

WSPRS Service Credit Buyback

Issue

Some troopers serving in the Washington State Patrol (WSP) have service credit in both the Public Employees' Retirement System (PERS) and the Washington State Patrol Retirement System (WSPRS). Of those troopers, some earned PERS service credit while serving as Commercial Vehicle Enforcement Officers (CVEOs) or Communication Officers (COs).

In 2002, some troopers with prior PERS service as CVEOs were allowed to consolidate their service credit into WSPRS.

A non-SCPP bill in the 2010 Session would have offered this same option to two groups:

- ❖ Former CVEOs who became commissioned troopers prior to the effective date of the 2002 legislation.
- ❖ Former COs who became commissioned troopers at any time.

The 2010 bill did not pass, and stakeholders have requested the SCPP consider the bill.

Policy Highlights

- ❖ Dual membership is the general rule for members with service credit in more than one retirement system. The Legislature has allowed some exceptions to dual membership (e.g. consolidation of service credit) in some cases where the prior service is substantially related to the current service.
 - ◇ Policy makers may wish to decide whether CVEO service is substantially related to service as a commissioned trooper.
 - ◇ Policy makers may wish to decide whether CO service is substantially related to service as a commissioned trooper.
- ❖ Some similarly situated troopers with prior service as a CVEO were not included in the 2002 bill. It is not clear from the record if this was purposeful or an oversight.
- ❖ Troopers with prior service as a CO have not been given the option of consolidating their service credit.
- ❖ Troopers with prior service in other job classifications or retirement systems may also wish to consolidate their service credit in WSPRS. Dual members outside the WSP may wish to consolidate their service.

- ❖ There is not likely to be a cost to the system. Both the 2002 and 2010 bills required the trooper requesting the transfer to pay the full actuarial cost.
- ❖ All newly hired CVEOs are members of Public Safety Employees' Retirement System rather than PERS. All COs are members of PERS.

What Is The Next Step?

As a threshold question, the SCPP may wish to decide if an exception to dual membership is needed.

If so, the SCPP may direct staff to prepare options for allowing service credit consolidation to troopers with prior service in one or more of the following job classifications:

- ❖ CVEOs.
- ❖ COs.
- ❖ Other job classifications.

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In Brief

Issue

Some troopers in the Washington State Patrol have prior service in PERS. Some of those troopers were allowed to consolidate certain PERS service into WSPRS. Other troopers with prior PERS service have requested an option to consolidate service as well.

Member Impact

Approximately ten former CVEOs and 17 former COs could be affected.

CVEOs are limited authority officers serving in the Washington State Patrol. Some CVEOs received additional training to become commissioned troopers.

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WSPRS Service Credit Buyback

Issue

Some troopers serving in the Washington State Patrol (WSP) have service credit in both the Public Employees' Retirement System (PERS) and the Washington State Patrol Retirement System (WSPRS). Of those troopers, some were allowed to consolidate prior PERS service credit related to certain limited authority law enforcement duties into WSPRS.

Should other troopers with PERS service credit be allowed to consolidate their service credit in WSPRS?

Background

In 2000, some Commercial Vehicle Enforcement Officers (CVEOs) became commissioned troopers. In 2002, a bill allowed some of these troopers to consolidate their PERS service earned as a CVEO into WSPRS.

In the 2010 Session, the Legislature considered a bill that was substantially similar to the 2002 bill. Under the 2010 bill, other troopers could transfer service earned in PERS as either CVEOs or Communications Officers (COs) into WSPRS. The bill did not pass.

In April of 2010, the WSP Troopers Association wrote to the SCPP requesting consideration of the 2010 bill.

Commercial Vehicle Enforcement Officers

CVEOs are limited authority officers serving in the Washington State Patrol. They engage in various duties related to commercial vehicles and school busses, for example by inspecting payloads and enforcing safety requirements. Perhaps the most visible of their duties is staffing weigh stations.

