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.

Staff Contact

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HECB Proposal

In Brief

ISSUE

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

MEMBER IMPACT

In 2007 the HECB reported that it had approximately eighty-five employees. Approximately ten of those came from higher education institutions, and about ten more are expected to come from higher education institutions in the near future.

HECB employees who participate in a HERP would no longer accrue service in PERS.

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Current Situation

The Higher Education Coordinating Board (HECB) is a Public Employees' Retirement System (PERS) employer that proposes to amend the higher education statutes. The HECB seeks authority to offer Higher Education Retirement Plans (HERPs) to its employees. Currently only the following groups have that authority:

- Board of Regents of the State Universities.
- Boards of Trustees of the Regional Universities.
- The Evergreen State College.
- The State Board for Community and Technical Colleges.

These groups define which of their employees are eligible to participate in the higher education retirement plan (HERP) or plans offered. Once the eligible positions are determined, employees in those positions are mandated into the HERP; however, employees who have prior Public Employees' Retirement System (PERS) service are typically offered the choice to remain in PERS.

In contrast, all of the HECB's employees are currently covered by the Public Employees' Retirement System (PERS).

What Is The HECB?

The HECB is a ten-member citizen board that administers the state's student financial aid programs and provides strategic planning, coordination, monitoring, and policy analysis for higher education in Washington. Created by the Legislature in 1985, as successor to the Council for Postsecondary Education, the board is charged by state law with representing the "broad public interest above the interests of the individual colleges and universities." An Advisory Council, which includes K-12 and higher education leaders, advises the board on carrying out its statutory duties.

The HECB employs a staff of approximately eighty-five employees and functions as a state agency. Its employees belong to PERS. Currently, none of these employees are offered the opportunity to join a HERP because the HECB does not have authority to offer such plans to its employees.

What Is The HECB's Interest?

In particular, the HECB has expressed interest in offering participation in the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA – CREF) to some of its employees. This is the most common HERP offered to higher education employees in Washington. The proposal, however, would allow the HECB to offer other higher education retirement benefits.

TIAA-CREF offers a variety of financial products and services to those in the academic, medical, cultural and research fields. The company offers retirement plans with immediate vesting, full portability and member choice of investment options. Members may be allowed to relocate, change future contributions, transfer existing account balances and reallocate funds. Additional member security can be purchased and offered by plan sponsors as a supplemental benefit. For example, after a pre-determined number of years of service, a retirement supplement can be paid to a member if the member's base pension does not provide what has been determined to be an adequate retirement benefit.

The HECB views this as a recruitment and retention issue.

The HECB views the ability to offer this type of plan to its employees as a recruitment and retention issue. According to Don Bennett, HECB Deputy Director, the HECB competes with colleges, universities, and the State Board for Community and Technical Colleges for mid-career staff. It also recruits from colleges and universities throughout the nation as well as from other state higher education executive offices. Mr. Bennett views the inability to offer a HERP as a competitive disadvantage. (See attached letter dated July 16, 2007, and HECB handout.)

The HECB anticipates that its own costs will increase for those employees who would be covered by TIAA-CREF under the expanded authority. To the extent that more

HECB employees seek and obtain TIAA-CREF coverage, those costs could increase over time.

History

The SCPP studied this issue in the 2007 Interim. At that time the SCPP amended the HECB's proposal to limit its application to employees not already retired from a state-administered retirement system. The amendment was designed to prevent HECB employees from simultaneously earning a full salary, drawing a public pension and accruing another retirement benefit in a HERP.

The amended proposal was recommended to the Legislature as HB 3025/SB 6647 (2008). The bill passed the House and was heard in, but did not pass, the Senate Committee on Ways and Means.

Other Higher Education Agencies In Washington State

The Washington State Board for Community and Technical Colleges (SBCTC) is a state agency that is somewhat similar to the HECB. It employs approximately ninety-four people. The State Board provides "general supervision and control over the state system of community and technical colleges." Its responsibilities include preparing a single system operating budget and capital budget request for the Legislature, disbursing capital and operating funds, ensuring statutory compliance, administering criteria for establishing new colleges, establishing operational standards, preparing a comprehensive master plan, and providing research.

