Select Committee on Pension Policy

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

Regular Committee Meeting

May 13, 2008
9:00 a.m. – 12:00 p.m.
Senate Hearing Room 4
Olympia

AGENDA

Senate Hearing Room 2

9:00 a.m. **Pensions 101 – Educational Briefing (Optional)**
Laura Harper, Policy and Research Services Manager
Lisa Won, Senior Actuarial Assistant

Senate Hearing Room 4

10:00 a.m. **(1) Call the Meeting to Order**

10:05 a.m. **(2) Approval of Minutes**

10:10 a.m. **(3) Report, SCPP Member Feedback to OSA Staff** – Dave Nelsen, Senior Policy Analyst

10:25 a.m. **(4) Experience Study Previews** – Chris Jasperson, Actuarial Assistant

- **Retirement**
- **Mortality**
- **Merit Salary Scale**

PUBLIC HEARING AND POSSIBLE EXECUTIVE SESSION

11:25 a.m. **(5) Survivors of PERS 1 Inactives** – Darren Painter, Policy Analyst

11:35 a.m. **(6) PERS to SERS Auto-Transfer** – Darren Painter

11:45 a.m. **(7) HECB Proposal** – Darren Painter

12:00 p.m. **(8) Adjourn**

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(360) 786-6140
Fax: (360) 586-8135
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Select Committee on Pension Policy

2008 Meeting Dates

JANUARY						
M	T	W	T	F	S	S
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FEBRUARY						
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APRIL						
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NOVEMBER						
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DECEMBER						
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29	30	31				

Full - 10:00am-12:00pm
Exec. - 12:30-1:30pm
SHR 4/A/B/C, Olympia, WA

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
September 16, 2008
October 21, 2008
November 18, 2008
December 16, 2008

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
July 14, 2008
August 11, 2008
September 15, 2008
October 20, 2008
November 17, 2008
December 15, 2008

Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

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

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

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

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

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

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

2007 Rules of Procedure

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

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

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

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

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

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

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

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

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

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

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

RULE 8. Duties of Officers.

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

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

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

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

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

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

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

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

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

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

Effective Date June 19, 2007.

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

Chair - Representative

Vice Chair - Senator

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1. Pensions 101 – Educational Briefing (Optional)

The Select Committee on Pension Policy

Pensions 101

Laura Harper and Lisa Won
Office of the State Actuary

May 13, 2008

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

What Are Pensions?

- Lifetime retirement payments
- Promises made today to pay benefits in the future

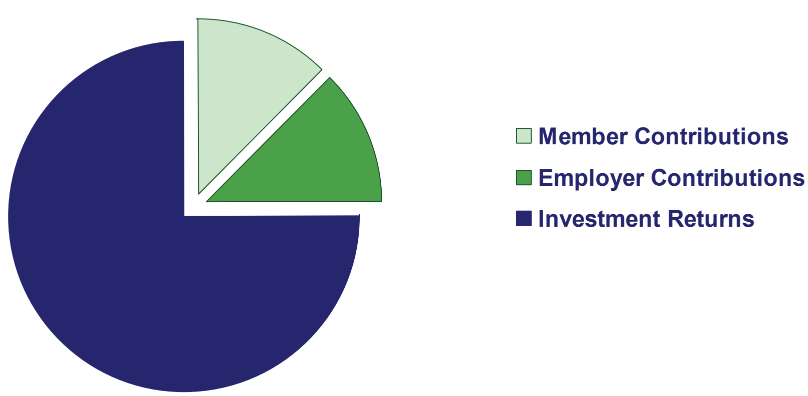
Securing The Promise

- How do you secure a promise for something that happens in the future?
- What are some challenges in securing that promise?

Who Pays For Pensions?

- In Washington, members and employers pay
  - Cost-sharing between them
- Contributions are pooled and held in a trust fund
- Fund grows through investing

Pension Trust Fund



Member Contributions

- Payroll deduction
- Impacts take-home pay
- Pre-tax

Employer Contributions

- Made at time of member contributions
- Taken out of government budgets
- Impacts taxpayers

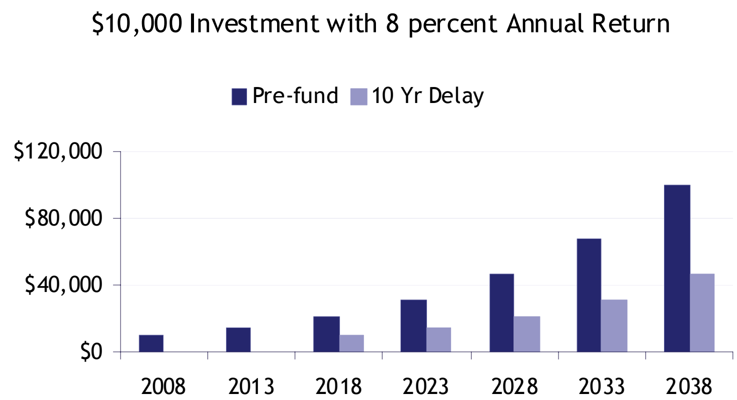
Investment Returns

- Contributions invested in trust
- Trust assets grow over time
- Investment returns provide about 75 percent of plan costs

Time Value Of Money

- A dollar is worth more today than a dollar in the future
  - Money has potential earning capacity
- Maximize growth by timing of contributions
- Pay now, or pay <u>more</u> later

Example Of Time-value Of Money



Possible Funding Approaches For Pensions

- Pay-as-you-go
- Up-front payment
- "Systematic actuarial funding"
  - Regular payments over time

Pay-As-You-Go

- Contributions made as benefits are paid
- Most expensive financing plan
  - Little to no investment earnings
  - Minimal use of time-value of money
- No investment risk

Up-Front Payment

- Single payment today for all future benefits
- Least expensive approach
  - Single lump sum grows with investment earnings
  - Original payment and investment returns offset future pensions
  - Maximum use of time-value of money
- Investment risk

Systematic Actuarial Funding

- Regular payments over time
- Investment returns earned systematically over time
  - Cost is in between pay-as-you-go and up-front payment plans
  - Still using time-value of money
- Investment risk is spread over time
- Washington uses this approach

How Does Systematic Actuarial Funding Work?

- Estimate future pension benefits
  - What will future benefits be?
  - When will they be paid?
- Estimate time value of money
  - What will future investment returns look like?
- Consider risk: will there be enough money in the future?

What Do Actuaries Do?

- Make assumptions about the future
  - Future pension benefits
  - Future investment returns
- Monitor risk
  - Annual valuations
  - Experience studies
- Apply professional judgment
  - Guided by standards of practice
  - Reasonable conservatism

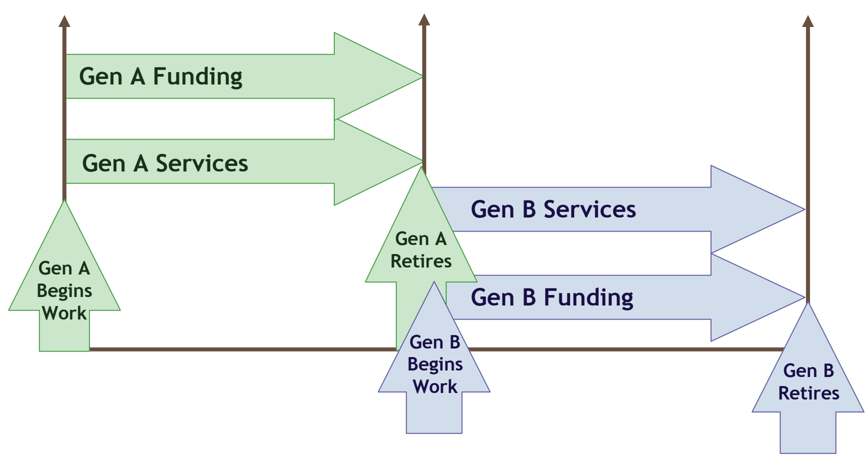
Actuaries Calculate The Regular Payments

- Regular payments are the contributions under systematic actuarial funding
  - Expressed as a percent of pay
- Actuaries consider
  - Future pension benefits
  - Value of assets in trust fund
  - Future service payroll

Fairness Across Generations

- Systematic actuarial funding looks to the future
  - Benefits are funded over members' working lifetimes
  - Flexibility comes with challenges around long-term fairness
- How do you assure fairness across generations?
  - Fund the plan so costs of members' benefits are paid by the taxpayers who received services from those members
  - This is called "intergenerational equity" (IE)

Example Of IE



IE And Funding Approaches

- Pay-as-you-go
  - Current generation pays for retired (past) generation
  - Like Social Security
- Up-front payment
  - Current generation pays for future generations
- Systematic actuarial funding
  - Current generation pays for pensions earned by current generation

A Long-Term View of Funding

- Actuarial funding occurs over a long period of time
  - Multiple generations
- Actuaries smooth trends out over time
  - Example: ups and downs of stock market
- The funding approach assures there is enough money to pay future benefits
  - Assumptions about the future are reasonably conservative

Will There Be Unfunded Liabilities?

- Regular payments fund future benefits over a long period of time
- The unpaid cost of benefits we expect members to earn in the future is called "unfunded liability"
  - Plans 2/3
  - This kind of unfunded liability is natural
- Fairness across generations is present

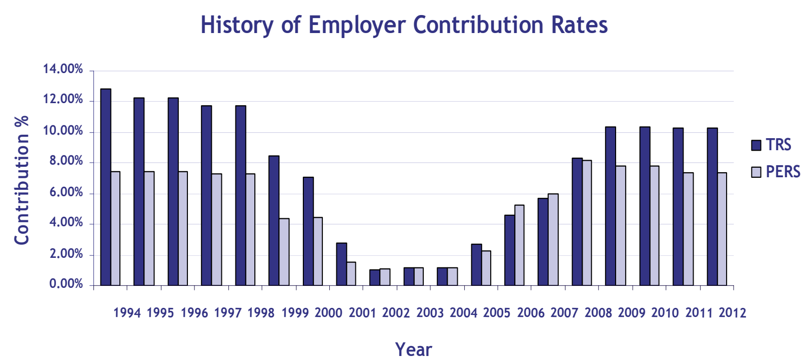
Is That The UAAL We Hear About?

- No, "unfunded actuarial accrued liability" (UAAL) is different
- PERS 1 and TRS 1 have UAAL
- What is UAAL?
  - Unpaid cost of benefits members have already earned ("accrued")
  - Money in plan not enough to pay them
- Fairness across generations is compromised
  - Current generation paying for past generation

Recap of Systematic Actuarial Funding

- Regular payments over time
- Fairness across generations
- Long-term view

Is Recent History Consistent?



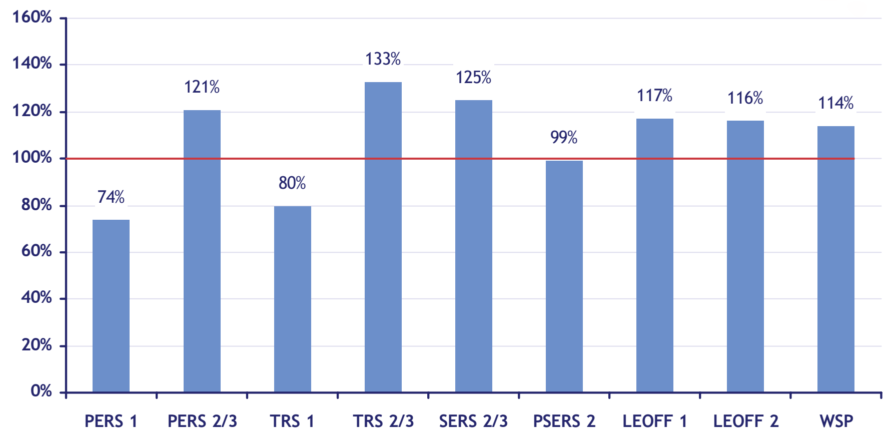
Impacts Of Rate Swings

- Painful as rates go back up
  - Affects member take-home pay (Plan 2)
  - Affects government budgets (taxpayers)
- Fairness across generations?
- Lost opportunity to invest contributions
  - Time value of money

How Are WA Plans Doing Today?

- Washington compares favorably to other public and private sector plans
- Combined funded status is 100 percent
  - Ratio of assets to earned benefits (accrued liabilities)
  - Includes all plans

Combined Funded Status Is 100%*



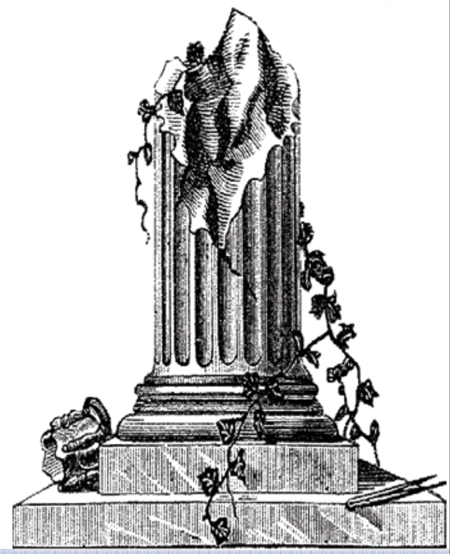
**As reported in the 2006 Actuarial Valuation Report (AVR).*

Two Plans Have UAAL

- PERS 1 and TRS 1 - Unfunded Actuarial Accrued Liabilities
  - Unpaid costs of past ("accrued") benefits
- Causes
  - Benefit increases for past service ("retroactive")
  - Underfunding
- Action plan in place to pay the UAAL
  - Fully fund Plans 1 by 2024
  - Requirement in statute

Lessons Learned From Plans 1

- Benefits were not sustainable
- Funding was not enough
- Plans closed to new members



Other Methods Help Secure Benefits

- Funding method for Plans 2/3
  - "Aggregate" funding method
  - Does not allow UAAL
- Minimum contribution rates
  - Regular payments cannot fall below set amounts
  - Provided in statute
- Asset smoothing
  - Helps reduce short-term swings in contribution rates

Recap

- What are pensions?
  - Lifetime retirement payments
  - Promises made today to pay benefits in the future
- In Washington, the promises are secured by systematic actuarial funding
  - Regular payments over time
  - Fairness across generations
  - Long-term view

Examples Of Future Challenges

- What happens to systematic funding when benefits increase?
  - Middle of generation
  - Past generation
- What happens when investment results change?
- What happens when contributions are delayed?
- What happens when payments for current costs are postponed?

