
General Fund	$0.6	$0.2	$0.6	$0.0	$2.1	$0.0	$3.5
Non-General Fund	0.9	0.0	0.0	0.0	0.0	0.2	1.1
Total State	**1.5**	**0.2**	**0.6**	**0.0**	**2.1**	**0.2**	**4.6**
Local Government	2.3	0.1	0.9	0.0	3.1	0.0	6.5
Total Employer	**3.9**	**0.4**	**1.5**	**0.0**	**5.1**	**0.2**	**11.1**
Total Employee	**$2.6**	**$0.2**	**$0.9**	**$0.0**	**$5.1**	**$0.2**	**$9.1**

Note: Totals may not agree due to rounding.

The analysis of this proposal does not consider any other proposed changes to the systems. 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 draft fiscal note to the extent that actual experience differs from the actuarial assumptions.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions used in this pricing, we varied the duty-related death assumption for LEOFF 2. We chose LEOFF 2 for our sensitivity testing for two reasons:

1. We developed our current duty-related death assumptions for LEOFF 2 in 2006 and 2007 in response to new laws for duty-related injuries and illnesses. We have not had sufficient experience in the plan to determine if these assumptions are accurate in the long-term. As a result, there is a higher risk for this pricing with LEOFF 2.

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2. If we experience any catastrophic events impacting duty-related injuries or illnesses that result in death, we expect this will affect our law enforcement officers and fire fighters. A single catastrophic event, while short-term, could add a significant cost to the plan, particularly with lump-sum benefits.

We changed the duty-related death assumption by doubling the rate of deaths that we expect will result from a duty-related injury or illness. We did not increase our mortality assumptions, only the number of deaths that are duty-related. The next table shows our current assumptions ("Base Assumptions") and increased assumptions ("Sensitivity Assumptions").

	Base Assumptions	**Sensitivity Assumptions**
Duty Death Rate	0.0376%	0.0752%
Occupational Disease Death Rate (Fire Fighters only)		
Age 20-49	14.742%	29.484%
Age 50+	27.393%	54.786%

The result of increasing the rate of deaths from a duty-related injury or illness is detailed in the following table. We compare the assumptions used in this proposal ("Best Estimate Pricing") with the increased assumptions ("Sensitivity Pricing") to show the sensitivity of this pricing proposal on the duty-related death assumptions.

(Dollars in Millions)	**Best Estimate Pricing**	**Sensitivity Pricing**
Liability Increase	$1.5	$2.4
Contribution Rate Increase		
Employee	0.005%	0.008%
Employer	0.003%	0.005%
State	0.002%	0.003%
Budget Impacts		
2009-2011		
General Fund - State	$0.0	$0.0
Total Employer	$0.0	$0.3

There is also a possibility that fewer duty-related deaths will occur than we assume for LEOFF 2 in the future. If we tested lower rates, we would expect lower costs than our pricing of this proposal shows.

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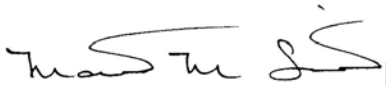
ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost and asset valuation 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 and assumptions may also be reasonable, and might produce different results.
5. This draft fiscal note has been prepared for the Select Committee on Pension Policy and Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board.
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 1 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

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GLOSSARY OF ACTUARIAL TERMS

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

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

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

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The Select Committee on Pension Policy

$150,000 Death Benefit

Darren Painter, Policy Analyst

December 16, 2008

Office of the State Actuary

"Securing tomorrow's pensions today."

What Is The Issue?

- Amount of death benefit hasn't changed since 1996
  - $150,000 lump sum for duty-related death
  - Provided in all systems
- Key policy questions
  - Does the amount need adjusted for inflation?
  - If so, how?

Committee Activity

- Briefings in October & November
- Moved to public hearing in December
- Opportunity for formal action today

Options for Adjusting Benefit

- Option 1: Adjust for past inflation
  - Increase to $205,000
- Option 2: Automatically adjust for future inflation
  - COLA on current amount
- Option 3: Adjust for past and future inflation
  - Increase to $205,000 + COLA
- Option 4: Partial adjustment
  - Increase to $175,000

Two Key Policy Decisions

- How much value to recover?
  - None to all
- How much control to retain?
  - Some or full
  - Automatic COLAs require policy makers to give up some control

Preliminary Total Employer Rate Increase

System	Option 1 Adjust past inflation ($205,000)	Option 2 Automatic CPI-based COLA	Option 3 Adjust past inflation + Automatic COLA	Option 4 Partial adjustment ($175,000)
PERS	*	*	*	*
TRS	*	*	*	*
SERS	*	*	.01%	*
PSERS	*	*	*	*
LEOFF	.01%	.01%	.01%	*
WSPRS	.01%	*	.01%	*

Insufficient to immediately impact rates.

Preliminary Fiscal Costs

($ in millions)	Option 1 Adjust past inflation ($205,000)	Option 2 Automatic CPI-based COLA	Option 3 Adjust past inflation + Automatic COLA	Option 4 Partial adjustment ($175,000)
2009-2011				
Total GFS	$0.0	$0.0	$0.4	$0.0
Total Employer	0.3	0.3	0.9	0.0
25-Year				
Total GFS	6.8	2.4	10.4	3.5
Total Employer	$22.5	$7.6	$33.0	$11.1

Possible Next Steps

- Recommend legislation based on options
- Take no further action
- Materials provided
  - Chair requested bill draft and draft fiscal note for Option 4
  - Staff would prepare legislation for other options

10. Plan 1 COLA

Plan 1 COLA Proposals

Description Of Issue

The SCPP is being asked to revisit the Uniform COLA in PERS and TRS Plan 1. Stakeholders seeking improvements to the COLA have proposed two possible changes. This issue raises three basic policy questions:

- Is the current COLA sufficient?
- Who most needs an improved COLA?
- What form should a new COLA take?

Policy Highlights

- The Uniform COLA helps maintain the value of pensions—though not equally for all members.
- The Uniform COLA and the Plans 2/3 COLA were designed to meet different policy objectives—direct comparisons may be misleading.
- The SCPP has adopted policy on inflation protection.
- Benefit improvements for past service increase the Plans 1 UAAL and generally run counter to the principle of intergenerational equity.
- There are a variety of ways to target, implement, and design COLAs.

Committee Activity

Staff briefed the full SCPP on this issue in September. At the Executive Committee meeting that followed, the stakeholders requested the Committee allow them to revise the proposals under consideration.

Staff briefed the full SCPP on the revised proposals in November. The Executive Committee then scheduled a public hearing on this issue for December.

Revised Stakeholder Proposals:

- **Short-Term: Grant additional increases to the Uniform COLA based on year of retirement.**
  - Provides larger increases to members retired the longest.
  - Does not precisely recover purchasing power.
  - Impacts minimum benefits.
- **Long-Term: Provide the better of the Uniform COLA or a CPI-based COLA similar to the Plans 2/3 COLA.**
  - Generally prevents the further loss of purchasing power.
  - Does not diminish benefits.
  - Provides similar value for the CPI-based COLA, but a better overall COLA in the Plans 1 than the Plans 2/3.
  - Raises questions about contractual rights.

Executive Committee Recommendation

Revised Short-Term Option: Grant additional increases to the Uniform COLA based on year of retirement.

Next Steps

Public hearing with possible executive action.

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Plan 1 COLA Proposals

In Brief

ISSUE

The SCPP is being asked to revisit the COLA provided in PERS and TRS Plans 1. Stakeholders seeking improvements to the COLA have proposed two possible changes (see page 17). The first modifies the design of the existing COLA by granting additional increases based on the year of retirement. The second provides the better of the existing service-based COLA or a new CPI-based COLA.

MEMBER IMPACT

These proposals would affect very different member groups. The first would impact nearly 33,000 PERS and TRS Plan 1 members who retired prior to 1991. The second would impact over 114,000* PERS and TRS Plan 1 active, terminated vested, and retired plan members.*

**As of June 30, 2007.*

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Introduction

The SCPP is being asked to revisit the post-retirement Cost-Of-Living-Adjustment (COLA) provided in Plan 1 of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). (The term "Plans 1" will be used throughout to refer to PERS and TRS Plan 1.) This issue raises three basic policy questions:

- Is the current COLA sufficient?
- Who most needs an improved COLA?
- What form should a new COLA take?

This paper will explore the policy considerations around these questions and the challenges faced by policy makers when trying to retrofit a COLA into a plan that was not originally designed for one.

Stakeholders have revised their proposals since the September meeting. Discussion of the revised proposals begins on page 17.

Current Situation

The primary COLA provided in the Plans 1 is the Uniform COLA. The Uniform COLA is a service-based COLA payable the first calendar year in which the recipient turns age 66 and has been retired for one year. The Uniform COLA is a fixed dollar amount multiplied by the member's total years of service. The dollar amount of the Uniform COLA increases by 3 percent every year on July 1. As of July 1, 2008, the Uniform COLA was $1.73 per month/per year of service. This amounts to an annual increase of $623 for a recipient with 30 years of service. Statute specifies that future increases to the Uniform COLA are not a contractual right.

An optional Consumer Price Index (CPI)-based automatic COLA is also available to the Plans 1 members who elect it at retirement. The Auto-COLA* provides an annual percentage increase in the retirement allowance. The increase is based on changes in the CPI** up to a maximum

of 3 percent per year (essentially the same COLA as provided in the Plans 2/3). The Auto-COLA begins one year after retirement—regardless of age or service—and is in addition to any other COLAs received. Members who elect the Auto-COLA receive an actuarially reduced retirement allowance to offset the cost.

COLAs address how well a pension maintains its value, while minimum benefits address the adequacy of a pension.

The Plans 1 also provide minimum retirement benefits in addition to the COLAs discussed above. While COLAs address how well a pension maintains its value over time, minimum benefits address the adequacy of a pension and serve as a safety net. Minimum benefits increase every year—effectively providing a COLA to those at the minimum benefit level. Two minimums are provided: the Basic and the Alternative.

The Basic Minimum is $38.92*** per month multiplied by the member's total years of service. The Alternate Minimum is $1,092.73*** a month for recipients who:

a) Have at least 25 years of service and have been retired at least 20 years.

b) Have at least 20 years of service and have been retired at least 25 years.

The Basic Minimum increases every year by the dollar amount of the Uniform COLA. (For example, the Basic Minimum increased from $37.19 to $38.92 in 2008. The $1.73 increase was the amount of the Uniform COLA for that year.) The Alternate Minimum is not tied to the Uniform COLA and increases by 3 percent each year.

**First available in 1990.*
***Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for Seattle-Tacoma-Bremerton (STB).*
****As of July 1, 2008.*

Example

Figure 1 illustrates the impact of the Uniform COLA on three retirees with 30 years of service and different monthly pensions. In this example, Retiree 3 receives the Basic Minimum benefit—which increases by the Uniform COLA amount each year.

Figure 1

Uniform COLA Example: 30 Years of Service				
	Pension Before COLA	2008 Uniform COLA ($1.73*30)=51.90	Pension After COLA	Percent Increase
Retiree 1	$1,500.00	$51.90	$1,551.90	3.46%
Retiree 2	$3,000.00	$51.90	$3,051.90	1.73%
Retiree 3	$1,115.70 (Basic Minimum)	$51.90	$1,167.60 (Basic Minimum)	4.65%

The Uniform COLA provides proportionately higher increases for annuitants with smaller pensions.

This example shows how the Uniform COLA provides proportionately higher increases (and greater purchasing power protection) for annuitants with smaller pensions. This is because the Uniform COLA is a fixed dollar amount and not based on a percentage of the pension.

History

To understand where today's COLA policy came from, it is helpful to look at the history of COLA policy from different perspectives. The broader perspective is how COLA policy has changed within the context of plan design. A more narrow focus is how the Legislature has addressed COLAs within the Plans 1.

COLA Policy Has Changed Over Time

When the Plans 1 were first created over 60 years ago, they did not provide for post-retirement COLAs. COLAs may not have been provided for a variety of reasons:

The Plans 1 were not originally designed to provide a COLA.

- Inflation was relatively low from 1940 until the early 1970s.
- Members were not expected to live many years in retirement.
- The plans were intended to provide more of a reward for service than replacement income.

Eventually, changing times began to challenge this design. Periods of high inflation, increasing life spans, and increasing expectations for retirement all called into

question the adequacy of the Plans 1 design. These challenges led to a rethinking of the basic purpose of retirement plans.

The Plans 2 were designed from the onset to provide a COLA.

Responding to challenges with the Plans 1 design, the Plans 2 were created in 1977. The Plans 2 were designed from the onset to be income replacement plans and to provide a post-retirement COLA. Part of this design was the establishment of a normal retirement age of 65—substantially higher than the retirement ages in Plans 1. The higher retirement age made the COLA more affordable and increased the likelihood the COLA would reasonably protect the value of the pension over the recipient's life.

The Plans 2 income replacement and COLA policy was carried forward into the design of the Plans 3 when those plans were created in the late1990s.

Benefits For Plans 1 Retirees Have Increased Over Time

COLA policy also changed within the Plan 1 design to a more limited extent. Responding to concerns about the adequacy of benefits and the impact of inflation, policy makers made several efforts over the years to increase benefits for retirees in the Plans 1. These efforts continued even after they closed.

The Legislature has employed a variety of different approaches in their efforts to increase retiree benefits:

Various approaches have been used to increase retiree benefits.

- Establishing minimum benefits and periodically increasing them to reflect changes in the cost-of-living.
- Granting various ad-hoc benefit increases.
- Granting increases based on earnings realized by plan assets.
- Providing an optional, CPI-based COLA from retirement paid for by members.
- Providing automatic COLAs (including Uniform).

Appendix A provides a history of post-retirement benefit increases in the Plans 1. Some highlights from this history are provided in **Figure 2,** below.

Figure 2

Key Post-Retirement Benefit Adjustments in The Plans 1	
Year	Increase
1961	Minimum benefit established.
1970-1986	Various ad-hoc COLAs (3% - 6%) and Minimum benefit increases.
1987	3% automatic annual increase in Minimum benefit.
1989	CPI-based automatic COLA (up to 3%) for retirees whose purchasing power at age 65 drops more than 40%.
1995	Uniform COLA replaces CPI-based COLA.
1998	Gain-sharing established. Provided possible even-year increases in the Uniform COLA depending on investment earnings.
2008	Gain-sharing ended. Replaced by one-time increase to Uniform COLA.

SCPP Action Taken On Plans 1 COLA Policy

The SCPP studied the issue of purchasing power for Plans 1 retirees in 2003 and 2004, and received an update on the issue in 2005.

The SCPP has made several recommendations on COLAs in the Plans 1 that have been adopted by the Legislature.

The SCPP has made several recommendations on COLAs in the Plans 1.

2003*

- $1,000 Alternative Minimum benefit for members with 25+ years of service and retired 20+ years.

2004*

- $1,000 Alternative Minimum benefit for members with 20+ years of service and retired 25+ years.
- Increase the amount of the Alternative Minimum by 3 percent each year.
- One-time increase in the Uniform COLA.
- Provide the Uniform COLA to members who will turn age 66 during the calendar year.

Indicates year first recommended. Some proposals were recommended in more than one year. See **Appendix A for year enacted.*

Policy Analysis

Other Washington Plans

The Plans 2/3 provide a CPI-based COLA.

Washington's Plans 2/3 provide a CPI-based COLA. This COLA is designed to maintain the purchasing power of retiree benefits and is consistent with the underlying income replacement design of the plan. The Plans 2/3 COLA is an annual percentage increase in the retirement allowance beginning one year after retirement. The increase is based on changes in the CPI* up to a maximum of 3 percent per year.

As discussed in the **History** section, the Plans 2/3 COLA is tied to a normal retirement age of 65 (or 62 with 30 years of service). Members who retire prior to the normal retirement age still receive the COLA after one year—but on an actuarially reduced benefit.

**Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for Seattle-Tacoma-Bremerton (STB).*

Peer Systems

Washington's peer systems provide automatic CPI-based or fixed-percent COLAs.

All of Washington's peer systems provide an automatic post-retirement COLA in their open plans (see **Figure 3**). Five of those systems provide COLAs that are CPI-based with varying caps from 2 to 6 percent. The remaining systems provide fixed percent increases ranging from 1.5 to 3.0 percent. Systems where members are not covered by Social Security tend to provide larger COLAs. Most COLAs begin after one year of retirement; Florida and Idaho provide prorated COLAs for those retired less than one year.

Several of the peer systems provide protection against specific losses of purchasing power. Benefits in the California systems cannot fall below a minimum percent (75 or 80 percent) of the original benefit's purchasing power. Benefits in the Seattle system cannot fall below 60 percent of their original purchasing power. This is similar to a 1992 COLA provision that protected Plans 1 members from the loss of more than 40 percent of their age 65 benefits' purchasing power.

