Select Committee on Pension Policy

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

Regular Committee Meeting

September 16, 2008
9:00 a.m. –12:00 p.m.*
Senate Hearing Rooms 3 /4
Olympia

AGENDA

Senate Hearing Room 3

9:00 – 9:50 a.m. **Pensions 102 – Educational Briefing (Optional)**

Senate Hearing Room 4

10:00 a.m. **(1) Approval of Minutes**

10:05 a.m. **(2) Election of Retiree Representative to Executive Committee**

10:10 a.m. **(3) Proposed 2009-11 OSA Budget** – Matt Smith, State Actuary

Work Session

10:25 a.m. **(4) Fish and Wildlife Service Credit Transfer** – Dave Nelsen, Senior Policy Analyst

10:50 a.m. **(5) Interruptive Military Service Credit** – Laura Harper, Policy and Research Services Manager

11:20 a.m. **(6) Plan 1 COLA Proposals** – Darren Painter, Policy Analyst

Public Hearing with Possible Executive Session

11:50 a.m. **(7) SCPP Recommended Legislation to Lower General Salary Increase Assumption** - Laura Harper

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

*These times are estimates and are subject to change depending on the needs of the Committee.
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(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

JANUARY

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Select Committee on Pension Policy

2008 Meeting Dates

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

Reserved Subgroup Dates

SHR4
2:00 - 4:00pm - Mondays
January . *none scheduled*
February . *none scheduled*
March . *none scheduled*
April 14, 2008 . *none scheduled*
May 12, 2008 . *none scheduled*
June 16, 2008 . *none scheduled*
7/14/2008 . *none scheduled*
8/11/2008 . *canceled*
9/15/2008 . *none scheduled*
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. <u>Expenses</u>. Legislators' travel expenses shall be paid by the member's legislative body; state employees' expenses shall be paid by their employing agency; other SCPP members' travel expenses shall be reimbursed by the Office of the State Actuary in accordance with RCW 43.03.050 and 43.03.060.

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

Effective Date June 19, 2007.

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

Chair - Representative

Vice Chair - Senator

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1. Approval of Minutes

Select Committee on Pension Policy

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

REGULAR COMMITTEE MEETING
July 15, 2008
DRAFT MINUTES

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

Committee members attending:

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

Senator Schoesler, Chair, called the meeting to order at 9:35 a.m.

(1) Approval of Minutes

It was moved to approve the June 17, 2008, Full Committee Draft Minutes. Seconded.

MOTION CARRIED

(2) Election of Retiree Representative to Executive Committee

This issue was postponed until the September 16, 2008 meeting.

(3) LEOFF 2 Board Coordination

Steve Nelsen, Executive Director, LEOFF Plan 2 Retirement Board, reviewed the Board's letter dated June 30, 2008, prioritizing the topics for coordination with the SCPP during the 2008 interim. Steve Nelsen answered members' questions during the presentation.

No action taken.

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Fax: (360) 586-8135
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(4) June 20, 2008 Revenue Forecast

Matt Smith, State Actuary, presented a report from the Washington Economic and Revenue Forecast Council and reported on the Senate Ways and Means Six-Year Outlook.

Two members asked staff to follow up on questions about the report.

No action taken.

(5) Pension Funding Council (PFC) Audit Report

Matt Smith, State Actuary, presented a report on the actuarial audits of the Preliminary Experience Study and Actuarial Valuation Report. Staff answered members' questions during the presentation.

No action taken.

(6) Final SCPP Recommendation to PFC

Laura Harper, Policy and Research Services Manager, reported on the SCPP Recommendation to the Pension Funding Council, and explained the 2009-11 Pension Contribution Rates letter to the Pension Funding Council. She also reviewed the Executive Committee's recommendation on this issue. *(See item (A) in the July 15, 2008, Executive Committee minutes.)*

Staff answered members' questions immediately following the presentation. One member asked staff to follow up on questions about the pension stabilization account.

It was moved to recommend that the Pension Funding Council adopt the State Actuary's recommended contribution rates for the 2009-2011 biennium with projected mortality improvements, using the general salary increase assumption of 4.25 percent and further, that the SCPP recommend legislation for 2009 that reduces the salary growth assumption in RCW 41.45.035 (b) from 4.50 to 4.25 percent. Seconded.

MOTION CARRIED

(7) Military Death Benefits

Dave Nelsen, Senior Policy Analyst, presented a report on Military Death Benefits.

It was moved that the Military Death Benefits proposal be recommended to the 2009 Legislature. Seconded.

MOTION CARRIED

The meeting adjourned at 12:20 p.m.

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

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2. Election of Retiree Representative to Executive Committee

Election of Retiree Representative to Executive Committee

Statute requires the SCPP to form a six-member executive committee. The executive committee shall include the Chair, the Vice Chair, one member representative, one retiree representative, one employer representative, and the Director of the Department of Retirement Systems. RCW 41.04.276(4).

Current members of the Executive Committee are:

- Senator Mark Schoesler, Chair.
- Representative Steve Conway, Vice Chair.
- David Westberg, *SERS Actives*.*
- **Position Vacant: *Retiree Representative.****
- Corky Mattingly, *PERS Employers*.*
- Sandra Matheson, *DRS.*

** Elected by full committee.*

Current retiree representatives on SCPP:

- Lois Clement, *PERS Retirees.*
- Don Carlson, *TRS Retirees*.

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3. Proposed 2009-11 OSA Budget

September 16, 2008

TO: Select Committee on Pension Policy (SCPP) Members

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

SUBJECT: 2009-11 OSA BUDGET REQUEST

Enclosed please find a copy of the 2009-11 budget request for the Office of the State Actuary (OSA). SCPP Rule of Procedure 8(F) requires the State Actuary to submit the biennial budget request to the SCPP for approval. I plan to submit the agency budget request to the Office of Financial Management by no later than October 1, 2008.

The enclosed budget request includes the following items:

- Description of agency mission.
- Statutory authority.
- OSA organizational chart.
- 2009-11 budget documents.

The proposed 2009-11 budget represents an increase of $177,000 above the current 2007-09 biennial budget (5.0% increase). This increase is comprised of a $127,000 increase to the agency's maintenance level budget (see attached budget documents) and $50,000 to facilitate performance level changes (noted below).

The $50,000 increase to facilitate performance level changes includes funding to implement (1) Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) Retiree Medical Study, (2) Public Employee Benefits Board (PEBB) Other Post-Employment Benefits (OPEB) Tool for Local Government and (3) OPEB Valuation for University of Washington (UWMC) and Harborview Medical Centers. OSA will reimburse the budget for any funds provided for item (3) with receipts from an inter-agency agreement with UWMC. The Legislature's appropriation of funds for item (3) in advance authorizes the OSA to spend any funds received from the UWMC.

Funding Source

The Legislature provides funding for the agency's budget through the Department of Retirement Systems (DRS) Expense Fund. This fund is supported by an administrative expense rate that is collected by DRS from all retirement system employers. The current DRS administrative expense rate is 0.16 percent. OSA's proposed 2009-11 budget request will not impact this expense rate.

OSA receives additional revenue from the LEOFF 2 Retirement Board via an inter-agency agreement. The Legislature appropriates an amount equal to the agreement to authorize OSA's spending of the revenue on salary and benefit costs. The current 2007-09 agreement with the LEOFF 2 Retirement Board is $209,164. OSA will return this amount to the DRS Expense Fund at the end of the current biennium.

Performance Level Changes

LEOFF 1 Retiree Medical Study

OSA requests $25,000 to perform an on-going biennial actuarial study of local government liabilities for LEOFF 1 post-retirement medical benefits. If approved, OSA would also maintain and update the existing on-line tool for LEOFF 1 employers.

PEBB OPEB Tool for Local Government

OSA requests $5,000 to create, implement, and maintain an on-going on-line tool to assist local government employers who participate in the PEBB with their financial reporting for OPEB. OSA's current on-line tool is available to employers with less than 100 plan members. If approved, OSA would provide this tool to all local government employers.

OPEB Valuations for UWMC and Harborview Medical Centers

OSA requests $20,000 to perform on-going OPEB valuations for Harborview and UWMC to assist with their financial reporting for OPEB. OSA will reimburse the Expense Fund for any funds provided for this request with receipts from an inter-agency agreement with UWMC.

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AGENCY MISSION

> The Office of the State Actuary promotes the security of Washington State public employees' retirement benefits by providing expert, accurate, and objective actuarial and policy analysis in a cost-effective and timely manner.

The Office of the State Actuary is an agency within the Legislative Branch, functioning on two levels:

(1) The first functional level is that of actuary. This function requires specific professional and technical qualifications to apply the mathematical procedures utilized in the data analysis and recommendations necessary for valuations and periodic experience studies.

Valuations determine the fiscal status of a retirement system in order to know the funding required. They are prepared annually on each of the seven retirement systems funded by the state and administered by the Department of Retirement Systems.

Experience studies determine the validity of assumptions used for valuations and the adequacy of the funding system being utilized. These are prepared on six-year cycles.

The Office provides an advisory and consulting role to the Legislature, Office of the Governor, Department of Retirement Systems and State Investment Board.

(2) The second functional level is that of staff support to the Select Committee on Pension Policy. This function mirrors the activity performed by other legislative committees. That is, it researches issues or subject areas at the direction of the Select Committee, provides verbal and written testimony on its research findings, and prepares and/or evaluates proposed legislation.

STATUTORY AUTHORITY

The powers and duties of the Office of State Actuary specified in RCW 44.44.040 are:

The office of the state actuary shall have the following powers and duties:

(1) Perform all actuarial services for the department of retirement systems, including all studies required by law.

(2) Advise the legislature and the governor regarding pension benefit provisions, and funding policies and investment policies of the state investment board.

(3) Consult with the legislature and the governor concerning determination of actuarial assumptions used by the department of retirement systems.

(4) Prepare a report, to be known as the actuarial fiscal note, on each pension bill introduced in the legislature which briefly explains the financial impact of the bill. The actuarial fiscal note shall include: (a) The statutorily required contribution for the biennium and the following twenty-five years; (b) the biennial cost of the increased benefits if these exceed the required contribution; and (c) any change in the present value of the unfunded accrued benefits. An actuarial fiscal note shall also be prepared for all amendments which are offered in committee or on the floor of the house of representatives or the senate to any pension bill. However, a majority of the members present may suspend the requirement for an actuarial fiscal note for amendments offered on the floor of the house of representatives or the senate.

(5) Provide such actuarial services to the legislature as may be requested from time to time.

(6) Provide staff and assistance to the committee established under RCW 41.04.276.

(7) Provide actuarial assistance to the law enforcement officers' and fire fighters' plan 2 retirement board as provided in chapter 2, Laws of 2003. Reimbursement for services shall be made to the state actuary under RCW 39.34.130 and section 5(5), chapter 2, Laws of 2003.

[2003 c 295 § 4; 2003 c 92 § 2; 1987 c 25 § 3; 1986 c 317 § 6; 1975-'76 2nd ex.s. c 105 § 22.]

The Select Committee on Pension Policy was established by Chapter 295, Laws of 2003, and codified in RCW 41.04.276, .278, and .281. These statutes state:

RCW 41.04.276

(1) The select committee on pension policy is created. The select committee consists of:

(a) Four members of the senate appointed by the president of the senate, two of whom are members of the majority party and two of whom are members of the minority party. At least three of the appointees shall be members of the senate ways and means committee;

(b) Four members of the house of representatives appointed by the speaker, two of whom are members of the majority party and two of whom are members of the minority party. At least three of the appointees shall be members of the house of representatives appropriations committee;

(c) Four active members or representatives from organizations of active members of the state retirement systems appointed by the governor for staggered three-year terms, with no more than two appointees representing any one employee retirement system;

(d) Two retired members or representatives of retired members' organizations of the state retirement systems appointed by the governor for staggered three-year terms, with no two members from the same system;

(e) Four employer representatives of members of the state retirement systems appointed by the governor for staggered three-year terms; and

(f) The directors of the department of retirement systems and office of financial management.

(2) (a) The term of office of each member of the house of representatives or senate serving on the committee runs from the close of the session in which he or she is appointed until the close of the next regular session held in an odd-numbered year. If a successor is not appointed during a session, the member's term continues until the member is reappointed or a successor is appointed. The term of office for a committee member who is a member of the house of representatives or the senate who does not continue as a member of

the senate or house of representatives ceases upon the convening of the next session of the legislature during the odd-numbered year following the member's appointment, or upon the member's resignation, whichever is earlier. All vacancies of positions held by members of the legislature must be filled from the same political party and from the same house as the member whose seat was vacated.

(b) Following the terms of members and representatives appointed under subsection (1)(d) of this section, the retiree positions shall be rotated to ensure that each system has an opportunity to have a retiree representative on the committee.

(3) The committee shall elect a chairperson and a vice-chairperson. The chairperson shall be a member of the senate in even-numbered years and a member of the house of representatives in odd-numbered years and the vice-chairperson shall be a member of the house of representatives in even-numbered years and a member of the senate in odd-numbered years.

(4) The committee shall establish an executive committee of six members, including the chairperson, the vice-chairperson, one member from subsection (1)(c) of this section, one member from subsection (1)(d) of this section, one member from subsection (1)(e) of this section, and the director of the department of retirement systems.

(5) Nonlegislative members of the select committee serve without compensation, but shall be reimbursed for travel expenses under RCW 43.03.050 and 43.03.060.

(6) The office of state actuary under chapter 44.44 RCW shall provide staff and technical support to the committee.

[2005 c 24 § 1; 2003 c 295 § 1.]

RCW 41.04.278

(1) The select committee on pension policy may form three function-specific subcommittees, as set forth under subsection (2) of this section, from the members under RCW 41.04.276(1) (a) through (e), as follows:

(a) A public safety subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e);

(b) An education subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e); and

(c) A state and local government subcommittee, with one retiree member under RCW 41.04.276(1)(d) and two members from each group under RCW 41.04.276(1) (a) through (c) and (e).

The retiree members may serve on more than one subcommittee to ensure representation on each subcommittee.

(2) (a) The public safety subcommittee shall focus on pension issues affecting public safety employees who are members of the law enforcement officers' and fire fighters', public safety employees', and Washington state patrol retirement systems.

(b) The education subcommittee shall focus on pension issues affecting educational employees who are members of the public employees', teachers', and school employees' retirement systems.

(c) The state and local government subcommittee shall focus on pension issues affecting state and local government employees who are members of the public employees' retirement system.

[2006 c 309 § 4; 2003 c 295 § 2.]

RCW 41.04.281

The select committee on pension policy has the following powers and duties:

(1) Study pension issues, develop pension policies for public employees in state retirement systems, and make recommendations to the legislature;

(2) Study the financial condition of the state pension systems, develop funding policies, and make recommendations to the legislature;

(3) Consult with the chair and vice-chair on appointing members to the state actuary appointment committee upon the convening of the state actuary appointment committee established under RCW 44.44.013; and

(4) Receive the results of the actuarial audits of the actuarial valuations and experience studies administered by the pension funding council pursuant to RCW 41.45.110. The select committee on pension policy shall study and make recommendations on changes to assumptions or contribution rates to the pension funding council prior to adoption of changes under RCW 41.45.030, 41.45.035, or 41.45.060.

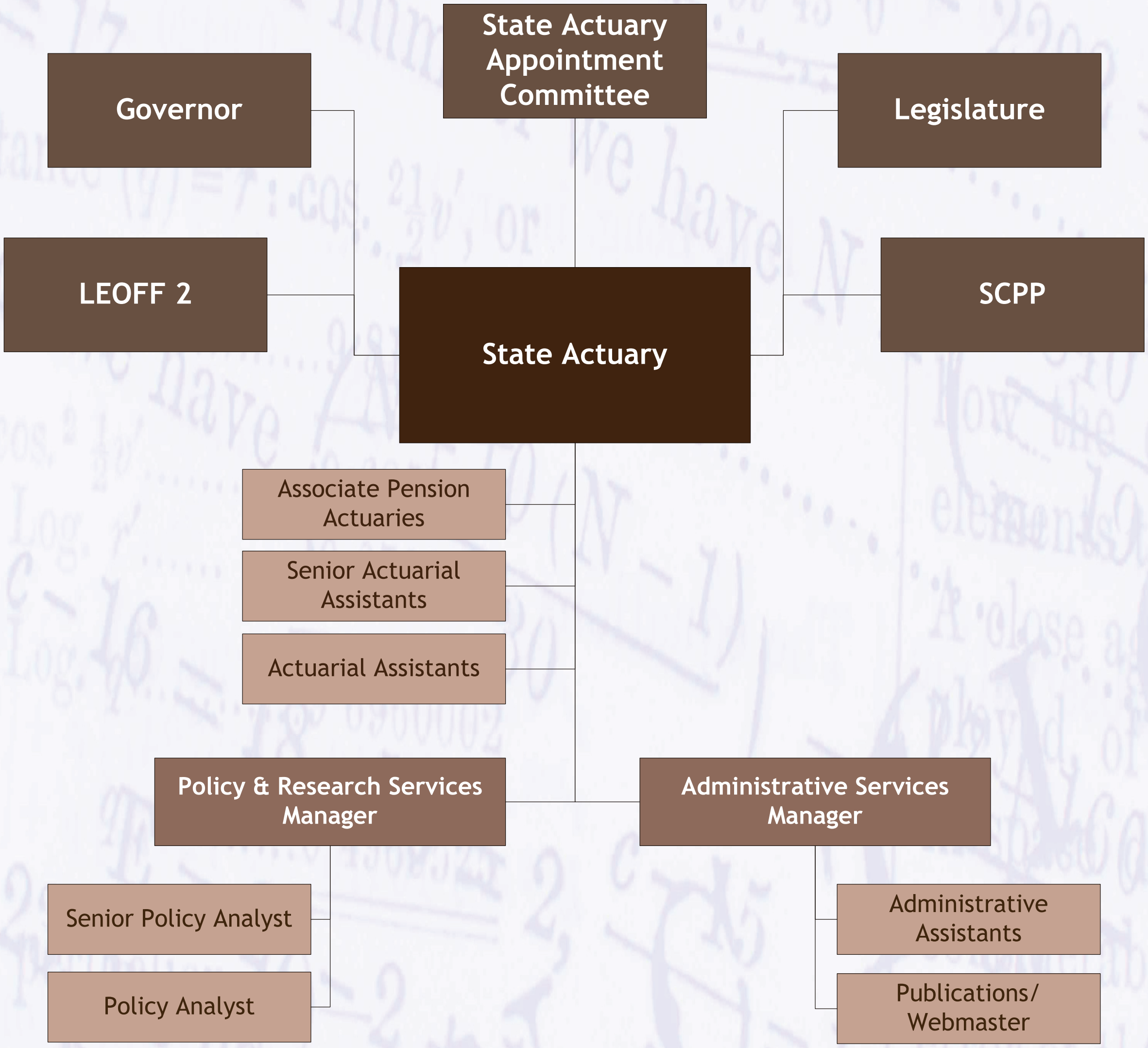
[2006 c 309 § 4; 2003 c 295 § 2.]

The present members of the Select Committee on Pension Policy are:

Representative Barbara Bailey
*Representative Steve Conway, Vice Chair
Representative Larry Crouse
Representative Bill Fromhold
Senator Steve Hobbs
Senator Janea Holmquist
Senator Ed Murray
*Senator Mark Schoesler , Chair
*Sandra J. Matheson, Director
Victor Moore, Director
Randy Davis, TRS Actives
Bob Keller, PERS Actives
J. Pat Thompson, PERS Actives
*David Westberg, SERS Actives
Charles Cuzzetto, TRS & SERS Employers
*Corky Mattingly, PERS Employers
Doug Miller, PERS Employers
Glenn Olson, PERS Employers
Don Carlson, TRS Retirees
Lois Clement, PERS Retirees

As of 9/4/08

**Member of the Executive Committee*


State Actuary Appointment Committee
Governor
Legislature
LEOFF 2
SCPP
State Actuary
Associate Pension Actuaries
Senior Actuarial Assistants
Actuarial Assistants
Policy & Research Services Manager
Administrative Services Manager
Senior Policy Analyst
Policy Analyst
Administrative Assistants
Publications/ Webmaster

035 - Office of State Actuary

A001 Actuarial Analysis for Retirement Benefits and Investments

The Office of the State Actuary performs actuarial services for the Department of Retirement Systems; advises the Legislature and Governor regarding pension benefits, funding policies, and investment policies for the state retirement systems' assets; consults with the Legislature and Governor concerning determination of actuarial assumptions; prepares reports on each pension bill introduced in the Legislature; and provides such actuarial services to the Legislature as may be required.