How Can We Meet Future Challenges?

- Discipline
- Balance
- Fairness
- Eye toward sustainability

Are The Benefits Secure?

- Yes, but the future is still unknown
- When a change is proposed, what is the impact on the long-term security of the promise?

Evaluating Changes To System

- Are we systematically contributing the dollars needed to make investments work for us?
- Will the change allow us to keep fairness across the generations?
- Will the pension plan be sustainable over the long-term?

Questions?

Opportunities To Learn More

Select Committee on Pension Policy (SCPP)

- www.leg.wa.gov/scpp
- See the 2008 Orientation Manual found under "Publications"

Office of the State Actuary (OSA)

- http://osa.leg.wa.gov/

Department of Retirement Systems (DRS)

- www.drs.wa.gov

2. Approval of Minutes

Select Committee on Pension Policy

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

REGULAR COMMITTEE MEETING
DRAFT MINUTES

April 15, 2008

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington on April 15, 2008.

Committee members attending:

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

Representative Conway, Chair, called the meeting to order at 10:05 a.m.

(1) Approval of Minutes

It was moved to approve the December 18, 2007, Full Committee Draft Minutes. Seconded.

MOTION CARRIED

(2) Election of Officers

Nominations for Chair

Senator Schoesler was nominated for Chair. Seconded.

MOTION CARRIED

Senator Schoesler chaired the remainder of the meeting.

Nominations for Vice Chair

Representative Conway was nominated for Vice Chair. Seconded.

MOTION CARRIED

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

Nominations for Executive Committee
David Westberg was nominated to represent active members. Seconded.
MOTION CARRIED

Elaine Banks was nominated to represent retiree members. Seconded.
MOTION CARRIED

Corky Mattingly was nominated to represent employers. Seconded.
MOTION CARRIED

(3) Update from Washington State Investment Board
Joe Dear, Executive Director of the Washington State Investment Board, reported on "Update from Washington State Investment Board." Discussion followed.

(4) Litigation Update
Anne Hall, Assistant Attorney General, reported on "Litigation Update."

(5) Legislative Update
Darren Painter, Policy Analyst, reported on "Legislation Update."

***Testimony given by*:**
Mike Ryherd, Teamsters
Randy Parr, Washington Education Association
Leslie Main, Washington State School Retirees' Association
Luis Moscoso, Washington Public Employees Association
Robert Keller, Select Committee on Pension Policy

The meeting adjourned at 12:00 p.m.

3. Report, SCPP Member Feedback to OSA Staff

Services Provided by Policy Staff

Primary Responsibilities

The policy staff serve as research and policy support for the SCPP. As such, our primary support responsibilities are:

- **Policy Issues** – At the request of the committee, staff researches and presents to the committee information regarding specific policy issues.
- **Draft Proposed Legislation** – When so directed, staff drafts proposed legislation for Select Committee recommendations.

Other Opportunities for Support

Additionally, staff can work with committee members in other ways to ensure your needs are being met.

- **Meeting Preparation** – Whether it is answering questions raised after reading the meeting materials, or if you want additional clarification on issues discussed at the meeting, let us know. We can work together to provide you the information you need.
- **Pension Education** – Staff can provide broad and specific pension education to new and existing members, as well as other groups and/or organizations. This education can be delivered in a variety of formats.
- **Pension Consulting** – Do you have questions about a bill or something you heard at a conference or read in the paper? Were you asked a question by a constituent that you don't know the answer to? The policy analyst team is here to help! Whether it is answering a specific question or pointing you to sources of information, we are a resource. Give us a call or send us an email, whatever works for you.
- **Other Items** – If you are not sure we can help you on a pension issue, give us a call!

How to Contact Us

If you are unsure who to contact, any of us can make sure you get the information you need.

Laura Harper, Policy and Research Services Manager (360) 786-6145
harper.laura@leg.wa.gov

Dave Nelsen, Senior Policy Analyst (360) 786-6144
nelsen.dave@leg.wa.gov

Darren Painter, Policy Analyst (360) 786-6155
painter.darren@leg.wa.gov

The Select Committee on Pension Policy

Member Feedback Project

Dave Nelsen

May 13, 2008

Office of the State Actuary

"Securing tomorrow's pensions today."

Agenda

- Background
- Common feedback items
- How we will use the feedback

Member Feedback Initiative

- Individual meetings with policy staff
- Three general areas
  - Presentations
  - Materials
  - Other services
- Three primary questions
  - What are we doing well?
  - What can we do better?
  - What aren't we doing that would be helpful?

General Observations

- Laura Harper
  - Knowledgeable
  - Personable
  - Conscientious
- Darren Painter
  - Very bright
  - Thorough
  - Understands details
- Dave Nelsen
  - Too handsome

Feedback On Presentations

- Like… the format and detail level
- But…
  - A little humor could help
  - Stay away from jargon or acronyms
  - State issue or problem statement
  - Provide clear options for moving forward
  - Simplify!

Feedback On Materials

- Like… the format and detail provided
  - Quality of information
  - Summary boxes
  - Other states
- Some would like…
  - High level summary first
  - Policy options
    - Recommendations from staff
    - Others appreciated staff objectivity

Feedback On Other Services

- Appreciate…
  - Timely response to phone or email
  - Pension Watch! items
- Other opportunities…
  - What other services?
  - More education
    - Members of Committee
    - Outside of SCPP
  - Informal discussion

Using This Information

- What you may see this interim…
  - Enhanced presentations
    - Clear focus
    - More lively?
  - Simplified materials
    - Summaries up front
    - Clear writing
  - More education
    - Large group
    - Individual members
  - Clarify services available
    - Handout included

Other Comments

- Matt and actuaries
  - Great job of simplifying complicated material
  - Quality and information provided in fiscal notes
  - Independent and professional
- Kelly and Charlene
  - Meeting support is great
    - Facilities
    - Refreshments
  - Timely materials in requested format

Thank You!

We appreciate the time and the candor!

4. Experience Study Previews

No handout provided at the meeting. The PowerPoint presentation will be available on the SCPP website after the meeting.

The Select Committee on Pension Policy

Demographic Experience Study Preview

Chris Jasperson, Actuarial Assistant

May 13, 2008

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

What Is A Demographic Experience Study?

- Review of assumptions
  - Look at historical data
  - Compare actual to what previous assumptions predicted
- Opportunity to change assumptions
  - Incorporate future expectations
  - Methods
  - Formats

Why Perform Demographic Experience Studies?

- Ensure assumptions are reasonable
  - Assumptions impact estimates of how and when the actual costs of the plan will occur
  - Reasonable assumptions contribute to reasonable funding
- Things change
  - Behaviors
  - Benefits
  - Plan provisions

Today's Presentation

- Preview three assumptions
- For each preview we will discuss:
  - How the rates are used
  - General effect of changing rates
  - What the historical data shows
  - Future expectations
  - Assumption format
- Next Steps
  - No recommendations at today's meeting

Assumption Changes Impact Costs

- Cost impacts will always be short-term
  - All assumptions will be re-examined in six years
- Assumption changes impact the timing of plan costs
- The actual long-term cost of the plan will be determined by actual experience

How Are Mortality Rates Used?

- Pre-retirement mortality rates determine if a member will make it to retirement
- Post-retirement mortality rates determine how long benefits will be paid

People Are Living Longer

Year	Life Expectancy
1900	47.3
1920	54.1
1940	62.9
1960	69.7
1980	73.7
2000	77.0

U.S. Census Bureau; all races, all genders.

- Life expectancy has increased about two years per decade since 1960

Background Information For Mortality Rates

- RP-2000 mortality table
- Reasonable mortality improvement method
  - Recommended 50 percent of Scale AA last rate-setting cycle
- Age offsets can be used to better fit a table to a plan

General Effect Of Changing Mortality Rates

- When mortality rates decrease/mortality improves
  - Annuity benefits paid over a longer period of time
  - Future salary stream is longer => more contributions collected
  - Most likely results in an increase in contribution rates
- When mortality rates increase
  - Annuity benefits paid over a shorter period of time
  - Future salary stream is shorter => fewer contributions collected
  - Most likely results in a decrease in contribution rates

Fewer Deaths Than Expected

- Possible reasons
  - Apparent mortality improvement
  - Poor fit with prior assumption

Pre-Retirement			
System	Actual	Expected	Ratio
PERS	1,164	2,478	47%
TRS	385	682	56%
SERS	290	606	48%
WSP	3	7	40%
LEOFF	63	131	48%
Total	**1,905**	**3,904**	**49%**

Post-Retirement			
System	Actual	Expected	Ratio
PERS	13,682	14,880	92%
TRS	5,791	7,107	81%
SERS	54	63	86%
WSP	78	87	90%
LEOFF	572	635	90%
Total	**20,177**	**22,771**	**89%**

Historical Data Used

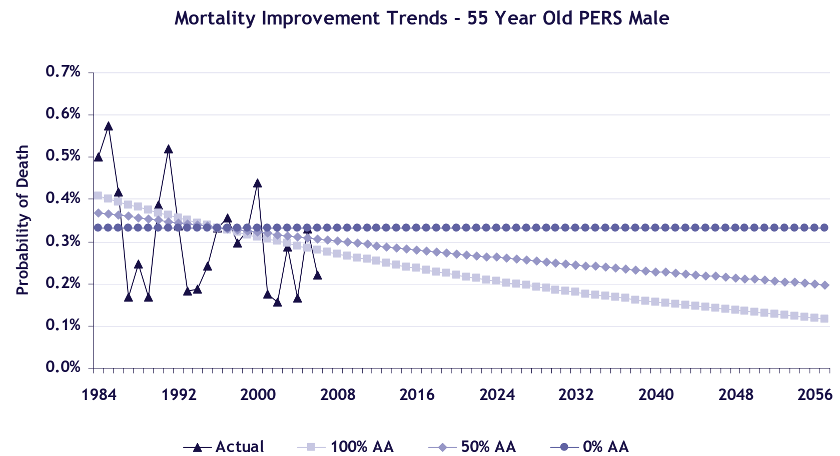
- Annual valuation system data for all plans combined from 1984 through 2006
- Counted actives, terminated-vesteds, retirees, and survivors
- Compared expected to actual deaths
- No experience for PSERS (will continue to use PERS rates)

How Much Improvement Do We See?

- 41 of 59 age groupings show mortality improvement
- Improvement averages about 58 percent of scale AA

System	Average Improvement	Average Scale AA	Improvement as a % of Scale AA
PERS	0.6%	1.0%	57%
TRS	0.5%	1.1%	45%
SERS		Not Enough Data	
WSP		Not Enough Data	
LEOFF	2.6%	1.4%	172%
Weighted Average	**0.6%**	**1.0%**	**58%**

We Expect Mortality To Continue To Improve



Assumption Formats We Considered

- Current format
  - RP-2000 table
  - Varies by age and gender
- Alternate format
  - Determine best fit to an existing table
    - Based on past data and our best estimate for mortality improvement
  - Determine an appropriate level of mortality improvement
    - Based on all systems' experience
- Other possible factors
  - Income level
  - Do actives and annuitants have different levels of mortality?

How Are Retirement Rates Used?

- They determine when members stop working and begin drawing their pensions

Fewer Retirements Than Expected

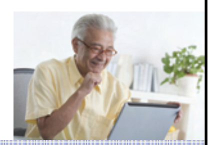
- Possible reasons
  - True behavior still emerging in the Plans 2/3
  - Demographics of Plans 1 are changing
  - Poor fit with prior assumption

Annuitants

System	Actual	Expected	Ratio
PERS 1	10,225	14,026	0.73
TRS 1	7,679	6,870	1.12
LEOFF 1	565	748	0.76
PERS 2/3	4,170	8,654	0.48
TRS 2/3	1,112	2,488	0.45
SERS 2/3	1,986	4,569	0.43
WSPRS 1/2	140	146	0.96

General Effect Of Changing Retirement Rates

- When you assume later retirements (lower rates)
  - A larger benefit is paid over a shorter period of time
  - Future salary stream is larger, longer => more contributions collected
  - Both generally result in lower contribution rates
- When you assume earlier retirements (higher rates)
  - A smaller benefit is paid over a longer period of time
  - Future salary stream is smaller, shorter => fewer contributions collected
  - Both generally result in higher contribution rates



Historical Data Used

- Annual valuation data combined from 1995 through 2006
- Counted actives eligible to retire
- Compared them to actual retirements
- No experience for PSERS (will continue to use PERS rates)
- Differing-length valuation periods
  - SERS opened September 1, 2000
  - Fifteen-month period for TRS in 2001
  - Nine-month period for all other systems in 2001

Future Expectations Are Mixed

- People are working longer
  - Longer lives
  - Higher health care costs
- Plan changes may provide incentives to retire earlier
  - Improved ERRFs
  - Benefit improvements

Assumption Formats We Considered

- Current format
  - Rates vary by age/service/gender/plan
  - For LEOFF and WSPRS
    - Same rates for males and females
    - Same rates for all age/service combinations
- Alternate formats
  - Rates vary by gender for LEOFF and WSPRS
  - Rates vary at different age/service combination

How Is The Merit Scale Used?

