

PSERS Employer Definition (Interlocal Agreements)

Description of Issue

Corrections officers employed by a soon-to-open multi-city jail will be excluded from membership in the Public Safety Employees' Retirement System (PSERS) due to a technicality in the PSERS statutes. The agency operating the new jail has asked for the PSERS employer definition to be amended so they can be a PSERS employer and their corrections officers will be covered by PSERS.

Current Situation

The South Correctional Entity (SCORE) is a multi-jurisdictional agency created under the Interlocal Cooperation Act (ICA) (RCW 39.34). SCORE's mission is to build and operate a shared jail for the cities of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac, and Tukwila. The facility is expected to open in the fall of 2011 and will employ 124 full-time corrections officers.

Under current statute, corrections officers employed by SCORE will be members of the Public Employees' Retirement System (PERS). This includes both newly hired officers and PSERS members who transfer from other jails. This situation arises because the PSERS statutory definition of employer, while including city corrections departments, does not include correction departments created by interlocal agreement between cities.

Staff is aware of no other facilities similarly situated with SCORE.

Key Policy Points

- ❖ This issue concerns updating statute to maintain existing pension policy regarding PSERS membership-not setting new pension policy.
- ❖ The stakeholder proposal does not expand PSERS membership beyond the original intent of the Legislature and the SCPP.

PSERS Background

PSERS was created for public employees with limited law enforcement authority who do not meet the membership criteria for the Law Enforcement Officers' and Fire Fighters' Retirement System. PSERS provides an earlier retirement age and higher disability benefits than PERS. PSERS membership is determined by both job duties

and employer. In order to qualify for PSERS a member must meet the PSERS member definition and work for a PSERS employer.

PSERS membership generally includes certain limited authority law enforcement officers, corrections and probation officers, and supervisors of PSERS members. A majority of current PSERS members are corrections officers.

PSERS employers include the Washington State Department of Corrections, the Washington State Parks and Recreation Commission, the Washington State Gambling Commission, the Washington State Patrol, the Washington State Department of Natural Resources, the Washington State Liquor Control Board, any county corrections department, and city corrections department not covered under a first-class city retirement system.

Stakeholder Proposal

SCORE is requesting that the PSERS employer definition be amended to include public corrections agencies created by counties or cities under the ICA. This proposal does not expand PSERS membership. It maintains PSERS eligibility for similarly situated corrections officers and is consistent with the Legislature's and SCPP's original intent of including local corrections officers in PSERS. The proposal would cover the SCORE facility and any new public corrections agency created under the ICA.

What Is The Next Step?

A briefing and possible public hearing and executive action is scheduled for the October meeting.

Materials

The materials for this item include:

- ❖ Briefing paper.
- ❖ Stakeholder correspondence from Penny Bartley, Director of SCORE, dated September 7, 2010.
- ❖ Bill Draft implementing the SCORE proposal.
- ❖ Draft Fiscal Note.

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Wallis, Keri

From: Michele Neumann [Mneumann@Rentonwa.gov]
Sent: Tuesday, September 07, 2010 3:57 PM
To: daven@drs.wa.gov; Office State Actuary, WA; levy4@msn.com
Cc: Penny Bartley
Attachments: SCPP-Letter_090710pdf.doc.pdf

Good Afternoon:

Attached is a copy of the letter mailed to Senator Mark Schoesler, Chair, of the Select Committee on Pension Policy regarding SCORE's request for a change to the RCW concerning PSERS eligibility.

Michele Neumann

Executive Assistant

Tel: (425) 430-7509 | Fax: (425) 430-7508 | mneumann@rentonwa.gov





SOUTH CORRECTIONAL ENTITY
Serving the Cities of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac, and Tukwila

September 7, 2010

Senator Mark Schoesler, Chair
Select Committee on Pension Policy (SCPP)
PO Box 40409
Olympia, WA 98504-0409

Dear Chairman Schoesler:

As the Director of the South Correctional Entity (SCORE), I am writing to you on behalf of our current and future employees regarding retirement eligibility in the Public Safety Employees Retirement System (PSERS). SCORE has talked with state officials and legislators about a very minor technical fix in the law – one that would not impose any new cost issues or burdens upon the state – and I am hoping the SCPP would be willing to sponsor a 2011 legislative request to make this small change.

As background, SCORE is a multi-jurisdictional Administrative Agency that was established in 2009 under RCW 39.34 (the Interlocal Cooperation Act) for the purpose of building and operating a local jail for our member cities. The member cities are: Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac and Tukwila. Collectively, we serve a population of almost 350,000 citizens in South King County.