	FY 2010	FY 2011	Biennial Total
FTE's	12.5	12.5	12.5
GFS	$25,000	$25,000	$50,000
Other	$1,885,340	$1,757,691	$3,643,031
Total	$1,910,340	$1,782,691	$3,693,031

Statewide Result Area: **Strengthen government's ability to achieve results efficiently and effectively**

Expected Results

The professional service activities performed by the Office of the State Actuary provide state retirement system plan sponsors, participants, administrators, and other state retirement system stakeholders with complete, accurate, and objective fiscal and policy analysis. These professional service activities provide retirement system stakeholders with the actuarial and policy analysis required for the prudent governance of the state retirement systems.

Grand Total

	FY 2010	FY 2011	Biennial Total
FTE's	12.5	12.5	12.5
GFS	$25,000	$25,000	$50,000
Other	$1,885,340	$1,757,691	$3,643,031
Total	$1,910,340	$1,782,691	$3,693,031

State of Washington
Recommendation Summary

Agency: 035 Office of State Actuary

2:23:22PM
9/9/2008

Dollars in Thousands

	Annual Average FTEs	General Fund State	Other Funds	Total Funds
2007-09 Current Biennium Total	**12.5**	**25**	**3,491**	**3,516**
CL 01 Lease Rate Adjustment			20	20
CL 02 Merit Pay Increase			24	24
CL 03 Associate Pension Actuary			(7)	(7)
CL 04 LEOFF 1 Retiree Medical Study			(25)	(25)
CL 05 Contracted Actuarial Services		25		25
CL 62 Biennialize insurance rate			27	27
CL 63 Pension Rate Biennialization			23	23
CL 64 Biennialize 0709 Salary Adjustments			27	27
Total Carry Forward Level	**12.5**	**50**	**3,580**	**3,630**
Percent Change from Current Biennium		100.0%	2.5%	3.2%
M1 9X Self Insurance Premium				
Carry Forward plus Workload Changes	**12.5**	**50**	**3,580**	**3,630**
Percent Change from Current Biennium		100.0%	2.5%	3.2%
M2 98 General Inflation (OFM only)			7	7
M2 AA Merit Pay Increases			6	6
Total Maintenance Level	**12.5**	**50**	**3,593**	**3,643**
Percent Change from Current Biennium		100.0%	2.9%	3.6%
PL BA LEOFF 1 Retiree Medical Study			25	25
PL BB PEBB OPEB Tool for Local Government			5	5
PL BC OPEB Valuations for UW Medical Centers			20	20
Subtotal - Performance Level Changes	**0.0**		**50**	**50**
2009-11 Total Proposed Budget	**12.5**	**50**	**3,643**	**3,693**
Percent Change from Current Biennium		100.0%	4.4%	5.0%

M1 9X Self Insurance Premium

In response to the Governor's Risk Management Executive Order 01-05 and the Risk Management Task Force's recommendation we are submitting this decision package to comply with the new Self-Insurance Premiums.

M2 98 General Inflation (OFM only)

Request funding for Implicit Price Deflator (IPD) per OFM memo dated August 27, 2008.

M2 AA Merit Pay Increases

The State Actuary requests funding for merit pay increases of 2.5% per year, per employee, consistent with legislative policy and procedures.

PL BA LEOFF 1 Retiree Medical Study

The State Actuary requests funding to perform an on-onging biennial actuarial study of local government liabilities for Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) post-retirement medical benefits.

PL BB PEBB OPEB Tool for Local Government

The State Actuary requests funding to create, implement, and maintain an on-ongoing tool to assist local government employers who participate in the Public Employee Benefits Board (PEBB) with their financial reporting for Other Post-Employment Benefits (OPEB).

PL BC OPEB Valuations for UW Medical Centers

The State Actuary requests funding to perform on-going valuations to assist University of Washington Medical Centers (Harborview and UWMC) with their financial reporting for Other Post-Employment Benefits (OPEB).

State of Washington

Agency Budget Request Decision Package Summary

(Lists only the agency Performance Level budget decision packages, in priority order)

Agency: **035 Office of State Actuary**

9/4/2008
12:57:48PM

Budget Period: **2009-11**

Decision Package Code	Decision Package Title
PL-BA	LEOFF 1 Retiree Medical Study
PL-BB	PEBB OPEB Tool for Local Government
PL-BC	OPEB Valuation for UW Medical Center

State of Washington
Decision Package

Agency: **035 Office of State Actuary**

Decision Package Code/Title: **9X Self Insurance Premiums**

Budget Period: **2009-11**
Budget Level: **M 1 – Mandatory Caseload and Enrollment Changes**

Recommendation Summary Text:

In response to the Governor's Risk Management Executive Order 01-05 and the Risk Management Task Force's recommendation we are submitting this decision package to comply with the new Self-Insurance Premiums.

Fiscal Detail

Operating Expenditures		FY 2010	FY 2011	Total
600-1	Dept of Retirement Systems Expense-State	0	0	0
	Total Cost	**0**	**0**	**0**

Package Description:

1. Self-Insurance Premium
Premium Allocation Formula - Background Information
An actuary retained by the Risk Management Division of OFM estimates the outstanding tort liability annually. The expected costs of the general liability and automobile liability programs for are allocated across all agencies participating in the Self-Insurance Tort Liability Program. The allocation of the total costs to general liability and automobile liability is based on the distribution of historical losses between the two programs.

The allocation formula used for the 2007-09 biennium is different from the formula used for the 2009-11 biennium. A new allocation formula in used in the 2009-11 biennium places additional emphasis on claims experience for each agency and eliminates other evaluation criteria such as FTEs. This formula may result in an agency's allocation premium increasing from the premium in past biennia. Increased allocation premium may not indicate that an agency's actual tort claims experience has developed adversely. Some agencies will experience a significant increase or decrease in premium as a result of this change. The Office of the State Actuary premium did not change

2. Past Agency Loss Trends
There have been zero claims for this office. We will continue to monitor types of losses experienced by other agencies of similar size to pinpoint areas of potential loss for our agency.

3. Future Agency Loss Trends
While the agency has not experienced any losses in the past, an effective loss prevention program is consistent with the Office goal to provide an ongoing review and assessment of potential risks to prevent or mitigate any loss in the future.

4. Risk Management Goals and Measure/Recap
During the 07-09 biennium the agency experienced zero claims and no losses. The following are the goals for the agency in the 09-11 biennium:
Goal 1 - Maintain zero claims against the agency. Performance measure:

- Number of claims against agency.

Goal 2 – Continue current employee training in diversity, hiring, discipline and employee development. Performance measure:

- Percent of staff receiving training.

5. Risk Management Executive Order Recap
The Office of the State Actuary risk management goals include maintaining our zero loss history. Keeping known risks minimized and being prepared to avoid any disruption to business to maintain customer satisfaction is also essential.

6. Key Risk Analysis
The agency maintains a commitment for ongoing policy review. The Office of the State Actuary has an annual review cycle in which policies are reviewed and updated as needed. To date the agency has had no claims experience but tries to keep abreast of tort issues in other agencies of a similar size and with similar functions as well as on a statewide basis.

7. Risk Management Goals and Measures Planned
A goal of the Office of the State Actuary is to maintain a record of zero incidents and tort claims against the agency, resulting in the lowest self-insurance costs available. The agency intends to keep management focused on areas of our operations that could contribute to loss and are inconsistent with our goal to be a well-managed agency.

For additional information or questions please contact Matt Smith at 360.786.6140 or smith.matt@leg.wa.gov

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity: **Incremental Changes**

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this decision package provide essential support to one of the Governor's priorities?

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

What are the other important connections or impacts related to this proposal?

What alternatives were explored by the agency, and why was this alternative chosen?

There are no other alternatives to paying the self-insurance premium that would be more cost effective.

What are the consequences of not funding this package?

No additional funding is needed.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Expenditure data provided by OFM Risk Management Division.

Previous FY 05-07 Biennial Total	***Current*** FY 07-09 Biennial Total	***Upcoming*** FY 2009-11 **Projected**	***Incremental*** Increase/Decrease FY 07-09
$2,000	$2,000	$2,000	$0 Increase

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

The premium charge is an ongoing cost and will carry to future biennia.

Object Detail		FY 2010	FY 2011	Total
E	Goods And Services	0	0	0

State of Washington

Decision Package

Agency: **035 Office of State Actuary**

Decision Package Code/Title: **98 General Inflation (OFM only)**

Budget Period: **2009-11**
Budget Level: **M2 - Inflation and Other Rate Changes**

Recommendation Summary Text:

Request funding for Implicit Price Deflator (IPD) per OFM memo dated August 27, 2008.

Fiscal Detail

Operating Expenditures		FY 2010	FY 2011	Total
600-1	Dept of Retirement Systems Expense-State	3,340	3,691	7,031
	Total Cost	**3,340**	**3,691**	**7,031**

Package Description:

Actuarial Analysis for Pensions and Investments - Request funding for inflation per OFM IPD inflation factors.

For additional information or questions please contact Matt Smith at 360.786.6140 or smith.matt@leg.wa.gov

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this decision package provide essential support to one of the Governor's priorities?

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

What are the other important connections or impacts related to this proposal?

What alternatives were explored by the agency, and why was this alternative chosen?

None.

What are the consequences of not funding this package?

Cost would be absorbed by agency, reducing funds available to continue current activities.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Increase for Goods & Services and Travel. Amounts based on OFM calculation.

OFM's methodology is to use actual expenditures for 2008 as the base, excluding certain objects and sub objects (salaries, benefits, travel costs set by state policy, revolving fund charges, equipment and personal service contracts, etc.) and applying the latest fiscal year Implicit Price Deflator (IPD) inflation estimates generated by the Washington State Economic and Revenue Forecast Council on June 2008 Forecast, to generate inflation estimates for fiscal years 2010 and 2011.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

On-going cost.

Object Detail		FY 2010	FY 2011	Total
E	Goods And Services	3,340	3,691	7,031

State of Washington
Decision Package

Agency:	**035 Office of State Actuary**
Decision Package Code/Title:	**AA Merit Pay Increases**
Budget Period:	**2009-11**
Budget Level:	**M2 - Inflation and Other Rate Changes**

Recommendation Summary Text:

The State Actuary requests funding for merit pay increases of 2.5% per year, per employee, consistent with legislative policy and procedures.

Fiscal Detail

Operating Expenditures		**FY 2010**	**FY 2011**	**Total**
600-1	Dept of Retirement Systems Expense-State	3,000	3,000	6,000
	Total Cost	**3,000**	**3,000**	**6,000**

Package Description:

It is the long-term practice of the Legislative Branch to provide annual pay increases to staff based upon job performance so that we may keep knowlegeable staff. We have absorbed most of the cost of this budget item within existing funds. As a result, we will permanently reduce our available 2009-11 maintenance level budget by the on-going amount of the merit increases granted.

For additional information or questions please contact Matt Smith at 360.786.6140 or smith.matt@leg.wa.gov

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this decision package provide essential support to one of the Governor's priorities?

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

What are the other important connections or impacts related to this proposal?

What alternatives were explored by the agency, and why was this alternative chosen?

None.

What are the consequences of not funding this package?

We would absorb the full and on-going cost of this package and remove funding from other activities.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

We assume all employees will receive a 2.5% pay increase in fiscal years 2010 and 2011 based on job duties and performance. Once granted, employees will receive merit increases in their performance review month and beyond.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

On-going cost.

Object Detail		FY 2010	FY 2011	Total
A	Salaries And Wages	2,550	2,550	5,100
B	Employee Benefits	450	450	900
Total Objects		**3,000**	**3,000**	**6,000**

State of Washington
Decision Package

Agency:	**035**	**Office of State Actuary**
Decision Package Code/Title:	**BA**	**LEOFF 1 Retiree Medical Study**
Budget Period:	**2009-11**	
Budget Level:	**PL - Performance Level**	

Recommendation Summary Text:

The State Actuary requests funding to perform an on-onging biennial actuarial study of local government liabilities for Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) post-retirement medical benefits.

Fiscal Detail

Operating Expenditures		**FY 2010**	**FY 2011**	**Total**
600-1	Dept of Retirement Systems Expense-State	25,000		25,000
	Total Cost	**25,000**		**25,000**

Package Description:

The State Actuary requests funding to perform an on-going bienninal actuarial study of LEOFF Plan 1 post-retirement medical benefits. The Office of the State Actuary performed the last study in 2007. Under current law, employers are required to pay for the "necessary medical services" of their LEOFF 1 retirees - including the cost of long-term care. Recent accounting changes enacted by the Government Accounting Standards Board (GASB) now require local government employers that follow Generally Accepted Accounting Principles (GAAP) to disclose the cost of LEOFF 1 retiree medical benefits on their financial statements. The State Actuary proposes an on-going biennial study to update this liability on a state-wide basis and to provide an on-going tool for local government employers to estimate their individual GASB liability. The State Actuary requests an on-going biennial appropriation of $25,000 to offset the cost of performing the study including the cost to contract with an outside health care actuary for assumption-setting purposes.

For additional information or questions please contact Matt Smith at 360.786.6140 or smith.matt@leg.wa.gov

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this decision package provide essential support to one of the Governor's priorities?

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

What are the other important connections or impacts related to this proposal?

This request will not impact existing clients and services. The Office of the State Actuary (OSA) performed the last study on time, and on budget during 2007. The OSA also received positive feedback on both the report and the on-line GASB reporting tool.

What alternatives were explored by the agency, and why was this alternative chosen?

None. Actuaries must update actuarial analysis to provide accurate and relevant information.

What are the consequences of not funding this package?

OSA will not perform the study and will remove existing on-line tool from website. Local government employers would have to provide their own estimate for financial reporting or hire an outside actuary to perform the analysis.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

On-going biennial appropriation of $25,000.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

On-going biennial cost of $25,000

Object Detail		**FY 2010**	**FY 2011**	**Total**
C	Personal Service Contracts	25,000		25,000

State of Washington
Decision Package

Agency:	**035 Office of State Actuary**
Decision Package Code/Title:	**BB PEBB OPEB Tool for Local Government**
Budget Period:	**2009-11**
Budget Level:	**PL - Performance Level**

Recommendation Summary Text:

The State Actuary requests funding to create, implement, and maintain an on-ongoing tool to assist local government employers who participate in the Public Employee Benefits Board (PEBB) with their financial reporting for Other Post-Employment Benefits (OPEB).

Fiscal Detail

Operating Expenditures		FY 2010	FY 2011	Total
600-1	Dept of Retirement Systems Expense-State	5,000		5,000
	Total Cost	**5,000**		**5,000**

Package Description:

The State Actuary requests funding to create, implement, and maintain an on-ongoing tool to assist local government employers who participate in the Public Employee Benefits Board (PEBB) with their financial reporting for post-retirement medical and life insurance benefits. Recent accounting changes enacted by the Government Accounting Standards Board (GASB) now require local government employers that follow Generally Accepted Accounting Principles (GAAP) to disclose the cost of OPEB on their financial statements. GASB allows employers to estimate the cost of OPEB under an "alternative method" if employers have less than 100 plan members. GASB requires an actuarial valuation for employers with 100 or more plan members. The Office of the State Actuary (OSA) currently studies and reports OPEB costs and related GASB disclosures for PEBB on a state-wide basis. The OSA also currently provides an on-line tool to assist local government employers who participate in PEBB with less than 100 members with their financial reporting. The State Actuary requests an on-going biennial appropriation of $5,000 to offset the cost of creating, implementing, and maintaining an on-going tool to assist all local government employers who participate in PEBB.

For additional information or questions please contact Matt Smith at 360.786.6140 or smith.matt@leg.wa.gov

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this decision package provide essential support to one of the Governor's priorities?

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

What are the other important connections or impacts related to this proposal?

This request will not impact existing clients and services. The Office of the State Actuary (OSA) performed the last PEBB OPEB study, and implemented the on-line tool, on time and within current budget during 2007. The OSA also received positive feedback on both the report and the on-line GASB reporting tool.

What alternatives were explored by the agency, and why was this alternative chosen?

None. The Legislature has not authorized the OSA to provide theses services to local government employers.

What are the consequences of not funding this package?

OSA will not provide the on-line tool to employers with more than 100 members in PEBB. Local government employers who participate in PEBB with 100 or more plan members will continue to hire an outside actuary to perform the analysis

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

On-going biennial appropriation of $5,000.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

On-going biennial cost of $5,000

Object Detail		FY 2010	FY 2011	Total
A	Salaries And Wages	4,250		4,250
B	Employee Benefits	750		750
Total Objects		**5,000**		**5,000**

Agency: 035 Office of State Actuary

Decision Package Code/Title: BC OPEB Valuation for UW Medical Centers

Budget Period: 2009-11
Budget Level: PL - Performance Level

Recommendation Summary Text:

The State Actuary requests funding to perform on-going valuations to assist University of Washington Medical Centers (Harborview and UWMC) to assist with their financial reporting for Other Post-Employment Benefits (OPEB).

Fiscal Detail

Operating Expenditures		FY 2010	FY 2011	Total
600-1	Dept of Retirement Systems Expense-State	10,000	10,000	20,000
	Total Cost	**10,000**	**10,000**	**20,000**

Package Description:

The State Actuary requests funding to perform on-going valuations to assist University of Washington Medical Centers (Harborview and UWMC) to assist with their financial reporting for post-retirement medical and life insurance benefits. Recent accounting changes enacted by the Government Accounting Standards Board (GASB) now require government employers that follow Generally Accepted Accounting Principles (GAAP) to disclose the cost of OPEB on their financial statements. GASB requires an actuarial valuation for employers with 100 or more plan members. The Office of the State Actuary (OSA) currently studies and reports OPEB costs and related GASB disclosures for the Public Employee Benefits Board (PEBB) on a state-wide basis. The University of Washington Medical Centers grant retiree healthcare benefits through PEBB, so their costs are a subset of the state-wide results. The State Actuary requests an on-going biennial appropriation of $20,000 to authorize OSA's use of receipts from an inter-agency agreement with UWMC. A proposed biennial inter-agency agreement with UWMC of $20,000 would offset OSA's expenses for providing this new service.

For additional information or questions, please contact Matt Smith at 360.786.6140 or smith.matt@leg.wa.gov

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this decision package provide essential support to one of the Governor's priorities?

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

What are the other important connections or impacts related to this proposal?

The State Actuary recommends this on-going valuation in response to requests from University of Washington Medical Centers (Harborview and UWMC) who participate in PEBB and who currently hire outside actuaries to perform the analysis.

What alternatives were explored by the agency, and why was this alternative chosen?

OSA has worked with the Medical Centers to determine their needs and explain their options. The Medical Centers' only other options are to hire a private actuary or, if allowed by an auditor, to estimate UWMC's portion of the statewide costs by headcount.

What are the consequences of not funding this package?

OSA will not provide the study for University of Washington Medical Centers. The Medical Centers will have to find another way to fulfill the accounting requirement, likely hiring an actuary at 3 to 9 times the cost proposed in this decision package.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

On-going biennial appropriation of $20,000, offset by receipts from a biennial inter-agency agreement of $20,000.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

On-going biennial cost of $20,000, offset by receipts from a biennial inter-agency agreement of $20,000.

Object Detail		FY 2010	FY 2011	Total
A	Salaries And Wages	10,000	10,000	20,000

September 10, 2008

Ronald Hoene, Senior Financial Analyst
Thurston County Auditor
2000 Lakeridge Dr. SW
Olympia WA, 98502

Select Committee On Pension Policy
PO Box 40914
Olympia, WA 98504-0914

Subject: ***OSA Budget Request for Local Government OPEB Reporting Tool***

Thurston County is currently a participating member in PEBB. We currently have over 1,000 employees enrolled in PEBB in 2008.

