Select Committee on Pension Policy

# 2009 Pension Primer

Office of the State Actuary

*"Securing tomorrow's pensions today."*

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# I. Select Committee on Pension Policy

# 2009 Select Committee on Pension Policy

## Member Directory

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# Select Committee on Pension Policy

## Rules of Procedure

(June 19, 2007)

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. <u>Duties of Officers.</u>

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. <u>Staff.</u> 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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# Goals for Washington State Public Pensions

## (Revised and Adopted September 27, 2005)

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

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

3. Retirement Eligibility. To establish a normal retirement age for memberscurrently in the Plans 2/3 of PERS, SERS, and TRS that balances employerand employee needs, affordability, flexibility, and the value of the retirementbenefit over time.

4. Purchasing Power. To increase and maintain the purchasing power ofretiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, whileproviding 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 thebenefits to members and retirees of the Washington State RetirementSystems.

   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.

   e. To fund, to the extent feasible, benefit increases over the working livesof those members so that the cost of those benefits are paid by thetaxpayers who receive the benefit of those members' service.

# Summary of SCPP Laws

| | |
|---|---|
| **Members** | • Four Senate members[1]<br>• Four House members[1]<br>• Four active members or representatives<br>• Two retirees or representatives<br>• Four employer representatives<br>• Directors of DRS and OFM |
| **Organization** | ***Chair*** :<br>Senate member in even numbered years, House member in odd numbered years<br>***Vice-Chair:***<br>House member in even numbered years, Senate member in odd numbered years<br>***Executive Committee:***<br>• Chair<br>• Vice-Chair<br>• Active member representative<br>• Retiree member representative<br>• Employer representative<br>• Director of DRS<br>***Possible Subcommittees:***<br>• Public safety<br>• Education<br>• State and local government |
| **Duties** | • Study pension issues and develop pension policies<br>• Study financial condition of state pension systems and develop funding policies<br>• Make recommendations to Legislature and Pension Funding Council |
| **Other** | ***State Actuary Appointment Committee:***<br>• Appoint or remove State Actuary<br>The committee shall consist of:<br>• Chair and ranking minority member of House Ways and Means Committee<br>• Chair and ranking minority member of Senate Ways and Means Committee<br>• Four members of the SCPP appointed by Chair and Vice Chair, including at least one active or retiree representative, and one employer representative<br>***Pension Funding Council:***<br>• Solicit and administer actuarial audits and submit results to SCPP<br>• Receive recommendations from SCPP and adopt changes to economic assumptions and contribution rates (subject to revision by the Legislature) |
| **Staff** | ***Office of the State Actuary*** |

[1] *Three must be from the Ways and Means Committee.*

# Excerpts from the Revised Code of Washington

## RCW 41.04.276 Select Committee on Pension Policy

## Creation ✧ Membership ✧ Terms of Office ✧ Staff Support

(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 Select Committee on Pension Policy Subcommittees

(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 Select Committee on Pension Policy

## Powers and Duties

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. [2003 c 295 § 5.]

# RCW 44.44.013 State Actuary Appointment Committee

## Creation ✧ Membership ✧ Powers

(1) The state actuary appointment committee is created. The committee shall consist of:

(a) The chair and ranking minority member of the house of representatives appropriations committee and the chair and ranking minority member of the senate ways and means committee; and

(b) four members of the select committee on pension policy appointed jointly by the chair and vice chair of the select committee, at least one member representing state retirement systems active or retired members, and one member representing state retirement system employers.

(2) The state actuary appointment committee shall be jointly chaired by the chair of the house of representatives appropriations committee and the chair of the senate ways and means committee.

(3) The state actuary appointment committee shall appoint or remove the state actuary by a two thirds vote of the committee. When considering the appointment or removal of the state actuary, the appointment committee shall consult with the director of the department of retirement systems, the director of the office of financial management, and other interested parties.

(4) The state actuary appointment committee shall be convened by the chairs of the house of representatives appropriations committee and the senate ways and means committee

(a) whenever the position of state actuary becomes vacant, or

(b) upon the written request of any four members of the appointment committee. [2003 c 295 § 13.]

## RCW 41.45.100 Pension Funding Council

## Creation

(1) The pension funding council is hereby created. The council consists of the:

(a) Director of the department of retirement systems;

(b) Director of the office of financial management;

(c) Chair and ranking minority member of the house of representatives appropriations committee; and

(d) Chair and ranking minority member of the senate ways and means committee.

The council may select officers as the members deem necessary.

(2) The pension funding council shall adopt changes to economic assumptions and contribution rates by an affirmative vote of at least four members. [1998 c 283 § 2.]

## RCW 41.45.110 Pension Funding Council

## Audits Required ✧ Select Committee on Pension Policy

The pension funding council shall solicit and administer a biennial actuarial audit of the preliminary and final actuarial valuations used for employer and member rate-setting purposes. This audit will be conducted concurrent with the actuarial valuation performed by the state actuary. At least once in each six-year period, the pension funding council shall solicit and administer an actuarial audit of the results of the experience study required in RCW 41.45.090. Upon receipt of the results of the preliminary actuarial audits required by this section, and at least thirty days prior to adopting contribution rates, the pension funding council shall submit the results to the select committee on pension policy. [2007 c 280 § 6; 2003 c 295 § 10; 1998 c 283 § 3.]

# II. Office of the State Actuary

# Office of the State Actuary

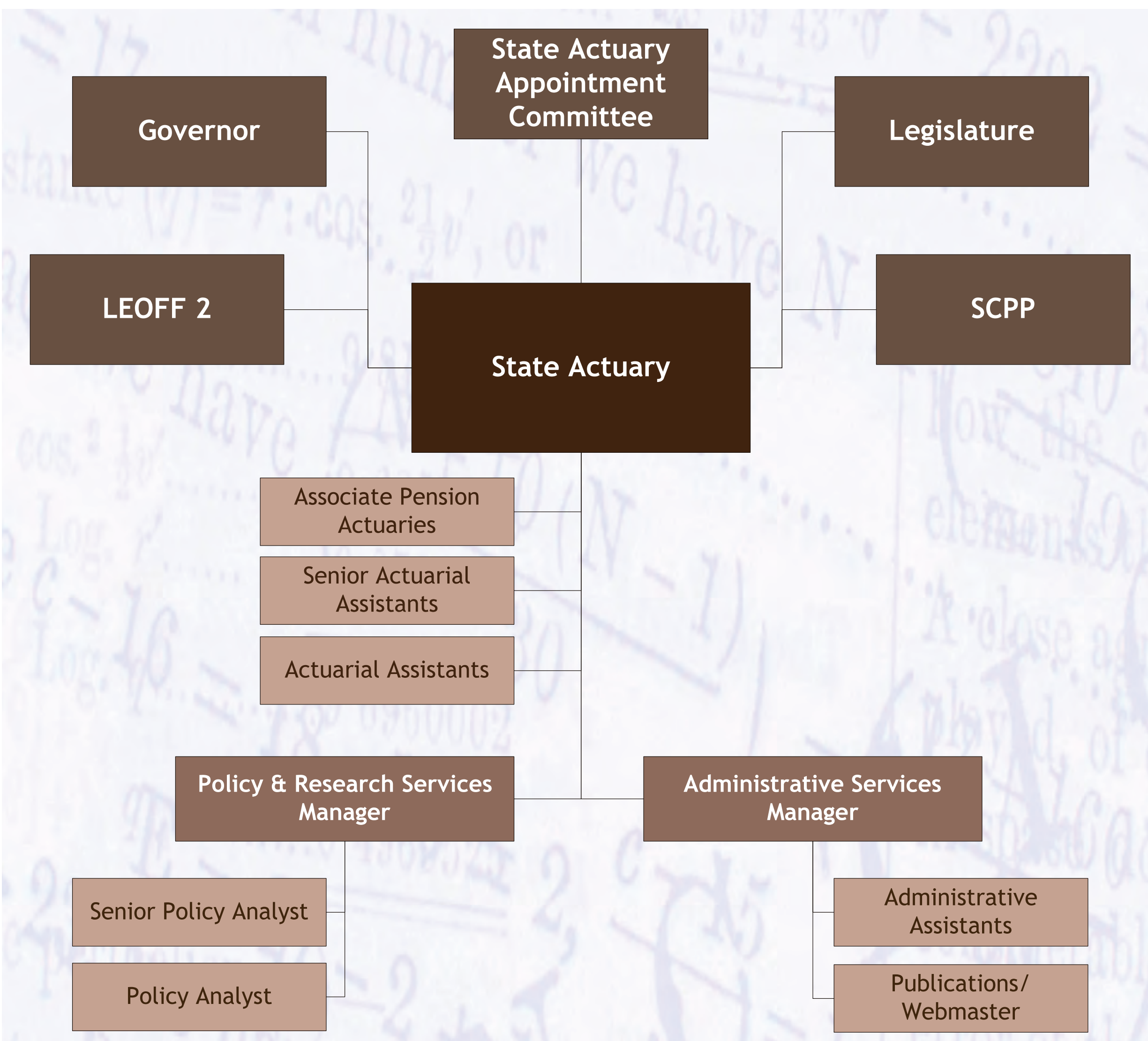
## Mission Statement

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.

## Values Statement

We model the highest level of professionalism. We remain independent and unbiased when delivering services in support of our mission. We value teamwork and collaboration to continually improve the quality of our services and working relationships. We promote a fun and friendly office culture that provides work-life balance and opportunities to grow.

## Organization Chart



# Office of the State Actuary

## Staff Directory

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# Office Overview

The Office of the State Actuary (OSA) is an agency of the Washington State Legislature. OSA was created in 1977 and its duties are set forth in Chapters 44.44 and 41.24 RCW.

## Principle Duties

- Perform actuarial valuations on all state funded and/or state sponsored retirement plans.
- Recommend employer/state and member contribution rates to the Pension Funding Council (PFC) based on the results of the valuations.
- Prepare an actuarial fiscal note on each pension bill introduced in the Legislature.
- Provide staff and assistance to the Select Committee on Pension Policy (SCPP).
- Provide actuarial assistance to the Law Enforcement Officers' and Fire Fighters' Plan (LEOFF) 2 Board.
- Perform all actuarial services for the Department of Retirement Systems (DRS).
- Provide actuarial assistance and advice to the Legislature and Governor.
- Provide actuarial services for the state Board for Volunteer Fire Fighters and Reserve Officers.