SCORE is currently building a 164,000 square foot jail in the City of Des Moines. We expect to open the facility in the fall of 2011. SCORE has a maximum capacity of 813 beds and will be the sixth largest jail in Washington State. At completion, we will have 124 full-time corrections officers.

The member cities carefully reviewed our expenses and found that if we worked together we could build and operate a jail for less than we were paying to operate existing independent jails. Additionally, by consolidating services in a single location, we are able to expedite court matters, moving inmates through the criminal justice system more effectively, again saving taxpayer money. SCORE's inmate population will include pre-trial detainees, those that have been arrested and are awaiting trial; and sentenced offenders, those convicted of misdemeanor offenses that are serving jail sentences of up to 365 days in jail.

Currently, the cities of Auburn and Renton also operate municipal jail facilities. These facilities will be closed once SCORE opens and the existing correctional officers will be transitioned to SCORE,

1055 South Grady Way, Renton, Washington 98057 – SCOREjail.org

becoming the first corrections officers for SCORE. Most of these existing Auburn and Renton employees are members of the PSERS retirement system.

After SCORE submitted our employer forms to the Department of Retirement Services (DRS), we learned that SCORE correctional officers would not be eligible for membership in PSERS. The PSERS definition of membership never anticipated the creation of a local jail through the Interlocal Cooperation Act. Employers created through Interlocal Agreements are members of the Public Employees Retirement Systems (PERS) as defined in RCW 41.40.010, Section 13(b).

We believe that the intent of the Legislature, as expressed in RCW 41.37.005, was clearly for employees that work within state, county, and local correctional facilities operated within Washington State are members of PSERS. This belief is based upon the existing employer definition found in RCW 41.37.010, which states:

(4) "Employer" means the Washington state department of corrections, the Washington state parks and recreation commission, the Washington state gambling commission, the Washington state patrol, the Washington state department of natural resources, and the Washington state liquor control board; any county corrections department; **or any city corrections department not covered under chapter 41.28 RCW** (emphasis added).

I am asking that you modify the definition of "employer" under RCW 41.37.010 to allow correctional officers that transfer to SCORE to maintain their membership with PSERS. We are not asking to expand membership to new categories of employees or employers. Instead we are asking for the maintenance of membership for our existing staff at the Renton and Auburn Jails and for new employees that will be hired by SCORE.

We have had several conversations with staff at DRS. DRS has been very cooperative and understands the dilemma that we face. They understand that SCORE is serving as a local jail, and they also understand that what we are suggesting will help clarify the legislative intent to allow city correctional staff to participate in this retirement system. However, DRS feels this technical fix is necessary to explicitly ensure that SCORE correctional employees are eligible for PSERS.

I have attached a suggested Amendment that would clarify the membership definition under RCW 41.37. I have spoken with DRS regarding this modification and they are in support of this request.

Thank you for your consideration of this item as one that the SCPP could perhaps sponsor and request of the 2011 Legislature. I am happy to provide you any additional information you might need, and plan to be at the Select Committee's meeting on September 21st to speak about our request. I can be reached at (425) 430-7565 should you have any questions.



Sincerely,



Penny Bartley
Director

Attachment

cc: Representative Steve Conway, Vice Chair
Representative Barbara Bailey
Representative Larry Crouse
Senator Steve Hobbs
Senator Janea Holmquist
Senator Joe McDermott
Representative Larry Seaquist
Steve Hill, DRS
Marty Brown, OFM



AN ACT Relating to public correctional agencies formed by counties or cities pursuant to RCW 39.34.030; amending RCW 41.37.010, and establishing an effective date.

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

Sec. 1. RCW 41.37.010 is amended to read as follows:

The definitions in this section apply throughout this chapter, unless the context clearly requires otherwise.

(1) "Accumulated contributions" means the sum of all contributions standing to the credit of a member in the member's individual account, including any amount paid under RCW 41.50.165(2), together with the regular interest thereon.

(2) "Actuarial equivalent" means a benefit of equal value when computed upon the basis of such mortality and other tables as may be adopted by the director.

(3) "Adjustment ratio" means the value of index A divided by index B.

(4) "Annuity" means payments for life derived from accumulated contributions of a member. All annuities shall be paid in monthly installments.