The issuance of GASB Statement 45 required Thurston County to provide an actuarial review of our involvement in PEBB in 2008. The direct cost of this actuarial review was $10,000. We are also required to provide an independent actuarial review by a qualified actuary every two years to quantify and disclose our involvement in PEBB.

The above referenced budget request for a local government OPEB reporting tool will allow the County to use the State Wide study to quantify and report our involvement in PEBB. This will allow this County and other local governments to save those costs that would have been required to procure this service from an outside actuary at a minimal additional cost to the State.

The Thurston County Auditor's Office <u>strongly</u> <u>recommends</u> and urges the Select Committee On Pension Policy to approve the 2009-2011 OSA budget request for a local government OPEB reporting tool.

Please let me know if you have any questions or need additional information in support of this budget request. You can reach me any time at 786-5402 at extension 6646. I would like to also thank you for your time and consideration of this proposal.

4. Fish and Wildlife Service Credit Transfer

Fish & Wildlife Service Credit Transfer

Description of Issue

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

Previous bills introduced on this issue only authorized the transfer of prior PERS Plan 2 service to LEOFF Plan 2. The LEOFF Plan 2 Board has asked the Select Committee to consider also allowing prior PERS Plan 3 service to transfer to LEOFF Plan 2. Plan 3 service was not included in prior proposals due to possible concerns from the Internal Revenue Service (IRS). After the Department of Retirement Systems obtained further legal clarification, those concerns likely no longer remain. (See attached issue paper for more details.)

Recent Activity on This Issue

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

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

Other Materials Included

- Issue Paper
- HB 3023 from 2008 Session (does not include Plan 3 transfer language)
- Fiscal Note for HB 3023 (does not include cost of allowing Plan 3 transfer)

What is The Next Step?

Members will decide if the Fish and Wildlife Service Credit transfer bill should be recommended again for the next session, and whether it should also include prior PERS Plan 3 service. If so, staff would update the bill draft and fiscal note for 2009.

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Fish and Wildlife Service Credit Transfer

In Brief

ISSUE

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

MEMBER IMPACT

This proposal would impact an estimated 77 active members of LEOFF Plan 2 serving as a Fish and Wildlife Enforcement Officers with prior PERS Plan 2 or Plan 3 service. 68 officers have prior Plan 2 service, and 9 have prior Plan 3 service.

Dave Nelsen
Senior Policy Analyst
360.786.6144
nelsen.dave@leg.wa.gov

Current Situation

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

History

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

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

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

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

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

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

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

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

Examples

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

A Fish and Wildlife Enforcement officer had 10 years of prior PERS Plan 2 time as an enforcement officer, worked 15 years in LEOFF Plan 2, and now is retiring at age 53, with a Final Average Salary of $50,000 per year.

Example 1: Retiring as a Dual Member

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

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

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

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

Example 2: Retiring with all service in LEOFF

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

Policy Analysis

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

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

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

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

There are two key questions:

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

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

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

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

In each of the four above cases, the member's prior time in PERS was allowed to transfer into LEOFF. The only

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

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

Other Systems

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

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

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

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

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

Other States

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

Possible Options

The Committee has two primary options;

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

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

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

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

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

Funding the Transfer

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

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

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

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

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

New Consideration for this Interim

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

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

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

Why didn't the proposals include members with prior PERS Plan 3 service?

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

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

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

Should Prior PERS Plan 3 Service be allowed to transfer?

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

Conclusion

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

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

- A member payment of the difference in contributions between the systems, plus interest, and
- An employer payment sufficient to keep the L2 rates from ever increasing due to the transfer.

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

Bill

Attached is HB 3023, the jointly recommended proposal to the Legislature in the 2008 Legislative Session. This bill did not include the transfer of prior PERS Plan 3 service.

Fiscal Note

Attached is the corresponding multi-agency fiscal note to HB 3023. This fiscal note did not include the cost of transferring prior PERS Plan 3 service.

Stakeholder Input

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

Next Steps

The Executive Committee will provide further direction on this issue, including whether to bring a proposal back to the full committee and whether to include PERS Plan 3 members in the proposal.

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STATE OF WASHINGTON

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

May 12, 2008

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

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to thank you for the cooperative working relationship we have shared in the past and look forward to a similar partnership in the future.

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

Interruptive Military Service Credit

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

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

Inflationary Adjustment for $150,000 Death Benefit

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

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

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

<u>Military Service Death Benefit</u>

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

<u>Fish and Wildlife Enforcement Officer Service Credit Transfer</u>

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

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

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

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

Sincerely,

Kelly L Fox

Kelly Fox, Chair

cc: Matt Smith, State Actuary

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

June 30, 2008

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

Dear Honorable Members of the Select Committee on Pension Policy:

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

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

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

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

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

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

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

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

Thank you for your consideration and we look forward to working with you.

Sincerely,

Kelly L Fox

Kelly Fox, Chair

cc: Matt Smith, State Actuary

The Select Committee on Pension Policy

Fish and Wildlife Service Credit Transfer

Dave Nelsen, Senior Policy Analyst

September 16, 2008

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

The Issue Is…

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

How Did This Issue Get Here?

- Executive committee forwarded for a work session
- Request from LEOFF Plan 2 Board:
  - Jointly recommend transfer proposal to 2009 Legislature
  - Study whether to include PERS Plan 3 members in the transfer proposal

Background On The Issue

- Prior to 2002
  - Limited law enforcement authority
- 2002 Legislative session
  - Full law enforcement authority
  - Prohibited from LEOFF Plan 2 membership
- 2003 Legislative session
  - LEOFF Plan 2 members prospectively
    - No prior PERS service allowed to transfer
    - PERS Plan 1 stayed in PERS Plan 1

Has This Been Done Before?

- Four other transfer examples:
  - 1993 port and university police
  - 1996 university fire fighters
  - 2003 prior EMT service for current LEOFF 2 members
  - 2005 EMTs admitted into LEOFF

How Was Prior Service Addressed?

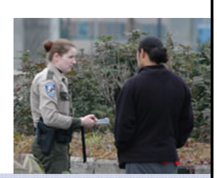
- In each of the four instances
  - Prior PERS time could be transferred to LEOFF 2
  - General costs of service transfer:
    - Member paid difference in rates plus interest
    - Employer paid the balance needed to cover the full actuarial cost

Legislative Background On F & W Proposal

- 2006 and 2007 Legislative sessions
  - LEOFF Plan 2 Board recommended legislation to allow prior PERS Plan 2 service transfer
  - Public hearing in House and Senate in 2006
  - No hearings in 2007
- Studied by SCPP in 2007 Interim
- 2008 Legislative session
  - SCPP and LEOFF Plan 2 Board jointly recommended legislation to allow prior PERS Plan 2 service transfer
  - Bill passed the Senate

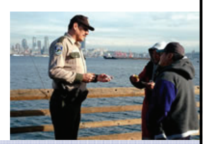
Policy Considerations Of Allowing Transfer

1. Maintain the policy of dual membership?
   - Still retain value under prior system's rules
   - Differences in normal retirement age
2. What about the nature of the prior service?
   - Is prior service equivalent to current plan service?
   - Should all prior time be eligible for transfer?
3. Who pays for increased cost?
   - Affected members?
   - Affected employer?
   - Everybody in plan?



Policy Choices In The 2008 Proposal

1. Maintain the policy of dual membership?
   - The transfer of prior service was allowed
2. What about the nature of the prior service?
   - Allowed transfer of all prior PERS Plan 2 enforcement officer service into LEOFF Plan 2
3. Who pays for increased cost?
   - Costs shared by both member and employer
     - Members- difference between PERS and LEOFF contribution rates plus interest
     - Dept. of Fish and Wildlife - pay the balance of the full actuarial cost

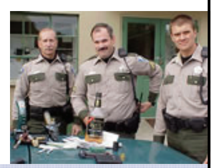


Why Weren't Plan 3 Members Included?

- Only issue was possibility that including them would cause Internal Revenue Service (IRS) concern
  - Plan 3 to Plan 2 transfer choice
- Department of Retirement Systems (DRS) has since clarified possible IRS concern with tax attorneys
  - Unlikely to cause IRS concern
    - Prior service transfer doesn't impact the member's future contribution rate amount
    - Transfer is between two different systems

Impacts Of Including Prior PERS Plan 3 Service

- Creates consistency with similarly situated PERS Plan 2 members
- Additional members in the proposal would increase cost to Department of Fish and Wildlife
- Administratively more complex to transfer than Plan 2 service, but can be done



Costs Impacts To Department Of F & W

- Department pays the balance of the full actuarial cost
- Total cost in fiscal note based on assumption of the number of officers who will transfer prior service
- Ranges of total cost provided
- Actual costs based on who will transfer

Next Steps For The Committee

- Issues to be decided
  - Whether or not to forward a proposal to the legislature
  - Whether or not to include prior PERS Plan 3 members
- If forwarded, staff will update bill language and fiscal note

Z-0766.1

HOUSE BILL 3023

State of Washington 60th Legislature 2008 Regular Session

By Representatives Crouse, Conway, Fromhold, VanDeWege, Hurst, Simpson, Kretz, and Linville; by request of Select Committee on Pension Policy and LEOFF Plan 2 Retirement Board

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

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

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

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

(1) A member of plan 2 who was a member of the public employees' retirement system plan 2 while employed as an enforcement officer for the department of fish and wildlife has the option to make an election no later than June 30, 2013, filed in writing with the department of retirement systems, to transfer service credit previously earned as an enforcement officer in the public employees' retirement system plan 2 to the law enforcement officers' and firefighters' retirement system plan 2. Service credit that a member elects to transfer from the public employees' retirement system to the law enforcement officers' and firefighters' retirement system under this section shall be transferred no earlier than June 30, 2013, and only after the member completes payment as provided in subsection (2) of this section.

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

(b) A member who elects to transfer service credit under this subsection shall pay, for the applicable period of service, the difference between the contributions the employee paid to the public employees' retirement system plan 2 and the contributions that would have been paid by the employee had the employee been a member of the law enforcement officers' and firefighters' retirement system plan 2, plus interest on this difference as determined by the director. This payment must be made no later than June 30, 2013, and must be made prior to retirement.

(c) No later than June 30, 2014, the department of fish and wildlife shall pay an amount sufficient to ensure that the contribution level to the law enforcement officers' and firefighters' retirement system will not increase due to this transfer. Payments made prior to June 30, 2014, are authorized as determined by the department and coordinated with the state actuary.

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

(e) If a member who elected to transfer pursuant to this section dies or retires for disability prior to five years from their election date, the member's benefit is calculated as follows:

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

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

(A) Pay the bill in full;

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

(C) Continue to make payment against the obligation under (b) of this subsection, provided that payment in full is made no later than five years from the member's original election date.

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

--- END ---

Multiple Agency Fiscal Note Summary

Bill Number: 3023 HB	**Title:** Fish/wildlife service credit

Estimated Cash Receipts

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

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

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.1	0	34,777	.0	0	0	.0	0	0
Department of Fish and Wildlife	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total	0.1	$0	$34,777	0.0	$0	$0	0.0	$0	$0

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

For cost information for years beyond those on the fiscal note form, please see the second page of the fiscal note from the Department of Fish and Wildlife.

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 1/31/2008

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

** See local government fiscal note

FNPID: 19128

Individual State Agency Fiscal Note

Bill Number: 3023 HB	Title: Fish/wildlife service credit	Agency: 035-Office of State Actuary

Part I: Estimates

[X] **No Fiscal Impact**

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

Check applicable boxes and follow corresponding instructions:

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

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

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 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: 01/25/2008

FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBERS:
Office of the State Actuary	**035**	**1/23/08**	**HB 3023 / SB 6653**

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 proposal would allow enforcement officers for the Department of Fish & Wildlife to convert prior PERS 2 service to LEOFF 2 by paying the difference in contribution rates.

Increase in Actuarial Liabilities			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits	$24,970	5	$24,975
Unfunded Actuarial Accrued Liability	2,494	0	2,494
Unfunded Liability (PVCPB)	($2,859)	5	($2,854)

Total Increase in Contribution Rates		
Current Biennium	**PERS**	**LEOFF**
Employee (Plan 2)	0.00%	0.00%
Employer	N/A	N/A
State		0.00%

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

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

BENEFIT IMPROVEMENT

Summary of Benefit Improvement

This bill impacts Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System and Plan 2 of the Public Employees' Retirement System (PERS). This bill allows LEOFF 2 members to transfer into LEOFF 2 their prior PERS 2 service credit for periods of employment as enforcement officers for the Department of Fish and Wildlife (DFW). There is a waiting period for transferring the service credit, as the bill provides that it shall be transferred no earlier than June 30, 2013, and only after the member completes payment, which must be made no later than June 30, 2013. Allowances for early transfer are provided for members who become disabled or die during the waiting period.

Finally, the bill provides that members who elect to transfer their service credit must transfer all their service as an Enforcement Officer with DFW under PERS 2. Furthermore, these members are thereafter permanently excluded from membership in PERS for all service related to time served as an enforcement officer with the DFW in PERS 2.

Effective Date: 90 days after session

Current Situation

Currently, LEOFF 2 members who transferred from PERS 2 while serving as enforcement officers for DFW have no ability to transfer their prior PERS 2 service to LEOFF 2; rather, they are dual members of PERS 2 and LEOFF 2 and can retire under provisions of the portability chapter (RCW 41.54).

Members Impacted

We estimate that 67 members out of the total 108 active DFW enforcement officers have eligible prior service credit in PERS 2 and could be affected by this bill. Furthermore, we expect 60 members will actually receive improved benefits. The remaining seven members would not elect to transfer service credit since they will be retiring prior to culmination of the waiting period. Thus the option to transfer their service credit is not financially advantageous for their situation. This bill would not affect inactive members.

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

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

WHY THIS BENEFIT HAS A COST AND WHO PAYS FOR IT

Why this Bill Has a Cost

As this bill provides, there shall be no fiscal costs or change in contribution rates to the affected plans. Therefore, the affected members would be required to pay the difference in the member contribution rates as though they had been in LEOFF 2 instead of PERS 2 for the period of service they transfer, with interest. Furthermore, the Department of Fish and Wildlife would be required to pay an amount sufficient to ensure that the contribution rate in LEOFF 2 will not increase due to the specified transfer of funds and service credit.

Who will Pay for these Costs

The member cost for the service credit is the difference between the PERS 2 contributions paid by the member, and the contributions that the member would have paid as a member of LEOFF 2. These amounts are then subject to interest as determined by the director of the Department of Retirement Systems (DRS). The assets associated with the PERS 2 member and employer contributions will be transferred from the PERS 2 assets to LEOFF 2 and will be used to further offset the cost to the DFW.

The bill also provides that no later than June 30, 2014 the DFW would be required to pay an amount sufficient to ensure that the contribution rate in LEOFF 2 will not increase due to the specified transfer of funds and service credit. The proposal also allows for payments prior to 2014 as determined by DRS in consultation with the Office of the State Actuary.

HOW WE VALUED THESE COSTS

Change in Methods

The bill provides that there shall be no increase in unfunded liability to LEOFF 2 resulting from the additional service being transferred from PERS 2. This is accomplished by requiring that DFW would pay any additional cost to LEOFF 2 not covered by the asset transfer from PERS and the additional member contributions and interest paid by the members. The purpose of this pricing exercise was to isolate the total cost to DFW which is equal to the amount of remaining LEOFF 2 liability after the associated PERS 2 assets and member contributions are subtracted from the total transferred liability. The PERS 2 assets are equal to two times the members' PERS savings funds which were provided in the data.

The liability increase to LEOFF 2 resulting from this bill is equal to the present value of the additional benefits resulting from the transferred service credit.

Otherwise, we developed these costs using the same methods as those disclosed in the September 30, 2006 Actuarial Valuation Report (AVR).

Assumptions Made

We assumed for this pricing exercise that all past PERS 2 service is eligible for transfer to LEOFF 2. We also assumed that only members of PERS 2 are eligible to transfer. We assumed that this service transfer is only available to active DFW enforcement officers. We assumed that all PERS 2 members who are eligible to transfer service credit would elect to transfer that service if the value of the additional benefit is greater than the sum of double their PERS 2 member account plus the contributions required from the member (that is true for approximately 60 out of the 67 members with eligible service to transfer). It is assumed that members who transfer service will not receive additional benefits as a result of the transfer until after June 30, 2013. We assume that the calculation of the cost to DFW will be administered using annuity factors that assume no pre-retirement decrements other than mortality.

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

Data Used

Of the 108 DFW enforcement officers active as of September 30, 2006, we were provided information for 67 who had eligible prior service credit in PERS 2. Among the DFW active records were a handful of members with more than the approximately 3.2 years of service they could have earned in their current positions since joining LEOFF 2. These members most likely have past service with other LEOFF agencies. There are also a few active members with no past service in PERS because they entered after July 2003. Of the 67 LEOFF members with prior PERS service, we found that 60 members were vested in their respective plans under the provisions of portability. The remaining seven Plan 2 members were not vested. The vested status for these members was determined utilizing their total service from both the PERS and LEOFF retirement systems. A demographic summary of the affected members is shown below:

Demographic Summary of the Affected Members				
	Count	**Average Service (Years)**	**Average Savings Fund**	**Average Current Salary***
LEOFF Actives	108	3.52	$14,212	$63,468
LEOFF Actives with PERS Service	60	8.58	$20,749	$68,215
PERS 2 Service Range (Rounded, in years)				
0 - 2	15	1.22	$551	$63,324
3 - 5	14	3.38	2,519	67,031
6 - 10	8	7.82	12,398	68,938
11 - 15	11	13.71	34,468	72,240
16 - 20	8	17.96	53,810	72,126
21+	4	22.98	$73,144	$70,362

**LEOFF 2 salary, effective September 30, 2006, is used for all records, including PERS inactive records.*

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

ACTUARIAL RESULTS

Liability Changes

This bill will not change the actuarial funding of LEOFF 2 and PERS 2 and will have no impact on the required actuarial contribution rate as shown below.

This bill would increase the liability in LEOFF 2 by about $7 million. This would be offset by the approximately $2 million transferred from the PERS 2 assets, $2 million in additional contributions from Fish and Wildlife members, and a $3 million contribution from DFW.

The liability reduction in PERS 2 due to the proposed service transfer is about $2 million. This amount is offset by the estimated transfer of assets from PERS 2 to LEOFF 2 of about $2 million, which consists of the member and employer contributions, with interest. The PERS 2 contribution rates will not be affected by this service credit transfer. The members eligible to transfer service credit are currently dual members eligible for portability. The transfer could result in additional experience gains for PERS Plan 2.

A summary of costs/(savings) for all parties appears below:

Summary of Costs/(Savings) for All Parties			
(Dollars are in Millions)	**PERS 2**	**LEOFF 2**	**Total**
Change in Present Value of Fully Projected Benefits			
(The Value of the Total Commitment to all Current Members)	($2)	$7	$5
Assets Transferred from PERS to LEOFF 2	$2	($2)	$0
Additional Member Contributions	$0	($2)	($2)
Payment from Department of Fish and Wildlife	$0	($3)	($3)
Net Change in Present Value of Unfunded Fully Projected Benefits	$0	$0	$0

These costs are based on the assumption that 60 out of 67 eligible DFW enforcement officers will transfer past PERS 2 service credit to LEOFF 2. The actual cost of this bill will be determined by the actual number of affected members who elect to transfer past service.

Contribution Rate Changes

The bill will not increase the present value of **unfunded** fully projected benefits of the affected systems.