## Publications

- **Annual Valuations** - reports containing full actuarial disclosure, including the funded status of the state's retirement plans, usually published in August/September.
- **Experience Studies** - reports comparing actual experience to actuarial assumptions, usually published at least once every six years. OSA is required to perform these studies at least once every five years.
- **Pension Studies** - major studies of particular pension issues, usually in response to legislative mandates.
- **Pension Watch!** - an e-mail service notifying subscribers of significant developments affecting public sector pension plans.

## Websites Maintained by the OSA

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

# State Pension Agencies

| Authority | Responsibility |
|---|---|
| **Legislative** | **House and Senate Ways and Means**<br>**All Plans**<br>• Hold hearings on pension proposals before the Legislature<br>**Office of the State Actuary / RCW 44.44.040**<br>**All Plans**<br>• Prepare actuarial valuations of the Plans<br>• Provide fiscal notes/all pension legislation<br>• Advise Legislature/Governor on pension issues<br>• Staff the Select Committee on Pension Policy<br>• Provide actuarial assistance to:<br>Department of Retirement Systems<br>LEOFF 2 Retirement Board |
| **Quasi-Legislative** | **Pension Funding Council / RCW 41.45**<br>**All Plans, except LEOFF 2**<br>• Adopt economic assumptions<br>• Adopt contribution rates (subject to revision by the Legislature)<br>• Provide for an actuarial audit of valuation results<br>**Pension Funding Work Group / RCW 41.45.120**<br>**All Plans, except LEOFF 2**<br>• Provide support to the Pension Funding Council<br>• Seek public input on pension funding issues<br>**Select Committee on Pension Policy / RCW 41.04.281**<br>**All Plans**<br>• Study state pension issues-benefits and funding<br>• Develop policies and make recommendations to the Legislature & the Pension Funding Council<br>**State Actuary Appointment Committee / RCW 44.44.013**<br>**All Plans**<br>• Appoint or remove the state actuary by a 2/3 vote<br>• Approve salaries of state actuary personnel |

| Authority | Responsibility |
| --- | --- |
| Executive | **Office of Financial Management / RCW 43.41.110**<br>**All Plans**<br>• Advise Governor on pension provisions within the state budget<br><br>**Department of Retirement Systems / RCW 41.50**<br>**All Plans**<br>• Collect member/employer contributions<br>• Maintain records<br>• Pay benefits<br>• Communicate benefit information<br>• Adopt rules and regulations<br><br>**Employee Retirement Benefits Board / RCW 41.50.088**<br>**Plan 3 and state deferred compensation plan**<br>• Recommend options for self-directed investments<br>• Determine administrative charges<br>• Provide optional annuities<br><br>**State Investment Board / RCW 43.33A**<br>**All Plans**<br>• Invest and manage retirement funds<br>• Account for and report on investments |
| Executive / Independent Boards | **LEOFF Plan 2 Retirement Board / RCW 41.26.717, 720**<br>• Adopt actuarial assumptions and contribution rates<br>• Study LEOFF Plan 2 pension benefits and funding<br>• Develop policy and make recommendations to the Legislature regarding LEOFF 2<br>• Be the fiduciary of the plan<br><br>**State Board for Volunteer Fire Fighters and Reserve Officers / RCW 41.24**<br>• Collect contributions<br>• Maintain records<br>• Pay benefits<br>• Communicate benefit information |

# III. Washington Pension Plans

# Washington Pension Plans

## Retirement System Membership

**Public Employees' Retirement System (PERS)**

State employees, employees of political subdivisions (with some exceptions), some classified (non-certificated) school employees, and some employees of higher education.

**Teachers' Retirement System (TRS)**

Teachers, school superintendents, and education staff associates (ESAs) certificated by the Superintendent of Public Instruction and employed by a public school.

**School Employees' Retirement System (SERS)**

Classified employees of school districts and educational service districts. System began on September 1, 2000.

**Public Safety Employees' Retirement System (PSERS)**

Certain employees whose jobs with a PSERS employer contain a high degree of physical risk to their own personal safety and who provide public protection of lives and property, but who are not eligible for LEOFF membership. PSERS employers include the Washington State Department of Corrections, Washington State Parks and Recreation Commission, Washington State Gambling Commission, Washington State Patrol, Washington State Liquor Control Board, Washington State Department of Natural Resources; any county corrections department, and any city corrections department not covered under RCW 41.28.

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

Fire fighters, and law enforcement officers (sheriffs, higher education police officers, city police officers, and town marshals), port police (Port of Seattle), and Fish and Wildlife enforcement officers serving on a full-time fully-compensated basis.

**Washington State Patrol Retirement System (WSPRS)**

Commissioned officers of the Washington State Patrol.

**Volunteer Firefighters' Retirement System**

Fire fighters who are members of a municipal fire department and reserve police officers who are not full-time, paid members of LEOFF.

**Higher Education Retirement System**

Faculty of institutions of higher education and non-faculty, as specified by the Board of Regents or Trustees.

**Judges** (closed 8-8-71) / **Judicial Retirement System (JRS)** (closed 6-30-88)

Elected and appointed supreme court, court of appeals, or superior court judges.

# Summary of Plan Provisions

| Plan | Membership Eligibility | Vesting | Retirement Eligibility | Benefit |
|---|---|---|---|---|
| **PERS Plan 1** (By 9/30/77) | State & legislative employees, some employees of higher ed. & local gov'ts, elected officials, some classified employees of school dists., dist./muni. court judges, & some employees of Supreme, Appeals, & Superior Courts. | After 5 Years of Service (YOS). | At age 60 with 5 YOS, at age 55 with 25 YOS, or at any age with 30 YOS. | 2% of avg. final comp. (AFC) per YOS; max. 60% of AFC. |
| **PERS Plan 2** (On or after 10/1/77) | Same as PERS Plan 1, except classified school district employees; new employees hired on or after 3/1/02 at state agencies and higher ed., or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3. | After 5 YOS. | Unreduced benefits at age 65 with 5 YOS, or at age 62 with 30 YOS, reduced benefits available at age 55 with 30 YOS, or an actuarially reduced benefit available at age 55 with 20 YOS. | 2% of AFC per YOS. |
| **PERS Plan 3** (Varies by employer) | Same as PERS Plan 2. | After 10 YOS, after 5 yrs. if 12 mos. of svc. earned after age 44. | Unreduced benefits at age 65 if vested, or at age 62 with 30 YOS; reduced benefits available at age 55 with 30 YOS, or an actuarially reduced benefit available at age 55 with 10 YOS. | 1% of AFC per YOS (defined benefit portion).* |
| **TRS Plan 1** (BY 9/30/77) | All cert. pub. school employees. | After 5 YOS. | At age 60 with 5 YOS, at age 55 with 25 YOS, or at any age with 30 YOS. | 2% of AFC per YOS. Max. 60% of AFC. |
| **TRS Plan 2** (On or after 10/1/77) | All cert. pub. school employees; new employees hired on or after 7/1/07 must choose Plan 2 or Plan 3. | After 5 YOS. | Unreduced benefits at age 65 with 5 YOS, or at age 62 with 30 YOS; reduced benefits avail. at age 55 with 30 YOS, or an actuarially reduced benefit avail. at age 55 with 20 YOS. | 2% of AFC per YOS. |
| **TRS Plan 3** (On or after 7/1/96) | Same as TRS Plan 2. | After 10 YOS. After 5 YOS if 12 mos. of svc. earned after age 44. | Unreduced benefits at age 65 if vested, or at age 62 with 30 YOS; reduced benefits avail. at age 55 with 30 YOS or an actuarially reduced benefit available at age 55 with 10 YOS. | 1% of AFC per YOS (defined benefit portion).* |

* PERS, SERS, & TERS Plan 3 are defined benefit & defined contribution plans. Employers contribute to the defined benefit portion of the plan. Employee contributions are determined by the individual employee, but must be a minimum of 5% of pay.

NOTE: Average final compensation (AFC), final average salary (FAS), & average final salary (AFS) in the Plans 1 are typically based on the highest consecutive 2-years' salary. AFC, FAS, & AFS in the Plans 2/3 is based on the highest consecutive 60-months' salary.

| Plan | Membership Eligibility | Vesting | Retirement Eligibility | Benefit |
|---|---|---|---|---|
| **SERS Plan 2** (On or after 9/1/00) | All classified employees of school districts or edu. svc. districts, new employees hired on or after 7/1/07 must choose Plan 2 or 3. | After 5 YOS. | Unreduced benefit at age 65 with 5 YOS, or at age 62 with 30 YOS; reduced benefits available at age 55 with 30 YOS or an actuarially reduced benefit available at age 55 with 20 YOS. | 2% of AFC per YOS. |
| **SERS Plan 3** (On or after 9/1/00) | Same as SERS Plan 2. | After 10 YOS; after 5 yrs if 12 mos. of svc. earned after age 44. | Unreduced benefit at age 65 if vested, or at age 62 with 30 YOS; reduced benefits available at age 55 with 30 YOS or an actuarially reduced benefit available at age 55 with 10 YOS. | 1% of AFC per YOS. (Defined benefit portion.)* |
| **PSERS Plan 2** (On or after 7/1/06) | State, city, & cnty. corrections officers, (other than those city corrections officers covered under 1st class cities), st. prk. rangers, nat. res. enf. officers, gambling com. enf. officers, liquor ctrl. enf. officers, & com. vehicle enf. officers. | After 5 YOS. | At age 65 with 5 YOS credit, at age 60 (unreduced) after 10 yrs., or at age 53 after 20 yrs. with a 3% per yr. reduction. | 2% of AFC per YOS. |
| **LEOFF Plan 1** (By 9/30/77) | All full-time, fully compensated law enforcement officers & fire fighters. | After 5 YOS. | At age 50 with 5 YOS. | 2% of FAS per YOS for members with at least 20 YOS. Lesser accruals for mbrs. w/ less svc. |
| **LEOFF Plan 2** (On or after 10/1/77) | All full-time, fully compensated law enforcement officers & fire fighters. | After 5 YOS. | At age 53 with 5 YOS; or at age 50 after 20 YOS with a 3% per yr. reduction. | 2% of FAS per YOS. |
| **WSPRS Plan 1** (On or after 8/1/47 and by 12/31/02) | Commissioned employees of the Washington State Patrol. | After 5 YOS. | At age 55 or after 25 YOS; mandatory ret. at age 65. | 2% of average final salary per YOS Maximum 75% of AFS. |
| **WSPRS Plan 2** (On or after 1/1/03) | Commissioned employees of the Washington State Patrol. | After 5 YOS. | At age 55 or after 25 YOS; mandatory ret. at age 65. | 2% of average final salary per YOS Maximum 75% of AFS. |

* PERS, SERS, & TERS Plan 3 are defined benefit & defined contribution plans. Employers contribute to the defined benefit portion of the plan. Employee contributions are determined by the individual employee, but must be a minimum of 5% of pay.