Figure 3

COLA Provisions by Select Retirement Systems*	
System	**COLA**
Cal PERS	CPI based, 2% max (75% purchasing power min.)
Cal STRS	2% simple (80% purchasing power min.)
Colorado PERA**	CPI up to 3%
Florida (FRS)	3%
Idaho (PERSI)	CPI based, 1% min, 6% max,
Iowa (IPERS)	Simple, 3% max, tied to investment surplus
Minnesota (MSRS)	CPI based, 2.5% max + investment surplus
Missouri (MOSERS)**	80% of change in the CPI, 5% max
Ohio (OPERS)**	CPI based, 3% max
Oregon PERS**	CPI based, 2% max
Seattle (SCERS)	1.5% (60% purchasing power min.)

*For new hires. Source: Member handbooks published on system administrators' websites as of 8/28/2008.

**Not covered by Social Security.

Some state plans only provide ad-hoc COLAs.

While all of Washington's peer systems provide automatic CPI-based or fixed percent COLAs, some states do not. According to the 2007 Public Fund Survey (a national survey of 126 retirement plans representing all 50 states), 26 state plans provide COLAs only on an ad-hoc basis. Also, 15 state plans provide COLAs that are in some part based on investment earnings. The remaining plans (nearly two-thirds) generally provide automatic CPI-based or fixed-percent COLAS.

Providing Adequate Benefits And Protecting Purchasing Power Are Different Policy Objectives

COLA policy has largely been driven by adequacy of benefits and purchasing power concerns.

COLA policy in the Plans 1 has largely been driven by the twin concerns of adequacy of benefits and purchasing power protection. Though there is some overlap, the two are very distinct concepts from a plan-design perspective and have different policy implications.

Adequacy of benefits relates to how well a pension *meets expectations* around a standard of living. In contrast, purchasing power protection relates to how well a pension *retains value* over time. To illustrate the difference: the pension of a highly-paid retiree might lose considerable value over time and still be considered "adequate," while

the pension of a low-paid retiree might retain its full value over time but be considered "inadequate."

Purchasing power protection is addressed through COLAs.

Adequacy of benefits may be addressed through a variety of means including changing benefit formulas or establishing minimum benefits. Purchasing power protection is addressed through COLAs. The remainder of this paper will focus on policies around purchasing power protection.

The Uniform COLA And Plans 2/3 COLA Were Designed To Meet Different Objectives

Discussions of COLA policy in the Plans 1 often involve comparisons between the Uniform and the Plans 2/3 COLA. These COLAs were designed to meet different policy objectives. Direct comparisons between them can be misleading.

The Uniform COLA is designed to meet four primary policy objectives within fiscal constraints:

The Uniform COLA provides more purchasing power protection to members with lower salaries.

- Provide a larger dollar increase to members with more service.
- Provide more purchasing power protection to members who retire with lower salaries.
- Provide a COLA at the same age that Plans 2/3 members qualify for an unreduced COLA.
- Provide legislators a simple mechanism to grant ad-hoc COLAs.

These objectives are consistent with the reward-for-service design of the Plans 1 and reflect trade-offs between adequacy of benefits and purchasing power protection. Tying the Uniform COLA to the Plans 2/3 unreduced retirement age may reflect a desire to maintain consistency between the plans in the starting age for unreduced COLAs. The design of the Uniform COLA also provides a simple mechanism for legislators to grant ad-hoc COLAs—the most recent example being the 40 cent (per month/per year of service) increase granted in 2008.

In contrast to the Uniform COLA, the Plans 2/3 COLA is designed to maintain the value of members' pensions in an environment of moderate inflation. The Plans 2/3 COLA

The Plans 2/3 COLA is designed to maintain purchasing power for all retirees.

does not favor any one group of retirees. Retirees with relatively high salaries and high benefits receive the same protection from inflation as lower-salary, lower-benefit retirees. This is consistent with the underlying income-replacement design of the plan.

The Uniform and the Plans 2/3 COLA both provide inflation protection consistent with their respective plan designs. While the Plans 2/3 COLA generally does a better job of maintaining the value of the pension than the Uniform COLA, there are exceptions. Some Plans 1 retirees may receive proportionately larger increases under the Uniform COLA than they would under the Plans 2/3 COLA. These would tend to be recipients of minimum benefits or low-wage, high-service retirees.

Existing Policies Impact This Issue

There are three key policies that are relevant to a discussion of this issue:

- Inflation protection.
- Intergenerational equity.
- Amortization of Plan 1 unfunded liabilities.

The SCPP adopted a policy goal directly related to inflation protection.

The SCPP adopted a policy goal directly related to inflation protection. The goal is: "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." The Legislature has taken actions that support this goal by providing various automatic COLAs not included in the original design of the Plans 1. This includes the Uniform COLA and automatic increases in minimum benefits.

A desire that retiree benefits should have some form and degree of protection from inflation is also evident in the creation of the Plans 2/3. These plans included a CPI-based automatic COLA in the original plan design.

Intergenerational equity requires benefits to be funded over the working lifetime of the member.

Another policy that impacts this issue is the Legislature's funding policy based on the concept of intergenerational equity. The policy is to fund, to the extent feasible, benefit increases for Plans 1 members 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 [RCW 41.45.010 (4)].

Benefit increases granted to retired members are inconsistent with the concept of intergenerational equity. Why? None of the cost can be funded over their working lifetimes since they are already retired. Instead, the cost is generally born by taxpayers who never received services from the members.

Providing benefit improvements for active Plans 1 members consistent with intergenerational equity presents policy makers a challenge as well. Active members in the Plans 1 are generally close to retirement. This leaves limited opportunity to fund the cost of improved benefits over the remainder of their working lifetimes. Therefore, the source of contributions to fund benefit improvements increasingly becomes taxpayers who never received services from these members.

The cost of Plans 1 benefit improvements not funded over the members' working lifetimes is passed along to Plans 2/3 employers. All Plans 2/3 employers are required to make additional contributions to pay for these Plans 1 benefits.

Benefit improvements for past service increase the Plans 1 UAAL.

Benefit improvements for past service increase the Unfunded Actuarial Accrued Liability (UAAL) for the Plans 1. The UAAL exists because benefits already earned by Plans 1 members have not been fully paid for. Current funding policy requires that the UAAL in the Plans 1 be fully paid by June 30, 2024 [RCW 41.45.010(2)]. The level of benefit improvements that can be financed over the remaining amortization period may serve to constrain policy options.

COLA Policy May Impact Human Resource Policies

COLA policy in the Plans 1 may have an impact on human resource policies around post-retirement employment and retention.

The lack of a COLA for Plans 1 members prior to age 66 may encourage post-retirement employment. Returning to work after retirement may seem an attractive option for those who wish to accumulate additional assets to offset future inflation and other post-retirement expenses. This may lead to greater pressure for expanded post-retirement employment opportunities. In 2001, the Legislature expanded the post-retirement employment program for the Plans 1. The expansion allows Plans 1 retirees to work

significantly more hours than Plans 2/3 retirees without having their pensions suspended.

On the flip side, providing a COLA in the Plans 1 prior to age 66 may encourage more Plans 1 members to retire at earlier ages. Such an outcome may conflict with employers' desire to retain their most experienced workers.

Several Factors May Impact Purchasing Power

Policy makers seeking to answer questions about the need for an improved COLA in the Plans 1 may also turn to an economic approach. An economic approach to COLA policy considers the impact of inflation on the purchasing power of retiree pensions. When balanced with the overall policy considerations, an economic analysis may provide additional focus for further policy discussion.

Purchasing power is a measure of how well a pension retains its value over time.

Purchasing power is a measure of how well a pension retains its value over time. Purchasing power is measured by comparing the change in the member's pension over time with the amount of inflation over the same time period. Purchasing power is impacted by three factors:

- Inflation after retirement.
- Length of retirement.
- Post-retirement COLAs.

Inflation is the driving force behind the decline in the relative value of a pension over time. Members who retire during periods of high inflation will generally lose more purchasing power than members who retire during periods of relatively low inflation. See **Appendix B** for a history of inflation.

Likewise, members who are retired for a longer period of time are likely to lose more purchasing power due to post-retirement inflation than members who are retired for shorter periods. Earlier retirement ages and increasing life spans are significant factors in the loss of purchasing power experienced by some members.

Post-retirement COLAs help maintain purchasing power.

Post-retirement COLAs offset the effects of inflation and help maintain purchasing power. The Legislature has provided numerous COLAs in the Plans 1 (see **Appendix A**). Members who receive less in COLAs will generally lose

more purchasing power over time than members who receive more in COLAs.

Figures 4 and 5 show the purchasing power for PERS and TRS Plans 1 service retirees by year of retirement. The Original Benefit line shows the purchasing power had no COLAs been provided. The Current Benefit line shows the purchasing power after factoring in all COLAs. The differences in purchasing power between the systems reflect the impact of COLAs received.

Figure 4
Purchasing Power of PERS 1 Service Benefits in 2008

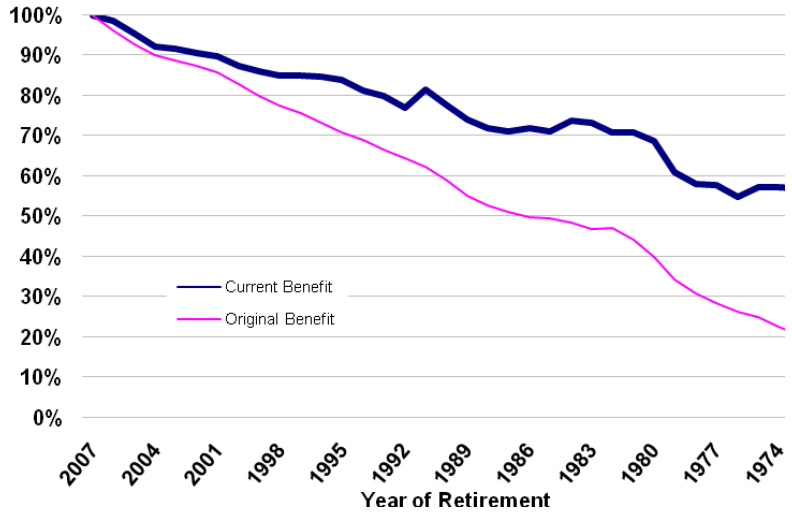
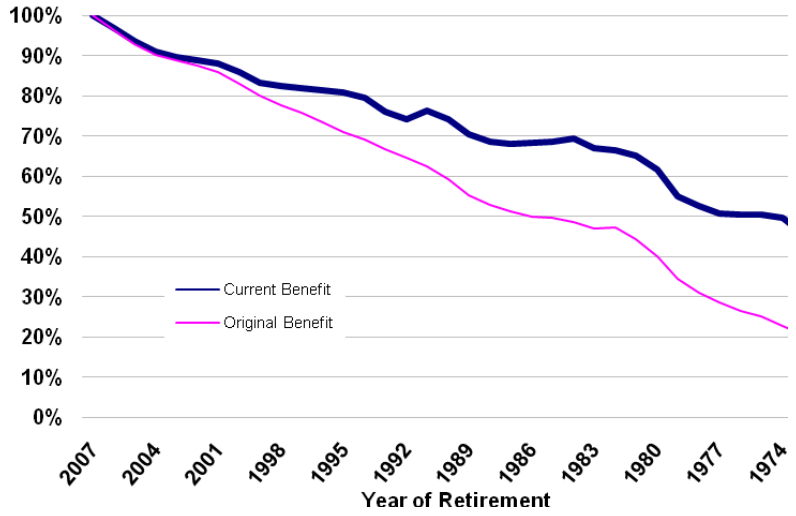


Figure 5
Purchasing Power of TRS 1 Service Benefits in 2008



Purchasing power for Plans 1 members who retired at the same time may vary widely from the group average due to post-retirement increases. The Plans 1 have provided numerous post-retirement benefit increases that were not designed to uniformly recover purchasing power. These include increases to minimum benefits, certain ad-hoc COLAs, and Uniform COLA increases. These increases impact members within the same group differently. Generally, the increases have served to recover more purchasing power for retirees with lower pensions.

The Uniform COLA Helps Maintain The Value Of Pensions

Some Uniform COLA recipients will continue to lose purchasing power.

A closer look at how the current Uniform COLA impacts purchasing power is relevant to a discussion of purchasing power within the Plans 1. The Uniform COLA helps maintain the value of a recipient's pension from age 65. Because the Uniform COLA is a dollar amount per year of service, it provides the greatest inflation protection for members who retired with the smallest salaries (This includes members who worked lower-paying jobs, and members who retired many years ago when wages were generally lower.) Members who retire prior to age 65 may lose a significant amount of purchasing power in their pension before they receive their first Uniform COLA increase. Once they receive the Uniform COLA, the impact on purchasing power will vary. Some recipients (lower-salaried) may maintain or even recover lost purchasing power during some years, while others (higher-salaried) will face a continued erosion of purchasing power.

COLA Policy Is A Balance

COLA policy reflects a balance between various concerns.

As discussed earlier in this paper, current COLA policy in the Plans 1 reflects a balance between various concerns:

- Inflation protection.
- Adequacy of benefits.
- Intergenerational equity.
- Funding.
- Human resources.

Policy makers may wish to consider whether or not the current balance is appropriate when evaluating the sufficiency of the Plans 1 COLA.

Key Questions In Shaping New COLA Policy

The first part of this paper has explored the question of whether or not the current COLA in the Plans 1 is sufficient. If policy makers feel the COLA needs improvement, they may next consider who most needs an improved COLA and what form the COLA should take. Answers to these key questions will help shape any new COLA policy.

COLAs Can Be Targeted

COLAs may be directed to individuals with the greatest perceived need.

It is likely that substantial improvements to the Plans 1 COLA will face fiscal constraints. Policy makers may then choose to direct limited COLA dollars to those individuals who they perceive as having the greatest need for a COLA. COLAs can be targeted to recipients based on loss of purchasing power, years retired, years of service, or size of benefit. If policy makers desire to maintain purchasing power they will likely target COLAs based on purchasing power or years retired. If the desire is to reward long careers, then COLAs will likely be targeted to members with many years of service. If the concern is adequacy of benefits, then COLAs will likely be targeted to members with the lowest pensions.

Besides directing dollars to recipients with the most need, targeting COLAs may serve other policy needs such as controlling costs or maintaining equity across the plans.

COLAs May Be Implemented Many Different Ways

COLAs may be ad-hoc or automatic.

The form that an improved COLA takes depends on the goals of policy makers. COLAs may be implemented in a variety of ways to achieve specific policy objectives. COLAs may be implemented on a one-time or ongoing basis, and the payment may take many forms.

Ad-hoc COLAs are one-time increases given to retirees. Ad-hoc COLAs 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. When COLAs are ad-hoc, there is often little or no pre-funding—effectively making them pay-as-you-go benefit improvements.

In contrast, automatic COLAs are ongoing increases and usually benefit both active and retired members. 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. Because automatic COLAs are ongoing and more forward-looking, they offer greater opportunities for pre-funding. Pre-funding reduces the contributions required for a benefit improvement since more of the cost of the improvement is paid for by future investment returns.

COLA payments may take many forms. Some of these include:

COLA payments may take many forms.

- Percentage based on a CPI.
- Fixed percentage.
- Flat dollar amount.
- Dollar amount per year of service.

CPI-based COLAs are the most direct way to protect a benefit against inflation since the COLA is based on actual, measured inflation. CPI-based COLAs provide the same inflation protection to all recipients regardless of the size of their pension. CPI-based COLAs often have an annual cap to control costs. However, an annual cap means that recipients will lose purchasing power when inflation exceeds the cap.

Fixed percentage COLAs (i.e., 2 or 3 percent) protect against a set amount of inflation while controlling costs. They provide the same amount of inflation protection to all recipients regardless of the size of their pension. However, recipients will lose purchasing power when inflation exceeds the fixed percent.

Flat dollar amount COLAs (i.e., $100/month) provide proportionally greater increases to recipients with smaller pensions. While they may do little to protect purchasing

power for retirees with larger pensions, flat dollar amount COLAs are an effective way to address adequacy of benefit concerns.

Dollar amount per year of service COLAs (i.e., $10/month/year of service) provide larger increases to members with more service and proportionally larger increases to members who retired with lower salaries. This type of COLA is a blend between adequacy of benefits and reward for service policies. It may do little to protect the purchasing power of high-salaried retirees. The Uniform COLA is an example of this type of COLA in the Plans 1.

COLAs might be impacted by IRS requirements.

Any of the COLA designs mentioned above might be impacted by Internal Revenue Service (IRS) requirements. Some designs might result in COLAs that do not conform to IRS requirements for tax-qualified plans or must be administratively reduced to comply with IRS requirements. This is more likely to be an issue with COLAs designed to make up for long periods of past inflation. Policy makers may wish to consult tax counsel before making significant changes in COLA policy.

Policy Makers Have Flexibility In Crafting COLA Policy

Policy makers have a great deal of flexibility in crafting new COLA policy for the Plans 1. Policy makers may target, implement, and design COLAs in a variety of ways to support their policy objectives. Any new COLA policy may be constrained by fiscal and IRS considerations.

Conclusion

The issue of COLAs in the Plans 1 raises three basic questions for policy makers.

