The Select Committee on Pension Policy

2009 Interim Issues Full Report

(Revised March 5, 2010)

Office of the State Actuary

"Securing tomorrow's pensions today."

Acknowledgments

This report was prepared by staff of the Office of the State Actuary. The Office of the State Actuary provides staff support to the Select Committee on Pension Policy.

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About This Report

Description of Report

The 2009 Interim Issues Report is a guide to issues considered by the Select Committee on Pension Policy (SCPP) during 2009. This report is broken into two sections: overall summaries of legislative proposals and fiscal impact, as well as individual summaries of issues that received substantial policy consideration by the full SCPP.

The Actuary's Fiscal Notes included in this report have not been modified since their release to the public during the 2009 legislative interim. The analysis contained in each note is valid as of the issue date listed at the beginning of each Actuary's Fiscal Note, and may not reflect updates or current conditions.

Some of the other materials in this report have been updated to reflect the most recent committee activity and do not necessarily match the materials provided at the SCPP meetings. A complete record of materials provided at the SCPP meetings is available on the SCPP website at http://www.leg.wa.gov/SCPP on the meetings page.

This report and the Executive Summary version (dated January 25, 2010), were revised to reflect the January 18, 2010, special meeting of the SCPP.

Staff Contacts

Policy analyst staff for the SCPP are available to answer questions concerning information in this report and the activities of the committee.

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To obtain a copy of this report in an alternative format call 360.786.6140 or for TDD 800.635.9993.

About The SCPP

The Select Committee on Pension Policy (SCPP) studies issues and policies affecting the state's public employee retirement systems and makes recommendations to the Legislature regarding changes. Its statutory authority is contained in RCW 41.04.281.

The SCPP typically meets during the legislative interim (the time when the Legislature is not in session). Its specific areas of interest include benefits design, retirement eligibility requirements, and pension funding methods. The SCPP also:

- Receives the results of actuarial audits administered by the Pension Funding Council (PFC).
- Reviews and makes recommendations to the PFC regarding changes to actuarial assumptions or contributions rates.

Visit the SCPP website at www.leg.wa.gov/SCPP to learn more about the SCPP.

Members of the 2009 SCPP

Representative Steve Conway, Chair*

Senator Mark Schoesler, Vice Chair*

Representative Barbara Bailey

Don Carlson, *TRS Retirees**

Representative Larry Crouse

Chuck Cuzzetto, *TRS & SERS Employers*

Randy Davis, *TRS Actives*

Steve Hill, *Director, Department of Retirement Systems**

Senator Steve Hobbs

Senator Janéa Holmquist

Robert Keller, *PERS Actives**

Corky Mattingly, *PERS Employers**

Senator Joe McDermott

Doug Miller, *PERS Employers*

Victor Moore, *Director, Office of Financial Management*

Glenn Olson, *PERS Employers*

Representative Larry Seaquist

J. Pat Thompson, *PERS Actives*

Robert Thurston, *WSPRS Retirees*

David Westberg, *SERS Actives*

No Longer Serving

Senator Ed Murray

Lois Clement, *PERS Retirees*

**Executive Committee Member*

Legislative Summaries

Office of the State Actuary

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2010 Legislative Proposals

SCPP Request Legislation for 2010

Disability Benefits: Authorize the Washington State Institute of Public Policy to continue to develop options for long-term disability benefits as identified it its 2009 study, and require the Health Care Authority to institute an improved communications program around the Public Employee Benefits Board's optional long-term disability insurance plan. Recommended December 15, 2009.

SCPP Request Legislation from 2009, Endorsed for 2010

HB 1541/SB 5302 - Past Part-time Service Credit: Grant half-time service credit to certain Plans 2/3 members who worked at least half-time for an educational employer prior to 1987. Endorsed October 20, 2009.

HB 1545/SB 5308 - HECB Proposal: Allow the Higher Education Coordinating Board to offer Higher Education Retirement Plans to employees not already retired from a state-administered retirement system. Recommended November 17, 2009; clarified to be an endorsement of the 2009 bill on December 15, 2009.

Non-SCPP Legislation from 2009, Endorsed by the SCPP for 2010

SB 6078 - LEOFF 1 Survivor Benefits: Allow the survivor of a duty-related death of a LEOFF 1 member the choice of the current benefit (up to 60 percent of average salary at the time of death), or full retirement benefits as if the member had retired on the date of death; and allow the survivor of a non-duty death to automatically receive the greater of those two options. Endorsed December 15, 2009.

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Fiscal Impact Summary

2010 SCPP Pension Proposals

2010-2011 Biennium			
(Dollars in Millions)	2010-11	2010-11	2010-11
Proposals Recommended to the 2010 Legislature	GF-S	Local Government	Total Employer
Past Part-Time Service Credit	$0.0	$0.0	$0.0
HECB Proposal	0.0	0.0	0.0
LEOFF 1 Survivor Benefits	0.0	0.0	0.0
Total - SCPP Legislative Proposals for 2010*	**$0.0**	**$0.0**	**$0.0**

2011-2013 Biennium			
(Dollars in Millions)	2011-13	2011-13	2011-13
Proposals Recommended to the 2010 Legislature	GF-S	Local Government	Total Employer
Past Part-Time Service Credit	$0.0	$0.0	$0.0
HECB Proposal	0.0	0.0	0.0
LEOFF 1 Survivor Benefits	0.0	0.0	0.0
Total - SCPP Legislative Proposals for 2010*	**$0.0**	**$0.0**	**$0.1**

2010-2035 (25 Year)			
(Dollars in Millions)	2010-35	2010-35	2010-35
Proposals Recommended to the 2010 Legislature	GF-S	Local Government	Total Employer
Past Part-Time Service Credit	$0.1	$0.2	$0.3
HECB Proposal	(0.0)	(0.2)	(0.3)
LEOFF 1 Survivor Benefits	3.0	0.0	3.0
Total - SCPP Legislative Proposals for 2010*	**$3.1**	**$0.0**	**$3.0**

Note: Totals may not agree due to rounding.

**All other proposals have no fiscal impact.*

Issues Considered with Recommendation to Legislature

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HECB Proposal

Description of Issue

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

Granting the HECB authority to offer HERPs to its employees requires changing higher education statutes, not pension statutes. This raises questions around whether the Higher Education Committees of the House and Senate would be more suited to decide this issue, or whether the issue should be coordinated with those committees.

Background

The SCPP studied the HECB proposal in the 2007 and 2008 Interim. The Committee first recommended a proposal to allow the HECB to offer HERPs to the 2008 Legislature. That proposal did not pass. During the 2008 Interim, the Committee recommended to reintroduce the same proposal for the 2009 Legislative Session.

Updated bills to implement the SCPP proposal were introduced in the 2009 Legislative Session but did not pass the Legislature (HB 1545/SB 5308). The House bill was heard in the House Ways and Means Committee, but was not passed out of the committee. The Senate bill was not heard in the Senate Ways and Means Committee.

Policy Considerations

- The HECB views this as a recruitment and retention issue.
- HERPs may provide larger benefits than state-administered plans and do not have the same restrictions on post-retirement employment.
- Providing more generous pension benefits to select employees within an agency may impact morale.
- The Washington State Board for Community and Technical Colleges is allowed to offer HERPs to its employees.

Committee Activity

The committee held a public hearing on this issue in November 2009, and voted to endorse HB 1545/SB 5308 from the 2009 Legislative Session. In December, the committee clarified that the previous action was an endorsement of the 2009 bills.

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Select Committee on Pension Policy

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January 8, 2010

The Honorable Kelli Linville, Chair
House of Representatives Committee on Ways and Means
John L. O'Brien Building
PO Box 40600
Olympia, WA 98504-0600

Dear Chair Linville:

On behalf of the Select Committee on Pension Policy, we, the chair and vice chair, wish to inform you that on November 17, 2009, the committee voted to endorse House Bill 1545/Senate Bill 5308 for the 2010 Legislative Session.

House Bill 1545 and Senate Bill 5308 allow the Higher Education Coordinating Board to offer Higher Education Retirement Plans to employees not already retired from a state-administered retirement system.

We appreciate your consideration in this matter.

Sincerely,

Representative Steve Conway, Chair
Select Committee on Pension Policy

Senator Mark Schoesler, Vice Chair
Select Committee on Pension Policy

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January 8, 2010

The Honorable Margarita Prentice, Chair
Senate Committee on Ways and Means
J.A. Cherberg Building
PO Box 40466
Olympia, WA 98504-0466

Dear Chair Prentice:

On behalf of the Select Committee on Pension Policy, we, the chair and vice chair, wish to inform you that on November 17, 2009, the committee voted to endorse House Bill 1545/Senate Bill 5308 for the 2010 Legislative Session.

House Bill 1545 and Senate Bill 5308 allow the Higher Education Coordinating Board to offer Higher Education Retirement Plans to employees not already retired from a state-administered retirement system.

We appreciate your consideration in this matter.

Sincerely,

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HOUSE BILL 1545

State of Washington 61st Legislature 2009 Regular Session

By Representatives Conway, Seaquist, Bailey, Crouse, Hasegawa, Kenney, Simpson, Morrell, and Ormsby; by request of Select Committee on Pension Policy

Read first time 01/23/09. Referred to Committee on Ways & Means.

