



Office of the State Actuary

"Securing tomorrow's pensions today."

October 19, 2010

TO: Select Committee on Pension Policy (SCPP) Members

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

SUBJECT: 2011-13 OSA BUDGET REQUEST

Enclosed is the Office of the State Actuary's 2011-13 Budget request. The SCPP Rule of Procedure 8 (F) requires the state actuary to submit the biennial budget request to the SCPP for approval. After approval, I will submit the budget to the Office of Financial Management.

The enclosed budget request includes the following items:

- Description of agency mission.
- Statutory authority.
- OSA organizational chart.
- 2011-13 Budget documents.

The proposed 2011-13 budget represents a decrease of \$186,000 below the current 2009-11 Biennial budget (5.3 percent decrease). This represents a maintenance level only budget (see attached budget documents).

Funding Source

The Legislature provides funding for the agency's budget through the General Fund and the Department of Retirement Systems (DRS) Expense Fund. The DRS Expense fund is supported by an administrative expense rate that is collected by DRS from all retirement system employers. The current DRS administrative expense rate is 0.16 percent. OSA's proposed 2011-13 Budget request will not impact this expense rate.

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Our 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.

Our 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.

Office Overview

The Office of the State Actuary (OSA) is an independent and non-partisan agency of the Washington State Legislature and works primarily on the funding and benefit issues of the state's public retirement systems. OSA was created in 1977 and its duties are set forth in Chapters 44.44 and 41.24 RCW. The role of the office as currently defined is to function on two levels:

The first functional level is that of actuary.

- ❖ Perform biennial actuarial valuations on all state funded and/or state sponsored retirement plans. The manner in which the valuation is performed is subject to statutory requirements and actuarial standards of practice.
- ❖ Recommend employer/state and member contribution rates to the Pension Funding Council (PFC) based on the results of the valuations. It is the PFC's responsibility to officially adopt any changes to contribution rates. The PFC also solicits an independent audit to verify the OSA results.
- ❖ Prepare an actuarial fiscal note on each pension bill introduced in the Legislature. Any pension bill that passes into law may alter the funding status of the state's retirement plans. Current law requires any additional costs be calculated and contribution rates adjusted accordingly.
- ❖ Provide advice and consultation to the Legislature, Office of the Governor, Department of Retirement Systems and State Investment Board.
- ❖ Perform all actuarial services for the Department of Retirement Systems including all studies required by law. Provide actuarial assistance to the Law Enforcement Officers' and Fire Fighters' Plan (LEOFF) 2 Board. LEOFF 2 rates are adopted by the LEOFF 2 Retirement Board



- ❖ Provide actuarial services for the state Board for Volunteer Fire Fighters and Reserve Officers.

The second functional level is to provide staff and assistance to the Select Committee on Pension Policy (SCPP).

- ❖ Research issues or subject areas at the direction of the SCPP, provides verbal and written testimony on its research findings, and prepares and/or evaluates proposed legislation. This function mirrors the activity performed by other legislative committees.
- ❖ Maintain the SCPP website.

Statutory Authority

The powers and duties of the Office of State Actuary specified in RCW 44.44.040 are:

The office of the state actuary shall have the following powers and duties:

- (1) Perform all actuarial services for the department of retirement systems, including all studies required by law.
- (2) Advise the legislature and the governor regarding pension benefit provisions, and funding policies and investment policies of the state investment board.
- (3) Consult with the legislature and the governor concerning determination of actuarial assumptions used by the department of retirement systems.
- (4) Prepare a report, to be known as the actuarial fiscal note, on each pension bill introduced in the legislature which briefly explains the financial impact of the bill. The actuarial fiscal note shall include: (a) The statutorily required contribution for the biennium and the following twenty-five years; (b) the biennial cost of the increased benefits if these exceed the required contribution; and (c) any change in the present value of the unfunded accrued benefits. An actuarial fiscal note shall also be prepared for all amendments which are offered in committee or on the floor of the house of representatives or the senate to any pension bill. However, a majority of the members present may suspend the requirement for an actuarial fiscal note for amendments offered on the floor of the house of representatives or the senate.
- (5) Provide such actuarial services to the legislature as may be requested from time to time.
- (6) Provide staff and assistance to the committee established under RCW 41.04.276.
- (7) Provide actuarial assistance to the law enforcement officers' and fire fighters' plan 2 retirement board as provided in chapter 2, Laws of 2003. Reimbursement for services shall be made to the state actuary under RCW 39.34.130 and section 5(5), chapter 2, Laws of 2003.