- Is the current COLA sufficient?
- Who most needs an improved COLA?
- What form should a new COLA take?

In considering these questions, policy makers will likely balance a wide variety of concerns including inflation protection, adequacy of benefits, intergenerational equity, funding, and human resources. The current Plans 1 Uniform COLA reflects trade-offs between these various concerns.

Any change to the Uniform COLA will likely involve further trade-offs. Given likely fiscal constraints, policy makers may choose to direct limited COLA dollars to recipients with the greatest perceived need.

Revised Stakeholder Proposals

Following the September SCPP briefing on this issue, stakeholders submitted revised COLA proposals to the committee for consideration. This paper has been updated to reflect the revised proposals.

Stakeholders are seeking improvements in the COLAs provided to PERS and TRS Plan 1 retirees. The stakeholders have proposed both a short-term and a long-term option. The short-term option modifies the design of the existing Uniform COLA by granting additional increases based on the year of retirement. The long-term option provides the better of the Uniform COLA or a CPI-based COLA similar to the Plans 2/3 COLA.

Preliminary pricing of the revised short-term option was provided at the November meeting.

Proposal 1: Revised Short-Term Option

Increase the 2009 Uniform COLA by the following additional amounts based on year of retirement:

Year Retired	Increase Amount *($ per month/per year of service)*
1985-1990	$0.35
1980-1984	$0.50
1979 and earlier	$0.75

This option has several broad policy implications that are discussed in more detail below. These include:

- Modifies existing COLA policy.
- Provides larger increases to members retired the longest.
- Does not precisely replace purchasing power.
- Impacts minimum benefits.

This option is consistent with the reward-for-service design.

Modifies Existing COLA Policy

This option would establish a new policy objective within the existing Uniform COLA design. The new policy would grant different COLAs based on year of retirement. This differs from the current Uniform COLA design of granting the same increase to all members with the same service. However, it is consistent with the reward-for-service design of the Plans 1 since the COLA amount is still based on years of service—within each group. No additional increases are provided for members who retired after 1990. However, policy makers may feel less need to provide an additional COLA to these members since they had the option of purchasing the CPI-based Auto-COLA at retirement.

Some members who have been retired longer have not necessarily lost more purchasing power.

Provides Larger Increases To Members Retired The Longest

This option grants larger COLA increases to members who have been retired longer. Some members who have been retired longer have not necessarily lost more purchasing power after factoring in past COLAs. To more precisely replace lost purchasing power would require measuring purchasing power on an individual basis—which may be more complex to administer.

Does Not Precisely Recover Purchasing Power

Targeting COLAs on a group basis does not precisely recover an individual's lost purchasing power. The purchasing power of individuals within the group varies due to past COLAs. This means that some members will benefit more than others in any group approach. The large differences between the steps of the increases further increase this discrepancy for some members. As an extreme example, a member who retired in 1979 will receive a COLA that is 50 percent larger than a member who retired in 1980—even though inflation was only 16.1 percent between 1979 and 1980. While this approach does not precisely recover purchasing power for an individual, it is relatively easy to administer and does provide larger increases to groups that have lost more purchasing power.

Impacts Minimum Benefits

Some may view this as effectively creating four different Basic Minimum benefits.

This proposal has implications for minimum benefit policy because the Basic Minimum is tied to the Uniform COLA amount. The proposal would result in recipients of the Basic Minimum receiving different total benefit amounts based on the year they retired. Some policy makers may view this as effectively creating four different Basic Minimum benefits based on year of retirement. Others may view this as providing an additional COLA for those who have been retired longer, on top of the Basic Minimum. However this is viewed, it raises certain policy questions.

Minimum benefits are intended to provide an adequate standard of living for recipients. Policy makers may question whether it is appropriate to effectively establish different standards of living based solely on length of retirement. For example, does someone retired for 30 years require a larger pension to maintain an adequate standard of living than someone retired for only five years? The Legislature set a precedent for providing higher minimum benefits based on years retired when it established the Alternate Minimum benefit in 2004. Policy makers exploring this option may wish to consider if the Basic Minimum should continue to be linked to the Uniform COLA or if a different increase mechanism would be preferable.

Proposal 2: Revised Long-Term Option

Provide the better of the Uniform COLA or a CPI-based COLA similar to the Plan 2/3 COLA:

- CPI from retirement up to 3 percent maximum a year.
- Starts the year the retiree turns age 66.
- Prospective only.

This option has several broad policy implications that are discussed in more detail below. These include:

- Establishes a new COLA policy.
- Generally prevents further loss of purchasing power.
- Does not diminish benefits.

- Provides a CPI-based COLA with similar value to the Plans 2/3 COLA.
- Provides a better overall COLA in the Plans 1 than in the Plans 2/3.
- Raises questions about contractual rights.

This option is more consistent with an income replacement design.

Establishes A New COLA Policy

This option would establish a new* COLA policy for the Plans 1, basing COLAs on actual inflation—regardless of service or salary. This policy is more consistent with an income replacement plan design such as the Plans 2/3. It is also a departure from the current policy to provide more inflation protection to members who retired with lower salaries.

**A CPI-based COLA was provided from 1989-1994. The COLA began after a member lost more than 40 percent of purchasing power from age 65.*

It will not recover lost purchasing power.

Generally Prevents The Further Loss Of Purchasing Power

Providing this COLA on a prospective basis will generally prevent the further erosion of purchasing power for current and future retirees—as long as long-term inflation averages 3 percent or less. It will not recover purchasing power already lost due to inflation.

Does Not Diminish Benefits

Providing the better of the Uniform COLA or the proposed CPI-based COLA ensures that retirement benefits are not diminished for any member. (Some would receive larger increases under the Uniform COLA; others, under the CPI-based COLA.) Policy makers may prefer to *not* diminish benefits in order to avoid raising issues around contractual rights protections.

Provides A CPI-Based COLA With Similar Value To The Plans 2/3 COLA

The proposed CPI-based COLA would start at age 66—the same age that Plans 2/3 members with less than 30 years of service* qualify for an unreduced COLA. Tying the

proposed CPI-based COLA to the Plans 2/3 unreduced retirement age ensures the two COLAs generally provide similar value. This is because Plans 1 and Plans 2/3 members will generally receive the full value of a CPI-based COLA starting at the same age. Starting the proposed CPI-based COLA at age 66 is also consistent with current practice in the Uniform COLA.

**Members with 30 or more years of service qualify at age 62.*

Provides A Better Overall COLA In The Plans 1

This option provides a better overall COLA, going forward, in the Plans 1 than in the Plans 2/3. This is because Plans 1 members would receive the *better* of a COLA similar to the Plans 2/3 COLA or the Uniform COLA. In other words, the Plans 2/3 COLA becomes the new baseline COLA in Plan 1—with some members (Uniform COLA recipients) receiving additional amounts on top of that.

Raises Questions About Contractual Rights

Policy makers may wish to consult legal counsel before designing a benefit linked to non-contractual rights language.

Statute specifies that the Legislature reserves the right to amend or repeal the Uniform COLA, and that future increases to the Uniform COLA are not a contractual right. The option does not specify whether the CPI-Based COLA would have similar language. Policy makers would need to specify whether or not the proposed new benefit is a contractual, or a non-contractual right. The implications of making the proposed new benefit a contractual right while leaving the Uniform COLA a non-contractual right are unclear. Also, non-contractual rights language similar to that used in the Uniform COLA is currently subject to litigation. Policy makers may wish to consult legal counsel before designing a benefit that is linked to non-contractual rights language.

Committee Activity

Staff briefed the full SCPP on this issue, including the original stakeholder proposals, at the September meeting. At the Executive Committee meeting that followed, the stakeholders requested the Committee allow them to revise the proposals under consideration.

Staff briefed the full SCPP on the revised proposals in November. The Executive Committee then recommended that the full SCPP consider the revised short-term option for possible executive action at the December meeting.

Stakeholder Input

Correspondence from:

Public Employees for Pension Reform (PEPR)

Executive Committee Recommendation

Revised Short-Term Option: Grant additional increases to the Uniform COLA based on year of retirement.

Next Steps

Public hearing with possible executive action.

Bill Draft

An OSA bill draft to implement the revised short-term option is attached.

Draft Fiscal Note

Attached.

Appendix A

History Of Post-Retirement Adjustments In TRS 1 And PERS 1

Date	TRS 1	PERS 1
3/21/61		Minimum pension $900/year if retired at age 70 with 10 or more years of service $60/month if 15-19 years of service $70/month if 20-24 years of service $80/month if 25-29 years of service $90/month if 30 or more years of service
3/21/67		Minimum benefit increases to: $60/month if 12-15 years of service $90/month if 16-19 years of service $120/month if 20 or more years of service
7/1/67	Pension portion of benefit increased to $5.50/month/year of service if age 65 and not qualified for Social Security.	
3/25/69		Minimum benefit increases to: $75/month if 12-15 years of service $100/month if 16-19 years of service $130/month if 20 or more years of service
7/1/70	Minimum benefit revised to $5.50/month/year of service. Applicable to members retiring before 4/1/69. Applied to the pension portion of the benefit.	The following received for each $1 of pension by year of retirement: '49 - $1.5239 '56 - $1.3687 '63 - $1.2116 '50 - $1.5386 '57 - $1.3485 '64 - $1.1960 '51 - $1.5239 '58 - $1.3031 '65 - $1.1813 '52 - $1.4110 '59 - $1.2601 '64 - $1.1620 '53 - $1.3805 '60 - $1.2501 '65 - $1.1291 '54 - $1.3702 '61 - $1.2116 '66 - $1.0980 '55 - $1.3643 '62 - $1.2255 '67 - $1.0536
7/1/71		5.95% COLA applied to pension portion of the benefit if retired before 12/31/70.
7/1/72	5.9% COLA for all members retired before 7/1/71, plus an additional 5.4% for those retired between 7/1/69 and 6/30/70.	
4/25/73		Minimum benefit of $6.50/month/year of service. 3% permanent increase based on assets in excess of current liabilities.

Date	TRS 1	PERS 1
7/1/73	$3/month/year of service for retirees not eligible for Social Security.	Increase of 1.0609% if the member retired before 1972 and their service retirement allowance was adjusted in section (1) for adjustment made of 4/25/73.
7/1/74	11.9% pension increase for those retired on 6/31/70. 2.9% pension increase for those retired 7/1/70 - 6/30/73. 3% COLA on total allowance for those retired on 12/31/73.	3% COLA for those retired prior to 12/31/73.
7/1/75		3% COLA for those retired prior to 12/31/74.
7/1/76	Minimum pension benefit of $7.50/month/year of service if retired prior to 4/25/73.	3% COLA for those retired prior to 12/31/75.
7/1/77	Minimum pension benefit of $8.00/month/year of service if retired prior to 4/25/73.	3% COLA for those retired prior to 12/31/76.
7/1/78		3% COLA for those retired prior to 12/31/77.
7/1/79	Minimum pension benefit of $10/month/year of service for retirees of 7/1/79. Disability and survivor benefits as of 12/31/78, and service benefits as of 7/1/74 permanently increased by $0.8171 multiplied by the member's years of service.	Minimum pension benefit of $10/month/year of service for retirees of 7/1/79. 3% COLA for those retired prior to 12/31/78.
7/1/80		3% COLA for those retired prior to 12/31/79.
7/1/81		Excess earnings adjustment no longer in effect as employer contribution rate increased above rate on 4/24/73.
7/1/83	$0.74/month/year of service COLA to disability and survivor benefits being received on 12/31/82 and service retirement benefits being received on 7/1/78.	
7/1/86	Minimum benefit increased to $13.00/month/year of service.	
7/1/87	Permanent automatic 3% annual increase to the minimum benefit becomes effective. Minimum pension benefit increased to $13.50/month/year of service.	
7/1/88	Minimum pension benefit increased to $13.82/month/year of service.	
7/1/89	Minimum pension benefit increased by $1 to $14.91/month/year of service and then increased 3% to $15.36/month/year of service. Permanent automatic COLA enacted for retirees whose age 65 purchasing power had been reduced by more than 40%.	
7/1/90	Minimum pension benefit increased 3% to $15.72/month/year of service. 3% COLA for eligible retirees.	

Date	TRS 1	PERS 1
7/1/91	Minimum pension benefit increased 3% to $16.19/month/year of service. 3% COLA for eligible retirees.	
2/1/92	The current benefits of those eligible for the COLA adjusted to be equal to 60% of their age 65 retirement allowance.	
7/1/92	Minimum pension benefit increased 3% to $16.68/month/year of service. 3% COLA for eligible retirees.	
7/1/93	Minimum pension benefit increased 3% to $17.18/month/year of service. 3% COLA for eligible retirees. Continuation of special adjustment effective 2/92. Temporary ad hoc COLA effective through 6/30/94, $3/month/year of service for those retired 5 years, who were 70 years of age, and did not receive a COLA in 1992.	
7/1/94	Minimum pension benefit increased 3% to $17.70/month/year of service. 3% COLA for eligible retirees. Special adjustment effective 2/92 made permanent. Temporary ad hoc COLA extended to 6/30/95. Provides $3/month/year of service to eligible retirees.	
7/1/95	Uniform Increase established. Initial increase of $0.59/month/year of service to be increased by 3% per year. Retirees are eligible for the Uniform Increase if they have been retired at least one year and are age 66 by 7/1 in the calendar year in which the annual increase is given, or if their retirement allowance is lower than the minimum benefit amount. Minimum benefit increased to $24.22/month/year of service, and to automatically increase each year by the Annual Increase amount. Temporary ad hoc COLA that had been extended to 6/30/95 made permanent.	
7/1/98	Gain-sharing established, providing even-year enhancements to the Annual Increase amount based on half the compound average investment returns in TRS 1 and PERS 1 plan assets over the previous four fiscal years that exceed 10%.	
7/1/04	$1,000 minimum benefit (before optional benefit payments) established for retirees with 25 years of service and at least 20 years of retirement. Does not include an automatic increase. Effectively sunsets after the regular minimum increases to $40/month/year of service.	
7/1/06	$1,000 minimum benefit (before optional benefit payments) extended to retirees with 20 years of service and at least 25 years of retirement. Automatic increase provided for $1,000 minimum of 3% per year.	
7/1/07	Uniform COLA eligibility changed to include all retirees who have been retired one year and will have attained age 66 by 12/31 of the calendar year in which the increase is given.	
7/22/07	Gain-sharing repealed after 2008 distribution. One-time increase in the Uniform COLA of $0.40*/month/year of service in lieu of future gain-sharing. **Thirty-five cents of the increase payable 1/1/08; five cents payable on 7/1/09.*	

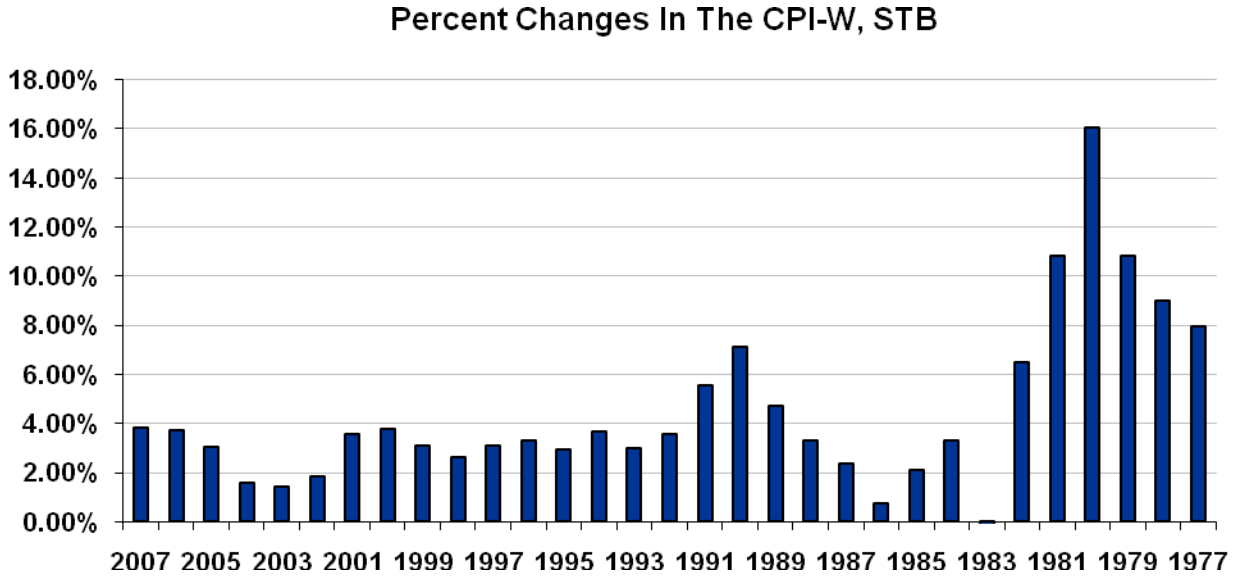
Appendix B

Consumer Price Index

Inflation is measured by 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.

The following graph shows historical rates of inflation based on annual changes in the CPI-W, STB. Data for the graph is provided on the following page.