CVEOs are "limited authority" officers.¹ They are authorized to issue citations related to commercial vehicles, and may be armed for defensive purposes. However, they are not fully commissioned troopers, and do not hold the same general authority for law enforcement.

When the Public Safety Employees' Retirement System (PSERS) was created, CVEOs in PERS 2/3 were given the opportunity to transfer. All CVEOs hired after July 1, 2006, have been required to be members of PSERS.² However, prior to the creation of PSERS, all CVEOs were members of PERS.

In 2000, a temporary transition program allowed some CVEOs to receive additional training to become commissioned troopers with the WSP. As commissioned troopers, the CVEOs in the transition class became eligible for benefits in WSPRS.

Some troopers were allowed to transfer PERS service credit earned as a CVEO into WSPRS.

In 2002, the Legislature granted some CVEOs who had become commissioned troopers a one-time opportunity.³ These troopers could do either of the following:

- ❖ Remain a member of PERS, in lieu of membership in WSPRS.
- ❖ Consolidate their PERS credits into WSPRS, in exchange for the trooper paying the full actuarial cost of the transfer.

The 2002 legislation only applied to former CVEOs who became commissioned troopers after July 1, 2000, and before June 31, 2001. Some former CVEOs became commissioned troopers prior to July 1, 2000, and were not given the opportunity to transfer their credit. Had it passed, the 2010 bill would have provided the same opportunity to transfer service to CVEOs who became commissioned troopers prior to July 1, 2000.

Currently, interested applicants can apply to be either a CVEO or a commissioned trooper. There is no abbreviated training or transition class available, so CVEOs who later wish to become commissioned troopers must apply through the normal process for troopers.

¹ See RCW 10.93.020(4).

² For CVEOs hired prior to July 1, 2006: Members of PERS 2/3 could choose between staying in PERS or transferring to PSERS. Members of PERS 1 were required to stay in PERS 1.

³ SB 6379, 2002 c 269.

Communications Officers

COs are limited authority officers. They handle dispatch, answer emergency 911 calls, and assist the public by phone and in person.

COs are also limited-authority officers. Their duties include dispatch and relay of emergency calls. They answer emergency 911 calls, and assist the public by phone and in person. They are not armed, and are not authorized to issue citations. All COs are members of PERS.

There was no transition class for COs for to become commissioned troopers like there was for CVEOs.

Some COs have gone through the regular trooper training to become commissioned troopers. These troopers were not given the option of consolidating their PERS service into WSPRS.

Dual Membership

Current law contains provisions to account for dual membership,⁴ allowing members to treat their career as unbroken service. For example, members may combine their service for the purpose of determining eligibility for retirement. Members can also use their highest salary average from either system in calculating benefits.

Current law allows members with service earned in more than one system to treat their service as unbroken.

Historically, the Legislature has allowed the transfer of service credit for public safety personnel in some cases when the prior service is substantially related to the member's current service. For example, WSP cadets earn service credit in PERS. Upon being commissioned, the cadet service is transferred into WSPRS.

The Legislature has made exceptions to the dual membership rules where the service in the two systems is substantially related.

Enforcement officers in the Department of Fish and Wildlife (DFW) were also given the ability to transfer service credit from PERS to the Law Enforcement Officers' and Fire Fighters' Retirement Plan (LEOFF). Enforcement officers with DFW were originally in PERS. Over time, the nature of their duties changed and these officers were required to be part of LEOFF. At the time, the transfer only applied to prospective service to be earned. In time, the Legislature allowed those officers to transfer prior PERS service as enforcement officers into LEOFF.

⁴ See RCW 41.54 generally.

Examples Of Dual Membership

For the purpose of these examples, assume the hypothetical member worked ten years in PERS 2 as a CVEO, then became a commissioned trooper and worked an additional fifteen years in WSPRS. Assume also that the member is retiring at age 55, and earned \$50,000 per year in each of the member's last five years of service.