(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 2/3	$18,966	($2)	$18,964
LEOFF 2	$6,004	$7	$6,011
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
PERS 1	$3,196	$0	$3,196
LEOFF 1	($702)	$0	($702)
Unfunded Liability (PVCPB)			
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
PERS 2/3	($2,338)	$0	($2,338)
LEOFF 2	($521)	$0	($521)

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

Increase in Contribution Rates: (Effective 9/1/2008)		
System/Plan	**PERS**	**LEOFF**
Current Members		
Employee (Plan 2)	0.00%	0.00%
Employer	N/A	N/A
State		0.00%
New Entrants*		
Employee (Plan 2)	0.00%	0.00%
Employer	N/A	N/A
State		0.00%

**Rate change applied to future new entrant payroll, and used for fiscal budget 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

There is no fiscal impact to members or employers in the affected systems with the exception of members electing to transfer service and the estimated $3 million payment required from DFW.

The analysis of this 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 systems 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

The amount that DFW will be responsible to pay is sensitive to the assumption regarding the number of members who transfer. For this pricing exercise, we assumed the members that benefit from making the transfer would be the members who elect to transfer their past service. For the sensitivity analysis, we assumed that the members with the greatest benefit from making the transfer would be the members who elect to transfer their past service. If between 41 and 60 members with the greatest benefit transfer, the cost to DFW would still be about $3 million. If between 18 and 40 members with the greatest benefit transfer, the cost to DFW would be about $2 million. If less than 18 members transfer, the cost to DFW would be about $1 million. More likely than not, the number of members who transfer will be between 41 and 60, and the cost to DFW would be about $3 million.

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: 3023 HB	Title: Fish/wildlife service credit	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	0.0	0.2	0.1	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	0	34,777	34,777	0	0
Total $	0	34,777	34,777	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:		Phone:	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: 01/26/2008

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 allows service credit earned as a Department of Fish and Wildlife Enforcement Officer in the Public Employees' Retirement System (PERS) Plan 2 to be transferred to the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement System. It provides that:

- Eligible Enforcement Officers elect to transfer their PERS service credit by June 30, 2013.
- Enforcement Officers pay the difference in contributions between the two plans for the time being transferred, no later than June 30, 2013, or prior to retirement if sooner.
- The Department of Fish and Wildlife must pay an amount sufficient to ensure that the contribution level of LEOFF Plan 2 will not increase as a result of the transfer of service.
- The Department of Fish and Wildlife payment must be made no later than June 30, 2014, but can be made periodically prior to this date based upon transfers paid in full at the time of billing.
- Service credit will be transferred no earlier than June 30, 2013.

In addition, the legislation provides options should a member die or retire for disability prior to the transfer.

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		0.2	0.1		
A-Salaries and Wages		12,451	12,451		
B-Employee Benefits		3,951	3,951		
C-Personal Service Contracts					
E-Goods and Services		18,375	18,375		
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	$34,777	$34,777	$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
Info Tech Specialist 4	71,496		0.1	0.1		
Retirement Services Analsyt 3	49,368		0.1	0.1		
Total FTE's			0.2	0.1		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.

New rules will need to be created.

II. C - Expenditures

Administrative Assumptions

- This bill affects approximately 70 current LEOFF Plan 2 members.
- The Department of Fish and Wildlife will provide DRS with the applicable time served as an Enforcement Officer.
- If the invoice is not paid in full by the deadline, all payments made by the member will be refunded.
- An ex-spouse's benefit is not impacted by the member's decision to transfer service credit.
- The Office of the State Actuary will determine the amount of the employer contribution required to ensure that the contribution level to LEOFF Plan 2 will not increase as a result of this transfer.
- Only full months of service can be transferred to LEOFF Plan 2. Partial service transfers are not allowed.
- The option for actuarial reduction of a retirement benefit is only available to members who die or retire for disability prior to five years from their election date.
- If the PERS Enforcement Officer service credit has been withdrawn, it must be restored before it can be transferred to LEOFF.

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

Benefits/Customer Service

DRS will send an initial letter to Enforcement Officers notifying them when the transfer election is available, and provide detailed individual cost estimates once information on prior service is received from the Department of Fish and Wildlife. In order to implement the legislation, the following tasks will be accomplished:

- Modify the Election to Transfer Membership form
- Prepare estimated member billings
- Create content material for the informational packet provided to each eligible member (e.g., Service Credit Worksheet, Benefit Comparison, Estimate of Benefits)
- Update policies and procedures
- Update the Retirement Services Division (RSD) Online Operations Manual
- Participate in the business requirements definition for the agency's automated systems
- Conduct user acceptance testing of automated system modifications
- Conduct staff training
- Process the transfer of service credit

Retirement Services Analyst 3 – 266 hours (salaries/benefits)	$8,455
Total Estimated Benefits/Customer Service Costs	**$8,455**

Automated Systems

The billings for contributions will require modifications to DRS' automated Member Information System (MIS) to create a new optional bill type in order to distinguish those eligible for this legislation. Resources required for development, modification and testing are:

Information Technology Specialist 4 – 180 hours (salaries/benefits)	$7,947
Programmer time of 150 hours @ $95	$14,250
DIS* cost of $500 per week for 8.25 weeks	$4,125
Total Estimated Automated Systems Costs	**$26,322**

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

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	2007-09	2009-11	2011-13
BENEFITS/CUSTOMER SERVICE	**$8,455**	**$0**	**$0**
AUTOMATED SYSTEMS	**$26,322**	**$0**	**$0**
ESTIMATED TOTAL COSTS	**$34,777**	**$0**	**$0**

Individual State Agency Fiscal Note

Revised

Bill Number: 3023 HB	Title: Fish/wildlife service credit	Agency: 477-Department of Fish and Wildlife

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:

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

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

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/23/2008
Agency Preparation:	Kim Hoang	Phone: 360-902-2528	Date: 01/31/2008
Agency Approval:	Ron McQueen	Phone: 360-902-2204	Date: 01/31/2008
OFM Review:	Deborah Feinstein	Phone: 360-902-0614	Date: 01/31/2008

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.

Section 1 (1) - This bill allows WDFW Enforcement Officers to transfer their service credit in the Public Employees' Retirement System (PERS) Plan 2 to the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plan 2. Officers must request to transfer their service credit by June 30, 2013.

Section 1 (2) (a) - WDFW Officers who elect to transfer service credit must make the payments prior to having service credit earned as an officer with WDFW under PERS 2 transferred to LEOFF 2.

Section 1 (2) (b) - WDFW Officers who choose to transfer service credit must pay the difference between the contributions he or she paid to PERS 2 and the contributions he or she would have paid to LEOFF 2. This payment must be made no earlier than June 30, 2013, and must be completed prior to retirement.

Section 1 (2) (c) - No later than June 30, 2014, WDFW must pay an amount sufficient to ensure that the contribution level to LEOFF will not increase due to this transfer.

Section 1 (2) (d) - Upon completion of payment required in (b), WDFW must transfer from PERS 2 to LEOFF 2 all employee's/employer contributions plus interest and all of his or her applicable months of service.

Section 1 (2) (e) - This subsection explains the process of calculating the member's benefit if he or she dies or retires for disability prior to five years from his or her election date.

Section 1 (2) (f) - Upon transfer of service credit, the employee is permanently excluded from membership in PERS for all service as a fish and wildlife officer.

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.

N/A

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.

State Actuary's assumptions:
-67 members out of the total 108 active WDFW enforcement officers have eligible prior service credit in PERS 2 and could be affected by this bill.
-60 out of 67 eligible WDFW enforcement officers will transfer past PERS 2 service credit to LEOFF 2.
-Estimated payments required from WDFW could be about $3 million.

Prior to FY14, it is unknown how many officers will opt to transfer their service credit. Therefore, the fiscal impact is indeterminate. After FY13, the Agency would pay the remainder of its share of the cost, approximately $3 million total.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

N/A

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.

N/A

5. Interruptive Military Service Credit

Interruptive Military Service Credit

Description of Issue

The issue before the SCPP is whether members should receive free service credit for periods of public employment that are interrupted by military service during a period of war. The SCPP studied this issue in the 2007 interim and decided that more should be done for members of the open plans (Plans 2 and 3). The SCPP recommended legislation to grant free service credit for interruptive military service during a period of war. In the 2008 session SSB 6645 was heard in Ways and Means; it passed the Senate on first reading only.

The LEOFF 2 Board asked the SCPP to consider this issue again this interim and to examine more closely how the benefit would be applied. There are at least four options for applying the benefit. See the full issue paper for details.

Options for Applying the Benefit

- Apply only to service after the effective date of the bill (prospective).
- Apply to service credit transactions after the effective date of the bill, whether or not some or all of the service was before the bill's effective date.
- Apply to all service – past, present and future - in designated conflicts only.
- Apply to all service – past, present and future.

Other Materials Included

- SCPP Issue Paper
- Copy of bill from 2008 legislative session
- Copy of statutory definition of "period of war," RCW 41.04.005(2)
- Fiscal note for last session's bill
- 2008 correspondence from LEOFF 2 Board

What is the Next Step?

Members will decide whether a bill on interruptive military service credit should be reintroduced in the 2009 session, and if so, how the benefit should be applied. If so directed, staff will update the bill and fiscal note for 2009.

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Interruptive Military Service Credit

Current Situation

"Interruptive military service" includes the following:

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

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

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

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

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

In Brief

ISSUE

Should members receive free service credit for periods of public employment that were interrupted by military service during a period of war? If so, should this benefit be granted prospectively or retroactively? If applied retroactively, how extensive should the retroactive application be?

MEMBER IMPACT

All active members of the open plans in all systems could potentially be impacted, since all plans provide for interruptive military service credit. OSA estimates that one out of 4,700 members could be impacted in a given year.

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

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

Example A

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

Example B

The Legislature chooses in an upcoming session to improve benefits. The retirement system already complies with USERRA, but the Legislature decides to amend the retirement plan to provide free interruptive military service credit for serving honorably during a period of war. With such an amendment in place, a plan member who is a member of the National Guard or Military Reserves and is called to fight in Operation Iraqi Freedom can receive free service credit; the member must simply comply with the terms of the plan amendment.

History

The SCPP first studied interruptive military service credit in the 2004 interim. At that time, the SCPP concluded that USERRA did not adequately address members who were unable to return to public employment due to a death or total disability while serving in the uniformed services. As a result, the SCPP recommended legislation address this issue. Chapter 64, Laws of 2005 provided that service credit may be purchased by a member with a total disability, or a survivor of a deceased member, for interruptive military service up to the date of death or disability. The law requires repayment of member contributions to reinstate service credit for the period of interruptive military service.

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

The SCPP recommended a bill for the 2008 legislative session that would have granted free service credit for interruptive military service during a period of war.

The SCPP recommended a bill for the 2008 legislative session that would grant free service credit for interruptive military service during a period of war. Period of war is defined in RCW 41.04.005 (copy attached). The bill was endorsed by the Board for the Law Enforcement Officers' and Firefighters' Plan 2 (LEOFF 2). SSB 6645 (2008) was heard in Senate Ways and Means; it passed the Senate on first reading only.

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

Policy Analysis

The SCPP can give better benefits than those required by federal law.

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

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

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

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

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

Comparison with Other Washington Plans

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

Comparison with Other States

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

Washington's peer states are split on the issue.

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

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

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

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

Reasons For and Against Providing Free Service Credit

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

Free military service credit has pros and cons.

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

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

How Should the Benefit Be Applied?

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

Option 1 – Prospective

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

Option 2A – Past and Prospective with No Refunds

Under this option, free interruptive military service credit would be available to members who apply for the service credit after the effective date of the bill. As long as the member is still eligible to apply for the credit (because the member has not retired), the member can pick up free service credit for all eligible service that has not been restored – even for those periods in the member's career that were prior to the effective date of the bill. This option corresponds to last year's SCPP bill. The focus was more on the service credit transaction than on when the service was rendered.

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

Option 2B – Past and Prospective with Refunds for Recent Service

This option seeks to provide more equity among those who served in the same recent conflicts. For example, this approach would allow free service credit for any member who has not retired and who had interruptive military service during Operation Iraqi Freedom (Persian Gulf) or Operation Enduring Freedom (southern or central Asia). The service credit would be free to members, whether or not they already paid to restore their service credit. Those who already repaid their member contributions would get refunds. Refunding member contributions creates administrative burdens and increases cost. On the other hand, this approach may be more consistent in terms of benefiting potentially all members participating in designated conflicts.

Option 2C – Past and Prospective with Refunds for All Service

This option would allow members who have not retired to receive free interruptive military service credit for any period of war or armed conflict during their career, regardless of whether they already restored the service by paying back contributions. Even more refunds would be paid from plan funds than under Option 2A. This option would be the most generous to members, the most costly and the hardest to administer.

Next Steps

If the SCPP decides to recommend legislation on this issue for 2009, including any change in how the benefit would be applied, staff will provide a new bill draft and draft fiscal note to implement the direction chosen by the Committee. A public hearing with possible executive session would be scheduled for an upcoming SCPP meeting.

Stakeholder Input

Copies of 2008 correspondence from LEOFF 2 are attached.

2008 Bill

A copy of last year's bill, SSB 6645, is attached, along with a copy of RCW 41.04.005, which defines "period of war."

Fiscal Note

A copy of last year's fiscal note for SSB 6645 (2008) is attached.

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Office of
The State Actuary

STATE OF WASHINGTON

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

May 12, 2008

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

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board (Board), I would like to thank you for the cooperative working relationship we have shared in the past and look forward to a similar partnership in the future.

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

<u>Interruptive Military Service Credit</u>

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

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

<u>Inflationary Adjustment for $150,000 Death Benefit</u>

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

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

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

Military Service Death Benefit

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

Fish and Wildlife Enforcement Officer Service Credit Transfer

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

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

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

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

Sincerely,

Kelly L Fox

Kelly Fox, Chair

cc: Matt Smith, State Actuary

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

June 30, 2008

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

Dear Honorable Members of the Select Committee on Pension Policy:

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

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

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

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

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

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

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

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

Thank you for your consideration and we look forward to working with you.

Sincerely,

Kelly L Fox

Kelly Fox, Chair

cc: Matt Smith, State Actuary

The Select Committee on Pension Policy

Interruptive Military Service Credit

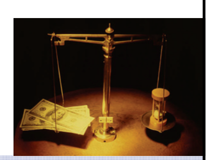
Laura Harper, Policy and Research Services Manager

September 16, 2008

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

The Issue Today…

- Whether to grant free interruptive military service credit to those who serve during a period of war
- Today's meeting is a work session
  - How did issue get before you?
  - What are the nuts and bolts of the proposal?
  - Who gets the benefit?



Recent Activity On The Issue

- Executive Committee forwarded issue to you this interim
  - LEOFF 2 Board requested coordination
- SCPP studied issue last interim
- SCPP recommended a bill in 2008 session
  - LEOFF 2 Board endorsed it
  - SSB 6645 passed Ways & Means but did not pass the Senate

The Nuts And Bolts…

- What is "interruptive military service?"
  - Member leaves public employment to serve in the uniformed services
  - Service is honorable
  - Member returns to public employment after discharge
- Federal law (USERRA) sets minimum standards
  - For benefit accrual and vesting purposes, treat members as if they were not absent from their job
  - Members don't have to lose service credit
    - Members repay contributions (no interest) to get service credit
    - DRS bills employers for the employer contributions plus interest

Why Free Service Credit?

- States can be more generous than what is required under USERRA
- Last interim, SCPP wanted to do more for those serving in a period of war
- SCPP's 2008 Proposal:
  - Interruptive military service credit would be free to those serving in a period of war
    - Members relieved from repaying member contributions
    - Employers still pay employer contributions plus interest
  - "Period of war" is already defined in state statute
    - Declared wars
    - Armed conflicts

Who Gets The Benefit?

- 2008 SCPP proposal affected members of the open plans
  - Plans 2 and 3 of PERS, TRS and SERS
  - LEOFF 2
  - PSERS
  - Washington State Patrol Plan 2
- 2008 SCPP proposal affected anyone eligible to apply for this service credit after the bill's effective date
  - Members must apply before retiring
    - The military service credit could have been earned in the past
    - Focus was on the service credit transaction, not when the service occurred

2008 Bill Did Not Provide For Refunds

- USERRA gives members a long time to pay back contributions
  - Repay contributions within USERRA time frame
  - Repay actuarial cost if late under USERRA but still prior to retirement
    - Members have their entire career to apply for the service credit
- Those who already completed their transactions could not get refunds
  - Complaints that members who already paid were, in effect, penalized

LEOFF 2 Board Wanted Other Options

- Explore possible retroactive applications
- Avoid having different results for members serving in the same period of war
- Bring a joint recommendation to the legislature for the 2009 session

Options For Applying The Benefit

- Prospective
- Past and Prospective, No Refunds
- Past and Prospective, Refunds for Recent Service
- Past and Prospective, Refunds for All Service

Prospective Service Only

- Only eligible service after effective date of bill
- Least generous to members
- Least costly
- Consistent with intergenerational equity
- No refunds to administer
- Some members serving in the same period of war will be treated differently.

Past & Prospective, No Refunds

- More generous to members than previous option
  - Covers more eligible service
- DRS would accept service credit applications from members after the effective date of the bill
  - Members have until they retire to initiate a service credit transaction
  - Eligible service can be any time during the member’s career
  - Covers prospective service and past service
  - Approach used in last year’s bill
- No refunds
- Inconsistency among members with service in the same period of war

Past & Prospective, Refunds For Recent Service

- Involves some refunds
  - More impacts on plan administration
  - Cost impact depends on how far back you go
- Allows for more consistent benefits among members
- How far do you go back for refunds?
  - Consider ongoing periods of war
    - Operation Iraqi Freedom (Persian Gulf)
    - Operation Enduring Freedom (southern or central Asia, including Afghanistan)
  - Others?

Past & Prospective, Refunds For All Service

- Any eligible service during a member's career
- Most generous to members
- More refunds required
- Most costly
- Inconsistent with intergenerational equity
  - Benefit not funded over member's career
- Hardest to administer

Next Steps

- Executive Committee is scheduled to give direction on today's agenda at it's afternoon meeting
  - Can take no action
  - Can recommend an option
    - Staff would then bring back a bill draft and draft fiscal note to the full SCPP

RCW 41.04.005
"Veteran" defined for certain purposes.

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

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

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

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

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

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

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

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

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

(2) A "period of war" includes:

(a) World War I;

(b) World War II;

(c) The Korean conflict;

(d) The Vietnam era, which means:

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

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

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

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

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

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

Notes:

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

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

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

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

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

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

S-5492.1

SUBSTITUTE SENATE BILL 6645

State of Washington 60th Legislature 2008 Regular Session

By Senate Ways & Means (originally sponsored by Senators Pridemore, Carrell, Murray, Schoesler, Holmquist, Stevens, Kohl-Welles, Roach, and Rasmussen; by request of Select Committee on Pension Policy and LEOFF Plan 2 Retirement Board)

READ FIRST TIME 02/12/08.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service</u>.

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

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

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

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

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

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

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

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

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

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

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

The department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.45.060 and 41.45.067 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department, or the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

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

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

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

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

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

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

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

<u>(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service</u>.

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

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

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

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

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

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

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

<u>(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service</u>.

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

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

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

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

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

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

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

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

The department shall establish the member's service credit and shall bill the employer for its contribution required under RCW 41.35.720 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department<u>, or the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service</u>.

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

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

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

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

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

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

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

(6) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This

subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

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

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

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

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

<u>(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service</u>.

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

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

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

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

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

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

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

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

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

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

The department shall establish the member's service credit and shall bill the employer for its contribution required under chapter 239, Laws of 1995 for the period of military service, plus interest as determined by the department. Service credit under this subsection may be obtained only if the member makes the employee contribution to the defined contribution portion as determined by the department, or the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

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

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

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

(7) A member who leaves the employ of an employer to enter the uniformed services of the United States shall be entitled to retirement system service credit for up to five years of military service. This

subsection shall be administered in a manner consistent with the requirements of the federal uniformed services employment and reemployment rights act.

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

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

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

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

<u>(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service</u>.

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

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

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

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

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

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

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

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

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

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

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

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

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

(D) The member was commissioned on or after January 1, 2003, and provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

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

<u>(D) If the member was commissioned on of after January 1, 2003, provides to the director proof that the member's' interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service</u>.