Percent Changes In The CPI-W, STB

Year	CPI	Change
2007	623.65	3.79%
2006	600.9	3.73%
2005	579.3	3.02%
2004	562.3	1.57%
2003	553.6	1.41%
2002	545.9	1.81%
2001	536.2	3.55%
2000	517.8	3.75%
1999	499.1	3.10%
1998	484.1	2.63%
1997	471.7	3.10%
1996	457.5	3.30%
1995	442.9	2.90%
1994	430.4	3.66%
1993	415.2	2.98%
1992	403.2	3.54%
1991	389.4	5.53%
1990	369.0	7.11%
1989	344.5	4.68%
1988	329.1	3.30%
1987	318.6	2.35%
1986	311.3	0.71%
1985	309.1	2.08%
1984	302.8	3.27%
1983	293.2	-0.27%
1982	294.0	6.48%
1981	276.1	10.84%
1980	249.1	16.08%
1979	214.6	10.85%
1978	193.6	9.01%
1977	177.6	7.96%

Year	CPI	Changes
1976	164.5	5.58%
1975	155.8	10.11%
1974	141.5	10.98%
1973	127.5	6.52%
1972	119.7	2.84%
1971	116.4	2.11%
1970	114.0	4.40%
1969	109.2	4.90%
1968	104.1	4.10%
1967	100.0	2.99%
1966	97.1	2.75%
1965	94.5	1.18%
1964	93.4	1.41%
1963	92.1	1.66%
1962	90.6	1.46%
1961	89.3	1.59%
1960	87.9	1.27%
1959	86.8	1.88%
1958	85.2	2.28%
1957	83.3	4.13%
1956	80.0	1.27%
1955	79.0	0.51%
1954	78.6	0.00%
1953	78.6	1.29%
1952	77.6	2.51%
1951	75.7	7.68%
1950	70.3	1.44%
1949	69.3	-0.43%
1948	69.6	8.24%
1947	64.3	13.20%
1946	56.8	

Source U.S. Department of Labor, Bureau of Labor Statistics
CPI: Urban Wage Earners and Clerical Workers (Current Series)
Seasonal: Not Seasonally Adjusted
Area: Seattle-Tacoma-Bremerton, Washington
Base: Alternate (base period = 1967)
Item: All Items

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Public Employees for Pension Reform

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

TO: Select Committee on Pension Policy (SCPP)

FROM: Public Employees for Pension Reform (PEPR)

DATE: October 7, 2008

RE: Revised Proposals for Plan 1 COLA Improvement

RECEIVED
OCT 7 - 2008
Office of
The State Actuary

Members of the Public Employees for Pension Reform (PEPR) coalition appreciate the Select Committee on Pension Policy's (SCPP) 9/16/08 Work Session on Plan 1 Purchasing Power. The briefing by staff from the Office of the State Actuary (OSA) provided a much-needed update on the current status of Plan 1 pension benefits, as well as important information on policy and cost considerations related to the PEPR coalition's proposals for short and long-term Plan 1 COLA improvement. We also greatly appreciate the authorization by SCPP Executive Committee members for PEPR coalition members to put forth a revised set of proposals that would reduce costs from estimates on the original COLA improvement proposals.

In refection of the updated data regarding lost purchasing power, our continuing goal of broad-based COLA enhancement, and the budget challenges facing employers in the 2009-11 biennium and beyond, members of the PEPR coalition offer the following revised proposals for Plan 1 COLA improvement:

Key changes noted in **bold** print.

Short-Term Plan 1 COLA Improvement

New Supplemental Adjustment to the Uniform COLA's Annual Increase granted 7/1/09 based on the year of retirement:

- 1985-90 ~~$0.75~~ **$0.35** per month/per years of service
  (approximate benefit increase of ~~$22.50~~ $10.50 per month for a retiree with *30 years of service*)
- 1980-84 ~~$1.00~~ **$0.50** per month/per years of service
  (approximate benefit increase of ~~$30.00~~ $15.00 per month for a retiree with *30 years of service*)
- 1979 and earlier* ~~$1.50~~ **$0.75** per month/per years of service
  (approximate benefit increase of ~~$45.00~~ $22.50 per month for a retiree with *30 years of service*)

Based on year of retirement, the design of the proposed benefit improvement is a variation of the '95 age based adjustments to provide a supplemental adjustment to the annual increase of the Uniform Plan 1 COLA. This option would provide a degree of relief to those who have been retired the longest, and have experienced the most severe losses in purchasing power, while acknowledging budget challenges facing employers.

Long-Term Plan 1 COLA Improvement

Replace Uniform "COLA" with a true *Cost-of-Living Adjustment* (COLA):

- based on 100% of the Consumer Price Index (CPI) up to 3% (banked)
- CPI: Urban Wage Earners & Clerical Workers, Seattle-Tacoma-Bremerton, WA – All Items
- prospective only
- paid/compounded annually
- ~~beginning 1 year after retirement~~ **beginning in July the retiree turns age 66** (to coincide more closely with COLA eligibility for Plans 2/3 and the current Uniform Plan 1 COLA)
- **CPI measured from date of retirement** (to coincide with methods of calculating the COLA for Plans 2/3)
- **annual benefit to be the greater of this CPI-based COLA or the Uniform COLA** (to ensure no loss of benefit).

This option would bring uniformity to COLA benefit design between systems and plans and protect the value of Plan 1 pension purchasing power while acknowledging budget challenges facing employers and the desire to contain COLA eligibility policy.

The PEPR coalition looks forward to continuing this dialogue with SCPP members to develop solutions to the critical issue of recovery of Plan 1 purchasing power.

Public Employees for Pension Reform (PEPR)

Washington State Federation of State Employees
Matt Zuvich, Chair – 306-352-7603

American Federation of Teachers of Washington
Washington Public Employees Association
Washington State Council of City & County Employees – Council 2
Retired Public Employees Council of Washington
Association of Washington School Principals
Washington Association of School Administrators
Public School Employees of Washington
Washington Education Association
Washington Education Association – Retired
Washington State School Retirees' Association

Darren Painter 786-6155
OSA
December 05, 2008 (9:27 PM)

AN ACT Relating to increasing the annual increase amount in plan 1 of the teachers' retirement system and plan 1 of the public employees' retirement system; amending RCW 41.32.010 and 41.40.010; and declaring an emergency.

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

Sec. 1. RCW 41.32.010 and 2008 c 204 s 1 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1)(a) "Accumulated contributions" for plan 1 members, means the sum of all regular annuity contributions and, except for the purpose of withdrawal at the time of retirement, any amount paid under RCW 41.50.165(2) with regular interest thereon.

(b) "Accumulated contributions" for plan 2 members, means the sum of all contributions standing to the credit of a member in the

member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(2) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality tables and regulations as shall be adopted by the director and regular interest.

(3) "Annuity" means the moneys payable per year during life by reason of accumulated contributions of a member.

(4) "Member reserve" means the fund in which all of the accumulated contributions of members are held.

(5)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(6) "Contract" means any agreement for service and compensation between a member and an employer.

(7) "Creditable service" means membership service plus prior service for which credit is allowable. This subsection shall apply only to plan 1 members.

(8) "Dependent" means receiving one-half or more of support from a member.

(9) "Disability allowance" means monthly payments during disability. This subsection shall apply only to plan 1 members.

(10)(a) "Earnable compensation" for plan 1 members, means:

(i) All salaries and wages paid by an employer to an employee member of the retirement system for personal services rendered during a fiscal year. In all cases where compensation includes maintenance the employer shall fix the value of that part of the compensation not paid in money.

(ii) For an employee member of the retirement system teaching in an extended school year program, two consecutive extended school years, as defined by the employer school district, may be used as the

annual period for determining earnable compensation in lieu of the two fiscal years.

(iii) "Earnable compensation" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation and the individual shall receive the equivalent service credit.

(B) If a leave of absence, without pay, is taken by a member for the purpose of serving as a member of the state legislature, and such member has served in the legislature five or more years, the salary which would have been received for the position from which the leave of absence was taken shall be considered as compensation earnable if the employee's contribution thereon is paid by the employee. In addition, where a member has been a member of the state legislature for five or more years, earnable compensation for the member's two highest compensated consecutive years of service shall include a sum not to exceed thirty-six hundred dollars for each of such two consecutive years, regardless of whether or not legislative service was rendered during those two years.

(iv) For members employed less than full time under written contract with a school district, or community college district, in an instructional position, for which the member receives service credit of less than one year in all of the years used to determine the earnable compensation used for computing benefits due under RCW 41.32.497, 41.32.498, and 41.32.520, the member may elect to have earnable compensation defined as provided in RCW 41.32.345. For the purposes of this subsection, the term "instructional position" means a position in which more than seventy-five percent of the member's time is spent as a classroom instructor (including office hours), a

librarian, a psychologist, a social worker, a nurse, a physical therapist, an occupational therapist, a speech language pathologist or audiologist, or a counselor. Earnable compensation shall be so defined only for the purpose of the calculation of retirement benefits and only as necessary to insure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit.

(v) "Earnable compensation" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Earnable compensation" for plan 2 and plan 3 members also includes the following actual or imputed payments which, except in the case of (b)(ii)(B) of this subsection, are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wages which the individual would have earned during a payroll period shall be considered earnable compensation, to the extent provided above, and the individual shall receive the equivalent service credit.

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

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

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

(11) "Employer" means the state of Washington, the school district, or any agency of the state of Washington by which the member is paid.

(12) "Fiscal year" means a year which begins July 1st and ends June 30th of the following year.

(13) "Former state fund" means the state retirement fund in operation for teachers under chapter 187, Laws of 1923, as amended.

(14) "Local fund" means any of the local retirement funds for teachers operated in any school district in accordance with the provisions of chapter 163, Laws of 1917 as amended.

(15) "Member" means any teacher included in the membership of the retirement system who has not been removed from membership under RCW 41.32.878 or 41.32.768. Also, any other employee of the public schools who, on July 1, 1947, had not elected to be exempt from membership and who, prior to that date, had by an authorized payroll deduction, contributed to the member reserve.

(16) "Membership service" means service rendered subsequent to the first day of eligibility of a person to membership in the retirement system: PROVIDED, That where a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered. The provisions of this subsection shall apply only to plan 1 members.

(17) "Pension" means the moneys payable per year during life from the pension reserve.

(18) "Pension reserve" is a fund in which shall be accumulated an actuarial reserve adequate to meet present and future pension

liabilities of the system and from which all pension obligations are to be paid.

(19) "Prior service" means service rendered prior to the first date of eligibility to membership in the retirement system for which credit is allowable. The provisions of this subsection shall apply only to plan 1 members.

(20) "Prior service contributions" means contributions made by a member to secure credit for prior service. The provisions of this subsection shall apply only to plan 1 members.

(21) "Public school" means any institution or activity operated by the state of Washington or any instrumentality or political subdivision thereof employing teachers, except the University of Washington and Washington State University.

(22) "Regular contributions" means the amounts required to be deducted from the compensation of a member and credited to the member's individual account in the member reserve. This subsection shall apply only to plan 1 members.

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

(24)(a) "Retirement allowance" for plan 1 members, means monthly payments based on the sum of annuity and pension, or any optional benefits payable in lieu thereof.

(b) "Retirement allowance" for plan 2 and plan 3 members, means monthly payments to a retiree or beneficiary as provided in this chapter.

(25) "Retirement system" means the Washington state teachers' retirement system.

(26)(a) "Service" for plan 1 members means the time during which a member has been employed by an employer for compensation.

(i) If a member is employed by two or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service is rendered.

(ii) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(iii) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member for one or more employers for which earnable compensation is earned subject to the following conditions:

(i) A member employed in an eligible position or as a substitute shall receive one service credit month for each month of September through August of the following year if he or she earns earnable compensation for eight hundred ten or more hours during that period and is employed during nine of those months, except that a member may not receive credit for any period prior to the member's employment in an eligible position except as provided in RCW 41.32.812 and 41.50.132;

(ii) Any other member employed in an eligible position or as a substitute who earns earnable compensation during the period from September through August shall receive service credit according to one of the following methods, whichever provides the most service credit to the member:

(A) If a member is employed either in an eligible position or as a substitute teacher for nine months of the twelve month period between September through August of the following year but earns earnable compensation for less than eight hundred ten hours but for at least six hundred thirty hours, he or she will receive one-half of a service credit month for each month of the twelve month period;

(B) If a member is employed in an eligible position or as a substitute teacher for at least five months of a six-month period between September through August of the following year and earns earnable compensation for six hundred thirty or more hours within the six-month period, he or she will receive a maximum of six service

credit months for the school year, which shall be recorded as one service credit month for each month of the six-month period;

(C) All other members employed in an eligible position or as a substitute teacher shall receive service credit as follows:

(I) A service credit month is earned in those calendar months where earnable compensation is earned for ninety or more hours;

(II) A half-service credit month is earned in those calendar months where earnable compensation is earned for at least seventy hours but less than ninety hours; and

(III) A quarter-service credit month is earned in those calendar months where earnable compensation is earned for less than seventy hours.

(iii) Any person who is a member of the teachers' retirement system and who is elected or appointed to a state elective position may continue to be a member of the retirement system and continue to receive a service credit month for each of the months in a state elective position by making the required member contributions.

(iv) When an individual is employed by two or more employers the individual shall only receive one month's service credit during any calendar month in which multiple service for ninety or more hours is rendered.

(v) As authorized by RCW 28A.400.300, up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.32.470. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

(vi) As authorized in RCW 41.32.065, service earned in an out-of-state retirement system that covers teachers in public schools may be applied solely for the purpose of determining eligibility to retire under RCW 41.32.470.

(vii) The department shall adopt rules implementing this subsection.

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

(28) "Service credit month" means a full service credit month or an accumulation of partial service credit months that are equal to one.

(29) "Teacher" means any person qualified to teach who is engaged by a public school in an instructional, administrative, or supervisory capacity. The term includes state, educational service district, and school district superintendents and their assistants and all employees certificated by the superintendent of public instruction; and in addition thereto any full time school doctor who is employed by a public school and renders service of an instructional or educational nature.

(30) "Average final compensation" for plan 2 and plan 3 members, means the member's average earnable compensation of the highest consecutive sixty service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.32.810(2).

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

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

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

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

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

(36) "Substitute teacher" means:

(a) A teacher who is hired by an employer to work as a temporary teacher, except for teachers who are annual contract employees of an employer and are guaranteed a minimum number of hours; or

(b) Teachers who either (i) work in ineligible positions for more than one employer or (ii) work in an ineligible position or positions together with an eligible position.

(37)(a) "Eligible position" for plan 2 members from June 7, 1990, through September 1, 1991, means a position which normally requires two or more uninterrupted months of creditable service during September through August of the following year.

(b) "Eligible position" for plan 2 and plan 3 on and after September 1, 1991, means a position that, as defined by the employer, normally requires five or more months of at least seventy hours of earnable compensation during September through August of the following year.

(c) For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position.

(d) The elected position of the superintendent of public instruction is an eligible position.

(38) "Plan 1" means the teachers' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(39) "Plan 2" means the teachers' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and prior to July 1, 1996.

(40) "Plan 3" means the teachers' retirement system, plan 3 providing the benefits and funding provisions covering persons who first become members of the system on and after July 1, 1996, or who transfer under RCW 41.32.817.

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

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

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

(44) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

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

(46) "Annual increase" means((~~,~~)):

(a) Initially, fifty-nine cents per month per year of service. ((~~which amount shall be increased each July 1st by three percent, rounded to the nearest cent.~~))

(b) Effective July 1, 2009, the annual increase amount shall be increased as follows:

(i) By an amount equal to $.35 per month per year of service for members who retired after December 31, 1984, and before January 1, 1991.

(ii) By an amount equal to $.50 per month per year of service for members who retired after December 31, 1979, and before January 1, 1985.

(iii) By an amount equal to $.75 per month per year of service for members who retired before January 1, 1980.

(c) The annual increase amount shall be increased each July 1st by three percent, rounded to the nearest cent. Except, this adjustment shall not apply to increases in the annual increase amount granted in this subsection that have been in effect for less than one year on the date of the adjustment.

(47) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

(48) "Separation from service or employment" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.32.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination. Mere expressions or inquiries about postretirement employment by an employer or employee that do not constitute a commitment to reemploy the employee after retirement are not an agreement under this section.

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

Sec. 2. RCW 41.40.010 and 2007 c 50 s 4 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

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

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

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

(4)(a) "Employer" for plan 1 members, means every branch, department, agency, commission, board, and office of the state, any political subdivision or association of political subdivisions of the state admitted into the retirement system, and legal entities authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and

the term shall also include any labor guild, association, or organization the membership of a local lodge or division of which is comprised of at least forty percent employees of an employer (other than such labor guild, association, or organization) within this chapter. The term may also include any city of the first class that has its own retirement system.

(b) "Employer" for plan 2 and plan 3 members, means every branch, department, agency, commission, board, and office of the state, and any political subdivision and municipal corporation of the state admitted into the retirement system, including public agencies created pursuant to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 2000, school districts and educational service districts will no longer be employers for the public employees' retirement system plan 2.