Example 1: Retiring As A Dual Member

PERS Benefit

10 yrs X 2% X \$50,000 X (0.358 early retirement factor) = \$3580 yearly benefit

WSPRS Benefit

15 yrs X 2% X \$50,000 = \$15,000 yearly benefit

Total Benefit

\$18,580 per year

Example 2: Consolidating Service In WSPRS

25 yrs X 2% X \$50,000 = \$25,000 yearly benefit

Total Benefit

\$25,000 per year

Consolidating service provides a larger benefit than dual membership because WSPRS service is worth more than PERS service—primarily due to the earlier retirement age in WSPRS.

Recent Legislation

In the 2010 Session, the Legislature considered SSB 6621. This bill did not go through the SCPP. The bill was nearly identical to the 2002 legislation,⁵ except for two things:

- ❖ The bill would have offered the one-time choice to troopers who had prior PERS 2 service as COs.
- ❖ It would have offered the one-time choice to some CVEOs who were not covered by the 2002 legislation.

Recent legislation would have allowed commissioned troopers with prior PERS service credit earned as a CVEO or CO to transfer that service into WSPRS.

Most members of the CVEO transition class (see CVEO section above) were covered by the 2002 legislation. However, some members became commissioned prior to the effective date of the bill, and were not covered. SB 6621 would have covered CVEOs who were commissioned as troopers on or before July 1, 2000.

The original bill only applied to commissioned troopers with prior PERS service as CVEOs. However, the bill was amended in the Senate Transportation Committee to provide the same one-time choice to commissioned troopers with prior PERS service as COs.

⁵ See 2003 c 294. The original 2002 statute was amended in 2003 to clarify what contributions would be refunded to the officer if payment for the transfer was not made. SSB 6621 included the changes from 2003.

Costs

The 2010 bill would have likely created no cost to the system since the member must pay the full actuarial cost of the service credit transfer should they elect to do so. Each plan has its own benefit structure, and benefits earned in one plan may not cost the same as those earned in another. A plan with more generous benefits will typically incur higher costs, and pay those higher costs by requiring higher employee and employer contributions, or contributions from the general fund.

Recent legislation would have created an optional cost to the trooper requesting the transfer. There was likely no cost to the system.

As such, transferring service credit and associated contributions from a less-generous plan to a more-generous plan will typically create a

cost to the receiving system because those additional contributions have not been made.

Generally, the public safety plans have more generous benefits, in recognition of the dangers faced by those employees. Thus, a transfer of service credit from PERS to WSPRS will typically create a cost to WSPRS. However, that cost may be offset through additional contributions at the time of the transfer.

Cost To The Member

The recent bill (SSB 6621) mirrors the 2002 legislation⁶ in requiring the trooper requesting the transfer to pay the full actuarial cost of the transfer.

As described in the bill, all contributions made to PERS on the trooper's behalf will be transferred to WSPRS, and the trooper must pay each of the following:

- ❖ The difference between the contributions the trooper made to PERS, and the contributions the trooper would have made had he or she been a member of WSPRS, plus interest determined by the director of the Department of Retirement Systems (DRS).
- ❖ The difference between the employer contributions paid to PERS on the trooper's behalf, and the employer contributions that would have been payable under WSPRS.
- ❖ An amount sufficient to ensure that the funded status of WSPRS will not change due to the transfer.

The additional payments required will generally be an out-of-pocket cost for the trooper. The actual dollar amount will be different for each trooper requesting the transfer and will need to be calculated individually. To provide an idea of the cost range, when OSA calculated the cost for the troopers in the 2002 legislation⁷ it ranged from \$25,000 to \$190,000.

The 2002 legislation required troopers to make the transfer by December 31, 2010, or by the date the trooper retired, whichever comes first. The recent legislation mirrors that language, substituting December 31, 2018.

⁶ See note five.

⁷ See note five.

Cost To The System

OSA prepared a fiscal note for SSB 6621 that indicated there would be no cost to the system. However, a minimal cost or savings to the system may arise as described below.

