

The Select Committee on Pension Policy

# 2008 Interim Issues

## Executive Summary



Office of the State Actuary

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# Acknowledgments

This report was prepared by staff of the Office of the State Actuary. The Office of the State Actuary provides staff support to the Select Committee on Pension Policy.

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## Table of Contents

About This Report .....	5
About The SCPP .....	7
2009 SCPP Legislative Proposals .....	9
Fiscal Impact Summary – 2009 SCPP Legislative Proposals.....	11

## Issues Considered During 2008

### *Issues Considered With Recommendation To Legislature*

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1. \$150,000 Death Benefit .....	17
2. Change Membership Default for Plans 2/3 .....	19
3. Disability Benefits .....	21
4. DRS Technical Corrections.....	23
5. Fish & Wildlife Service Credit Transfer .....	25
6. HECB Proposal .....	27
7. Interruptive Military Service Credit.....	29
8. Lower General Salary Increase Assumption .....	31
9. Military Death Benefits.....	33
10. OSA Request Legislation .....	35
11. PERS to SERS Auto-Transfer .....	37
12. Pre-LEOFF Survivor Benefits.....	39
13. SERS Past Part-Time Service Credit .....	41
14. Survivors of PERS 1 Inactives .....	43

### *Issues Considered With No Recommendation*

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15. Plan 1 COLA Proposals .....	47
16. Visiting International Faculty.....	49



# About This Report

## Description of Report

The 2008 Interim Issues Report is a guide to issues considered by the Select Committee on Pension Policy (SCPP) during 2008. This report includes key materials for issues that received substantial policy consideration by the full SCPP.

This report is broken into two sections: an Executive Summary and a full report. The Executive Summary summarizes the recommendations made by the SCPP to the 2009 Legislature, the fiscal impact of those recommendations, and the work of the Committee on specific issues. The full report contains added detail on the specific issues and includes policy papers, draft legislation, and draft fiscal notes.

The materials in this report have been updated to reflect the most recent Committee activity. They do not necessarily match the materials provided at the SCPP meetings. A complete record of materials provided at the SCPP meetings is available on the SCPP web site at [www.leg.wa.gov/scpp](http://www.leg.wa.gov/scpp).

## Staff Contacts

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## About The SCPP

The Select Committee on Pension Policy (SCPP) studies issues and policies affecting the state's public employee retirement systems and makes recommendations to the Legislature regarding changes. Its statutory authority is contained in RCW 41.04.281.

The SCPP meets once a month during the legislative interim (the time when the Legislature is not in session). Its specific areas of interest include benefits design, retirement eligibility requirements, and pension funding methods. The SCPP also:

- ❖ Receives the results of actuarial audits administered by the Pension Funding Council.
- ❖ Reviews and makes recommendations to the Pension Funding Council regarding changes to actuarial assumptions or contributions rates.

Visit the SCPP website at [www.leg.wa.gov/SCPP](http://www.leg.wa.gov/SCPP) to learn more about the SCPP.

## Members of the 2008 SCPP

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## 2009 SCPP Legislative Proposals

The SCPP has recommended the following proposals for the 2009 Legislative Session:

- 1. \$150,000 Death Benefit**  
Increase the amount of the death benefit from \$150,000 to \$175,000. Recommended December 16, 2008.
- 2. Change Membership Default for PERS 2/3**  
Change the default retirement plan for new members of the Public Employees' Retirement System (PERS) who do not select a plan upon hire from Plan 3 to Plan 2. Recommended December 16, 2008.
- 3. Disability Benefits Study**  
Direct the Washington State Institute for Public Policy, with the assistance of the Office of the State Actuary, to study options for addressing the needs of PERS Plan 2/3, Teachers' Retirement System (TRS) Plan 2/3, and School Employees' Retirement System (SERS) Plan 2/3 members for adequate disability benefit coverage. Recommended December 16, 2008.
- 4. DRS Technical Corrections**  
Repeal two obsolete sections of the TRS 1 statute. Recommended November 18, 2008.
- 5. Fish & Wildlife Service Credit Transfer**  
Allow enforcement officers for the Department of Fish & Wildlife to convert prior PERS Plan 2 or PERS Plan 3 service to LEOFF Plan 2. Recommended December 16, 2008.
- 6. HECB Proposal**  
Allow the Higher Education Coordinating Board to offer Higher Education Retirement Plans to employees not already retired from a state-administered retirement system. Recommended May 13, 2008.
- 7. Interruptive Military Service**  
Allow members of the open plans to receive up to five years of free service credit for interruptive military service during a period of war as defined in RCW 41.04.005, with refunds to members who have already made payments for such service. Recommended December 16, 2008.