(5) "Member" means any employee included in the membership of the retirement system, as provided for in RCW 41.40.023. RCW 41.26.045 does not prohibit a person otherwise eligible for membership in the retirement system from establishing such membership effective when he or she first entered an eligible position.

(6) "Original member" of this retirement system means:

(a) Any person who became a member of the system prior to April 1, 1949;

(b) Any person who becomes a member through the admission of an employer into the retirement system on and after April 1, 1949, and prior to April 1, 1951;

(c) Any person who first becomes a member by securing employment with an employer prior to April 1, 1951, provided the member has rendered at least one or more years of service to any employer prior to October 1, 1947;

(d) Any person who first becomes a member through the admission of an employer into the retirement system on or after April 1, 1951, provided, such person has been in the regular employ of the employer for at least six months of the twelve-month period preceding the said admission date;

(e) Any member who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement becomes entitled to be credited with ten years or more of membership service except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member;

(f) Any member who has been a contributor under the system for two or more years and who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement has rendered five or more years of service for the state or any political subdivision prior to the time of the admission of the employer into the system; except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member.

(7) "New member" means a person who becomes a member on or after April 1, 1949, except as otherwise provided in this section.

(8)(a) "Compensation earnable" for plan 1 members, means salaries or wages earned during a payroll period for personal services and where the compensation is not all paid in money, maintenance compensation shall be included upon the basis of the schedules established by the member's employer.

(i) "Compensation earnable" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable and the individual shall receive the equivalent service credit;

(B) If a leave of absence is taken by an individual for the purpose of serving in the state legislature, the salary which would have been received for the position from which the leave of absence was taken, shall be considered as compensation earnable if the employee's contribution is paid by the employee and the employer's contribution is paid by the employer or employee;

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

(D) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

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

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

(ii) "Compensation earnable" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Compensation earnable" for plan 2 and plan 3 members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided above, and the individual shall receive the equivalent service credit;

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

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

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

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

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

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

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

(9)(a) "Service" for plan 1 members, except as provided in RCW 41.40.088, means periods of employment in an eligible position or positions for one or more employers rendered to any employer for which compensation is paid, and includes time spent in office as an elected or appointed official of an employer. Compensation earnable earned in full time work for seventy hours or more in any given calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service except as provided in RCW 41.40.088. Only service credit months and one-quarter service credit months shall be counted in the computation of any retirement allowance or other benefit provided for in this chapter. Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits. Time spent in standby status, whether compensated or not, is not service.

(i) Service by a state employee officially assigned by the state on a temporary basis to assist another public agency, shall be considered as service as a state employee: PROVIDED, That service to any other public agency shall not be considered service as a state employee if such service has been used to establish benefits in any other public retirement system.

(ii) An individual shall receive no more than a total of twelve service credit months of service during any calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for seventy or more hours is rendered.

(iii) A school district employee may count up to forty-five days of sick leave as creditable service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less

than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than twenty-two days equals one-quarter service credit month;

(B) Twenty-two days equals one service credit month;

(C) More than twenty-two days but less than forty-five days equals one and one-quarter service credit month.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member in an eligible position or positions for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

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

(i) Service in any state elective position shall be deemed to be full time service, except that persons serving in state elective positions who are members of the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and firefighters' retirement system at the time of election or appointment to such position may elect to continue membership in the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and firefighters' retirement system.

(ii) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit

month during any calendar month in which multiple service for ninety or more hours is rendered.

(iii) Up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

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

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

(12) "Prior service" means all service of an original member rendered to any employer prior to October 1, 1947.

(13) "Membership service" means:

(a) All service rendered, as a member, after October 1, 1947;

(b) All service after October 1, 1947, to any employer prior to the time of its admission into the retirement system for which member and employer contributions, plus interest as required by RCW 41.50.125, have been paid under RCW 41.40.056 or 41.40.057;

(c) Service not to exceed six consecutive months of probationary service rendered after April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of the total amount of the employer's contribution to the retirement fund which would have been required under the law in effect when such

probationary service was rendered if the member had been a member during such period, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member;

(d) Service not to exceed six consecutive months of probationary service, rendered after October 1, 1947, and before April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of five percent of such member's salary during said period of probationary service, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member.

(14)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance, pension or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

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

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

(17)(a) "Average final compensation" for plan 1 members, means the annual average of the greatest compensation earnable by a member during any consecutive two year period of service credit months for which service credit is allowed; or if the member has less than two years of service credit months then the annual average compensation earnable during the total years of service for which service credit is allowed.

(b) "Average final compensation" for plan 2 and plan 3 members, means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such

member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.40.710(2).

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

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

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

(21) "Retirement allowance" means the sum of the annuity and the pension.

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

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

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

(25) "Eligible position" means:

(a) Any position that, as defined by the employer, normally requires five or more months of service a year for which regular compensation for at least seventy hours is earned by the occupant thereof. For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position;

(b) Any position occupied by an elected official or person appointed directly by the governor, or appointed by the chief justice of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which compensation is paid.

(26) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (25) of this section.

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

(28) "Totally incapacitated for duty" means total inability to perform the duties of a member's employment or office or any other work for which the member is qualified by training or experience.

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

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

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

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

(33) "Plan 1" means the public employees' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(34) "Plan 2" means the public employees' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and are not included in plan 3.

(35) "Plan 3" means the public employees' retirement system, plan 3 providing the benefits and funding provisions covering persons who:

(a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

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

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

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

(39) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

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

(41) "Annual increase" means((~~,~~)):

(a) Initially, fifty-nine cents per month per year of service. ((~~which amount shall be increased each July 1st by three percent, rounded to the nearest cent.~~))

(b) Effective July 1, 2009, the annual increase amount shall be increased as follows:

(i) By an amount equal to $.35 per month per year of service for members who retired after December 31, 1984, and before January 1, 1991.

(ii) By an amount equal to $.50 per month per year of service for members who retired after December 31, 1979, and before January 1, 1985.

(iii) By an amount equal to $.75 per month per year of service for members who retired before January 1, 1980.

(c) The annual increase amount shall be increased each July 1st by three percent, rounded to the nearest cent. Except, this adjustment shall not apply to increases in the annual increase amount granted in this subsection that have been in effect for less than one year on the date of the adjustment.

(42) "Separation from service" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer

have a written or oral agreement to resume employment with the same employer following termination. Mere expressions or inquiries about postretirement employment by an employer or employee that do not constitute a commitment to reemploy the employee after retirement are not an agreement under this subsection.

(43) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

NEW SECTION. **Sec. 3.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2009.

--- END ---

DRAFT
ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL
Office of the State Actuary	**035**	**12/5/2008**	**Plan 1 COLA**

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 bill grants additional increases in the amount of the Plan 1 Uniform Cost-Of-Living Adjustment (COLA) based on year of retirement.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Current Value of All Future Pensions	$67,081	$91.5	$67,172
Earned Pensions Not Covered by Current Assets	$4,957	$91.5	$5,049

Impact on Contribution Rates: (Effective 9/1/2009)

Current State Budget	**PERS**	**TRS**	**SERS**	**PSERS**
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Current Annual Cost	0.000%	0.000%	0.000%	0.000%
Plan 1 Past Cost	0.040%	0.090%	0.040%	0.040%
Total Employer	0.040%	0.090%	0.040%	0.040%
State				

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$6.6	$7.4	$60.6
Total Employer	$15.6	$18.3	$160.9

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 the following systems:

- Public Employees' Retirement System (PERS) Plan 1
- Teachers' Retirement System (TRS) Plan 1

This proposal provides additional increases in the amount of the PERS and TRS Plans 1 Uniform COLA. The proposal increases the Uniform COLA annual increase amount based on year of retirement as shown below.

Year of Retirement	Increase in Annual Increase Amount $/per month/per year of service
1985-1990	$0.35
1980-1984	$0.50
Prior to 1980	$0.75

Effective Date: July 1, 2009.

What Is The Current Situation?

PERS and TRS Plans 1 provide the Uniform COLA. The Uniform COLA is a service-based COLA payable the first calendar year in which the recipient turns age 66 and has been retired for one year. The amount of the Uniform COLA does not vary based on how long a member has been retired. The Uniform COLA is a fixed-dollar amount multiplied by the member's total years of service. The fixed-dollar amount of the Uniform COLA (known as the annual increase amount) increases by 3 percent every year on July 1. As of July 1, 2008, the annual increase amount of the Uniform COLA was $1.73 per month/per year of service.

Statute specifies that future increases to the Uniform COLA are not a contractual right.

Who Is Impacted And How?

We estimate this proposal will affect 20,705 out of the total 54,686 retirees of PERS Plan 1, and 11,980 out of the total 35,384 retirees of TRS Plan 1 through improved benefits.

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PERS 1	
Year Retired	**Count**
79 and Earlier	4,614
80-84	7,326
85-90	8,765
91 and Later	33,981
Total	**54,686**

TRS 1	
Year Retired	**Count**
79 and Earlier	2,905
80-84	4,031
85-90	5,044
91 and Later	23,404
Total	**35,384**

We estimate this proposal will increase the benefits for a typical member by increasing their pension amount. If a member retired in 1982 with 30 years of service, as of July 1, 2009, they would be receiving an increase equal to $2.33 per month per month of service as opposed to the current $1.83 per month per month of service. This translates into a pension increase of $839 instead of $659 for the year.

WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This proposal has a cost because it adds a larger increase to certain retirees' annual pension amount.

Who Will Pay For These Costs?

The costs will be paid for under the Plan 1 funding method. The employers of PERS, School Employees' Retirement System (SERS), and Public Safety Employees' Retirement System (PSERS) will pay for the PERS costs, while the employers of TRS will pay for the TRS costs.

HOW WE VALUED THESE COSTS

Assumptions We Made

We developed these costs using the same assumptions as disclosed in the June 30, 2007 Actuarial Valuation Report (AVR).

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How We Applied These Assumptions

We increased the COLA for the affected retirees and beneficiaries (members). Members who retired before 1980 were given a $0.75 per month of service increase to their COLA. Members who retired between 1980 and 1984 were given a $0.50 per month of service increase in their COLA. Members who retired between 1985 and 1990 were given a $0.35 per month of service increase to their COLA.

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

Special Data Needed

We developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

How The Liabilities Changed

This proposal will impact the actuarial funding by increasing the present value of future benefits payable under the systems as shown below.

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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 1	$14,061	$48.8	$14,110
PERS 2/3	20,634	0.0	20,634
PERS Total	**$34,695**	**$48.8**	**$34,744**
TRS 1	11,021	42.6	11,064
TRS 2/3	7,078	0.0	7,078
TRS Total	**$18,099**	**$42.6**	**$18,142**
SERS 2/3	**$2,698**	**$0.0**	**$2,698**
PSERS 2	**$225**	**$0.0**	**$225**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	**$3,609**	**$48.8**	**$3,657**
TRS 1	**$2,288**	**$42.6**	**$2,331**
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 1	$3,990	$48.8	$4,039
PERS 2/3	(2,470)	0.0	(2,470)
PERS Total	**$1,520**	**$48.8**	**$1,569**
TRS 1	2,552	42.6	2,595
TRS 2/3	(1,229)	0.0	(1,229)
TRS Total	**$1,323**	**$42.6**	**$1,365**
SERS 2/3	**($443)**	**$0.0**	**($443)**
PSERS 2	**($2)**	**$0.0**	**($2)**

Note: Totals may not agree due to rounding.

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How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown below that applies in the current biennium. However, we will use the un-rounded rate increase to measure the fiscal budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2009)

System/Plan	PERS	TRS	SERS	PSERS
Current Members				
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Normal Cost	0.000%	0.000%	0.000%	0.000%
Plan 1 UAAL	0.042%	0.095%	0.042%	0.042%
Total Employer	0.042%	0.095%	0.042%	0.042%
New Entrants*				
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Normal Cost	0.000%	0.000%	0.000%	0.000%
Plan 1 UAAL	0.042%	0.095%	0.042%	0.042%
Total Employer	0.042%	0.095%	0.042%	0.042%

**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*

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How This Impacts Budgets And Employees

	Budget Impacts				
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
2009-2011					
General Fund	$1.0	$5.0	$0.5	$0.1	$6.6
Non-General Fund	1.7	0.0	0.0	0.0	1.7
Total State	**$2.7**	**$5.0**	**$0.5**	**$0.1**	**$8.3**
Local Government	4.2	2.4	0.7	0.1	7.3
Total Employer	**$6.9**	**$7.4**	**$1.1**	**$0.1**	**$15.6**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2011-2013					
General Fund	$1.3	$5.4	$0.5	$0.1	$7.4
Non-General Fund	2.2	0.0	0.0	0.0	2.2
Total State	**$3.5**	**$5.4**	**$0.5**	**$0.1**	**$9.5**
Local Government	5.4	2.6	0.7	0.1	8.8
Total Employer	**$8.9**	**$8.1**	**$1.2**	**$0.2**	**$18.3**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2009-2034					
General Fund	$12.9	$43.2	$3.8	$0.7	$60.6
Non-General Fund	21.1	0.0	0.0	0.0	21.1
Total State	**$34.0**	**$43.2**	**$3.8**	**$0.7**	**$81.7**
Local Government	52.0	20.8	5.6	0.8	79.2
Total Employer	**$86.0**	**$64.0**	**$9.4**	**$1.5**	**$160.9**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

Note: Totals may not agree due to rounding.

The analysis of this proposal does not consider any other proposed changes to the systems. 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 draft fiscal note to the extent that actual experience differs from the actuarial assumptions.

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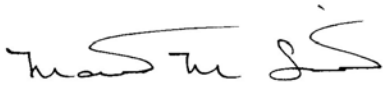
ACTUARY'S CERTIFICATION

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 and assumptions 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 1 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

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GLOSSARY OF ACTUARIAL TERMS

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

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

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

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The Select Committee on Pension Policy

Plan 1 COLA Proposals

Darren Painter, Policy Analyst

December 16, 2008

Office of the State Actuary

"Securing tomorrow's pensions today."

What Is The Issue?

- Stakeholders seeking improvements in the PERS & TRS Plans 1 COLA
- Key policy questions
  - Is the current COLA sufficient?
  - If not
    - Who most needs an improved COLA?
    - What form should the COLA take?

Committee Activity

- Briefings in September & November
- Executive Committee recommendation
- Opportunity for formal action today

Policy Highlights

- Plan 1 & Plan 2/3 COLAs designed for different policy objectives
- Plan 1 "Uniform COLA" helps maintain the value of pensions
- SCPP has goal on increasing and maintaining purchasing power in Plans 1 (Goal 4)
- Benefit improvements for past service in Plans 1
  - Increase the unfunded past liability (UAAL)
  - Inconsistent with principle of intergenerational equity

Stakeholder Proposals

- Revised Short-term option
  - Grant additional increases to the Uniform COLA based on year of retirement
- Revised Long-term option
  - Provide the better of the Uniform COLA or a CPI-based COLA similar to the Plans 2/3 COLA

Executive Committee Recommendation

- Stakeholder's revised short-term option
- Grants additional increases based on year of retirement
  - 1985-1990 = $0.35*
  - 1980-1984 = $0.50*
  - 1979 and earlier =$0.75*

  **Dollars/month/year of service*
- Impacts nearly 33,000 retirees

Policy Implications: Revised Short-Term Option

- Larger increases to members retired longest
- Balance between ease of administration and precision in replacing purchasing power
- Results in different minimum benefits based on retirement date
  - Do members retired longer require larger minimum benefits?

Preliminary Total Employer Rate Increase

Revised Short-Term Option	
System	**Employer Rate Increase**
PERS	0.04%
TRS	0.09%
SERS	0.04%
PSERS	0.04%

Preliminary Fiscal Costs

Revised Short-Term Option	
Budget Impacts	*($ in millions)*
2009-2011	
Total GF-S	$6.6
Total Employer	15.6
25-Year	
Total GF-S	60.6
Total Employer	$160.9

These costs are preliminary and will be updated for any legislation based on this proposal.

Possible Next Steps

- Recommend legislation based on one or more stakeholder proposals
- Take no further action
- Materials provided
  - Bill draft and draft fiscal note to implement revised short-term option

Washington State
School Retirees' Association

4726 Pacific Ave. SE • Lacey, WA 98503 • (360) 413-5496 • 1-(800) 544-5219 • www.wssra.org

Testimony before the Select Committee on Pension Policy

December 16, 2008

Re: Plan 1 COLA

Honorable Chair and Committee members,

The 16,000+ members of the Washington State School Retirees' Association (WSSRA) appreciate the Select Committee on Pension Policy's consideration of this proposal for Plan 1 COLA improvement. We ask that you take action today to move this proposal forward as "SCPP request legislation" for the 2009 Session. School retirees join policy makers in being painfully aware of the current economic conditions, and suggest that these conditions precisely highlight why the time for significant, broad-based, Plan 1 COLA improvement is NOW.