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

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

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

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

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

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

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

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

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

--- END ---

LEOFF 1 Survivor Benefits

Issue

Should benefits be improved for survivors of the Law Enforcement Officers' and Fire Fighters' (LEOFF) 1 members who die prior to retirement?

Members who die prior to retirement receive benefits that are not based on service credit, and some survivors receive less than the member had accrued at the time of death. Under the proposal, a survivor of a duty-related death would have the choice of the current benefit (up to 60 percent of average salary at the time of death), or full retirement benefits, as if the member had retired on the date of death. A survivor of a non-duty related death would automatically receive the greater of those same options.

Background

In the 2009 Legislative Session, a non-SCPP bill (SB 6078) was offered to advance this proposal. The bill was referred to Senate Ways and Means but did not receive a hearing. Senator Prentice asked the SCPP to evaluate the proposal during the 2009 Interim.

Policy Considerations

- Current provisions reflect a trade-off in plan design.
- LEOFF 1 is closed to new members, and most members are retired. This change would benefit only the few remaining active members.
- LEOFF 1 is currently projected to be out of surplus in the next decade.
  - Any increased cost could bring the plan out of surplus sooner.
  - Contributions may have to recommence.
- Creating new options for only one system would create an inconsistency.
- Creating new options that only apply prospectively to future survivors may create an inconsistency.
- Creating a benefit that was not funded over the working lives of the members may violate intergenerational equity.
- Current provisions may create a disincentive for experienced personnel to stay active past the earliest retirement date.

Committee Activity

The SCPP held a work session on this issue in November. At that meeting, the Executive Committee directed staff to update the bill and fiscal analysis for public hearing and possible executive action. The committee then held a public hearing in December, and voted to endorse SB 6078 from the 2009 Legislative Session.

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Select Committee on Pension Policy

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January 8, 2010

The Honorable Kelli Linville, Chair
House of Representatives Committee on Ways and Means
John L. O'Brien Building
PO Box 40600
Olympia, WA 98504-0600

Dear Chair Linville:

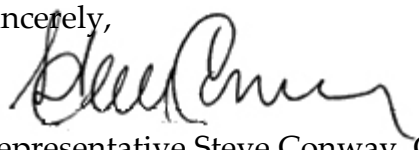
On behalf of the Select Committee on Pension Policy, we, the chair and vice chair, wish to inform you that on December 15, 2009, the committee voted to endorse Senate Bill 6078 for the 2010 Legislative Session.

Senate Bill 6078 allows the survivor of a duty-related death of a LEOFF 1 member the choice of the current benefit (up to 60 percent of average salary at the time of death), or full retirement benefits as if the member had retired on the date of death. The bill also allows the survivor of a non-duty death to automatically receive the greater of those two options.

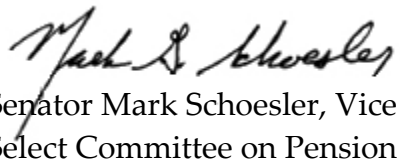
Minor amendments will be required to update the bill for this session, and draft language for a possible substitute bill is attached for your convenience.

We appreciate your consideration in this matter.

Sincerely,



Representative Steve Conway, Chair
Select Committee on Pension Policy



Senator Mark Schoesler, Vice Chair
Select Committee on Pension Policy

Enclosure (1)

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Representative Barbara Bailey

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Minor amendments will be required to update the bill for this session, and draft language for a possible substitute bill is attached for your convenience.

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SB 6078 Draft Language for Possible Substitute Bill
Updated section references for consistency with 2009 amendments to RCW 41.26.030.

AN ACT Relating to death benefits under the law enforcement officers' and firefighters' retirement system, plan 1; and amending RCW 41.26.160 and 41.26.161.

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

Sec. 1. RCW 41.26.160 and 2009 c 226 s 1 are each amended to read as follows:

(1) In the event of the duty connected death of any member who is in active service, or who has vested under the provisions of RCW 41.26.090 with twenty or more service credit years of service, or who is on duty connected disability leave or retired for duty connected disability, or upon the death of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, the surviving spouse shall become entitled, subject to RCW 41.26.162, to receive a monthly allowance equal to: If active, the choice of fifty percent of the final average salary at the date of death ((~~if active,~~)) or the amount of the retirement allowance the vested member would have received if he or she had retired on the date of death; or the amount

of retirement allowance the vested member would have received at age fifty((~~,~~)); or the amount of the retirement allowance such retired member was receiving at the time of death if retired for duty connected disability. The amount of this allowance will be increased five percent of final average salary for each child as defined in RCW 41.26.030((~~(7)~~)) (6), subject to a maximum combined allowance of sixty percent of final average salary: PROVIDED, That if the child or children is or are in the care of a legal guardian, payment of the increase attributable to each child will be made to the child's legal guardian or, in the absence of a legal guardian and if the member has created a trust for the benefit of the child or children, payment of the increase attributable to each child will be made to the trust.

(2) If at the time of the duty connected death of a vested member with twenty or more service credit years of service as provided in subsection (1) of this section or a member retired for duty connected disability, or at the time of the death of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, the surviving spouse has not been lawfully married to such member for one year prior to retirement or separation from service if a vested member, the surviving spouse shall not be eligible to receive the benefits under this section: PROVIDED, That if a member dies as a result of a disability incurred in the line of duty or while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, then if he or she was married at the time he or she was disabled or left the employ of an employer due to service in the national guard or military reserves during a period of war as defined in RCW 41.04.005, the surviving spouse shall be eligible to receive the benefits under this section.

(3) If there be no surviving spouse eligible to receive benefits at the time of such member's duty connected death, then the child or children of such member shall receive a monthly allowance equal to thirty percent of final average salary for one child and an additional ten percent for each additional child subject to a maximum combined payment, under this subsection, of sixty percent of final average salary. When there cease to be any eligible children as defined in RCW 41.26.030((~~(7)~~)) (6), there shall be paid to the legal heirs of the

member the excess, if any, of accumulated contributions of the member at the time of death over all payments made to survivors on his or her behalf under this chapter: PROVIDED, That payments under this subsection to children shall be prorated equally among the children, if more than one. If the member has created a trust for the benefit of the child or children, the payment shall be made to the trust.

(4) In the event that there is no surviving spouse eligible to receive benefits under this section, and that there be no child or children eligible to receive benefits under this section, then the accumulated contributions shall be paid to the estate of the member.

(5) If a surviving spouse receiving benefits under this section remarries after June 13, 2002, the surviving spouse shall continue to receive the benefits under this section.

(6) If a surviving spouse receiving benefits under the provisions of this section thereafter dies and there are children as defined in RCW 41.26.030((~~(7)~~)) (6), payment to the spouse shall cease and the child or children shall receive the benefits as provided in subsection (3) of this section.

(7) The payment provided by this section shall become due the day following the date of death and payments shall be retroactive to that date.

Sec. 2. RCW 41.26.161 and 2005 c 62 s 2 are each amended to read as follows:

(1) In the event of the nonduty connected death of any member who is in active service, or who has vested under the provisions of RCW 41.26.090 with twenty or more service credit years of service, or who is on disability leave or retired, whether for nonduty connected disability or service, the surviving spouse shall become entitled, subject to RCW 41.26.162, to receive a monthly allowance equal to: If active, the greater of fifty percent of the final average salary at the date of death ((~~if active,~~)) or the amount of the retirement allowance the vested member would have received if he or she had retired on the date of death; or the amount of retirement allowance the vested member would have received at age fifty((~~,~~)); or the amount of the retirement allowance such retired member was receiving at the time of death if retired for service or nonduty connected disability. The amount of this allowance will be increased five percent of final average salary

for each child as defined in RCW 41.26.030((~~(7)~~)) (6), subject to a maximum combined allowance of sixty percent of final average salary: PROVIDED, That if the child or children is or are in the care of a legal guardian, payment of the increase attributable to each child will be made to the child's legal guardian or, in the absence of a legal guardian and if the member has created a trust for the benefit of the child or children, payment of the increase attributable to each child will be made to the trust.

(2) If at the time of the death of a vested member with twenty or more service credit years of service as provided in subsection (1) of this section or a member retired for service or disability, the surviving spouse has not been lawfully married to such member for one year prior to retirement or separation from service if a vested member, the surviving spouse shall not be eligible to receive the benefits under this section.

(3) If there be no surviving spouse eligible to receive benefits at the time of such member's death, then the child or children of such member shall receive a monthly allowance equal to thirty percent of final average salary for one child and an additional ten percent for each additional child subject to a maximum combined payment, under this subsection, of sixty percent of final average salary. When there cease to be any eligible children as defined in RCW 41.26.030((~~(7)~~)) (6), there shall be paid to the legal heirs of the member the excess, if any, of accumulated contributions of the member at the time of death over all payments made to survivors on his or her behalf under this chapter: PROVIDED, That payments under this subsection to children shall be prorated equally among the children, if more than one. If the member has created a trust for the benefit of the child or children, the payment shall be made to the trust.

(4) In the event that there is no surviving spouse eligible to receive benefits under this section, and that there be no child or children eligible to receive benefits under this section, then the accumulated contributions shall be paid to the estate of said member.

