

# Court Commissioners

## Issue

Court Commissioners (Commissioners), Judges, and Justices (Judges)<sup>1</sup> are members of the Public Employees' Retirement System (PERS) Plans 1, 2, and 3. In 2006, Judges were granted the option of paying higher contribution rates in exchange for an increased benefit multiplier.

Commissioners have asked for the ability to choose an increased multiplier option similar to the one provided to Judges in 2006.

<sup>1</sup> *Elected or appointed after 1988.*

## Background

Judges in Washington can appoint Commissioners to assist the court in administering cases. Commissioners serve a similar role to that of a judge, with the power to hear cases, issue judgments, and administer oaths.

In the 2009 Legislative Session, Senate Bill 5523, a non-SCPP bill, was introduced to provide an enhanced benefit multiplier to Commissioners which is similar to the option provided to Judges. The enhanced benefit applies prospectively to all future service, but Commissioners can receive the increased multiplier for previous service credit by paying the full actuarial equivalent value for the higher benefit at any point prior to retirement. The bill passed out of Senate Ways and Means, but did not pass the Senate.

Instead of the 2.0 percent multiplier for members of PERS Plans 1 and 2, and 1.0 percent for the defined benefit portion of PERS Plan 3, Commissioners who choose the increased multiplier will receive 3.5 percent and 1.6 percent, respectively. Enhanced benefits in Plans 1 and 2 are capped at 75.0 percent of salary average, and benefits in Plan 3 are capped at 37.5 percent. Member contribution rates will increase to pay for most of the increased cost.

A companion bill (HB 1742) was introduced, but did not receive a hearing.

## Policy Considerations

- ❖ While they serve in similar roles to Judges, Commissioners are not Judges and have never been provided the same benefits as Judges.
- ❖ Some of the pension policy and human resource policy reasons for providing higher benefits to Judges may apply to Commissioners.
- ❖ Groups other than Commissioners may want the ability to purchase customized benefits.

- ❖ Customized benefits increase member flexibility and may be an effective recruitment and retention tool. However, customization also increases system complexity and may encourage benefit envy among members.

## Committee Activity

The Committee held a work session on this issue in November. It was moved and seconded at the December meeting to address the issue in executive session. The motion failed.

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## In Brief

### Issue

*Court commissioners have asked for the ability to purchase an enhanced benefit similar to the option offered to Judges in 2006.*

### Member Impact

*The proposed legislation is targeted to court commissioners. Court commissioners are members of the Public Employees' Retirement System (PERS) and any changes could potentially affect all members of PERS. There are currently 117 court commissioners. Of these, 75 are eligible for benefits.*

# Court Commissioners

This report was presented to the SCPP on November 15, 2009, and has not been updated to reflect subsequent action.

## Current Situation

Court Commissioners (Commissioners), Judges, and Justices (Judges)<sup>1</sup> are members of the Public Employees' Retirement System (PERS). In 2006, Judges were granted the option of paying higher contribution rates in exchange for an increased benefit multiplier.

Commissioners have asked for the ability to purchase an enhanced benefit similar to the option offered to Judges in 2006.

<sup>1</sup> Elected or appointed after 1988.

## Background

Judges in each county and judicial district can appoint Commissioners to assist the court in administering cases.<sup>2</sup> Commissioners serve in similar capacity to that of a judge, with the power to hear cases, issue judgments, and administer oaths.<sup>3</sup> Commissioners can be limited in their appointment as to the type of actions they adjudicate, and generally preside over civil or uncontested matters, such as adoption and probate. However, in counties with a population over 400,000 Commissioners may also be appointed to adjudicate adult criminal cases.<sup>4</sup>

Commissioners are not required to have the same qualifications as a judge. Under Article IV, Section 17 of the State Constitution, admission to practice law in the State of Washington is a prerequisite to becoming a judge. In contrast, the State Constitution and RCW are silent on required qualifications for Commissioners.<sup>5</sup>

Prior to 1988, Judges had their own retirement systems which provided benefits that were different from those available to other public employees, including a higher multiplier.

Multipliers are used in the calculation of retirement benefits as follows:

$$\text{Multiplier} \times \text{Service Credit} \times \text{Salary Average} = \text{Benefits}$$

Beginning in 1988, newly elected or appointed Judges have been members of PERS. From 1988 to 2006, Judges in PERS received the same multiplier as other PERS members,<sup>6</sup> and state-employed Judges also had access to a special supplemental defined contribution

account (the Judicial Retirement Account, or JRA) not available to other public employees. The JRA was funded equally by the Judges and the employer.

In 2006, the Legislature passed SHB 2691, which provided Judges in PERS the option of paying higher contribution rates in exchange for increased benefit multipliers of 3.5 percent, and 1.6 percent respectively.

Benefits for Judges in Plans 1 and 2 were capped at 75.0 percent of salary average, and benefits for Judges in Plan 3 were capped at 37.5 percent. Member contribution rates for Judges increased to pay for most of the cost.

<sup>2</sup> Article IV, Section 23, and RCW 2.24.010 et seq.

<sup>3</sup> RCW 2.24.040.

<sup>4</sup> RCW 2.24.010(2).

<sup>5</sup> See also AGO 57-58 No. 50.

<sup>6</sup> Two percent for Plans 1 and 2, and 1 percent for Plan 3.

## Legislative History

Senate Bill 5523 was introduced in the 2009 legislative session.<sup>7</sup> The bill did not go through the SCPP. This bill would have provided an increased multiplier option for Commissioners that was identical to that for Judges: 3.5 percent for Plans 1 and 2, and 1.6 percent for the defined benefit portion of Plan 3. The bill was passed out of Senate Ways and Means.

Under the current wording of the bill, Commissioners wishing to receive the enhanced multiplier must make a one-time irrevocable election between September 1, 2009 and January 31, 2010. Commissioners appointed after September 1, 2009, would have 90 days from the date of hire to select this option.

The enhanced benefit applies prospectively to all future earnings. However, Commissioners can receive the increased modifier for previous service by paying the full actuarial equivalent value at any point prior to retirement.