NOTE: Average final compensation (AFC), final average salary (FAS), & average final salary (AFS) in the Plans 1 are typically based on the highest consecutive 2-years' salary. AFC, FAS, & AFS in the Plans 2/3 is based on the highest consecutive 60-months' salary.

| Plan | Membership Eligibility | Vesting | Retirement Eligibility | Benefit |
|---|---|---|---|---|
| **Volunteer Firefighters and Reserve Officers** (1945) | Volunteer fire fighters, emerg. workers, & reserve officers. | After 10 YOS. | At age 65 with 25 YOS. Early retirement at age 60 with 10 YOS. | $50/mo. + $10/yr. in which a contr. was made, to a max. of $300. |
| **Higher Education** (1945) | Appointed faculty of inst. of higher ed., including com. colleges, or non-faculty employees as specified; optional for 1st two yrs. in an eligible position & for members transferred to ineligible positions. | Immediately for contributory plan; after 10 YOS for supp. benefit. | At age 65 with 10 YOS in an in-state inst. For mbrs. with 25 YOS, the employee's contr. fund is annuitized. | After 25 yrs. an annuity with a supplemental benefit to assure 50% of AFC; for 10-24 yrs, supp. is calculated at 2%/YOS; if member did not contribute max. amt. authorized after age 50, 75% of supp. is avail. |
| **Judges** (By 8/8/71) | Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts. | After 12 YOS. | At age 70 with 10 YOS or any age with 18 YOS. | 1/2 of the monthly salary |
| **JRS** (On or after 8/9/71 & by 6/30/88 New judges on or after 7/1/88 join PERS) | Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts. | After 15 YOS. | At age 60. | 15 YOS = 3.5% of AFC per YOS; 10-14 YOS = 3% of AFC per YOS. |

NOTE: Average final compensation (AFC), final average salary (FAS), & average final salary (AFS) in the Plans 1 are typically based on the highest consecutive 2-years' salary. AFC, FAS, & AFS in the Plans 2/3 is based on the highest consecutive 60-months' salary.

# Pension Highlights, 1976 - Present

| | |
|---|---|
| **1976** | Department of Retirement Systems created.<br>Office of the State Actuary created. |
| **1977** | PERS, TRS, and LEOFF Plan 2 systems created. |
| **1980** | PERS/TRS 1 early retirement window enacted. |
| **1981** | State Investment Board created to manage and invest state retirement funds. |
| **1982** | PERS/TRS 1 early retirement window enacted. |
| **1987** | Joint Committee on Pension Policy created.<br>Portability between PERS, TRS, and WSPRS enacted. |
| **1989** | Pension Funding Reform enacted. Legislation established a new procedure for setting pension system contribution rates.<br>Plan 1 Age-65 COLA enacted. This is the first automatic cost-of-living adjustment granted in the PERS/TRS 1 systems. |
| **1990** | Annual notification of membership service credit earned is approved. |
| **1991** | Coordinated employee benefit communications program initiated. State employees begin receiving notification of pension service credit earned to date. |
| **1992** | PERS/TRS 1 early retirement window enacted. |
| **1993** | PERS/TRS 1 early retirement window enacted.<br>LEOFF 2 benefits amended to:<br>• Reduce the service retirement age to 55.<br>• Allow portability with other state retirement systems.<br>• Provide those members terminating membership after 10 years of service with a refund of 150% of employee contributions plus interest.<br>• Provide terminated vested members with at least 20 years of service an annual 3% increase in eligible benefits between the time of their termination and commencement of benefits. |
| **1995** | Uniform COLA design replaces Plan 1 Age-65 COLA.<br>TRS Plan 3 Retirement System created. Plan became effective in 1996. |
| **1996** | $150,000 Death benefit for LEOFF and WSPRS members. |
| **1998** | Plan 1 gain-sharing enacted.<br>Pension Funding Council created to adopt economic assumptions and contribution rates for the retirement systems.<br>School Employees' Retirement System (SERS) Plans 2/3 created. Plans became effective in 2000. |
| **1999** | Plan 1 members with 30 years of service may direct their employee contributions into separate retirement investment accounts.<br>Automatic cost-of-living adjustments for WSPRS survivor benefits enacted. |
| **2000** | Optional PERS 3 enacted. Became effective in 2002.<br>LEOFF 2 retirement age lowered from age 55 to age 53. |
| **2001** | New tier of benefits added to the Washington State Patrol retirement system. Tier became effective 2003. |

| | |
|---|---|
| **2002** | New survivor options created in all retirement plans to address changes in members' marital status both before and after retirement.<br>The retirement age for PERS 1 terminated vested members who have at least 20 years of service, and are at least age 50 when they leave service, is reduced from age 65 to age 60.<br>Passage of Initiative 790 creates a new LEOFF 2 board of trustees. |
| **2003** | Joint Committee on Pension Policy replaced by 20 member Select Committee on Pension Policy.<br>$150,000 Death Benefit for PERS, TRS, and SERS members. |
| **2004** | Public Safety Employees' Retirement System (PSERS) Plan 2 created, to be effective July 1, 2006.<br>$1,000 minimum benefit for PERS 1 and TRS 1 members who have been retired at least 20 years with at least 25 years of service. |
| **2005** | LEOFF 2 disability benefit amended to remove the actuarial reduction for duty-related disabilities. |
| **2006** | PSERS becomes effective.<br>$1,000 minimum benefit for PERS 1 and TRS 1 members who have been retired at least 25 years with 20 years of service.<br>Contribution rate floors established for the Plan 1 UAAL in PERS and TRS and the Plans 2/3 normal cost in PERS, TRS, and SERS (effective July 1, 2009).<br>LEOFF 1 benefit cap repealed.<br>Five-year vesting for Plan 3 members earning 12 months of service after age 44.<br>Pension funding stabilization account created.<br>LEOFF 2 catastrophic disability benefit established and additional survivor health care benefits provided. |
| **2007** | WSPRS mandatory retirement age increased to 65.<br>Gain-sharing replaced:<br>● Plan 1 and Plan 3 gain-sharing to be repealed after the 2008 event. Plan 2/3 choice established for new hires in TRS and SERS.<br>● Unreduced retirement at age 62 for Plan 2/3 members of PERS, TRS, and SERS with 30 years of service, and improved early retirement benefits.<br>● Plan 1 Uniform COLA enhanced beyond that provided by the 2008 gain-sharing event. |
| **2008** | New funding source dedicated to LEOFF 2 benefit improvements. |
| **2009** | Funding method for TRS 1 and PERS 1 unfunded past liability restructured.<br>Spousal benefits extended to registered domestic partners. |

# Leading Pension Cases

## Summary of Bakenhus v. City of Seattle

48 Wn.2d 695; 296 P.2d 536 (1956)

### Pension Benefits Are Contractual Rights

The Washington Supreme Court (the Court) ruled that an employee who accepts a job with a pension plan has entered into a contract with the employer. When the employee becomes eligible to receive the pension, the employer must pay the pension according to the contract. The employee's pension rights may be changed prior to retirement, but only for the purpose of keeping the pension system flexible and maintaining its integrity.

### The City of Seattle Could Not Reduce Mr. Bakenus' Expected Pension

H. D. Bakenhus was a retired policeman. When he became a member of the Seattle police department in 1925, the law set his pension as one-half the salary for the rank he held during the year just before his retirement. The pension fund law was later changed in 1937 to provide a cap on police retirement pensions.

Mr. Bakenhus became a police captain in 1943 and retained that status until he retired in 1950. For the year before his retirement his salary was $370 a month, which would have given him a monthly retirement pension of $185 per month. At retirement, the city authorized a retirement pension of $125 per month based on the cap that passed in 1937. Mr. Bakenhus sued to force the city to pay him $185 instead of $125.

### Mr. Bakenhus Prevailed in Court

The trial court ordered the city to pay Mr. Bakenhus the higher pension amount plus the difference between the increased pension and the pension he had received since retirement. The City of Seattle appealed but lost. The Court decided that the 1937 amendment to the pension law impaired the obligation of Mr. Bakenhus' contract with the city. The 1937 amendment was void as to Mr. Bakenhus (and all who became members of the police department prior to the 1937 enactment).

### What Was the Court's Reasoning?

The Court agreed with the so called "California rule." Under this rule, pension provisions are part of the expected compensation set out in the employment contract. Further, contractual pension rights become vested at the time the employee enters public service. This means that when the employee joins the pension plan, he or she has a right to continued membership in the plan under the same rules existing at the time of employment. When the employee fulfills all requirements for receiving benefits, he or she is then entitled to receive a pension according to the vested pension rights.

This does not mean that the employer may never change pension rules. But the Court was clear that a new limit on contractual pension rights must be justified. For example, a change that removes a benefit might be justified by a showing of a corresponding benefit to those affected by the change. In this case, there had been no showing of a corresponding benefit, and no showing that reducing the benefit was necessary to preserve and perfect the system, or that it bore a reasonable relation to the purposes of the pension plan.

# Summary of Weaver v. Evans

80 Wn.2d 461, 495 P.2d 639 (1972)

## The Systematic Funding of the Retirement Systems Is a Contractual Right

The Washington Supreme Court (the Court) ruled that the Governor could not stop the transfer of $18 million from the general fund to the retirement system. The $18 million was part of the Legislature's larger appropriation for retirement system funding. The Court ordered the Governor to allow the transfer; otherwise the Governor would be interfering with the Legislature's promise to attain and maintain a financially sound retirement system through its systematic funding program.

## The Court Ordered the Governor to Allow Transfers of Money Appropriated to the Retirement System

The Legislature had appropriated more than $62 million to the retirement system for the biennium ending June 30, 1971. Funds would be transferred from the state general fund to the retirement system on a quarterly basis. The system's board of trustees (the board) would direct the transfers and determine the rate of the transfers.

In late December of 1970, the Governor advised the board that to prevent state expenditures from exceeding revenues, he needed to revise the scheduled transfers from the general fund. He gave notice that transfers to the retirement system would be curtailed for the remainder of the fiscal biennium. (The Governor ultimately curtailed the transfer of about $18 million.)

A retired teacher, an active teacher, and the Washington Education Association sued for an order to compel the Governor, the State Treasurer, and the Director of Program Planning and Fiscal Management to transfer to the teachers' retirement system the previously appropriated moneys that had been withheld by the Governor. The Court issued the order.