SBCTC is specifically authorized by statute to offer higher education retirement plans to its employees. This agency reports that of its ninety-four employees, approximately sixty are reported in PERS and the remaining employees are covered under TIAA-CREF.

The other entities authorized to offer higher education retirement plans in Washington are the higher education institutions themselves.

Other States

Representatives of TIAA-CREF in their Seattle and Denver offices represented to OSA staff during the 2007 Interim that forty-nine government entities in eighteen states offer membership in TIAA-CREF. The types of employees most typically served by TIAA-CREF are in the academic, medical, cultural and research fields.

Questions For Policy Makers

1. What is the impact on PERS? The proposal before the SCPP would leave it to the HECB to determine who is eligible to participate in a HERP. Once a higher education employer determines an employee is eligible for membership in a HERP and the employee decides to participate in the HERP, that employee is exempted from PERS membership. In other words, by participating in a HERP such as TIAA-CREF, HECB employees would no longer be eligible for PERS coverage unless they had prior PERS service and chose to remain in PERS. Thus the proposal, if successful, could lead to a loss of PERS plan members. The number, however, is expected to be small, i.e. no more than the number of employees working for the HECB (currently about eighty-five). It is unclear at this time whether there are other groups who might seek similar treatment in the future. In any event, the proposal is not expected to impact PERS contribution rates.

2. What is the impact on benefits policy? The SCPP may wish to consider the ramifications of a state agency offering different retirement benefits to different individuals within the same agency. For example, if the HECB receives the requested authorization, approximately twenty of its employees would be in TIAA-CREF and sixty-five would be in PERS (at least initially). Since the TIAA-CREF plan is viewed by most people as a more generous plan, this could lead to issues around employee morale and consistent treatment within the plan.

On the other hand, the offering may make the employer more attractive to some employees. As stated by the HECB deputy director, the benefit may enable the HECB to attract highly qualified people from the higher education sector to work at HECB.

There are consequences for members who continue their public employment but change retirement plan participation to a HERP, in that they are removed from coverage by certain programs. (This situation already exists for other retirement system members who are offered HERP participation, such as those employed by the SBCTC.) First, dual membership does not apply to higher education plans. This means that an employee who has been covered in PERS and then becomes covered by TIAA-CREF cannot combine the non-PERS time with the prior PERS time in order to determine benefit eligibility, nor can the salary earned while participating in TIAA-CREF be considered in computing the final retirement benefit from PERS.

Secondly, current retirement system restrictions on post-retirement employment do not apply to those covered by a HERP. This means that a PERS retiree who returns to work in a HERP-covered position can draw the PERS pension, earn a state salary as an employee of the agency, and simultaneously earn a new retirement benefit under TIAA-CREF.

3. How does the proposal impact the higher education institutions? This proposal raises questions about processes that do not typically arise when an issue is brought before the SCPP, primarily because this proposal is to amend the higher education statutes, not the pension statutes.

It is unknown at this time how the higher education institutions currently covered under Title 28B would view this proposal or how they would be impacted. Are they aware of the proposal? Do they support it? Is that important to the SCPP? Is there a desire to formally engage them in the process of crafting legislation that amends the statutes affecting their institutions?

4. Should the Higher Education Committees be involved? The SCPP may also want to think about whether the Higher Education Committees of the House and Senate would be more suited to decide this, or whether the issue should at least be coordinated with those committees. Does the SCPP want to hear what they have to say, or proceed independently?

If the SCPP decides to get involved, the SCPP may want to look at entire proposal and take a position, or alternatively, the SCPP could limit its analysis to the impact of the proposal on the state retirement system.

Possible SCPP Strategies

The Executive Committee did not recommend a strategy.

1. **Sponsor.** Reintroduce the 2008 bill as SCPP-sponsored legislation in 2009.
2. **Endorse.** Move proposal forward as SCPP-endorsed legislation.
3. **Coordinate with the Higher Education Committees.** Provide input limited to describing the impact on PERS, or if sponsoring or endorsing legislation, make such action contingent upon a favorable recommendation from those committees. Another option would be to defer action until the Higher Education Committees have had an opportunity to weigh in on the issue.
4. **Request further study.** Move the issue forward for further study.
5. **Monitor.** Track the progress of the issue, but do not sponsor or endorse.
6. **No action.** Take no action and treat the matter as informational only.