**8. Lower the General Salary Increase Assumption**

Lower the statutory general salary increase assumption from 4.50 percent to 4.25 percent for all plans except LEOFF Plan 2—consistent with the actions of the Pension Funding Council. Recommended September 16, 2008.

**9. Military Death Benefits**

Provide an unreduced joint and survivor annuity to the survivor of a member who dies in war while serving in the National Guard or Military Reserves. Recommended July 15, 2008.

**10. OSA Request Legislation**

Clarify how the State Actuary studies salary growth, and codify current practices relating to recommendations of the State Actuary following an actuarial experience study. Recommended November 18, 2008.

**11. PERS to SERS Auto-Transfer**

End the conditional automatic transfer of membership from PERS to SERS and allow certain auto-transferred members to reverse the transfer. Recommended May 13, 2008.

**12. Pre-LEOFF Survivor Benefits**

Provide a new, member-paid survivor benefit option for spouses who are ineligible to receive a survivor benefit from the plan, and continue paying survivor benefits when a surviving spouse remarries. Recommended December 16, 2008.

**13. Past Part-Time Service Credit**

Grant half-time service credit to certain Plan 2/3 members who worked at least half-time for an educational employer prior to 1987. Recommended November 18, 2008.

**14. Survivors of PERS 1 Inactives**

Provide the same pre-retirement survivor annuity for inactive members as for active members in PERS Plan 1. Recommended May 13, 2008.

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# Fiscal Impact Summary

## 2009 SCPP Legislative Proposals

2009-2011 Biennium			
<i>(Dollars in Millions)</i>			
	2009-11	2009-11	2009-11
Proposals Recommended to the 2009 Legislature	GF-S	Local	Total ER
<b>\$150,000 Death Benefit</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Change Membership Default for PERS 2/3</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.1</b>
<b>Disability Benefits Study</b>	No Fiscal Impact		
<b>DRS Technical Corrections</b>	No Fiscal Impact		
<b>Fish &amp; Wildlife Service Credit Transfer</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>HECB Proposal</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Interruptive Military Service</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Lower the General Salary Increase Assumption</b>	No Fiscal Impact		
<b>Military Death Benefits</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>OSA Request Legislation</b>	No Fiscal Impact		
<b>PERS to SERS Auto-Transfer*</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Pre-LEOFF Survivor Benefits</b>	Indeterminate Fiscal Cost		
<b>Past Part-Time Service Credit</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Survivors of PERS 1 Inactives</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Total - SCPP Legislative Proposals For 2009</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.1</b>

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

*\*No Fiscal Impact. Asset / Liability Transfer only.*

<b>2011-2013 Biennium</b>			
<i>(Dollars in Millions)</i>			
	<b>2011-13</b>	<b>2011-13</b>	<b>2011-13</b>
<b>Proposals Recommended to the 2009 Legislature</b>	<b>GF-S</b>	<b>Local</b>	<b>Total ER</b>
<b>\$150,000 Death Benefit</b>	<b>\$0.1</b>	<b>\$0.2</b>	<b>\$0.4</b>
<b>Change Membership Default for PERS 2/3</b>	<b>\$0.0</b>	<b>\$0.1</b>	<b>\$0.2</b>
<b>Disability Benefits Study</b>	No Fiscal Impact		
<b>DRS Technical Corrections</b>	No Fiscal Impact		
<b>Fish &amp; Wildlife Service Credit Transfer</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$0.1)</b>
<b>HECB Proposal</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Interruptive Military Service</b>	<b>\$0.1</b>	<b>\$0.1</b>	<b>\$0.2</b>
<b>Lower the General Salary Increase Assumption</b>	No Fiscal Impact		
<b>Military Death Benefits</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.1</b>
<b>OSA Request Legislation</b>	No Fiscal Impact		
<b>PERS to SERS Auto-Transfer*</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Pre-LEOFF Survivor Benefits</b>	Indeterminate Fiscal Cost		
<b>Past Part-Time Service Credit</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Survivors of PERS 1 Inactives</b>	<b>\$0.0</b>	<b>\$0.1</b>	<b>\$0.1</b>
<b>Total - SCPP Legislative Proposals For 2009</b>	<b>\$0.2</b>	<b>\$0.5</b>	<b>\$0.9</b>