## What Was the Court's Reasoning?

The Court reasoned that the Legislature had, over a span of years, indicated a deep concern for the actuarial soundness of the retirement system. Further, the Legislature had expressly adopted a systematic method of funding to ultimately attain the desired soundness. The Court characterized the systematic funding of the retirement system as one of the vested contractual pension rights flowing to members of the retirement system.

The Court relied on the Bakenhus case for the proposition that a vested contractual right cannot be unilaterally changed except to keep the retirement system flexible and maintain its integrity. Any modification, to be upheld, must be reasonable and bear some material relation to the theory of a pension system and its successful operation; otherwise the vested contractual right is unconstitutionally impaired.

# IV. Pension Funding

# Pension Funding in Washington

There are three basic approaches to funding pension benefits: 1) pay benefits up front with a lump sum; 2) pay benefits as they become due; or 3) pre-fund benefits using regular payments over time.

The vast majority of pension plans use pre-funding. Pre-funding allows plans to pay a large portion of benefit costs with investment returns. Washington's pension plans pre-fund pension benefits using "systematic actuarial funding."

## Systematic Actuarial Funding

Systematic actuarial funding is a financing plan that uses the time value of money. It requires regular payments over time, fairness across generations, and a long-term view.

The regular payments come from retirement system members and their employers, who contribute a percentage of each employee paycheck to a trust fund. The trust fund grows over time through investing. Over the long-term, investment returns have covered about 75 percent of the costs of Washington's public pension plans.

Washington's funding plan spreads the cost of retirement benefits over the working lifetimes of members. The goal is to prevent any one generation from paying more than its fair share of benefit costs. For example, under this policy the taxpayer share of benefit costs is paid by those who benefit from the members' services. This policy is known as "fairness across generations" or "intergenerational equity."

With such a long time horizon for financing benefit costs, how do members and employers know how much money to contribute to the retirement systems? In Washington, the Office of the State Actuary calculates the regular payments that are required. In making these calculations, actuaries must make assumptions about the future.

## Actuarial Assumptions

Actuaries combine a set of assumptions with the plan's participant data, benefit structure, and funding method to project future benefit obligations. The funding method, or actuarial cost method (see below), determines how to spread the cost of the pension plan over the working lifetimes of the plan members.

Actuaries use two types of assumptions.

- Economic Assumptions: These generally include the assumed annual rate of return on plan assets, annual rate of inflation, and annual rate of salary growth.
- Demographic Assumptions: These generally include rates of retirement, rates at which members become disabled, turnover rates, and mortality rates. Actuaries use many other demographic assumptions, but those listed tend to have the greatest importance.

Actuaries set assumptions to approximate their best estimate of long-term experience. They follow actuarial standards of practice that guide them in setting assumptions, communicating with clients, and performing other professional duties.

Actuaries check their assumptions by performing studies at regular intervals of time. For example, experience studies look at what actually has happened in the plans. Changes in plan experience may alter expectations about the future and cause actuaries to recommend assumption changes

## Actuarial Gains or Losses

A pension plan incurs actuarial gains or losses when the actual experience of the pension plan does not exactly match assumptions. For example, an actuarial gain would occur if assets earned 10 percent for a given year when the actuary assumed an 8 percent return.

Reasonable assumptions help to minimize gains and losses over time. They contribute to fairness across the generations by helping to avoid over-funding or under-funding the retirement system.

## Actuarial Cost Methods

AOnce a plan sponsor decides to pre-fund benefits, choosing an actuarial cost method becomes the next funding policy decision. Different cost methods pre-fund plans at different rates. Some put more money in earlier whereas others put more money in later. Deciding which cost method to use depends on many factors, each of which contributes to the overall funding policy. These factors include benefit structure, cost-sharing between members and employers, investment strategy, plan size, and types of members included in the plan.

Actuarial cost methods, or funding methods, generally have three parts. The three parts serve to: fund benefits in a consistent manner from year to year; make up for any shortfalls in prior funding; and make up for differences in funding when experience differs from assumptions.

The three parts of a funding method are:

- The Normal Cost - the value of the additional benefits earned in one year.
- Amortization of the Unfunded Accrued Liability – amortizing the amount of past service liability that exceeds the value of the plan’s assets.
- Amortization of Gains and Losses – amortizing the difference between actual experience and what actuaries assume.

Standard actuarial cost methods include: the Entry Age Normal (EAN) Cost Method, the Projected Unit Credit (PUC) Cost Method, and the Aggregate Cost Method.

- EAN - actuaries determine the cost for each member either as a level dollar per year or as a level percentage of payroll from the date of entry into the system until retirement age. This method produces an unfunded accrued liability and a normal cost. This cost method either funds gains and losses using a separate annual charge or as part of the unfunded accrued liability. Washington uses this method only for certain specific calculations and for reporting purposes.

- PUC - actuaries determine the cost for each member using the ratio of current years of service to the projected years of service at retirement age. This method produces an unfunded accrued liability and a normal cost. This cost method either funds gains and losses using a separate annual charge or as part of the unfunded accrued liability. Washington does not use this method except for certain reporting disclosures.
- Aggregate - actuaries determine the cost of the entire plan as a level percentage of pay, collected over the future salaries of the current plan population. This method produces a normal cost, but no unfunded accrued liability since the actuarial accrued (or past service) liability is always defined to be equal to the actuarial value of assets. This cost method funds gains and losses as part of the normal cost. Washington uses this method for all of its open plans

## Present Values

Present value really means today's value. To determine how much money should be set aside to pay benefits, actuaries compare the current retirement system assets to the discounted value (or present value) of all the future benefit payments. Actuaries discount future payments to change the value of those payments from future dollars to today's dollars.

For example, let's assume that plan assets earn 8 percent when invested for the future. What happens when we invest $100 today and redeem that money in one year? Our $100 grows by 8 percent, from $100 to $108. Let's look at that $108 as a benefit payment that the plan sponsor must make in one year. Today's value (the present value) of that $108 equals $100.

Actuaries change all future dollars – benefit payments, contributions, and salaries – to present values to determine current contribution rates.

## Contribution Rates

In Washington, actuaries express the contributions required as a percentage of pay. They divide the excess of the plan's liabilities over the plan's assets by the appropriate present value of future salaries. These calculations are provided in the actuarial valuation report for the retirement systems. They become the basis for decisions about how much members and employers will contribute to the retirement system over time.

## Projections

Actuaries project liabilities, assets, and membership data several years into the future to develop projected contribution rates. In addition to the usual assumptions, these projections require additional assumptions, mainly concerning future members of the plan. Projections help decision-makers plan for the future.

## Asset/Liability Modeling

Finally, actuaries identify and evaluate risks to the retirement system. For example, they may compare liabilities from an actuarial projection with asset projections using different investment scenarios to identify potential risks. These risks include not having enough assets to pay benefits when they come due, or having contribution rate fluctuations that put the affordability of the plan into question. Actuaries refer to this type of risk evaluation as asset/liability modeling.

## In Conclusion

Washington uses systematic actuarial funding to finance pension costs. This approach requires regular payments over time in the form of member and employer contributions that are collected as a percentage of employee pay. The contributions are invested so that investment returns can pay a large percentage of plan costs.

Washington has adopted policies requiring that pension funding be fair to each generation. Because pension plans are funded over many years, maintaining fairness requires disciplined decision-making and a long-term view.

Actuaries calculate pension contribution requirements based on assumptions, funding methods and policies that have been adopted for the retirement systems. They use projections to help policy-makers look ahead so they can plan for future pension costs. They also identify and evaluate potential risks to the plans and make recommendations to decision-makers.

More education materials on pension funding are available on the SCPP website. Click the hyperlink below to go to the web resource.

Pensions 101 PowerPoint

Pensions 101 TVW Video

Pensions 102 PowerPoint

Pensions 103 PowerPoint

# How Contribution Rates Are Established

The Legislature established the contribution rate setting process in RCW 41.45, "Actuarial Funding of the State Retirement Systems." The majority of plan members pay variable rates over time, based on a funding formula. However, certain Plan 1 members pay a fixed percent of salary as prescribed in statute.

The following summary describes the funding process as established in state law. The Legislature may modify the funding laws either temporarily or permanently at its discretion.

## Step 1: June of Even Numbered Years

OSA performs an actuarial valuation on the most recent data available. The valuation identifies the annual contribution rates that will fund the benefits we expect members to earn during their public service. We perform the valuation according to statutory requirements and actuarial standards of practice.

## Step 2: July of Even Numbered Years

OSA recommends valuation rates[1] for all Plans (except LEOFF 2) to the Pension Funding Council (PFC). The PFC adopts contribution rates following an independent audit they solicit to verify the results provided by OSA.

OSA recommends valuation rates for the LEOFF 2 Plan to the LEOFF 2 Retirement Board. The LEOFF 2 Retirement Board adopts rates for LEOFF 2 members and their employers.

Valuation rates become effective at the beginning of odd numbered fiscal years and remain in effect for two years

## Step 3: Beginning in January Each Year

The Legislature has the power to enact benefit changes when it convenes each year. Any of these changes may alter the funding status of the plans. Current law requires OSA to calculate any additional costs and adjust contribution rates accordingly.

OSA calculates the cost of benefit changes and makes adjustments via temporary supplemental rate increases. At the beginning of the next rate setting cycle, the cost of any benefit changes will be included in the valuation study.

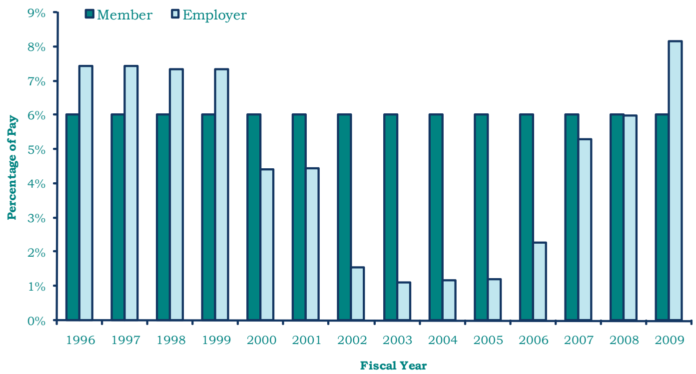
## Step 4: September of Each Year

Supplemental contribution rates typically become effective September 1 of each year. The Legislature may change this date at its discretion. In some years, rates may change more than once as a result of different effective dates for separate legislation.