1. **Recovery of lost purchasing power for Plan 1 retirees has been a goal of WSSRA for many years, and is a top priority of the PEPR coalition this year.**

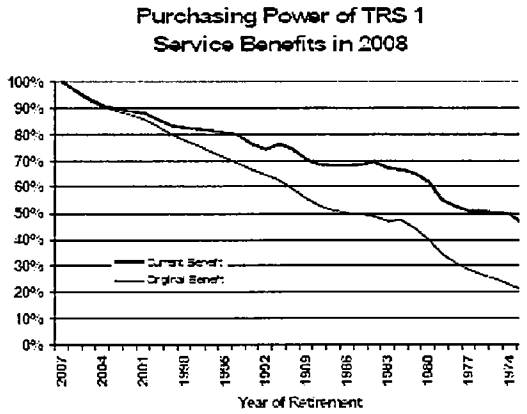
   School retirees in Plan 1 view their pensions as "deferred compensation," which was agreed to in exchange for lower salaries during their years of active employment. Retirees had a reasonable expectation that Plan 1 pension benefits would retain dollar values throughout retirement years. Unfortunately, due to the design of Plan 1 the value of TRS/PERS Plan 1 pension benefits, retirees experience substantial losses in purchasing power.

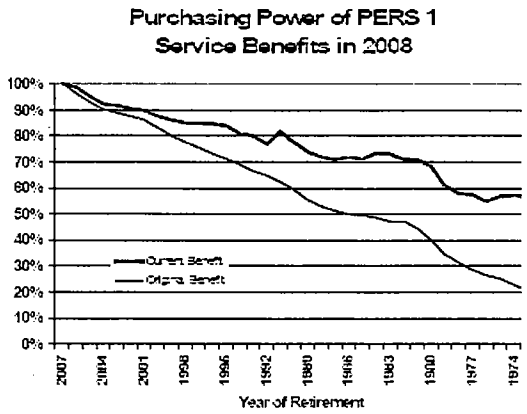
   The Plan 1 post-retirement adjustment known as the Uniform COLA is <u>not</u> a true Cost-of-Living Adjustment. Instead of being based on a member's base salary or an economic indicator such as the Consumer Price Index (CPI), like the COLA provided to Plan 2/3 retirees, the Uniform COLA is based on a "dollars per month per year of service" formula. Since its enactment in 1995, the only broad based improvement enacted to enhance the Uniform COLA was the now repealed Gain Sharing benefit.

   The ultimate goal of Plan 1 retirees has been, and continues to be, a Plan 2/3 like CPI-based COLA which begins 1 year after retirement. However, in acknowledgement of the current economic climate, WSSRA joined the Public Employees for Pension Reform (PEPR) coalition in proposing the less costly short-term improvements to the Uniform COLA currently under consideration.

2. **Plan 1 benefits are assessed by the Office of the State Actuary in the context of changes in the rate of inflation as measured by the Consumer Price Index.**

The measure of a defined pension benefit's worth is how the pension benefit retains its value over time. According to data produced by the Office of the State Actuary in 2004, even with the Uniform COLA, **TRS 1 members who retired in the mid-1970s have lost approximately 50% of their purchasing power.** PERS 1 members have also experienced dramatic declines in the purchasing power of the Plan 1 pension benefits. **The charts below illustrate the percentage of purchasing power lost relative to the date retired. The line "current benefit" represents receipt of the original pension benefit, plus the Uniform Plan 1 COLA.**





Source: Office of the State Actuary 11/12/08

3. **Recovery of lost purchasing power for Plan 1 retirees has been a formal goal of the SCPP itself for several years.**

> *SCPP Goals for Washington State Public Pensions - Goal #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.**
>
> Revised and Adopted by the SCPP 9/26/05

Members of the SCPP's Executive Committee debated the policy goal of "adequacy of benefits" versus "recovery of lost purchasing power." However, WSSRA believes that there is no debate: **The SCPP's focus should be on the policy of recovery of lost purchasing power.** Pension benefits that fail to protect retirees from significant losses in purchasing power are not adequate: the Plan 1 Uniform COLA needs to be improved.

WSSRA recognizes how the current economic climate is setting the tone for policy considerations. In that vein, WSSRA endorses comments made by Sandra Matheson, Director of the Department of Retirement Systems, during the 11/18/08 meeting of the SCPP's Executive Committee. Director Matheson suggested that **enactment of Plan 1**

COLA improvement could be viewed as part of an economic stimulus package. Further, Director Matheson explained that dollars paid out to retirees via pension checks are not just saved; they are re-circulated throughout local and state economies in the form of sales tax revenues as retirees spend their pensions to provide for themselves.

The theory of pension benefits as a source of "economic stimulus" was confirmed in a 2006 Texas study that assessed the economic impact of pension benefits. The 2006 Perryman Group study, *Beyond the Classroom: The Impact of Pension Benefits Paid by the Teacher Retirement System of Texas on Business Activity in Texas, Its Regions, Metropolitan Areas, and Counties*, found that: ***"The economic impact of benefits, as measured by expenditures, exceeds their actual dollar value due to the multiplier effect of the spending as it ripples through the economy."*** SCPP are invited to review the complete findings of this important study via the internet at http://www.trs.state.tx.us/about/documents/beyond_the_classroom.pdf.

WSSRA believes that the proposal for Plan 1 COLA improvement currently before you is a responsible "win/win" pension policy which:

1. Helps retirees to weather the impact of past and current losses in the purchasing power of their Plan 1 pensions,
2. Represents a refusal of pension policy makers to let the economy be a reason for inaction, and
3. Contributes to the economic strength of the state and local communities.

NOW is the time to act on the priority of Plan 1 COLAs: NOW - when retirees, a segment of the society most impacted by the economic downturn, are suffering; and when state and local governments are looking to revitalize revenue streams. Throughout their careers – good times and bad times - Plan 1 members paid the statutorily mandated 6% of pay toward their Plan 1 benefits. Employer contributions, on the other hand, have been manipulated in both good times and bad to accommodate other priorities. NOW is the time to act on the priority of Plan 1 COLAs. If not NOW, when?

The very modest, and significantly scaled back, proposal for Plan 1 COLA improvement before you represents the PEPR coalition's best attempt to provide desperately needed relief to those most in need: those retired the longest. It is more broad-based than previous incremental improvements to the Minimum Benefit, but still targets those who, over time, have experienced the greatest lost of purchasing power. WSSRA requests your support for this important proposal for Plan 1 COLA improvement.

Respectfully Submitted,

Leslie Main
Legislative Coordinator
Washington State School Retirees Association

11. Disability Benefits

See agenda item #6 for materials.

12. Change Membership Default for Plans 2/3

Change Membership Default For Plans 2/3

Description of Issue

The SCPP is being asked to change the plan choice default in the Plans 2/3 of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS). The requested change would require new employees who failed to choose Plan 2 or Plan 3 to become permanent members of Plan 2 by default. The current default plan is Plan 3.

This request raises two immediate policy questions:

- Should the plan default be changed, particularly at this time?
- If so, how should the default be determined?

History

- Plan 3 was the default plan when plan choice was introduced with PERS Plan 3 in 2002.
- The Legislature continued to use Plan 3 as the default when new teachers and school employees were granted plan choice in 2007.

Policy Considerations

- Have the values changed that made the Plan 3 design the policy preference for the default plan?
- There may be issues with changing the default at this time.
  - Legal considerations.
  - Financial market conditions.
- If policy makers don't have a policy preference for continuing the Plan 3 default, how should they decide which plan should be the default?
  - Look at historical data of plan choice preference?

- Determine which plan best serves the needs of new employees?

Committee Activity

The SCPP had a work session on this issue in November. At that meeting, the Executive Committee directed staff to prepare a bill draft and fiscal note for the December meeting to change the default plan to Plan 2.

Bill Drafts

Two bill drafts are attached:

1. Implements changing the default plan to Plan 2 for PERS, TRS and SERS
2. Implements changing the default plan to Plan 2 for PERS only

Next Step

This issue is scheduled for public hearing and possible executive action.

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Change Membership Default for Plans 2/3

In Brief

ISSUE

New employees hired into PERS, TRS, or SERS eligible positions must choose to be a member of Plan 2 or Plan 3. Members who don't choose are "defaulted" into membership in Plan 3. Stakeholders have suggested that members who don't choose should be defaulted into Plan 2.

MEMBER IMPACT

This change would impact all new hires into PERS, TRS, and SERS eligible positions. Since the inception of optional membership, beginning for PERS in March 2002, over 95,000 new employees have been faced with the Plan 2 or Plan 3 choice. Of these, nearly 18,000 have been defaulted into Plan 3. See Appendix A for more information.

Dave Nelsen
Senior Policy Analyst
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Introduction

The SCPP is being asked to change the optional plan choice default provisions in the Plans 2/3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS). The requested change would require new employees who failed to choose Plan 2 or Plan 3 to become permanent members of Plan 2 by default. Currently, new employees who fail to choose a plan are permanently defaulted into membership in Plan 3. This request raises two immediate policy questions:

- Should the plan default be changed, particularly at this time?
- If so, how should the default be determined?

Current Situation

New employees hired into eligible positions in PERS, TRS, and SERS have ninety days from their first day of employment to choose whether to become members of Plan 2 or Plan 3. New employees who do not decide within the ninety-day window become members of Plan 3 by default. Whether members choose or are defaulted into a plan, their plan designation cannot change; the decision or designation is irrevocable.

History

TRS Plan 3, implemented in 1995, was the first Plan 3 in Washington State. At the time, all new teachers were required to be members of Plan 3. This was also true for SERS Plan 3, implemented in 2000. Classified employees hired after 2000 were also required to become members of SERS Plan 3.

The choice of Plan 3 as the default plan began with the implementation of PERS Plan 3 in March 2002. When PERS Plan 3 was created, the Legislature gave new public

Using Plan 3 as the default plan started with PERS in 2002 and was later expanded to TRS and SERS in 2007.

employees the irrevocable choice upon hiring to become a member of Plan 2 or Plan 3. If a new employee failed to make a choice, they were defaulted into PERS Plan 3.

In 2007, the Legislature continued to use Plan 3 as the default plan when they implemented optional membership in TRS and SERS. These benefits, and others, were passed in HB 2391, which also repealed the provisions of gain-sharing. Some of the provisions of this bill are currently being litigated.

Comparing Plan 2 and Plan 3

Plan 2 and Plan 3 provide different designs to accrue a retirement benefit. Understanding the differences in the design of the two plans may help policy makers understand the potential impact of changing the default plan to future new employees.

Below is a description of the benefit design provided by each plan.

Plan 2 is a defined benefit plan that provides a monthly payment for life based upon a formula.

Plan 2 is a **defined benefit retirement plan** that provides a monthly payment for life based upon a formula. The benefit is defined because the formula is known. The Plan 2 benefit formula is: 2% X years of service X salary average. The Plan 2 benefit is funded by equal employee and employer contributions, which may vary over time depending upon the funding needs of the plan. The full benefit is guaranteed by the state of Washington, so employees do not carry the investment risk for their benefits, the state does.

Some Benefits Of Plan 2

For a new employee who will remain a member until retirement, DB plans, like the Plans 2, are generally a very cost effective method to provide lifetime retirement income*.

First, because they "pool" all members into a common fund, defined benefit plans only have to collect enough contributions and earnings to fund the "average" lifetime of the member. Members who fund their own retirement would have to contribute and earn more in order to ensure

Plan 2 offers a cost effective method to provide replacement income at retirement.

they wouldn't outlive their savings if they lived longer than the average.

Second, because large defined benefit plans invest over a very long time horizon, they can afford to take on more investment risk, which should lead to higher returns. Individual members are often advised to change their investment allocations to less risky products as they near and enter retirement, which leads to lower lifetime investment returns.

Finally, defined benefit plans generally achieve higher investment returns than individual investors. Defined benefit plans use investment professionals, have access to investment asset classes that individuals typically don't, and can use their size to negotiate lower investment fees. Over a long career, a small increase in investment returns can provide a significantly higher benefit.

* Beth Almeida and William Fornia, "A Better Bang for the Buck," *National Institute on Retirement Security,* <http://www.nirsonline.org/index.php>, August 2008, <http://www.nirsonline.org/storage/nirs/documents/ky_dc_working_group.pdf>, accessed August 2008.

Plan 2 offers members a lower risk retirement plan that requires little involvement in managing the benefit.

Plan 2 is also of value to members who don't want to assume the primary responsibility and risk for their own retirement funding. In a defined benefit plan, the plan sponsor assumes the responsibility and the risk to invest and provide a retirement benefit for the employees. This provides the member with a secure, known benefit that is guaranteed. For members who lack the investment confidence, the desire to more directly manage their retirement income, or the time to accrue substantial earnings, this option can be desirable. However, members do still bear the responsibility to determine if the amount provided by the plan is sufficient for their own retirement needs, and make additional plans if it is not.

Plan 3 is a **hybrid retirement plan**, because it contains two separate components:

- A defined contribution account.
- A defined benefit account.

The *defined contribution* account is funded by the member's own contributions. The plan gives members the choice of how much they want to contribute to their own retirement, and options to manage investing those

contributions over time. Currently, Plan 3 members have six contribution rate options, beginning at 5 percent, and over nine separate investment funds from which to choose. New employees, who become members of Plan 3 by default, are also defaulted into a contribution rate of 5 percent and into an investment option that provides the same mix of investments and rate of return as the retirement trust funds managed by the Washington State Investment Board (WSIB).

Plan 3 has both a defined contribution and defined benefit component.

This is called a "defined contribution" account because the benefit received by members from the account is not defined, only the amount of contributions into the account is defined. The benefit received from the account is based upon how much members contribute and the associated investment earnings. There is no guaranteed return on the contributions, so members carry the full investment risk. This type of retirement option is very similar to the "401K" retirement plans commonly offered by private employers.

The *defined benefit* account in Plan 3 is paid by the employer contributions. The defined benefit provided is similar to the Plan 2 defined benefit, a lifetime monthly payment based upon a formula, guaranteed by the state. However, because member contributions are not funding the defined benefit in Plan 3 like they are in Plan 2, the value is half that of the Plan 2 benefit. The Plan 3 defined benefit formula is: 1% X years of service X salary average.

Some Benefits Of Plan 3

Many new employees will never draw a lifetime monthly payment from their retirement plan. It is estimated that less than half of all new PERS employees will remain employed for the five years necessary to earn a guaranteed benefit at age 65*. Also, some new employees may work long enough to earn a benefit, but will leave public employment prior to age 65. The Plans 3 were designed in recognition of this new, more mobile workforce. The policy statement in the legislation that created TRS Plan 3 stated "*…*public employees need the ability to make transitions to other private or public sector careers, and … the retirement system should not be a barrier…."

Plan 3 offers members more value if leaving the workforce before retiring.

To accommodate this recognition of greater mobility, Plan 3 provides more opportunity to receive value for both

member and employer contributions should employees leave employment prior to retirement. In Plan 2, members who leave employment can withdraw the contributions made to the plan and any interest that has been credited to their account. However, if they do so, they forfeit all right to a future defined benefit from the system. This means Plan 2 members who withdraw never receive any benefit from all the contributions made by the employer.

In Plan 3, the benefit is split into the defined contribution and the defined benefit accounts. Plan 3 members who leave prior to retirement can withdraw their contributions from the defined contribution account, and it does not impact their eligibility for an employer-funded defined benefit payment in the future. If Plan 3 members earn a guaranteed future payment, they retain the value from the employer contributions.

* Office of the State Actuary, *2007 Actuarial Valuation Report*, September 2008.

Plan 3 gives members greater flexibility and control within their retirement plan.

Plan 3 also offers members more control over their retirement planning. With the increased awareness of the stock market in the late 1980s and early 1990s, many employees wanted flexibility and control over their retirement contributions. Plan 3 provides flexibility in the amount of contributions and control over how they are invested. Plan 2 does not provide these benefits. Even if the new employees do not choose Plan 3 initially, this flexibility and control may be desired later in their career.

However, with this increased flexibility and control comes increased risk. Members in Plan 3 are assuming more risk for their future retirement benefit than Plan 2 members. Part of the benefit from Plan 3 comes from the members own contributions and earnings, on which there is no guaranteed return. Therefore, depending upon the amount invested and the earnings, members may or may not have as much income replacement at retirement as Plan 2 members may have.

Plan 3 shifts some risk of providing a retirement benefit to members, but provides features to help mitigate that risk.

Some policy makers may question whether a plan designed for active management that shifts some retirement risk to members is appropriate for new employees who cannot choose a retirement plan in ninety days. While there is more risk to members in this plan, there are several design options within Plan 3 that attempt to mitigate some of that risk.

First, as stated earlier, members who are defaulted into Plan 3 are also defaulted into the WSIB investment option. This provides them with access to a professionally managed, low-fee, and diverse investment portfolio, the same portfolio that funds the defined benefit plans in Washington. This option mitigates some of the risk for individual investors.

Second, the Plans 3 provide an option for members to purchase a lifetime monthly annuity with their contributions at the time of retirement, paid out of the state retirement funds. Because this annuity is purchased from the state, it provides more benefit for less cost than what could typically be purchased in the private sector, and removes some of the risk of members outliving the value of their investments.