Transferring service credit will create a cost, but the recent bill requires the trooper requesting the transfer to bear the responsibility for the increased cost. However, the trooper's contribution may not represent a 100 percent offset.

By nature, actuarial funding is based on actuarial assumptions, and the trooper's contribution will be calculated based on those assumptions. A cost or savings may arise depending on how close actual experience meets with those actuarial assumptions. As such, the cost to the system will be minimal, but it may not be zero.

Policy Questions

In considering the stakeholder proposal, policy makers may wish to consider the following questions:

- ❖ Is an exception to dual membership provisions needed?
- ❖ Are CVEOs and COs substantially similar to commissioned troopers?
- ❖ Will other dual members want to consolidate their service?
- ❖ Is this a question of fairness and equity?

Is An Exception To Dual Membership Provisions Needed?

Dual membership is the state's general policy for public employees whose careers span multiple systems. However, the Legislature has made exceptions to dual membership rules, and allowed service credit transfers for public safety personnel in situations where the employee's prior service is substantially related to the newer position. Policy makers may question whether CVEO and CO service is similar enough to trooper service to warrant an exception.

Are CVEOs And COs Substantially Similar To Commissioned Troopers?

The duties of a commissioned trooper are often very dangerous, including all types of law enforcement activities from investigation to traffic stops.

CVEOs are limited in their enforcement capacity, and potential dangers faced will vary based on assignment. However, they are still involved in some dangerous actions such as traffic stops for commercial vehicles. CVEOs are armed and wear a uniform that identifies them as employees of the State Patrol. This limited-authority status is reflected in the fact that CVEOs are now members of PSERS.

COs are not armed, and are not generally on-site during enforcement actions. COs will meet with the public, which can bring potential danger. Given the stakes involved, the duties of a dispatcher or 911 emergency operator can be high stress. COs are still members of PERS and were not moved to PSERS.

Will Other Dual Members Want To Consolidate Their Service?

Many employees in various agencies have service credit in more than one system. Those employees may also wish to consolidate their service into one system.

For example, within the WSP, commissioned troopers may have prior service credit earned in any of the systems or with other job classes within WSP. These troopers may also want to be able to consolidate that prior service in WSPRS.

For example, since 2004, newly hired CVEOs have been members of PSERS. These CVEOs could, and some may have, become commissioned troopers at a later date. If they have, they have not been given the chance to transfer their PSERS service credit into WSPRS and would not be covered by the 2010 bill.

As another example, a current WSP employee in a position other than trooper, CVEO, or CO may become a commissioned trooper in the future and have service credit in both PERS and WSPRS. Members in this situation are not covered by the 2010 bill.

Is This A Question Of Fairness And Equity?

Many CVEOs who went through special training to become commissioned troopers were given the one-time chance to transfer their PERS CVEO service credit. At the time of the offer, approximately ten troopers with prior service as CVEOs were left out.

There is no indication in the record why some troopers in the same situation were not included. Some policy makers may feel that all CVEOs who went through the special training to become a

commissioned trooper should be given the option to transfer their PERS CVEO service.

Conclusion

Some troopers have earned prior service in systems other than WSPRS. Of these, some earned service in PERS as CVEOs and COs.

Dual membership is the general rule for members with service credit in multiple systems. However, the Legislature has allowed some public safety employees to consolidate their service credit when their new position is substantially related to the previous one.

Some CVEOs who became commissioned troopers were allowed to consolidate their prior PERS service into WSPRS. Similarly situated CVEOs were not given the same opportunity. COs who became troopers were never given this opportunity.

Under the 2010 bill, as drafted, the troopers requesting the consolidation bear the burden of paying the costs, and there is not likely to be a cost to the system.

In responding to this issue, policy makers will likely consider whether an exception to dual membership is needed, and whether both CVEO and CO service is similar enough to trooper service to warrant such an exception.

Stakeholder Input

Correspondence from:

Tom Pillow, WSP Troopers Association, April 20, 2010.