Committee Activity

The SCPP held a public hearing and took executive action on this issue on May 13, 2008. The Committee moved to reintroduce the 2008 SCPP bill for the 2009 session.

Executive Committee Recommendation

None.

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. Recommended May 13, 2008.

Bill Draft

A Code Reviser bill draft implementing the Committee's recommendation is attached (Z-0070.1/09).

Draft Fiscal Note

Attached.

STAKEHOLDER INPUT

Correspondence attached from:

Don Bennett, Deputy Director of HECB, 7/16/2007.

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BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #:	Z-0070.1/09
ATTY/TYPIST:	LL:ean
BRIEF DESCRIPTION:	Authorizing the higher education coordinating board to offer higher education annuities and retirement income plans.

AN ACT Relating to higher education employees' annuities and retirement income plans; and amending RCW 28B.10.400.

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

Sec. 1. RCW 28B.10.400 and 1979 ex.s. c 259 s 1 are each amended to read as follows:

The boards of regents of the state universities, the boards of trustees of the regional universities and of The Evergreen State College, and the state board for community <u>and technical</u> college<u>s</u> ((~~education~~)) are authorized and empowered:

(1) To assist the faculties and such other employees as any such board may designate in the purchase of old age annuities or retirement income plans under such rules ((~~and regulations~~)) as any such board may prescribe. County agricultural agents, home demonstration agents, 4-H club agents, and assistant county agricultural agents paid jointly by the Washington State University and the several counties shall be deemed to be full time employees of the Washington State University for the purposes hereof;

(2) To provide, under such rules and regulations as any such board may prescribe for the faculty members or other employees under its

supervision, for the retirement of any such faculty member or other employee on account of age or condition of health, retirement on account of age to be not earlier than the sixty-fifth birthday: PROVIDED, That such faculty member or such other employee may elect to retire at the earliest age specified for retirement by federal social security law: PROVIDED FURTHER, That any supplemental payment authorized by subsection (3) of this section and paid as a result of retirement earlier than age sixty-five shall be at an actuarially reduced rate;

(3) To pay to any such retired person or to his or her designated beneficiary(s), each year after his or her retirement, a supplemental amount which, when added to the amount of such annuity or retirement income plan, or retirement income benefit pursuant to RCW 28B.10.415, received by ((~~him or his~~)) the retired person or the retired person's designated beneficiary(s) in such year, will not exceed fifty percent of the average annual salary paid to such retired person for his or her highest two consecutive years of full time service under an annuity or retirement income plan established pursuant to subsection (1) of this section at an institution of higher education: PROVIDED, HOWEVER, That if such retired person prior to ((~~his~~)) retirement elected a supplemental payment survivors option, any such supplemental payments to such retired person or ((~~his~~)) the retired person's designated beneficiary(s) shall be at actuarially reduced rates: PROVIDED FURTHER, That if a faculty member or other employee of an institution of higher education who is a participant in a retirement plan authorized by this section dies, or has died before retirement but after becoming eligible for retirement on account of age, the designated beneficiary(s) shall be entitled to receive the supplemental payment authorized by this subsection ((~~(3) of this section~~)) to which such designated beneficiary(s) would have been entitled had said deceased faculty member or other employee retired on the date of death after electing a supplemental payment survivors option: PROVIDED FURTHER, That for the purpose of this subsection, the designated beneficiary(s) shall be (a) the surviving spouse of the retiree; or, (b) with the written consent of such spouse, if any, such other person or persons as shall have an insurable interest in the retiree's life and shall have been nominated by written designation duly executed and filed with the retiree's institution of higher education;

(4) The higher education coordinating board is also authorized and empowered as described in this section, subject to the following: The board is prohibited from offering or funding a purchased annuity or retirement income plan authorized under this section for the benefit of any retiree who is receiving or accruing a retirement allowance from a public employees' retirement system under Title 41 RCW or chapter 43.43 RCW.