Finally, members still receive a defined benefit payment funded from the employer contributions. This ensures there is some level of secure monthly income being earned.

Policy Analysis

The request to change the plan membership default in the Plans 2/3 raises two immediate policy questions:

- Should the default be changed, particularly at this time?
- If so, how should the default be determined?

Should The Plan Default Be Changed?

As discussed earlier in this paper, Plan 3 was the original choice as the default plan for PERS, and has remained the default choice as optional membership was expanded to TRS and SERS. As shown in **Appendix A**, nearly 18,000 members have been defaulted into Plan 3 since the creation of optional membership. This amounts to approximately 19 percent of all new employees.

The question for policy makers is: Have the values changed that made the Plan 3 design the policy preference for the default plan?

Have the values changed that made the Plan 3 design the policy preference for the default plan?

The Plan 3 design offers value for the mobility and flexible retirement planning needs of many new employees. For employers, it offers a retirement plan that helps recruit from the private sector, which primarily offers defined contribution retirement plans for employees. For the state of Washington, as the plan sponsor, the Plan 3 design shifts some of the investment risk for providing a benefit to members, and lowers the long-term cost of the plan that the state guarantees. As explained earlier, the Plan 3 members carry the investment risk for their own contributions, and the state guarantees the value of the defined benefits paid by employer contributions. Since the Plan 3 defined benefit is half the value of the Plan 2 defined benefit, the state accrues less liability with Plan 3. Shifting the investment risk and lowering the long-term liability were key benefits to the state of implementing Plan 3 and designating Plan 3 as the default plan.

Have the values in the Plan 3 design changed? Do policy makers no longer consider lowering the long-term liability for the state a goal? If the values discussed above have not changed, then some reason must override the design values in significance to consider changing the current plan default. Otherwise, retaining Plan 3 as the default plan would be the consistent approach.

Should The Default Be Changed At This Time?

Changing the plan default at this time may raise legal concerns.

In addition to the question of whether the Plan 3 default should be changed at all, there are also two concerns raised by the timing of this request. First, as mentioned earlier, the Legislature continued the use of Plan 3 as the default plan when they implemented plan choice for TRS and SERS in HB 2391. Some of the benefit provisions in this bill are in current litigation, and the provisions of plan choice may be impacted by the outcome of this litigation. As a result, the committee may want to consult with their Assistant Attorney General before making a decision on this proposal.

Second, policy makers may want to consider whether the desire to change Plan 3 as the default may be linked to current market conditions. As discussed earlier, in Plan 3 members invest their contributions. When the financial markets are in a downturn, as they are now, the reaction to this financial climate may be that this exposure to

investment risk is too great for members to accommodate. Therefore, some feel Plan 2 should be the default plan because the benefit is guaranteed and the state, as plan sponsor, should carry the investment risk, not members. This reaction may not fully consider the cyclical nature of the financial markets. The markets have had periods of tremendous gain, as well as loss. Volatility is part of their nature. When the financial markets are earning significant returns, will there be another request to change the default back to Plan 3 so members can participate in the gains?

Policy makers may want to consider whether the desire to change the default from Plan 3 may be linked to current market conditions.

How Should The Plan Default Be Determined?

If policy makers no longer feel Plan 3 should be the default plan for new employees from a broad-based policy perspective, then how should they choose which plan should be the default? Two possible approaches are:

- Use historical plan choice data to set the default.
- Determine which plan best serves the needs of new employees.

Using Historical Data To Set Plan Default

Appendix A provides detail of new employee choice in the Plans 2/3. PERS has had optional membership since March of 2002, so there is more historical data available. In PERS, over 64 percent of new employees choose Plan 2. An additional 17 percent choose Plan 2, and the remaining 19 percent are defaulted into Plan 3. This data indicates a strong preference in PERS for Plan 2.

SERS data also indicates a preference for Plan 2 of 48 percent to 32 percent choosing Plan 3. The remaining 20 percent are defaulted into Plan 3. TRS new members have a slight preference for Plan 3 of 46 to 40 percent choosing Plan 2. The remaining 14 percent of new teachers are defaulted to Plan 3.

Historical data shows a strong preference for Plan 2 among PERS employees, but the data is somewhat less clear for school employees and

While this data does show a strong preference for Plan 2 among PERS employees, the data is somewhat less clear for school employees and teachers. Also, since optional membership for SERS and TRS was implemented only 16 months ago, there is far less data in those plans from which to base a decision. If taking the approach to use historical

data to determine the plan default choice, policy makers may want to consider whether enough data is available in SERS and TRS to make an informed choice.

Which Plan Best Serves The New Employees?

Policy makers may also set the plan default based upon a judgment of which plan best serves the new employees. This determination is complicated; however, as Plan 2 and Plan 3 were each designed to best serve the needs of different members. As discussed earlier in this paper when comparing the benefits in the two plans, Plan 2 may provide more value to the new employees who stay and retire from the system, or who don't want the primary responsibility or the risk of managing their own retirement. Plan 3 may be preferable for the new employees who will likely leave public employment prior to retirement, or those who may remain, but want more flexibility and options than a typical defined benefit plan provides.

Policy makers would need to determine which group of new members they would like to best serve. Those new employees who will stay to retirement age may be benefited by a Plan 2 default, and those who leave prior to retiring may be benefited by a Plan 3 default.

Should There Be Different Defaults For Different Members?

Instead of one default for all retirement systems, other approaches could include defaults based upon each system's demographics, or plan default based upon groupings of new employees.

Applying one default plan for all the Plans 2/3 would necessarily mean some members are defaulted into a plan that may not be best suited for their needs. A different approach may be to fit the default to the demographics of new employees in the retirement system. For example, PERS and SERS new employees are far more likely to leave the workforce prior to the normal age of retirement than new TRS employees. Would a Plan 3 default suit these employees better since it may provide more value to a departing worker? If new employees in TRS are more likely to work to the normal age of retirement, should they be given a Plan 2 default since Plan 2 is a cost effective means of providing retirement income? This approach could result in different default plans among the three retirement systems.

Another approach would be to fit the default to groupings of new employees specifically. For example, Plan 3 may be more valuable to younger employees who have time to invest and manage their contributions through market volatility. Plan 3 may be a logical choice as the default for these new employees. But what of new employees that enter the workforce at later ages? They may not have time to earn significant investment gains in Plan 3. New employees past a certain age may benefit from being defaulted into Plan 2. This approach could result in different plan defaults within each retirement system.

Other States

Among the comparative states, only two systems offer new employees a choice between a defined benefit plan and some form of defined contribution or hybrid plan, Ohio PERS and the Florida Retirement System.

Only two comparative systems offer similar plan choice to new employees, and both systems default members into the defined benefit option.

Ohio PERS gives new employees a choice between a traditional defined benefit plan like Plan 2, a hybrid retirement plan like Plan 3, and a defined contribution plan. If members do not choose a plan, they are defaulted into the traditional defined benefit plan.

The Florida Retirement System gives new members the option to participate in a defined benefit plan and a defined contribution plan. Like Ohio PERS, if members fail to make a timely choice, they are defaulted into the defined benefit plan.

Conclusion

There is a request to the SCPP to change the plan choice default in the Plans 2/3. Plan 3 has been the policy choice as the plan default since the inception of optional membership in 2002, and remained the default choice when optional membership was expanded in 2007. Have the plan design values that drove that default policy changed?

Is now the right time to change the plan default? There are also timing considerations concerning changing the plan default. These include possible legal concerns and the impact of the current financial markets on the desire for change.

If policy makers don't have a policy preference for continuing the use of Plan 3 as the default, how should they determine which plan should be the default?

- Look at historical data of plan choice preference?
- Make a determination of which plan best serves the needs of new employees?

A look at similar situations in comparative state systems shows that only two systems offer new employees a similar plan choice as Washington. In both of those systems, members who fail to choose within their allotted time period are defaulted into a defined benefit plan.

Committee Activity

The SCPP had a work session on this issue in November. At that meeting, the Executive Committee directed staff to prepare a bill draft and fiscal note for the December meeting to change the default plan to Plan 2.

Bill Drafts

Two bill drafts are attached:

1. Implements changing the default plan to Plan 2 for PERS, TRS and SERS
2. Implements changing the default plan to Plan 2 for PERS only

Draft Fiscal Note Summary

Attached.

Next Steps

This issue is scheduled for public hearing and possible executive action.

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Appendix A

PERS Choice Data – March 2002 through October 2008		
New Members	85,106	
New Members Opting Into Plan 2	54,067	64%
New Members Opting Into Plan 3	14,882	17%
New Members Defaulting Into Plan 3	16,157	19%

TRS Choice Data – July 2007 through October 2008		
New Members	5,189	
New Members Opting Into Plan 2	2,072	40%
New Members Opting Into Plan 3	2,387	46%
New Members Defaulting Into Plan 3	730	14%

SERS Choice Data – July 2007 through October 2008		
New Members	5,094	
New Members Opting Into Plan 2	2,443	48%
New Members Opting Into Plan 3	1,616	32%
New Members Defaulting Into Plan 3	1,035	20%

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Office of the State Actuary
November 21, 2008 (11:19 AM)

Option 1: Change Default To Plan 2 For PERS, TRS, And SERS

AN ACT Relating to plan membership default provisions in the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system; and amending RCW 41.32.835, 41.35.610, and 41.40.785.

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

Sec. 1. RCW 41.32.835 and 2007 c 491 s 3 are each amended to read as follows:

(1) All teachers who first become employed by an employer in an eligible position on or after July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3 <u>or plan 2 as follows:</u> ((.))

a) Becomes a member of plan 3 if first employed by an employer in an eligible position on or after July 1, 2007 but prior to July 1, 2009.

b) Becomes a member of plan 2 if first employed by an employer in an eligible position on or after July 1, 2009.

These plan choice and default provisions are subject to the rights reserved by the Legislature in subsection 3 of Section 1 of this Act.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

(3) The plan choice provision as set forth in section 3, chapter 491, Laws of 2007 was intended by the legislature as a replacement benefit for gain-sharing. Until there is legal certainty with respect to the repeal of *chapter 41.31A RCW, the right to plan choice under this section is noncontractual, and the legislature reserves the right to amend or repeal this section. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, all teachers who first become employed by an employer in an eligible position on or after July 1, 2007, may choose either plan 2 or plan 3 under this section. If the repeal of *chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then all teachers who first become employed by an employer in an eligible position on or after the date of such reinstatement shall be members of plan 3.

Sec. 2. RCW 41.35.610 and 2007 c 491 s 7 are each amended to read as follows:

(1) All classified employees who first become employed by an employer in an eligible position on or after July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3 or plan 2 as follows: ((.))

a) Becomes a member of plan 3 if first employed by an employer in an eligible position on or after July 1, 2007 but prior to July 1, 2009.

b) Becomes a member of plan 2 if first employed by an employer in an eligible position on or after July 1, 2009.

These plan choice and default provisions are subject to the rights reserved by the Legislature in subsection 3 of Section 2 of this Act.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

(3) The plan choice provision as set forth in section 7, chapter 491, Laws of 2007 was intended by the legislature as a replacement benefit for gain-sharing. Until there is legal certainty with respect to the repeal of *chapter 41.31A RCW, the right to plan choice under this section is noncontractual, and the legislature reserves the right to amend or repeal this section. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, all classified employees who first become employed by an employer in an eligible position on or

after July 1, 2007, may choose either plan 2 or plan 3 under this section. If the repeal of *chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then all classified employees who first become employed by an employer in an eligible position on or after the date of such reinstatement shall be members of plan 3.

Sec. 3. RCW 41.40.785 and 2000 c 247 s 302 are each amended to read as follows:

(1) All employees who first become employed by an employer in an eligible position on or after March 1, 2002, for state agencies or institutes of higher education, or September 1, 2002, for other employers, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3 or plan 2 as follows: ((~~.~~))

a) Becomes a member of plan 3 if first employed by an employer in an eligible position on or after March 1, 2002 but prior to July 1, 2009 for state agencies or institutes of higher education, or on or after September 1, 2002 but prior to July 1, 2009 for other employers.

b) Becomes a member of plan 2 if first employed by an employer in an eligible position on or after July 1, 2009.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default pursuant to subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

--- END ---

Dave Nelsen 360.786.6144
Office of the State Actuary
November 21, 2008 (11:19 AM)

Option 2: Change Default To Plan 2 For PERS Only

AN ACT Relating to plan membership default provisions in the public employees' retirement system, and amending RCW 41.40.785.

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

Sec. 1. RCW 41.40.785 and 2000 c 247 s 302 are each amended to read as follows:

(1) All employees who first become employed by an employer in an eligible position on or after March 1, 2002, for state agencies or institutes of higher education, or September 1, 2002, for other employers, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3 or plan 2 as follows: ((.))

a) Becomes a member of plan 3 if first employed by an employer in an eligible position on or after March 1, 2002 but prior to July 1,

2009 for state agencies or institutes of higher education, or on or after September 1, 2002, but prior to July 1, 2009 for other employers.

b) Becomes a member of plan 2 if first employed by an employer in an eligible position on or after July 1, 2009.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default pursuant to subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

--- END ---

DRAFT
FISCAL NOTE SUMMARY

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL NAME:
Office of the State Actuary	**035**	**12/5/08**	**Change Membership Default for Plans 2/3**

WHAT THE READER SHOULD KNOW

This document represents the first page of a draft fiscal note. The Office of the State Actuary ("we") prepared this summary based on our understanding of the proposal as of the date shown above. We intend this summary to be used by the Select Committee on Pension Policy throughout the 2008 Interim only. We will prepare a complete draft fiscal note to replace this preliminary summary prior to the start of the 2009 Legislative Session. 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 summary may change when we prepare our final version for the Legislature.

SUMMARY OF RESULTS

This proposal would change the Plan 2/3 membership plan default from Plan 3 to Plan 2. This proposal does not increase the benefits or liabilities of the current Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), or School Employees' Retirement System (SERS) Plans 2/3 members, but would change future contribution levels due to assumed changes in plan membership.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$30,410	$0.0	$30,410
Earned Pensions Not Covered by Today's Assets	$5,897	$0.0	$5,897

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	**PERS**	**TRS**	**SERS**	**PSERS**
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%
Employer:				
Current Annual Cost	0.00%	0.00%	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%	0.00%

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.0	$0.9	$21.2
Total Employer	$0.1	$1.5	$41.7

We will prepare a draft fiscal note for this proposal prior to the 2009 Legislative Session.

The Select Committee on Pension Policy

Change Membership Default in Plans 2/3

Dave Nelsen, Senior Policy Analyst

December 16, 2008

Office of the State Actuary

"Securing tomorrow's pensions today."

What Is The Issue?

- Newly hired employees in PERS, TRS, and SERS who don't choose a plan are put into Plan 3
- An SCPP member requested that the committee study changing the plan choice default to Plan 2
- Is the current default still the preference of policy makers?

Committee Activity

- Work session in November
- Moved to December for public hearing
- Opportunity for formal action today

Policy Questions

- Have the values changed that set Plan 3 as the default?
- Is now the right time to change?
  - Legal concerns
  - Market conditions
- How should the default be chosen?
  - Use historical data
  - Use plan design features to decide which plan best meets needs

Proposal From Executive Committee

- Change plan choice default from Plan 3 to Plan 2 for PERS, TRS, and SERS
- Defaults employees into defined benefit plan
  - Less investment risk to member
  - Less retirement planning flexibility
- Provides same default to all new employees
  - No distinction by retirement system or by individuals

Preliminary Total Employer Rate Increase

System	Change Plan Membership Default to Plan 2 for PERS, TRS, and SERS
PERS	0.00%
TRS	0.00%
SERS	0.00%

Preliminary Fiscal Costs

($ in millions)	Change Plan Membership Default to Plan 2 for PERS, TRS, and SERS
2009-2011	
Total GFS	$0.0
Total Employer	$0.1
2011-2013	
Total GFS	$0.9
Total Employer	$1.5
25-Year	
Total GFS	$21.2
Total Employer	$41.7

Possible Next Steps

- Recommend to Legislature the proposal changing the default to Plan 2 for PERS, TRS, and SERS
  - Bill draft provided (pg. F-317)
- Recommend a proposal based on another option
  - PERS only bill draft provided (pg. F-321)
- Take no further action

13. Fish and 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

Next Step

This issue is scheduled for public hearing and possible executive session.

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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.

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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 Draft

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.

Draft Fiscal Note

Attached.

Committee Activity

The Committee had a work session on this issue in September and a public hearing in October.

Stakeholder Input

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

Next Steps

This issue is scheduled for public hearing and possible executive action.

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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 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 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 ---

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ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/08/08**	**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 and Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board 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.

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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.

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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.

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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.

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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.

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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.

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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.

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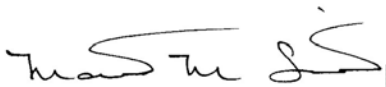
ACTUARY'S CERTIFICATION

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 and Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board.
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

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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.

