



The Select Committee on Pension Policy

2009 Legislative Highlights

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Office of the State Actuary

"Securing tomorrow's pensions today."

A New Approach

- Focus on new pension proposals
 - Did not come through SCPP processes
- What can we learn?
- What opportunities for SCPP?
- Individual bill activity and information is available
 - Legislative summary spreadsheet
 - Summary slides as appendix



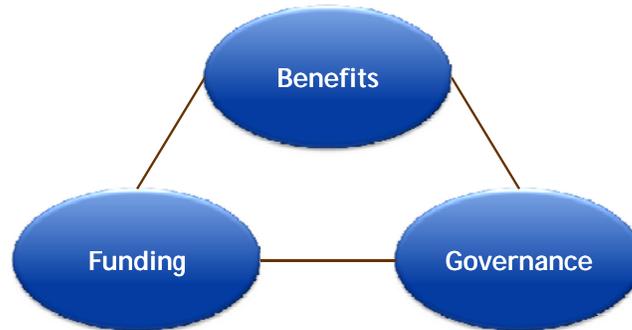
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New Pension Ideas

- Bills introduced in each facet of pensions



What Benefits Proposals Were Introduced?

- Bills with limited scope
- Bills related to domestic partners
- Deferred retirement option plan (DROP)

New Proposals To Modify Benefits

- Passed the Legislature
 - Calculating compensation for retirement purposes *(SB 6157)*
- Did not pass the Legislature
 - Court commissioners *(HB 1742/SB 5523)*
 - Plan 1 military service credit *(HB 2196)*
 - Survivor death benefits for LEOFF Plan 1 *(SB 6078)*



Proposals To Modify Benefits

- Extending limited benefits to a specific group
- Similar scope to some SCPP bills
 - Past part-time service credit
 - Survivors of PERS 1 inactives
- SCPP may be requested to study some of these proposals

Registered Domestic Partners

- Three bills passed affecting pension benefits
- Washington Domestic Partner Registry created in 2007
 - Same-sex partners or where one partner is at least age 62
 - Extended some rights to registered domestic partners
 - Health care decisions, hospital visitation
 - Did not affect pension rights
- A national debate
 - Eleven states allow or are close to allowing same-sex marriage or civil unions
 - Twenty-six states have constitutional bans on same-sex marriages



What Were The Three Bills?

- Registered Domestic Partners (*SB 5688*)
 - Extends spousal rights to registered domestic partners
 - Includes but not specifically about pension rights
- Washington State Patrol (WSP) Domestic Partners (*HB 1445*)
 - Extends spousal rights to registered domestic partners
- LEOFF 2 Domestic Partners (*HB 1616*)
 - Extends spousal rights to registered domestic partners 7

Why Three Bills?

- Additional benefits
 - WSP and LEOFF 2 include survivor PEBB coverage
- Different implementation dates
 - WSP and LEOFF 2 effective ninety days after session
 - Remaining systems and plans effective 1/1/2014



New Benefit Type - DROP

- DROP
 - Allows certain retirement-eligible members to direct their pension into a special account while they continue to work
 - Upon retirement, participating members are paid the accumulated funds in the account
- WSP DROP (HB 1443/SB 5333)
 - Did not pass the Legislature

Things To Know About DROPs

- Typically designed to meet specific human resource needs
- Details and costs of plans can vary
 - Do they change retirement behavior?
- A different approach to Retire-Rehire
- Some plans have been controversial



Evaluating New Benefits

- Plan design is a product of balancing
 - Needs
 - Values
 - Affordability
- SCPP Goal 2 - Balanced Long-Term Management
 - Create stability, competitiveness, adaptability
 - HR needs of recruitment and retention

Proposals Related To Funding

- Plan 1 funding method change
- Closed plan funding
- Defined contribution plan



Plan 1 Funding Method Change

- Plan 1 funding method (*SB 6161*)
 - Affects Plan 1 of PERS and TRS
 - Removes 2024 full funding requirement
 - Uses rolling ten-year amortization
 - Implements maximum and minimum rates
- Passed the Legislature

Why Was The Method Restructured?

- Spike in contributions
- Possibility of running out of money
- Budget deficit



Investing For A Closed Retirement Plan

- Closed plan funding method (*SB 6046*)
 - Bill requires new investment policy when closed fund reaches fully funded status-preservation of assets
 - Intended to reduce volatility of asset value
 - Current investment policy is to maximize return at a prudent level of risk
- Did not pass the legislature
- Plans 1 were healthy in 2000
- A "Wellness" plan?
- May impact other aspects of funding

Creating Consistent And Predictable Funding

- A Defined Contribution (DC) plan *(SB 6045)*
 - Office of the State Actuary (OSA) would draft legislation for a DC plan for new hires in PERS, TRS and SERS
 - Intent of legislation
 - DC Plan would create consistent and predictable funding obligations
- Did not pass the Legislature
- DC plans gaining prominence in private sector
- Limited use in public sector as a primary retirement plan
- Impacts of closing plans