--- END ---

DRAFT
ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/31/08**	**Z-0070.1 / Z-0405.1**

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this draft fiscal note based on our understanding of the proposal as of the date shown above. We intend this draft fiscal note to be used by the Select Committee on Pension Policy throughout the 2008 Interim only. If a legislator introduces this proposal as a bill during the next Legislative Session, we will prepare a final fiscal note based on that bill language. The actuarial results shown in this draft fiscal note may change when we prepare our final version for the Legislature.

We advise readers of this draft fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this draft fiscal note as a whole. Distribution of or reliance on only parts of this draft fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

The proposal is to authorize the Higher Education Coordinating Board (HECB) to offer participation in higher education retirement plans to any or all of its employees, unless the employees are retirees of state-administered plans.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$34,695	(2.9)	$34,693
Earned Pensions Not Covered by Today's Assets	$3,609	0.3	$3,609

Impact on Contribution Rates: (Effective 9/1/2009)			
2009-11 State Budget	**PERS**	**SERS**	**PSERS**
Employee (Plan 2)	0.00%	0.00%	0.00%
Employer:			
Current Annual Cost	0.00%	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%

Budget Impacts			
(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.0	$0.0	$0.0
Total Employer	$0.0	($0.0)	$0.0

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

WHAT IS THE PROPOSED CHANGE?

Summary of Change

This proposal will amend the higher education statutes to include the HECB as one of the entities authorized to offer higher education retirement plans to its employees, unless the employees are retirees of state-administered plans. If passed, the bill wou1d impact potentially all plans of the Public Employees' Retirement System (PERS), but only the members of those plans who are HECB employees in positions chosen by HECB to be covered by a higher education retirement plan (HERP).

Effective Date: 90 days after session

What Is The Current Situation?

Currently employees of the HECB are covered in PERS. The HECB is not currently authorized to offer higher education retirement benefits to its members, as only the following groups have this statutory authority: Board of Regents of the State Universities, Board of Trustees of the Regional Universities, the Evergreen State College, and the State Board for Community and Technical Colleges (SBCTC). Typically, these groups define which of their employees are eligible to participate in the HERP. Once the eligible positions are determined, employees in those positions are mandated into the HERP; however, employees who have prior PERS service are typically offered the choice to remain in PERS. The SBCTC, another higher education agency, currently reports approximately 56 of its 95 employees in PERS and the rest are covered under a HERP known as the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF).

Who Is Impacted And How?

We estimate this proposal could affect 89 out of the total 158,022 active members of PERS Plans 1, 2 and 3. We assume that 22 of these 89 employees will be designated by their employer as eligible to participate in a HERP.

HERP benefits are not defined under this proposal. As a result, we cannot assess the value of benefits that will be provided by a HERP for the impacted members.

This bill impacts all 120,625 Plan 2 members of PERS 2 through decreased contribution rates. This bill will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this bill will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

WHY THIS PROPOSAL HAS A SAVINGS AND WHO BENEFITS FROM IT

Why This Proposal Has A Savings

If this bill is passed, it could result in a loss of PERS members to the extent that HECB employees who are currently covered in PERS plans are offered the choice to either remain in PERS or to participate in a higher education retirement plan (HERP). In addition, the plans are impacted to the extent that future employees who would have otherwise been covered in PERS could be covered by a HERP. The HECB would determine the scope of the offering.

If the 22 highest paid HECB employees leave the PERS system, the PERS Plans will see a small loss of pension liabilities since these members will not continue to accrue service under PERS and will not have their future salary increases used in the calculation of their final benefits. This results in a small decrease in the PERS current annual cost.

Additionally, all PERS, SERS, and PSERS employers would experience a small increase in the PERS 1 UAAL (past cost) rate due to the decrease in covered salaries. This increase is offset by the decrease in current annual cost is offset by the increase in PERS 1 past cost for PERS employers.

Who Will Benefit From These Savings?