[2003 c 295 § 4; 2003 c 92 § 2; 1987 c 25 § 3; 1986 c 317 § 6; 1975-'76 2nd ex.s. c 105 § 22.]

The Select Committee on Pension Policy was established by Chapter 295, Laws of 2003, and codified in RCW 41.04.276, .278, and .281. These statutes state:

RCW 41.04.276

- (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

- (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

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.

[2006 c 309 § 4; 2003 c 295 § 2.]



The present members of the SCPP are:

- Representative Barbara Bailey
- Marty Brown, Director OFM
- Don Carlson, TRS Retirees
- *Representative Steve Conway, Vice Chair
- Representative Larry Crouse
- Chuck Cuzzetto, TRS and SERS Employers
- *Randy Davis, TRS Actives
- *Steve Hill, Director DRS
- Senator Steve Hobbs
- Senator Janea Holmquist
- Robert Keller, PERS Actives
- Corky Mattingly, PERS Employers
- Senator Joe McDermott
- Doug Miller, PERS Employers
- *Glenn Olson, PERS Employers
- *Senator Mark Schoesler, Chair
- Representative Larry Seaquist
- J. Pat Thompson, PERS Actives
- *Robert Thurston, WSPRS Retirees
- David Westberg, SERS Actives

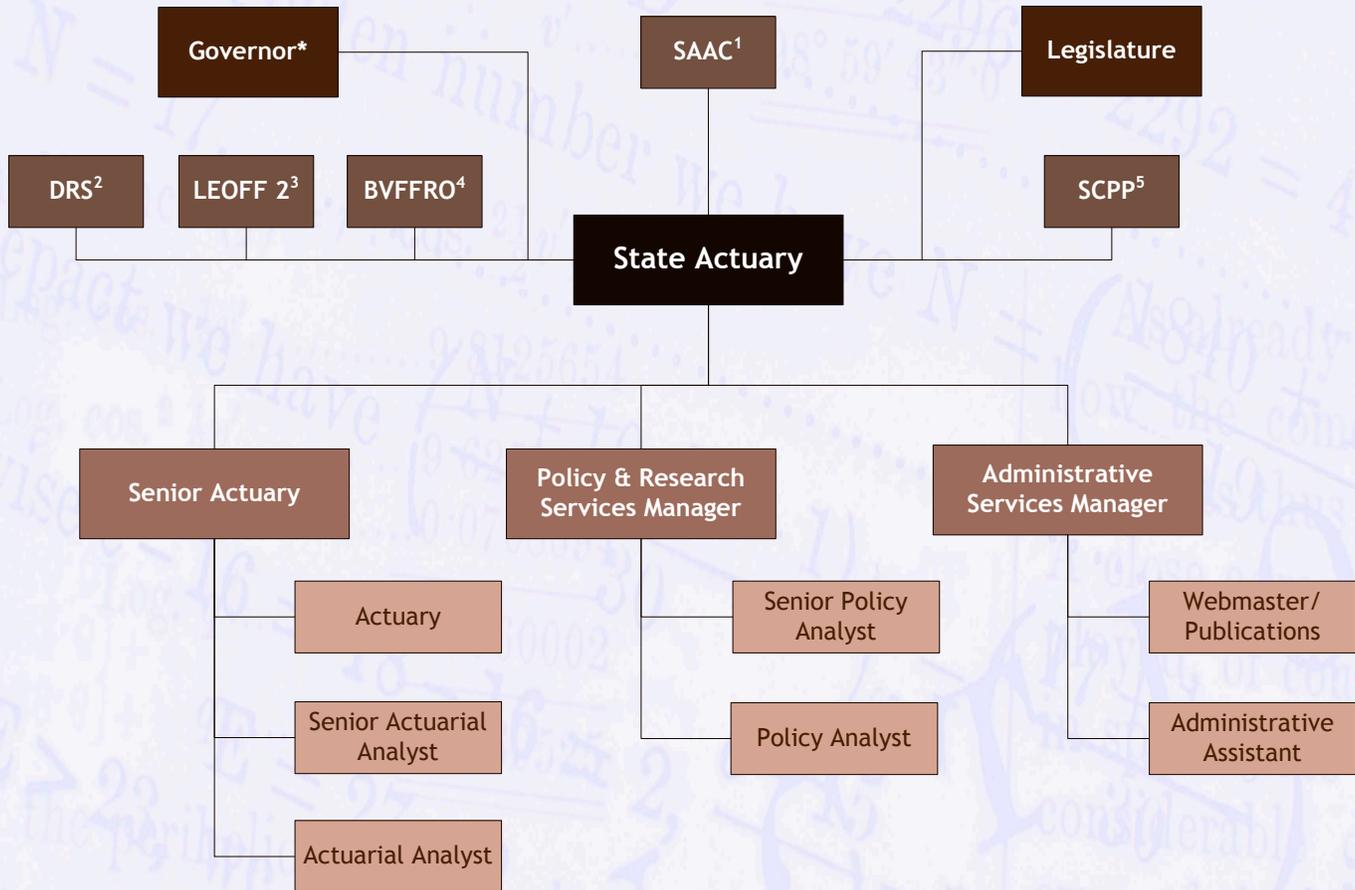
**Members of the Executive Committee*

Membership as of August 20, 2010



Office of the State Actuary

"Securing tomorrow's pensions today."



* Includes the Office of Financial Management, the Washington State Investment Board, the Office of the State Treasurer, and the Health Care Authority.

¹ State Actuary Appointment Committee

² Department of Retirement Systems

³ Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

⁴ Board for Volunteer Fire Fighters and Reserve Officers

⁵ Select Committee on Pension Policy

035 - Office of State Actuary

A001 Actuarial Analysis for Retirement Benefits and Investments