(5)(a) "Average final compensation" means the member's average compensation earnable of the highest consecutive sixty months of service credit months prior to such member's retirement, termination, or death. Periods constituting authorized leaves of absence may not be used in the calculation of average final compensation except under RCW 41.37.290.

(b) In calculating average final compensation under (a) of this subsection, the department of retirement systems shall include any compensation forgone by a member employed by a state agency or institution during the 2009-2011 fiscal biennium as a result of reduced work hours, mandatory or voluntary leave without pay, or temporary layoffs if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the employer.

(6) "Beneficiary" means any person in receipt of a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer by another person.

(7)(a) "Compensation earnable" for members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

(b) "Compensation earnable" for members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement, which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided in this subsection, and the individual shall receive the equivalent service credit;

(ii) In any year in which a member serves in the legislature, the member shall have the option of having such member's compensation earnable be the greater of:

(A) The compensation earnable the member would have received had such member not served in the legislature; or

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.37.060;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

(8) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(9) "Director" means the director of the department.

(10) "Eligible position" means any permanent, full-time position included in subsection (19) of this section.

(11) "Employee" or "employed" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

(12) "Employer" means the Washington state department of corrections, the Washington state parks and recreation commission, the Washington state gambling commission, the Washington state patrol, the Washington state department of natural resources, and the Washington state liquor control board; any county corrections department; ~~or~~ any city corrections department not covered under chapter 41.28 RCW; and any public correctional agencies created by counties or cities pursuant to RCW 39.34.030 whose delegated authority is to perform correctional duties of the counties or cities.

(13) "Final compensation" means the annual rate of compensation earnable by a member at the time of termination of employment.

(14) "Index" means, for any calendar year, that year's annual average consumer price index, Seattle, Washington area, for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(15) "Index A" means the index for the year prior to the determination of a postretirement adjustment.

(16) "Index B" means the index for the year prior to index A.

(17) "Ineligible position" means any position which does not conform with the requirements set forth in subsection (10) of this section.

(18) "Leave of absence" means the period of time a member is authorized by the employer to be absent from service without being separated from membership.

(19) "Member" means any employee employed by an employer on a full-time basis:

(a) Who is in a position that requires completion of a certified criminal justice training course and is authorized by their employer to arrest, conduct criminal investigations, enforce the criminal laws of the state of Washington, and carry a firearm as part of the job;

(b) Whose primary responsibility is to ensure the custody and security of incarcerated or probationary individuals as a corrections officer, probation officer, or jailer;

(c) Who is a limited authority Washington peace officer, as defined in RCW 10.93.020, for an employer; or

(d) Whose primary responsibility is to supervise members eligible under this subsection.

(20) "Membership service" means all service rendered as a member.

(21) "Pension" means payments for life derived from contributions made by the employer. All pensions shall be paid in monthly installments.

(22) "Plan" means the Washington public safety employees' retirement system plan 2.

(23) "Regular interest" means such rate as the director may determine.

(24) "Retiree" means any person who has begun accruing a retirement allowance or other benefit provided by this chapter resulting from service rendered to an employer while a member.

(25) "Retirement" means withdrawal from active service with a retirement allowance as provided by this chapter.

(26) "Retirement allowance" means monthly payments to a retiree or beneficiary as provided in this chapter.

(27) "Retirement system" means the Washington public safety employees' retirement system provided for in this chapter.

(28) "Separation from service" occurs when a person has terminated all employment with an employer.

(29) "Service" means periods of employment by a member on or after July 1, 2006, for one or more employers for which compensation earnable is paid. Compensation earnable earned for ninety or more hours in any calendar month shall constitute one service credit month. Compensation earnable earned for at least seventy hours but less than ninety hours in any calendar month shall constitute one-half service credit month of service. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service. Time spent in standby status, whether compensated or not, is not service.

Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits.

(a) Service in any state elective position shall be deemed to be full-time service.

(b) A member shall receive a total of not more than twelve service credit months of service for such calendar year. If an individual is employed in an eligible position by one or more employers the individual shall receive no more than one service credit month during any calendar month in which multiple service for ninety or more hours is rendered.

(30) "Service credit month" means a month or an accumulation of months of service credit which is equal to one.

(31) "Service credit year" means an accumulation of months of service credit which is equal to one when divided by twelve.

(32) "State actuary" or "actuary" means the person appointed pursuant to RCW 44.44.010(2).

(33) "State elective position" means any position held by any person elected or appointed to statewide office or elected or appointed as a member of the legislature.

(34) "State treasurer" means the treasurer of the state of Washington.