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

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

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

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

<u>(D) If the member was commissioned on or after January 1, 2003, the member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service</u>.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

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

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

(iv) Provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

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

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

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

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

(iv) The member provides to the director proof that the member's interruptive military service was during a period of war as defined in RCW 41.04.005 in order to receive up to five years of free service credit. Qualified members with multiple periods of interruptive military service are subject to a combined total limit of five years of free retirement system service credit for interruptive military service.

--- END ---

Multiple Agency Fiscal Note Summary

Bill Number: 6645 S SB	Title: Military service credit

Estimated Cash Receipts

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

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

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of the State Actuary	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.1	0	40,683	.0	0	0	.0	0	0
Total	0.1	$0	$40,683	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 5 of 9" of the OSA fiscal note.

Prepared by: Jane Sakson, OFM	Phone: 360-902-0549	Date Published: Final 2/19/2008

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

** See local government fiscal note

FNPID: 20102

Individual State Agency Fiscal Note

Bill Number: 6645 S SB	Title: Military service credit	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:	Phone:	Date: 02/14/2008
Agency Preparation: Laura Harper	Phone: 360 786-6145	Date: 02/18/2008
Agency Approval: Matthew M. Smith	Phone: 360-786-6140	Date: 02/18/2008
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/19/2008

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 NUMBER:
Office of the State Actuary	**035**	**2/18/08**	**SSB 6645**

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 would allow free retirement system service credit for members whose interruptive military service is during a period of war as defined in RCW 41.04.005.

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

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

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

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

BENEFIT IMPROVEMENT TO PENSION SYSTEM

Summary of Benefit Improvement

This proposal impacts Plans 2 and 3 of the Public Employees' Retirement System (PERS), Plans 2 and 3 of the Teachers' Retirement System (TRS), Plans 2 and 3 of the School Employees' Retirement System (SERS), the Public Safety Employees' Retirement System (PSERS), Plan 2 of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), and Plan 2 of the Washington State Patrol Retirement System (WSPRS) by eliminating the member obligation to repay member contributions in order to receive service credit for interruptive military service during a period of war. In the case of a military death, the survivor would also be relieved of paying the member cost for interruptive military service credit during a period of war. "Period of war" is defined in RCW 41.04.005.

SSB 6645 differs from the original bill only in that the bill title for SSB 6645 was corrected to include omitted references to SERS. Otherwise, the bills are identical.

Effective Date: 90 days after session

Current Situation

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

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

Members Impacted

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

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

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

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

WHY THIS BENEFIT HAS A COST AND WHO PAYS FOR IT

Why this Bill Has a Cost

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

Who will Pay for these Costs

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

HOW WE VALUED THESE COSTS

Change in Methods

The pricing method utilized in determining the actuarial cost was through the use of a simplified valuation, where members were grouped by age and projected to retirement. For each year, the probability of earning credit for interruptive military service was assumed and directly affected the resulting liability increase for the system. The process for developing these probabilities will be described in the assumptions section.

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

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

Assumptions Made

The primary assumption developed for this pricing was the annual probability of a member earning interruptive military service credit. Utilizing data from a service credit report dated September 30, 2006, an annual average using five years of data was calculated starting with the 2002 valuation year and ending in 2006. Since there was far more data available on the PERS system comparatively, the probability developed for PERS was applied to all other systems as well. This came out to be 0.000214 or 1 in every 4700. We utilized general population experience to set the participation rate and adjusted this assumption by system to reflect more or less military participation. For example, we assumed public safety employees would have a higher rate of participation and teachers less. More specifically, TRS and SERS were assumed to be at half of the standard rate developed, whereas PSERS was assumed to be 1.5 times this rate, and LEOFF and WSPRS were assumed to be at twice this rate.

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

Also, we assumed that all interruptive military service credits would be claimed by the members themselves. Survivors claiming the service credit would receive an immediate annuity instead of the deferred annuity otherwise available to the member. We assumed that the number of survivors relative to members claiming interruptive military service would be small and the increased cost would be negligible. We assumed that all interruptive military service credit would be during a period of war as defined in RCW 41.04.005.

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 rate as shown below:

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

Contribution Rate Changes

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

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

**Rate change applied to future new entrant payroll, and used for fiscal budget 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**	**PSERS**	**TRS**	**SERS**	**LEOFF**	**WSPRS**	**Total**
2007-2009							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employer	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
2009-2011							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total Employer	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Total Employee	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.1
2007-2032							
General Fund	$0.2	$0.0	$0.0	$0.0	$0.4	$0.0	$0.6
Non-General Fund	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Total State	0.6	0.0	0.0	0.0	0.4	0.0	1.0
Local Government	0.9	0.0	0.0	0.0	0.5	0.0	1.4
Total Employer	1.4	0.0	0.0	0.0	0.9	0.0	2.4
Total Employee	$1.0	$0.0	$0.0	$0.0	$0.9	$0.0	$2.0

Note: Totals may not agree due to rounding.

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

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

SENSITIVITY ANALYSIS

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

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

In general, the results are proportionate to how many members we assumed would earn free interruptive military service credit. If twice or half as many members received free interruptive military service credit, then the cost would either double or be cut in half, respectively.

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: 6645 S SB	**Title:** Military service credit	**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	0.0	0.3	0.1	0.0	0.0
Fund					
Department of Retirement Systems Expense Account-State 600-1	0	40,683	40,683	0	0
Total $	0	40,683	40,683	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:	Phone:	Date: 02/14/2008
Agency Preparation: Cathy Cale	Phone: (360)664-7305	Date: 02/19/2008
Agency Approval: Marcie Frost	Phone: (360)664-7224	Date: 02/19/2008
OFM Review: Ryan Black	Phone: 360-902-0417	Date: 02/19/2008

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 a total of five years of no-cost interruptive military service for any member who provides proof to the Director that their interruptive military service was during a "period of war," and initiate the process for re-employment with the same employer no later than 90 days from the date of honorable discharge. The new provisions apply to the Public Employees' Retirement System (PERS) Plans 2 and 3, School Employees' Retirement System (SERS) Plans 2 and 3, Teachers' Retirement System (TRS) Plans 2 and 3, Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2, Washington State Patrol Retirement System (WSPRS) Plan 2, and the Public Safety Employees' Retirement System (PSERS).

Survivors of eligible members, and eligible members incapacitated as a result of their interruptive military service, may also apply for the no cost service credit.

The substitute bill corrects the title of the bill by adding a reference to the School Employees' Retirement System (SERS). This addition does not change the 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.

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		0.3	0.1		
A-Salaries and Wages		16,362	16,362		
B-Employee Benefits		5,226	5,226		
C-Personal Service Contracts					
E-Goods and Services		19,095	19,095		
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	$40,683	$40,683	$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
Benefits Marketing Rep	57,240					
Communications Consultant 4	60,120		0.1	0.0		
Info Tech Specialist 4	71,496		0.1	0.0		
Retirement Services Analyst 3	49,368		0.1	0.1		
Total FTE's			0.3	0.2		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.

New rules will be required.

II. C - Expenditures

Administrative Assumptions

- This bill does not affect the current provisions for receiving service credit for non-military authorized leave of absence.
- The new provision is in addition to the current provisions for recovering interruptive military service credit, giving the member a possible 10 service credit years (five years for purchase, five years at no-cost).
- Service credits purchased and service credits granted at no cost cannot be for the same period.
- Members who have not previously purchased interruptive military service credits for the same time period, can apply for no-cost service credits after the effective date of this bill.
- Refunds will not be provided to members who have previously purchased interruptive military service.
- Members do not need to be active to apply for service credit.
- This provision will cover all periods of war from October 1, 1977 forward.

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

Benefits/Customer Service

Staff will respond to member inquiries, in writing and by telephone. Benefits staff will also support the modification of DRS' automated systems, the review of member communications, and the creation or modification of policies procedures and rules to support the new legislation. The tasks associated with implementing this bill are as follows:

- Respond to member inquiries
- Define business requirements for system enhancements
- Participate in user acceptance testing
- Review and edit communication materials
- Create policies and procedures, and develop staff training modules
- Update the Online Operations Manual
- Develop WACs
- Assist in creation of insert to include in member handouts
- Update seminar presentations and materials

Retirement Services Analyst 3 – 300 hours (salaries and benefits)	$9,536
Education and Outreach Representative – 5 hours	$181
Total Estimated Benefits/Customer Service Costs	**$9,717**

Member Communications

Members will receive a letter when service credit is added to their account. DRS will update the paper and Web versions of affected publications. The updates to the Web versions will be done upon the signing of the bill, and the paper versions will be updated during the regular update schedule. The communications tasks associated with implementing this bill are as follows:

- Assist in creation of automated letter sent to member
- Update appropriate member handbooks on-line
- Update Military Service Credit publications
- Draft article in both *Active* and *Retiree Retirement Outlook* (legislative update only)

Communications Consultant 4 – 140 hours (salaries/benefits)	$5,292
Total Estimated Member Communications Costs	**$5,292**

Automated Systems

The Department of Retirement Systems' automated systems will require some modifications, and testing. A new optional bill type will be created and a document will be generated for the member explaining that the employer is paying for the service credit and the member does not owe anything.

Information Technology Specialist 4 – 149 hours (salaries/benefits)	$6,579
Programmer time of 161 hours @ $95	$15,295
DIS* cost of $500 per week for 7.6 weeks	$3,800
Total Estimated Automated Systems Costs	**$25,674**

**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	**$9,717**	**$0**	**$0**
MEMBER COMMUNICATIONS	**$5,292**	**$0**	**$0**
AUTOMATED SYSTEMS	**$25,674**	**$0**	**$0**
ESTIMATED TOTAL COSTS	**$40,683**	**$0**	**$0**

6. Plan 1 COLA Proposals

Plan 1 COLA Proposals

Description of Issue

The SCPP is being asked to revisit the Uniform COLA in PERS and TRS Plan 1. Stakeholders seeking improvements to the COLA have proposed two possible changes. This issue raises three basic policy questions. Is the current COLA sufficient? If not, who most needs an improved COLA? And what form should a new COLA take?

Policy Highlights

- ❖ The Uniform COLA helps maintain the value of pensions—though not equally for all members.
- ❖ The Uniform COLA and the Plan 2/3 COLA were designed to meet different policy objectives—direct comparisons may be misleading.
- ❖ The SCPP has adopted policy on inflation protection.
- ❖ Benefit improvements for past service increase the Plans 1 UAAL and generally run counter to the principle of intergenerational equity.
- ❖ There are a variety of ways to target, implement, and design COLAs.

Stakeholder Proposals*:

- ❖ **Short-Term: Grant additional increases to the Uniform COLA based on year of retirement.**
  - o Provides larger increases to members retired the longest.
  - o Does not precisely recover purchasing power.
  - o Impacts minimum benefits.
- ❖ **Long-Term: Replace the Uniform COLA with a CPI-based COLA similar to the Plan 2/3 COLA**
  - o Generally prevents the further loss of purchasing power.
  - o Diminishes benefits for some members.
  - o Provides a better COLA in the Plans 1 than the Plans 2/3.

*Preliminary pricing will be available at the September meeting.

What is the Next Step?

The Committee will decide whether or not to revisit this issue. Options include:

- ❖ Take no further action.
- ❖ Direct staff to draft legislation based on one or more of the stakeholder proposals.
- ❖ Study additional options.

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Plan 1 COLA Proposals

In Brief

ISSUE

The SCPP is being asked to revisit the COLA provided in the PERS and TRS Plans 1. Stakeholders seeking improvements to the COLA have proposed two possible changes. The first modifies the design of the existing COLA by granting additional increases based on the year of retirement. The second replaces the existing service-based COLA with a new CPI-based COLA design.

MEMBER IMPACT

These proposals would affect very different member groups. The first would impact nearly 33,000 PERS and TRS 1 members retired prior to 1991. The second would impact over 114,000* PERS and TRS 1 active, terminated vested, and retired plan members.*

**As of June 30, 2007.*

Darren Painter
Policy Analyst
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Introduction

The SCPP is being asked to revisit the post-retirement Cost-Of-Living-Adjustment (COLA) provided in Plan 1 of the Public Employee' Retirement System (PERS) and the Teachers' Retirement System (TRS). (The term "Plans 1" will be used throughout to refer to PERS and TRS Plan 1.) This issue raises three basic policy questions:

- Is the current COLA sufficient? If not,
- Who most needs an improved COLA? And,
- What form should a new COLA take?

This paper will explore the policy considerations around these questions and the challenges faced by policy makers when trying to retrofit a COLA onto a plan that was not originally designed for one.

Current Situation

The primary COLA provided in the Plans 1 is the Uniform COLA. The Uniform COLA is a service-based COLA payable the first calendar year in which the recipient turns age 66 and has been retired for one year. The Uniform COLA is a fixed-dollar amount multiplied by the member's total years of service. The dollar amount of the Uniform COLA increases by three percent every year on July 1st. As of July 1, 2008, the Uniform COLA was $1.73 per month/per year of service. This amounts to an annual increase of $623 for a recipient with 30 years of service. Statute specifies that future increases to the Uniform COLA are not a contractual right.

An optional Consumer Price Index (CPI)-based automatic COLA is also available to Plans 1 members who elect it at retirement. The Auto-COLA* provides an annual percentage increase in the retirement allowance. The increase is based on changes in the CPI** up to a maximum of three percent per year (essentially the same COLA as provided in the Plans 2/3). The Auto-COLA begins one year after retirement—regardless of age or service—and is in addition to any other COLAs received. Members who elect the Auto-COLA receive an actuarially reduced retirement allowance to offset the cost.

COLAs address how well a pension maintains its value, while minimum benefits address the adequacy of a pension.

The Plans 1 also provide minimum retirement benefits in addition to the COLAs discussed above. While COLAs address how well a pension maintains its value over time, minimum benefits address the adequacy of a pension and serve as a safety net. Minimum benefits increase every year—effectively providing a COLA to those at the minimum benefit level. Two minimums are provided: the Basic and the Alternative.

The Basic Minimum is \$38.92*** per month multiplied by the member's total years of service. The Alternate Minimum is \$1,092.73*** a month for recipients who:

a) Have at least 25 years of service and have been retired at least 20 years.

b) Have at least 20 years of service and have been retired at least 25 years.

The Basic Minimum increases every year by the dollar amount of the Uniform COLA. (For example, the Basic Minimum increased from \$37.19 to \$38.92 in 2008. The \$1.73 increase was the amount of the Uniform COLA for that year.) The Alternate Minimum is not tied to the Uniform COLA and increases by three percent each year.

**First available in 1990.*
***Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for Seattle-Tacoma-Bremerton (STB).*
****As of July 1, 2008.*

Example

Figure 1 illustrates the impact of the Uniform COLA on three retirees with 30 years of service and different monthly pensions. In this example, Retiree #3 receives the Basic Minimum benefit—which increases by the Uniform COLA amount each year.

The Uniform COLA provides proportionately higher increases for annuitants with smaller pensions.

This example shows how the Uniform COLA provides proportionately higher increases (and greater purchasing power protection) for annuitants with smaller pensions. This is because the Uniform COLA is a fixed dollar amount and not based on a percentage of the pension.

Figure 1 Uniform COLA Example: 30 Years of Service				
	Pension Before COLA	2008 Uniform COLA ($1.73*30)=51.90	Pension After COLA	Percent Increase
Retiree #1	$1,500.00	$51.90	$1,551.90	3.46%
Retiree #2	$3,000.00	$51.90	$3,051.90	1.73%
Retiree #3	$1,115.70 (Basic Minimum)	$51.90	$1,167.60 (Basic Minimum)	4.65%

History

To understand where today's COLA policy came from, it is helpful to look at the history of COLA policy from different perspectives. The broader perspective is how COLA policy has changed within the context of plan design. A more narrow focus is how the Legislature has addressed COLAs within the Plans 1.

COLA policy has changed over time.

When the Plans 1 were first created over 60 years ago, they did not provide for post-retirement COLAs. COLAs may not have been provided for a variety of reasons:

The Plans 1 were not originally designed to provide a COLA.

- Inflation was relatively low from 1940 until the early 1970's.
- Members were not expected to live many years in retirement.
- The plans were intended to provide more of a reward for service than replacement income.

Eventually, changing times began to challenge this design. Periods of high inflation, increasing life spans, and increasing expectations for retirement all called into question the adequacy of the Plan 1 design. These challenges led to a rethinking of the basic purpose of retirement plans.

The Plans 2 were designed from the onset to provide a COLA.

Responding to challenges with the Plan 1 design, the Plans 2 were created in 1977. The Plans 2 were designed from the onset to be income replacement plans and to provide a post-retirement COLA. Part of this design was the establishment of a normal retirement age of 65—substantially higher than the retirement ages in Plan 1. The higher retirement age made the COLA more affordable and increased the likelihood the COLA would reasonably protect the value of the pension over the recipient's life.

The Plan 2 income replacement and COLA policy was carried forward into the design of the Plans 3 when those plans were created in the late1990s.

Benefits for Plans 1 retirees have increased over time.

COLA policy also changed within the Plan 1 design to a more limited extent. Responding to concerns about the adequacy of benefits and the impact of inflation, policy makers made several efforts over the years to increase benefits for retirees in the Plans 1. These efforts continued even after the closing of the Plans 1.

The Legislature has employed a variety of different approaches in their efforts to increase retiree benefits:

Various approaches have been used to increase retiree benefits.

- Establishing Minimum benefits and periodically increasing them to reflect changes in the cost-of-living.
- Granting various ad-hoc benefit increases.
- Granting increases based on earnings realized by plan assets.
- Providing an optional, CPI-based COLA from retirement paid for by members.
- Providing automatic COLAs (including Uniform).

Appendix A provides a history of post-retirement benefit increases in the Plans 1. Some highlights from this history are provided in Figure 2 below.

Figure 2
Key Post-Retirement Benefit Adjustments in The Plans 1

Year	Increase
1961	Minimum benefit established.
1970-1986	Various ad-hoc COLAs (3% - 6%) and Minimum benefit increases.
1987	3% automatic annual increase in Minimum benefit.
1989	CPI-based automatic COLA (up to 3%) for retirees whose purchasing power

Figure 2 Key Post-Retirement Benefit Adjustments in The Plans 1	
Year	Increase
	at age 65 drops more than 40%.
1995	Uniform COLA replaces CPI-based COLA.
1998	Gain-sharing established. Provided possible even-year increases in the Uniform COLA depending on investment earnings.
2008	Gain-sharing ended. Replaced by one-time increase to Uniform COLA.

The SCPP has taken action on Plans 1 COLA policy.

The SCPP studied the issue of purchasing power for Plans 1 retirees in 2003 and 2004, and received an update on the issue in 2005.

The SCPP has made several recommendations on COLAs in the Plans 1.

The SCPP has made several recommendations on COLAs in the Plans 1 that have been adopted by the Legislature:

- 2003*
  - $1,000 Alternative Minimum benefit for members with 25+ years of service and retired 20+ years.
- 2004*
  - $1,000 Alternative Minimum benefit for members with 20+ years of service and retired 25+ years.
  - Increase the amount of the Alternative Minimum by 3.0% each year.
  - One-time increase in the Uniform COLA.
  - Provide the Uniform COLA to members who will turn age 66 during the calendar year.

*Indicates year first recommended. Some proposals were recommended in more than one year. See Appendix A for year enacted.

Policy Analysis

Other Washington Plans

The Plans 2/3 provide a CPI-based COLA.

Washington's Plans 2/3 provide a CPI-based COLA. This COLA is designed to maintain the purchasing power of retiree benefits and is consistent with the underlying income replacement design of the plan. The Plan 2/3 COLA is an annual percentage increase in the retirement allowance beginning one year after retirement. The increase is based on changes in the CPI* up to a maximum of three percent per year.

As discussed in the History section, the Plan 2/3 COLA is tied to a normal retirement age of 65 (or 62 with 30 years of service). Members who retire prior to the normal retirement age still receive the COLA after one year—but on an actuarially reduced benefit.

**Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for Seattle-Tacoma-Bremerton (STB).*

Peer Systems

Washington's peer systems provide automatic CPI-based or fixed-percent COLAs.