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

*\*No Fiscal Impact. Asset / Liability Transfer only.*

<b>2009-2034 (25 Year)</b>			
<i>(Dollars in Millions)</i>			
	<b>2009-34</b>	<b>2009-34</b>	<b>2009-34</b>
<b>Proposals Recommended to the 2009 Legislature</b>	<b>GF-S</b>	<b>Local</b>	<b>Total ER</b>
<b>\$150,000 Death Benefit</b>	<b>\$3.5</b>	<b>\$6.5</b>	<b>\$11.1</b>
<b>Change Membership Default for PERS 2/3</b>	<b>\$2.6</b>	<b>\$6.7</b>	<b>\$12.9</b>
<b>Disability Benefits Study</b>	No Fiscal Impact		
<b>DRS Technical Corrections</b>	No Fiscal Impact		
<b>Fish &amp; Wildlife Service Credit Transfer</b>	<b>(\$0.1)</b>	<b>(\$0.3)</b>	<b>(\$0.4)</b>
<b>HECB Proposal</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Interruptive Military Service</b>	<b>\$1.1</b>	<b>\$2.4</b>	<b>\$4.0</b>
<b>Lower the General Salary Increase Assumption</b>	No Fiscal Impact		
<b>Military Death Benefits</b>	<b>\$0.6</b>	<b>\$0.9</b>	<b>\$1.8</b>
<b>OSA Request Legislation</b>	No Fiscal Impact		
<b>PERS to SERS Auto-Transfer*</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Pre-LEOFF Survivor Benefits</b>	Indeterminate Fiscal Cost		
<b>Past Part-Time Service Credit</b>	<b>\$0.1</b>	<b>\$0.2</b>	<b>\$0.4</b>
<b>Survivors of PERS 1 Inactives</b>	<b>\$0.2</b>	<b>\$0.7</b>	<b>\$1.1</b>
<b>Total - SCPP Legislative Proposals For 2009</b>	<b>\$8.0</b>	<b>\$17.0</b>	<b>\$30.9</b>

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

*\*No Fiscal Impact. Asset / Liability Transfer only.*



# Issues Considered With Recommendation To Legislature



**Office of the State Actuary**

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## \$150,000 Death Benefit

### Description Of Issue

The retirement systems provide a \$150,000 death benefit for public employees who die as a result of a duty-related injury or illness. The benefit amount has not changed since the benefit was first established in 1996. Stakeholders are asking the SCPP to revisit adjusting the amount for inflation.

Actuaries expect fewer than 13 duty-deaths each year from a group of over 290,000 public employees.

This issue raises two basic policy questions. Is the current amount of the death benefit sufficient, or should it be increased for past inflation? Should the death benefit be protected against future inflation?

### Policy Highlights

- ❖ The relative value of the death benefit has declined 27 percent due to past inflation.
- ❖ Cost of Living Adjustments (COLAs) for lump sums provide equity across generations—not inflation protection for an individual's income.
- ❖ Some policy makers may prefer an insurance approach rather than a COLA approach.
- ❖ Automatic and ad-hoc COLAs can be equally effective in maintaining the value of benefits—with different implications for legislative control.
- ❖ The Legislature has previously rejected automatic COLAs for the death benefit.
- ❖ The SCPP recommended legislation on this issue in 2007 and 2008.

### Policy Options For Adjusting The Duty-Death Benefit

Policy makers who feel the current death benefit should be adjusted for inflation may consider the following options:

- ❖ **Option 1: Provide A One-Time Adjustment For Past Inflation.**
  - Restores the relative value of the benefit to its original level.
  - Doesn't prevent future loss in value due to inflation.
- ❖ **Option 2: Provide An Automatic CPI-Based COLA.**
  - Doesn't recover value already lost due to inflation.
  - Generally prevents further loss of value due to inflation.
  - Requires policy makers to give up some legislative control over the benefit, but may reduce need to revisit in future.
- ❖ **Option 3: One-Time Adjustment Plus Automatic COLA.**
  - Recovers past value and generally prevents future loss of value.
  - Requires policy makers to give up some legislative control over the benefit, but may reduce need to revisit in future.
- ❖ **Option 4: Increase To \$175,000.**
  - Recovers some value lost due to past inflation.
  - Doesn't prevent future loss in value due to inflation.

## Committee Activity

Staff briefed the Committee on this issue in October and November. The Committee held public hearings in November and December, and took executive action in December recommending Option 4 to the Legislature.

## Recommendation To 2009 Legislature

Increase the amount of the death benefit from \$150,000 to \$175,000.