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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.*

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GLOSSARY OF ACTUARIAL TERMS

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

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

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

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The Select Committee on Pension Policy

Fish and Wildlife Service Credit Transfer

Dave Nelsen, Senior Policy Analyst

December 16, 2008

Office of the State Actuary

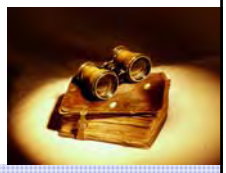
"Securing tomorrow's pensions today."

The Issue Is…

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

Committee Activity

- Work session in September
- Public hearing in October
- Moved to public hearing in December
- Opportunity for formal action today



Recommendation From The Executive Committee

- Allows the transfer of prior PERS service
  - PERS Plan 2 or Plan 3 service
- Must be prior service as an enforcement officer
- Affected members and F&W share cost
- Consistent with past practices in LEOFF 2
- Recognizes the impact of the differences in normal age of retirement

Preliminary Fiscal Costs

($ in millions)	Allow transfer of prior service in PERS 2/3 to LEOFF 2
2009-2011	
Total GFS	$0.0
Total Employer	$0.0
25-Year	
Total GFS	($0.1)
Total Employer	($0.4)

- Estimated $3 million payment from Department of Fish & Wildlife due by June 30, 2015

Possible Next Steps

- Recommend proposal to the 2009 Legislature
- Take no further action

Constituent Correspondence

Notice: Correspondence is normally reviewed in the Executive Committee meeting, as the Executive Committee has the responsibility under SCPP rules for setting future meeting agendas. This is the final meeting of the 2008 interim, and there is no Executive Committee meeting planned for the afternoon. Therefore, staff will not be reviewing correspondence with the Executive Committee members in December. Still, this correspondence is part of the meeting packet for December and will be on file in the Office of the State Actuary. The SCPP Executive Committee will resume its review of constituent correspondence when it reconvenes for the 2009 interim. In the meantime, OSA staff will continue to e-mail constituent correspondence to SCPP members on a bi-monthly basis.

Received by OSA	From	To	Subject
12/17/2007	Williams, Eryl	SCPP	PERS 1 Retirement
12/19/2007	Dargis, Trishka	SCPP	TRS Vesting, Board Cert., Post-ret. Employment, Gain-sharing
12/24/2007	Elkington, Cathy	SCPP	TRS 3 Post-ret. Employment
1/14/2008	Renggli, Andy	DRS, cc SCPP	FW: Appeal of Decision *(attachments available upon request)*
1/15/2008	Davis, Cathy	SCPP	TRS 3 post-ret. Employment, Board Cert., Vesting, Gain-sharing
1/21/2008	Scriven, Rick	SCPP	TRS 3 Post-ret. Employment, gain-sharing
1/29/2008	McGuire, John	OSA via Sen. Marilyn Rasmussen	Disability Retirement
1/30/2008	Renggli, Andy	DRS, cc SCPP	Re: Petition for review
1/30/2008	Ensign, Carey	OSA via David Westberg	HB 3182
2/5/2008	Moscoso, Luis	Rep. Conway, cc OSA	PERS 1 Post-ret. Employment
2/6/2008	Paulson, Steve	SCPP	TRS 2/3 benefits
2/6/2008	Dressel, Dave	SCPP	Prior Military Service Credit in PERS 2/3
2/25/2008	Hodge, Tami	SCPP via Sen. Paull Shin	TRS-SERS contribution flexibility
2/26/2008	Merkner, James	SCPP via OSA	Working past age 65
3/3/2008	Green, Andrew P. for Mann, Johnson, Wooster, & McLaughlin, P.S.	SCPP	CC of administrative appeal re: PSERS membership for PSNs & PSAs *(attachments available upon request)*
3/4/2008	Webster, Mr. Kim M.	SCPP	SB 6093
3/18/2008	Sen. Holmquist	SCPP	Federal "Windfall Elimination Program" *(attachments available upon request)*
3/21/2008	WSSRA - Ester Wilfong, Leslie Main, Don Carlson	SCPP	WSSRA Priorities for 2008-09
3/28/2008	Phillips, Dick	SCPP via Sen. Harriet Spanel	PERS 1 Survivor Benefits
3/26/2008	Green, Andrew P. for Mann, Johnson, Wooster, & McLaughlin, P.S.	SCPP	Request to place Psychiatric Custody Personnel into PSERS & copy of appeal document *(attachments available upon request)*

Received by OSA	From	To	Subject
4/15/2008	Brittell, Tim; Northshore Education Association	SCPP	TRS 2/3 Post-ret. employment
4/15/2008	Kvamme, John - for WASA & AWSP	SCPP received at mtg.	WASA & AWSP legislative priorities for 2008-2009
4/15/2008	Parr, Randy - WEA	SCPP received at mtg.	TRS 2/3 Post-ret. Employment, Plan 3 5-yr. Vesting, Plan 2 member access to PEBB, Disability Benefits, Compulsory Plan 3 Membership, Edu. Staff Assoc w/Multi. Employers
4/15/2008	Public Employees for Pension Reform	SCPP received at mtg.	Prioritization of Pension Benefit Improvements
4/15/2008	Main, Leslie - PEPR	SCPP received at mtg.	Disability Ret. Benefits, Plan 1 Purchasing Power, Plan 2/3 Post-ret. Employment
4/30/2008	Rep. Maralyn Chase	SCPP, cc Matt Smith	Plan 3 Pension Provisions RE: HB 3258, HB 3257
5/1/2008	Beazizo, Ray	SCPP	"Windfall Elimination Program" clarification
5/9/2008	McGuire, John	SCPP via Sen. Schoesler	Disability Retirement - renewed request
5/12/2008	Fox, Kelly - LEOFF 2	SCPP, cc Matt Smith	Interruptive Mil. Srv. Credit, Inflationary Adj. for 150k Death Ben., Mil. Srv. Death Ben., F&W Officer Srv. Credit Transfer
5/15/2008	O'Brien/de la Rosa	SCPP, via Sen. Schoesler	Plan 2 Access to PEBB & second chance PEBB enrollment, PEBB access for retirees from political subdivisions, Plan 1 COLA
5/28/2008	McBride, Angie	SCPP	Retirement Age, YOS + Age
6/9/2008	Fox, Kelly - LEOFF 2	SCPP	Purchase of Annuity
6/5/2008	Zuvich, Matthew D - WFSE, PEPR	SCPP	Disability Retirement Benefits
6/10/2008	Jarboe, Lindajo	OSA	PERS 1 COLA
6/16/2008	Williams, Eryl	SCPP via OSA	PERS 1 retirement - renewed request
6/17/2008	Public Employees for Pension Reform	SCCP received at mtg.	Options for Plan 1 COLA Improvement
6/30/2008	Fox, Kelly - LEOFF 2	SCPP	LEOFF 2 Prioritized Issues for Coordination
7/14/2008	Allred, Donna	OSA	SERS Gain-sharing
7/15/2008	PEPR	SCPP received at mtg.	PEPR requests for September Agenda
8/11/2008	Donny, Mary	SCPP via Sen. Schoesler	Visiting International Faculty
8/17/2008	Loken, Bill	SCPP Members	Plan 1 Purchasing Power
9/3/2008	Vail, Eldon	SCPP via Sen. Schoesler	DOC proposals to amend PSERS
9/4/2008	PEPR-Zuvich	OSA	Disability Benefits

Received by OSA	From	To	Subject
9/4/2008	Jarboe, Lindajo	OSA	Retiree college course benefits
9/15/2008	Nardella, Maria	SCPP Staff	Out-of-state service credit
9/10/2008	Divers, Bill	SCPP Members	Compulsory enrollment in TRS 3
9/16/2008	PEPR-Zuvich	SCPP	Plan 2/3 Post-Retirement Employment
9/23/2008	VIF-Donny, Mary	SCPP	Exemption for interntional exchange teachers
9/10/2008	PEPR-Zuvich	OSA	Disability benefits
10/1/2008	Warbrouck, Richard	SCPP	Firemen's Pension Act Survivor Benefits (Pre-LEOFF)
9/29/2008	Moe, Royce	Senator Schoesler	Court Commissioners' Pension Bill
10/1/2008	Jarboe, Lindajo	OSA	PERS 1 COLA
10/7/2008	PEPR	SCPP	Revised Proposals for Plan 1 COLA Improvement
11/6/2008	VIF-Young, David	Senator Schoesler	Exemption for interntional exchange teachers
11/11/2008	Davis, Cathy	SCPP Members	TRS 3 "Age Relief"
11/19/2008	Maury, Judith	SCPP	Lack of Communication
11/24/2008	Kershner, Harold	SCPP	Firemen's Pension Fund HB 1824
11/26/2008	Davis, Steve	SCPP	PERS Plan 3
12/10/2008	Phillips, Hal	SCPP	Plan 1 COLA
12/12/2008	Swan, Gail	SCPP	Fireman's Pension Fund Bill HB 1824

Wallis, Keri

From: Cathy Davis [shortsprinter@yahoo.com]
Sent: Tuesday, November 11, 2008 9:32 PM
To: Office State Actuary, WA
Subject: TRS Plan 3

Dear Select Committee for Pension Policy,
As a teacher with 25 years of experience and a member of TRS Plan 3, I am writing to urge you to improve age relief and allow for public service job options in retirement. The current age in which we can retire with our full benefits and the language regarding working in the public sector after retirement are in need of improvement. The dedicated public educators serving Washington's Children deserve better! Please move Washington forward in Teacher Retirement Benefits through age relief and respectfully allowing work in the public sector as needed after retirement.
Sincerely,
Cathy Davis

RECEIVED
NOV 19 2008
Office of
The State Actuary

Date: November 14, 2008

To: The Selection Committee on Pension Policy
P. O. Box 40914
Olympia, Washington 98504-0914

From: Judith Maury
10915B Glen Acres Drive South
Seattle, Washington 98168
(206) 248-5078

Re: Lack of Communication

As a 66 year old retiree in TRS Plan 3, I fall into a unique category. Most teachers in TRS Plan 3 are much younger and continue to receive an annual salary. I resigned from teaching when I was 59, but I waited until I was 62 to retire. The decision made by the DRS of what to do with my self directed money in the Short Horizon Fund didn't take into consideration my individual needs.

The automatic transfer from the Short Horizon Fund into the 2005 Retirement Strategy Fund on October 3, 2008, was done without any input from me. I think that I should have received more information than what was in the brochure that was sent out last summer. I should have been sent a detailed description of the fund that the DRS planned to put my money in. Before my money was transferred, I should have been allowed to sign a form on which I could either agree to the transfer or make alternative choices. It is not appropriate for the DRS to move self directed funds around without written permission.

I am shocked by this lack of communication. With proper disclosure, I would have transferred the money in my Short Horizon Fund into my Money Market Fund so I could research what would be a comparable low risk investment for someone in my situation.

Since I did not received any official notification from the DRS or ICMARC regarding what was done with my account on October 3, 2008, I don't know for sure the amount of the transfer or the price per share at the time of the transfer. In an attempt to track what happened to my money, I went online to get some information. It looks like $32,153.62 was moved from the Fund Short Horizon Fund to the 2005 Retirement Strategy Fund on October 3, 2008. Today that fund has a value of $27,394.88 which is a loss of $4,758.74.

I am now in the process of moving the money into my Money Market Fund and am wondering what will be done to compensate me for the unauthorized transfer by the DRS of my self directed funds.

Judith Maury

Wallis, Keri

From: halcon [halcon@nctv.com]
Sent: Monday, November 24, 2008 7:04 PM
To: Office State Actuary, WA
Subject: Firemen's Pension Fund HB 1824.

I am writing to request that the committee support the amendment to RCW 41.18

Firemen's Pension Fund HB 1824.

Harold Kershner, Seattle Fire Department
Retired

Wallis, Keri

From: Steve Davis [sndavis@iomet.com]
Sent: Tuesday, November 25, 2008 7:06 PM
To: Office State Actuary, WA
Subject: Plan 3

To the SCPP,

My name Steve Davis, I am a 25 year member of pers 2 and 3. I switched when the plan three window first opened. I think we were treated unfairly after we moved over to plan 3. The formula at the time we made our decision was based on the highly penalized early retirement of plan 2. This was age 65 back to 55 approximatly 60% reduced benefit. My circumstances make me eligable to retire at age 55 with 30 years. I attended and testified to the SCCP with my group from IBEW Local 77. Our committee was trying to get a bill that would help our members have a similar retirement as the police and firefighters. We testifiied about our extremely hazardous occupations. I was informed that the plan 3 was invented for employees like myself, who did not want to be penalized as severely as plan 2. The new plan 3 would only get the penalty on 1% a year instead of 2. I worked with my buy out dollar amounts and decided I was better of switching plans, realizing a small percentage on my returns of my deferred compensation portion would ultimatly leave me better off. Since then (this is the part that makes me feel betrayed) legislation has improved plan 2 significantly. I realize this helps with the defined portion of my plan 3. This drastically changes the formula that I was told to use for switching plans. I think I could convince a jury that the state of Wa. has misled our groop and treated us unfairly, for not addressing plan 3 members who switched plans for the sole purpose of an age 55 retirement with 30 years with less penalties. Then after we switched as you know the contribution amounts dropped drastically for plan 2. This even made us 3 members more angry having taken that under consideration in our desision to switch. I would like to propose a bill that would compensate members that switched plans to be compensated using state actuary figures that equally improve plan 3 as the improvements to plan 2. The formula that was given those of us that switched should also reflect over to plan 3, or give us a buy back in to the plan 2 option. The IBEW pers committee that I am on will keep trying to persuade legislatures that our jobs are as hazardous as any other in the state, if not even more. If we can somehow convince the pers system to make a change for our group, that would fix my situation. I am asking the SCCP to at least look into this and let me know where we stand.

Thank you, Steve Davis

Wallis, Keri

From: Hal Phillips [hal@halphillips.com]
Sent: Wednesday, December 10, 2008 10:58 PM
To: Office State Actuary, WA
Cc: mragan@washingtonea.org; mlindquist@washingtonea.org
Subject: To the Select Committee on Pension Policy: Some thoughts

To the Select Committee:

Below is the edited text of a message I recently sent to Mary Lindquist, President of the Washington Education Association. After some correspondence with Ms. Lindquist and Mike Ragan, Vice-President of the WEA, they have suggested I forward my concerns to you. I'd appreciate any response you'd care to make.

Thanks for your time,

Hal Phillips
253-927-9243

Dear President Lindquist,

Though I don't know you personally, I feel that I know your precepts. I was a local president-elect, president, bargainer, building representative, and performer of other Association tasks for many years – and am now retired on TRS-I and a Life Member of WEA-Retired. In response to your latest President's Update, there are a couple of issues I feel compelled to discuss with you:

1) I've volunteered to function as a pre-retirement seminar coordinator through the WEA. While waiting for a seminar to begin recently (I was attending for training purposes), I spoke to another older couple, also waiting. "Are either of you on Plan I?" I began. "No, no" – they responded – "we're on the 'teach forever, then die' plan…Plan 3."

While this may be an overly harsh assessment of Plan 3, it is one shared by a lot of pre-retirees – especially given the general state of the stock markets of late. Since market investments represent the majority of the portfolio choices in Plan 3, this is a very real concern and one which should be addressed by WEA and the State.

2) I've been retired since July, 2005 – and because of my 'young' age, will not see a COLA of any kind for another several years, by which time my pension will have shrunk substantially as a result of inflation and the rising costs of consumer goods (those not considered in official measures of inflation) – factors which will arguably increase in importance as President Obama

attempts to correct the excesses of the previous administration. (I'm not complaining about this, as it was a known factor while preparing for retirement, just bringing it in as a point of discussion.) At the same time, our health care costs have also gone up significantly. We are fortunate to be able to choose the Uniform Medical Plan, which has had lower than average cost increases, but it has increased in cost over time. Both inflation and health care cost increases, as well as other uncontrollable demands on our finances, have diminished the value of our pension dollars.

One idea to address both of these issues – pre-retirees' and post-retirees' concerns about future living costs – might involve making UMP a guaranteed lifetime benefit of retirement, at substantially lowered cost or at a fixed cost that would not rise with time. (Other plans might be made available at higher cost to participants.) Yes, I realize the cost factor here is immense, but our new President and Democratic Congress might be inclined to provide offsets if it coordinates with the desire for a national health care plan. Since only the failed campaign of Senator McCain has suggested taxing health care benefits, it would in probability continue to be a tax-advantaged use of government dollars and thus provide benefits *greater* than the dollar figure would suggest. (Given the current projected deficits in government budgeting, it is unlikely that a simple significant COLA increase would fly.)

Very truly yours,

Hal Phillips

Wallis, Keri

From: Gail Swan [gswan8274@hotmail.com]
Sent: Friday, December 12, 2008 9:54 AM
To: Office State Actuary, WA
Subject: RCW 41.18

I request the committee to support the amendment to RCW 41.18,
the Fireman's Pension Fund Bill HB 1824.
Thank You-Gail Swan

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