Members of PERS Plan 2 will pay lower contribution rates in the future, calculated under the standard funding method. PERS employers will pay the same contribution rates in the future. SERS and PSERS employers will pay slightly higher contribution rates in the future due to the increase in the PERS 1 UAAL rate.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed the 22 highest paid employees for the HECB would transfer out of PERS and into a HERP.

For more detail please see Appendix A.

How We Applied These Assumptions

We determined the expected future liability for these members. We subtracted the expected future liability from the total liability of the system. Then, we determined the expected future salary for these members. We subtracted the expected future salary from the total salary of the system. Lastly, we calculated the contribution rates for the system using the new liability and salary numbers.

For more detail please see Appendix B.

Special Data Needed

Using the most recent valuation data file, we isolated the 89 HECB active members in the PERS Plans based on their department codes. This allowed us to review the data and select a reasonable group that we expect would be offered a HERP. We selected the 22 highest paid employees and produced a new database with those employees to process through our valuation software.

Otherwise, we developed these costs using the same assets and data as disclosed in the Actuarial Valuation Report (AVR).

ACTUARIAL RESULTS

How The Liabilities Changed

This proposal will impact the actuarial funding of PERS 1, 2, and 3 by decreasing the present value of future benefits payable as shown below.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,061	($0.1)	$14,061
PERS 2/3	20,634	(2.8)	20,632
PERS Total	**$34,695**	**($2.9)**	**$34,693**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$0.3**	**$3,609**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$3,990	($0.1)	$3,990
PERS 2/3	(2,470)	(0.8)	(2,470)
PERS Total	**$1,520**	**($0.9)**	**$1,519**

Note: Totals may not agree due to rounding.

How The Present Value of Future Salaries (PVFS) Changed

This proposal will impact the actuarial funding of PERS 1, 2, and 3 by decreasing the PVFS of the members as shown below.

Present Value of Future Salaries			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Future Salaries			
(The Value of the Future Salaries Expected to be Paid to Current Members)			
PERS 2/3	$68,137	($15.0)	$68,122
UAAL Present Value of Future Salaries			
(The Value of the Future Salaries Used to Fund the UAAL)			
PERS	$115,651	($23.1)	$115,628

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The change in the required actuarial contribution rate does not round up to the minimum supplemental contribution rate of 0.01%, therefore the proposal will not affect contribution rates in the current biennium. However, we will use the un-rounded rate change to measure the fiscal budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2009)			
System/Plan	**PERS**	**SERS**	**PSERS**
Current Members			
Employee (Plan 2)	-0.001%	0.000%	0.000%
Employer:			
Normal Cost	-0.001%	0.000%	0.000%
Plan 1 UAAL	0.001%	0.001%	0.001%
Total	0.000%	0.001%	0.001%
New Entrants*			
Employee (Plan 2)	0.000%	0.000%	0.000%
Employer:			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	0.001%	0.001%	0.001%
Total	0.001%	0.001%	0.001%

**Rate change applied to future new entrant payroll and used to determine budget impacts only. Current members and new entrants pay the same contribution rate.*

How This Impacts Budgets And Employees

We display the projected budget impacts to the affected retirement systems below due to the loss of PERS members. We have not included the budget impacts to the HECB.

Budget Impacts				
(Dollars in Millions)	**PERS**	**SERS**	**PSERS**	**Total**
2009-2011				
General Fund	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0
Total State	**0.0**	**0.0**	**0.0**	**0.0**
Local Government	0.0	0.0	0.0	0.0
Total Employer	**0.0**	**0.0**	**0.0**	**0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2011-2013				
General Fund	($0.0)	$0.0	$0.0	$0.0
Non-General Fund	(0.0)	0.0	0.0	(0.0)
Total State	**(0.0)**	**0.0**	**0.0**	**(0.0)**
Local Government	(0.0)	0.0	0.0	(0.0)
Total Employer	**(0.0)**	**0.0**	**0.0**	**(0.0)**
Total Employee	**($0.1)**	**$0.0**	**$0.0**	**($0.1)**
2009-2034				
General Fund	($0.0)	$0.1	$0.0	$0.0
Non-General Fund	(0.0)	0.0	0.0	(0.0)
Total State	**(0.0)**	**0.1**	**0.0**	**0.0**
Local Government	(0.1)	0.1	0.0	0.0
Total Employer	**(0.1)**	**0.1**	**0.0**	**0.0**
Total Employee	**($1.1)**	**$0.0**	**$0.0**	**($1.1)**

Note: Totals may not agree due to rounding.