- The merit scale directly impacts
  - Future salary-based benefits
  - Value of future salary over which contributions will be collected
  - Refund amounts if members withdraw contributions

Total Salary Increases Lower Than Expected

- The general salary increase assumption has not changed
- The merit scale expected to come down

Actual vs. Expected Total Salary Increases 2001-2006

System	Actual	Expected	Ratio
PERS	4.55%	5.80%	0.78
TRS	4.90%	6.48%	0.76
SERS	4.62%	6.14%	0.75
LEOFF	5.09%	7.15%	0.71
WSPRS	4.30%	7.11%	0.61

Two Types Of Salary Increase Assumptions

- General salary increase (not covered here)
  - Economic assumption
  - Set by the PFC, LEOFF 2 Retirement Board for LEOFF 2
  - Includes inflation and productivity components
  - Same for all service levels – currently 4.5 percent per year
- Merit salary increases (covered in this presentation)
  - Demographic assumption
  - Includes all other salary growth
  - Currently varies by system and service level

What Is Merit?

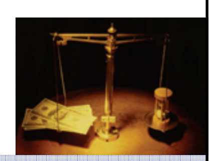
- If it isn't part of general salary growth, it's merit
  - Extra step increases
  - More overtime than usual
  - Promotions
  - Job reclassifications
  - Teachers receiving additional pay
    - Coaching contracts
    - Bonuses
- Merit scale decreases as service increases

How Do We Calculate The Merit Scale?

- We are discussing two methods with the auditor
- One method backs the general salary increase assumption (4.5 percent method), out of the total salary
- Another method backs out the “actual” inflation and productivity for the period (4.0 percent method)
- Different methods require different applications of historical data

General Effects Of Changing Merit Scale

- When you assume lower merit scale
  - Annuity and return of contribution benefits decrease
  - Future salary stream is smaller => fewer contributions collected
  - Most likely results in a decrease in contribution rates
- When you assume higher merit scale
  - Annuity and return of contribution benefits increase
  - Future salary stream is larger => more contributions collected
  - Most likely results in an increase in contribution rates



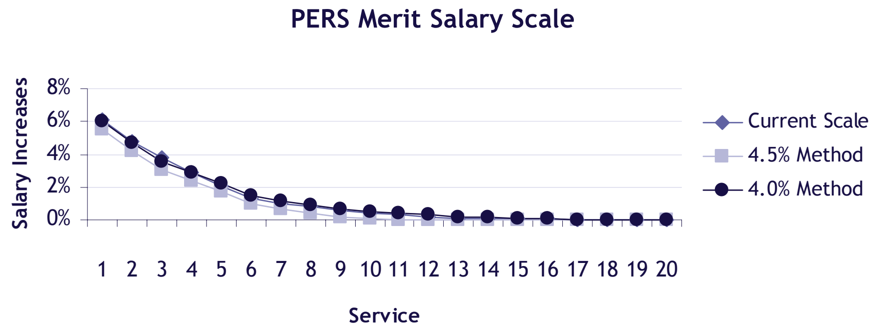
Historical Data Used

- All active members 1984 – 2006
  - Active two years in a row
  - Full-time both years
- No experience for PSERS (will continue to use PERS rates)
- Differing-length valuation periods
  - SERS opened September 1, 2000
  - Fifteen-month period for TRS in 2001
  - Nine-month period for all other systems in 2001

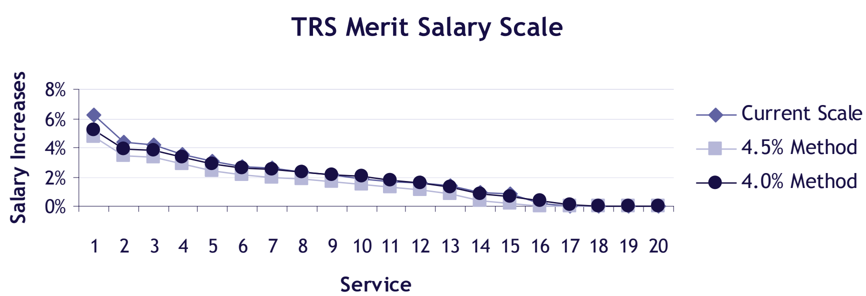
Comparison Of Systems

- Observed salary increases lower than expected
  - PERS and TRS differences are small
  - SERS and LEOFF not as close
  - WSPRS shows poor fit to current assumption

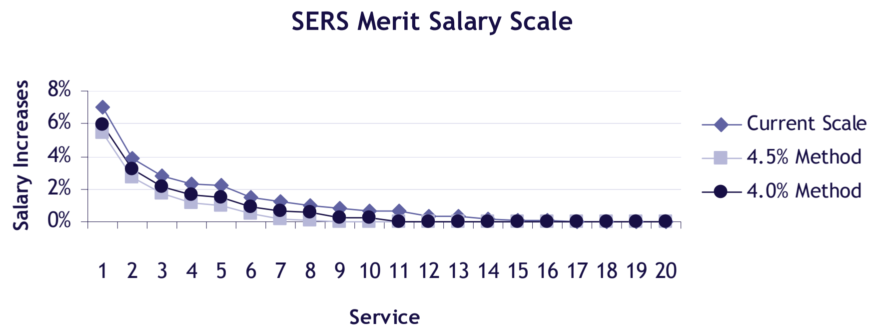
PERS Salary Increase Comparisons



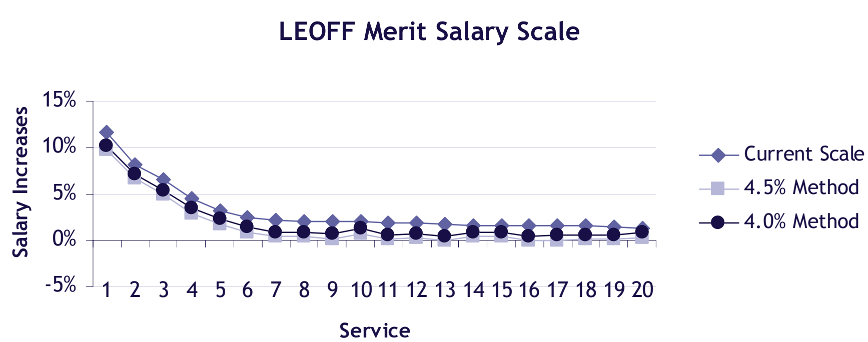
TRS Salary Increase Comparisons



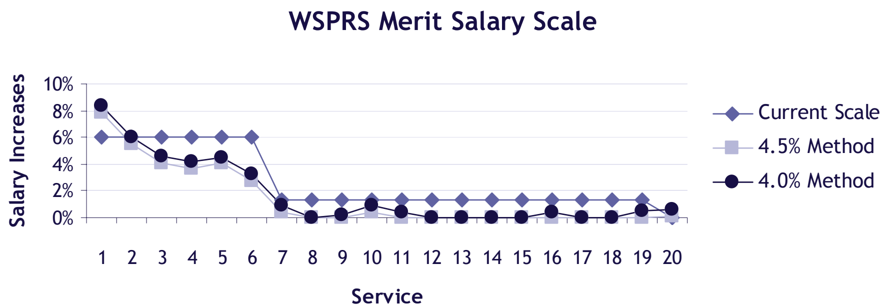
SERS Salary Increase Comparisons



LEOFF Salary Increase Comparisons



WSPRS Salary Increase Comparisons



Future Expectations

- Longevity bonuses (LEOFF)
- Collective bargaining (PERS)
- Initiative 732 (TRS)

Assumption Formats We Considered

- Current format
  - Table for each system that varies by service
- Alternate formats
  - Rates that vary separately by plan or age

Final Thoughts

- People are living longer
- They're retiring later in their careers
- Total salaries are lower
  - The merit scale may also come down depending on the method

Next Steps

- Best estimate recommendations for assumptions will be developed and finalized by OSA for PFC by June
- OSA to present preliminary AVR and Experience Study to PFC and SCPP in June
- SCPP to receive preliminary PFC audit report in July
- SCPP to recommend assumptions and contribution rates to PFC in July
- Assumptions and contribution rate adoption will be completed by July 31

5. Survivors of PERS 1 Inactives

Survivors of PERS 1 Inactives

Description of Issue

The Public Employees' Retirement System (PERS) Plan 1 does not provide a survivor annuity for inactive members who die prior to retirement—even if the member was eligible for a pension at the time of death. In contrast, the plan does provide a survivor annuity for active members who die prior to retirement. All other comparable Washington State plans provide the same pre-retirement death benefits for both active and inactive members. (See attached issue paper for more details.)

Recent Activity on This Issue

The SCPP studied pre-retirement death benefits for inactive PERS 1 members in 2007. The committee looked at giving inactive members the same survivor annuity provided for active members, as well as providing the same survivor annuity with more limited eligibility. Ultimately, the committee recommended to provide the same survivor annuity for inactive members who die prior to retirement as is provided for active members. The proposal had a 25-year total employer cost of $1,000,000 and no immediate rate impact. (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 3006/SB 6652). The House bill passed the House and the Senate Committee on Ways & Means.

Other Materials Included

- 2007 SCPP Issue Paper
- Bill Draft of HB 3006 from 2008 Session
- Fiscal Note for HB 3006

What is The Next Step?

Members will decide if last year's bill on survivor benefits for inactive PERS 1 members should be reintroduced in the next session. If so, staff would update the bill draft and fiscal note for 2009.

O:\SCPP\2008\5-13-08 Full\5.Survivors_of_PERS1_Inactives.doc

The Select Committee on Pension Policy

Public Hearing and Possible Executive Session

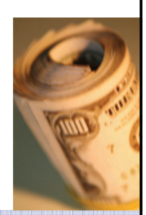
Darren Painter, Policy Analyst

May 13, 2008

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

Survivors Of PERS 1 Inactives

- Issue
  - No pre-retirement survivor annuity for inactive PERS 1 members
- 2007 SCPP Recommendation
  - Provide same pre-retirement survivor annuity for inactive members as for active
    - 25-Year Cost: $1m total employer, $0.2m GFS
    - No immediate rate impact
  - Passed House and Senate Ways & Means



Survivors of PERS 1 Inactive Members

In Brief

ISSUE

PERS 1 provides different pre-retirement death benefits for inactive members than for active members. PERS 1 is the only Washington State plan with service-based survivor benefits that makes such a distinction.

Survivor annuities are provided for PERS 1 members who die prior to retirement while in active service. Once a member leaves active service, however, the only benefit available to the survivor is a refund of accumulated contributions - even if the member was eligible to collect a retirement pension at the time of death.

MEMBER IMPACT

There are 2,675 PERS 1 terminated vested members. Of these, at least 200 are eligible for immediate retirement.

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Current Situation

The pre-retirement death benefits provided for Public Employees' Retirement System Plan 1 (PERS 1) members differ depending on whether the member was active or inactive at the time of death.

Survivors of active PERS 1 members who die prior to retirement may generally choose between a refund of the member's accumulated contributions or a survivor annuity. To qualify for the survivor annuity, the member must have been eligible for retirement or had ten or more years of service at the time of death. The survivor annuity is calculated as if the member chose to retire and elected a joint and 100 percent survivorship option. The annuity is actuarially reduced for the difference between the age when the member would have qualified for a service retirement and the age of death.

In contrast, survivors of PERS 1 members who die after leaving service but prior to retirement only receive a refund of the member's accumulated contributions.* The survivor is not allowed to receive a continuing survivor benefit – even if the member was eligible for retirement at the time of death.

**Accumulated contributions include interest.*

Example

Example 1: Short career, long absence

> A PERS 1 member leaves service after ten years. The member does not withdraw their contributions and becomes a terminated vested member. Twenty years later the member dies.

Example 2: Full career, short absence

> A PERS 1 member leaves service after thirty years. The member is eligible to retire, but chooses to defer retirement for tax purposes. Three months

after separating from service, and before applying for retirement, the member dies.

A survivor annuity is often more valuable than a return of contributions.

In both cases, the survivor only receives a refund of the member's accumulated contributions. Had the member been in active service at the time of death, the survivor would have been allowed to receive a survivor annuity based on the member's earned pension. In the case of the member who was retirement eligible at the time of death, the survivor annuity would be worth far more than the refund of the member's contributions.

Policy Analysis

The current policy for pre-retirement death benefits in PERS 1 takes different views of death prior to retirement based on the employment status of the member. Members who die while in service are viewed as early retirements while members who die after leaving service are viewed as withdrawals from membership. Being treated as a withdrawn member means the employer-funded portion of the member's retirement benefit is forfeited. Such a policy runs counter to the basic earned benefit design of the PERS system. Under an earned benefit design, a member receives the value of the benefit they have accrued or "earned" based on the service rendered. Under current policy, members who leave employment and become vested after long careers lose much of the value of the service they have rendered if they die prior to retirement.