[1] *Contribution rates developed by the valuations are referred to as* ***valuation rates****.*

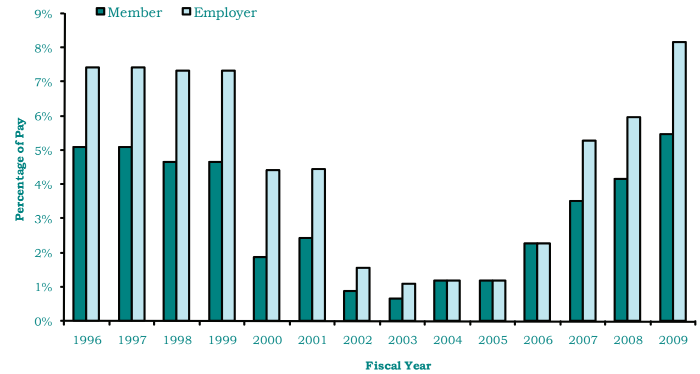
# History of Contribution Rates - 1996 to 2009

**PERS 1 Contribution Rates**




Note: Employer rate does not include administrative expense charge, currently 0.16 percent. Includes supplemental contribution rates from 2008 Legislation.

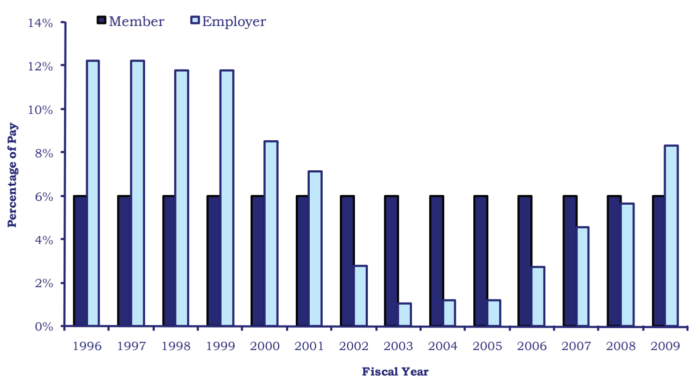
**PERS 2/3 Contribution Rates***




Note: Employer rate does not include administrative expense charge, currently 0.16 percent. Includes supplemental contribution rates from 2008 legislation.

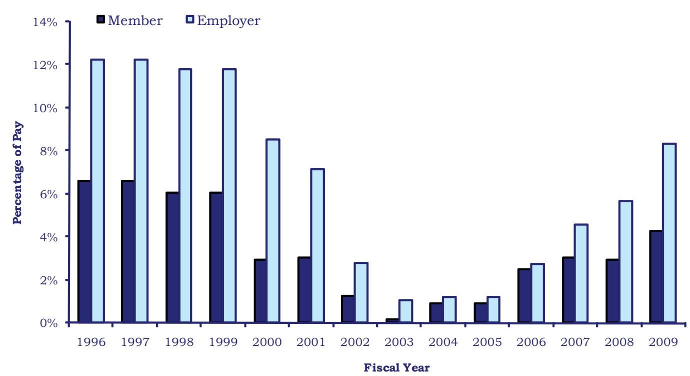
* Plan 3 members do not contribute to the defined benefit plan.

**TRS 1 Contribution Rates**



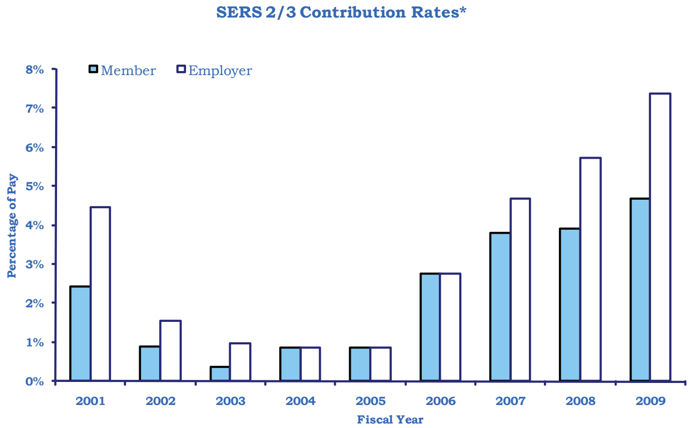

Note: Employer rate does not include administrative expense charge, currently 0.16 percent. Includes supplemental contribution rates from 2008 Legislation.

**TRS 2/3 Contribution Rates***



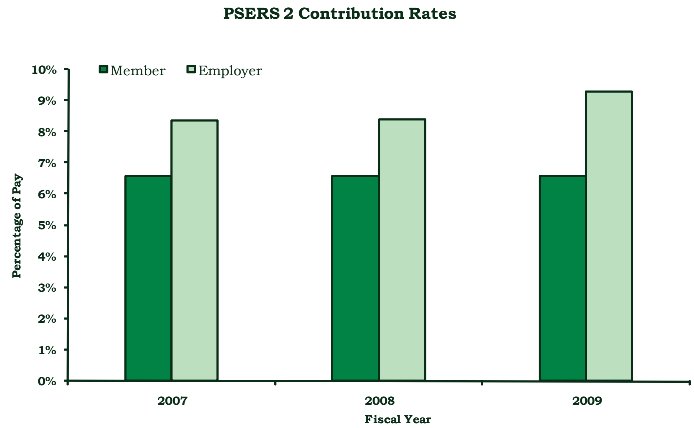

Note: Employer rate does not include administrative expense charge, currently 0.16 percent. Includes supplemental contribution rates from 2008 legislation.

* Plan 3 members do not contribute to the defined benefit plan.

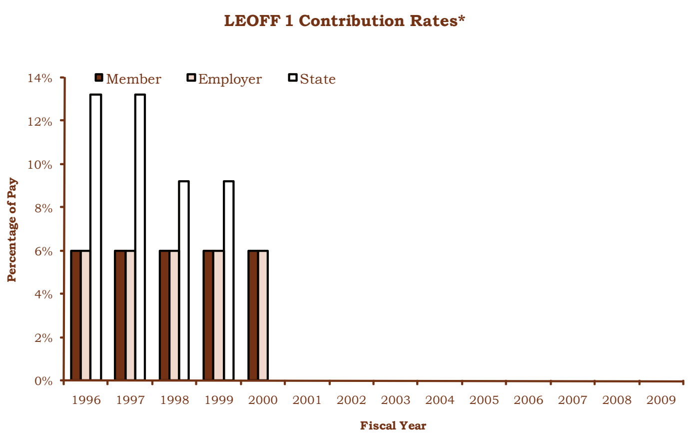



*Note: Employer rate does not include administrative expense charge, currently 0.16 percent. Includes supplemental contribution rates from 2008 legislation.*

** Plan 3 members do not contribute to the defined benefit plan.*

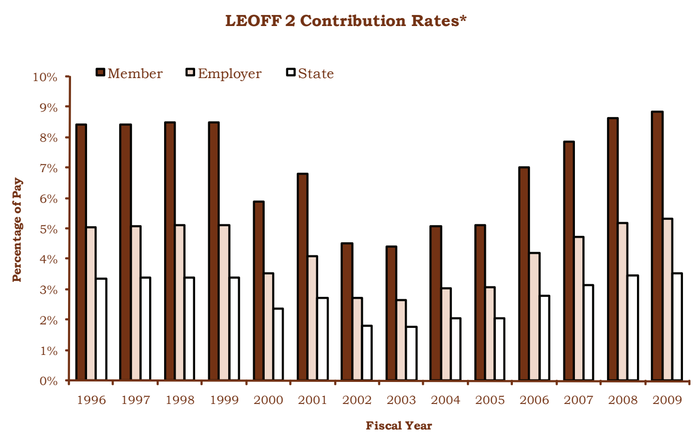



*Note: Employer rate does not include administrative expense charge, currently 0.16 percent. Includes supplemental contribution rates from 2008 legislation.*



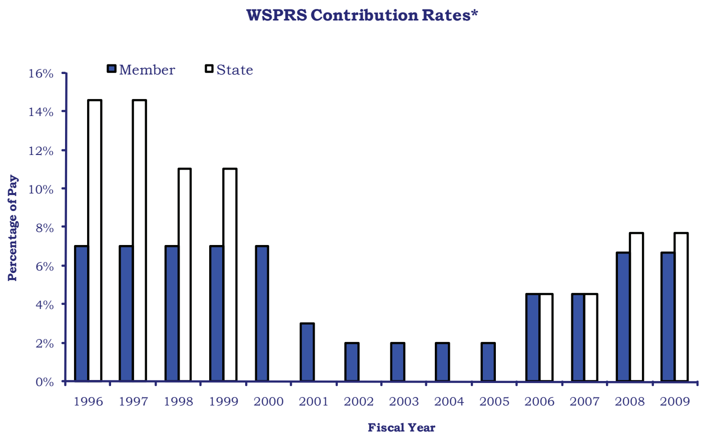

*Note: Employer rate does not include administrative expense charge, currently 0.16 percent. Includes supplemental contribution rates from 2008 legislation.*

** LEOFF 1 is fully funded, so no contributions are required at this time.*




*Note: Employer rate does not include administrative expense charge, currently 0.16 percent. Includes supplemental contribution rates from 2008 legislation.*

** The state pays 20 percent of the total normal cost for LEOFF 2, the member pays 50 percent, and the employer pays 30 percent.*




*Note: Employer rate does not include administrative expense charge, currently 0.16 percent. Includes supplemental contribution rates from 2008 legislation.*

* *Members pay 50 percent of the total normal cost. The member rate cannot exceed 7 percent plus half of the supplemental rates in effect after July 1, 2008. The employer pays the balance of the cost of benefits.*

# Contribution Rates

The following tables show current, adopted, and projected contribution rates for Washington's public retirement systems.

Contribution rates **in effect** represent those currently being collected by the Department of Retirement Systems. They include supplemental rates for the cost of 2008 pension legislation.

**Adopted** rates represent those that passed the Legislature or were adopted by the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF Board). Those effective September 1, 2009, include supplemental rates for the cost of 2009 pension legislation.

We calculated the **projected rates** based on the 2007 valuation data and current plan provisions. They include asset returns, as reported by the Washington State Investment Board, through February 28, 2009, and supplemental rates from the 2009 Legislative Session. These rates will vary based on the future asset returns, actual contributions collected, any changes to plan provisions, and the demographic changes of the plan populations between the date we calculated the projected rates and when rates get adopted for the periods shown.

**All rates are subject to change by the Legislature.**

**Effective Dates:** Unless otherwise specified, PERS, PSERS, LEOFF, and WSPRS rates are effective from 7/1 to 6/30 of each year. TRS and SERS rates are effective from 9/1 to 8/31 of each year.