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# Change Membership Default For Plans 2/3

## Description Of Issue

The SCPP considered the plan choice default in the Plans 2/3 of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS). A member requested that new employees who failed to choose between Plan 2 or Plan 3 to become permanent members of Plan 2 by default. The current default plan is Plan 3.

This request raises two immediate policy questions:

- ❖ Should the plan default be changed, particularly at this time?
- ❖ If so, how should the default be determined?

## Policy Highlights

- ❖ Have the values changed that made the Plan 3 design the policy preference for the default plan?
- ❖ There may be issues with changing the default at this time.
  - Legal considerations.
  - Financial market conditions.
- ❖ If policy makers don't have a policy preference for continuing the Plan 3 default, how should they decide which plan should be the default?
  - Look at historical data of plan choice preference?
  - Determine which plan best serves the needs of new employees?

## Policy Options For Changing Membership Default

Policy makers who wish to change the membership default may consider the following options:

❖ **Option 1: Change The Default Plan To Plan 2 For PERS, TRS And SERS.**

- Maintains consistency between the plans.
- Ensures members are not defaulted into plan with more investment risk.
- Doesn't address possible legal or market-driven policy concerns.

❖ **Option 2: Change The Default Plan To Plan 2 For PERS Only.**

- Eliminates legal concerns related to optional membership for TRS and SERS new employees.
- Ensures members are not defaulted into plan with more investment risk.
- Doesn't address possible concern over decision being market-driven.

## Committee Activity

Staff briefed the Committee on this issue in November. The Committee held a public hearing and took executive action in December. The Committee moved to recommend Option 2 to the Legislature.

## Recommendation To 2009 Legislature

Change the default retirement plan from Plan 3 to Plan 2 for new members of PERS who do not select a plan upon hire.

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# Disability Benefits

## Description Of Issue

The SCPP considered the disability benefits provided in the Plans 2/3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS). Stakeholders submitted a proposal to the SCPP on this issue.

This issue raises two immediate policy questions:

- ❖ Should the state assume more responsibility to provide disability protection? If yes,
- ❖ Should the improvements be provided to members through pension enhancements, through insurance products, or both?

## Policy Highlights

- ❖ In the design of the Plans 2/3, members have the primary responsibility to provide income replacement if disabled.
- ❖ The Plans 2/3 provide access to the value of the benefit earned to date when members become disabled.
- ❖ Not all employers offer access to disability insurance products.
- ❖ There are many ways to design a disability benefit within the retirement plans or through insurance products.
- ❖ Changing certain aspects of a disability benefit without fully studying the impacts may create additional issues to consider.

## Options For Changing Plan 2/3 Disability Benefits

Policy makers who wish to address the disability benefits for members of the Plans 2/3 may consider the following options:

- ❖ **Option 1: The Original Stakeholder Proposal.**
  - Provide increased disability pension benefits to Plans 2/3 members based upon years of service and age and using the current standard for disability.

- Also requires the Washington State Institute for Public Policy (WSIPP) to study options for providing access to disability insurance to all members of the Plans 2/3.
- ❖ **Option 2: Revised Stakeholder Proposal.**
  - The same as the original stakeholder proposal except that in order to qualify for the increased pension benefits, members must meet the standard of disability used by the Social Security Administration.
- ❖ **Option 3: Insurance Study Only.**
  - This option would implement the study portion only of Option 1 and Option 2.

## Committee Activity

Staff briefed the Committee on this issue in October and December. The Committee held a public hearing and took executive action in December. The Committee recommended a revised version of Option 3 to the Legislature. The revised Option 3 expands the study to include pension benefits.

## Recommendation To 2009 Legislature

Direct the Washington State Institute for Public Policy, with the assistance of the Office of The State Actuary, to study options for addressing the needs of PERS Plan 2/3, TRS Plan 2/3, and SERS Plan 2/3 members for adequate disability benefit coverage.

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# DRS Technical Corrections

## Description Of Issue

The Department of Retirement Systems (DRS) has identified certain technical corrections to pension statutes. The proposed corrections would repeal two obsolete sections of Plan 1 of the Teachers' Retirement System:

- ❖ The disability reserve fund in RCW 41.32.360.
- ❖ The death benefit fund in RCW 41.32.366.

These funds are no longer used by DRS—the Department has paid death and disability benefits from the pension reserve fund since 1992. The proposed changes have no policy or fiscal impact.

## Policy Highlights

Typically, the SCPP sponsors technical corrections bills in long sessions. There were no policy decisions to make with respect to the proposed corrections.

## Committee Activity

Staff briefed the Committee on this issue in November. The Committee held a public hearing in November and took executive action to recommend the proposed technical corrections to the Legislature.