Member contribution rates for Commissioners would increase as noted in the attached fiscal note, and updated pricing will be available at the November Select Committee hearing. In brief, increased member contributions will pay for most of the increased cost.

<sup>7</sup> A companion bill (HB 1742) was introduced, but did not receive a hearing.

*Under the current wording of the bill, member contribution rates for Commissioners would increase to pay for most of the cost.*

## Other states

Of Washington's peer states, California has Commissioners substantially similar to Washington. In California, Commissioners receive the same benefits as other California Public Employees' Retirement System employees, and do not receive the special benefits provided to Judges.

## Policy Analysis

There are three questions the Committee may wish to consider:

- ❖ Do the reasons why Judges were given a higher multiplier also apply to Commissioners?
- ❖ Are Commissioners similar enough to Judges to warrant similar benefits?
- ❖ Should different benefits be given to individual groups within a system?

### *Do the reasons why Judges were given a higher multiplier also apply to Commissioners?*

There are three reasons Judges were given a higher multiplier:

- ❖ Historical precedent.
- ❖ Shorter careers.
- ❖ Recruitment.

The following sections will examine each of these reasons and how they may apply to Commissioners in greater detail.

#### There is no historical precedent for giving Commissioners unique benefits

Judges have historically received unique benefits not available to other public employees. As mentioned above, Judges had two retirement systems of their own prior to 1988. Even when Judges became members of PERS and received the same multiplier as other members of PERS, they still had access to a special defined contribution account (the JRA).

In contrast, Commissioners have historically received the same benefits as other PERS members. The Legislature has not chosen to provide Commissioners with the same benefits as Judges at any of the times benefits for Judges were created or modified.

#### Commissioners Typically Have Shorter Careers

Judges typically begin in mid or late career, and compared to the average PERS member may have less time before retirement to accrue benefits. This is because Judges must be qualified to

*Judges have historically received unique benefits not available to other public employees, while Commissioners have received the same level of benefits as other PERS members.*

*Like Judges, Commissioners typically begin in mid or late career, and may not have time to accrue substantial benefits.*

practice law, and must have extensive education and legal experience prior to running for the position.

Like Judges, Commissioners typically begin in mid or late career, and may not have time before retirement to accrue substantial benefits. While not required under the Constitution or state statute, Commissioners may also have extensive education and legal experience prior to being appointed.

### **Recruitment**

*Increased benefits can assist with recruitment of candidates.*

Increased benefits, such as a higher multiplier, can assist in recruitment of qualified candidates in a profession where salaries can be high. Commissioners may be recruited from the same pool as Judges, and a higher multiplier may also assist in recruiting candidates for Commissioner.

*Commissioners are not Judges, but they serve in similar roles.*

### ***Are Commissioners similar enough to Judges to warrant similar benefits?***

Some policy makers may feel that employees who work side by side in similar roles should have similar benefits. Commissioners are not Judges, but they share similar roles and demographics such as background, qualifications, and accrued service credit. For example, Commissioners and Judges may work side by side, and in some cases a single individual may serve as both Commissioner and judge at the same time. Commissioners and Judges both typically receive salaries that are higher than the average PERS member.

However, Judges are elected, where Commissioners are appointed. Judges are required under the State Constitution to be qualified to practice law, while Commissioners are not.

Given these differences, policy makers may wish to consider whether Commissioners are similar enough to Judges to warrant similar benefits.

*Most members of PERS do not receive customized benefits. The groups that do receive customized benefits have a history of receiving benefits not available to other public employees.*

### ***Should Different Benefits Be Given To Individual Groups Within A System?***

Groups within PERS do not generally receive customized benefits. Typically, if a member group is to be granted customized benefits, the members will be removed from PERS and given their own system. For example, SERS and PSERS were both created with former members of PERS.

Judges and other elected officials are the only groups still within PERS that receive customized benefits. Both of these groups have a history of receiving unique benefits not available to other public employees.

If increased benefits are extended to Commissioners, it would represent the first time a member group without a historical precedent for special benefits stayed in PERS while receiving customized benefits.

If one group of PERS members without a history of unique benefits is allowed to pay more in exchange for increased or customized benefits, it may set precedent for other groups to request identical benefits or greater customization. For example, other public employees may also begin their career in Washington State at mid or late career, and want to pay for a higher multiplier. Still other public employees may wish to pay more for a lower retirement age.

*Customized benefits provide flexibility and may be an effective recruitment tool. However, customization can also create complexity within a system and encourage benefit envy.*

Some policy makers may view this issue as one of providing member flexibility at member cost. While customized benefits increase member flexibility and may be an effective recruitment and retention tool, greater customization of benefits also increases system complexity, and may encourage benefit envy between members.

## Conclusion

Judges have historically received unique benefits not available to other public employees, while Commissioners have received the same level of benefits as other PERS members.

Commissioners are not Judges, but they serve in similar roles, and are demographically similar to Judges in many respects. Like Judges, Commissioners typically begin in mid or late career, and may not have time accrue substantial benefits.

Few groups within PERS receive customized benefits, and those that do have a historical precedent for receiving special benefits. Customizing benefits for groups that do not share such a history may be an effective recruiting tool, but can create complexity and envy within a system.



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SENATE BILL 5523

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State of Washington                      61st Legislature                      2009 Regular Session

By Senators Hobbs, Pridemore, and Tom

Read first time 01/26/09. Referred to Committee on Ways & Means.

1            AN ACT Relating to public retirement benefits for employees of the  
2 supreme court, court of appeals, or superior, district, or municipal  
3 courts; amending RCW 41.45.207; adding new sections to chapter 41.40  
4 RCW; adding a new section to chapter 41.45 RCW; and providing an  
5 effective date.

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 1" to read as follows:

9            (1) Any member, employed as a court commissioner on September 1,  
10 2009, in the supreme court, court of appeals, or superior, district, or  
11 municipal court, may make a one-time irrevocable election, filed in  
12 writing with the member's employer, the department, and the  
13 administrative office of the courts, to accrue an additional benefit  
14 equal to one and one-half percent of average final compensation for  
15 each year of future service credit as a court commissioner from the  
16 date of the election. The court commissioner shall have from September  
17 1, 2009, through January 31, 2010, to make this election. Any court  
18 commissioner who has not previously elected to accrue an additional

1 benefit under this section may make this election during any subsequent  
2 month of January until the irrevocable election is made.