## Employer Contribution Rates (Revised 5/29/09)

| | In Effect | Adopted | | Projected | | |
|---|---|---|---|---|---|---|
| | (7/1/08 - 6/30/09)[1,6] | (7/1/09 - 8/31/09)[1] | (9/1/09 - 6/30/11)[1] | (7/1/11 - 6/30/12)[1] | (7/1/12 - 6/30/13)[1] | (7/1/13- 6/30/14) |
| | 2008-09[2] | 2009-11[3] | | 2011-13[4] | | 2013-15[4] |
| **PERS Plans 1, 2, & 3** | | | | | | |
| Normal Cost | 5.45% | 4.00% | 4.01% | 4.54% | 4.54% | 5.93% |
| Plan 1 UAAL | 2.70% | 1.13% | 1.16% | 3.78% | 4.53% | 5.28% |
| DRS Expense Charge | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| **Total** | **8.31%** | **5.29%** | **5.33%** | **8.48%** | **9.23%** | **11.37%** |
| **TRS Plans 1, 2, & 3** | | | | | | |
| Normal Cost | 4.51% | 4.51% | 4.13% | 5.46% | 5.46% | 6.59% |
| Plan 1 UAAL | 3.79% | 3.79% | 1.85% | 6.50% | 7.50% | 8.50% |
| DRS Expense Charge | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| **Total** | **8.46%** | **8.46%** | **6.14%** | **12.12%** | **13.12%** | **15.25%** |
| **SERS Plans 2 & 3** | | | | | | |
| Normal Cost | 4.68% | 4.68% | 4.15% | 4.97% | 4.97% | 5.78% |
| PERS 1 UAAL | 2.70% | 2.70% | 1.16% | 3.78% | 4.53% | 5.28% |
| DRS Expense Charge | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| **Total** | **7.54%** | **7.54%** | **5.47%** | **8.91%** | **9.66%** | **11.22%** |
| **PSERS** | | | | | | |
| Normal Cost | 6.57% | 6.55% | 6.55% | 6.71% | 6.71% | 6.74% |
| PERS 1 UAAL | 2.70% | 1.13% | 1.16% | 3.78% | 4.53% | 5.28% |
| DRS Expense Charge | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| **Total** | **9.43%** | **7.84%** | **7.87%** | **10.65%** | **11.40%** | **12.18%** |
| **LEOFF Plan 1** | | | | | | |
| Local Employer | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| DRS Expense Charge | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| Local Employer Total | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| State[7] | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| **Plan 1 Total** | **0.16%** | **0.16%** | **0.16%** | **0.16%** | **0.16%** | **0.16%** |
| **LEOFF Plan 2** | | | | | | |
| Local Employer | 5.30% | 5.07% | 5.08% | 5.08% | 5.08% | 4.55% |
| DRS Expense Charge | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| Local Employer Total | 5.46% | 5.23% | 5.24% | 5.24% | 5.24% | 4.71% |
| State[7] | 3.53% | 3.38% | 3.38% | 3.38% | 3.38% | 3.02% |
| **Plan 2 Total** | **8.99%** | **8.61%** | **8.62%** | **8.62%** | **8.62%** | **7.73%** |
| **WSPRS Plans 1 & 2** | | | | | | |
| Normal Cost - State | 7.70% | 6.17% | 6.40% | 8.30% | 8.30% | 8.17% |
| DRS Expense Charge | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| **Total** | **7.86%** | **6.33%** | **6.56%** | **8.46%** | **8.46%** | **8.33%** |

| Employee Contribution Rates (Revised 4/28/09) | In Effect | Adopted | | Projected | |
|---|---|---|---|---|---|
| | (7/1/08 - 6/30/09)[1,6] | (7/1/09 - 6/30/11)[1] | (9/1/09 - 6/30/11)[1] | (7/1/11 - 6/30/13)[1] | (7/1/13 - 6/30/15)[1] |
| | 2008-09[2] | 2009-11[3] | | 2011-13[4] | 2013-15[4] |
| **PERS[5]** | | | | | |
| Plan 1 Members | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| Plan 2 Members | 5.45% | 3.89% | 3.90% | 4.43% | 5.82% |
| **TRS[5]** | | | | | |
| Plan 1 Members | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| Plan 2 Members | 4.26% | 4.26% | 3.36% | 4.69% | 5.82% |
| **SERS** | | | | | |
| Plan 2 Members | 4.68% | 4.68% | 3.15% | 3.97% | 4.78% |
| **PSERS** | | | | | |
| Members | 6.57% | 6.55% | 6.55% | 6.71% | 6.74% |
| **LEOFF** | | | | | |
| Plan 1 Members | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Plan 2 Members | 8.83% | 8.45% | 8.46% | 8.46% | 7.57% |
| **WSPRS** | | | | | |
| Plan 1 Members | 6.65% | 4.85% | 5.08% | 6.98% | 6.85% |
| Plan 2 Members | 6.65% | 4.85% | 5.08% | 6.98% | 6.85% |

[1] TRS and SERS rates are effective from 9/1 to 8/31 of each year.

[2] Rates shown for 2008-2009 are based on the 2005 Actuarial Valuation. They reflect current plan provisions. LEOFF 2 rates were adopted by the LEOFF Board. The rates for all other plans were adopted by the PFC.

[3] Rates shown for 2009-2011 are based on the 2007 Actuarial Valuation. They reflect current plan provisions. LEOFF 2 rates were adopted by the LEOFF Board. The rates for all other plans were adopted by the Legislature. Those effective September 1, 2009, reflect the supplemental rates from the 2009 Legislative Session.

[4] Rates shown for 2011-13 and beyond are projections based on 2007 data and current plan provisions. They reflect asset returns through February 28, 2009, and supplemental rates from the 2009 Legislative Session.

[5] Plan 1 members' contribution rate is statutorily set at 6.0%. Members in Plan 3 do not make contributions to their defined benefit.

[6] Supplemental contribution rates from the 2008 Legislative session are effective 9/1/08.

[7] In the LEOFF plans only, the state pays a percent of the total cost of benefits.

# V. Resources

# Glossary of Pension and Actuarial Terms

## A

**Active:** A retirement system member who is currently employed.

**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 earned (or accrued) as of the valuation date.

**Actuarial Assumptions:** Factors that actuaries use in estimating the cost of funding a defined benefit pension plan. Examples include: the rate of return on plan investments; mortality rates; and the rates at which plan participants are expected to leave the system because of retirement, disability, termination, etc.

**Actuarial Cost Methods:** An actuarial method that defines the allocation of pension costs (and contributions) over a member's working career. All standard actuarial cost methods are comprised of two components: normal cost and the actuarial accrued liability. It is important to note that an actuarial cost method determines the incidence of pension costs but not the ultimate cost of a pension plan. The ultimate cost is determined by the actual benefits paid less the actual investment income.

**Actuarial Equivalent:** A benefit having the same present value as the benefit it replaces. Also, the amount of annuity that can be provided at the same present value cost as a specified annuity of a different type or a specified annuity payable from a different age.

**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.)

**Actuarially Reduced:** The method of adjusting a benefit received at an early date so that the expected total cost to the retirement system is equivalent to the cost if the benefit did not begin until later.

**Actuarial Value of Assets (AVA):** A measure of the assets of a pension fund that may use market value or may use a smoothing technique to defer the recognition of investment gains and losses.

**Actuary:** A credentialed member of an actuarial organization such as the Society of Actuaries, the American Academy of Actuaries, or the Conference of Consulting Actuaries. Actuaries in the pension field use math skills to determine the liabilities and costs of pension plans.

**Age Difference:** When the actual age difference between a member and the member's spouse is not available, an assumption is made about the average age difference.

**Age Retirement:** Normal retirement dependent upon attainment of a specified age.

**Alternate Payee:** An alternate payee is entitled to receive benefits from the retirement system as the result of a Qualified Domestic Relations Order (QDRO).

**Amortization:** Paying off an interest bearing liability by gradual reduction through a series of installments, as opposed to paying it off by one lump sum payment. Amortization payments can be level dollar amounts or level percentages of payroll.

**Annuitant:** One who receives periodic payments from the retirement system. This broad term includes service and disability retirees, and their survivors.

**Annuity:** A series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance derived from a participants's contributions. Compare with "pension".

**Antiselection:** The tendency of a person to recognize his/her health status in selecting the option under a retirement system which is most favorable to him- or herself.

**Asset/Liability (A/L) Study:** A study that involves projecting the assets and liabilities of a retirement system to determine the impact that choices on asset allocation have on contribution rates and funded ratios

**Asset Allocation:** Refers to the mix of investments in the pension fund

**Average Final Compensation (AFC):** Pay used in calculating benefits under the retirement system is based on the average of a member's pay over a specified period.

## B

**Beneficiary:** The person designated to receive benefits under an employee benefit plan in the event of the death of the person covered by the plan.

**Building Block Method:** The building block method is a method for estimating the rate of return for a pension fund based on the asset allocation and the expected rate of return for each asset class.

## C

**Cash Balance Pension Plan:** A hybrid defined benefit plan that has some of the features of a defined contribution plan. The most distinguishing feature of a cash balance pension plan is the use of a separate account for each participant. The plan sponsor is responsible for investment decisions. Investment risk is borne by the plan sponsor, not the participant.

**Cash Flow Matching:** Refers to matching expected retirement system benefit payments with expected cash flows from fixed income investments.

**Cash Out:** A lump sum payment of the member's contributions prior to retirement.

**Closed Group:** The valuation for a closed group is based on current members only and no new entrants.

**Cost of Living Adjustment (COLA):** A Cost of Living Adjustment (COLA) is an increase in retirement benefits to adjust for inflation.

**Contributory Plan:** A plan to which participants, as well as the employer, contribute. Under certain contributory plans participants may be required to contribute as a condition of eligibility.

**Contribution Rate:** The contribution rate is the percent of pay that is deposited into the pension fund for each active member of a retirement system.

**Contributions:** The contributions are the cash flows that are deposited to the pension fund on behalf of the members of a retirement system.

**Credited Projected Benefits:** Credited projected benefits are benefits based on current pay and projected service.

**Credited Service:** A period of employment that is recognized as service for purposes of determining eligibility to receive pension payments and/or determining the amount of such payments.

**Credited Projected Liability:** Also known as the Present Value of Fully Credited Benefits (PVFCB), the credited projected liability is the liability based on credited projected benefits. It is calculated in the same way as a measure of liabilities used for accounting purposes called the Projected Benefit Obligation (PBO). It is calculated using the Projected Unit Credit Cost Method.