All of Washington's peer systems provide an automatic post-retirement COLA in their open plans (see Figure 3). Five of those systems provide COLAs that are CPI-based with varying caps from two to six percent. The remaining systems provide fixed percent increases ranging from one and one-half to three percent. Systems where members are not covered by Social Security tend to provide larger COLAs. Most COLAs begin after 1 year of retirement; Florida and Idaho provide prorated COLAs for those retired less than one year.

Several of the peer systems provide protection against specific losses of purchasing power. Benefits in the California systems cannot fall below a minimum percent (75% or 80%) of the original benefit's purchasing power. Benefits in the Seattle system cannot fall below 60% of their original purchasing power. This is similar to a 1992 COLA provision that protected Plans 1 members from the loss of 40% of their age 65 benefits' purchasing power.

Figure 3
COLA Provisions by Select Retirement Systems*

System	COLA
Cal PERS	CPI based, 2% max (75% purchasing power min.)
Cal STRS	2% simple (80% purchasing power min.)
Colorado PERA**	CPI up to 3%
Florida (FRS)	3%
Idaho (PERSI)	CPI based, 1% min, 6% max,

Figure 3
COLA Provisions by Select Retirement Systems*

Iowa (IPERS)	Simple, 3% max, tied to investment surplus
Minnesota (MSRS)	CPI based, 2.5% max + investment surplus
Missouri (MOSERS)**	80% of change in the CPI, 5% max
Ohio (OPERS)**	CPI based, 3% max
Oregon PERS**	CPI based, 2% max
Seattle (SCERS)	1.5% (60% purchasing power min.)

*For new hires. Source: Member handbooks published on system administrators' websites as of 8/28/2008.
**Not covered by Social Security

Some state plans only provide ad-hoc COLAs.

While all of Washington's peer systems provide automatic CPI-based or fixed-percent COLAs, some states do not. According to the 2007 Public Fund Survey (a national survey of 126 retirement plans representing all 50 states), 26 state plans provide COLAs only on an ad-hoc basis. Also, 15 state plans provide COLAs that are in some part based on investment earnings. The remaining plans (nearly two-thirds) generally provide automatic CPI-based or fixed-percent COLAS.

Providing adequate benefits and protecting purchasing power are different policy objectives.

COLA policy has largely been driven by adequacy of benefits and purchasing power concerns.

COLA policy in the Plans 1 has largely been driven by the twin concerns of adequacy of benefits and purchasing power protection. Though there is some overlap, the two are very distinct concepts from a plan-design perspective and have different policy implications.

Adequacy of benefits relates to how well a pension ***meets expectations*** around a standard of living. In contrast, purchasing power protection relates to how well a pension ***retains value*** over time. To illustrate the difference: the pension of a highly-paid retiree might lose considerable value over time and still be considered "adequate", while the pension of a low-paid retiree might retain its full value over time but be considered "inadequate".

Purchasing power protection is addressed through COLAs.

Adequacy of benefits may be addressed through a variety of means including changing benefit formulas or establishing minimum benefits. Purchasing power protection is addressed through COLAs. The remainder of this paper will focus on policies around purchasing power protection.

The Uniform COLA and Plan 2/3 COLA were designed to meet different objectives.

Discussions of COLA Policy in the Plans 1 often involve comparisons between the Uniform and the Plan 2/3 COLA. These COLAs were designed to meet different policy objectives. Direct comparisons between them can be misleading.

The Uniform COLA is designed to meet four primary policy objectives within fiscal constraints:

The Uniform COLA provides more purchasing power protection to members with lower salaries.

- Provide a larger dollar increase to members with more service.
- Provide more purchasing power protection to members who retire with lower salaries.
- Provide a COLA at the same age that Plan 2/3 members qualify for an unreduced COLA.
- Provide legislators a simple mechanism to grant ad-hoc COLAs.

These objectives are consistent with the reward-for-service design of the Plans 1 and reflect trade-offs between adequacy of benefits and purchasing power protection. Tying the Uniform COLA to the Plan 2/3 unreduced retirement age may reflect a desire to maintain consistency between the plans in the starting age for unreduced COLAs. The design of the Uniform COLA also provides a simple mechanism for legislators to grant ad-hoc COLAs—the most recent example being the 40 cent (per month/per year of service) increase granted in 2008.

The Plan 2/3 COLA is designed to maintain purchasing power for all retirees.

In contrast to the Uniform COLA, the Plan 2/3 COLA is designed to maintain the value of members' pensions in an environment of moderate inflation. The Plan 2/3 COLA does not favor any one group of retirees. Retirees with relatively high salaries and high benefits receive the same protection from inflation as lower-salary, lower-benefit retirees. This is consistent with the underlying income-replacement design of the plan.

The Uniform and the Plan 2/3 COLA both provide inflation protection consistent with their respective plan designs.

While the Plan 2/3 COLA generally does a better job of maintaining the value of the pension than the Uniform COLA, there are exceptions. Some Plan 1 retirees may receive proportionately larger increases under the Uniform COLA than they would under the Plan 2/3 COLA. These would tend to be recipients of minimum benefits or low-wage, high-service retirees.

Existing policies impact this issue.

There are three key policies that are relevant to a discussion of this issue:

- Inflation protection,
- Intergenerational equity, and
- Amortization of Plan 1 unfunded liabilities.

The SCPP has adopted a policy goal directly related to inflation protection.

The SCPP has adopted a policy goal directly related to inflation protection. The goal is: "To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees." The Legislature has taken actions that support this goal by providing various automatic COLAs not included in the original design of the Plans 1. This includes the Uniform COLA and automatic increases in Minimum benefits.

A desire that retiree benefits should have some form and degree of protection from inflation is also evident in the creation of the Plans 2/3. These plans included a CPI-based automatic COLA in the original plan design.

Intergenerational equity requires benefits to be funded over the working lifetime of the member.

Another policy that impacts this issue is the Legislature's funding policy based on the concept of intergenerational equity. The policy is to fund, to the extent feasible, benefit increases for Plan 1 members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service [RCW 41.45.010 (4)].

Benefit increases granted to retired members are inconsistent with the concept of intergenerational equity. Why? None of the cost can be funded over their working lifetimes since they are already retired. Instead, the cost is generally born by taxpayers who never received services from the members.

Providing benefit improvements for active Plans 1 members consistent with intergenerational equity presents policy makers a challenge as well. Active members in the Plans 1 are generally close to retirement. This leaves limited opportunity to fund the cost of improved benefits over the remainder of their working lifetimes. Therefore, the source of contributions to fund benefit improvements increasingly becomes taxpayers who never received services from these members.

The cost of Plans 1 benefit improvements not funded over the members' working lifetimes is passed along to Plan 2/3 employers. All Plan 2/3 employers are required to make additional contributions to pay for these Plans 1 benefits.

Benefit improvements for past service increase the Plans 1 UAAL.

Benefit improvements for past service increase the Unfunded Actuarial Accrued Liability (UAAL) for the Plans 1. The UAAL exists because benefits already earned by Plans 1 members have not been fully paid for. Current funding policy requires that the UAAL in the Plans 1 be fully paid by June 30, 2024 [RCW 41.45.010(2)]. The level of benefit improvements that can be financed over the remaining amortization period may serve to constrain policy options.

COLA policy may impact human resource policies.

COLA policy in the Plans 1 may have an impact on human resource policies around post-retirement employment and retention.

The lack of a COLA for Plans 1 members prior to age 66 may encourage post-retirement employment. Returning to work after retirement may seem an attractive option for those who wish to accumulate additional assets to offset future inflation and other post-retirement expenses. This may lead to greater pressure for expanded post-retirement employment opportunities. In 2001, the Legislature expanded the post-retirement employment program for the Plans 1. The expansion allows Plans 1 retirees to work significantly more hours than Plans 2/3 retirees without having their pensions suspended.

On the flip side, providing a COLA in the Plans 1 prior to age 66 may encourage more Plan 1 members to retire at earlier ages. Such an outcome may conflict with employers' desire to retain their most experienced workers.

Several factors may impact purchasing power.

Policy makers seeking to answer questions about the need for an improved COLA in the Plans 1 may also turn to an economic approach. An economic approach to COLA policy considers the impact of inflation on the purchasing power of retiree pensions. When balanced with the overall policy considerations, an economic analysis may provide additional focus for further policy discussion.

Purchasing power is a measure of how well a pension retains its value over time.

Purchasing power is a measure of how well a pension retains its value over time. Purchasing power is measured by comparing the change in the member's pension over time with the amount of inflation over the same time period. Purchasing power is impacted by three factors:

- Inflation after retirement,
- Length of retirement, and
- Post-retirement COLAs

Inflation is the driving force behind the decline in the relative value of a pension over time. Members who retire during periods of high inflation will generally lose more purchasing power than members who retire during periods of relatively low inflation. See Appendix B for a history of inflation.

Likewise, members who are retired for a longer period of time are likely to lose more purchasing power due to post-retirement inflation than members who are retired for shorter periods. Earlier retirement ages and increasing life spans are significant factors in the loss of purchasing power experienced by some members.

Post-retirement COLAs help maintain purchasing power.

Post-retirement COLAs offset the effects of inflation and help maintain purchasing power. The Legislature has provided numerous COLAs in the Plans 1 (see Appendix A). Members who receive less in COLAs will generally lose more purchasing power over time than members who receive more in COLAs.

Figures 4 and 5 show the purchasing power for PERS and TRS Plans 1 service retirees by year of retirement. The Original Benefit line shows the purchasing power had no COLAs been provided. The Current Benefit line shows the purchasing power after factoring in all COLAs. The differences in purchasing power between the systems reflect the impact of COLAs received.

Figure 4
Purchasing Power of PERS 1 Service Benefits in 2008

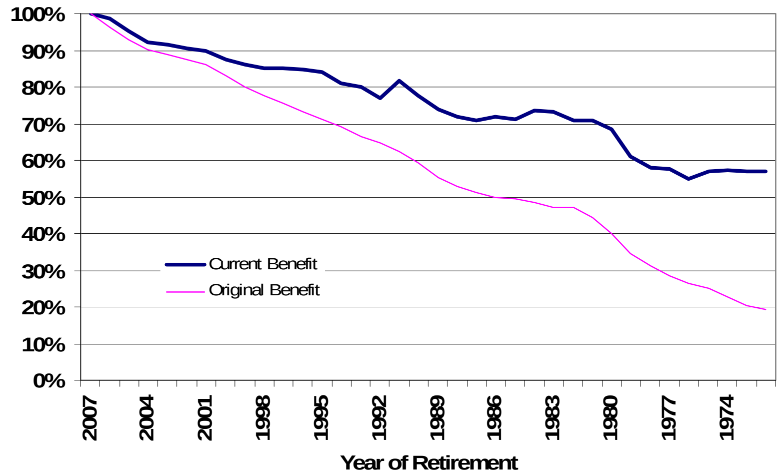
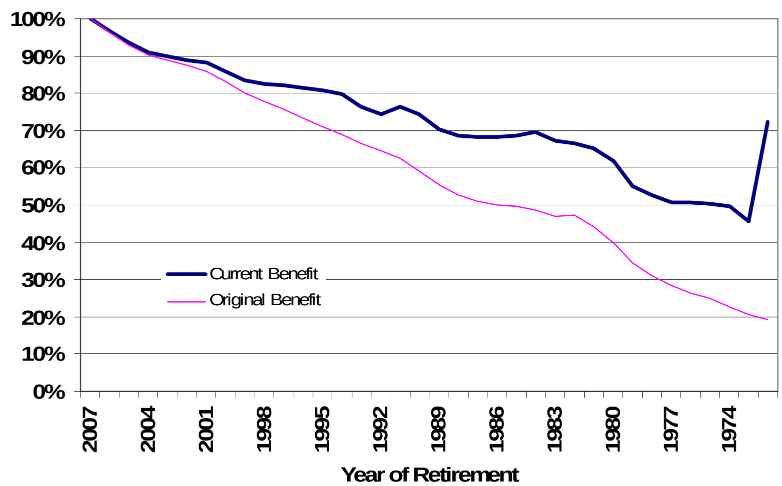


Figure 5
Purchasing Power of TRS 1 Service Benefits in 2008



Purchasing power for Plan 1 members who retired at the same time may vary widely from the group average due to post-retirement increases. The Plans 1 have provided numerous post-retirement benefit increases that were not designed to uniformly recover purchasing power. These include increases to minimum benefits, certain ad-hoc COLAs, and Uniform COLA increases. These increases impact members within the same group differently. Generally, the increases have served to recover more purchasing power for retirees with lower pensions.

The Uniform COLA helps maintain the value of pensions.

Some Uniform COLA recipients will continue to lose purchasing power.

A closer look at how the current Uniform COLA impacts purchasing power is relevant to a discussion of purchasing power within the Plans 1. The Uniform COLA helps maintain the value of a recipient's pension from age 65. Because the Uniform COLA is a dollar amount per year of service, it provides the greatest inflation protection for members who retired with the smallest salaries. (This includes members who worked lower-paying jobs, and members who retired many years ago when wages were generally lower.) Members who retire prior to age 65 may lose a significant amount of purchasing power in their pension before they receive their first Uniform COLA increase. Once they receive the Uniform COLA, the impact on purchasing power will vary. Some recipients (lower-salaried) may maintain or even recover lost purchasing power during some years, while others (higher-salaried) will face a continued erosion of purchasing power.

COLA policy is a balance.

As discussed earlier in this paper, current COLA policy in the Plans 1 reflects a balance between various concerns:

COLA policy reflects a balance between various concerns.

- Inflation protection,
- Adequacy of benefits,
- Intergenerational equity,
- Funding, and
- Human resources.

Policy makers may wish to consider whether or not the current balance is appropriate when evaluating the sufficiency of the Plans 1 COLA.

Key questions in shaping new COLA policy.

The first part of this paper has explored the question of whether or not the current COLA in the Plans 1 is sufficient. If policy makers feel the COLA needs improvement, they may next consider who most needs an improved COLA and what form the COLA should take. Answers to these key questions will help shape any new COLA policy.

COLAs can be targeted.

COLAs may be directed to individuals with the greatest perceived need.

It is likely that substantial improvements to the Plans 1 COLA will face fiscal constraints. Policy makers may then choose to direct limited COLA dollars to those individuals who they perceive as having the greatest need for a COLA. COLAs can be targeted to recipients based on loss of purchasing power, years retired, years of service, or size of benefit. If policy makers desire to maintain purchasing power they will likely target COLAs based on purchasing power or years retired. If the desire is to reward long careers, then COLAs will likely be targeted to members with many years of service. If the concern is adequacy of benefits, then COLAs will likely be targeted to members with the lowest pensions.

Besides directing dollars to recipients with the most need, targeting COLAs may serve other policy needs such as controlling costs or maintaining equity across the plans.

COLAs may be implemented many different ways.

The form that an improved COLA takes depends on the goals of policy makers. COLAs may be implemented in a variety of ways to achieve specific policy objectives. COLAs may be implemented on a one-time or ongoing basis, and the payment may take many forms.

COLAs may be ad-hoc or automatic.

Ad-hoc COLAs are one-time increases given to retirees. Ad-hoc COLAs can be very effective at making up for past inflation, but usually do little to address future inflation. Ad-hoc COLAs can give policy makers the most flexibility in reacting to specific situations and in controlling costs. When COLAs are ad-hoc, there is often little or no pre-funding—effectively making them pay-as-you-go benefit improvements.

In contrast, automatic COLAs are ongoing increases and usually benefit both active and retired members. Automatic COLAs can be very effective at protecting benefits against future inflation, but may do little to address lost purchasing power due to past inflation. Automatic COLAs may be preferred from the member viewpoint since they are ongoing and don't require continual action by policy makers. However, for the same reasons, it may be more difficult to fine-tune an automatic COLA for a specific situation. Because automatic COLAs are ongoing and more forward-looking, they offer greater opportunities for pre-funding. Pre-funding reduces the contributions required for a benefit improvement since more of the cost of the improvement is paid for by future investment returns.

COLA payments may take many forms. Some of these include:

COLA payments may take many forms.

- Percentage based on a CPI
- Fixed percentage
- Flat dollar amount
- Dollar amount per year of service

CPI-based COLAs are the most direct way to protect a benefit against inflation since the COLA is based on actual, measured inflation. CPI-based COLAs provide the same inflation protection to all recipients regardless of size of their pension. CPI-based COLAs often have an annual cap to control costs. However, an annual cap means that recipients will lose purchasing power when inflation exceeds the cap.

Fixed-percentage COLAs (i.e. 2% or 3%) protect against a set amount of inflation while controlling costs. They provide the same amount of inflation protection to all recipients regardless of the size of their pension. However, recipients will lose purchasing power when inflation exceeds the fixed percent.

Flat-dollar-amount COLAs (i.e. $100/month) provide proportionally greater increases to recipients with smaller pensions. While they may do little to protect purchasing power for retirees with larger pensions, flat-dollar-amount COLAs are an effective way to address adequacy of benefit concerns.

Dollar-amount-per-year-of-service COLAs (i.e. $10/month/year of service) provide larger increases to members with more service and proportionally larger increases to members who retired with lower salaries. This type of COLA is a blend between adequacy of benefits and reward for service policies. It may do little to protect the purchasing power of high-salaried retirees. The Uniform COLA is an example of this type of COLA in the Plans 1.

COLAs might be impacted by IRS requirements.

Any of the COLA designs mentioned above might be impacted by Internal Revenue Service (IRS) requirements. Some designs might result in COLAs that do not conform to IRS requirements for tax-qualified plans or must be administratively reduced to comply with IRS requirements. This is more likely to be an issue with COLAs designed to make up for long periods of past inflation. Policy makers may wish to consult tax counsel before making significant changes in COLA policy.

Policy makers have flexibility in crafting COLA policy.

Policy makers have a great deal of flexibility in crafting new COLA policy for the Plans 1. Policy makers may target, implement and design COLAs in a variety of ways to support their policy objectives. Any new COLA policy may be constrained by fiscal and IRS considerations.

Conclusion

The issue of COLAs in the Plans 1 raises three basic questions for policy makers. Is the current COLA sufficient? If not, who most needs an improved COLA? And what form should a new COLA take?

In considering these questions, policy makers will likely balance a wide variety of concerns including inflation protection, adequacy of benefits, intergenerational equity, funding, and human resources. The current Plans 1 Uniform COLA reflects trade-offs between these various concerns. Any change to the Uniform COLA will likely involve further trade-offs. Given likely fiscal constraints, policy makers may choose to direct limited COLA dollars to recipients with the greatest perceived need.

Stakeholder Proposals

Stakeholders are seeking improvements in the COLAs provided to PERS and TRS Plan 1 retirees. The stakeholders have proposed both a short-term and a long-term option. The short-term option modifies the design of the existing Uniform COLA by granting additional increases based on the year of retirement. The long-term option replaces the existing service-based Uniform COLA with a new CPI-based COLA design.

Preliminary pricing of these proposals will be available at the September meeting.

Proposal #1: Short-Term Option

Increase the 2009 Uniform COLA by the following additional amounts based on year of retirement:

Year Retired	Increase Amount *($ per month/per year of service)*
1985-1990	$0.75
1980-1984	$1.00
1979 and earlier	$1.50

This option has several broad policy implications which are discussed in more detail below. These include:

- Modifies existing COLA policy.
- Provides larger increases to members retired the longest.
- Does not precisely replace purchasing power.
- Impacts minimum benefits.

This option is consistent with the reward-for-service design.

Modifies existing COLA policy.

This option would establish a new policy objective within the existing Uniform COLA design. The new policy would grant different COLAs based on year of retirement. This differs from the current Uniform COLA design of granting the same increase to all members with the same service. However, it is consistent with the reward-for-service design of the Plans 1 since the COLA amount is still based on years of service—within each group. No additional increases are provided for members who retired after 1990. However, policy makers may feel less need to provide an additional COLA to these members since they had the option of purchasing the CPI-based Auto-COLA at retirement.

Some members who have been retired longer have not necessarily lost more purchasing power.

Provides larger increases to members retired the longest.

