



The Select Committee on Pension Policy

Dual-Member ESAs

*Darren Painter, Senior Policy Analyst
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Office of the State Actuary

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What Is The Issue?

- Stakeholders requested SCPP study allowing members who were required to join Plan 3 to transfer to Plan 2
- Suggested that Education Staff Associates (ESAs) with service in Plan 2 and Plan 3 of different systems could be pilot group
- Asked if members are penalized by having their service in more than one system



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Initial Work Session on New Issue

- Raises questions within questions
- Large policy question involving Plans 2/3 choice
 - Process question about using a pilot group
 - Benefits question related to the suggested pilot group



Larger Question Of Plans 2/3 Choice

- Should Plan 3 members who were required to join that plan be given the opportunity to transfer to Plan 2?
- Evaluating this question requires consideration of
 - Plan design trade-offs
 - Plan choice
 - IRS plan qualification
- Response may hinge on what's driving the request



Legislature Designed Plans 2/3 With Trade-Offs

- Designed for different workforce needs
 - Plan 2 for career employees
 - Plan 3 for mobile work force
- Different impacts on members
 - Plan 2
 - Less member control
 - Less member risk
 - Plan 3
 - More member control
 - More member risk
- Benefits may not be equivalent
 - Individual circumstances
 - Market performance



Some Members Were Required To Join Plan 3

- Currently all new hires in PERS, TRS, and SERS can choose between Plan 2 and Plan 3
- Before July 1, 2007, TRS and SERS members required to join Plan 3
- Plan choice for TRS and SERS members
 - Provided on July 1, 2007
 - Part of legislation that repealed gain sharing
 - Legislation is being litigated



Transfer May Jeopardize Plan Qualification

- Allowing Plan 3 members required to join that plan to transfer to Plan 2 could jeopardize plan qualification with IRS
 - Based on advice from tax counsel
- Why?
 - IRS considers Plans 2/3 one governmental defined benefit plan
 - IRS typically allows one choice of contribution rates
 - Plan 3 members make contribution rate choice when hired
 - Going back to Plan 2 likely viewed as another rate choice



What's Driving Transfer Requests?

- Is Plan 3 design no longer meeting workforce needs?
 - Is it time to revisit plan design?
 - Can changes be made to Plan 3 that would alleviate concerns leading to transfer requests?
 - Is it better to wait until Plan 3 has a longer track record before considering changes?
 - First Plan 3 (TRS) opened 1995
- Are some Plan 3 members seeking to improve or maximize their benefits by finding the best plan design?
 - Policy makers may question timing
 - Reaction to market downturns?
 - Will members want to go back when markets improve?
 - Policy makers may question if members will later regret a decision to transfer
 - What if their circumstances change and Plan 3 seems a better fit?



Implications For Incremental Approach To Transfer

- Stakeholders have suggested an incremental approach using a pilot group
- Policy implications
 - Allowing one group to transfer may increase pressure to allow other groups
 - How to choose a pilot group?
- Process implications
 - Incremental approach may take more time and effort
 - May add more complexity to retirement systems



Stakeholders' Suggested Pilot Group

- Educational Staff Associates with service in Plan 2 and Plan 3 of different systems
- ESAs include counselors, occupational and physical therapists, librarians, etc.
- Members with service in different systems are generally known as dual members
- Number of dual-member ESAs is unknown
 - Data not collected



How Does Someone Become Dual Member?

- Starts career in PERS 2
 - ESA, clerical, custodial position
- Goes to work for school district
 - Required to join TRS 3
- Service in two systems and two plans
 - PERS 2 and TRS 3
 - Dual-system/dual-plan member



How Many Dual-System/Dual-Plan Members?

- Around 8,000 dual-system/dual-plan members
 - ESAs suggested for pilot group are a subgroup of this larger group
 - Distinguished from larger group by job duty
- Should dual member status or job duty be the criteria for selecting a pilot group?
- Do dual members have unique plan design concerns?



Are Dual Members Harmed?

- Stakeholders asked if members are harmed by having service in more than one system
 - Not part of the larger plan transfer or pilot group questions
 - Focus is on dual membership
- Statutory provision to address dual member concerns
 - Combine service for retirement eligibility
 - Use highest salary from either system
- Dual member provisions designed to
 - Protect the value of benefits within each system
 - Ensure that members are not harmed by having service in more than one system



Conclusion

- Stakeholders raised questions around plan transfer
 - Should members who were required to join Plan 3 be allowed to transfer to Plan 2?
 - Should dual-member ESAs be used as a pilot group for transfer?
- Policy makers may wish to consider
 - IRS ramifications of plan transfers
 - What's driving the requests
 - Plan design doesn't meet work force needs?
 - Individuals seeking the best plan for their situation?
 - If an incremental approach will add more complexity to the retirement systems and take more time and effort
 - If job duty or dual member status is the best criteria for selecting a pilot group



Next Steps?

- Take no action
- Study further in 2010 interim