NEW SECTION: Sec. 2. Section 1 of this act is effective January 1, 2011.

Darren Painter 786-6155

OSA

October 8, 2010 (11:00 AM)

1 AN ACT Relating to public corrections entities formed by counties
2 or cities pursuant to RCW 39.34.030; amending RCW 41.37.010; and
3 providing an effective date.

4

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

6

7 **Sec. 1.** RCW 41.37.010 and 2010 1st sp.s. c 32 s 8 are each
8 amended to read as follows:

9 The definitions in this section apply throughout this chapter,
10 unless the context clearly requires otherwise.

11 (1) "Accumulated contributions" means the sum of all contributions
12 standing to the credit of a member in the member's individual account,
13 including any amount paid under RCW 41.50.165(2), together with the
14 regular interest thereon.

15 (2) "Actuarial equivalent" means a benefit of equal value when
16 computed upon the basis of such mortality and other tables as may be
17 adopted by the director.

18 (3) "Adjustment ratio" means the value of index A divided by index
19 B.

1 (4) "Annuity" means payments for life derived from accumulated
2 contributions of a member. All annuities shall be paid in monthly
3 installments.

4 (5)(a) "Average final compensation" means the member's average
5 compensation earnable of the highest consecutive sixty months of
6 service credit months prior to such member's retirement, termination,
7 or death. Periods constituting authorized leaves of absence may not
8 be used in the calculation of average final compensation except under
9 RCW 41.37.290.

10 (b) In calculating average final compensation under (a) of this
11 subsection, the department of retirement systems shall include any
12 compensation forgone by a member employed by a state agency or
13 institution during the 2009-2011 fiscal biennium as a result of
14 reduced work hours, mandatory or voluntary leave without pay, or
15 temporary layoffs if the reduced compensation is an integral part of
16 the employer's expenditure reduction efforts, as certified by the
17 employer.

18 (6) "Beneficiary" means any person in receipt of a retirement
19 allowance or other benefit provided by this chapter resulting from
20 service rendered to an employer by another person.

21 (7)(a) "Compensation earnable" for members, means salaries or
22 wages earned by a member during a payroll period for personal
23 services, including overtime payments, and shall include wages and
24 salaries deferred under provisions established pursuant to sections
25 403(b), 414(h), and 457 of the United States internal revenue code,
26 but shall exclude nonmoney maintenance compensation and lump sum or
27 other payments for deferred annual sick leave, unused accumulated
28 vacation, unused accumulated annual leave, or any form of severance
29 pay.

30 (b) "Compensation earnable" for members also includes the
31 following actual or imputed payments, which are not paid for personal
32 services:

33 (i) Retroactive payments to an individual by an employer on
34 reinstatement of the employee in a position, or payments by an

1 employer to an individual in lieu of reinstatement, which are awarded
2 or granted as the equivalent of the salary or wage which the
3 individual would have earned during a payroll period shall be
4 considered compensation earnable to the extent provided in this
5 subsection, and the individual shall receive the equivalent service
6 credit;

7 (ii) In any year in which a member serves in the legislature, the
8 member shall have the option of having such member's compensation
9 earnable be the greater of:

10 (A) The compensation earnable the member would have received had
11 such member not served in the legislature; or

12 (B) Such member's actual compensation earnable received for
13 nonlegislative public employment and legislative service combined.
14 Any additional contributions to the retirement system required because
15 compensation earnable under (b)(ii)(A) of this subsection is greater
16 than compensation earnable under (b)(ii)(B) of this subsection shall
17 be paid by the member for both member and employer contributions;

18 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
19 and 72.09.240;

20 (iv) Compensation that a member would have received but for a
21 disability occurring in the line of duty only as authorized by RCW
22 41.37.060;

23 (v) Compensation that a member receives due to participation in
24 the leave sharing program only as authorized by RCW 41.04.650 through
25 41.04.670; and

26 (vi) Compensation that a member receives for being in standby
27 status. For the purposes of this section, a member is in standby
28 status when not being paid for time actually worked and the employer
29 requires the member to be prepared to report immediately for work, if
30 the need arises, although the need may not arise.

31 (8) "Department" means the department of retirement systems
32 created in chapter 41.50 RCW.

33 (9) "Director" means the director of the department.

34

1 (10) "Eligible position" means any permanent, full-time position
2 included in subsection (19) of this section.