This option grants larger COLA increases to members who have been retired longer. Some members who have been retired longer have not necessarily lost more purchasing power after past COLAs are factored in. To more precisely replace lost purchasing power would require measuring purchasing power on an individual basis—which may be more complex to administer.

Does not precisely recover purchasing power.

Targeting COLAs on a group basis does not precisely recover an individual's lost purchasing power. The purchasing power of individuals within the group varies due to past COLAs. This means that some members will benefit more than others in any group approach. The large differences between the steps of the increases further increase this discrepancy for some members. As an extreme example, a member who retired in 1979 will receive a COLA that is 50 percent larger than a member who retired in 1980—even though inflation was only 16.1 percent between 1979 and 1980. While this approach does not precisely recover purchasing power for an individual, it is relatively easy to administer and does provide larger increases to groups that have lost more purchasing power.

Impacts minimum benefits.

This would effectively create four different Basic Minimum benefits.

This proposal has implications for minimum benefit policy since the Basic Minimum is tied to the Uniform COLA amount. This proposal would effectively create four different Basic Minimum benefits based on year of retirement. Minimum benefits are intended to provide an adequate standard of living for recipients. Policy makers may question whether it is appropriate to establish different standards of living based solely on length of retirement. For example, does someone retired for 30 years require a larger pension to maintain an adequate standard of living than someone retired for only 5 years? The Legislature set a precedent for providing higher minimum benefits based on years retired when it established the Alternate Minimum benefit in 2004. Policy makers exploring this option may wish to consider if the Basic Minimum should continue to be linked to the Uniform COLA or if a different increase mechanism would be preferable.

Proposal #2: Long-Term Option

Replace the Uniform COLA with a CPI-based COLA similar to the Plan 2/3 COLA:

- CPI up to 3% maximum a year.
- Starts one year after retirement.
- Retroactive or prospective.

This option has several broad policy implications which are discussed in more detail below. These include:

- Establishes a new COLA policy.
- Generally prevents the further loss of purchasing power.
- Diminishes benefits for some members.
- Provides a better COLA in the Plans 1 than in the Plans 2/3.

Establishes a new COLA policy.

This option is more consistent with an income replacement design.

This option would establish a new* COLA policy for the Plans 1 of basing COLAs on actual inflation—regardless of service or salary. This policy is more consistent with an income replacement plan design such as the Plans 2/3. It is also a departure from the current policy to provide more inflation protection to members who retired with lower salaries.

*A CPI-based COLA was provided from 1989-1994. The COLA began after a member lost more than 40 percent of purchasing power from age 65.

Generally prevents the further loss of purchasing power.

Fully retroactive increases might have implications for plan qualification.

Providing this COLA on a prospective basis will generally prevent the further erosion of purchasing power for current and future retirees—as long as long-term inflation averages less than 3 percent. Making it retroactive will enable retirees to recover lost purchasing power, but will be more expensive. Providing COLA increases retroactive to retirement will likely result in relatively large increases for some retirees (i.e. doubling the pension) and might have implications for plan qualification under IRS requirements.

Diminishes benefits for some members.

Diminishing benefits raises questions around contractual rights.

The Uniform COLA will provide larger increases for some retirees—whether the new CPI-based COLA is applied prospectively or retroactively. Members who would likely benefit more under the Uniform COLA design include those who retired with relatively low salaries or who are receiving the Basic Minimum benefit. Diminishing benefits raises questions around contractual rights protections. Statute specifies that future increases to the Uniform COLA are not a contractual right. However, this kind of statutory language is currently subject to litigation.

Provides a better COLA in the Plans 1.

This proposal has implications for equity between the plans. It would provide a better COLA to some Plan 1 members than is available to Plan 2/3 members. Plan 1 members would receive an unreduced COLA regardless of age. In contrast, Plan 2/3 members who retire prior to age 65 (or age 62 with 30 years of service) receive a COLA on an actuarially reduced benefit—effectively reducing the COLA they receive. This would result in many Plan 1 members receiving more generous lifetime benefits than similarly situated Plan 2/3 members.

Next Steps

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

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

Stakeholder Input

Correspondence from:

Public Employees for Pension Reform (PEPR)

Appendix A

History of Post-Retirement Adjustments in TRS 1 and PERS 1

Date	TRS 1	PERS 1
3/21/61		Minimum pension $900/year if retired at age 70 with 10 or more years of service $60/month if 15-19 years of service $70/month if 20-24 years of service $80/month if 25-29 years of service $90/month if 30 or more years of service
3/21/67		Minimum benefit increases to: $60/month if 12-15 years of service $90/month if 16-19 years of service $120/month if 20 or more years of service
7/1/67	Pension portion of benefit increased to $5.50/month/year of service if age 65 and not qualified for Social Security.	
3/25/69		Minimum benefit increases to: $75/month if 12-15 years of service $100/month if 16-19 years of service $130/month if 20 or more years of service
7/1/70	Minimum benefit revised to $5.50/month/year of service. Applicable to members retiring before 4/1/69. Applied to the pension portion of the benefit.	The following received for each $1 of pension by year of retirement: ‘49 - $1.5239 ‘56 - $1.3687 ‘63 - $1.2116 ‘50 - $1.5386 ‘57 - $1.3485 ‘64 - $1.1960 ‘51 - $1.5239 ‘58 - $1.3031 ‘65 - $1.1813 ‘52 - $1.4110 ‘59 - $1.2601 ‘64 - $1.1620 ‘53 - $1.3805 ‘60 - $1.2501 ‘65 - $1.1291 ‘54 - $1.3702 ‘61 - $1.2116 ‘66 - $1.0980 ‘55 - $1.3643 ‘62 - $1.2255 ‘67 - $1.0536
7/1/71		5.95% COLA applied to pension portion of the benefit if retired before 12/31/70.
7/1/72	5.9% COLA for all members retired before 7/1/71, plus an additional 5.4% for those retired between 7/1/69 and 6/30/70.	
4/25/73		Minimum benefit of $6.50/month/year of service. 3% permanent increase based on assets in excess of current liabilities.
7/1/73	$3/month/year of service for retirees not eligible for Social Security.	Increase of 1.0609% if the member retired before 1972 and their service retirement allowance was adjusted in section (1) for adjustment made of 4/25/73.

Date	TRS 1	PERS 1
7/1/74	11.9% pension increase for those retired on 6/31/70. 2.9% pension increase for those retired 7/1/70 - 6/30/73. 3% COLA on total allowance for those retired on 12/31/73.	3% COLA for those retired prior to 12/31/73.
7/1/75		3% COLA for those retired prior to 12/31/74.
7/1/76	Minimum pension benefit of $7.50/month/year of service if retired prior to 4/25/73.	3% COLA for those retired prior to 12/31/75.
7/1/77	Minimum pension benefit of $8.00/month/year of service if retired prior to 4/25/73.	3% COLA for those retired prior to 12/31/76.
7/1/78		3% COLA for those retired prior to 12/31/77.
7/1/79	Minimum pension benefit of $10/month/year of service for retirees of 7/1/79. Disability and survivor benefits as of 12/31/78, and service benefits as of 7/1/74 permanently increased by $0.8171 multiplied by the member's years of service.	Minimum pension benefit of $10/month/year of service for retirees of 7/1/79. 3% COLA for those retired prior to 12/31/78.
7/1/80		3% COLA for those retired prior to 12/31/79.
7/1/81		Excess earnings adjustment no longer in effect as employer contribution rate increased above rate on 4/24/73.
7/1/83	$0.74/month/year of service COLA to disability and survivor benefits being received on 12/31/82 and service retirement benefits being received on 7/1/78.	
7/1/86	Minimum benefit increased to $13.00/month/year of service.	
7/1/87	Permanent automatic 3% annual increase to the minimum benefit becomes effective. Minimum pension benefit increased to $13.50/month/year of service.	
7/1/88	Minimum pension benefit increased to $13.82/month/year of service.	
7/1/89	Minimum pension benefit increased by $1 to $14.91/month/year of service and then increased 3% to $15.36/month/year of service. Permanent automatic COLA enacted for retirees whose age 65 purchasing power had been reduced by more than 40%.	
7/1/90	Minimum pension benefit increased 3% to $15.72/month/year of service. 3% COLA for eligible retirees.	
7/1/91	Minimum pension benefit increased 3% to $16.19/month/year of service. 3% COLA for eligible retirees.	
2/1/92	The current benefits of those eligible for the COLA adjusted to be equal to 60% of their age 65 retirement allowance.	
7/1/92	Minimum pension benefit increased 3% to $16.68/month/year of service. 3% COLA for eligible retirees.	

Date	TRS 1 / PERS 1
7/1/93	Minimum pension benefit increased 3% to $17.18/month/year of service. 3% COLA for eligible retirees. Continuation of special adjustment effective 2/92. Temporary ad hoc COLA effective through 6/30/94, $3/month/year of service for those retired 5 years, who were 70 years of age, and did not receive a COLA in 1992.
7/1/94	Minimum pension benefit increased 3% to $17.70/month/year of service. 3% COLA for eligible retirees. Special adjustment effective 2/92 made permanent. Temporary ad hoc COLA extended to 6/30/95. Provides $3/month/year of service to eligible retirees.
7/1/95	Uniform Increase established. Initial increase of $0.59/month/year of service to be increased by 3% per year. Retirees are eligible for the Uniform Increase if they have been retired at least one year and are age 66 by July 1st in the calendar year in which the annual increase is given, or if their retirement allowance is lower than the minimum benefit amount. Minimum benefit increased to $24.22/month/year of service, and to automatically increase each year by the Annual Increase amount. Temporary ad hoc COLA that had been extended to 6/30/95 made permanent.
7/1/98	Gain-sharing established, providing even-year enhancements to the Annual Increase amount based on half the compound average investment returns in TRS 1 and PERS 1 plan assets over the previous four fiscal years that exceed 10%.
7/1/04	$1,000 minimum benefit (before optional benefit payments) established for retirees with 25 years of service and at least 20 years of retirement. Does not include an automatic increase. Effectively sunsets after the regular minimum increases to $40/month/year of service.
7/1/06	$1,000 minimum benefit (before optional benefit payments) extended to retirees with 20 years of service and at least 25 years of retirement. Automatic increase provided for $1,000 minimum of 3% per year.
7/1/07	Uniform COLA eligibility changed to include all retirees who have been retired one year and will have attained age 66 by December 31st of the calendar year in which the increase is given.
7/22/07	Gain-sharing repealed after 2008 distribution. One-time increase in the Uniform COLA of $0.40*/month/year of service in lieu of future gain-sharing. *Thirty-five cents of the increase payable Jan. 1, 2008; five cents payable on July 1, 2009.

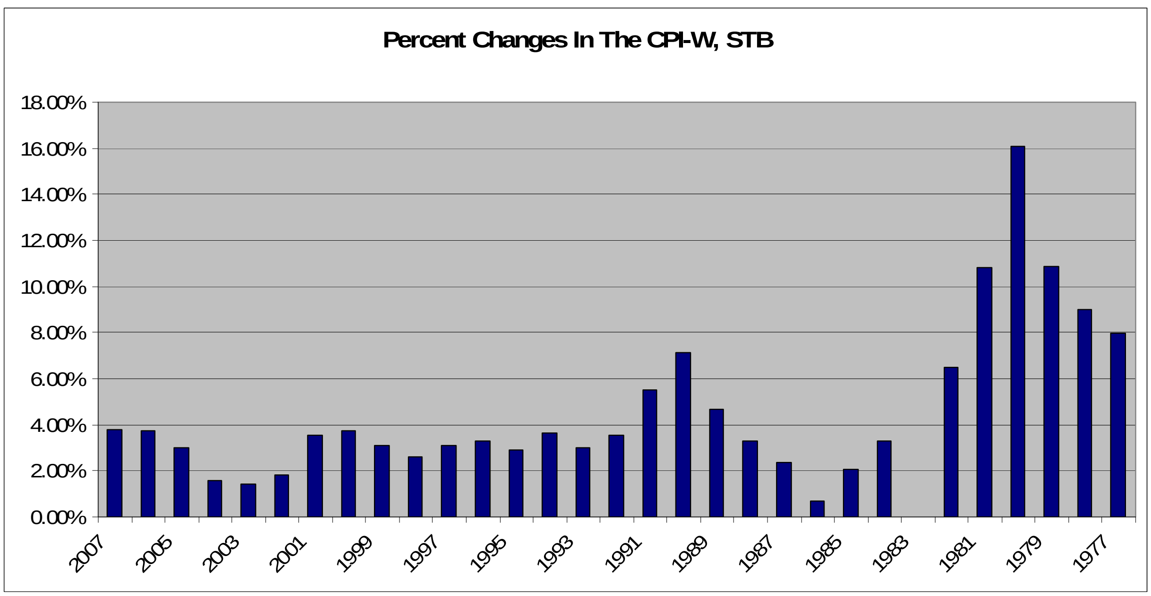
Appendix B

Consumer Price Index

Inflation is measured by the Consumer Price Index (CPI). The CPI records changes in the price of a set "market basket" of goods and services at different points in time. The U.S. Department of Labor publishes numerous indexes that measure inflation based on different market baskets and geographic regions. Each CPI produces a slightly different measure of inflation. The CPI most commonly used in Washington State's retirement systems is the Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB).

An individual may experience inflation quite different from that measured by the CPI if the goods and services purchased by the individual do not closely match the market basket used by the CPI.

The following graph shows historical rates of inflation based on annual changes in the CPI-W, STB. Data for the graph is provided on the following page.



Percent Changes in the CPI-W, STB

Year	CPI	Change
2007	623.65	3.79%
2006	600.9	3.73%
2005	579.3	3.02%
2004	562.3	1.57%
2003	553.6	1.41%
2002	545.9	1.81%
2001	536.2	3.55%
2000	517.8	3.75%
1999	499.1	3.10%
1998	484.1	2.63%
1997	471.7	3.10%
1996	457.5	3.30%
1995	442.9	2.90%
1994	430.4	3.66%
1993	415.2	2.98%
1992	403.2	3.54%
1991	389.4	5.53%
1990	369.0	7.11%
1989	344.5	4.68%
1988	329.1	3.30%
1987	318.6	2.35%
1986	311.3	0.71%
1985	309.1	2.08%
1984	302.8	3.27%
1983	293.2	-0.27%
1982	294.0	6.48%
1981	276.1	10.84%
1980	249.1	16.08%
1979	214.6	10.85%
1978	193.6	9.01%
1977	177.6	7.96%

Year	CPI	Changes
1976	164.5	5.58%
1975	155.8	10.11%
1974	141.5	10.98%
1973	127.5	6.52%
1972	119.7	2.84%
1971	116.4	2.11%
1970	114.0	4.40%
1969	109.2	4.90%
1968	104.1	4.10%
1967	100.0	2.99%
1966	97.1	2.75%
1965	94.5	1.18%
1964	93.4	1.41%
1963	92.1	1.66%
1962	90.6	1.46%
1961	89.3	1.59%
1960	87.9	1.27%
1959	86.8	1.88%
1958	85.2	2.28%
1957	83.3	4.13%
1956	80.0	1.27%
1955	79.0	0.51%
1954	78.6	0.00%
1953	78.6	1.29%
1952	77.6	2.51%
1951	75.7	7.68%
1950	70.3	1.44%
1949	69.3	-0.43%
1948	69.6	8.24%
1947	64.3	13.20%
1946	56.8	

Source	U.S. Department of Labor, Bureau of Labor Statistics
CPI :	Urban Wage Earners and Clerical Workers (Current Series)
Seasonal:	Not Seasonally Adjusted
Area:	Seattle-Tacoma-Bremerton, Washington
Base:	Alternate (base period = 1967)
Item:	All Items

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Public Employees for Pension Reform

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

TO: Select Committee on Pension Policy (SCPP)

FROM: Public Employees for Pension Reform (PEPR)

DATE: June 17, 2008

RE: Options for Plan 1 COLA Improvement

During the April SCPP meeting, the PEPR coalition requested that the issue of Plan 1 Purchasing Power – COLA Improvement be placed on the Select Committee on Pension Policy's (SCPP) 2008 Interim agenda. At the direction of the Executive Committee, advocates were directed to work with the Office of the State Actuary and legislative fiscal committee staff to explore short and long-term options that address inadequacies of the current Plan 1 COLA.

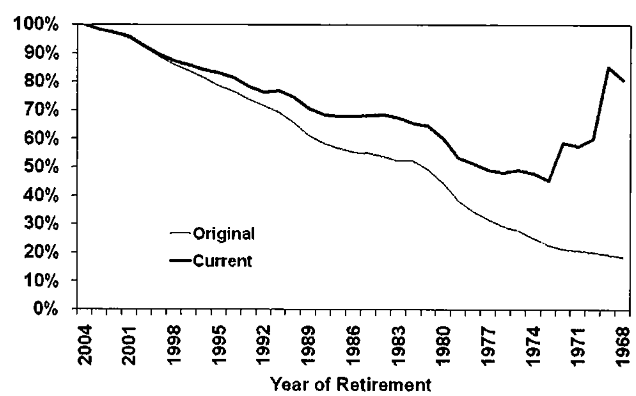
The Uniform Plan 1 COLA is not a true "Cost of Living Adjustment (COLA)" since it is not based on economic indicators such as the Consumer Price Index (CPI), but is "post-retirement adjustment" based on a *dollars/per month/per years of service formula*. The **Annual Increase**:

1. started at $.59 per month per years of service, effective 7/1/95;
2. increases each year by 3% (estimated at $1.73 per month, per year of service as of 7/1/08), and
3. is cumulative upon eligibility.

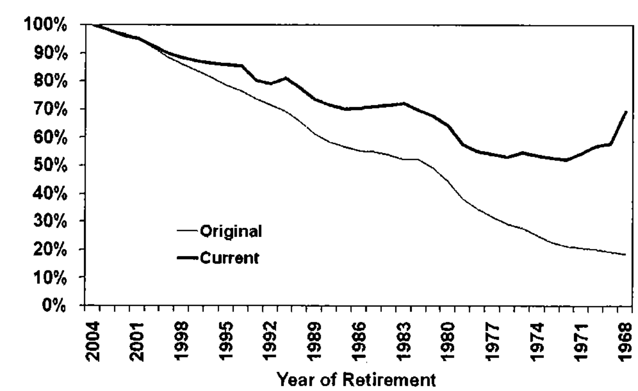
When the Uniform COLA was established in 1995, to help address *inadequacie*s of the base annual increase amount and to make the benefit cost neutral with the COLA being replaced, certain **"Adjustments"** to the COLA's *annual increase amount* were granted to retirees based on age. Though these adjustments were of help, long-time retirees continue as those who have experienced the most severe losses of purchasing power.

In June of 2005 the Office of the State Actuary presented a briefing to SCPP members regarding Teachers Retirement System (TRS) and Public Employees Retirement System (PERS) Plan 1 Purchasing Power. The briefing indicated that even with the modest improvements that Gain Sharing provided to the Uniform Plan 1 COLA, erosions in the purchasing power of Plan 1 pension benefits continue. *As the dated charts provided for illustration purposes below indicate*, members of TRS/PERS Plan 1 who retired during the 1970s have lost approximately 50% of their purchasing power.

Purchasing Power of TRS 1 Service Benefits in 2004



Purchasing Power of PERS 1 Service Benefits in 2004



Source: Office of the State Actuary 6/8/05

The charts illustrate the percentage of purchasing power lost relative to the date retired. The line "current benefit" represents receipt of the original pension benefit, plus the Uniform Plan 1 "COLA." An updated briefing on the status of Plan 1 Purchasing Power, especially for long-time retirees would be helpful in providing SCPP members with a better picture of the value of pension benefits to Plan 1 retirees.

Short and long-term options that address inadequacies of the current TRS/PERS Plan 1 COLA that the PEPR coalition requests the SCPP's consideration of include:

Short-Term Plan 1 COLA Improvement

New Supplemental Adjustment to the Uniform COLA's **Annual Increase** granted 7/1/09 based on the year of retirement:

- 1985-90 — $0.75 per month/per years of service
  (approximate benefit increase of $22.50 per month for a retiree with *30 years of service*)
- 1980-84 — $1.00 per month/per years of service
  (approximate benefit increase of $30.00 per month for a retiree with *30 years of service*)
- 1979 and earlier* — $1.50 per month/per years of service
  (approximate benefit increase of $45.00 per month for a retiree with *30 years of service*)

* Also includes current recipients of the Minimum Benefit retired before 1979.