## D

**Death Benefit:** A benefit payable by reason of a member's death. The benefit can be in the form of a lump sum, an annuity, or a refund of the member's contributions.

**Decrements:** Decrements are reasons for leaving the retirement system including retirement, death, disability, and termination.

**Deferral Period:** The deferral period is the time between when an inactive member leaves employment and benefits from the retirement system begin.

**Deferred Annuity:** An annuity for which payments do not commence until a designated time in the future.

**Deferred Compensation:** Considerations for employment that are not payable until after the regular pay period. The most common form of deferred compensation are pension plans, but private employers may also offer bonuses, incentive clauses, etc.

**Defined Benefit (DB) Plan:** A pension plan providing a definite benefit formula for calculating benefit amounts such as a flat amount per year of service; a percentage of salary; or a percentage of salary, times years of service.

**Defined Contribution Plan (DCP):** A pension plan in which the contributions are made to an individual account for each employee. The retirement benefit is dependent upon the account balance at retirement. The balance depends upon amounts contributed during the employee's participation in the plan and the investment experience on those contributions.

**Demographic Assumptions:** Demographic assumptions are actuarial assumptions regarding rates of retirement, withdrawal, mortality, and disablement.

**Deterministic Forecast:** A deterministic forecast is a projection of contribution rates based on a specified set of assumptions about future interest rates and investment earnings.

**Disability Retirement:** A termination of employment involving the payment of a retirement allowance as a result of an accident or sickness occurring before a participant is eligible for normal retirement.

**Deferred Retirement Option Plan (DROP):** A DROP, or Deferred Retirement Option Plan, allows a pension plan participant to elect to have a retirement benefit calculated prior to actual retirement, in order to accumulate a lump sum at retirement, based on payments that would have been made had the member actually retired, in exchange for a reduced annuity.

**Duration:** Duration is the average deferral period of payments, weighted by present value. It is useful in estimating how liabilities change with changes in interest rates.

## E

**Early Retirement:** A termination of employment involving the payment of a retirement allowance before a participant is eligible for normal retirement. The retirement allowance payable in the event of early retirement is often lower than the accrued portion of the normal retirement allowance.

**Economic Assumptions:** Economic assumptions are actuarial assumptions about investment return, salary inflation, salary merit scale, and Cost of Living Adjustments.

**Enrolled Actuary (EA):** An actuary certified by the Joint Board for the Enrollment of Actuaries as being qualified to perform actuarial services under the Employee Retirement and Income Security Act of 1974 (ERISA).

**Equities:** Ownership of a company (as opposed to debt.) Examples include stocks, venture capital, and leveraged buy outs.

**ERISA:** Acronym for the Employee Retirement Income Security Act. This federal legislation sets minimum standards for pension design to increase the security of private sector employees' benefits.

## F

**Fiduciary:** (1) Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person; (2) anyone who exercises power and control, management or disposition with regard to a fund's assets, or who has authority to do so or who has authority or responsibility in the plan's administration. Fiduciaries must discharge their duties solely in the interest of the participants and their beneficiaries, and are accountable for any actions which may be construed by the courts as breaching that trust.

**Financial Economics:** Financial economics is a theory about pension mathematics that focuses on recognizing assets and liabilities on a market value basis.

**401(k), 403(b), and 457 Plans:** These defined contribution plans allow employees to save for retirement on a tax-deferred basis. 401(k) plans are found in the private sector and the public sector in some states. 403(b) plans are for employees of public educational institutions and certain non-profit tax-exempt organization. 457 plans (also known as deferred compensation plans) are for governmental employees and non-church-controlled tax-exempt organizations.

**Fully Projected Benefits:** Fully projected benefits are expected benefits from the retirement system based on future pay and future service.

**Funding Ratio:** The funding ratio is the ratio of the assets of a retirement system to the liabilities.

## G

**General Accounting Standards Board (GASB):** This governmental agency sets the accounting standards for state and local government operations.

## H

**Hybrid Plan:** A hybrid plan is a plan with both defined benefit and defined contribution plan features.

## I

**Individual Retirement Account (IRA):** A retirement account to which an individual can make annual tax deductible contributions according to annual limits that are specified by the Internal Revenue Service.

**Integrated Pension Plan:** So as not to duplicate Social Security benefits, defined benefit plans often provide that part of the Social Security pension be subtracted from the member's annuity. Defined benefit or defined contribution plans can provide that lower pension accruals be applied to employee's earnings below a specified level, generally the Social Security taxable wage base. Employees earning more than the social security taxable wage base receive greater contributions to reflect that social security benefits are not provided on pay over that amount.

**Interest Rate:** The interest rate is the rate used to determine present values.

**Investment Return:** Investment return refers to the earnings on the investments in the pension fund.

## J

**Joint and Survivor Annuity:** A provision that enables a plan participant to take annuity payments with continuing payments of all or part of the benefits after his or her death going to a designated beneficiary. The survivor annuity will automatically be provided to a married participant if he or she does not choose against it. The annual pension benefits of the participant electing to have such a survivor annuity are generally reduced to provide for the survivor.

## K

**KEOGH (HR 10) Account:** These plans allow a self employed individual or small business owner to establish a qualified pension or profit sharing plan funded by pre-tax contributions, subject to certain restrictions and limitations as specified by the Internal Revenue Service.

## L

**Leap-Frogging:** The practice by each of two or more retirement systems (often in the same state or province) of obtaining in rotation better benefits for its members than those of the other systems.

**Life Annuity:** A monthly benefit payable as long as the annuitant is alive. There are no residual payments to survivors.

**Life Expectancy:** The average number of years a person of a given age might be expected to live.

**Lump Sum Distribution:** Payment within one taxable year of the entire balance payable to the participant from a qualified pension or employee annuity plan.

## M

**Market Value of Assets (MVA):** The market value of assets is the value of the pension fund based on the value of the assets as they would trade on an open market, including accrued income and expenses.

**Merit Scale:** The merit scale is the actuarial assumption about pay increases in excess of inflation.

**Money Purchase Plan:** A type of pension plan where the employer agrees to make a fixed contribution each year for each eligible employee. The contribution is typically expressed as a percentage of the employee's pay and the contribution constitutes a non discretionary commitment on the part of the employer. The contribution must be made each year, regardless of employer profits, and can only be varied by plan amendment. Although treated differently under federal tax law, money purchase plans are fundamentally defined contribution plans.

**Mortality Tables:** Mortality tables are tables of death rates developed by actuaries.

**Multi Employer Plan:** A collectively bargained pension plan to which more than one non related employer contributes.

## N

**Non Contributory:** A retirement system in which no contributions are required of its members to aid in its financing.

**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.

**Normal Retirement Age:** The age, as established by a plan, when unreduced benefits can be received. ERISA defines "normal retirement age" as the earlier of: (a) the time a plan participant attains normal retirement age under the plan or (b) the later of (i) the time a plan participant attains age 65, or (ii) the 10th anniversary of the time a plan participant commenced participation in the plan.

## O

**Offset Plan:** A pension plan in which the employer's participation in Social Security is used as "credit" against members' benefits.

**Open Group:** An open group means that the valuation is based on current members plus new entrants.

**Other Post-Employment Benefits (OPEB):** Other Post-Employment Benefits are benefits for inactive members other than pension benefits, such as retiree medical benefits.

## P

**Pay As You Go:** A method of recognizing the costs of a retirement system only as benefits are paid. Also known as the current disbursement cost method.

**Pension:** A series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance financed by employer contributions. Compare with "annuity".

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Pension Equity Plan:** A pension equity plan is a hybrid plan with a formula for paying a lump sum based on pay and service.

**Percent Married:** The percent married assumption is used to estimate the cost of death benefits.

**Phased Retirement:** Phased retirement is a provision to allow members to work reduced hours while receiving proportionately reduced pensions.

**Pop Up Option:** A type of joint and survivor option. If the retiree's named beneficiary predeceases him or her, the amount of the retirement benefit increases (pops-up), to the amount payable for a life only payment option.

**Portability:** The ability of an employee who changes jobs to transfer his or her accrued benefits from the previous to the present employer's pension system.

**Pre Funding:** To accumulate a reserve fund in advance of paying benefits. This is the opposite of "pay as you go".

**Present Value:** The current worth of an amount or series of amounts payable in the future, after discounting each amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

**Present Value of Fully Credited Benefits:** Also known as the credited projected liability , the present value of fully credited benefits is the liability based on credited projected benefits. It is calculated in the same way as a measure of liabilities used for accounting purposes called the Projected Benefit Obligation (PBO). It is calculated using the Projected Unit Credit Cost Method.

**Present Value of Fully Projected Benefits (PVFPB):** Also known as the present value of benefits (PVB), the present value of fully projected benefits is the liability based on fully projected benefits. It includes the actuarial accrued liability and the present value of future normal costs.

**Present Value of Benefits (PVB):** The present vale of benefits (PVB) is the same as the present value of fully projected benefits (PVFPB).

**Present Value of Future Salaries (PVFS):** The value of future expected salaries discounted with interest.

**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.

**Projection Valuation:** A set of actuarial valuations projected for a period of years into the future based on assumptions that include new entrants.

**Prudent Man Rule:** A requirement imposed by ERISA that plan fiduciaries carry out their duties with the care, skill prudence and diligence which a prudent man, acting in a like capacity and familiar with such matters, would use under conditions prevailing at the time.

**Public Plan:** A retirement system that covers government employees.

## Q

**Qualified Domestic Relations Order (QDRO):** A court order that allocates a portion of a member's current or future retirement benefits to an alternate payee following a divorce.

**Qualified Plan:** An employee benefit plan approved by the Internal Revenue Service, meeting requirements set forth in IRS Code Section 401. Contributions to such plans are subject to favorable tax treatment.

## R

**Rate Smoothing:** Rate smoothing is a method for deferring large increases or decreases in contribution rates.

**Refund of Contributions:** A refund of contributions benefit is a feature of contributory defined benefit plans that allows members to receive a lump sum benefit based on the accumulated member contributions.

**Replacement Ratio:** A calculation of the degree to which retirement income supplants a pre-retirement member's take home pay, less working expenses. To determine this ratio, several factors must be taken into account: a retiree's pre retirement earnings; changes in tax liabilities after retirement; changes in Social Security tax liability; the elimination of work related expenses including contributions to the retirement system; and savings.

**Restoration:** Restoration allows a rehired member to make a deposit for a prior refund of contributions to restore service credit under the system.