The analysis of this proposal does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the system will vary from those presented in the AVR or this draft fiscal note to the extent that actual experience differs from the actuarial assumptions.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions or methods selected for this pricing we varied the following assumptions and methods:

- The number of members who will leave PERS and join a HERP.

We assumed the 22 highest paid employees would move out of the PERS Plans and into a HERP. The decision to leave PERS and join the HECB HERP will depend on the level of benefits provided under the HERP, which are not defined under this proposal. The decision may also be affected if the employee plans to participate in post-retirement employment. The proposal restricts members from earning any HERP benefits while receiving a retirement allowance from a state-administered retirement plan.

If a smaller number of employees actually leave the PERS Plans, the cost savings would be less than outlined in this draft fiscal note. We excluded 5 members out of the 22 expected to transfer since they are relatively close to retirement and would be less likely to switch. If only 17 members transferred, the resulting liability decrease would be $2.4 million instead of the $2.9 million outlined in the body of this draft fiscal note.

If more HECB employees leave the system than assumed, we would see a higher cost savings to the Plans. If the HECB offered a HERP to all of its employees and all 89 employees left the PERS Plans, the impact would be a decrease in liabilities of $6.8 million versus the $2.9 million under our assumptions.

There is a possibility that the HERP offering would be to a different number of employees or to a different salary range of employees versus what we have assumed. In addition, some employees that are offered the HERP may choose to remain in PERS. However, from a long-term perspective, those positions that are selected by the HECB are likely to transition to non-PERS positions. In any case, we expect that the financial impact to the PERS Plans will be a cost savings with a magnitude that will not impact contribution rates in the next biennium.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.

2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this draft fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. This draft fiscal note has been prepared for the Select Committee on Pension Policy.
6. This draft fiscal note has been prepared, and opinions given, in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page 1 of this draft fiscal note.

This draft fiscal note is a preliminary actuarial communication and the results shown may change. While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

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

APPENDIX A – ASSUMPTIONS WE MADE

Based on last year's fiscal note, the HECB expects 10 to 20 of their employees will be eligible for a HERP but they have requested authority to offer this to all employees. Since we did not have any data as to which employees will be eligible for the HERP and what level of benefits will be provided under the HERP, we assumed the highest paid 22 employees/positions would leave the PERS Plan and join a HERP. We made this assumption based on the most visible break in salaries outlined below.

We sorted the HECB active employee data by salary and found a reasonable break in salaries at $69,000. This provided us with 22 employees above $69,000 followed by a large group of employees in the $62,000 to $66,000 range.

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

APPENDIX B – HOW WE APPLIED THESE ASSUMPTIONS

To calculate the cost of this bill, we determined the impact on the PERS Plans if the 22 highest paid current HECB employees terminated their PERS membership to join a HERP. The PERS Plans would be impacted by a loss of liabilities for future service credit and a loss of future contributions associated with these employees.

We calculated the Present Value of Future Benefits (PVFB), the Present Value of Accrued Benefits (PVAB), and the total savings fund (SF) for the 22 highest paid current HECB members. The PVFB is calculated for all 22 employees while the PVAB is calculated for the vested employees and the SF is calculated for the non-vested employees. The difference between these numbers (PVFB - PVAB - SF) represents the decrease in liabilities for future service.

In order to determine the impact due to the loss of future contributions, we calculated the Present Value of Future Salaries (PVFS) for the 22 HECB employees. We reduced the total PERS Plan PVFS by this amount. The resulting PVFS is used, as appropriate by Plan, to determine contributions for the PERS 1 Unfunded Actuarial Accrued Liability (UAAL) and any impact on contribution rates for PERS 2 members and all PERS employers.

Otherwise, we developed these costs using the same methods as disclosed in the June 30, 2007 actuarial valuation report (AVR).