(5) If a surviving spouse receiving benefits under this section remarries after June 13, 2002, the surviving spouse shall continue to receive the benefits under this section.

(6) If a surviving spouse receiving benefits under the provisions of this section thereafter dies and there are children as defined in

RCW 41.26.030((~~(7)~~)) (6), payment to the spouse shall cease and the child or children shall receive the benefits as provided in subsection (3) of this section.

(7) The payment provided by this section shall become due the day following the date of death and payments shall be retroactive to that date.

--- END ---

LEOFF 1 Survivor Benefits

This report was presented to the SCPP on October 20, 2009, and has not been updated to reflect subsequent action.

In Brief

Issue

LEOFF 1 provides guaranteed benefits for members who die prior to retirement. Guaranteed benefits provide members with benefits that are not based on service credit. In some cases, survivors receiving guaranteed benefits receive less than the member had accrued at the time of death. Stakeholders are asking that survivors be given the ability to receive the better of guaranteed benefits, or the amount the member would have received if the member had retired on the date of death.

Member Impact

Stakeholders have advocated changes to benefits for surviving active members of LEOFF 1. LEOFF 1 is a closed plan, with approximately 421 active members.

Current Situation

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) provides guaranteed benefits for members who die prior to retirement. Guaranteed benefits provide members with benefits that are not based on service credit. In some cases, survivors receiving guaranteed benefits receive less than the member had accrued at the time of death.

Survivors receive 50 percent of the member's average salary at the time of death. In contrast, a retiring member would have to accrue at least 25 years of service credit to receive the same level of benefits.

Thus, as a general rule the survivor of a member who dies early in his or her career may receive more benefits than the member has actually accrued. Conversely, the survivor of a member who dies later in his or her career, but still before retirement, may receive fewer benefits than the member has actually accrued.

Stakeholders are asking that survivors of LEOFF 1 members who die later in their careers, but before retirement, receive full retirement benefits, as if the member had retired on the date of death.

Background

Under current law, when a member retires, the member receives the full benefits based on service credit. If a member dies prior to retirement, the survivor receives different benefits based on the member's status at the time of death.

- **Active Status**

  If the member is on active status at the time of death, then the qualified survivor receives benefits equaling 50 percent of the member's average salary at the time of death.

- **Inactive, but Vested with 20 or More Years of Service**

  The qualified survivor receives the amount of benefits the member would have received at age 50.

- **Disability Retirement Status**

If the member is retired for duty-connected disability at the time of death, the qualified survivor receives the amount of benefits the member was receiving at the time of death.

If the member's death was duty-related, any benefits received are not taxable.[1] An additional 5 percent of average salary is available for each qualifying child, up to a maximum of 60 percent of salary average.

In 1977, LEOFF 1 was closed to new members. The plan is currently in surplus, but is projected to be out of surplus in the next decade. Under the current funding policy no contributions are being made to the system. Preliminary numbers show there are 421 remaining active members in LEOFF 1. Most LEOFF 1 members are already retired, and with an average age of 57.8 years, most of the remaining active members are eligible for retirement.

[1]See 26 USC §101(h). Only the portion of benefits earned as a public safety officer exempt from taxation.

Legislative History

In the 2009 Legislative Session, a non-SCPP bill was submitted for consideration by the Legislature that would have changed the provisions regarding death before retirement. For duty-related death of a member on active status, the bill (SB 6078) would have allowed the survivor to choose between the following:

- Fifty percent of the member's average salary at the time of death.
- Full retirement benefits, as if the member had retired on the date of death.

If the member's death is not duty-related, the bill would have given the survivor the greater of those same options.

The bill was referred to the Senate Committee on Ways and Means, but did not receive a hearing.

Other states

Survivor benefits are complex, and vary greatly between states.

Survivor benefits for members who die prior to retirement are complex, and vary greatly between peer states. For the purpose of comparison, some general principles can be extracted. Please note, these are broad generalizations of survivor benefits in these states and will not apply to all members in all situations.

Colorado and Minnesota provide survivors with guaranteed benefits that are not connected to service credit. Benefits in these states are set at 40 percent and 50 percent, respectively, of average salary.[2] This

is very similar to Washington and carries the same potential for receiving more or less benefits than the member has accrued at the time of death.

California provides a hybrid between guaranteed benefits and earned benefits, in that survivors receive 2.5 percent of salary average for every year or service credit, but with a guaranteed minimum of 40 percent and a maximum of 75 percent of salary average.

Instead of a guaranteed benefit, Ohio, Oregon, and Wisconsin provide for the return of contributions. Depending on the member's expected benefits at retirement, investment earnings from those contributions, and optional modifiers,[3] survivors might receive less than they would have earned at retirement.

Generally, all peer states have multiple options for determining the amount of benefits, but members are not allowed to choose. Instead, options are determined by the member's circumstances at the time of death. In some cases, survivors will automatically receive whichever option is largest. For example, in Iowa, survivors receive the greater of the actuarial present value of benefits, or a combination of contributions and earned benefits calculated via a formula.[4]

Though they do not allow members to choose how the benefits are calculated, several peer states do allow members or survivors to choose how the benefits are distributed. For example, if a vested police officer in Idaho dies before retirement, the survivor receives a default option of a lump sum payment of double the base plan contributions, plus interest. However, survivors may choose to waive this lump sum benefit in favor of a lifetime annuity.

[2]Plus additional modifiers for qualifying dependants.

[3]Such as a doubling of contributions for duty-related death.

[4]The formula is as follows: $Benefits = C + (\frac{HS}{D})$*, where C is the amount of contributions, H is the highest yearly salary, S is total service credit, and D is a denominator determined by job classification.*

Policy Analysis

There are five areas the SCPP may wish to consider regarding a possible change in LEOFF 1 survivor benefits:

- Plan design.
- Benefit improvements in a closed plan.
- Implications for surplus.
- Consistency.
- Human resource implications.

Plan Design

Typically, a survivor of a member who dies early in his or her career will receive more benefits than the member has accrued. Conversely, a survivor of a member who dies later in his or her career, but still before retirement, will receive less than the member has accrued.

Guaranteed benefits provide members with benefits that are not based on service credit, ensuring that a member receives at least a certain minimum amount no matter how long that member has been working. Generally, public safety officers have a greater likelihood of on-the-job injury or death than most other job classes. Thus, guaranteed benefits can offer greater peace of mind to officers in the earlier years of their career.

Under current LEOFF 1 provisions, the survivor of a member who dies in his or her first year of duty receives 50 percent of the member's average salary; the equivalent of retiring with 25 years of service credit.[5] In contrast, the survivor of a member who has crossed the 25-year mark, but still dies before retirement, will receive less benefits than the officer has accrued.

This contrast reflects a trade-off in plan design. In essence, current provisions protected benefits for junior officers, and were to some extent financed by senior officers. It could be argued that senior officers benefitted from this protection earlier in their career, even though they were fortunate enough not to need it. Conversely, it could be argued that senior officers are being penalized for working longer.

As most active members have more than 25 years, the Committee may wish to consider if this guaranteed benefit plan design is still appropriate.

[5]At retirement, benefits are calculated using a modifier that increases with years of service. Benefits for a member with more than 20 years of service are calculated as follows: 2% x Average Salary x Service Credit Years. As such, 50 percent of salary average corresponds to 25 years of service. Almost all LEOFF 1 members would currently qualify for 2 percent.

Benefit Improvements in a Closed Plan

LEOFF 1 is a closed system, and it is possible that few, if any, of the remaining active members will die before retirement. However, if they do, an increase in benefits for those members will add cost to the system.

LEOFF 1 is in the later stages of its life cycle. Most members have retired, and only a small number are still active.

As fewer and fewer members are on active status, any benefit improvements for only active members may seem relatively inexpensive. However, since most of the plan members are now retired, some policy makers may question whether it is appropriate to start down a path of increasing benefits for the few remaining active members.

Implications for Surplus

No new members are entering LEOFF 1, and it is possible that few, if any, of the remaining active members will die before retirement. However, if they do, an increase in benefits for those members will add cost to the system.

LEOFF 1 is currently in surplus, and it is possible the surplus could absorb the extra cost.[6] If the increased cost exceeds the surplus, contributions will have to recommence. LEOFF 1 is currently projected to be out of surplus in the next decade, and any increased cost could bring the plan out of surplus sooner.

The current surplus is the product of past contributions from three sources: members, employers, and the state. Policy makers may wish to consider whether the surplus should be paid down to increase benefits for active members.

[6]*See the fiscal note for SB 6078 (2009).*

Consistency

Between Members

The structure of LEOFF 1 survivor benefits has remained substantially the same since the 1970s, and there are currently as many as 28 survivors who are receiving less benefits than they would have received if the member had retired prior to death. Benefit increases could create an inconsistency between current and future survivors. Policy makers may wish to consider whether any increase in benefits should apply only to current active members.

Between Systems

Increasing benefits for active members could create inconsistency between members and systems.

Both LEOFF 1 and the Washington State Patrol Retirement System Plan 1 (WSPRS 1) provide guaranteed benefits for death prior to retirement. Creating new options for one system would create an inconsistency between the two. The Committee may wish to consider if any changes should also be applied to WSPRS 1.