The Office of the State Actuary performs actuarial services for the Department of Retirement Systems; advises the Legislature and Governor regarding pension benefits, funding policies, and investment policies for the state retirement systems' assets; consults with the Legislature and Governor concerning determination of actuarial assumptions; prepares reports on each pension bill introduced in the Legislature; and provides such actuarial services to the Legislature as may be required.

| Account | FY 2012 | FY 2013 | Biennial Total |
|---|-------------|-------------|----------------|
| FTE | | | |
| 600-1 State | 12.5 | 12.5 | 12.5 |
| 001 General Fund | | | |
| 001-1 State | \$25,000 | \$25,000 | \$50,000 |
| 600 Department of Retirement Systems Expense Account | | | |
| 600-1 State | \$1,711,790 | \$1,577,734 | \$3,289,524 |

Statewide Result Area: Strengthen government's ability to achieve results efficiently and effectively

Statewide Strategy: Provide data, information, and analysis to support decision-making

Expected Results

The professional service activities performed by the Office of the State Actuary provide state retirement system plan sponsors, participants, administrators, and other state retirement system stakeholders with complete, accurate, and objective fiscal and policy analysis. These professional service activities provide retirement system stakeholders with the actuarial and policy analysis required for the prudent governance of the state retirement systems.

Grand Total

| | FY 2012 | FY 2013 | Biennial Total |
|--------------|--------------------|--------------------|--------------------|
| FTE's | 12.5 | 12.5 | 12.5 |
| GFS | \$25,000 | \$25,000 | \$50,000 |
| Other | \$1,711,790 | \$1,577,734 | \$3,289,524 |
| Total | \$1,736,790 | \$1,602,734 | \$3,339,524 |