## Recommendation To 2009 Legislature

Repeal obsolete sections of Plan 1 of the Teachers' Retirement System.

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# Fish And Wildlife Service Credit Transfer

## Description Of Issue

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

The question for policy makers is: Should these enforcement officers be allowed to transfer their prior PERS service into LEOFF Plan 2?

## Policy Highlights

- ❖ Fish & Wildlife enforcement officers did not always have general law enforcement authority while in PERS.
- ❖ Impacted enforcement officers are currently dual members, with service in both PERS and LEOFF Plan 2.
- ❖ Prior examples of groups gaining LEOFF Plan 2 membership allowed the transfer of prior PERS service.
- ❖ Prior proposed legislation on this issue did not include enforcement officers with prior service in PERS Plan 3.

## Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 session. The 2008 SCPP bill (HB 3023/SB 6653) allowed the transfer of prior enforcement officer service and required payments by members and the Department of Fish and Wildlife sufficient to keep from increasing the LEOFF Plan 2 contribution rates. The bill did not pass the Legislature, but did pass the Senate.

Staff briefed the Committee on this issue in September, and the Committee held a public hearing on this issue in October. The Committee held a second public hearing in December and took executive action to recommend this proposal to the Legislature.

## Recommendation To 2009 Legislature

Allow enforcement officers for the Department of Fish & Wildlife to convert prior PERS Plan 2 or PERS Plan 3 service to LEOFF Plan 2.

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# HECB Proposal

## Description Of Issue

The Higher Education Coordinating Board (HECB) is seeking statutory authority to offer Higher Education Retirement Plans (HERPs) to some of its employees. The HECB is a Public Employees' Retirement Systems (PERS) employer that actively recruits employees from higher education institutions, which usually offer HERPs.

Granting the HECB authority to offer HERPs to its employees requires changing higher education statutes, not pension statutes. This raises questions around whether the Higher Education Committees of the House and Senate would be more suited to decide this issue, or whether the issue should be coordinated with those committees.

## Policy Highlights

- ❖ The HECB views this as a recruitment and retention issue.
- ❖ HERPs may provide larger benefits than state-administered plans and do not have the same restrictions on post-retirement employment.
- ❖ Providing more generous pension benefits to select employees within an agency may impact morale.
- ❖ The Washington State Board for Community and Technical Colleges is allowed to offer HERPs to its employees.

## Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 session allowing the HECB to offer HERPs to its employees (HB 3025/SB 6647). The 2008 SCPP bill did not pass the Legislature, but did pass the House and was heard in, but did not pass, the Senate Committee on Ways & Means.

The Committee held a public hearing and took executive action on this issue in May 2008. The Committee moved to reintroduce the 2008 SCPP bill for the 2009 session.

## Recommendation To 2009 Legislature

Allow the Higher Education Coordinating Board to offer Higher Education Retirement Plans to employees not already retired from a state-administered retirement system.

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# Interruptive Military Service Credit

## Description Of Issue

The SCPP considered whether members should receive up to five years of free service credit for periods of public employment that is interrupted by military service during a period of war as defined in RCW 41.04.005.

## Policy Highlights

- ❖ The SCPP recommended legislation on this issue in 2008 that did not provide refunds for members who had already paid for interruptive military service during a period of war.
- ❖ Stakeholders and policy makers wanted more consistent treatment of members who served during the same period of war.
- ❖ A refund policy allows members serving within the same period of war to be treated more consistently.

## Policy Options For Applying The Benefit

- ❖ **Option 1: Prospective Service Only.**
  - Less generous than the 2008 bill.
  - Results in inconsistent treatment for service in ongoing conflicts.
- ❖ **Option 2: All Service, No Refunds.**
  - Same as the SCPP's 2008 bill.
  - Led to complaints of inconsistency.
- ❖ **Option 3: All Service, Some Refunds.**
  - Refunds only for service in Operation Iraqi Freedom and Operation Enduring Freedom, including Afghanistan.
  - Provides consistency for participants in ongoing conflicts, but not to those who participated in earlier periods of war.
- ❖ **Option 4: All Service, All Refunds.**
  - Refunds for any period in member's career.
  - Provides the most consistent treatment of members.

## Committee Activity

Staff briefed the Committee in September and November. The Committee held a public hearing in December and took executive action to recommend Option 4.

## Recommendation To 2009 Legislature

Allow members of the open plans to receive up to five years of free service credit for interruptive military service during a period of war as defined in RCW 41.04.005, with refunds to members who have already made payments for such service.