Human Resource Implication

Active members may feel that the current structure of survivor benefits creates a disincentive for experienced personnel to stay active past the earliest available retirement date. In particular, a member diagnosed with a terminal illness may choose to retire as soon as possible so as to not risk losing any accrued benefits.

The Committee may wish to consider if changes should be applied to eliminate this potential disincentive.

Conclusion

At opposing ends of the spectrum, increasing survivor benefits for LEOFF 1 members at later stages in their career might be viewed as either giving members the benefits they've earned, or as enriching the few remaining active members of a closed plan.

The current structure represents a trade-off in plan design, and members have benefitted from this design earlier in their careers. However, members may feel that survivors of members with more years of service are being penalized by receiving less than the member had accrued. Additionally, members may feel that the current structure creates a disincentive for experienced personnel to remain active.

Any increase in benefits will have implications for the surplus. No new members are being added to the plan, no contributions are going in, and many of the few remaining active members are near retirement. Any increase in costs could bring the plan out of surplus sooner or require contributions to resume. Policy makers may wish to consider whether the surplus should be paid down to increase benefits for active members.

Benefit increases could create an inconsistency between current and future survivors. Increases could also create an inconsistency between similar plans. The Committee may wish to consider whether any increases should apply only to active members of LEOFF 1.

Senate Bill 6078

Attached.

Fiscal Note

Attached.

Stakeholder Input

Senator Margarita Prentice, received May 12, 2009.

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**4/17/09**	**SB 6078 - Revised**

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 provides additional benefits to the surviving spouse of a member of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 1 who dies while an active member.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$67,081	$1.4	$67,082
Earned Pensions Not Covered by Today's Assets	$4,957	$1.4	$4,959

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	**LEOFF**
Employee (Plan 2)	0.00%
Employer:	
Current Annual Cost	0.00%
Plan 1 Past Cost	0.00%
Total	0.00%
State	0.00%

Budget Impacts

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

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

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This bill impacts the LEOFF Plan 1 by providing additional benefits to surviving spouses of members who die while still in active service.

If the active member dies in the line of duty, the surviving spouse would get the choice between an on-going benefit equal to 50 percent of the final average salary (FAS) at the date of death, or the monthly benefit the member would have received had he or she retired on the date of death.

If the active member dies a non-duty related death, the surviving spouse would get the greater of an on-going benefit equal to 50 percent of the FAS at the date of death, or the monthly benefit the member would have received had he or she retired on the date of death.

Effective Date: 90 days after session.

What Is The Current Situation?

An eligible spouse of a LEOFF Plan 1 member who dies while still in active service receives an on-going allowance equal to 50 percent of the member's FAS on his or her date of death. This amount is provided regardless of whether the cause of death is duty related or not. However, if the death is in the line of duty, the benefit is not subject to federal income tax. The surviving spouse is also eligible for an additional 5 percent of FAS for each qualifying dependent child, up to a combined maximum of 60 percent of FAS.

Who Is Impacted And How?

We estimate this bill could affect any of the 513 active members in this plan through improved benefits. Furthermore, we expect less than two members per year will actually receive improved benefits.

We estimate this bill will increase the benefits for a typical member by providing an increased survivor annuity for active member deaths. The average active LEOFF Plan 1 member has approximately 32.5 years of service and an $83,000 salary. Given these averages, under current law the survivor would receive a $41,500 annuity for the 50 percent of FAS annuity, whereas under this bill, the standard retirement benefit formula would provide a $54,000 annuity.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill will increase the survivor benefits we expect the plan to pay.

Under this bill the survivor may receive either the retirement benefit or the 50 percent of FAS annuity. The non-duty related benefit simply provides the greater of these two benefits, whereas the duty-related benefit provides the survivor with a choice between these two options. For the duty-related benefit, we assume that the survivor will choose the more valuable annuity. The remaining active LEOFF Plan 1 members average about 32.5 years of service. Therefore, the increase in cost results from paying the more valuable retirement benefit instead of the 50 percent of FAS annuity.

Who Will Pay For These Costs?

LEOFF Plan 1 closed to new entrants in 1977 and no longer collects contributions from active members or their employers under current funding policy. Currently the plan also has a funding surplus when comparing the assets to the liabilities. Since the plan will not receive any additional funding, the cost will be paid for through a decrease in the plan's surplus.

HOW WE VALUED THESE COSTS

Assumptions We Made

Based upon the average active salary for LEOFF Plan 1 members, we assumed an overall 20 percent tax rate. Otherwise, we developed these costs using the same assumptions as disclosed in the June 30, 2007, Actuarial Valuation Report (AVR).

How We Applied These Assumptions

Under current law survivors of active member deaths receive the 50 percent of FAS annuity. We split this benefit into duty and non-duty related death components. For the non-duty related death benefit, we paid the greater of the retirement benefit and the 50 percent of FAS annuity. For the duty-related benefit, we compared the after-tax retirement benefit to the tax-free 50 percent of FAS annuity to determine which annuity provides more value to the member. However, the plan will pay the full pre-tax cost of these benefits.

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

Special Data Needed

We developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will reduce the plan's surplus, but does not increase the plan's expected future funding requirements. We expect no immediate fiscal or contribution rate impact from this bill while the plan remains in a surplus, or fully funded, position. The plan will stay fully funded while the actuarial value of assets exceeds the expected liabilities. The plan may resume funding should the funded status fall below a certain point in the future. If it does, this bill would increase the future funding requirements of the plan. Please see How The Results Change When The Assumptions Change for more details.

This bill will impact the actuarial liabilities of LEOFF Plan 1 by increasing the present value of future benefits payable under the system as shown below.

	Impact on Pension Liability		
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
LEOFF 1	$4,358	$1.4	$4,360
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
LEOFF 1	($939)	$1.4	($938)
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
LEOFF 1	($975)	$1.0	($974)

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 or methods selected for this pricing we varied the following method:

- How would we prepare this fiscal note if the plan did not have a surplus?

Based upon the plan's prior funding policy, both employers and employees paid fixed 6 percent contribution rates. The State paid for any additional required contributions. However, at this time the plan no longer collects contributions given the plan's surplus.

Should the plan fall out of a surplus status, we assumed the State would pay for the increased benefits provided under this bill. We based the following contribution rates and the associated budget impacts on the liability increase stated in this pricing.

Impact on Contribution Rates: (Effective 9/1/2009)

System/Plan	LEOFF
Current Members	
Employee (Plan 2)	0.000%
Employer:	
Normal Cost	0.000%
Plan 1 UAAL*	0.009%
Total	0.009%
State	0.000%

*State obligation under the prior funding policy.

Budget Impacts

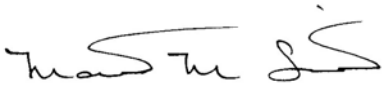
(Dollars in Millions)	2009-2011	2011-2013	25-Year
General Fund-State	$0.3	$0.3	$3.1
Total Employer	$0.3	$0.3	$3.1

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 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

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.

Wallis, Keri

From: Prentice, Sen. Margarita
Sent: Tuesday, May 12, 2009 8:13 PM
To: Office State Actuary, WA
Cc: Grazzini Smith, Alison
Subject: Please review and comment for the Senator - thanks! FW: LEOFF I pension program

Hello!

On behalf of Senator Prentice, would you please consider having the Select Committee on Pension Policy review the request below. Her prime sponsored SB 6078 addressed this but wasn't well received because it had not been considered by the SCPP.

Thank you for your thoughts and any information.

Sincerely,

Mary Anne Ross
Senior Executive Legislative Assistant
Senator Margarita Prentice
11th Legislative District
360-786-7616
http://www1.leg.wa.gov/senate/prentice/

-----Original Message-----
From: running4renton@msn.com [mailto:running4renton@msn.com]
Sent: Sunday, December 28, 2008 12:07 PM
To: Prentice, Sen. Margarita
Subject: LEOFF I pension program

SENATE INTERNET E-MAIL DELIVERY SERVICE

TO: Senator Margarita Prentice

FROM: Rosemary Quesenberry

STREET ADDRESS:
3609 Se 18 Court
Renton, WA 98058

E-MAIL: running4renton@msn.com

PHONE: (425) 271 - 4396

SUBJECT: LEOFF I pension program

MESSAGE:

Just a reminder regarding the pension program for LEOFF I officers. I appreciate you placing this matter on your priority list.

As we discussed, if officer Jim Laing, which has 40 years on with the Seattle Police department , if he would retired tomorrow and were then to die, his wife would receive the full pension he had accured over his many years of service.

However, if he would die while still employed his wife would receive only 50% of his final average salary. Jim recently contacted Representative Al O'Brien regarding this matter as well.

The LEOFF I pension reservoir could more than adequately supply the funds necessary to provide the spouses of active LEOFF I officers with the full pension based on years of service of the LEOFF I officer.

There is no cost to the State and to provide full pension benefits to spouses based on the years of service would keep some experienced officers on the job. In fact, there would be some savings to the State because eligible officers may continue to work and not draw on their pension.

Providing ACTIVE members of LEOFF I pension benefits equal to their years of service is the right thing to do. I appreciate your addressing this matter. It is always a pleasure to speak with you.