3 (2) Any member hired after September 1, 2009, as a court  
4 commissioner in the supreme court, court of appeals, or superior,  
5 district, or municipal court, who has not previously elected to accrue  
6 an additional benefit under the provisions of this section, shall have  
7 ninety days from the date of hire to make a one-time irrevocable  
8 election, filed in writing with the member's employer, the department,  
9 and the administrative office of the courts, to accrue an additional  
10 benefit equal to one and one-half percent of average final compensation  
11 for each year of future service credit as a court commissioner from the  
12 date of the election. A court commissioner who does not elect to  
13 accrue an additional benefit under this section may make this election  
14 during any subsequent month of January until the irrevocable election  
15 is made.

16 (3)(a) A member who made the election under subsection (1) or (2)  
17 of this section may apply to the department to increase the member's  
18 benefit multiplier by an additional one and one-half percent per year  
19 of service for the period in which the member served as a court  
20 commissioner prior to the election. The member shall pay, for the  
21 applicable period of service, the actuarially equivalent value of the  
22 increase in the member's benefit resulting from the increase in the  
23 benefit multiplier as determined by the director. This payment must be  
24 made prior to retirement.

25 (b) Subject to rules adopted by the department, a member applying  
26 to increase the member's benefit multiplier under this section may pay  
27 all or part of the cost with a lump sum payment, eligible rollover,  
28 direct rollover, or trustee-to-trustee transfer from an eligible  
29 retirement plan. The department shall adopt rules to ensure that all  
30 lump sum payments, rollovers, and transfers comply with the  
31 requirements of the internal revenue code and regulations adopted by  
32 the internal revenue service. The rules adopted by the department may  
33 condition the acceptance of a rollover or transfer from another plan on  
34 the receipt of information necessary to enable the department to  
35 determine the eligibility of any transferred funds for tax-free  
36 rollover treatment or other treatment under federal income tax law.

37 (4) In lieu of the retirement allowance provided under RCW  
38 41.40.185, the retirement allowance payable for service as a court

1 commissioner in the supreme court, court of appeals, or superior,  
2 district, or municipal court, for those members who elected to accrue  
3 an additional benefit under this section, shall be equal to three and  
4 one-half percent of average final compensation for each year of service  
5 after the election. The total retirement allowance under this system  
6 for members who elected to accrue an additional benefit while a court  
7 commissioner shall not exceed seventy-five percent of average final  
8 compensation.

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

11 (1) Any member, employed as a court commissioner on September 1,  
12 2009, in the supreme court, court of appeals, or superior, district, or  
13 municipal court, may make a one-time irrevocable election, filed in  
14 writing with the member's employer, the department, and the  
15 administrative office of the courts, to accrue an additional benefit  
16 equal to one and one-half percent of average final compensation for  
17 each year of future service credit as a court commissioner from the  
18 date of the election. The court commissioner shall have from September  
19 1, 2009, through January 31, 2010, to make this election. Any court  
20 commissioner who has not previously elected to accrue an additional  
21 benefit under this section may make this election during any subsequent  
22 month of January until the irrevocable election is made.

23 (2) Any member hired after September 1, 2009, as a court  
24 commissioner in the supreme court, court of appeals, or superior,  
25 district, or municipal court, who has not previously elected to accrue  
26 an additional benefit under the provisions of this section, shall have  
27 ninety days from the date of hire to make a one-time irrevocable  
28 election, filed in writing with the member's employer, the department,  
29 and the administrative office of the courts, to accrue an additional  
30 benefit equal to one and one-half percent of average final compensation  
31 for each year of future service credit as a court commissioner from the  
32 date of the election. A court commissioner who does not elect to  
33 accrue an additional benefit under this section may make this election  
34 during any subsequent month of January until the irrevocable election  
35 is made.

36 (3) Any employee hired after September 1, 2009, as a court  
37 commissioner in the supreme court, court of appeals, or superior,

1 district, or municipal court, who has not previously established  
2 membership in this system, and who establishes membership in plan 2  
3 under the provisions of RCW 41.40.785, shall have ninety days from the  
4 date of hire to make a one-time irrevocable election filed in writing  
5 with the member's employer, the department, and the administrative  
6 office of the courts, to accrue an additional benefit equal to one and  
7 one-half percent of average final compensation for each year of future  
8 service credit as a court commissioner from the date of the election.  
9 Any employee hired after September 1, 2009, as a court commissioner,  
10 who establishes membership in plan 2 under the provisions of RCW  
11 41.40.785 and does not elect to accrue an additional benefit under this  
12 section may make this election during any subsequent month of January  
13 until the irrevocable election is made.

14 (4)(a) A member who made the election under subsection (1), (2), or  
15 (3) of this section may apply to the department to increase the  
16 member's benefit multiplier by an additional one and one-half percent  
17 per year of service for the period in which the member served as a  
18 court commissioner prior to the election. The member shall pay, for  
19 the applicable period of service, the actuarially equivalent value of  
20 the increase in the member's benefit resulting from the increase in the  
21 benefit multiplier as determined by the director. This payment must be  
22 made prior to retirement.

23 (b) Subject to rules adopted by the department, a member applying  
24 to increase the member's benefit multiplier under this section may pay  
25 all or part of the cost with a lump sum payment, eligible rollover,  
26 direct rollover, or trustee-to-trustee transfer from an eligible  
27 retirement plan. The department shall adopt rules to ensure that all  
28 lump sum payments, rollovers, and transfers comply with the  
29 requirements of the internal revenue code and regulations adopted by  
30 the internal revenue service. The rules adopted by the department may  
31 condition the acceptance of a rollover or transfer from another plan on  
32 the receipt of information necessary to enable the department to  
33 determine the eligibility of any transferred funds for tax-free  
34 rollover treatment or other treatment under federal income tax law.