Attachment

SSB 6221

Actuarial Fiscal Note for SSB 6621



WASHINGTON STATE PATROL TROOPERS ASSOCIATION

200 UNION AVE. SE STE. 200, OLYMPIA, WA 98501 (360) 704-7530 FAX (360) 704-7527

The Honorable Steve Conway
WA State House of Representatives
PO Box 40600
Olympia, WA 98504

April 20, 2010

The Honorable Mark Schoesler
WA State Senate
110 Irv Newhouse Building
Olympia, WA 98504

Dear Representative Conway and Senator Schoesler;

On behalf of the members of the Washington State Patrol Troopers Association I would like to request consideration of the following two bills introduced during the 2010 Legislative session before the Select Committee on Pension Policy:

- House Bill 2783, a measure that would allow for overtime work that is contracted between the State Patrol and the Department of Transportation be credited in calculation of Average Final Salary;
- Senate Bill 6621, a bill requested by the WSP Lieutenants Association that would allow for the buy back of prior PERS 2 service credits as Commercial Vehicle Enforcement Officers and Communications Officers that transitioned into the WSP Retirement System positions.

We also would like to seriously discuss with you the possibility of creating a State Patrol Retirement System Governance body within the LEOFF 2 Board authority. We feel that our issues are nearly identical to that of the members of the LEOFF system and coordination and policy development would be better served.

Your consideration of these requests will be greatly appreciated.

Sincerely,

Tom Pillow, President

Cc: Matt Smith, WA State Acutary
Rick Jensen, WSPTA Governmental Affairs
Davor Gjurasic, WSPTA Governmental Affairs
Paul Neal, WSPTA Counsel for Retirement Issues

SUBSTITUTE SENATE BILL 6621

State of Washington

61st Legislature

2010 Regular Session

By Senate Transportation (originally sponsored by Senators Delvin, Haugen, Tom, Brandland, Prentice, Marr, Shin, Hewitt, and Roach)

READ FIRST TIME 02/04/10.

1 AN ACT Relating to transferring service credit and contributions
2 into the Washington state patrol retirement system by members who
3 served as commercial vehicle enforcement officers and who became
4 commissioned officers in the Washington state patrol prior to July 1,
5 2000; and adding a new section to chapter 41.40 RCW.

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

7 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.40 RCW
8 under the subchapter heading "plan 2" to read as follows:

9 (1) Active members of the Washington state patrol retirement system
10 who have previously established service credit in the public employees'
11 retirement system plan 2 while employed in the state patrol as a (a)
12 communications officer, or (b) commercial vehicle enforcement officer
13 who became a commissioned officer on or before July 1, 2000, have the
14 following options:

- 15 (i) Remain a member of the public employees' retirement system; or
16 (ii) Transfer service credit earned under the retirement system as
17 a communications officer, or commercial vehicle enforcement officer to
18 the Washington state patrol retirement system by making an irrevocable

1 choice filed in writing with the department of retirement systems
2 within one year of the department's announcement of the ability to make
3 such a transfer.

4 (2)(a) Any commissioned officer choosing to transfer under this
5 section shall have transferred from the retirement system to the
6 Washington state patrol retirement system:

7 (i) All the employee's applicable accumulated contributions plus
8 interest, and an equal amount of employer contributions attributed to
9 such employee; and

10 (ii) All applicable months of service as a commercial vehicle
11 enforcement officer credited to the employee under this chapter as
12 though that service was rendered as a member of the Washington state
13 patrol retirement system.

14 (b) For the applicable period of service, the employee shall pay:

15 (i) The difference between the contributions the employee paid to
16 the retirement system, and the contributions which would have been paid
17 by the employee had the employee been a member of the Washington state
18 patrol retirement system, plus interest as determined by the director.
19 This payment shall be made no later than December 31, 2018, or the date
20 of retirement, whichever comes first;

21 (ii) The difference between the employer contributions paid to the
22 public employees' retirement system, and the employer contributions
23 which would have been payable to the Washington state patrol retirement
24 system; and

25 (iii) An amount sufficient to ensure that the funding status of the
26 Washington state patrol retirement system will not change due to this
27 transfer.