Happy New Year. If I can be of any service to you over the year, please just let me know! God Bless.

NOTE: We are 99% sure that this constituent is in your district

RESPONSE REQUESTED: Rosemary has requested a response to this message.

Past Part-Time Service Credit

Issue

In the past, some members made contributions to the retirement system without receiving service credit. This occurred because contributions were required even if a member did not work enough hours to qualify for service credit. Current rules generally do not allow for such "non-credited" service.

Certain members have suggested that the current, more generous service credit rules be retroactively applied to their non-credited past service.

Background

The SCPP studied past part-time service credit for members in the 2008 Interim. The Committee looked at refunding contributions for the non-credited service and considered options to provide additional service credit to the affected members. Ultimately, the Committee recommended providing half-time service credit for Plans 2/3 employees who worked half-time for an educational employer prior to 1987. The proposal had a 25-year total employer cost of $300,000 and no immediate rate impact.

Bills to implement the SCPP proposal were introduced in the 2009 Legislative Session but did not pass the Legislature (HB 1541/SB 5302). The House bill passed the House, but was not heard in the Senate Committee on Ways and Means.

Policy Considerations

- The Legislature has dealt with this before (1986, 1991, 2008, and 2009) and did not change past non-credited service – except for some teachers.
- Differs from other retroactive benefit increases since contributions were already collected.
- Idaho refunds contributions for non-credited service at retirement.

Committee Activity

The committee held a public hearing on the issue in October, and voted to endorse HB 1541/SB 5302 from the 2009 Legislative Session.

Staff Contact

Darren Painter, Senior Policy Analyst
360.786.6155
painter.darren@leg.wa.gov

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

January 8, 2010

The Honorable Kelli Linville, Chair
House of Representatives Committee on Ways and Means
John L. O'Brien Building
PO Box 40600
Olympia, WA 98504-0600

Dear Chair Linville:

On behalf of the Select Committee on Pension Policy, we, the chair and vice chair, wish to inform you that on October 20, 2009, the committee voted to endorse House Bill 1541/Senate Bill 5302 for the 2010 Legislative Session.

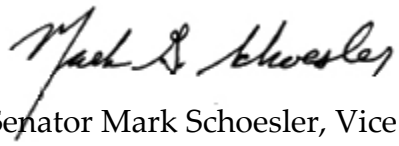
House Bill 1541 and Senate Bill 5302 grant half-time service credit to certain Plans 2/3 members who worked at least half time for an educational employer prior to 1987.

Minor amendments will be required to update the bill for this session, and draft language for a possible substitute bill is attached for your convenience.

We appreciate your consideration in this matter.

Sincerely,

Representative Steve Conway, Chair
Select Committee on Pension Policy



Senator Mark Schoesler, Vice Chair
Select Committee on Pension Policy

Enclosure (1)

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Representative Barbara Bailey

***Don Carlson**
TRS Retirees

***Representative Steve Conway, Chair**

Representative Larry Crouse

Chuck Cuzzetto
TRS and SERS Employers

Randy Davis
TRS Actives

***Steve Hill,** Director
Department of Retirement Systems

Senator Steve Hobbs

Senator Janea Holmquist

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***Corky Mattingly**
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Senator Joe McDermott

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Robert Thurston
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David Westberg
SERS Actives

***Executive Committee*

(360) 786-6140
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http://www1.leg.wa.gov/SCPP.htm

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

January 8, 2010

The Honorable Margarita Prentice, Chair
Senate Committee on Ways and Means
J.A. Cherberg Building
PO Box 40466
Olympia, WA 98504-0466

Dear Chair Prentice:

On behalf of the Select Committee on Pension Policy, we, the chair and vice chair, wish to inform you that on October 20, 2009, the committee voted to endorse House Bill 1541/Senate Bill 5302 for the 2010 Legislative Session.

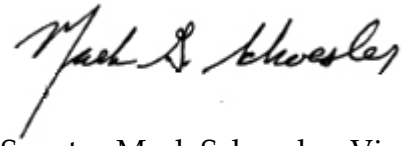
House Bill 1541 and Senate Bill 5302 grant half-time service credit to certain Plans 2/3 members who worked at least half time for an educational employer prior to 1987.

Minor amendments will be required to update the bill for this session, and draft language for a possible substitute bill is attached for your convenience.

We appreciate your consideration in this matter.

Sincerely,

Representative Steve Conway, Chair
Select Committee on Pension Policy



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HB 1541/SB 5302 Draft Language for Possible Substitute Bill
Changed all instances of "2010" to "2011."

AN ACT Relating to granting half-time service credit for half-time educational employment prior to January 1, 1987, in plans 2 and 3 of the school employees' retirement system and the public employees' retirement system; adding a new section to chapter 41.35 RCW; and adding a new section to chapter 41.40 RCW.

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

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.35 RCW under the subchapter heading "provisions applicable to plan 2 and plan 3" to read as follows:

(1) By no later than December 31, 2011, the department shall recalculate service credit for periods of qualifying prior service by an eligible member, as provided for in this section.

(2) An eligible member is a member who is active in the retirement system and who earns service credit after the effective date of this section and before September 1, 2011.

(3) A qualifying period of prior service is a school year prior to January 1, 1987, in which the member:

(a) Was employed in an eligible position by a school district or

districts, educational service district, the Washington state center for childhood deafness and hearing loss, the state school for the blind, an institution of higher education, or a community college;

(b) Earned earnable compensation for at least six hundred thirty hours as determined by the department;

(c) Received less than six months of service credit; and

(d) Has not withdrawn service credit for the school year or has restored any withdrawn service credit for the school year.

(4) The department shall recalculate service credit for qualifying periods of prior service for an eligible member as follows:

(a) The member shall receive one-half service credit month for each month of the period from September through August of the following year if he or she earned earnable compensation during that period for at least six hundred thirty hours as determined by the department, and was employed nine months of that period; and

(b) A member's service credit shall not be reduced under this section for a qualifying period of prior service.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.40 RCW under the subchapter heading "provisions applicable to plan 2 and plan 3" to read as follows:

(1) By no later than December 31, 2011, the department shall recalculate service credit for periods of qualifying prior service by an eligible member, as provided for in this section.

(2) An eligible member is a member of plan 2 or 3 who is active in the retirement system and who earns service credit after the effective date of this section and before September 1, 2011.

(3) A qualifying period of prior service is a school year prior to January 1, 1987, in which the member:

(a) Was employed in an eligible position by a school district or districts, educational service district, the Washington state center for childhood deafness and hearing loss, the state school for the blind, an institution of higher education, or a community college;

(b) Earned earnable compensation for at least six hundred thirty hours as determined by the department;

(c) Received less than six months of service credit; and

(d) Has not withdrawn service credit for the school year or has restored any withdrawn service credit for the school year.

(4) The department shall recalculate service credit for qualifying periods of prior service for an eligible member as follows:

(a) The member shall receive one-half service credit month for each month of the period from September through August of the following year if he or she earned earnable compensation during that period for at least six hundred thirty hours as determined by the department, and was employed nine months of that period; and

(b) A member's service credit shall not be reduced under this section for a qualifying period of prior service.

--- END ---

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**1/28/09**	**HB 1541 / SB 5302**

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 grants half-time service credit to certain Plan 2/3 members who worked half-time for an educational employer during school years prior to January 1, 1987.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$67,081	$0.2	$67,081
Earned Pensions Not Covered by Today's Assets	$4,957	$0.0	$4,957

Impact on Contribution Rates: (Effective 09/01/2009)

2009-2011 State Budget	**PERS**	**SERS**
Employee (Plan 2)	0.00%	0.00%
Employer:		
Current Annual Cost	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%
Total	0.00%	0.00%

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.0	$0.0	$0.1
Total Employer	$0.0	$0.0	$0.3

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

WHAT IS THE PROPOSED CHANGE?

Summary of Change

This bill impacts the following systems:

- Public Employees' Retirement System (PERS) Plans 2/3.
- School Employees' Retirement System (SERS) Plans 2/3.

This bill grants half-time service credit to certain PERS and SERS Plan 2/3 members who worked half-time for an educational employer during school years prior to January 1, 1987.

This bill requires the Department of Retirement Systems (DRS) to recalculate service credit for periods of qualifying prior service by an eligible member. An eligible member is a Plan 2/3 member who is active in the retirement system and earns service credit after the effective date of the bill and before September 1, 2010. A qualifying period of prior service is a school year prior to January 1, 1987, in which the member:

- Was employed in an eligible position by one of the following employers: school districts, educational service districts, the state school for the deaf, the state school for the blind, institutions of higher education, or community colleges.
- Worked at least 630 hours.
- Received less than six months of service credit.
- Has not withdrawn service or has restored any withdrawn service.

Effective Date: 90 days after session.

What Is The Current Situation?

Currently, Plan 2/3 members who work for an educational employer earn service credit as follows:

- At least 810 hours worked in a full school year = 12 months of service.
- At least 630 but less than 810 hours worked in a full school year = 6 months of service.
- At least 630 hours worked in five months of a six month period within a school year = 6 months of service.