35 (5) In lieu of the retirement allowance provided under RCW  
36 41.40.620, the retirement allowance payable for service as a court  
37 commissioner in the supreme court, court of appeals, or superior,  
38 district, or municipal court, for those members who elected to accrue

1 an additional benefit under the provisions of this section shall be  
2 equal to three and one-half percent of average final compensation for  
3 each year of such service after the election. The total retirement  
4 allowance under this system for those members who elected to accrue an  
5 additional benefit as a court commissioner shall not exceed seventy-  
6 five percent of average final compensation.

7 NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW  
8 under the subchapter heading "plan 3" to read as follows:

9 (1) Any member, employed as a court commissioner on September 1,  
10 2009, in the supreme court, court of appeals, or superior, district, or  
11 municipal court, may make a one-time irrevocable election, filed in  
12 writing with the member's employer, the department, and the  
13 administrative office of the courts, to accrue an additional plan 3  
14 defined benefit equal to six-tenths percent of average final  
15 compensation for each year of future service credit as a court  
16 commissioner from the date of the election. The court commissioner  
17 shall have from September 1, 2009, through January 31, 2010, to make  
18 this election. Any court commissioner who has not elected to accrue an  
19 additional benefit under this section may make this election during any  
20 subsequent month of January until the irrevocable election is made.

21 (2) Any member hired after September 1, 2009, as a court  
22 commissioner in the supreme court, court of appeals, or superior,  
23 district, or municipal court, who has not previously elected to accrue  
24 an additional benefit under the provisions of this section, shall have  
25 ninety days from the date of hire to make a one-time irrevocable  
26 election, filed in writing with the member's employer, the department,  
27 and the administrative office of the courts, to accrue an additional  
28 benefit equal to six-tenths percent of average final compensation for  
29 each year of future service credit as a court commissioner from the  
30 date of the election. A court commissioner who does not elect to  
31 accrue an additional benefit under this section may make this election  
32 during any subsequent month of January until the irrevocable election  
33 is made.

34 (3) A court commissioner who made the election under subsection (1)  
35 or (2) of this section shall contribute a minimum of seven and one-half  
36 percent of pay to the member's defined contribution account.

1 (4)(a) A member who made the election under subsection (1) or (2)  
2 of this section may apply to the department to increase the member's  
3 benefit multiplier by an additional six-tenths percent per year of  
4 service for the period in which the member served as a court  
5 commissioner prior to the election. The member shall pay, for the  
6 applicable period of service, the actuarially equivalent value of the  
7 increase in the member's benefit resulting from the increase in the  
8 benefit multiplier as determined by the director. This payment must be  
9 made prior to retirement.

10 (b) Subject to rules adopted by the department, a member applying  
11 to increase the member's benefit multiplier under this section may pay  
12 all or part of the cost with a lump sum payment, eligible rollover,  
13 direct rollover, or trustee-to-trustee transfer from an eligible  
14 retirement plan. The department shall adopt rules to ensure that all  
15 lump sum payments, rollovers, and transfers comply with the  
16 requirements of the internal revenue code and regulations adopted by  
17 the internal revenue service. The rules adopted by the department may  
18 condition the acceptance of a rollover or transfer from another plan on  
19 the receipt of information necessary to enable the department to  
20 determine the eligibility of any transferred funds for tax-free  
21 rollover treatment or other treatment under federal income tax law.

22 (5) In lieu of the retirement allowance provided under RCW  
23 41.40.790, the retirement allowance payable for service as a court  
24 commissioner in the supreme court, court of appeals, or superior,  
25 district, or municipal court, for those members who elected to accrue  
26 an additional benefit under the provisions of this section shall be  
27 equal to one and six-tenths percent of average final compensation for  
28 each year of such service after the election. The total retirement  
29 allowance under this system for those members who elected to accrue an  
30 additional benefit while a court commissioner shall not exceed thirty-  
31 seven and one-half percent of average final compensation.

32 NEW SECTION. **Sec. 4.** A new section is added to chapter 41.45 RCW  
33 to read as follows:

34 (1) The required employer contribution rate in support of public  
35 employees' retirement system plan 1 or plan 2 members employed as a  
36 court commissioner in the supreme court, court of appeals, or superior,  
37 district, or municipal court, who have elected to accrue an additional

1 benefit under the provisions of section 1 or 2 of this act, shall equal  
2 the public employees' retirement system employer contribution rate  
3 established under this chapter.

4 (2) The required employer contribution rate in support of public  
5 employees' retirement system plan 3 members employed as a court  
6 commissioner in the supreme court, court of appeals, or superior,  
7 district, or municipal court, who have elected to accrue an additional  
8 benefit under the provisions of section 3 of this act, shall equal the  
9 public employees' retirement system employer contribution rate  
10 established under this chapter plus two and one-half percent of pay.

11 (3) The required contribution rate for members of the public  
12 employees' retirement system plan 2 employed as a court commissioner in  
13 the supreme court, court of appeals, or superior, district, or  
14 municipal court, who have elected to accrue an additional benefit under  
15 the provisions of section 2 of this act, shall be two hundred fifty  
16 percent of the member contribution rate for the public employees'  
17 retirement system plan 2 established under this chapter.

18 (4) The required contribution rate for members of the public  
19 employees' retirement system plan 1 employed as a court commissioner in  
20 the supreme court, court of appeals, or superior, district, or  
21 municipal court, who have elected to accrue an additional benefit under  
22 the provisions of section 1 of this act, shall be the contribution rate  
23 established under RCW 41.40.330 plus six and twenty-six one-hundredths  
24 percent of pay.

25 **Sec. 5.** RCW 41.45.207 and 2006 c 189 s 19 are each amended to read  
26 as follows:

27 (1) The required employer contribution rate in support of public  
28 employees' retirement system plan 1 or plan 2 members employed as  
29 district court judges and municipal court judges who elect to  
30 participate under RCW 41.40.127(1) (~~or 41.40.873(1)~~), or who are  
31 newly elected or appointed after January 1, 2007, shall equal the  
32 public employees' retirement system employer contribution rate  
33 established under this chapter.

34 (2) The required employer contribution rate in support of public  
35 employees' retirement system plan 3 members employed as district court  
36 judges and municipal court judges who elect to participate under RCW  
37 41.40.873(1), or who are newly elected or appointed after January 1,

1 2007, for service beginning September 1, 2009, shall equal the public  
2 employees' retirement system employer contribution rate established  
3 under this chapter plus two and one-half percent of pay.