**Retiree:** A retiree is a member in pay status.

**Retire/Rehire:** Retire/rehire is a feature that allows members to retire and return to work while continuing to receive retirement benefits.

**Retiree Medical:** Retiree medical benefits are health insurance benefits available to members following retirement.

**Retirement Rates:** Tables of retirement rates based on age and service are used to determine retirement system liabilities.

**Roth IRA:** A retirement account which an individual can make after-tax contributions according to annual limits that are specified by the IRS. Eligible withdrawals from the account are tax-free.

**Roth 401(k):** An employer sponsored retirement savings account in which an individual can make after tax contributions through payroll deductions according to annual limits that are specified by the IRS. Eligible withdrawals from the account are tax-free.

## S

**Salary Inflation:** Salary inflation is the part of the salary increases that are the result of general wage inflation rather than for merit.

**Service Retirement:** Normal retirement dependent upon completion of a specified period of service. In some usages, the term has the same meaning as "normal retirement".

**Status:** The status of a member of a retirement system can be active, terminated vested, retired, disabled, or survivor.

**Stochastic Forecast:** A stochastic forecast is a set of projection valuations based on a variety of scenarios to produce of range of results for expected contribution rates and funded ratio. It is often used in asset/liability studies.

**Supplemental Cost:** A separate element of actuarial cost which results from future normal costs having a present value less than the present value of the total prospective benefits of the system. Such supplemental cost is generally the result of assuming that actuarial costs accrued before the establishment of the retirement system. A supplemental cost may also arise after inception of the system because of benefit changes, changes in actuarial assumptions, actuarial losses, or failure to fund or otherwise recognize normal cost accruals or interest on supplemental cost.

**Survivor:** A beneficiary in a retirement system entitled to a benefit following the death of a member.

## T

**Terminated Vested:** A former member entitled to deferred benefits.

**Terminated Non-Vested:** A former member with no future benefits other than a return of contributions.

**Thirteenth Check:** An annual supplemental retirement allowance arising from earnings on investments of the system in excess of those determined as needed for other purposes.

**Total Allocation Portfolio (TAP):** A diversified investment portfolio in the DCP designed for the long term investor. Assets are invested across five broad asset classes divided between public market securities such as stocks, fixed income, cash, and private market investments such as real estate and private equity.

**Transfer:** A transfer is a member of a retirement system with prior service in another retirement system of the same plan sponsor.

**Turnover:** Also known as withdrawal, turnover refers to active members who leave prior to retirement for reasons other than death or disability. Tables of turnover rates are used in calculating liabilities.

## U

**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.

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

**Uniform COLA:** A cost of living adjustment (COLA) based on a flat amount times years of service.

## V

**Valuation Assets:** Also known as the actuarial value of assets, the valuation assets are the assets used in the actuarial valuation to determine contribution rates.

**Variable Annuity:** A benefit whose payments vary from year to year depending upon the value of a portfolio of securities (usually common stocks).

**Vesting:** The right of an employee to the benefits he or she has accrued, or some portion of them, even if employment under the plan is terminated. An employee who has met the vesting requirements of a pension plan is said to have a vested right. Voluntary and mandatory employee contributions are always fully vested.

## W

**Withdrawal:** The termination of employment prior to becoming eligible for any benefits. The term sometimes refers to subsequent termination of membership in a system by withdrawal of the employee's accumulated contributions from the system.

# Acronyms

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| AARP | American Association of Retired Persons |
| AFC | Average Final Compensation |
| AFS | Average Final Salary |
| ATULC | Amalgamated Transit Union Legislative Council |
| AWC | Association of Washington Cities |
| AWSP | Association of Washington School Principals |
| CARE | Coalition of Active and Retired Employees |
| COLA | Cost of Living Adjustment |
| CRHEE | Coalition of Retired Higher Education Employers |
| CTF | Commingled Trust Fund |
| DB | Defined Benefit |
| DC | Defined Contribution Plan |
| DCP | Defined Contribution Program |
| DRS | Department of Retirement Systems |
| ERBB | Employee Retirement Benefits Board |
| ERFC | Economic and Revenue Forecast Council |
| ERRF | Early Retirement Reduction Factor |
| FAS | Final Average Salary |
| DFW | Department of Fish and Wildlife |
| IFPTE | International Federation of Professional and Technical Engineers |
| IUOE | International Union of Operating Engineers   Local 609 |
| JLARC | Joint Legislative Audit and Review Committee |
| LEAP | Legislative Evaluation and Accountability Program Committee |
| LEOFF | Law Enforcement Officers' and Fire Fighters' Retirement System |

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|---|---|
| MAP | Multiple Asset Portfolio |
| OFM | Office of Financial Management |
| OSA | Office of the State Actuary |
| P&R | State Parks and Recreation Commission |
| PEPC | Public Employee Pension Coalition |
| PEPR | Public Employees for Pension Reform |
| PERS | Public Employees' Retirement System |
| PFC | Pension Funding Council |
| PSE | Public School Employees |
| PSERS | Public Safety Employees' Retirement System |
| PVFS | Present Value of Future Salaries |
| RCW | Revised Code of Washington |
| REARG | Retired Employees Advocacy and Research Group |
| RPEC | Retired Public Employee's Council |
| SBCTC | State Board for Community and Technical Colleges |
| SCPP | Select Committee on Pension Policy |
| SEIU | Service Employees International Union |
| SERS | School Employees' Retirement System |
| TAP | Total Allocation Portfolio |
| TRS | Teachers' Retirement System |
| UAAL | Unfunded Actuarial Accrued Liability |
| USERRA | Uniformed Service Employment and Re-employment Rights Act |
| UW | University of Washington |
| UWRA | University of Washington Retirement Association |
| WAC | Washington Administrative Code |
| WACOPS | Washington Council of Police and Sheriffs |
| WASA | Washington Association of School Administrators |

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|---|---|
| WASPC | Washington Association of Sheriff and Police Chiefs |
| WEAR | Washington Education Association Retired |
| WEA | Washington Education Association |
| WFCA | Washington Fire Commissioners Association |
| WFSE | Washington Federation of State Employees |
| WFT | Washington Federation of Teachers |
| WPEA | Washington Public Employees Association |
| WSIPC | Washington School Information Processing Cooperative |
| WSCFF | Washington State Council of Fire Fighters |
| WSCPO | Washington State Council of Police Officers |
| WSFCA | Washington State Fire Chiefs Association |
| WSIB | Washington State Investment Board |
| WSLEA | Washington State Law Enforcement Association |
| WSP | Washington State Patrol |
| WSPRS | Washington State Patrol Retirement System |
| WSPTA | Washington State Patrol Troopers Association |
| WSRLEA | Washington State Retired Law Enforcement Association |
| WSRTA | Washington State Retired Teachers' Association |
| WSU | Washington State University |
| YOS | Years of service |

# Retirement Links

The Office of the State Actuary is just one of several state agencies that provide the services necessary to administer Washington's public retirement systems. Other agencies and their responsibilities are identified below.

### Department of Retirement Systems

http://www.drs.wa.gov/

Maintains membership records, collects contributions from members and employers, pays benefits, communicates benefit information and advises the Governor on pension benefits.

## Employee Retirement Benefits Board

http://www.drs.wa.gov/Administration/erbb/

Determines the administrative charges applied to Plan 3 defined contribution investments and recommends pay out options for benefits paid from Plan 3 defined contribution savings.

## Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

http://www.leoff.wa.gov/

Policy making board with the responsibility to study pension issues, set contribution rates, and recommend pension policy to the Legislature solely in the interest of LEOFF Plan 2 members and beneficiaries.

## Public Employees Benefit Board

http://www.pebb.hca.wa.gov/

The Public Employees Benefits Board, created within the Washington State Health Care Authority, establishes eligibility requirements and approves employee premium contributions and the benefits of all participating health care organizations.

## Select Committee on Pension Policy

http://www1.leg.wa.gov/scpp/

Studies issues related to the provision of retirement benefits and the funding of the retirement systems. Also develops underlying retirement policies and recommends legislation to the Legislature.

## State Investment Board

http://www.sib.wa.gov

Invests the retirement funds and maintains comprehensive accounting of gains and losses.

## The State Board for Volunteer Fire Fighters and Reserve Officers

http://www.bvff.wa.gov

Administers the Volunteer Firefighter's and Reserve Officers' Relief and Pension Fund.

# Pension-Related Websites

**Actuary.ca**

http://www.actuary.ca/

**Actuarial Foundation**

http://www.actuarialfoundation.org/

**Actuary.com**

http://www.actuary.com/

**American Acadamy of Actuaries**

http://www.actuary.org/

**Actuarial Board for Counseling and Discipline**

http://www.abcdboard.org/

**American Society of Pension Professionals and Actuaries**

http://www.aspa.org/

**Benefits Canada**

http://www.benefitscanada.com/

**Benefits Link**

http://www.benefitslink.com/

**Bureau of National Affairs, Inc.**

http://www.bna.com/

**CalPERS**

http://www.calpers.ca.gov/

**Contingencies**

http://www.contingencies.org/

**Conference of Consulting Actuaries**

http://www.ccactuaries.org/

**Department of Labor, U.S.**

http://www.dol.gov/

**Employee Benefit Research Institute (EBRI)**

http://www.ebri.org/

**International Actuarial Association**

http://www.actuaries.org/

**International Foundation of Employee Benefits Plans**

http://www.ifebp.org/

**Internal Revenue Service**

http://www.irs.gov/

**Joint Board for the Enrollment of Actuaries**

http://www.irs.gov/taxpros/actuaries/

**National Association of State Retirement Administrators**

http://www.nasra.org/

**National Conference of State Legislatures**

http://www.ncsl.org/

**National Council on Teacher Retirement**

http://www.nctr.org/

**National Conference on Public Employee Retirement Systems**

http://www.ncpers.org/

**National Institute of Pension Administrators**

http://www.nipa.org/

**Pension Surveys**

http://www.perspective.info/pensionsurveys

**Pension and Investments**

http://www.pionline.com/

**Pension Benefit Guaranty Corporation**

http://www.pbgc.gov/

## Pension Research Council

http://www.pensionresearchcouncil.org

## Publication 939, General Rule for Pensions and Annuities

http://www.irs.gov/pub/irs-pdf/p939.pdf

## Public Retirement Information Systems Management

http://www.prism-assoc.org/

## Social Security Online

http://www.ssa.gov/

## Society of Actuaries

http://www.soa.org/

## State Retirement Systems

http://calhounlawgroup.com/

## Washington Deferred Compensation Program

https://dcp.csplans.com/portal/PortalLogin.jsp