3 (11) "Employee" or "employed" means a person who is providing
4 services for compensation to an employer, unless the person is free
5 from the employer's direction and control over the performance of
6 work. The department shall adopt rules and interpret this subsection
7 consistent with common law.

8 (12) "Employer" means the Washington state department of
9 corrections, the Washington state parks and recreation commission, the
10 Washington state gambling commission, the Washington state patrol, the
11 Washington state department of natural resources, and the Washington
12 state liquor control board; any county corrections department; ~~((or))~~
13 any city corrections department not covered under chapter 41.28 RCW;
14 and any public corrections entity created pursuant to RCW 39.34.030 by
15 counties or by cities included in this subsection.

16 (13) "Final compensation" means the annual rate of compensation
17 earnable by a member at the time of termination of employment.

18 (14) "Index" means, for any calendar year, that year's annual
19 average consumer price index, Seattle, Washington area, for urban wage
20 earners and clerical workers, all items, compiled by the bureau of
21 labor statistics, United States department of labor.

22 (15) "Index A" means the index for the year prior to the
23 determination of a postretirement adjustment.

24 (16) "Index B" means the index for the year prior to index A.

25 (17) "Ineligible position" means any position which does not
26 conform with the requirements set forth in subsection (10) of this
27 section.

28 (18) "Leave of absence" means the period of time a member is
29 authorized by the employer to be absent from service without being
30 separated from membership.

31 (19) "Member" means any employee employed by an employer on a
32 full-time basis:

33 (a) Who is in a position that requires completion of a certified
34 criminal justice training course and is authorized by their employer

1 to arrest, conduct criminal investigations, enforce the criminal laws
2 of the state of Washington, and carry a firearm as part of the job;

3 (b) Whose primary responsibility is to ensure the custody and
4 security of incarcerated or probationary individuals as a corrections
5 officer, probation officer, or jailer;

6 (c) Who is a limited authority Washington peace officer, as
7 defined in RCW 10.93.020, for an employer; or

8 (d) Whose primary responsibility is to supervise members eligible
9 under this subsection.

10 (20) "Membership service" means all service rendered as a member.

11 (21) "Pension" means payments for life derived from contributions
12 made by the employer. All pensions shall be paid in monthly
13 installments.

14 (22) "Plan" means the Washington public safety employees'
15 retirement system plan 2.

16 (23) "Regular interest" means such rate as the director may
17 determine.

18 (24) "Retiree" means any person who has begun accruing a
19 retirement allowance or other benefit provided by this chapter
20 resulting from service rendered to an employer while a member.

21 (25) "Retirement" means withdrawal from active service with a
22 retirement allowance as provided by this chapter.

23 (26) "Retirement allowance" means monthly payments to a retiree or
24 beneficiary as provided in this chapter.

25 (27) "Retirement system" means the Washington public safety
26 employees' retirement system provided for in this chapter.

27 (28) "Separation from service" occurs when a person has terminated
28 all employment with an employer.

29 (29) "Service" means periods of employment by a member on or after
30 July 1, 2006, for one or more employers for which compensation
31 earnable is paid. Compensation earnable earned for ninety or more
32 hours in any calendar month shall constitute one service credit month.
33 Compensation earnable earned for at least seventy hours but less than
34 ninety hours in any calendar month shall constitute one-half service

1 credit month of service. Compensation earnable earned for less than
2 seventy hours in any calendar month shall constitute one-quarter
3 service credit month of service. Time spent in standby status,
4 whether compensated or not, is not service.

5 Any fraction of a year of service shall be taken into account in
6 the computation of such retirement allowance or benefits.

7 (a) Service in any state elective position shall be deemed to be
8 full-time service.

9 (b) A member shall receive a total of not more than twelve service
10 credit months of service for such calendar year. If an individual is
11 employed in an eligible position by one or more employers the
12 individual shall receive no more than one service credit month during
13 any calendar month in which multiple service for ninety or more hours
14 is rendered.

15 (30) "Service credit month" means a month or an accumulation of
16 months of service credit which is equal to one.

17 (31) "Service credit year" means an accumulation of months of
18 service credit which is equal to one when divided by twelve.

19 (32) "State actuary" or "actuary" means the person appointed
20 pursuant to RCW 44.44.010(2).

21 (33) "State elective position" means any position held by any
22 person elected or appointed to statewide office or elected or
23 appointed as a member of the legislature.

24 (34) "State treasurer" means the treasurer of the state of
25 Washington.