4 (3) The required contribution rate for members of the public  
5 employees' retirement system plan 2 employed as district court judges  
6 or municipal court judges who elect to participate under RCW  
7 41.40.127(1) or 41.40.873(1), or who are newly elected or appointed  
8 after January 1, 2007, shall be two hundred fifty percent of the member  
9 contribution rate for the public employees' retirement system plan 2  
10 established under this chapter.

11 ~~((3))~~ (4) The required contribution rate for members of the  
12 public employees' retirement system plan 1 employed as district court  
13 judges or municipal court judges who elect to participate under RCW  
14 41.40.124(1), or who are newly elected or appointed after January 1,  
15 2007, shall be the contribution rate established under RCW 41.40.330  
16 plus six and twenty-six one-hundredths percent of pay.

17 NEW SECTION. **Sec. 6.** This act takes effect September 1, 2009.

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# ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
<b>Office of the State Actuary</b>	<b>035</b>	<b>2/25/08</b>	<b>SB 5523 / HB 1742</b>

## 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 2009 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 would provide additional optional benefits in the Public Employees' Retirement System (PERS) to court commissioners employed by the Supreme, Appellate, Superior, District or Municipal courts, and address employer funding of additional benefits for some Judges in Plan 3 of PERS.

<b>Impact on Pension Liability</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Today's Value of All Future Pensions</b>	\$34,695	\$1.9	\$34,697
<b>Earned Pensions Not Covered by Today's Assets</b>	\$3,609	(\$0.1)	\$3,608

<b>Impact on Contribution Rates: (Effective 9/1/2009)</b>			
<b>2009-2011 State Budget</b>	<b>PERS</b>	<b>SERS</b>	<b>PSERS</b>
<b>Employee (Plan 2)</b>	0.00%	0.00%	0.00%
<b>Employer:</b>			
Current Annual Cost	0.00%	0.00%	0.00%
Plan 1 Past Cost	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
<b>Total</b>	0.00%	0.00%	0.00%

<b>Budget Impacts</b>			
<i>(Dollars in Millions)</i>	<b>2009-2011</b>	<b>2011-2013</b>	<b>25-Year</b>
<b>General Fund-State</b>	\$0.0	\$0.1	\$0.8
<b>Total Employer</b>	\$0.0	\$0.3	\$4.0

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

## **WHAT IS THE PROPOSED CHANGE?**

### **Summary Of Benefit Improvement**

This bill impacts the PERS Plans 1, 2, and 3 by providing additional optional benefits to PERS members employed as a court commissioner by the Supreme, Appellate, Superior, District or Municipal courts.

The bill allows court commissioners the option to establish a prospective 3.5 percent (1.6 percent for PERS 3 members) per year benefit multiplier within PERS 1 and PERS 2 with a maximum retirement allowance of 75 percent of average final compensation (AFC) (37.5 percent for PERS 3 members).

The contribution rate for PERS 2 court commissioners who elect to participate in these provisions would be 250 percent of the Plan 2 member contribution rate. PERS 3 court commissioners would be required to contribute at least 7.5 percent of pay into their member accounts. PERS 1 court commissioners would be required to contribute an additional 6.26 percent of pay beyond the current 6.00 percent statutory rate.

Employers remain responsible for the existing employer contributions, plus an additional 2.5 percent of pay for Plan 3 court commissioners.

PERS 1 and PERS 2 members would also be allowed to purchase the 3.5 percent benefit multiplier for their past service as court commissioners at the actuarial equivalent value (AEV). PERS 3 members could purchase the 1.6 percent benefit multiplier for their past service. Court commissioners can make the payments using lump-sum payments, eligible rollovers, direct rollovers, or trustee-to-trustee transfers from eligible retirement plans.

Newly hired court commissioners without prior membership in PERS would be eligible for the 3.5 percent per year benefit multiplier and a maximum retirement benefit of 75 percent of average AFC, but only if selecting Plan 2 upon hire. Newly hired court commissioners with prior PERS service in any plan would also have the option to participate in these provisions.

Additionally, this bill provides funding for the increased benefit multiplier of Plan 3 District or Municipal court Judges by adding an additional 2.5 percent of pay to the employer contribution rate in support of these Judges.

Effective Date: September 1, 2009.

### **What Is The Current Situation?**

Currently, court commissioners are members of PERS and accrue a 2 percent per year benefit multiplier in Plan 1 and Plan 2, and a 1 percent per year benefit multiplier in Plan 3. In 2006 the legislature passed SHB 2691, which provided similar benefit

provisions to Judges and Justices in PERS as those provided to court commissioners under this bill.

### Who Is Impacted And How?

We estimate this bill could affect 82 current PERS members out of the total 158,022 active members of PERS through improved benefits. Furthermore, we expect 76 members will actually receive improved benefits. This bill also potentially impacts all newly hired court commissioners, some of whom may already be PERS members and some who enter PERS in the future.

We estimate this bill will increase the benefits for a typical member by increasing their benefit multiplier for service earned as a court commissioner. The bill limits the total benefit multiplier these members can earn, up to a 75 percent cap (37.5 percent in PERS 3). To offset the cost of accruing the higher multiplier, these court commissioners (and their employers in the case of Plan 3 members) pay increased contribution rates summarized in the following table.

<b>PERS Contribution Rates for Court Commissioners and their Employers</b>			
	<b>Plan 1</b>	<b>Plan 2*</b>	<b>Plan 3**</b>
<b>Members</b>			
Current	6.00%	4.61%	5.00%
Under this Bill	12.26%	11.53%	7.50%
<b>Employers Under this Bill*</b>			
Normal Cost	4.72%	4.72%	7.22%
UAAL	3.12%	3.12%	3.12%

*\*Based on 2007 Actuarial Valuation Report, adopted by Pension Funding Council for 2009-11 Biennium*

*\*\*Plan 3 Member minimum paid into their DC accounts*

For the remainder of this fiscal note we will refer to the combination of accruing a higher multiplier and paying higher contribution rates as the Higher Benefit Multiplier program or HBM.