Pension Funding Principles

- Principles in Washington
 - Systematic actuarial funding
 - Long-term view
 - Intergenerational equity
- SCPP Goal 5 - consistency with actuarial funding chapter
 - Systematic funding
 - Fully fund Plans 1
 - Predictable, long-term employer rates
 - Fund benefits over the members' working lifetime

Governance Proposals

- WSP Governance
- Suspension of the SCPP



A Different Governance Model For WSP

- WSP Governance (*HB 1444/ SB 5332*)
 - Bills proposed creation of a new policy advisory board
 - Later amended to create a new sub-committee of the SCPP
 - Early House budget contained language to convene SCPP's Public Safety Sub-committee for WSP
- Did not pass the Legislature



Meeting Members' Needs

- Advocates testified that SCPP cannot adequately consider concerns of WSP members
 - Focus is on larger plans
- First introduced in 2008 Legislative Session
 - Board of trustees
- Studied by Office of Financial Management in 2008 interim
- LEOFF Plan 2 has own board of trustees

Suspension Of The SCPP

- Elimination/Suspension of Boards and Commissions
 - SCPP included in an early Senate (*SB 5588*) and House (*HB 1497*) bill
 - Other bills later introduced at request of Governor that did not include SCPP (*HB 2087* and *SB 5995*)
- SCPP suspension later amended into Senate budget bill
- Senate amended and passed SB 5995 that included SCPP suspension
- Suspension amended out of bill by the House - "Legislature will establish criteria"



Boards And Commissions

- Why so much activity?
- Governor required to propose eliminations every odd year
- Effort to reevaluate how government operates
 - Cost
 - Effectiveness
 - Currently are 470 Boards/Commissions/Committees

Governance

- Fundamental actions
 - Make policy
 - What is the desired outcome?
 - Delegate
 - Who can best carry out the necessary tasks?
 - Oversee
 - Is the desired outcome being achieved?
 - Are the tasks being carried out effectively, efficiently, and fairly?



Final Thoughts

- New policy introduced
 - Did not come through SCPP processes
- Opportunities for the Committee?
 - New proposals
 - May want/be requested to study
 - New questions about SCPP
 - Strategic look at role in governance
 - Develop effectiveness criteria/measures

More Information

- 2009 Legislative Update included in members' packets
 - Summary of each pension bill
 - Electronic version contains active links
 - Bill history
 - Bill and amendment language
 - Fiscal notes
- Appendix slides also summarize legislative activity
- OSA staff



Appendix: Just The Facts

- 34 pension related bills introduced
 - 14 by SCPP or SCPP/L2 Board
- 26 bills received a hearing
 - All 14 SCPP or SCPP/L2 Board
- 21 bills passed at least one house
 - 11 SCPP or SCPP/L2 Board
- 13 Passed the legislature
 - 7 SCPP or SCPP/L2 Board

Appendix: SCPP Bills That Passed The Legislature

- Pre-LEOFF Survivor Benefits (*HB 1506*)
- Interruptive Military Service Credit (*HB 1548*)
- Military Death Benefits (*HB 1551*)
- F&W SC Transfer (*HB 1953*)
- PERS to SERS Auto Transfer (*SB 5303*)
- DRS Technical Corrections (*SB 5305*)
- Survivors of P1 Inactive (*SB 5315*)

- All but DRS Technical Corrections had been previously recommended by SCPP

Appendix: SCPP Bills That Didn't Pass The Legislature

- Passed at least one house
 - Past Part-time Service Credit (HB 1541/SB 5302)
 - OSA Request Legislation (HB 1544/SB 5310)
 - \$150,000 Death Benefit (HB 1547/SB 5312)
 - Change PERS 2/3 Default (HB 1722/SB 5307)
- Received a public hearing
 - Lower General Salary Increase Assumption (HB 1543/SB 5304)
 - HECB Proposal (HB 1545/SB 5308)
 - Disability Benefits Study (HB 1549/SB 5306)



Appendix: LEOFF 2 Board Bills

- Passed the Legislature
 - Duty Disability Reclassification (HB 1678/SB 5542)
 - Allows previous retirees to be reclassified as disabled in the line of duty
- Did not pass the Legislature
 - PEBB Access for Catastrophically Disabled (HB 1679/SB 5541)
 - Allow catastrophically disabled retirees access to PEBB insurance benefits

Appendix: Issues Previously Before SCPP

- Did not pass the Legislature
 - Rule of 85 in Plans 2/3 (HB 1599)
 - Plan 3 Vesting (HB 1600)
 - Plans 2/3 Post-Retirement Employment (HB 1602/SB 5490, HB 2143)
 - Plans 2 PEBB Access (HB 1601/SB 5489)
 - Received a hearing in the House