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# Lower General Salary Increase Assumption

## Description Of Issue

The issue is whether to lower the general salary increase assumption from 4.50 to 4.25 percent. The general salary increase assumption is an economic assumption that is used for the systematic actuarial funding of the Washington State retirement systems.

Economic assumptions are specified in the actuarial funding chapter of state law. See RCW 41.45.035. The funding chapter also provides that the Pension Funding Council (PFC) and ultimately, the Legislature, can modify these assumptions. As part of the contribution rate-setting process, the SCPP makes recommendations to the PFC regarding any changes to the assumptions based on changes in actuarial experience.

The State Actuary completed a six-year experience study in 2008, and recommended that the assumption be lowered to 4.25 percent.

## Policy Highlights

- ❖ Matching assumptions to experience prevents the accumulation of excess gains and losses.
- ❖ The proposed legislation would align the statute with the recommendation of the State Actuary and the decision of the PFC.

## Committee Activity

Staff briefed the Committee on this issue in July and the SCPP recommended to the PFC that it lower the general salary increase assumption from 4.50 to 4.25 percent. The PFC agreed and adopted this change on July 22, 2008. The SCPP held a public hearing in September and took executive action to recommend to the Legislature that the general salary increase assumption be lowered.

## Recommendation To 2009 Legislature

Lower the statutory general salary increase assumption from 4.50 percent to 4.25 percent for all plans except the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2—consistent with the actions of the Pension Funding Council.

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# Military Death Benefits

## Description Of Issue

The Public Employees' Retirement System (PERS) Plan 2 provides enhanced survivor benefits for members who are called to active duty military service and die while performing that service. The other Washington State retirement plans do not.

Enhanced PERS Plan 2 benefits were enacted in 2007 and provide a withdrawal of 200 percent of a member's account balance if the member died while serving in the Iraq or Afghanistan conflict after January of 2007.

## Policy Highlights

- ❖ There is inconsistent pension treatment of survivors of members who die while actively serving in the armed forces.
- ❖ The federal government provides lump sum payouts to survivors of armed forces members who die while serving.
- ❖ Three comparative systems provide enhanced survivor benefits when the member dies while actively serving in the armed forces.

## Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 session to provide an unreduced survivor annuity for members who die in certain military service (HB 3007/SB 6646). The bill did not pass the Legislature, but did pass the House.

The Committee held a public hearing and took executive action on this issue in July of 2008. The Committee moved to reintroduce the 2008 SCPP bill for the 2009 session.

## Recommendation To 2009 Legislature

Provide an unreduced joint and survivor annuity to the survivor of a member who dies in war while serving in the National Guard or Military Reserves.

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# OSA Request Legislation

## Description Of Issue

The State Actuary is seeking to update the actuarial funding chapter to clarify how the State Actuary studies salary growth and to codify current practices around actuarial experience studies.

The State Actuary studies economic and demographic components of total salary growth together and makes recommendations as needed. However, current statute can be read to suggest that they are studied at different times.

The State Actuary makes recommendations to the Pension Funding Council (PFC) concerning long-term demographic assumptions based on the results of actuarial experience studies. The PFC considers these recommendations when adopting biennial contribution rates. Current statute only requires the State Actuary to *file* the experience study results—not make recommendations for the PFC to consider.

## State Actuary's Proposal

- ❖ Clarify that the State Actuary may study all components of total salary growth together.
- ❖ Codify current practice that the State Actuary makes recommendations to the PFC based on actuarial experience studies and the PFC considers these recommendations when adopting biennial contribution rates.

## Policy Highlights

The proposed changes are consistent with the Actuarial standards of practice and have no fiscal impact on the retirement systems.

## Committee Activity

Staff briefed the Committee at its June and October meetings, and a public hearing was held in November. The Committee took executive action to recommend the State Actuary's proposal as SCPP request legislation in 2009.

## Recommendation To 2009 Legislature

Clarify how the State Actuary studies salary growth, and codify current practices relating to recommendations of the State Actuary following an actuarial experience study.

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# PERS To SERS Auto-Transfer

## Description Of Issue

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

## Policy Highlights

- ❖ The advantages of the auto-transfer have diminished since the initial creation of SERS.
- ❖ The auto-transfer may be impacting members never intended—most notably PERS 2 members whose primary careers are unrelated to school employment.
- ❖ Continuing the auto-transfer may lead to potential legal risk in the future.