We used the Aggregate actuarial funding method to determine the fiscal budget changes for current plan members.

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Bill Grinstein
Chair

Ann Daley
Executive Director

STATE OF WASHINGTON
HIGHER EDUCATION COORDINATING BOARD
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July 16, 2007

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

Dear Honorable Members of the Select Committee on Pension Policy:

The Higher Education Coordinating Board (HECB) is the only higher education agency/institution in Washington state that does not have the authority to offer its employees a purchased annuity and retirement income plan such as the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). We respectfully request that the SCPP support a statutory change allowing the HECB to offer such a plan to its employees.

The HECB competes with colleges, universities, and the State Board for Community and Technical Colleges (SBCTC) for mid-career staff. In addition, the HECB attempts to recruit qualified employees from colleges and universities throughout the nation and from other State Higher Education Executive Offices (SHEEOs). The SBCTC, state universities, and colleges have the statutory authority to assist faculty members and other (generally exempt) employees in the purchase of an annuity or retirement income plan. The HECB is at a competitive disadvantage in attracting and retaining individuals from a higher education background because it cannot offer portability of retirement systems.

RCW 28B.10.400 et seq., relating to annuities and retirement income plans, would need to be amended to include the Higher Education Coordinating Board in the list of employers authorized to offer such a plan. We have enclosed a draft bill amending RCW 28B.10.400 to grant the HECB this authority.

Please feel free to contact me if you have any questions or concerns regarding this request. Thank you for your attention to this matter.

Sincerely,

Don Bennett

Don Bennett
Deputy Director

AN ACT Relating to annuities and retirement income plans; amending RCW 28B.10.400; and providing an effective date.

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

The boards of regents of the state universities, the boards of trustees of the regional universities and of The Evergreen State College, ~~((and))~~ the *state board for community ~~((college education))~~ and technical colleges and the higher education coordinating board are authorized and empowered:

(1) To assist the faculties and such other employees as any such board may designate in the purchase of old age annuities or retirement income plans under such rules and regulations as any such board may prescribe. County agricultural agents, home demonstration agents, 4-H club agents, and assistant county agricultural agents paid jointly by the Washington State University and the several counties shall be deemed to be full time employees of the Washington State University for the purposes hereof;

(2) To provide, under such rules and regulations as any such board may prescribe for the faculty members or other employees under its supervision, for the retirement of any such faculty member or other employee on account of age or condition of health, retirement on account of age to be not earlier than the sixty-fifth birthday: PROVIDED, That such faculty member or such other employee may elect to retire at the earliest age specified for retirement by federal social security law: PROVIDED FURTHER, That any supplemental payment authorized by subsection (3) of this section and paid as a result of retirement earlier than age sixty-five shall be at an actuarially reduced rate;

(3) To pay to any such retired person or to his designated beneficiary(s), each year after his retirement, a supplemental amount which, when added to the amount of such annuity or retirement income plan, or retirement income benefit pursuant to RCW 28B.10.415, received by him or his designated beneficiary(s) in such year, will not exceed fifty percent of the average annual salary paid to such retired person for his highest two consecutive years of full time service under an annuity or retirement income plan established pursuant to subsection (1) of this section at an institution of higher education: PROVIDED, HOWEVER, That if such retired person prior to his retirement elected a supplemental payment survivors option, any such supplemental payments to such retired person or his designated beneficiary(s) shall be at actuarially reduced rates: PROVIDED FURTHER, That if a faculty member or other employee of an institution of higher education who is a participant in a retirement plan authorized by this section dies, or has died before retirement but after becoming eligible for retirement on account of age, the designated beneficiary(s) shall be entitled to receive the supplemental payment authorized by this subsection (3) of this section to which such designated beneficiary(s) would have been entitled had said deceased faculty member or other employee retired on the date of death after electing a supplemental payment survivors option: PROVIDED FURTHER, That for the purpose of this subsection, the designated beneficiary(s) shall be (a) the surviving spouse of the retiree; or, (b) with the written consent of such spouse, if any, such other person or persons as

shall have an insurable interest in the retiree's life and shall have been nominated by written designation duly executed and filed with the retiree's institution of higher education.

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