28 (c) If the payment required by this subsection is not paid in full
29 by the deadline, the transferred service credit shall not be used to
30 determine eligibility for benefits nor to calculate benefits under the
31 Washington state patrol retirement system. In such case, the
32 employee's accumulated contributions plus interest transferred under
33 this subsection, and any payments made under this subsection, shall be
34 refunded to the employee. The employer shall be entitled to a credit
35 for the employer contributions transferred under this subsection.

36 (d) An individual who transfers service credit and contributions
37 under this subsection is permanently excluded from the public

1 employees' retirement system for all service as a commercial vehicle
2 enforcement officer.

--- END ---

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	2/12/10	SSB 6621

WHAT THE READER SHOULD KNOW

The Office of the State Actuary (“we”) prepared this fiscal note based on our understanding of the bill as of the date shown above. We intend this fiscal note to be used by the Legislature during the 2010 Legislative Session only.

We advise readers of this 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 fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

This bill provides a transfer of Public Employees’ Retirement System (PERS) service credit and contributions into the Washington State Patrol Retirement System (WSPRS) for certain Commercial Vehicle Enforcement Officers (CVEOs) and Communications Officers (COs).

This bill does not impact the expected actuarial funding of the system because the members that elect to transfer will pay all remaining costs such that the funding status of WSPRS will not change due to this transfer. In other words, the members pay the full actuarial cost of the transfer.

Please see the body of this fiscal note for additional information regarding the actuarial analysis of this bill.

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This bill impacts the following systems:

- ❖ PERS Plan 2.
- ❖ WSPRS Plan 1.

CVEOs and COs who became commissioned officers in the Washington State Patrol on or before July 1, 2000, may consolidate their PERS service credit into WSPRS. This opportunity is offered only to commissioned officers who were not given this opportunity under prior legislation.

To make the transfer, the member must file in writing with the Department of Retirement Systems (DRS) within one year of DRS' announcement of the ability to make the transfer.

The member must also pay:

- ❖ The difference between the contributions the member made to PERS, and the contributions the member would have made had he or she been a member of WSPRS, plus interest determined by the director of DRS.
- ❖ The difference between the employer contributions paid to PERS on the member's behalf, and the employer contributions that would have been payable under WSPRS.
- ❖ An amount sufficient to ensure that the funding status of WSPRS will not change due to the transfer.

This amount must be paid before the earlier of December 31, 2018, or the date the member retires.

Effective Date: 90 days after session.

What Is The Current Situation?

Commissioned officers in the Washington State Patrol are members of WSPRS, while CVEOs and COs were limited-duty officers with membership in PERS. Some limited-duty officers have been allowed to complete additional training to become commissioned officers in the Washington State Patrol. As such, those members may have service credit in both systems.

In 2002, CVEOs who became commissioned officers after July 1, 2000, and before June 31, 2001, were offered the opportunity to consolidate their PERS credits into WSPRS.

Who Is Impacted And How?

We estimate this bill could affect 23 active members out of the total 851 active members of this plan through improved benefits.

We estimate this bill will increase the benefits for a typical member by providing a shorter average final salary period plus earlier retirement eligibility for their PERS service. Currently, the benefit for their PERS Plan 2 service is based on a five-year average final salary and is payable at normal retirement, age 65. Under this bill, their PERS service will transfer to WSPRS Plan 1 and will be based on a two-year average final salary and is payable at the earlier of age 55 or 25 years of service.

WHY THIS BILL DOES NOT HAVE A COST

For each member that elects to transfer their service credit, the following payments will be made to the WSPRS:

1. The member's accumulated contributions plus interest in the PERS plan.
2. An equal amount of employer contributions from the PERS plan.
3. The difference between the contributions the member made to PERS, and the contributions the member would have made had he or she been a member of WSPRS, plus interest determined by the director of DRS.
4. The difference between the employer contributions paid to PERS on the member's behalf, and the employer contributions that would have been payable under WSPRS.
5. An additional payment from the member to ensure the funding status of WSPRS will not change due to the transfer.