Active members who die are viewed as early retirements while inactive members are viewed as withdrawals.

Providing lesser benefits for members who leave active service may be seen as a way to encourage members to remain active in the system until retirement. This is more of a "golden-handcuffs" approach to pension plan design that places less emphasis on member flexibility in changing careers.

The practice of providing different pre-retirement death benefits to members who die in active service as opposed to members who die after leaving service is inconsistent with the practice in other Washington plans that provide service-based survivor benefits.

Reasons for Differences

The PERS 1 differences in pre-retirement death benefits for active and inactive members may be the result of an oversight or a deliberate policy decision.

Differences may be an oversight or a deliberate policy decision.

When PERS 1 was first created, it did not provide a vested retirement benefit to members who separated from service prior to retirement. When the vested benefit was later added, the survivor benefit for vested members may have been overlooked.

Policy reasons for providing different and less generous benefits for members who leave active service include:

- Encouraging members to stay active in the plan until retirement.
- Reducing costs.
- Lack of a perceived need to provide survivor benefits on behalf of members who left the system.

Other Washington State Plans

Other plans provide the same benefits for both active and inactive members.

PERS 1 is unique among Washington plans providing service-based survivor benefits in that it differentiates between active and inactive members for purposes of pre-retirement death benefits. In contrast, the Plans 2/3 and the Teachers' Retirement System Plan 1 (TRS 1) do not differentiate between active and inactive members. These plans provide the same pre-retirement death benefits for active and inactive members: Survivors of eligible members in these plans, whether active or inactive at time of death, may choose between a survivor annuity or a refund of the member's accumulated contributions.

Comparative Systems

The comparative systems are split on the policy of differentiating between active and inactive members.

Washington's comparative systems are split on the policy of differentiating between active and inactive members for pre-retirement death benefits. Among the systems covering general government employees, six distinguish between active and inactive members for the purpose of providing pre-retirement death benefits and five do not. Oregon, Wisconsin, Ohio, Florida, Colorado, and California provide different pre-retirement death benefits for inactive members than for active members. Generally, these systems provide a refund of member contributions for inactive members while providing a survivor annuity or an additional employer match of member contributions for active members. Seattle, Minnesota, Missouri, Idaho, and Iowa provide the same pre-retirement death benefits for both active and inactive members. California and Ohio treat members who have separated within a specified timeframe as active for purposes of receiving the pre-retirement death benefits: four months in California, and thirty months in Ohio.

Policy Questions

Policy-makers may wish to consider the following questions when deliberating on this issue:

- Should the same pre-retirement death benefits be provided for inactive PERS 1 members that are provided for active PERS 1 members (choice of annuity or refund of contributions)?
- Should the same eligibility criteria for a survivor annuity apply to both inactive members and active members (retirement eligible or ten or more years of service at time of death)?

Implications of Changes to Current Policy

Providing the same pre-retirement death benefits for active and inactive members is consistent with the approach in other Washington plans.

Providing the same pre-retirement death benefits and eligibility for inactive members as for active members is consistent with the earned benefit design and with the approach taken in the Plans 2/3 and TRS 1.

Providing different eligibility criteria for inactive members may lower costs and could be used to target the improvement to those survivors most adversely affected by the current policy. For example, the survivor annuity could be limited to inactive members who were retirement eligible at the time of death or who had worked substantial careers before leaving service. These members generally lose the most by not having an annuity option available. However, any time a line is drawn, some members will fall outside of it. This may lead to calls for additional expansions later (i.e., an inactive member dies one day prior to retirement eligibility).

Benefit improvements are unlikely to be fully funded over the working lives of members.

Changing current policy regarding pre-retirement death benefits in PERS 1 may have funding policy implications as well. Since PERS 1 is a closed plan and most members are near the end of their working careers, any benefit improvements are unlikely to be funded over the working lifetime of the current members. This is inconsistent with the current statutory funding policy goal of intergenerational equity. Intergenerational equity calls for benefit improvements to be funded over the working lives of the members receiving the benefits so that the costs of those benefits are paid for by the taxpayers who receive the benefit of the members' services.

Executive Committee Recommendation

At the September meeting, the Executive Committee recommended that the same pre-retirement death benefits be provided for PERS 1 inactive members as for active members. The effect of this is to allow an optional survivor annuity to be provided for inactive PERS 1 members who die prior to retirement.

STAKEHOLDER INPUT

Correspondence from:
Dave Nelsen, DRS

Procedural History / Next Steps

The full SCPP received a briefing on this issue on September 17, 2007. The Executive Committee, at its meeting immediately following, made a recommendation on this issue and directed staff to prepare a bill draft and fiscal note for the consideration of the full SCPP. The full committee will be briefed on the Executive Committee's recommendation at the November meeting.

Bill Draft

A Code Reviser draft of the bill (Z-0735.1/08) is attached.

Draft Fiscal Note

Attached.

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Multiple Agency Fiscal Note Summary

Bill Number: 3006 HB	**Title:** Survivor annuity option

Estimated Cash Receipts

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

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

Estimated Expenditures

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

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

For information on the effect of this bill on pension plan liabilities, please see the page labeled "Page 4 of 8" of the OSA fiscal note.

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 1/25/2008

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

** See local government fiscal note

FNPID: 18679

Individual State Agency Fiscal Note

Bill Number: 3006 HB	**Title:** Survivor annuity option	**Agency:** 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

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

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Andrea Leigh	Phone: 360-902-0544	Date: 01/23/2008
Agency Preparation:	Darren Painter	Phone: 360-786-6155	Date: 01/24/2008
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 01/24/2008
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/24/2008

Part II: Narrative Explanation

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

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

II. B - Cash receipts Impact

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

II. C - Expenditures

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

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

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

Part IV: Capital Budget Impact

Part V: New Rule Making Required

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

FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBERS:
Office of the State Actuary	**035**	**1/23/08**	**HB 3006 / SB 6652**

INTENDED USE

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown above. We intend this fiscal note to be used by the Legislature during the 2008 Legislative Session only.

We advise other readers of this 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 fiscal note as a whole. Distribution of or reliance on only parts of this fiscal note could result in its misuse, and may mislead others.

EXECUTIVE SUMMARY

This bill impacts the Public Employees' Retirement System (PERS) Plan 1 by providing an optional survivor annuity for certain inactive members who die prior to retirement.

Increase in Actuarial Liabilities			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits	$32,689	$0.5	$32,689
Unfunded Actuarial Accrued Liability	3,196	0.5	3,196
Unfunded Liability (PVCPB)	$1,412	$0.5	$1,412

Note: Totals may not agree due to rounding.

Total Increase in Contribution Rates			
Current Biennium	**PERS**	**SERS**	**PSERS**
Employee (Plan 2)	0.00%	0.00%	0.00%
Employer (UAAL)	0.00%	0.00%	0.00%

Fiscal Costs			
(Dollars in Millions)	**2008-2009**	**2009-2011**	**25-Year**
General Fund-State	$0.0	$0.0	$0.2
Total Employer	$0.0	$0.1	$1.0

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

BENEFIT IMPROVEMENT

Summary of Benefit Improvement

This bill impacts the Public Employees' Retirement System (PERS) Plan 1 by providing the same optional survivor annuity for inactive members who die prior to retirement as is provided for active members who die prior to retirement.

Effective Date: July 1, 2008

Current Situation

Survivors of active PERS 1 members who die prior to retirement may generally choose between a refund of the member's accumulated contributions with interest or a survivor annuity. To qualify for the survivor annuity, the member must have been eligible for retirement or had ten or more years of service at the time of death. The survivor annuity is calculated as if the member chose to retire and elected a joint and 100 percent survivorship option. The annuity is actuarially reduced for the difference between the age when the member would have qualified for a service retirement and the age of death.

In contrast, survivors of inactive PERS 1 members who die after leaving service but prior to retirement only receive a refund of the member's accumulated contributions with interest.

Members Impacted

There are currently 2,675 terminated and vested members in PERS Plan 1. Of those, 1,752 have at least ten years of membership service. We would expect to see about 9 deaths in the first year among those 1,752 members. The ratio of members with survivors who collect annuities is assumed to vary by age, but we estimate that approximately 5 survivors per year would receive an annuity in place of the current return of member contributions.

Additionally, there are 14,213 PERS Plan 1 active members who could be impacted in the future. An active member who terminates with at least ten years of service sometime in the future could also die and leave a beneficiary to collect a monthly annuity under this bill.

WHY THIS BENEFIT HAS A COST AND WHO PAYS FOR IT

Why this Bill Has a Cost

Currently, the average inactive member with ten or more years of service has an accumulated account balance of about $65,000. Under this bill, a beneficiary could receive a monthly annuity payment instead of an account refund. In most cases, the annuity will be more valuable.

Who will Pay for these Costs

All PERS, SERS, and PSERS employers will pay for the cost of this bill through increased contribution rates due to the change in the unfunded actuarial accrued liability. PERS Plan 1 employees do not pay for the cost of this benefit improvement since their contribution rates remain a constant 6 percent.

HOW WE VALUED THESE COSTS

Change in Methods

To estimate the cost of this benefit improvement, we measured the difference in cost between refunding account balances for all terminated vested deaths and paying annuities to those members assumed to have spouses that would elect to receive an annuity. To these survivors, we paid a joint and 100 percent benefit, actuarially reduced from the member's normal retirement age.

Normal retirement age for terminated and vested members varies as follows. Members who terminate after December 31, 2001, who are at least age 50 upon termination, and who have at least 20 years of service, may retire without an actuarial reduction at age 60. All other terminated vested members have a normal retirement age of 65, regardless of service.

Members who die with less than 10 years of service, or members whose survivors do *not* select an annuity, continue to receive a refund of member contributions.

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

Assumptions Made

We used the same assumed ratio of survivors selecting annuities as was used in determining the costs for annuities resulting from active deaths. We developed a weighted average single-point ratio of members whose beneficiaries would *not* select an annuity to find the cost of this bill for currently terminated members. Among currently terminated PERS 1 members with at least ten years of membership service, we expect 43 percent will receive a refund of contributions instead of a monthly annuity.

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

Data Used

We developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

Liability Changes

This bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the system and increasing the required actuarial contribution rates as shown below:

(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$13,723	$0.5	$13,723
PERS 2/3	18,966	0.0	18,966
PERS Total	**$32,689**	**$0.5**	**$32,689**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	**$3,196**	**$0.5**	**$3,196**
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 1	$3,750	$0.5	$3,750
PERS 2/3	(2,338)	0.0	(2,338)
PERS Total	**$1,412**	**$0.5**	**$1,412**

Note: Totals may not agree due to rounding.

Contribution Rate Changes

The increase in the required actuarial contribution rate does not round-up to the minimum supplemental contribution rate of 0.01 percent, therefore, this bill 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.

Increase in Contribution Rates: (Effective 09/01/2008)			
System/Plan	**PERS**	**SERS**	**PSERS**
Current Members			
Employee (Plan 2)	0.0000%	0.0000%	0.0000%
Employer (UAAL)	0.0004%	0.0004%	0.0004%
State			
New Entrants*			
Employee (Plan 2)	0.0000%	0.0000%	0.0000%
Employer	0.0000%	0.0000%	0.0000%
State			

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

Fiscal Budget Changes

	Fiscal Costs			
(Dollars in Millions)	**PERS**	**SERS**	**PSERS**	**Total**
2008-2009				
General Fund	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0
Total Employer	0.0	0.0	0.0	0.0
Total Employee	$0.0	$0.0	$0.0	$0.0
2009-2011				
General Fund	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.1
Total Employer	0.1	0.0	0.0	0.1
Total Employee	$0.0	$0.0	$0.0	$0.0
2008-2033				
General Fund	$0.1	$0.0	$0.0	$0.2
Non-General Fund	0.2	0.0	0.0	0.2
Total State	0.4	0.0	0.0	0.4
Local Government	0.5	0.1	0.0	0.6
Total Employer	0.9	0.1	0.0	1.0
Total Employee	$0.0	$0.0	$0.0	$0.0

Note: Totals may not agree due to rounding.

The analysis of this bill 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 System will vary from those presented in the AVR or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

SENSITIVITY ANALYSIS

In determining the cost of this bill, we used the same assumed ratio of survivors selecting annuities that we use in estimating the cost of annuities for survivors of active deaths. If instead, we assumed a higher ratio of terminated vested members who die will leave survivors taking annuities, the cost of this bill would be higher.

To set an upper bound on the price of this benefit improvement, we assumed all terminated vested members eligible for the proposed benefit would leave survivors selecting annuities. That is, for all inactive members with at least ten years of service, we assumed 100 percent of those who died would leave survivors electing to receive annuities, regardless of the member's age.

Using this assumption, the increase in the UAAL changed from around $500,000 to about $1,000,000, and the UAAL contribution rate increase went from 0.0004 percent to 0.0009 percent.

If, on the other hand, we were to assume that fewer eligible inactive members leave survivors who select an annuity, then we would arrive at a cost even closer to zero than is our expected cost.

In any case, the cost of this bill is insufficient to result in a supplemental contribution rate increase in the first biennium. Any subsequent costs would be realized with actual experience.

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 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 fiscal note has been prepared for the Legislature during the 2008 Legislative Session.
6. This 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 fiscal note.