Appropriation Period: 2011-13 Activity Version: A1 - 11-13 budget Sort By: Activity

| <u>Parameter</u> | <u>Entered As</u> |
|-------------------------------|---------------------------------|
| Budget Period | 2011-13 |
| Agency | 035 |
| Version | A1 - 11-13 budget |
| Result Area | All Result Areas |
| Activity | All Activities |
| Program | All Programs |
| Sub Program | All Sub Programs |
| Account | All Accounts |
| Expenditure Authority Type | All Expenditure Authority Types |
| Theme | All |
| Sort By | Activity |
| Display All Account Types | Yes |
| Include Policy Level | Yes |
| Include Activity Description | Yes |
| Include Statewide Result Area | Yes |
| Include Statewide Strategy | Yes |
| Include Expected Results Text | Yes |
| Include Charts | No |
| Chart Type | Line |
| Include Parameter Selections | Yes |
| Version Source | Agency |

Recommendation Summary

Agency: **035 Office of State Actuary**

2:34:47PM

10/8/2010

Dollars in Thousands

| | Annual Average FTEs | General Fund State | Other Funds | Total Funds |
|---|--------------------------------|-------------------------------|--------------------|--------------------|
| 2009-11 Current Biennium Total | 12.5 | 220 | 3,305 | 3,525 |
| CL 01 General Inflation | | | 1 | 1 |
| CL 02 Disability Study - One | | | (30) | (30) |
| CL 03 Disability Study - Two | | | (51) | (51) |
| CL 04 GET Program Review | | (175) | | (175) |
| CL ZB Biennialize Health Insurance Rate | | | 16 | 16 |
| CL ZD Restore Temporary Layoffs | | 5 | 28 | 33 |
| Total Carry Forward Level | 12.5 | 50 | 3,269 | 3,319 |
| Percent Change from Current Biennium | | (77.3)% | (1.1)% | (5.8)% |
| Carry Forward plus Workload Changes | 12.5 | 50 | 3,269 | 3,319 |
| Percent Change from Current Biennium | | (77.3)% | (1.1)% | (5.8)% |
| M2 8R Retirement Buyout Costs | | | 11 | 11 |
| M2 AB Information Technology Increases | | | 7 | 7 |
| M2 AC General Inflation | | | 2 | 2 |
| Total Maintenance Level | 12.5 | 50 | 3,289 | 3,339 |
| Percent Change from Current Biennium | | (77.3)% | (.5)% | (5.3)% |
| Subtotal - Performance Level Changes | 0.0 | | | |
| 2011-13 Total Proposed Budget | 12.5 | 50 | 3,289 | 3,339 |
| Percent Change from Current Biennium | | (77.3)% | (.5)% | (5.3)% |

M2 8R Retirement Buyout Costs

The State Actuary requests funding for the retirement buyout costs of an eligible employee.

M2 AB Information Technology Increases

The State Actuary purchases ongoing Information Technology services and support from the Legislative Service Center. The cost of these services is increasing 5% per year.

M2 AC General Inflation

Request funding for general inflation estimates for the 11-13 Biennium based on the Implicit Price Deflator (IPD).

Agency: 035 Office of State Actuary
Decision Package Code/Title: 8R Retirement Buyout Costs

Budget Period: 2011-13
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

The State Actuary requests funding for the retirement buyout costs of an eligible employee.

Fiscal Detail

| Operating Expenditures | <u>FY 2012</u> | <u>FY 2013</u> | <u>Total</u> |
|--|-----------------------|-----------------------|---------------------|
| 600-1 Dept of Retirement Systems Expense-State | 11,436 | 0 | 11,436 |
| Total Cost | 11,436 | | 11,436 |

Package Description:

Request funding for the leave buyout costs of an eligible employee during the 11-13 Biennium.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Agency: 035 Office of State Actuary
Decision Package Code/Title: 8R Retirement Buyout Costs

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this decision package provide essential support to one of the Governor's priorities?

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

What are the other important connections or impacts related to this proposal?

What alternatives were explored by the agency, and why was this alternative chosen?

What are the consequences of not funding this package?

Costs would be absorbed by the agency, reducing funds available to continue current activities.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are one-time.