This bill also provides current court commissioners who opt into the HBM the option to buy, at the AEV, the higher benefit multiplier for their prior service earned as a court commissioner. Court commissioners electing to buy the higher benefit multiplier for their prior service would not have to work additional years to receive increased benefits.

Finally, this bill doesn't just provide a one-time option for current court commissioners to opt into the HBM. The bill allows court commissioners to opt in each January. The timing of when a court commissioner enters the HBM impacts the cost of the proposal.

Because the cost of this benefit improvement exceeds the contributions specified in the bill, this bill impacts all 120,625 Plan 2 members of PERS through increased contribution rates in the future.

See the Special Data Needed section of this fiscal note for more details.

## **WHY THIS BILL HAS A COST AND WHO PAYS FOR IT**

### **Why This Bill Has A Cost**

This bill has a cost to PERS for two reasons:

- The additional contributions court commissioners and their employers would pay under this bill do not fully offset the additional benefits they earn.
- Employers of Plan 3 district or municipal court judges would pay additional contributions for judges already in the HBM.

This bill increases the rate at which a group of PERS members, the court commissioners, accrue benefits. It also increases the contribution rates court commissioners pay to fund the additional benefits they accrue. The increase in liabilities caused by court commissioners accruing additional benefits depends on the demographics of the affected group. However, the contribution rates the eligible court commissioners pay are based on the demographics of all PERS members. Since court commissioners are more likely to retire with larger benefits than the average PERS member, the contributions under this bill do not fully offset the additional benefits provided.

This bill also makes a minor adjustment to the increased benefit multiplier program for district and municipal judges. Currently employers of Plan 3 district and municipal court judges don't pay additional contributions for those members in the program. Employers of state employed Plan 3 judges currently pay an additional 2.50 percent of pay for their judges. Including the additional 2.50 percent of pay from employers for Plan 3 district and municipal court judges will decrease the cost of PERS 2/3 slightly.

The provision of the bill that allows court commissioners the opportunity to purchase a higher benefit multiplier for past service credit does not increase the unfunded costs of the affected plans since the members pay the full AEV of the benefit increase.

### **Who Will Pay For These Costs?**

The court commissioners who enter the HBM will pay most of the increase in their future benefits. How they pay varies by plan as follows:

- Plan 1 members pay an additional 6.26 percent of pay.
- Plan 2 members pay 2.5 times the regular PERS 2 member contribution rate.
- Plan 3 members don't pay additional contributions for their increased defined benefits, but the minimum contribution rate for their defined contribution accounts increases from 5.00 to 7.50 percent of pay.
- Plan 3 employers pay an additional 2.50 percent of pay.

Employers of Plan 3 district and municipal court judges in the HBM will also pay an additional 2.50 percent of pay.

The liability not covered by the additional contributions will be subsidized across the plans in the usual ways. In the Plans 2/3 the Plan 2 members and all employers will share the additional cost equally as a percent of pay.

Total employer UAAL contributions increase when we assume members work longer to receive the increased benefits provided under this bill. As a result, in Plan 1 the rate necessary to amortize the unfunded actuarial accrued liability (UAAL) will decrease slightly, since the additional UAAL contributions from employers of all court commissioners more than offset the increase in liability caused by the Plan 1 court commissioners opting into the HBM.

## **HOW WE VALUED THESE COSTS**

### **Assumptions We Made**

To price this bill we made assumptions about court commissioners impacting several areas including:

- When they will retire.
- General demographic characteristics.
- Which contribution rates the Plan 2 court commissioners will pay.

We assumed that under this bill the court commissioners would opt-in to the program when it would be most beneficial to them, when the increase in their benefit less the increase in their contributions was highest.

We assumed the court commissioners have similar demographic characteristics to judges. As a result we used many of the same assumptions to price this bill as we used to develop the judges AEV buy-back factors under current law.

Since we know Plan 2 contribution rates don't remain constant and because the contributions paid by the court commissioners offset some of the liability increases from this bill, we assumed future contribution rates would follow the future PERS contribution rates we developed using our projection system.

For more detail please see Appendix A.

### **How We Applied These Assumptions**

We used the standard plan provisions for both normal and subsidized early retirement eligibility to determine an earliest retirement age for each court commissioner. At that retirement age we determined their benefit accrual. We also determined their benefit accrual as though they entered the HBM. We compared the additional benefits we expect each eligible court commissioner to receive to the additional contributions we expect them to pay. We made these comparisons using the values of benefits and contributions in today's dollars.

For some members we found that their net benefits, the additional benefits over the additional contributions, increased when we allowed them to work beyond their earliest retirement age. We found that on average the members work an additional 2.5 months beyond their earliest retirement age to maximize their net benefit under the HBM.

For Plan 3 district and municipal court judges in the HBM, we determined their earliest retirement age. We determined the value in today's dollars of the salaries we expect them to earn by those retirement ages. The increase in contributions we expect under this bill is simply 2.50 percent of the sum of those salaries.

For more detail please see Appendix B.

### **Special Data Needed**

The Administrative Office of the Courts (AOC) provided us with data on 114 court commissioners. We matched this data with both our current 2007 valuation data and the Department of Retirement Systems (DRS) database. We found 77 members in our current valuation data file and 5 members who first entered PERS after June 30, 2007.

The following table shows the remaining 32 court commissioners we excluded by cause of exclusion.

<b>Number of Members Excluded from Pricing by Cause</b>	
<b>Cause of Exclusion</b>	<b>Number Excluded</b>
Did not work enough hours to be eligible in PERS	18
Inactive in PERS	11
Already in Judges HBM*	3

*\*Some PERS members work both as court commissioners and judges.*

DRS also provided us with data on five district and municipal court judges in Plan 3 who opted into the higher benefit multiplier program available to judges.

We did not audit the data provided by AOC or DRS. We have relied on the information provided as complete and accurate.

Otherwise, we developed these costs using the same assets and data as disclosed in the June 30, 2007, Actuarial Valuation Report (AVR).

## ACTUARIAL RESULTS

### How The Liabilities Changed

This bill will impact the actuarial funding of PERS by increasing the unfunded present value of future benefits payable under the system as shown below.