While this 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

GLOSSARY OF ACTUARIAL TERMS

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

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

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

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

- 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.

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

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

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

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

Individual State Agency Fiscal Note

Bill Number: 3006 HB	Title: Survivor annuity option	Agency: 124-Department of Retirement Systems

Part I: Estimates

☒ **No Fiscal Impact**

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Andrea Leigh	Phone: 360-902-0544	Date: 01/23/2008
Agency Preparation:	Cathy Cale	Phone: (360)664-7305	Date: 01/24/2008
Agency Approval:	Sandra J. Matheson	Phone: (360) 664-7312	Date: 01/24/2008
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 01/25/2008

Part II: Narrative Explanation

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

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

Currently, only the survivor(s) of a Plan 1 member who passes away from active status receives a choice of either a lifetime monthly benefit, or a refund of contributions, plus interest.

This bill expands RCW 41.40.270 to give the survivor(s) of any Plan 1 member, who qualifies for retirement but has not applied, or has at least 10 years of service credits, the option of either a monthly survivor benefit or the lump sum of contributions plus interest upon the member's death.

This bill has no fiscal impact to the Department of Retirement Systems.

II. B - Cash receipts Impact

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

No impact.

II. C - Expenditures

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

No impact.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

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

No impact.

Z-0735.1

HOUSE BILL 3006

State of Washington 60th Legislature 2008 Regular Session

By Representatives Bailey, Conway, Crouse, Fromhold, Simpson, and Linville; by request of Select Committee on Pension Policy

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

AN ACT Relating to extending the survivor annuity option for preretirement death in plan 1 of the public employees' retirement system to members who die after leaving active service; amending RCW 41.40.270; and providing an effective date.

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

Sec. 1. RCW 41.40.270 and 2003 c 155 s 6 are each amended to read as follows:

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

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

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

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

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

under RCW 41.50.670, or monthly payments according to the option selected by the member.

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

(a) This section; or

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

(5) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, is not subject to an actuarial reduction. The member's retirement allowance is computed under RCW 41.40.185.

NEW SECTION. **Sec. 2.** This act takes effect July 1, 2008.

--- END ---

6. PERS to SERS Auto-Transfer

PERS to SERS "Auto-Transfer"

Description of Issue

There are statutory provisions to automatically transfer the membership and service credit of certain Public Employees' Retirement System (PERS) Plan 2 members into the School Employees' Retirement System (SERS). This "auto-transfer" was designed to move classified school employees to SERS when the system first opened in 2000.

Today, **the auto-transfer may be impacting members never intended**—most notably PERS 2 members whose primary careers are unrelated to school employment. (See attached issue paper for more details.)

Recent Activity on This Issue

The SCPP studied the auto-transfer in 2007. The committee looked at making it optional, discontinuing it, or narrowing its impact. Ultimately, the committee recommended ending the auto-transfer and allowing certain affected members to reverse it. The proposal had no cost to the retirement systems. (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 3005/SB 6655). The House bill passed the House and the Senate Committee on Ways & Means.

Other Materials Included

- 2007 SCPP Issue Paper
- Bill Draft of HB 3005 from 2008 Session
- Fiscal Note for HB 3005

What is The Next Step?

Members will decide if last year's bill on the auto-transfer should be reintroduced in the next session. If so, staff would update the bill draft and fiscal note for 2009.

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The Select Committee on Pension Policy

Public Hearing and Possible Executive Session

Darren Painter, Policy Analyst

May 13, 2008

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

PERS To SERS "Auto-Transfer"

- Issue
  - "Auto-transfer" may be impacting members not intended
- 2007 SCPP Recommendation
  - End auto-transfer and allow certain members to reverse it
    - No cost to system
  - Passed House and Senate Ways & Means

PERS to SERS "Auto-Transfer"

In Brief

ISSUE

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

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

MEMBER IMPACT

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

Darren Painter
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Current Situation

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

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

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

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

History

The SERS system was created in 1998 and opened to membership on September 1, 2000. Initial membership was comprised of PERS 2 members who were employed by school districts and educational service districts on September 1, 2000.

The intent of the legislature in creating SERS was "to achieve similar retirement benefits for all educational employees by transferring the membership of classified school employees in [PERS 2] to [SERS 2]. The transfer of membership to [SERS 2] is not intended to cause a diminution or expansion of benefits for affected members. It is enacted solely to provide public employees working under the same conditions with the same options for retirement planning." See RCW 41.35.005.

SERS was created to allow classified school employees access to Plan 3 benefits.

When the SERS system was created, Plan 3 had been established for teachers, but not for public employees. At that time, classified school employees in PERS wanted the same Plan 3 benefits that were available to teachers. SERS was created to provide that option. SERS featured both a Plan 2 and a Plan 3 when it was created. SERS Plan 2 had the same benefit structure as PERS Plan 2, and SERS Plan 3 had the same benefit structure as the Teachers' Retirement System (TRS) Plan 3. PERS 2 members employed in SERS-eligible positions on the day SERS opened were initially transferred to SERS 2 - where they then had the opportunity to transfer to SERS 3. The transfer of all service, and corresponding contributions, from PERS 2 to SERS 2 provided members who were intending to transfer to SERS 3 the largest possible balance in their SERS Plan 3 defined contribution accounts.

The transfer of PERS 2 members to SERS 2 was extended beyond the initial opening date of SERS.

The transfer of PERS 2 members to SERS 2 was extended beyond the initial opening date of SERS. PERS 2 members who were not employed in a SERS-eligible position when SERS first opened have their PERS 2 membership and service transferred to SERS 2 if they later become employed in a SERS-eligible position. This transfer is accomplished through means of the "auto-transfer" statutes (see heading entitled "Current Situation" above for a complete description). In addition to returning school employees, the "auto-transfer" is impacting PERS members whose primary careers are unrelated to school employment.

Since the initial transfer of PERS 2 classified school employees to SERS 2, over 5,000 PERS 2 members who became employed in SERS eligible positions have had their PERS membership and service credit automatically transferred to SERS. It is unknown how many of these members' PERS service was related to school employment. The Department of Retirement Systems has received complaints from some members who have had their PERS 2 service automatically transferred to SERS 2 when their primary career was not in SERS.

During the 2004 Legislative session a bill was introduced that would have removed the provisions for the automatic transfer of PERS 2 members into SERS 2 upon employment in a SERS eligible position. This bill (SB 6610) did not go through the SCPP and did not receive a hearing.

Examples

Example 1: School employee with break in service

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

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

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

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

Policy Analysis

Possible Inconsistency with SERS Intent

The PERS to SERS "auto-transfer" allows classified school employees who experienced a break in service when SERS first opened to transfer their past service into SERS if they become re-employed in a SERS-eligible position. This is in keeping with the Legislature's stated intent to "provide public employees working under the same conditions with

The Legislature may not have intended the "auto-transfer" statutes to impact PERS members whose primary careers are unrelated to school employment.

the same options for retirement planning". See RCW 41.35.005. However, the "auto-transfer" also transfers the membership and service credit of PERS members whose primary careers are unrelated to school employment. This appears to be inconsistent with the original intent of the Legislature in creating SERS. It is possible that the "auto-transfer" was designed around career school employees. Little consideration may have been given to PERS members who take part-time SERS positions in addition to their primary PERS career. The Legislature may not have intended the "auto-transfer" statutes to impact PERS members whose primary careers are unrelated to school employment.

Clarifying the language in the existing statutes so the "auto-transfer" only impacts former school employees would be more consistent with the Legislature's original intent. Such a fix would likely eliminate most, if not all, of the member complaints about the "auto-transfer" process. However, even if the "auto-transfer" statutes were amended to only impact this group, there are still policy concerns with having an open-ended "auto-transfer".

Continuing the PERS to SERS "auto-transfer" may not make as much sense today.

Implications of Continuing "Auto-Transfer"

While it may have made sense when SERS was first opened to transfer members' service over from PERS, it may not make as much sense to continue that policy today. Transferring prior PERS service into SERS would have simplified the initial transfer process from both the member's and plan administrator's perspective. From the member's perspective, having all of one's service in a single plan makes retirement planning less complicated. Transferring the prior PERS service provided SERS members the same opportunity that teachers had to move their Plan 2 service into Plan 3 and maximize their Plan 3 defined contribution accounts. This was consistent with the Legislative intent to achieve similar retirement benefits for all educational employees. See RCW 41.35.005. From the administrator's perspective, a one-time transfer may have been preferable to maintaining over 40,000 new dual-members.

The advantages of the "auto-transfer" have diminished since the initial creation of SERS.

The advantages of the "auto-transfer", however, have diminished since the initial creation of SERS. The number of former classified school employees returning to service and being impacted by the "auto-transfer" is relatively small compared to the initial number who transferred to SERS. Some of these members have already experienced a fairly long break in service - nearly seven years – or transitioned to public employment outside of a school district. This raises the question of whether special accommodations should be made for these members if they return to classified school employment. Since PERS now has a Plan 3 and experience has shown that members are generally less interested in transferring from Plan 2 to Plan 3 today, there is likely less need to provide a mechanism for members to transfer prior PERS 2 service into SERS 3. Additionally, it is not guaranteed that benefits will be the same in PERS 2 and SERS 2 in the future, which may result in unintended consequences.

In the future, there could be increased legal risk.

When SERS was first created, the benefit provisions of SERS 2 and PERS 2 were identical. Thus, members did not experience either a diminution or expansion of benefits by having their PERS 2 membership and service transferred to SERS 2. However, the more time that passes following the creation of SERS, the greater the likelihood that the benefit provisions of PERS 2 and SERS 2 will start to diverge. Divergent benefits often result from pension legislation that does not go through a policy committee like the SCPP. If the differences in the plans were to become substantial enough, members may actually begin to experience a diminution or expansion of benefits by having their PERS membership automatically transferred to SERS. Such an outcome was likely not envisioned as a possibility at that time and was clearly not part of the Legislature's original intent in transferring members to SERS. See RCW 41.35.005. If benefits were to diverge to the point that some members were being inadvertently harmed by the "auto-transfer," it may create potential legal risk for the state.

Given the diminished benefits of the "auto-transfer" today and the potential legal risk that may arise from a mandatory transfer of membership in the future, it may be preferable from both a policy and administrative perspective to discontinue the "auto-transfer." Policy-makers may wish to consider making the transfer of prior PERS 2 service to SERS optional for returning educational employees, or as an alternative, allowing such employees to become dual-members.

Implications for Dual-Membership

Transferring service credit between systems is counter to the policy of dual-membership which is codified within the "portability" chapter of state law. See RCW 41.54. Dual-membership allows members to combine service from all their systems to qualify for benefits and use the highest salary from any system to determine their benefits. Each system then pays out benefits based on that system's provisions and the service in that system. Dual-membership is designed to ensure that members are neither advantaged nor disadvantaged by changing public careers – even when the underlying benefits of the systems differ.

Members may still receive full value for past school employment under dual-membership provisions.

While dual-membership will effectively make "whole" the retirement benefits for classified school employees whose service crosses from PERS to SERS, it is not an exact substitute for transferring service. Members may still receive full value for their past school employment in PERS under the dual-membership provisions; however, they would not be able to transfer their prior Plan 2 service into Plan 3 as they would under the "auto-transfer" provisions*. Currently, very few active members opt to transfer from Plan 2 to Plan 3 under the annual transfer window. Cases where a returning classified school employee would wish to transfer all their past Plan 2 service to Plan 3 will likely be the exception.

The PERS to SERS "auto-transfer" is an exception to the basic policy of dual-membership. Maintaining such an exception may, in rare cases, benefit a few members. However, policy-makers may wish to weigh the potential benefits against the potential legal risk.

**The member's PERS 2 service would be transferred to SERS 2 and the member could later opt to transfer that service to SERS 3.*

Implications for Optional Transfer

An optional transfer may result in a cost to other plan members or employers.

Making the "auto-transfer" optional instead of mandatory would reduce the risk of the exposure to one kind of liability while increasing the risk of exposure to another. Making the transfer optional would likely eliminate the potential legal risk of members being harmed by the transfer. However, members may be able to take advantage of an optional transfer to increase their benefits while passing the cost of those benefits on to others. This situation could occur if the benefits in SERS were to become more generous than the benefits in PERS. Members electing to transfer their service would essentially be able to "buy" the more expensive SERS benefits using cheaper PERS service. This would result in a cost to the SERS system which would be subsidized by all plan members and/or employers.

Other States

Due to the narrow focus and technical nature of this issue, the experience of other states, if any, would be of limited value to policy-makers and would be impractical to obtain.

Policy Questions

Policy-makers may wish to consider the following questions when deliberating on this issue:

- Should the "auto-transfer" statutes be amended so that they only impact members whose prior PERS service was rendered for a school or educational service district?
- Should the PERS to SERS "auto-transfer" be made optional? Discontinued? If discontinued, what is the appropriate date to discontinue it?

Conclusion

The PERS to SERS "auto-transfer" was designed to facilitate the initial creation of the SERS system for classified school employees. The "auto-transfer" was extended beyond the initial opening date of SERS, and is impacting both returning school employees and PERS members whose primary careers are unrelated to school employment. The Legislature may not have intended to impact this latter group of PERS members.