Working less than a full school year or less than 630 hours: service credit is calculated on a month to month basis as follows:

- 90 hours or more in a month = 1 month of service.
- At least 70 but less than 90 hours in a month = ½ month of service.
- Less than 70 hours in a month = ¼ month of service.

Prior to January 1, 1987, Plan 2/3 members who worked for educational employers received 12 months of service credit if they were continuously employed for 9 months and worked at least 90 hours a month in at least 9 months of the school year. If they did not qualify to receive 12 months of service credit, they received 1 service credit month for each month of 90 hours worked. No service was awarded for any month of less than 90 hours. Members and employers made retirement contributions on all salary, regardless of the amount of service credit earned, if any.

Who Is Impacted And How?

We estimate this bill could affect 192 active and vested terminated members out of the total 227,473 active and vested terminated members of these systems through improved benefits. Furthermore, we expect 132 active members will actually receive improved benefits.

We estimate this bill will increase the benefits for a typical member by providing an increased retirement benefit to current active members. The average member affected by this bill has a salary of $30,000 and will receive 0.25 years of additional service. This will increase their initial unreduced retirement benefit by $150 per year.

This bill impacts all 138,392 active Plan 2 members of these systems through increased contribution rates. This bill will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

See Appendix A of this fiscal note for more details on members impacted.

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill has a cost since it allows active educational employees of PERS and SERS Plans 2/3 to have periods of half-time service credit earned prior to January 1, 1987, credited to their retirement account. This will increase their retirement benefit by the additional service provided under this bill.

Who Will Pay For These Costs?

The affected members, who did not receive the half-time service credit prior to January 1, 1987, made contributions commensurate with the effective contribution rate. Therefore, these individuals already made the appropriate contributions. The entire system will provide for any additional costs through increased contribution rates.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed all 132 current active members will receive the increase in service credit as provided under this bill. Please see the Sensitivity Analysis section for how the results change when vested terminated members receive the increase in service credit.

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

How We Applied These Assumptions

DRS identified the affected members in their database and provided the information to us. We isolated these members in our valuation data and increased their service by the additional service credits provided by DRS. The resulting change in service provides the source of the increase in actuarial liabilities, contribution rates, and fiscal costs.

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

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

Special Data Needed

DRS provided special data for this bill. The data indicated the number of months of service credit members received prior to January 1, 1987, under the service credit rules at that time. The data also provided the number of months of service credit members would have received for the same period of service under the service credit rules proposed in this bill.

For more detail please see Appendix A.

ACTUARIAL RESULTS

How The Liabilities Changed

This bill will impact the actuarial funding of PERS and SERS Plans 2/3 by increasing the present value of future benefits payable under the systems as shown below.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 2/3	**$20,634**	**$0.0**	**$20,635**
SERS 2/3	**$2,698**	**$0.2**	**$2,698**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 2/3	**($2,470)**	**$0.0**	**($2,470)**
SERS 2/3	**($443)**	**$0.2**	**($443)**

Note: Totals may not agree due to rounding.

How The Present Value of Future Salaries (PVFS) Changed

This bill will impact the actuarial funding of PERS and SERS Plans 2/3 by decreasing the PVFS of the members of the systems as shown below.

Present Value of Future Salaries			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Future Salaries			
(The Value of the Future Salaries Expected to be Paid to Current Members)			
PERS 2	$56,420	$0.0	$56,420
PERS 3	11,717	0.0	11,717
PERS 2/3	**$68,137**	**$0.0**	**$68,137**
SERS 2	$3,837	$0.0	$3,837
SERS 3	7,153	0.0	7,153
SERS 2/3	**$10,990**	**$0.0**	**$10,990**

Note: Totals may not agree due to rounding.

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%, 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.

Impact on Contribution Rates: (Effective 09/01/2009)		
System/Plan	**PERS**	**SERS**
Current Members		
Employee (Plan 2)	0.000%	0.001%
Employer:		
Normal Cost	0.000%	0.001%
Plan 1 UAAL	0.000%	0.000%
Total	0.000%	0.001%

How This Impacts Budgets And Employees

Budget Impacts			
(Dollars in Millions)	**PERS**	**SERS**	**Total**
2009-2011			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**
2011-2013			
General Fund	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**
Total Employee	**$0.0**	**$0.0**	**$0.0**
2009-2034			
General Fund	$0.0	$0.1	$0.1
Non-General Fund	0.0	0.0	0.0
Total State	**$0.0**	**$0.1**	**$0.2**
Local Government	0.0	0.2	0.2
Total Employer	**$0.1**	**$0.3**	**$0.3**
Total Employee	**$0.1**	**$0.1**	**$0.2**

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 systems could exceed the sum of each proposed change considered individually.

As with the costs developed in the actuarial valuation, the emerging costs of the systems 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 or methods selected for this pricing we varied the following assumption:

- The number of members who will receive the increased benefits.

Currently this bill provides increased benefits to active members who earn service after the effective date of this bill and before the end of the 2010 school year. We priced this bill assuming all 132 current active members will receive the service credit. However, the actual number of members may differ. Current active members may choose to retire or terminate from active service before they become eligible to receive the increase in service credit, and current vested terminated members may choose to return to work and would then qualify to receive the increase in service credit. A decrease in the number of members eligible to receive this service credit would decrease the liabilities and associated budget costs compared to the bill.

The following tables show the impact if:

- Current active members receive the increase in service as assumed ("Bill").
- Current active and vested terminated members receive the increase in service ("All").

Members Impacted

All Systems	Bill	All
Number of Members Affected	132	192
Increase in Service (Years)	37.84	57.09

Impact on Pension Liability - All Systems

(Dollars in Millions)	Bill	All
Today's Value of All Future Pensions	$0.2	$0.3
Earned Pensions Not Covered by Today's Assets	$0.0	$0.0

Budget Impacts - All Systems

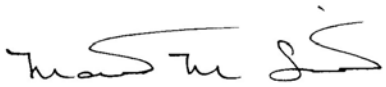
(Dollars in Millions)	Bill	All
2009-2011		
General Fund - State	$0.0	$0.0
Total Employer	$0.0	$0.0
2011-2013		
General Fund - State	$0.0	$0.0
Total Employer	$0.0	$0.0
2009-2034		
General Fund - State	$0.1	$0.2
Total Employer	$0.4	$0.5

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. This fiscal note is based upon data provided by the Department of Retirement Systems (DRS). An audit of the data was not performed. I relied on the data provided as complete and accurate 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 – SPECIAL DATA NEEDED

DRS provided the unaudited data for this bill. The data contained 212 records, with the current service credited under the old rules and the new service credited based on DRS' understanding and application of this bill. The difference between the new service credited and the current service credited equals the additional service amount the member would receive under this bill.

We matched the records provided with our valuation file. Only 192 of the 212 records are active (132) or terminated vested (60) members of the retirement system as of our last valuation, June 30, 2007. For each matched record, we increased their total service by the additional service amount provided by DRS.

The following table summarizes the active member data we used for this bill.

	PERS 2/3			SERS 2/3		
Year of Hire	**Number of Members**	**Total Additional Service**	**Average Additional Service**	**Number of Members**	**Total Additional Service**	**Average Additional Service**
1977	1	0.08	0.08	1	0.33	0.33
1978	4	1.17	0.29	19	10.08	0.53
1979	2	0.33	0.17	31	8.08	0.26
1980	4	0.92	0.23	16	5.17	0.32
1981	1	0.08	0.08	9	2.17	0.24
1982	1	0.25	0.25	12	2.67	0.22
1983	2	0.42	0.21	14	2.67	0.19
1984	2	0.58	0.29	5	1.08	0.22
1985	1	0.17	0.17	5	0.92	0.18
1986	1	0.17	0.17	0	0.00	0.00
1987	1	0.50	0.50	0	0.00	0.00
Total	**20**	**4.67**	**0.23**	**112**	**33.17**	**0.30**

Otherwise, we developed these costs using the same assets and data 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.

WSIPP Disability Study

Background

In 2009, the Legislature passed ESHB 1244, which directed OSA to contract with the Washington State Institute for Public Policy (WSIPP) to study disability benefits provided to Plans 2 and 3 members of PERS, TRS, and SERS. The results of the study were published in November of 2009, and are available here: http://www.wsipp.wa.gov/rptfiles/09-11-4101.pdf.

Committee Activity

The committee received an update on the study in September, and held a full work session in November. At the December meeting, the committee voted to recommend a bill to the Legislature as detailed below.

Recommendation to 2010 Legislature

Authorize the WSIPP to continue the study for the purposes of further developing the options identified in the study, and require the Health Care Authority (HCA) to institute an improved communication program to increase awareness regarding participation in optional long-term disability insurance plans

The WSIPP must report its findings, and the HCA must report its activities, findings, and recommendations to the SCPP and the Legislature by November 17, 2010.

Staff Contact

Darren Painter, Senior Policy Analyst
360.786.6155
painter.darren@leg.wa.gov

Draft Language for Bill

Editor's Note: See HB 2919/SB6493 (2010)

AN ACT Relating to a study of disabiliy benefit ptions for members of the public empoyees' retirement system plan 2 and plan 3, the teachers' retirement system plan 2 and plan 3, and the school employees' retirement system plan 2 and plan 3; and creating a new section.