## Policy Options

- ❖ **Target Auto-transfer To Former School Employees.**
  - More consistent with Legislative intent.
  - Eliminates most member complaints.
  - Doesn't address concerns about potential legal risk of continuing the transfer indefinitely.
- ❖ **End Auto-transfer.**
  - There is less need for the auto-transfer today.
  - Potential legal risk increases the longer the transfer continues.
  - Members may receive full value for prior school employment in PERS under dual-membership provisions.

## Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 session to end the auto-transfer and allow certain affected members to reverse it (HB 3005/SB 6655). The 2008 SCPP bill did not pass the Legislature, but did pass the House and the Senate Committee on Ways & Means.

The Committee held a public hearing and took executive action on this issue in May of 2008. The Committee moved to reintroduce the 2008 SCPP bill for the 2009 session.

## Recommendation To 2009 Legislature

End the conditional automatic transfer of membership from PERS to SERS and allow certain auto-transferred members to reverse the transfer.

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## Pre-LEOFF Survivor Benefits

### Description Of Issue

The ability of some spouses to collect survivor benefits in the Firemen's Relief and Pension Plans (FRP) is restricted. Some spouses do not qualify for survivor benefits from the plan, and survivor benefits for certain other spouses are stopped upon remarriage.

Stakeholders are proposing two changes:

- ❖ Continue paying survivor benefits when a surviving spouse remarries.
- ❖ Provide a new, member-paid survivor benefit option for spouses who are otherwise ineligible to receive a survivor benefit from the plan.

The FRP covered fire fighters prior to the creation of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System in 1970. There are no active members remaining in the FRP plan. It is unknown how many retired members or survivors would be impacted by these proposals since the plan is not administered by the state.

### Policy Highlights

- ❖ The proposed changes are consistent with earlier changes in LEOFF.
- ❖ There is also a pre-LEOFF police system with provisions for surviving spouses similar to those currently in the FRP.
- ❖ Policy makers may take different views on this issue depending on whether benefits are member-paid or offered at no additional cost to the member.
- ❖ Not providing survivor pensions may raise broader public policy concerns around
  - financially supporting spouses, and
  - benefit designs that may discourage marriage.

### Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 session implementing the proposed changes (HB 3020/SB 6650). The 2008 SCPP bill did

not pass the Legislature, but did pass the House and the Senate Committee on Ways and Means.

The Committee held a public hearing and took executive action on this issue in December of 2008. The Committee moved to reintroduce the 2008 SCPP bill for the 2009 session.

## Recommendation To 2009 Legislature

Provide a new, member-paid survivor benefit option for spouses who are ineligible to receive a survivor benefit from the plan, and continue paying survivor benefits when a surviving spouse remarries.

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# SERS Past Part-Time Service Credit

## Description Of Issue

In the past, some SERS members made contributions to the retirement system without receiving service credit. This occurred because contributions were required even if a member did not work enough hours to qualify for service credit. Current rules do not allow for such “non-credited” service.

SERS members have suggested that the current, more generous, service credit rules be retroactively applied to their non-credited past service.

Nearly 4,000 SERS members and over 15,000 members of other systems may have non-credited past service.

## Policy Highlights

- ❖ Impacts more than SERS.
- ❖ The Legislature has dealt with this before (1986 and 1991) and did not change past non-credited service—except for some teachers.
- ❖ Differs from other retroactive benefit increases since contributions were already collected.
- ❖ A 2008 non-SCPP bill would have given SERS members credit for non-credited past service (HB 3182, no hearing).
- ❖ Idaho refunds contributions for non-credited service at retirement.

## Policy Options

- ❖ **Option 1: Refund Contributions For Non-credited Service.**
  - Does not require a retroactive policy change.
  - Consistent with past legislative actions in not retroactively changing service credit policy.
  - Less generous than granting service credit.
- ❖ **Option 2: Apply Current Service Credit Rules To Past Service.**
  - Requires a retroactive policy change.
  - Inconsistent with past legislative actions.

- Ensures that members receive some service credit for any hours worked.
- May be targeted to educational employees only.
- ❖ **Option 3: Apply Current Half-Time Service Credit Rules To Past Service.**
  - Requires a limited retroactive policy change.
  - Consistent with an earlier retroactive service credit change provided for teachers.
  - Only impacts educational employees working at least half-time.
- ❖ **Option 4: Take No Action.**
  - Generally consistent with approach taken by past legislatures.
  - No cost impact.

## Committee Activity

Staff briefed the Committee on this issue in June and October. In November, the Committee held a public hearing and took executive action recommending Option 3 to the Legislature.

## Recommendation To 2009 Legislature

Grant half-time service to certain Plan 2/3 members who worked at least half-time for an educational employer prior to 1987.