This bill does not have a cost because payments are required such that the funding status does not change. However, if experience is different than our assumptions, a cost or savings could arise. If the payment is more or less than the actual value of the service transferred, then WSPRS contribution rates will decrease or increase accordingly. Please see How The Results Change With Different Assumptions section of this fiscal note for additional details.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed that the payments made by the members will equal the actuarial value of their service transfer less the lump sum value transferred from the PERS plan. We need to make several assumptions to determine the actuarial value of the service transfer, including:

- ❖ Expected rate of investment return.

- ❖ The member's retirement date.
- ❖ Expected salary growth.

As with any actuarial calculation that involves estimating future events, actual experience may differ from the underlying assumptions made. When actual experience differs from what we assumed would occur, the system experiences an actuarial gain or loss. An actuarial gain would decrease plan liabilities (or increase assets); whereas, an actuarial loss would increase plan liabilities (or decrease assets). Therefore, we cannot say with certainty that this bill will not impact plan liabilities in the future.

If the actual rate of investment return is more/less than the assumed rate, the system will experience actuarial gains/losses from this assumption. For this assumption, we will not know whether a gain or loss has occurred until DRS has made all retirement payments attributed to the transferred service credit.

The member's retirement date and salary growth assumptions will also produce sources of actuarial gain or loss. In order to calculate the actuarial value of the service transferred to the WSPRS, we must assume when the member will retire from the plan and how much their average final salary will be at retirement. For these assumptions, we can determine whether an actuarial gain or loss has occurred at the time of retirement.

In addition, we expect there will be a gain to PERS Plan 2 for each member that elects to transfer their prior PERS service to the WSPRS. This gain will occur if their accrued liability in PERS exceeds the assets that will be transferred to WSPRS, or two times the value of their contributions and interest. However, we assume this gain is not material to impact contribution rates for PERS Plan 2. As a result, we did not value the impact on PERS Plan 2.

Otherwise, we developed these costs using the same assumptions as disclosed in the June 30, 2008, Actuarial Valuation Report (AVR).

Special Data Needed

We relied on data provided by DRS and the Washington State Patrol to identify the current members of WSPRS that would be eligible to transfer prior PERS service as a result of this bill.

Otherwise, we developed these costs using the same assets and data as disclosed in the AVR.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

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

- ❖ **Investment returns** – We determined the cost to the plan if the members’ payment amount was calculated based on a higher investment return than what actually occurs over time (investments pay less than assumed). For this sensitivity we used a 7.5 percent investment return rather than the assumed 8.0 percent.
- ❖ **Retirement date** – We determined the cost to the plan if the members’ payment amount was calculated based on an earlier retirement date than what actually occurs over time (people start collecting their pension later than assumed). For this sensitivity we used a start age of 55 rather than an assumed age of 53.
- ❖ **Salary growth** – We determined the cost to the plan if the members’ payment amount was calculated based on lower annual salary growth than what actually occurs over time (salary growth is higher than assumed). For this sensitivity we used a 4.5 percent annual salary growth rather than the assumed 4.0 percent.
- ❖ **All of the above** – We determined the cost to the plan if all three of the assumptions are incorrect, as described above, at the same time.

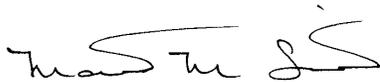
Because the WSPRS is a small plan, contribution rates could be impacted when the liabilities of the plan change by \$82,000. If all 23 possible members transfer their PERS service, contribution rates could be impacted under each individual assumption change/scenario described above. We reach the same conclusion under the “All of the Above” scenario.

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 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. We prepared this fiscal note for the Legislature during the 2010 Legislative Session.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page one of this fiscal note.

While this 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

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.