State of Washington
Decision Package

FINAL

Agency: 035 Office of State Actuary

Decision Package Code/Title: 8R Retirement Buyout Costs

| <u>Object Detail</u> | <u>FY 2012</u> | <u>FY 2013</u> | <u>Total</u> |
|----------------------|----------------|----------------|---------------|
| A Salaries And Wages | 10,623 | | 10,623 |
| B Employee Benefits | 813 | | 813 |
| Total Objects | 11,436 | | 11,436 |

Agency: 035 Office of State Actuary
Decision Package Code/Title: AB Information Technology Increases

Budget Period: 2011-13
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

The State Actuary purchases ongoing Information Technology services and support from the Legislative Service Center. The cost of these services is increasing 5% per year.

Fiscal Detail

| Operating Expenditures | <u>FY 2012</u> | <u>FY 2013</u> | <u>Total</u> |
|--|-----------------------|-----------------------|---------------------|
| 600-1 Dept of Retirement Systems Expense-State | 2,496 | 4,764 | 7,260 |
| Total Cost | 2,496 | 4,764 | 7,260 |

Package Description:

The State Actuary purchases Information Technology services from the Legislative Service Center. The Legislative Service Center costs have continued to increase for ongoing costs as well as infrastructure equipment replacement.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Agency: 035 Office of State Actuary
Decision Package Code/Title: AB Information Technology Increases

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this decision package provide essential support to one of the Governor's priorities?

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

What are the other important connections or impacts related to this proposal?

What alternatives were explored by the agency, and why was this alternative chosen?

What are the consequences of not funding this package?

Costs would be absorbed by agency, reducing funds available to continue current activities.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

The Legislative Service Center is increasing costs 5% per year for ongoing Information Technology services and support.

The current cost is \$2,750 per month.

Effective rates for the 11-13 biennium are:

FY 2012- \$2,888 per month

FY 2013- \$3,033 per month

Agency: 035 Office of State Actuary
Decision Package Code/Title: AB Information Technology Increases

Also the cost for the high-speed fiber network costs are increasing each fiscal year. The current cost is \$1404 per month.

Effective rates for the 11-13 biennium are:

FY 2012- \$1,474 per month

FY 2013- \$1,518 per month

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are on-going.

| <u>Object Detail</u> | <u>FY 2012</u> | <u>FY 2013</u> | <u>Total</u> |
|----------------------|----------------|----------------|--------------|
| E Goods And Services | 2,496 | 4,764 | 7,260 |

Agency: 035 Office of State Actuary
Decision Package Code/Title: AC General Inflation

Budget Period: 2011-13
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

Request funding for general inflation estimates for the 11-13 Biennium based on the Implicit Price Deflator (IPD).

Fiscal Detail

| Operating Expenditures | <u>FY 2012</u> | <u>FY 2013</u> | <u>Total</u> |
|--|-----------------------|-----------------------|---------------------|
| 600-1 Dept of Retirement Systems Expense-State | 858 | 970 | 1,828 |
| Total Cost | 858 | 970 | 1,828 |

Package Description:

Actuarial Analysis for Pensions and Investments - Request funding for inflation based on the IPD inflation estimates.

For additional information or questions, please contact Matt Smith at 360.786.6140 or smith.matt@leg.wa.gov

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity:

Incremental Changes

Agency: 035 Office of State Actuary

Decision Package Code/Title: AC General Inflation

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this decision package provide essential support to one of the Governor's priorities?

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

What are the other important connections or impacts related to this proposal?

What alternatives were explored by the agency, and why was this alternative chosen?

What are the consequences of not funding this package?

Costs would be absorbed by agency, reducing funds available to continue current activities.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Increased costs on Goods and Services and Travel.

Actual expenditures for FY 2010 were used as the base, excluding certain objects and sub objects (salaries, benefits, travel costs set by state policy, revolving fund charges, equipment and personal service contracts, etc.). The latest fiscal year Implicit Price Deflator (IPD) inflation estimates generated by the Washington State Economic and Revenue Forecast Council on the June 2010 Forecast were applied to the base year to generate the inflation estimates for fiscal years 2012 and 2013.

Agency: 035 Office of State Actuary
Decision Package Code/Title: AC General Inflation

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are ongoing

| <u>Object Detail</u> | <u>FY 2012</u> | <u>FY 2013</u> | <u>Total</u> |
|----------------------|----------------|----------------|--------------|
| E Goods And Services | 858 | 970 | 1,828 |