<b>Impact on Pension Liability</b>			
<i>(Dollars in Millions)</i>	<b>Current</b>	<b>Increase</b>	<b>Total</b>
<b>Actuarial Present Value of Projected Benefits</b>			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 1	\$14,061	(\$0.1)	\$14,061
PERS 2/3	<u>20,634</u>	<u>2.0</u>	<u>20,636</u>
<b>PERS Total</b>	<b>\$34,695</b>	<b>\$1.9</b>	<b>\$34,697</b>
<b>Unfunded Actuarial Accrued Liability</b>			
<i>(The Portion of the Plan 1 Liability that is Amortized to 2024)</i>			
<b>PERS 1</b>	<b>\$3,609</b>	<b>(\$0.1)</b>	<b>\$3,608</b>
<b>Unfunded PUC Liability</b>			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)</i>			
PERS 1	\$3,990	\$0.0	\$3,990
PERS 2/3	<u>(2,470)</u>	<u>0.0</u>	<u>(2,470)</u>
<b>PERS Total</b>	<b>\$1,520</b>	<b>\$0.0</b>	<b>\$1,520</b>

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

Of the \$2.0 million increase shown for PERS 2/3 members, (\$0.1) million is attributable to additional employer contributions paid over Plan 3 district and municipal court judges' salaries.

## How Contribution Rates Changed

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

<b>Impact on Contribution Rates: (Effective 9/1/2009)</b>			
<b>System/Plan</b>	<b>PERS</b>	<b>SERS</b>	<b>PSERS</b>
<b>Current Members</b>			
<b>Employee (Plan 2)</b>	0.0016%	0.0000%	0.0000%
<b>Employer:</b>			
Normal Cost	0.0016%	0.0000%	0.0000%
Plan 1 UAAL	<u>(0.0001%)</u>	<u>(0.0001%)</u>	<u>(0.0001%)</u>
<b>Total</b>	0.0016%	(0.0001%)	(0.0001%)
<b>New Entrants*</b>			
<b>Employee (Plan 2)</b>	0.0008%	0.0000%	0.0000%
<b>Employer:</b>			
Normal Cost	0.0008%	0.0000%	0.0000%
Plan 1 UAAL	<u>(0.0001%)</u>	<u>(0.0001%)</u>	<u>(0.0001%)</u>
<b>Total</b>	0.0007%	(0.0001%)	(0.0001%)

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

## How This Impacts Budgets And Employees

<b>Budget Impacts</b>				
<i>(Dollars in Millions)</i>	<b>PERS</b>	<b>SERS</b>	<b>PSERS</b>	<b>Total</b>
<b>2009-2011</b>				
General Fund	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<b>Total State</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
Local Government	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<b>Total Employer</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Total Employee</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>2011-2013</b>				
General Fund	\$0.1	(\$0.0)	(\$0.0)	\$0.1
Non-General Fund	<u>0.1</u>	<u>0.0</u>	<u>(0.0)</u>	<u>0.1</u>
<b>Total State</b>	<b>\$0.1</b>	<b>(\$0.0)</b>	<b>(\$0.0)</b>	<b>\$0.1</b>
Local Government	<u>0.1</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>0.1</u>
<b>Total Employer</b>	<b>\$0.3</b>	<b>(\$0.0)</b>	<b>(\$0.0)</b>	<b>\$0.3</b>
<b>Total Employee</b>	<b>\$0.2</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.2</b>
<b>2009-2034</b>				
General Fund	\$0.8	(\$0.0)	(\$0.0)	\$0.8
Non-General Fund	<u>1.2</u>	<u>0.0</u>	<u>(0.0)</u>	<u>1.2</u>
<b>Total State</b>	<b>\$2.0</b>	<b>(\$0.0)</b>	<b>(\$0.0)</b>	<b>\$2.0</b>
Local Government	<u>2.1</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>2.1</u>
<b>Total Employer</b>	<b>\$4.1</b>	<b>(\$0.0)</b>	<b>(\$0.0)</b>	<b>\$4.0</b>
<b>Total Employee</b>	<b>\$3.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$3.0</b>

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

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

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

## HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

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

- **Future contribution rates** – we assumed contributions would follow those projected forward using the current funding method and data, labeled Projected Agg rates in the tables below. This represents our best estimate. We also looked at the results when we assumed contribution rates followed three other scenarios – those:
  - Projected using the Entry Age Normal funding method, labeled Projected EANC Rates.

- Calculated using the EAN funding method from the 2007 AVR, labeled 07 EANC Rate.
- Calculated using current funding policy from the 2007 AVR, labeled 07 Agg rate.
- **Retirement behavior** – we assumed everyone retired when their benefits increased the most relative to the contributions they paid, labeled Max member benefit in the tables below. This represents our best estimate. We changed this assumption to assume everyone retired when first eligible, labeled Earliest Possible Ret.

The first table shows the sensitivity of the liability increases to the assumed contribution rates when we assume members retire when their benefits are largest compared to their contributions.

<b>Liability Increases When We Assume Different Future Contribution Rates</b>				
<b>Contribution Rates:</b>	<b>Projected Agg Rates</b>	<b>Projected EANC Rates</b>	<b>07 EANC Rate</b>	<b>07 Agg rate</b>
<b>PERS 1</b>	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
<b>PERS 2/3</b>	\$2.1	\$2.4	\$2.5	\$2.7

*Note: Dollars are in millions*

The second table shows the sensitivity of the liability increases to the assumed contribution rates when we assume members retire at earliest eligibility for an unreduced or subsidized benefit.

<b>Liability Increases When We Assume Different Future Contribution Rates and Retirement Behavior</b>				
<b>Contribution Rates:</b>	<b>Projected Agg Rates</b>	<b>Projected EANC Rates</b>	<b>07 EANC Rate</b>	<b>07 Agg rate</b>
<b>PERS 1</b>	\$0.0	\$0.0	\$0.0	\$0.0
<b>PERS 2/3</b>	\$2.1	\$2.4	\$2.5	\$2.7

*Note: Dollars are in millions*

The results do not change much when we assume members work longer to maximize their benefits. When members work longer, total employer UAAL contributions paid increase. As a result the Plan 1 UAAL actually decreases under these assumptions.