The automatic transfer of PERS 2 membership and service to SERS 2 at the initial opening of SERS was advantageous for both members and the plan administrator. The advantages of the "auto-transfer;" however, have diminished since the initial creation of SERS. Continuing the mandatory "auto-transfer" indefinitely may expose the state to potential legal risk if the benefits in SERS 2 and PERS 2 diverge in the future. Making the "auto-transfer" optional would eliminate one source of potential liability, but it may result in costs being shifted to other SERS members or employers. In the absence of transfer provisions, SERS members may still receive full value for any past school employment in the PERS system under dual-membership provisions.

Policy-makers may wish to weigh the potential benefits against the potential risks of continuing the "auto-transfer" in its present form.

Next Steps

The Executive Committee will provide further direction on this issue including possible options for pricing.

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Multiple Agency Fiscal Note Summary

Bill Number: 3005 HB	**Title:** PERS 2/SERS 2

Estimated Cash Receipts

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

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

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.3	0	147,443	.0	0	0	.0	0	0
Total	0.3	$0	$147,443	0.0	$0	$0	0.0	$0	$0

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

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 1/24/2008

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

** See local government fiscal note

FNPID: 18618

Individual State Agency Fiscal Note

Bill Number: 3005 HB	Title: PERS 2/SERS 2	Agency: 035-Office of State Actuary

Part I: Estimates

☒ **No Fiscal Impact**

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Andrea Leigh	Phone: 360-902-0544	Date: 01/23/2008
Agency Preparation:	Nelsen Dave	Phone: 360-786-6144	Date: 01/24/2008
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 01/24/2008
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/24/2008

FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBERS:
Office of the State Actuary	**035**	**1/24/08**	**HB 3005 / SB 6655**

INTENDED USE

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown above. We intend this fiscal note to be used by the Legislature during the 2008 Legislative Session only.

We advise other readers of this 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 fiscal note as a whole. Distribution of or reliance on only parts of this fiscal note could result in its misuse, and may mislead others.

EXECUTIVE SUMMARY

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

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

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

CHANGE TO PENSION SYSTEM

Summary of Change

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

- Discontinue the automatic transfer of prior PERS Plan 2 service to SERS Plan 2 upon employment in a SERS eligible position. Prior PERS Plan 2 members hired into SERS eligible positions after the effective date of the bill will be dual members under the provisions of Chapter 41.54 RCW.

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

Effective Date: 90 days after session

Current Situation

The provisions of RCW 41.40.750 provide the following:

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

Members Impacted

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

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

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

WHY THIS CHANGE HAS A COST AND WHO PAYS FOR IT

Why this Bill Has a Cost

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

The positive difference between the transferred liability and assets is the additional amount that is required from the SERS assets to ensure that contribution rates are not affected in either plan.

Who will Pay for these Costs

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

HOW WE VALUED THESE COSTS

Change in Methods

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

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

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

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

  (AFC Factor x Annuity Factor) / Pay Factor

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

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

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

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

Assumptions Made

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

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

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

Data Used

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

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

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

The following table summarizes the number of records excluded by cause. Some of the records were identified as not being eligible for more than one reason; therefore, the "Total Count Excluded by Reason" in the table below totals to more than the 2,274 records excluded from this pricing.

Table 1 – Summary Counts of Excluded Records by Cause of Exclusion

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

Otherwise, we developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

Liability Changes

The transfer of service from SERS 2 to PERS 2 will result in a liability decrease in SERS and a liability increase in PERS. This liability is the value in today's dollars of all the future benefit payments expected to be paid as a result of the service transferred. Also transferred from SERS 2 to PERS 2 is the accumulated value of the member contributions paid at the time the transferred service was earned. This asset transfer will result in a decrease in SERS assets and an increase in PERS assets.

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

Table 2 – Summary of Liabilities and Assets Expected to be Transferred

	System/Plan	
(Dollars in Millions)	**PERS 2**	**SERS 2**
Liability change	$21.2	-$21.2
Savings Fund asset change	9.6	-9.6
Additional asset change	11.6	-11.6
Change in Unfunded Liability	$0.0	$0.0

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

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

SENSITIVITY ANALYSIS

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

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 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 fiscal note has been prepared for the Legislature during the 2008 Legislative Session.
6. This 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 fiscal note.

While this 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

GLOSSARY OF ACTUARIAL TERMS

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

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

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

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

- 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.

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

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

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

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

Individual State Agency Fiscal Note

Bill Number: 3005 HB	**Title:** PERS 2/SERS 2	**Agency:** 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.4	0.1	0.3	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	117,581	29,862	147,443	0	0
Total $	117,581	29,862	147,443	0	0

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:	Andrea Leigh	Phone: 360-902-0544	Date: 01/23/2008
Agency Preparation:	Jeff Wickman	Phone: (360) 664-7303	Date: 01/24/2008
Agency Approval:	Sandra J. Matheson	Phone: (360) 664-7312	Date: 01/24/2008
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 01/24/2008

Part II: Narrative Explanation

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

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

This bill ends the automatic transfer of prior Public Employees' Retirement System (PERS) Plan 2 service credit to Plan 2 of the School Employees' Retirement System (SERS) when the member becomes employed in an eligible SERS position on or after July 1, 2008.

Beginning September 1, 2008 through November 30, 2008, members and former members of PERS Plan 2 who had service credit transferred to SERS Plan 2, may request, in writing, to have that service credit transferred back to PERS Plan 2 if:

- The member or former member did not earn service credit with a school district or educational service district before the transfer; and
- The member or former member has not transferred to SERS Plan 3 or PERS Plan 3.

II. B - Cash receipts Impact

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

No impact.

II. C - Expenditures

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

See attached.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.4	0.1	0.3		
A-Salaries and Wages	20.431	5,428	25,859		
B-Employee Benefits	6.010	1,699	7,709		
C-Personal Service Contracts					
E-Goods and Services	91.140	22,735	113,875		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$117,581	$29,862	$147,443	$0	$0

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2008	FY 2009	2007-09	2009-11	2011-13
Communications Consultant 3	52,104	0.2	0.1	0.2		
Info Tech Specialist 4	70,092	0.1		0.1		
Retirement Services Analyst 3	48,396	0.1		0.1		
Total FTE's		0.4	0.1	0.3		0.0

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

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

Rules will need to be revised.

II. C - Expenditures

Administrative Assumptions

- If a member has any prior service credit in PERS for employment in a school district or educational service district the member will not be able to revert that service credit back to PERS.
- No partial reversions will be allowed. (If a reversion is requested, all service credit that was auto-transferred will be returned to PERS.)
- A withdrawal in SERS will not prohibit a member from reverting their PERS service, if otherwise eligible.
- Members entering SERS Plan 2 after July 1, 2008 must restore any prior withdrawn service in PERS.
- Beginning July 1, 2008, PERS Plan 2 retirees who opt to re-enter membership in a SERS position will no longer have their prior PERS service transferred to SERS.

The assumptions above were used in developing the following workload impacts and cost estimates.

Benefits/Customer Service

The benefits unit staff will support the modification of DRS' automated systems, the creation of member communications, and the modification of policies, procedures and rules to support this legislation. Approximately 1,400 SERS Plan 2 members can request to revert their auto-transferred time back to PERS. The tasks associated with implementing this bill are:

- Respond to member questions (written and telephone)
- Review business requirements for the automated systems
- Revise rules and operating policies
- Conduct user acceptance testing
- Conduct staff training
- Review communication materials
- Update the Retirement Services Division online operations manual

Retirement Services Analyst 3 – 211 hours project (salaries/benefits)	$6,484
Total Estimated Benefits/Customer Service Costs	**$6,484**

Member Communications

To support the successful implementation of this bill, several member communications and forms will be created and/or updated. The communication tasks associated with implementing this bill include:

- Create and print letters and forms for those eligible to revert time
- Create and print new PERS/SERS comparison chart
- Update member handbooks for Plan 2 of SERS and PERS
- Create Retirement Outlook articles to notify members of the changes
- Create Frequently Asked Questions for the DRS Internet and a Facts at a Glance for staff
- Review other DRS publications and update as needed

Printing and distribution costs	$200
Communications Consultant 3 – 440 hours (salaries/benefit)	$14,752
Total Estimated Member Communications Costs	**$14,952**

Automated Systems

DRS' Member Information System, Benefits System, Employer Information System and Actuary Reporting Process will be updated to end the auto-transfer of prior PERS service credit into SERS and to allow previously transferred service credit to revert back to PERS upon request. Major tasks to update the automated systems include:

- Identify and modify all programs that perform the auto transfer process
- Create a new procedure to revert prior PERS service upon request
- Test all interfacing systems that use the convert/reverted data

Information Technology Specialist 4 – 289 hours (salaries/benefits)	$12,332
Programmer time of 1,065 hours @ $95 per hour	$101,175
DIS cost* of $500 per week per programmer (for 25 programmer weeks)	$12,500
Total Estimated Automated Systems Costs	**$126,007**

**cost for mainframe computer processing time and resources at the Department of Information Services*

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	2007-09	2009-11	2011-13
BENEFITS/CUSTOMER SERVICE	**$6,484**	**$0**	**$0**
MEMBER COMMUNICATIONS	**$14,952**	**$0**	**$0**
AUTOMATED SYSTEMS	**$126,007**	**$0**	**$0**
ESTIMATED TOTAL COSTS	**$147,443**	**$0**	**$0**

Z-0764.2

HOUSE BILL 3005

State of Washington 60th Legislature 2008 Regular Session

By Representatives Conway, Bailey, Crouse, Fromhold, Simpson, and Linville; by request of Select Committee on Pension Policy

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

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

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

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

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

(2)(a) The membership and previous service credit of a plan 2 member not employed in an eligible position on September 1, 2000, will be transferred to the Washington school employees' retirement system plan 2 when he or she becomes employed in an eligible position prior to July 1, 2008. Plan 2 members not employed in an eligible position on

September 1, 2000, who have withdrawn their member contributions for prior plan 2 service may restore contributions and service credit to the Washington school employees' retirement system plan 2 as provided under RCW 41.40.740<u>, if they first establish eligibility in the Washington school employees' retirement system plan 2 prior to July 1, 2008</u>.

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

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

<u>(4) From September 1, 2008, through November 30, 2008, upon written request to the department, active and inactive members transferred under subsection (2) of this section who did not establish membership and earn service credit for employment with a school district or educational service district prior to the transfer, and who have not transferred to plan 3 of the Washington school employees' retirement system or plan 3 of the public employees' retirement system, may restore their transferred membership and previous service credit to plan 2. All previously transferred contributions and interest, and additional interest as determined by the department, shall be returned to plan 2. An additional amount shall be transferred from the Washington school employees' retirement system sufficient to offset the liabilities returned to plan 2 under this subsection, as determined by the state actuary.</u>

--- END ---

7. HECB Proposal

HECB Proposal

Description of Issue

The Higher Education Coordinating Board (HECB) is seeking statutory authority to offer Higher Education Retirement Plans (HERPs) to its employees. Granting this authority requires changing higher education statutes, not pension statutes.

The HECB is a Public Employees' Retirement Systems (PERS) employer that actively recruits employees from higher education institutions, which usually offer HERPs. HERPs may provide larger benefits than state-administered plans and do not have the same restrictions on post-retirement employment. (See attached issue paper for more details.)

Recent Activity on This Issue

In 2007, the SCPP studied the HECB's proposal. The committee decided to sponsor its own legislation with an amended version of the HECB proposal. The committee recommended allowing the HECB to offer HERPs to its employees <u>who are not already retired from a state-administered retirement system.</u> The proposal had a savings to PERS and an indeterminate cost for the HECB. (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 3025/SB 6647). The House bill passed the House and was heard in, but did not pass, the Senate Committee on Ways & Means.

Other Materials Included

- 2007 SCPP Issue Paper
- Bill Draft of HB 3025 from 2008 Session
- Fiscal Note for HB 3025

What is The Next Step?

Members will decide if last year's bill on the HECB offering HERPs should be reintroduced in the next session. If so, staff would update the bill draft and fiscal note for 2009.

O:\SCPP\2008\5-13-08 Full\7.HECB_Proposal.doc

The Select Committee on Pension Policy

Public Hearing and Possible Executive Session

Darren Painter, Policy Analyst

May 13, 2008

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

HECB Proposal

- Issue
  - Higher Education Coordinating Board (HECB) wants to offer Higher Education Retirement Plans (HERPs) to its employees
- 2007 SCPP Recommendation
  - Allow HECB to offer HERPs to employees not already retired from a state-administered system
    - PERS savings, no immediate rate impact
    - Indeterminate cost to HECB
  - Passed House and heard in Senate Ways & Means

HECB Proposal

In Brief

ISSUE

The HECB is requesting support for legislation that would amend the higher education statutes to allow it to offer participation in TIAA-CREF and other higher education retirement plans to its employees.

MEMBER IMPACT

HECB staff reports that the board currently employs eighty-five people. Approximately ten of those came from higher education institutions, and about ten more are expected to come from higher education institutions in the near future.

Currently, the employees of the HECB are reported in PERS. HECB employees who participate in a higher education plan would no longer accrue service in PERS.

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Current Situation

The Higher Education Coordinating Board (HECB) is proposing that the higher education statutes be amended to authorize it to offer higher education retirement benefits to its employees. Currently that authority is given by statute to the following groups:

- Board of Regents of the State Universities.
- Boards of Trustees of the Regional Universities.
- The Evergreen State College.
- The State Board for Community and Technical Colleges.