26

27 NEW SECTION. **Sec. 2.** This act takes effect January 1, 2011.

28

--- END ---

DRAFT ACTUARY'S FISCAL NOTE

| | | | |
|-----------------------------|-------|------------|--|
| RESPONDING AGENCY: | CODE: | DATE: | PROPOSAL [NAME or Z-NUMBER]: |
| Office of the State Actuary | 035 | 10/08/2010 | PSERS Employer Definition - Interlocal Agreements |

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 during the 2010 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

This proposal would amend the statutory list of Public Safety Employees’ Retirement System (PSERS) eligible employers to include public corrections entities created by counties or cities under an interlocal agreement. There is no fiscal impact for this proposal since the members that would be covered by this proposal are current PSERS members.

See the section “Why This Proposal Doesn’t Have a Cost” for additional detail.

WHAT IS THE PROPOSED CHANGE?

Summary of Change

This proposal impacts PSERS by amending the statutory list of PSERS eligible employers. The proposal would include as PSERS employers public corrections entities created by counties or cities under an interlocal agreement made pursuant to RCW 39.34.030. Entities covered under a first-class cities retirement system are excluded from being a PSERS eligible employer.

Effective Date: January 1, 2012.

What Is The Current Situation?

In order to participate in PSERS, a member must meet the PSERS member definition and work for a PSERS employer.

PSERS membership generally includes certain limited authority law enforcement officers, corrections and probation officers, and supervisors of PSERS members.

PSERS employers are listed in statute. They include the Washington State Department of Corrections, the Washington State Parks and Recreation Commission, the Washington State Gambling Commission, the Washington State Patrol, the Washington State Department of Natural Resources, the Washington State Liquor Control Board; county corrections departments, and city corrections departments not covered by a first-class cities retirement system.

The Interlocal Cooperation Act (RCW 39.34) allows any two or more public agencies to enter into agreements with one another to provide services and facilities. This includes the ability to create a separate entity with the delegated powers to provide those services and facilities.

Under current law, a corrections entity created by counties or cities under an interlocal agreement does not qualify as a PSERS employer. However, it would qualify as a Public Employees' Retirement System (PERS) employer. Employees of such an entity would be PERS members – even if they meet the PSERS member definition. This includes corrections officers employed by such an entity.

Who Is Impacted And How?

We estimate this proposal could affect 124 members out of the total 4,340 members of this system by allowing them to continue their membership service in PSERS.

WHY THIS PROPOSAL DOESN'T HAVE A COST

We estimate this proposal doesn't have a cost because it would simply extend PSERS membership to current PSERS members. We currently assume these members will

continue to accrue PSERS service since we do not assume any future closure of a PSERS facility or the transfer of members to a facility that is not a PSERS eligible employer.

If, however, this proposal doesn't pass and the members are transferred to a PERS employer, there will be impacts to both the PSERS and PERS systems. We generally do not prepare a fiscal note in this situation since these impacts typically show up as experience gains or losses to the systems. In other words, as the transfer occurs and the experience unfolds, we will see an actuarial gain to the system that loses members and an actuarial loss to the system that adds members.

If the proposal doesn't pass and the members are transferred to a PERS employer an actuarial gain will occur in the PSERS system because the members will no longer accrue retirement benefits under that plan, although we assumed their membership service would continue. Their benefits will be smaller than expected, decreasing the liabilities of the plan. We'd also see an actuarial loss to the system because the salaries for these members would no longer be included in the present value of future salaries which is used to calculate contribution rates. We expect the net effect to be an actuarial gain but it is uncertain whether it would be large enough to impact contribution rates.

If the proposal doesn't pass and the members are transferred to a PERS employer an actuarial loss will occur in the PERS system since the addition of new members increases the liabilities of the plan. Similar to the PSERS discussion above, we would also see an actuarial gain for the addition of salaries used to calculate the contribution rates.

An actuarial gain will decrease contribution rates and an actuarial loss will increase contribution rates. Depending on the size of the change in both the liabilities and present value of future salaries associated with the group of transferred members in comparison to the current membership of each plan, the change in the contribution rate may or may not produce a supplemental rate.

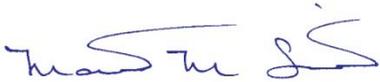
Finally, it is uncertain how many members would transfer to PERS from PSERS. If the number of transfers is small because of the change in plan membership, this would further limit any impact if this proposal didn't pass.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. We prepared this draft fiscal note for the Select Committee on Pension Policy.
2. We prepared this draft 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 draft fiscal note.

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

DRAFT

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 that 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.