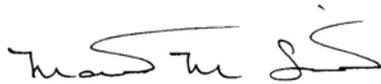
When we test the sensitivity of the liability increase to changes in our contribution rate assumption, we see that under the other assumptions we analyzed the additional contributions offset less of the cost of this bill. The contribution rates in all of the other scenarios we tested are lower than our best estimate. Collecting lower contributions from court commissioners in the future results in a higher increase in liability from this bill. Including investment losses experienced since our last AVR causes the higher contribution rates in our best estimate.

## 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 2009 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 1 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

## APPENDIX A – ASSUMPTIONS WE MADE

To set a “base” liability, the liability of current law benefits for this pricing, we assumed that the court commissioners would retire when they first become eligible for an unreduced or subsidized early retirement. In most cases retiring at first eligibility is, actuarially, the most valuable retirement age for a given individual. Pricing this base case showed similar results. We found only a few cases where working beyond an eligible member’s first unreduced retirement age actually increased the value to the member.

This bill provides court commissioners the opportunity to participate in a similar HBM as PERS already allows for judges. This bill also provides similar provisions for court commissioners to purchase the higher multiplier for their prior court commissioner service. When we developed the factors for determining the AEV of the judges’ prior judicial service, we performed an experience study on judges to determine what their demographic characteristics and behaviors look like. Many of these demographics lead to the judges costing more than the average PERS member. For example, we found that judges tend to live longer than the average PERS member. The judges also tend to be older and have higher salaries than the average PERS member. Since this bill provides court commissioners access to the same HBM as judges, and because court commissioners tend to have similar demographic characteristics as judges, we used the assumptions from developing the judges AEV factors to determine the additional liabilities and contributions for court commissioners under this bill.

We used the following assumptions from the production of the AEV buy-back factors for the judges HBM:

- 3.00 percent annual salary growth.
- PERS mortality rates with a two-year age set back. For example, this means we assume a 50 year old court commissioner will have the same mortality rates as a 48 year old non-court commissioner PERS member.
- We assumed 70 percent of the court commissioners are male.
- We assumed longer certain periods (the length of time after retirement that annuity benefits are guaranteed to be paid) for court commissioners than for PERS – 9 years for PERS 1 members and 11 years for PERS 2/3 members.

To determine the value of the additional contributions paid by Plan 2 court commissioners under this bill, we assumed future contribution rates would follow those we projected using our projection system based on the assumptions, methods, data, and funding policies used to produce the 2007 AVR. These rates include the impact of investment returns through December 31, 2008, as provided by the Washington State Investment Board. The following table compares the projected rates. The Agg rates represent the rates calculated using current funding policy. The UAAL rates represent the rates paid by employers to amortize the Plan 1 UAAL. The EANC rates represent the rates calculated using the Entry Age Normal cost method. The EANC rates were used in sensitivity analysis only. The years shown represent the end of fiscal years.

<b>PERS Projected Contribution Rates</b>			
	<b>Agg</b>	<b>EANC</b>	<b>Plan 1 UAAL</b>
2010	4.61%	5.05%	3.12%
2011	4.61%	5.06%	3.12%
2012	4.63%	5.08%	3.15%
2013	4.63%	5.08%	3.15%
2014	5.44%	5.09%	3.56%
2015	5.44%	5.10%	3.56%
2016	6.32%	5.11%	4.16%
2017	6.32%	5.14%	4.16%
2018	7.27%	5.15%	5.31%
2019	7.27%	5.16%	5.31%
2020	7.52%	5.18%	5.96%
2021	7.52%	5.19%	5.96%
2022	7.26%	5.21%	6.15%
2023	7.26%	5.24%	6.15%
2024	6.93%	5.24%	6.47%
2025	6.93%	5.24%	0.00%
2026	6.64%	5.24%	0.00%
2027	6.64%	5.25%	0.00%
2028	6.40%	5.26%	0.00%
2029	6.40%	5.26%	0.00%
2030	6.20%	5.26%	0.00%
2031	6.20%	5.28%	0.00%
2032	6.04%	5.28%	0.00%
2033	6.04%	5.28%	0.00%
2034	5.92%	5.28%	0.00%
2035	5.92%	5.28%	0.00%
2036	5.82%	5.28%	0.00%
2037	5.82%	5.26%	0.00%

In general the size of the population we apply an assumption to determines how precise we can be when setting that assumption. The bigger the population the more precise we can be when setting assumptions. For example when performing actuarial valuations on all PERS members we assume members terminate from service, disable, die, and retire at different rates depending on their age and service. When we do calculations on specific members in a small group our calculations become more accurate when we assume members in the small group don't leave service, disable, or die prior to retirement. Since the group of eligible court commissioners is small, we assumed no pre-retirement death, disability, or termination rates.

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

## **APPENDIX B – HOW WE APPLIED THESE ASSUMPTIONS**

We used an individual annuity factor model in a spreadsheet to determine the increase in benefits and contributions for this group of members. For each member we determined the age at which they first become eligible for an unreduced or subsidized early retirement. At that age we determined their retirement benefits under current law (the “base” liability) and compared those benefits to their benefits under this bill. For members benefiting from opting into the HBM, we determined whether they would enter in the first window created by this bill, or in a subsequent January. Using the year a member would opt into this program, their current salary, the year we expected them to retire, and the contribution rates we expect in the given years, we determined the additional contributions we expect them to pay.

The main cost from this bill equals the difference between the increase in liability and the additional contributions for each member. Having this initial cost, we checked to see if working longer, past earliest retirement eligibility, would benefit members more than retiring at earliest retirement eligibility. We found that some members would benefit more from working longer and some would benefit less. For those assumed to work longer, we also modeled additional member and employer contributions (including contributions to the PERS 1 UAAL).

To determine fiscal budget changes for future new entrants to PERS, we approximated the Entry Age Normal Cost Method contribution rate as one-half of the results using the Aggregate Funding Method. We used the Aggregate Funding Method to determine the fiscal budget changes for current plan members.

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

## 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.