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

NEW SECTION. **Sec. 1.**

_____

The Washington state institute for public policy shall continue the study of long-term disability benefits for public employees as authorized in section 105, chapter 564, Laws of 2009, during the 2010 interim for the limited purpose of continuing to develop the options identified in the study, which included public employee benefits board programs, other long-term disability insurance programs and public employee retirement system benefits. The institute shall report no later than November 17, 2010, new findings and any additional recommendations on the options to the select committee on pension policy, the senate committee on ways and means, and the house committee on ways on means.

1 For the options that directly im pact the public employees benefit
2 board, the health care authority shall coordinate analysis and
3 recommendations with its contracted disability vendor and appropriate
4 stakeholders. The health care authority shall institute an improved
5 communication pr ogram to increase awareness of the importance of
6 participating in the employer's optional long-term disability
7 insurance plan. The health care authority shall report on its
8 activities, findings and recommendations no later than November 17,
9 2010 to the select committee on pension policy, the senate committee
10 on ways and means and the house committee on ways and means.
11
12 NEW SECTION. **Sec. 2.**
13
14 If specific funding for the purposes of this act, referencing this
15 act by bill or chapter number, is not provided by June 30, 2010 in the
16 omnibus appropriations act, this act is null and void.
17
18

--- END ---

Issues Considered with No Recommendation to Legislature

Office of the State Actuary

"Securing tomorrow's pensions today."

Constitutional Amendment on Minimum Pension Funding

Issue

At the November 2009 meeting, the Executive Committee instructed staff to provide a briefing on the potential for a constitutional amendment on minimum pension funding.

Background

Under Article XXIII, Section 1 of the Washington State Constitution, the State Constitution may be amended upon a two-thirds vote of each house, followed by ratification by a majority of the voters in the next general election.

The State Constitution can also be amended by Constitutional Convention (under Article XXIII, Sections 2 and 3).

There have been 102 amendments to the State Constitution, and the most recent amendments were ratified by the voters in 2007. Some sections of the State Constitution remain exactly as originally drafted. Other sections have been modified as many as seven times.[1]

[1] *Article VII, Section 2 (Limitation on Levies) was modified by amendments in 1944, 1972, 1976, 1986, 1997, 2002, and 2007.*

Policy Considerations

- Constitutions typically contain general principles of governance.
- Historically, most pension issues have been addressed by statute.
- State Constitution has been amended to address pension issues, but actual pension funding methods have never been placed in the Constitution.
- State Constitution is more difficult to change than a statute, and that can be good or bad.
- Each retirement plan has its own needs and requirements, so a single funding standard may not apply to all plans.
- Drafting an amendment is a balance between flexibility and enforcement.
- The term "minimum pension funding" could have many different meanings.

Committee Activity

Staff briefed the Committee on this issue in December. No further action was taken.

Staff Contact

Aaron Gutierrez, Policy Analyst
360.786.6152
gutierrez.aaron@leg.wa.gov

Court Commissioners

Issue

Court Commissioners (Commissioners), Judges, and Justices (Judges)[1] are members of the Public Empoyees' 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.

[1] *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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Court Commissioners

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.

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) [1] 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.

[1] *Elected or appointed after 1988.*

Background

Judges in each county and judicial district can appoint Commissioners to assist the court in administering cases.[2] Commissioners serve in similar capacity to that of a judge, with the power to hear cases, issue judgments, and administer oaths.[3] 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.[4]

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.[5]

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:

Multiplier X Service Credit X Salary Average = 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,[6] 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.

[2] *Article IV, Section 23, and RCW 2.24.010 et seq.*

[3] *RCW 2.24.040.*

[4] *RCW 2.24.010(2).*

[5] *See also AGO 57-58 No. 50.*

[6] *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.[7] 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.

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

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.

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

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.

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.

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.

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

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

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.

Are Commissioners similar enough to Judges to warrant similar benefits?

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

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.

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

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.

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.

S-0704.2

SENATE BILL 5523

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

--- END ---

ACTUARY'S FISCAL NOTE

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

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.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$34,695	$1.9	$34,697
Earned Pensions Not Covered by Today's Assets	$3,609	($0.1)	$3,608

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	**PERS**	**SERS**	**PSERS**
Employee (Plan 2)	0.00%	0.00%	0.00%
Employer:			
Current Annual Cost	0.00%	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.0	$0.1	$0.8
Total Employer	$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.

PERS Contribution Rates for Court Commissioners and their Employers

	Plan 1	Plan 2*	Plan 3**
Members			
Current	6.00%	4.61%	5.00%
Under this Bill	12.26%	11.53%	7.50%
Employers Under this Bill*			
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.

Number of Members Excluded from Pricing by Cause	
Cause of Exclusion	**Number Excluded**
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.

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

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.

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

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

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.

Liability Increases When We Assume Different Future Contribution Rates				
Contribution Rates:	Projected Agg Rates	Projected EANC Rates	07 EANC Rate	07 Agg rate
PERS 1	($0.1)	($0.1)	($0.1)	($0.1)
PERS 2/3	$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.

Liability Increases When We Assume Different Future Contribution Rates and Retirement Behavior				
Contribution Rates:	Projected Agg Rates	Projected EANC Rates	07 EANC Rate	07 Agg rate
PERS 1	$0.0	$0.0	$0.0	$0.0
PERS 2/3	$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.

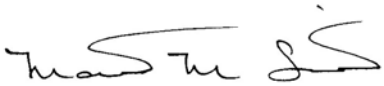
When we test the sensitivity of the liability increase to changes in our contribution rate assumption, we see that under the other assumptions we analyzed the additional contributions offset less of the cost of this bill. The contribution rates in all of the other scenarios we tested are lower than our 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.

PERS Projected Contribution Rates			
	Agg	EANC	Plan 1 UAAL
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.

Dual Member ESAs

Issue

Stakeholders have requested the SCPP study allowing Plan 3 members hired into that plan to transfer to Plan 2. Stakeholders have further suggested that Educational Staff Associates (ESAs) who have service in both Plan 2 and Plan 3 of different systems could serve as a pilot group for achieving the broader objective. Stakeholders have further asked if these members are penalized by having their service in different systems. Members with service in more than one system are often referred to as dual members.

This issue raises three questions for policy makers.

- Should Plan 3 members who were hired into that plan design be given the opportunity to transfer to Plan 2?
- Should dual-member ESAs be the first group given the opportunity to transfer to Plan 2?
- Are members penalized by having service in more than one system?

Background

Plan 2 and Plan 3 represent different plan design trade-offs that are geared for different workforce needs. Until July 1, 2007, all newly hired school employees were required to join Plan 3. School employees hired after July 1, 2007, may choose between Plan 2 or Plan 3 at time of hire. Tax counsel has advised that allowing Plan 3 members who were required to join that plan to transfer to Plan 2 could potentially jeopardize the plan qualification status with the Internal Revenue Service (IRS).

Some school employees, including ESAs, may have service in Plan 2 and Plan 3 of different retirement systems. ESAs represent one subgroup within nearly 8,000* dual-system/dual-plan current and former school employees. ESA positions include, but are not limited to: communications disorder specialist, occupational therapist, physical therapist, reading resource technician, school counselor, school nurse, school psychologist, school social worker, and school librarian.

**As of September 23, 2009.*

Policy Highlights

- Policy makers may wish to consider if requests to transfer are driven by a plan design that no longer meets the needs of the workforce or by specific individuals seeking to maximize their benefits.

- Allowing members to transfer from Plan 3 to Plan 2 may have implications for the plan tax qualification under IRS regulations.
- Policy makers may wish to consider if an incremental approach will add more complexity to the retirement systems and require more time and effort than a more comprehensive approach.
- Policy makers may question if being a dual-member creates any unique plan design concerns that would not apply to the larger group of all plan members.
- Policy makers may question if job duty or dual-member status is the best criteria for selecting groups for transfer.
- Dual-membership provisions protect the value of the benefits within each system so members are not disadvantaged because they have service in more than one system.

Committee Activity

Staff briefed the committee at the December meeting. No further action was taken.

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Dual-Member ESAs

In Brief

Issue

Stakeholders have requested the SCPP study allowing Plan 3 members hired into that plan to transfer to Plan 2. Stakeholders have further suggested that Educational Staff Associates who have service in both Plan 2 and Plan 3 of different systems could serve as a pilot group for achieving the broader objective. Stakeholders have further asked if these members are penalized by having their service in different systems.

Member Impact

The Department of Retirement Systems (DRS) does not collect data sufficient to identify ESAs. However, data from DRS shows nearly 8,000 current and former school employees are Plans 2/3 dual-members.*

**As of September 23, 2009.*

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

Current Situation

Stakeholders representing school employees have requested the SCPP study allowing Plan 3 members hired into that plan to transfer to Plan 2. Stakeholders have further suggested that a specific group of Plan 3 members could serve as a pilot group for achieving the broader objective. The members suggested by stakeholders are Educational Staff Associates (ESAs) who have service in both Plan 2 and Plan 3 of different systems. Stakeholders have further asked if these members are penalized by having their service in different systems. Members with service in more than one system are often referred to as dual members.

Background

Stakeholders have raised three questions for policy makers to consider.