Typically, these groups define which of their employees are eligible to participate in the higher education retirement plan (HERP) or plans offered. Once the eligible positions are determined, employees in those positions are mandated into the HERP; however, employees who have prior Public Employees' Retirement System (PERS) service are typically offered the choice to remain in PERS.

What is the HECB?

The HECB is a ten-member citizen board that administers the state's student financial aid programs and provides strategic planning, coordination, monitoring, and policy analysis for higher education in Washington. Created by the Legislature in 1985, as successor to the Council for Postsecondary Education, the board is charged by state law with representing the "broad public interest above the interests of the individual colleges and universities." An Advisory Council, which includes K-12 and higher education leaders, advises the board on carrying out its statutory duties.

The HECB employs a staff of approximately eighty-five employees and functions as a state agency. Its employees belong to PERS. Currently, none of these employees are offered the opportunity to join a HERP because the HECB does not have authority to offer such plans to its employees.

What is the HECB's interest?

In particular, the HECB has expressed interest in offering participation in the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA – CREF) to some of its employees. This is the most common HERP offered to higher education employees in Washington. The requested authority, however, would allow the HECB to offer other higher education retirement benefits.

TIAA-CREF offers a variety of financial products and services to those in the academic, medical, cultural and research fields. The company offers retirement plans with immediate vesting, full portability and member choice of investment options. Members may be allowed to relocate, change future contributions, transfer existing account balances and reallocate funds. Additional member security can be purchased and offered by plan sponsors as a supplemental benefit. For example, after a pre-determined number of years of service, a retirement supplement can be paid to a member if the member's base pension does not provide what has been determined to be an adequate retirement benefit.

The HECB views this as a recruitment and retention issue.

The HECB views the ability to offer this type of plan to its employees as a recruitment and retention issue. According to Don Bennett, HECB Deputy Director, the HECB competes with colleges, universities, and the State Board for Community and Technical Colleges for mid-career staff. It also recruits from colleges and universities throughout the nation as well as from other state higher education executive offices. Mr. Bennett views the inability to offer a HERP as a competitive disadvantage. (See attached letter dated July 16, 2007, and HECB handout.)

The HECB anticipates that its own costs will increase for those employees who would be covered by TIAA-CREF under the expanded authority. To the extent that more HECB employees seek and obtain TIAA-CREF coverage, those costs could increase over time.

History

This is the first interim in which this issue has been studied by the SCPP.

Other Higher Education Agencies in Washington State

The Washington State Board for Community and Technical Colleges (SBCTC) is a state agency that employs approximately ninety-four people. The State Board provides "general supervision and control over the state system of community and technical colleges." Its responsibilities include preparing a single system operating budget and capital budget request for the Legislature, disbursing capital and operating funds, ensuring statutory compliance, administering criteria for establishing new colleges, establishing operational standards, preparing a comprehensive master plan, and providing research.

SBCTC is specifically authorized by statute to offer higher education retirement plans to its employees. This agency reports that of its ninety-four employees, approximately sixty are reported in PERS and the remaining employees are covered under TIAA-CREF. The other entities authorized to offer higher education retirement plans in Washington are the higher education institutions themselves.

Other States

Representatives of TIAA-CREF in their Seattle and Denver offices have represented to OSA staff that forty-nine government entities in eighteen states offer membership in TIAA-CREF. The types of employees most typically served by TIAA-CREF are in the academic, medical, cultural and research fields.

Questions for Policy-Makers

1. What is the impact on PERS? The proposal before the SCPP would leave it to the HECB to determine who is eligible to participate in a HERP. Once a higher education employer determines an employee is eligible for membership in a HERP and the employee decides to

The proposal is to amend the higher education statutes, not the pension statutes. However, there would be a slight impact on PERS.

participate in the HERP, that employee is exempted from PERS membership. In other words, by participating in a HERP such as TIAA-CREF, HECB employees would no longer be eligible for PERS coverage unless they had prior PERS service and chose to remain in PERS. Thus the proposal, if successful, could lead to a loss of PERS plan members. The number, however, is expected to be small, i.e. no more than the number of employees working for the HECB (currently about eighty-five). It is unclear at this time whether there are other groups who might seek similar treatment in the future. In any event, the proposal is not expected to impact PERS contribution rates.

2. What is the impact on benefits policy? The SCPP may wish to consider the ramifications of a state agency offering different retirement benefits to different individuals within the same agency. For example, if the HECB receives the requested authorization, approximately twenty of its employees would be in TIAA-CREF and sixty-five would be in PERS (at least initially). Since the TIAA-CREF plan is viewed by most people as a more generous plan, this could lead to issues around employee morale and consistent treatment within the plan.

On the other hand, the offering may make the employer more attractive to some employees. As stated by the HECB Deputy Director, the benefit may enable the HECB to attract highly qualified people from the higher education sector to work at HECB.

There are consequences for members who continue their public employment but change retirement plan participation to a HERP, in that they are removed from coverage by certain programs. (This situation already exists for other retirement system members who are offered HERP participation, such as those employed by the SBCTC.) First, dual membership does not apply to higher education plans. This means that an employee who has been covered in PERS and then becomes covered by TIAA-CREF cannot combine the non-PERS time with the prior PERS time in order to determine benefit eligibility, nor can the salary earned while participating in TIAA-CREF be considered in computing the final retirement benefit from PERS.

Secondly, retirement system restrictions on post-retirement employment do not apply to those covered by a HERP. This means that a PERS retiree who returns to work in a

HERP-covered position can draw the PERS pension, earn a state salary as an employee of the agency, and simultaneously earn a new retirement benefit under TIAA-CREF.

3. How does the proposal impact the higher education institutions? This proposal raises questions about processes that do not typically arise when an issue is brought before the SCPP, primarily because this proposal is to amend the higher education statutes, not the pension statutes.

It is unknown at this time how the higher education institutions currently covered under Title 28B would view this proposal or how they would be impacted. Are they aware of the proposal? Do they support it? Is that important to the SCPP? Is there a desire to formally engage them in the process of crafting legislation that amends the statutes affecting their institutions?

4. Should the Higher Education Committees be involved? The SCPP may also want to think about whether the Higher Education Committees of the House and Senate would be more suited to decide this, or whether the issue should at least be coordinated with those committees. Does the SCPP want to hear what they have to say, or proceed independently?

If the SCPP decides to get involved, the SCPP may want to look at entire proposal and take a position, or alternatively, the SCPP could limit its analysis to the impact of the proposal on the state retirement system.

Possible SCPP Strategies

The Executive Committee has not recommended a strategy.

1. **Sponsor.** Move the issue forward as potential SCPP-sponsored legislation.
2. **Endorse.** Move the issue forward as potential SCPP-endorsed legislation.
3. **Coordinate with the Higher Education Committees.** Provide input limited to describing the impact on PERS, or if sponsoring or endorsing legislation, make such action contingent upon a favorable recommendation from those committees. Another option would be to defer action until the Higher

Education Committees have had an opportunity to weigh in on the issue.

4. **Request further study.** Move the issue forward for further study.
5. **Monitor.** Track the progress of the issue, but do not sponsor or endorse.
6. **No action.** Take no action and treat the matter as informational only.

Executive Committee Recommendation

The issue was heard by the Executive Committee on October 16, 2007. The Executive Committee forwarded the issue to the SCPP for a full briefing.

Bill Draft

The HECB has provided a copy of a proposed bill draft that would amend the higher education statutes. The authority granted would be broad enough to allow the HECB to offer higher education retirement benefits to any or all of its employees.

Stakeholder Input

Correspondence from Don Bennett, Deputy Director of HECB, is attached.

Draft Fiscal Note

Not available. However, the proposal is not expected to affect PERS contribution rates.

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Multiple Agency Fiscal Note Summary

Bill Number: 3025 HB	**Title:** Higher edu retirement

Estimated Cash Receipts

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

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

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	0	0	.0	0	(100,000)	.0	0	(100,000)
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
Higher Education Coordinating Board	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total	0.0	$0	$0	0.0	$0	$(100,000)	0.0	$0	$(100,000)

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

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 1/30/2008

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

** See local government fiscal note

FNPID: 18994

Individual State Agency Fiscal Note

Revised

Bill Number: 3025 HB	**Title:** Higher edu retirement	**Agency:** 035-Office of State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
Fund					
All Other Funds-State 000-1	0	0	0	(100,000)	(100,000)
Total $	0	0	0	(100,000)	(100,000)

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Andrea Leigh	Phone: 360-902-0544	Date: 01/23/2008
Agency Preparation:	Laura Harper	Phone: 360 786-6145	Date: 01/28/2008
Agency Approval:	Matthew M. Smith	Phone: 360-786-6140	Date: 01/28/2008
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/28/2008

Part II: Narrative Explanation

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

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

II. B - Cash receipts Impact

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

II. C - Expenditures

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

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Personal Service Contracts					
E-Goods and Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$0	$0	$0	$0	$0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

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

FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBERS:
Office of the State Actuary	**035**	**1/24/08**	**HB 3025 / SB 6647**

INTENDED USE

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown above. We intend this fiscal note to be used by the Legislature during the 2008 Legislative Session only.

We advise other readers of this 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 fiscal note as a whole. Distribution of or reliance on only parts of this fiscal note could result in its misuse, and may mislead others.

EXECUTIVE SUMMARY

This bill will authorize the Higher Education Coordinating Board (HECB) to offer participation in higher education retirement plans to any or all of its employees, unless the employees are retirees of state-administered plans.

Increase in Actuarial Liabilities			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits	$32,689	($2)	$32,687
Unfunded Actuarial Accrued Liability	3,196	0	3,196
Unfunded Liability (PVCPB)	$1,412	($1)	$1,411

Note: Totals may not agree due to rounding.

Total Increase in Contribution Rates	
Current Biennium	**PERS**
Employee (Plan 2)	0.00%
Employer	0.00%

Fiscal Costs			
(Dollars in Millions)	**2008-2009**	**2009-2011**	**25-Year**
General Fund-State	$0.0	$0.0	($0.3)
Total Employer	$0.0	($0.3)	($2.2)

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

CHANGE TO PENSION SYSTEM

Summary of Change

This bill will amend the higher education statutes to include the HECB as an entity authorized to offer higher education retirement plans to its employees, unless the employees are retirees of state-administered plans. This bill impacts potentially all plans of the Public Employees' Retirement System (PERS), but only the members of those plans who are HECB employees in positions chosen by HECB to be covered by a higher education retirement plan (HERP).

Effective Date: 90 days after session

Current Situation

Currently employees of the HECB are covered in PERS. The HECB is not currently authorized to offer higher education retirement benefits to its members, as only the following groups have this statutory authority: Board of Regents of the State Universities, Boards of Trustees of the Regional Universities, the Evergreen State College, and the State Board for Community and Technical Colleges (SBCTC). Typically, these groups define which of their employees are eligible to participate in the HERP. Once the eligible positions are determined, employees in those positions are mandated into the HERP; however, employees who have prior PERS service are typically offered the choice to remain in PERS. The SBCTC, another higher education agency, currently reports approximately 60 of its 94 employees in PERS and the rest are covered under a HERP known as the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF).

Members Impacted

We estimate this bill could affect 87 active members out of the total 155,027 active members of PERS Plans 1, 2, and 3. We assumed that 17 of these 87 employees will be eligible for a HERP.

We do not have any data to assess the value of benefits that will be provided by a HERP for the impacted members.

Additionally, this bill impacts all 118,341 Plan 2 members of this system through decreased contribution rates.

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

WHY THIS CHANGE HAS A COST AND WHO IS IMPACTED BY THE COST

Why this Bill Has a Cost

If this bill is passed, it could result in a loss of PERS members to the extent that HECB employees who are currently covered in PERS plans are offered the choice to either remain in PERS or to participate in a higher education retirement plan (HERP). In addition, the plans are impacted to the extent that future employees who would have otherwise been covered in PERS could be covered by a HERP. The HECB would determine the scope of the offering.

If the 17 highest paid HECB employees leave the PERS system, the PERS Plans will see a small loss of actuarial liabilities for future service credits since these members will not continue to accrue service under PERS and will not have their future salary increases used in the calculation of their final benefits.

Who is Impacted by the Cost

There is a small impact on Plan 2 employee contribution rates and all PERS employer contribution rates due to the loss of liabilities and loss of future contributions of the HECB employees.

There will also be a small loss of future contributions being made to the Plan 1 UAAL by the HECB employer on behalf of these 17 employees.

HOW WE VALUED THESE COSTS

Change in Methods

To calculate the cost of this bill, we determined the impact on the PERS Plans if the 17 highest paid current HECB employees terminated their PERS membership to join a HERP. The PERS Plans would be impacted by a loss of liabilities for future service credit and a loss of future contributions associated with these employees.

We calculated the Present Value of Future Benefits (PVFB), the Present Value of Accrued Benefits (PVAB), and the total savings fund (SF) for the 17 highest paid current HECB members. The PVFB is calculated for all 17 employees while the PVAB is calculated for the vested employees and the SF is calculated for the non-vested employees. The difference between these numbers (PVFB - PVAB - SF) represents the decrease in liabilities for future service.

In order to determine the impact due to the loss of future contributions, we calculated the Present Value of Future Salaries (PVFS) for the 17 HECB employees. We reduced the total PERS Plan PVFS by this amount. The resulting PVFS is used, as appropriate by Plan, to determine contributions for the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) and any impact on contribution rates for Plan 2 members and all PERS employers.

Otherwise, we developed these costs using the same methods as disclosed in the September 30, 2006 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.