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## Survivors Of PERS 1 Inactives

### Description Of Issue

The Public Employees' Retirement System (PERS) Plan 1 does not provide a survivor annuity for inactive members who die prior to retirement—even if the member was eligible for a pension at the time of death. In contrast, the plan does provide a survivor annuity for active members who die prior to retirement.

### Policy Highlights

- ❖ Current policy views active members who die as early retirements, while inactive members who die are viewed as withdrawals from the plan.
- ❖ Differences in pre-retirement death benefits for active and inactive members may be an oversight or a deliberate policy decision.
- ❖ All other comparable Washington State plans provide the same pre-retirement death benefits for both active and inactive members.

### Committee Activity

The SCPP studied this issue in 2007 and recommended a bill in the 2008 session to provide the same pre-retirement survivor annuity for inactive members as is provided for active members (HB 3006/SB 6652). The 2008 SCPP bill did not pass the Legislature, but did pass the House and the Senate Committee on Ways & Means.

The Committee held a public hearing and took executive action on this issue in May of 2008. The Committee moved to reintroduce the 2008 SCPP bill for the 2009 session.

### Recommendation To 2009 Legislature

Provide the same pre-retirement survivor annuity for inactive members as for active members in the Public Employees' Retirement System (PERS) Plan 1.

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# Issues Considered With No Recommendation



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# Plan 1 COLA Proposals

## Description Of Issue

The SCPP revisited the Uniform Cost of Living Adjustment (COLA) in PERS and TRS Plan 1. Stakeholders seeking improvements to the COLA have proposed two possible changes. This issue raises three basic policy questions:

- ❖ Is the current COLA sufficient?
- ❖ Who most needs an improved COLA?
- ❖ What form should a new COLA take?

## Policy Highlights

- ❖ The Uniform COLA helps maintain the value of pensions—though not equally for all members.
- ❖ The Uniform COLA and the Plans 2/3 COLA were designed to meet different policy objectives—direct comparisons may be misleading.
- ❖ The SCPP has adopted a policy on inflation protection (SCPP Goal #4).
- ❖ Benefit improvements for past service increase the Plans 1 UAAL and generally run counter to the principle of intergenerational equity.
- ❖ There are a variety of ways to target, implement, and design COLAs.

## Stakeholder Proposals:

Stakeholders submitted two proposals to the SCPP regarding the Plan 1 COLA. The stakeholders later asked the Committee to consider revisions to their proposals. See the full report for details on the original stakeholder proposals.

- ❖ **Revised Short-Term Option: Grant Additional Increases To The Uniform COLA Based On Year Of Retirement.**
  - Provides larger increases to members retired the longest.
  - Does not precisely recover purchasing power.
  - Impacts minimum benefits.

❖ **Revised Long-Term Option: Provide The Better Of The Uniform COLA Or A CPI-Based COLA Similar To The Plans 2/3 COLA.**

- Generally prevents the further loss of purchasing power.
- Does not diminish benefits.
- Provides similar value for the CPI-based COLA, but a better overall COLA in the Plans 1 than the Plans 2/3.
- Raises questions about contractual rights.

### Committee Activity

Staff briefed the Committee on this issue in September and November. The Committee held a public hearing in December.

### Recommendation To 2009 Legislature

None.

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# Visiting International Faculty

## Description Of Issue

Should visiting teachers from other countries be exempt from retirement system membership?

The Visiting International Faculty Program (VIF) is a sponsor under the U.S. Department of State's Exchange Visitor Program. VIF would like to sponsor visiting teachers in Washington, and is requesting an exemption from membership in the Teachers' Retirement System (TRS) Plans 2/3. These teachers would not stay in the state long enough to earn a pension. Exempting them would mean that employer and member contributions would not be collected for these teachers, and refunds of member contributions would not be required when they leave.

Based on experience in other states, the program could grow to about 200-300 teachers statewide.

## Policy Highlights

- ❖ A similar exemption exists in TRS Plan 1.
- ❖ DRS supports the idea of the exemption to alleviate administrative concerns.
- ❖ The two peer states that participate in the Exchange Visitor Program provide an exemption.
- ❖ An exemption is consistent with federal policies.
- ❖ An exemption adds membership complexity.
- ❖ An exemption spreads Plan 1 UAAL cost to non-participating employers.
- ❖ Impacts would reach beyond the pension system.

## Committee Activity

Staff briefed the Committee at its November meeting and the SCPP took no further action.

## Recommendation To 2009 Legislature

None.

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