The design of the benefit improvement is a variation of the '95 adjustments to provide a supplemental adjustment to the annual increase of the Uniform Plan 1 COLA based on year of retirement. This option would provide relief to those who have been retired the longest, and have experienced the most severe losses in purchasing power.

Long-Term Plan 1 COLA Improvement

Replace Uniform "COLA" with a true *Cost-of-Living Adjustment* (COLA):

- based on 100% of the Consumer Price Index (CPI) up to 3% (banked)
- CPI: Urban Wage Earners & Clerical Workers, Seattle-Tacoma-Bremerton, WA – All Items
- paid/compounded annually
- beginning 1 year after retirement
- preferably retroactive up to limits provided by the Internal Revenue Service (IRS); but possibly prospective.

This option would bring uniformity to COLA benefit design between systems and plans.

The measure of a defined pension plan's worth is how it retains its value over the retirement years of plan members. The value of TRS/PERS Plan 1 pension benefits needs to be protected from substantial losses in purchasing power which occur due to the design of Plan 1, especially for long-time retirees. The PEPR coalition looks forward to addressing the critical issue of Plan 1 purchasing power with SCPP members this Interim.

PEPR
(Public Employees for Pension Reform)

Washington State Federation of State Employees (WFSE)
Matt Zuvich, Chair – 306-352-7603

American Federation of Teachers
Bernal Baca- 206-242-4777 x 20

Association of Washington School Principals &
Washington Association of School Administrators
John Kvamme - 360-943-5717

Public School Employees of Washington
Tom Lopp – 866-820-5662

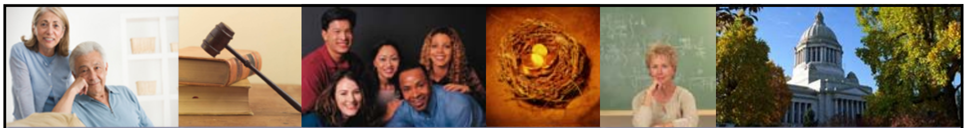
Retired Public Employees Council of Washington
Cassandra de la Rosa & Beverly Hermanson – 360-352-8262

Teamsters Union – Local 117
Mike Ryherd – 206-441-4860

Washington Education Association &
Washington Education Association - Retired
Randy Parr - 360-943-3150

Washington Public Employees Association
Luis Moscoso - 360-943-1121

Washington State School Retirees' Association
Ed Gonion, Leslie Main & Don Carlson - 360-413-5496



The Select Committee on Pension Policy

Plan 1 COLA Proposals

Darren Painter, Policy Analyst

September 16, 2008

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

What Is The Issue?

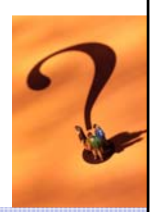
- SCPP asked to revisit PERS & TRS Plans 1 COLA
- Stakeholders seeking improvements
  - Proposed two changes
- Does the SCPP want to develop a proposal?

Today's Briefing

- Work session
- Policy and economic framework
- Preliminary pricing
- Materials include
  - Executive Summary
  - Issue Paper

Key Policy Questions

- Is the current COLA sufficient?
- If not
  - Who most needs an improved COLA?
  - What form should the COLA take?



Policy Highlights

- Plans 1 COLA helps maintain value of pensions
- Plan 1 and Plan 2/3 COLAs designed for different purposes
- SCPP has policy on inflation protection
- Retroactive benefit increases
  - Increase the Plan 1 UAAL
  - Counter to intergenerational equity
- Many ways to design COLAs

Washington's COLA Policy Has A Long History

- COLA policy has changed over time
  - Plans 1 (1938 & 1947) didn't include COLA when created
  - Plans 2 (1977) included COLA when created
    - Inflation & longevity
- Benefits for Plans 1 retirees have increased over time
  - Over 40 post-retirement increases since 1961
- SCPP-taken action on Plans 1 COLAs
  - Studied three out of past five years
  - Four SCPP recommendations enacted by legislature

Plans 1 Provide The Uniform COLA (UCOLA)

- Automatic, service-based
- Payable year recipient turns 66
- Increases by 3% each year
- $1.73/month/year of service in 2008
- Tied to minimum benefits
  - Basic Minimum increases by UCOLA
  - $38.92/month/year of service in 2008

Larger Percentage Increases For Smaller Pensions

Uniform COLA Example: 30 Years of Service

Pension Before COLA	2008 Uniform COLA	Pension After COLA	Percent Increase
$1,500.00	$51.90	$1,551.90	3.46%
$3,000.00	$51.90	$3,051.90	1.73%
$1,115.70 Basic Minimum	$51.90	$1,167.60 Basic Minimum	4.65%

UCOLA Helps Maintain Value Of Pensions

- Blends adequacy of benefits and purchasing power
- More protection for retirees with lower salaries
  - Lower-paying jobs
  - Retired many years ago
- Protection starts at age 65
  - Age 55 retiree will face ten years of inflation
- Once UCOLA received, the level of protection varies
  - Some will recover lost purchasing power
    - Lower pay, retired longer
  - Others will continue to lose purchasing power
    - Higher pay, recently retired

Percentage COLAs Are More Common

- Plans 2/3 provide automatic CPI-based COLA
- Other States
  - Two-thirds state plans provide automatic CPI-based or fixed-percent COLAs
  - 26 state plans provide ad-hoc COLAs
  - 15 state plans provide COLAs based on investment earnings
  - Source: 2007 Public Fund Survey
    - Surveys 126 plans from all 50 states
- Plans 1 members can "buy" automatic CPI-based COLA at retirement

Plans 1 & 2/3 COLAs Designed For Different Purposes

- Direct comparison can be misleading
- Uniform COLA
  - Reward for service
  - More protection for lower salaries
- Plan 2/3 COLA
  - Maintain value during moderate inflation
  - Equal protection for all
- Different retirement age polices
  - Career-based vs. exiting workforce

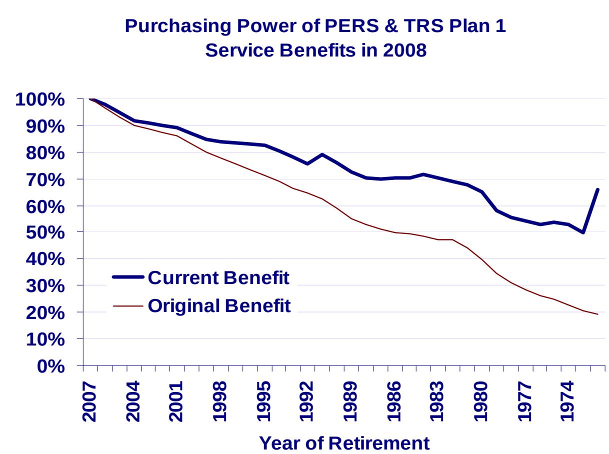
Three Key Policies

- Inflation protection
- Intergenerational equity (IE)
- Funding policy

SCPP Has Policy On Inflation Protection

- *"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."*
- Legislature has supported this goal
  - Uniform COLA
  - Automatic increases in minimum benefits

COLAs Have Impacted Purchasing Power



Retroactive Benefit Increases Are Counter to IE

- Plans 1 funding policy based on IE
  - Fund, to the extent feasible, benefit increases over the working lifetimes of Plan 1 members
  - Adopted as goal by SCPP
- Prefunding reduces required contributions
  - Investment earnings cover much of cost
- Increases for retirees can't be prefunded
- Limited opportunity to prefund increases for active Plans 1 members
- Costs are passed to future generations
  - Employers (Plans 2/3)
  - Taxpayers

Retroactive Benefit Increases Increase UAAL

- Plans 1 have unfunded past liability (UAAL)
  - Benefits already earned haven't been paid for
  - Required to be paid off by 2024
- Benefit increases based on past service increase UAAL
  - Entire cost for retirees
  - Most of the cost for actives

Many Ways To Design COLAs

- Targeted based on need
- Ad-hoc (one-time) or automatic
- Payment can take many forms
- Lot of flexibility to design COLAs to support specific policy objectives

Stakeholder Proposals

- Short-term option
- Long-term option

Short Term Option

- Supplements existing Uniform COLA
- Grants additional increases based on year of retirement
  - 1985-1990 = $0.75*
  - 1980-1984 = $1.00*
  - 1979 and earlier =$1.50*

  **dollars/month/year of service*
- Impacts nearly 33,000 retirees

Policy Implications: Short-Term Option

- Trade-off between ease of administration and precision
  - Doesn't precisely replace lost purchasing power
  - Benefits some more than others
  - Easy to administer
- Impacts minimum benefits
  - Creates four different Basic Minimums based on retirement date
  - Basic Minimum tied to Uniform COLA increase
- Do members retired longer require larger minimum benefits?
- Should Basic Minimum continue to be linked to the Uniform COLA?

Preliminary Fiscal Impact: Short-Term Option

- Total Employer Rate Increase
  - 0.09% PERS, SERS, PSERS
  - 0.20% TRS
- Total GFS Cost ($ millions)
  - $15 2009-2011
  - $126 25 Year
- Total Employer Cost ($ millions)
  - $35 2009-2011
  - $335 25 Year
- These costs are preliminary and will be updated for any legislation based on this proposal

Long-Term Option

- Replaces Uniform COLA
- Provide a CPI-based COLA like the Plan 2/3
  - CPI up to 3% maximum a year
  - Starts one year after retirement
  - Retroactive or prospective
- Impacts over 114,000 active, terminated vested, and retired members

Policy Implications: Long-Term Option

- Generally prevents the further loss of purchasing power
- Making retroactive recovers lost purchasing power
  - Might have IRS implications
- Diminishes benefits for some members
- Has contractual rights implications
- Provides a better COLA in the Plans 1 than the Plans 2/3
  - Plans 1 members receive unreduced COLA at any age
  - Plans 2/3 members receive reduced COLA if they retire prior to age 65 or (62 & 30)

Preliminary Fiscal Impact: Long-Term Option

- Prospective only
- Total Employer Rate Increase
  - 0.94% PERS, SERS, PSERS
  - 2.13% TRS
- Total GFS Cost ($millions)
  - $155 2009-2011
  - $1,368 25 Year
- Total Employer Cost ($millions)
  - $368 2009-2011
  - $3,622 25 Year
- These costs are preliminary and will be updated for any legislation based on this proposal

Next Steps

- Decide whether or not to revisit this issue
- Options include
  - Take no further action
  - Draft legislation based on stakeholder proposals
  - Study additional options

7. SCPP Recommended Legislation to Lower General Salary Increase Assumption

SCPP Recommended Legislation to Lower General Salary Increase Assumption

Description of Issue

Economic assumptions for Washington's state retirement systems are specified within the actuarial funding chapter of state law. See RCW 41.45.035. The funding chapter also provides that the Pension Funding Council (PFC) and ultimately, the Legislature can modify these assumptions. As part of the contribution rate-setting process, the SCPP makes recommendations to the PFC regarding any changes to the assumptions.

On July 15, 2008, after hearing the recommendation of the State Actuary, the SCPP voted to recommend lowering the general salary increase assumption from 4.50 to 4.25 percent. The PFC received the SCPP's recommendation and adopted this assumption change at its meeting on July 22, 2008.

The SCPP also passed a motion to recommend legislation in 2009 that would make the state statute consistent with the new assumption. Staff has prepared a bill draft and draft fiscal note for September's public hearing before the SCPP. The proposed legislation would implement the SCPP's decision, and would also be consistent with the final decision of the PFC.

Materials Provided

- SCPP's July 15, 2008 Recommendation to the Pension Funding Council on 2009-2011 Contribution Rates
- Bill draft, Z-0119.2/09
- Draft fiscal note

What is the Next Step?

This is the final step for SCPP action on this issue. The matter is scheduled for a public hearing on September 16, 2008. The SCPP may take executive action to move the bill to the Legislature in 2009.

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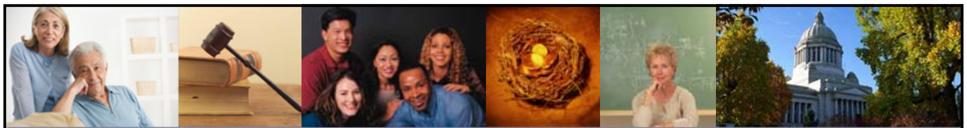

The Select Committee on Pension Policy

SCPP Recommended Legislation to Lower General Salary Increase Assumption

Laura Harper, Policy and Research Services Manager

September 16, 2008

Office of the State Actuary
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Today's Public Hearing

- On July 15, 2008 the SCPP recommended that the general salary increase assumption be lowered
  - Based on recommendation from State Actuary
  - Assumption used for systematic actuarial funding of retirement systems
- PFC adopted all SCPP recommendations on July 22, 2008
- SCPP also voted to recommend legislation in 2009
  - Align statute with new assumption
  - Bill draft provided
  - LEOFF Plan 2 excluded
- Draft fiscal note provided
  - No fiscal impact
  - Based on assumptions and rates newly adopted by PFC

Select Committee on Pension Policy

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

July 15, 2008

TO: **Pension Funding Council Members**
Senator Margarita Prentice, Chair Ways and Means Committee
Senator Joseph Zarelli, Ranking Minority Member Ways and Means Committee
Representative Helen Sommers, Chair Appropriations Committee
Representative Gary Alexander, Ranking Minority Member, Appropriations Committee
Ms. Sandra Matheson, Director Department of Retirement Systems
Mr. Victor Moore, Director Office of Financial Management

FROM: *Senator Mark Schoesler*, Chair Select Committee on Pension Policy
Representative Steve Conway, Vice-Chair Select Committee on Pension Policy

SUBJECT: **SELECT COMMITTEE ON PENSION POLICY RECOMMENDATION ON 2009-11 PENSION CONTRIBUTION RATES**

The Select Committee on Pension Policy recommends that the Pension Funding Council adopt the State Actuary's recommended contribution rates for the 2009-2011 biennium with projected mortality improvements, using the general salary increase assumption of 4.25 percent. The SCPP will recommend legislation for 2009 that reduces the salary growth assumption in RCW 41.45.035(b) from 4.5 to 4.25 percent.

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

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0119.2/09 2nd draft
ATTY/TYPIST:	LL:seg
BRIEF DESCRIPTION:	Lowering the general salary increase assumption for the actuarial funding of certain public retirement systems.

AN ACT Relating to lowering the general salary increase assumption from 4.5 percent to 4.25 percent for the actuarial funding of the public employees' retirement system, the teachers' retirement system, plan 1 of the law enforcement officers' and firefighters' retirement system, the school employees' retirement system, the public safety employees' retirement system, and the Washington state patrol retirement system; amending RCW 41.45.035; providing an effective date; and declaring an emergency.

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

Sec. 1. RCW 41.45.035 and 2004 c 93 s 2 are each amended to read as follows:

(1) Beginning July 1, 2001, the following long-term economic assumptions shall be used by the state actuary for the purposes of RCW 41.45.030:

(a) The growth in inflation assumption shall be 3.5 percent;

(b) The growth in salaries assumption, exclusive of merit or longevity increases, shall be 4.5 percent;

(c) The investment rate of return assumption shall be 8 percent; and

(d) The growth in system membership assumption shall be 1.25 percent for the public employees' retirement system, the school employees' retirement system, and the law enforcement officers' and firefighters' retirement system. The assumption shall be .90 percent for the teachers' retirement system.

(2) <u>Beginning July 1, 2009, the following long-term economic assumption for growth in salaries, exclusive of merit or longevity increases, shall be used by the state actuary for the purposes of RCW 41.45.030: 4.25 percent for the public employees' retirement system, the teachers' retirement system, plan 1 of the law enforcement officers' and firefighters' retirement system, the school employees' retirement system, the public safety employees' retirement system, and the Washington state patrol retirement system.</u>

<u>(3)</u>(a) Beginning with actuarial studies done after July 1, 2003, changes to plan asset values that vary from the long-term investment rate of return assumption shall be recognized in the actuarial value of assets over a period that varies up to eight years depending on the magnitude of the deviation of each year's investment rate of return relative to the long-term rate of return assumption. Beginning with actuarial studies performed after July 1, 2004, the actuarial value of assets shall not be greater than one hundred thirty percent of the market value of assets as of the valuation date or less than seventy percent of the market value of assets as of the valuation date. Beginning April 1, 2004, the council, by affirmative vote of four councilmembers, may adopt changes to this asset value smoothing technique. Any changes adopted by the council shall be subject to revision by the legislature.

(b) The state actuary shall periodically review the appropriateness of the asset smoothing method in this section and recommend changes to the legislature as necessary.

<u>NEW SECTION.</u> **Sec. 2.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2009.

--- END ---

DRAFT
ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**9/6/08**	**Z-0119.2**

WHAT THE READER SHOULD KNOW

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

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

SUMMARY OF RESULTS

This proposal changes the general salary increase assumption currently in statute to be consistent with the assumption change adopted by the Pension Funding Council (PFC) on July 22, 2008. The PFC lowered the general salary increase assumption for the actuarial funding of the state retirement systems from 4.5 percent to 4.25 percent for all state-administered plans and systems identified in Chapter 41.45 RCW except the Law Enforcement Officers' and Firefighters' (LEOFF) Plan 2.

There is no fiscal impact resulting from this proposal.

WHAT IS THE PROPOSED CHANGE?

Summary of Change

This proposal impacts the following systems and plans:

- Public Employees' Retirement System (PERS): Plans 1, 2, and 3
- Teachers' Retirement System (TRS): Plans 1, 2, and 3
- School Employees' Retirement System (SERS): Plans 2 and 3 [Note: there is no Plan 1 in SERS.]

- Public Safety Employees' Retirement System (PSERS) [Note: there is only one plan in PSERS.]
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF): Plan 1 [Note: LEOFF Plan 2 is excluded from this proposal.]
- Washington State Patrol Retirement System (WSPRS), "Plans 1 and 2" [Note: "Plan 2" covers commissioned employees who first became members of the system on or after January 1, 2003.]

The proposal changes the general salary increase assumption for the actuarial funding of the plans and systems listed above to be consistent with the assumption change adopted by the PFC. The PFC lowered the general salary increase assumption from 4.5 percent to 4.25 percent. This assumption is referred to in state statute as the "growth in salaries assumption, exclusive of merit or longevity increases," and is found in RCW 41.45.035(1)(b).

Assumed Effective Date: July 1, 2009

What Is The Current Situation?

Currently the actuarial funding chapter of state law specifies the general salary increase assumption to be used for the actuarial funding of the plans and systems identified within the chapter. The assumption in statute is 4.5 percent. On July 22, 2008, the Pension Funding Council adopted a change in this economic assumption. The assumption was lowered to 4.25 percent in response to a recommendation from the State Actuary based on the results of the 2008 Experience Study. The Board of Trustees for LEOFF Plan 2 also received this recommendation from the State Actuary and did not adopt the assumption change.

This proposal would make the statutory provision in the actuarial funding chapter consistent with the assumption change already adopted by the Pension Funding Council. Also, the proposal is crafted to retain the 4.5 percent assumption already in place for LEOFF Plan 2.

[Note: RCW 41.45.030(3) authorizes the Council to modify the long-term economic assumptions for those retirement systems identified in the actuarial funding chapter. Economic assumptions for LEOFF Plan 2 are set by the LEOFF Plan 2 Board of Trustees pursuant to RCW 41.26.720(1)(a).]

ACTUARIAL RESULTS

This proposal simply aligns the current assumptions which are set in statute with the latest actions of the PFC. The PFC also adopted contribution rates that reflect this assumption change and the fiscal impact is included in the current law budget. As a result, there is no additional impact on the actuarial liabilities or contribution rates for this proposal.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. This draft fiscal note has been prepared for the Select Committee on Pension Policy.
2. This draft fiscal note has been prepared, and opinions given, in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of this draft fiscal note.

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

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