Assumptions Made

The HECB expects 10 – 20 of their employees will be eligible for a HERP but they have requested authority to offer this to all employees. Since we did not have any data as to which employees will be eligible for the HERP and what level of benefits will be provided under the HERP, we assumed the highest paid 17 employees/positions would leave the PERS Plan and join a HERP.

We sorted the HECB active employee data by salary and found a reasonable break in salaries at $70,000. This provided us with 17 employees above $70,000 followed by a large group of employees in the $65,000 - $69,000 range.

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

Data Used

Using the most recent valuation data file we were able to isolate the 87 HECB active members in the PERS Plans based on their department codes. This allowed us to review the data and select a reasonable group that we expect would be offered a HERP. We selected the 17 highest paid employees and produced a new database with those employees to process through our valuation software. Processing these members separately allowed us to determine their values in order to compare them to the whole of the PERS active population, which includes all HECB members, as valued in the last AVR.

Otherwise, we developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

Liability Changes

This bill will impact the actuarial funding of the PERS Plans by decreasing the present value of future benefits payable under the systems, and decreasing the required actuarial contribution rate as shown below.

(Dollars in Millions)	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$13,723	$0	$13,723
PERS 2/3	18,966	(2)	18,964
PERS Total	**$32,689**	**($2)**	**$32,687**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	**$3,196**	**$0**	**$3,196**
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 1	$3,750	$0	$3,750
PERS 2/3	(2,338)	(1)	(2,339)
PERS Total	**$1,412**	**($1)**	**$1,411**

Note: Totals may not agree due to rounding.

Contribution Rate Changes

The decrease in the required actuarial contribution rate does not round-up to the minimum supplemental contribution rate of 0.01%, therefore, the bill will not affect contribution rates in the current biennium. However, we will use the un-rounded rate decrease to measure the fiscal budget changes in future biennia.

Increase in Contribution Rates: (Effective 9/1/2008)				
System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**
Current Members				
Employee (Plan 2)	(0.001%)	0.000%	0.000%	0.000%
Employer	(0.003%)	0.000%	0.000%	0.000%
New Entrants*				
Employee (Plan 2)	0.000%	0.000%	0.000%	0.000%
Employer	0.000%	0.000%	0.000%	0.000%

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

Fiscal Budget Changes

Fiscal Costs					
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
2008-2009					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0	0.0
Total Employer	0.0	0.0	0.0	0.0	0.0
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0
2009-2011					
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	(0.1)	0.0	0.0	0.0	(0.1)
Total State	(0.1)	0.0	0.0	0.0	(0.1)
Local Government	(0.2)	0.0	0.0	0.0	(0.2)
Total Employer	(0.3)	0.0	0.0	0.0	(0.3)
Total Employee	($0.1)	$0.0	$0.0	$0.0	($0.1)
2008-2033					
General Fund	($0.3)	$0.0	$0.0	$0.0	($0.3)
Non-General Fund	(0.6)	0.0	0.0	0.0	(0.6)
Total State	(0.9)	0.0	0.0	0.0	(0.9)
Local Government	(1.4)	0.0	0.1	0.0	(1.3)
Total Employer	(2.3)	0.0	0.1	0.0	(2.2)
Total Employee	($1.1)	$0.0	$0.0	$0.0	($1.1)

Note: Totals may not agree due to rounding.

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

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

SENSITIVITY ANALYSIS

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

We assumed the 17 highest paid employees would move out of the PERS Plans and into a HERP. The decision to leave PERS and join the HECB HERP will depend on the level of benefits provided under the HERP, which are not defined under this bill. The decision may also be affected if the employee plans to participate in post-retirement employment since they are restricted from earning any HERP benefits while receiving a retirement allowance from a state-administered retirement plan. If a smaller number of employees actually leave the PERS Plans, the cost savings would be less than outlined in this fiscal note.

If more HECB employees leave the system than assumed, we would see a higher cost savings to the Plans. If the HECB offered a HERP to all of its employees and all 87 employees left the PERS Plans, the impact would be a decrease in liabilities of $6.5 million versus the $2.3 million under our assumptions.

There is a possibility that the HERP offering would be to a different number of employees or to a different salary range of employees versus what we have assumed. In addition, some employees that are offered the HERP may choose to remain in PERS. However, from a long term perspective, those positions that are selected by the HECB are likely to transition to non-PERS positions. In any case, we expect that the financial impact to the PERS Plans will be a cost savings with a magnitude that will not impact contribution rates in the next biennium.

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 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 fiscal note has been prepared for the Legislature during the 2008 Legislative Session.
6. This 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 fiscal note.

While this 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

GLOSSARY OF ACTUARIAL TERMS

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

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

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

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

- 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.

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

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

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

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

Individual State Agency Fiscal Note

Bill Number: 3025 HB	Title: Higher edu retirement	Agency: 124-Department of Retirement Systems

Part I: Estimates

☒ **No Fiscal Impact**

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Andrea Leigh	Phone: 360-902-0544	Date: 01/23/2008
Agency Preparation:	George Pickett	Phone: (360)664-7009	Date: 01/24/2008
Agency Approval:	Sandra J. Matheson	Phone: (360) 664-7312	Date: 01/24/2008
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 01/25/2008

Part II: Narrative Explanation

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

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

This bill provides eligible employees of the Higher Education Coordinating Board (HECB) the ability to participate in higher education retirement plans instead of the Public Employees' Retirement System (PERS).

This change would not have a fiscal impact on the Department of Retirement Systems.

II. B - Cash receipts Impact

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

No impact.

II. C - Expenditures

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

No impact.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

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

No impact.

Individual State Agency Fiscal Note

Bill Number: 3025 HB	**Title:** Higher edu retirement	**Agency:** 343-Higher Education Coordinating Board

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

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

Check applicable boxes and follow corresponding instructions:

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

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

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Andrea Leigh	Phone: 360-902-0544	Date: 01/23/2008
Agency Preparation:	Pam Mead	Phone: 360-753-7862	Date: 01/29/2008
Agency Approval:	Don Bennett	Phone: 360-753-7831	Date: 01/30/2008
OFM Review:	Marc Webster	Phone: 360-902-0650	Date: 01/30/2008

Part II: Narrative Explanation

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

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

HB 3025 amends RCW 28B.10.400 to authorize the Higher Education Coordinating Board to offer certain of its employees the option to participate in purchased annuity and retirement income plans. The legislation was introduced by request of the Select Committee on Pension Policy.

II. B - Cash receipts Impact

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

II. C - Expenditures

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

The proposed legislation puts the Higher Education Coordinating Board on better footing to attract, recruit and retain mid-career academic professionals to its staff. Experienced academic professionals working on HECB staff support the Board with quality research and analysis to inform higher education policy development. The Legislature, the Governor, and the broader higher education community all benefit from this expertise and advice in deliberations on public policy issues in higher education.

Higher education retirement plans, such as those provided by the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), are commonly offered by colleges and universities throughout the country. Faculty and other academic professionals are better able to prepare and save for retirement through such plans during their careers, even as they move from one state or institution to another. Under current law in Washington, higher education institutions and the State Board for Community and Technical Colleges are authorized to offer purchased annuity and retirement income plans.

Estimated fiscal impact for this bill is indeterminate, but less than $50,000 per year.

The HECB staff organization is authorized 98.9 FTE in FY 08. A small number (~10-12) of exempt positions in academic affairs, fiscal policy or administration could potentially be held by employees with previous participation in higher education retirement plans. Future participation is difficult to predict because each new employee in an eligible position will make an election based on his or her circumstances. Active PERS members with substantial years of service would likely decide to continue in that system. The intent of the legislation is to recruit and retain academic professionals, not to provide an alternate retirement plan for existing PERS members.

Preliminary discussions with SBCTC staff about plan administration issues, experience with tax code compliance, and the potential for an interagency agreement to avoid duplicative effort have occurred. HECB intends to contract for plan administration services to minimize administrative expenses associated with offering a higher education retirement plan.

Cost assumptions:

Assume ten (10) employees with average annual salary of $80,000 choose to participate in a higher education retirement plan. Employee contributions range from 5-10%, usually based on the age of the employee. Employer contributions to a higher education retirement plan would exceed rates for PERS in the case of some employees. For each of the employees assumed who sign up for 10% contributions, the HECB match would be $8000 per employee compared to $4896 for PERS

– a difference of $3104 per year per employee. Total cost to HECB would be just over $30,000 if all ten employees were participating at the maximum contribution level.

Administrative costs are estimated at $1000 per year per employee for an additional $10,000 if all ten employees participate.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

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

Z-0930.3

HOUSE BILL 3025

State of Washington 60th Legislature 2008 Regular Session

By Representatives Fromhold, Conway, Crouse, Hurst, and Kenney; by request of Select Committee on Pension Policy

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

AN ACT Relating to higher education employees' annuities and retirement income plans; and amending RCW 28B.10.400.

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

Sec. 1. RCW 28B.10.400 and 1979 ex.s. c 259 s 1 are each amended to read as follows:

The boards of regents of the state universities, the boards of trustees of the regional universities and of The Evergreen State College, and the state board for community and technical colleges ((~~education~~)) are authorized and empowered:

(1) To assist the faculties and such other employees as any such board may designate in the purchase of old age annuities or retirement income plans under such rules ((~~and regulations~~)) as any such board may prescribe. County agricultural agents, home demonstration agents, 4-H club agents, and assistant county agricultural agents paid jointly by the Washington State University and the several counties shall be deemed to be full time employees of the Washington State University for the purposes hereof;

(2) To provide, under such rules and regulations as any such board may prescribe for the faculty members or other employees under its

supervision, for the retirement of any such faculty member or other employee on account of age or condition of health, retirement on account of age to be not earlier than the sixty-fifth birthday: PROVIDED, That such faculty member or such other employee may elect to retire at the earliest age specified for retirement by federal social security law: PROVIDED FURTHER, That any supplemental payment authorized by subsection (3) of this section and paid as a result of retirement earlier than age sixty-five shall be at an actuarially reduced rate;

(3) To pay to any such retired person or to his or her designated beneficiary(s), each year after his or her retirement, a supplemental amount which, when added to the amount of such annuity or retirement income plan, or retirement income benefit pursuant to RCW 28B.10.415, received by ((~~him or his~~)) the retired person or the retired person's designated beneficiary(s) in such year, will not exceed fifty percent of the average annual salary paid to such retired person for his or her highest two consecutive years of full time service under an annuity or retirement income plan established pursuant to subsection (1) of this section at an institution of higher education: PROVIDED, HOWEVER, That if such retired person prior to ((~~his~~)) retirement elected a supplemental payment survivors option, any such supplemental payments to such retired person or ((~~his~~)) the retired person's designated beneficiary(s) shall be at actuarially reduced rates: PROVIDED FURTHER, That if a faculty member or other employee of an institution of higher education who is a participant in a retirement plan authorized by this section dies, or has died before retirement but after becoming eligible for retirement on account of age, the designated beneficiary(s) shall be entitled to receive the supplemental payment authorized by this subsection ((~~(3) of this section~~)) to which such designated beneficiary(s) would have been entitled had said deceased faculty member or other employee retired on the date of death after electing a supplemental payment survivors option: PROVIDED FURTHER, That for the purpose of this subsection, the designated beneficiary(s) shall be (a) the surviving spouse of the retiree; or, (b) with the written consent of such spouse, if any, such other person or persons as shall have an insurable interest in the retiree's life and shall have been nominated by written designation duly executed and filed with the retiree's institution of higher education;

(4) The higher education coordinating board is also authorized and empowered as described in this section, subject to the following: The board is prohibited from offering or funding a purchased annuity or retirement income plan authorized under this section for the benefit of any retiree who is receiving or accruing a retirement allowance from a public employee retirement system under Title 41 or chapter 43.43 RCW.

--- END ---

Bill Grinstein
Chair

Ann Daley
Executive Director

STATE OF WASHINGTON
HIGHER EDUCATION COORDINATING BOARD

917 Lakeridge Way SW • PO Box 43430 • Olympia, WA 98504-3430 •(360) 753-7800 • FAX (360) 753-7808 • www.hecb.wa.gov

May 12, 2008

TO: Members, Select Committee on Pension Policy

FROM: Don Bennett, Deputy Director Don Bennett
Higher Education Coordinating Board

SUBJECT: Purchased annuity and retirement income plans

In 2008, the Select Committee on Pension Policy sponsored legislation (HB 3025/SB 6647) authorizing the Higher Education Coordinating Board (HECB) to offer certain of its employees the option to participate in purchased annuity and retirement income plans. HECB hopes the committee will consider sponsoring this legislation again in 2009, as neither version was passed by the Senate Ways & Means committee.

HECB is the only higher education agency (college, university, or related board) in the state of Washington that does not have the authority to offer its employees a purchased annuity and retirement income plan, also known as a higher education retirement plan. One of the most widely available plans in higher education is provided by the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF).

When employees with teaching and administrative experience at colleges, universities, or the State Board for Community and Technical Colleges (SBCTC) join the HECB staff during their careers, important institutional and system perspective is added to our work advising the Legislature and Governor on higher education policy, research, and finance issues.

HECB also recruits experienced, qualified employees from colleges and universities throughout the nation and from other State Higher Education Executive Offices (SHEEOs).

HECB is at a competitive disadvantage to attract, recruit and hire candidates who have higher education experience for key positions without the ability to offer continuation of current higher education retirement plans.