- Should Plan 3 members who were hired into that plan design be given the opportunity to transfer to Plan 2?
- Should dual-member ESAs be the first group given the opportunity to transfer to Plan 2?
- Are members penalized by having service in more than one system?

Understanding some of the key differences between the Plan 2 and Plan 3 designs and how these differences can impact members' benefits is helpful in addressing the first question. Understanding how dual-member ESAs are similar to and differ from other Plan 3 members is helpful in addressing the second question. Finally, understanding statutory provisions for dual-members is helpful in addressing the third question.

Plan 2 and Plan 3 Are Geared For Different Needs

Plan 2 and Plan 3 represent different plan design trade-offs that are geared for different workforce needs. Plan 2 is a Defined Benefit (DB) plan design geared more toward career employees. In contrast, Plan 3 is a hybrid plan design with both a DB component and a Defined Contribution (DC) component. This design is geared more toward a

mobile workforce. The Plan 2 design affords little benefit risk or benefit control to members. The Plan 3 design gives members more control over their benefits at increased member risk.

Plan 2 members receive a benefit based on service and salary. The amount of that benefit is guaranteed regardless of investment performance. Plan 3 members receive an employer-funded DB of half the amount provided in Plan 2. Plan 3 members also contribute to a DC account that provides funds that members can access when they separate from service–similar to a private-sector 401(k). Plan 3 members choose a contribution rate at the time of hire and may select from a variety of investment options.

The amount that Plan 3 members accumulate in their accounts will depend on a variety of factors including:

- The contribution rate chosen by member.
- The investment choices made by the member.
- How long the member contributes to the account.
- Investment performance.

Some Plan 3 members may not be able to produce the equivalent of a Plan 2 benefit.

Upon retirement, Plan 3 members can use their DC accounts to purchase an annuity benefit from the plan. Members are not guaranteed to have sufficient funds in their DC account to purchase an annuity that, when combined with their employer provided annuity, will provide the equivalent of a Plan 2 benefit. Members who start in Plan 3 late in their career and members who are building their accounts during periods of poor market performance may find it difficult, if not impossible, to produce the equivalent of a Plan 2 benefit under the Plan 3 design.

Membership in Plan 3 was mandatory for some school employees.

Plans 2/3 school employees are covered by the Teachers' Retirement System (TRS) or the School Employees' Retirement System (SERS). The first Plan 3 was implemented for TRS in 1995 and the design was later provided in SERS and the Public Employees' Retirement System (PERS). Until July 1, 2007, all newly hired school employees were required to join Plan 3. School employees hired after July 1, 2007, may choose between Plan 2 or Plan 3 at time of hire.* Since its existence, Plan 3 has always been optional for PERS members.

Allowing Plan 3 members required to join that plan to transfer to Plan 2 could potentially jeopardize plan qualification with the IRS.

The Plans 2/3 are governmental defined benefit plans for purposes of Internal Revenue Service (IRS) tax qualification. The IRS has been growing more restrictive with regards to choice of contribution rates within these types of plans. The IRS will typically allow an irrevocable choice at the time of hire, which Plan 3 members make, but subsequent rate choices while still an employee are not considered a feature of DB plans by the IRS. Allowing Plan 3 members to transfer to Plan 2, which has a different contribution rate than Plan 3, would likely

constitute another rate choice in the eyes of the IRS. Tax counsel has advised that allowing Plan 3 members who were required to join that plan to transfer to Plan 2 could potentially jeopardize the plan qualification status with the IRS.

**Plan choice in SERS and TRS was established as part of legislation that repealed gain sharing and is currently subject to litigation.*

Other Plan 3 Members Are Similarly Situated With ESAs

Stakeholders have suggested that ESAs be the first group of Plan 3 members allowed to transfer to Plan 2. ESA positions include, but are not limited to: Communications disorder specialist, occupational therapist, physical therapist, reading resource technician, school counselor, school nurse, school psychologist, school social worker and school librarian.

Some ESAs began their public careers in PERS-covered employment. If they later went to work for a school district in a TRS-qualified position, they were placed in TRS and became dual PERS/TRS members. Some may have become dual Plan 2/Plan 3 members if their PERS service was in Plan 2 and they were required to join TRS 3. In some cases, the work they did for their PERS employer was substantially the same as the work they do for their TRS employer.

Other school employees can be dual-system/dual-plan members.

In addition to ESAs, other school employees can be dual-system/dual-plan members. Any person who starts working for a PERS employer and then takes a job with a school district (or the reverse) can find themselves a dual-system/dual-plan member. Data from the Department of Retirement Systems indicates around 8,000* current and former school employees are dual-system/dual-plan members with service in both Plan 2 and Plan 3 of different systems. The department does not collect data necessary to identify how many of these are ESAs.

In addition to ESAs, other members who go to work for a new employer doing essentially the same job can be placed in a new system and plan. There are many positions in common between school districts and other public employers including clerical, custodial, and maintenance positions. PERS members working in one of these positions who go to work for a school district in a similar position can become dual-system/dual-plan members as well. The reverse can also happen: school employees who go to work outside a school district doing the same job can become dual-system/dual-plan members.

**As of September 23, 2009.*

Statutory Provisions Address Dual-Member Concerns

Dual-membership provisions protect the value of the benefits within each system.

Stakeholders have asked if dual members are penalized by having their service in more than one system. The Legislature has made provision in statute to address concerns with members having service in different retirement systems.* Dual members can use service from both systems to qualify for retirement in either system, and they can use their highest salary from either system to calculate their retirement benefits in both systems. These provisions are designed to protect the value of the benefits within each system. Dual-membership provisions do not address how different plan designs impact the total benefits a member receives for his or her entire career as a public employee.

**Chapter 41.54 RCW.*

Policy Analysis

Stakeholders have raised three questions for policy makers.

- Should Plan 3 members who were hired into that plan design be given the opportunity to transfer to Plan 2?
- Should dual-member ESAs be the first group given the opportunity to transfer to Plan 2?
- Are members penalized by having service in more than one system?

The first two questions relate to the broader policy of plan transfer. The last question more narrowly relates to policy around dual members. This paper will address the dual member question first, and then move on to the broader questions around plan transfer.

Dual-Membership Provisions Protect The Value Of Benefits

The Legislature has recognized the unique concerns of dual members and made provision in statute to address them. These provisions protect the value of the benefits within each system so members are not disadvantaged because their service is in more than one retirement system.

Policy makers may question if being a dual member creates any unique plan design concerns.

Dual-membership provisions do not address differences in plan design. As discussed earlier, plan design can have a significant impact on retirement benefits for public employees. However, given that dual-member concerns are addressed in statute, policy makers may question if being a dual member creates any unique plan design concerns that would not apply to the larger group of all plan members. Some policy makers may feel that all Plan 3 members who were required to join that plan are similarly situated whether or not they have service in another system.

Requests To Transfer May Be Driven By Different Factors

Stakeholders have raised the question of whether Plan 3 members who were required to join that plan upon hire should be allowed to transfer to Plan 2. They have not specified under what conditions such a transfer would occur, but have suggested that it be revenue-neutral to the system.

Policy makers may wish to consider if requests to transfer are driven by a plan design that no longer meets the needs of the workforce or by specific individuals seeking to maximize their benefits.

In evaluating requests to transfer out of Plan 3, policy makers may wish to consider what is driving the requests. Is the Plan 3 design no longer meeting the needs of the workforce? Are certain individuals seeking to maximize their benefits by finding the best plan design for their individual circumstances? The answers to these questions may influence how policy makers approach this issue.

Policy makers who question if the Plan 3 design is meeting the needs of the workforce may wish to consider revisiting the issue of plan design for school or other public employees. Policy makers may also wish to consider if changes can be made to the Plan 3 design that would alleviate some of the concerns generating the requests to transfer out. However, some policy makers may prefer to wait until Plan 3 has established a longer track record before opening up the plan design issue.

Policy makers who feel this is more a matter of individuals seeking to maximize their benefits may question the timing of the requests and if some members may later regret a decision to transfer. Financial markets have recently experienced significant downturns. This may contribute to members' requests to transfer out of Plan 3. When markets recover will these same members seek to go back to Plan 3 so they can participate in the market gains? If their individual circumstances change in the future and they feel they would get a better benefit out of Plan 3, will these members also seek to return to Plan 3?

Policy makers may wish to consult with tax counsel when considering a specific transfer proposal.

Allowing members to transfer from Plan 3 to Plan 2 may have implications for the plan tax qualification under IRS regulations. Policy makers may wish to consult with tax counsel when considering a specific transfer proposal.

An Incremental Approach Has Implications For Policy Makers

Stakeholders have also suggested that policy makers may wish to take an incremental approach to the broader issue of allowing members hired into Plan 3 to transfer to Plan 2. This would likely involve allowing members to transfer over a period of time on a group-by-group basis.

Policy makers may consider if an incremental approach will add more complexity to the retirement systems and require more time and effort.

An incremental approach to this issue has several implications for policy makers. Allowing one group of members to transfer out of Plan 3 may create envy among other Plan 3 members and may increase pressure to allow other groups to transfer. Policy makers may wish to consider if an incremental approach will add more complexity to the retirement systems and require more time and effort than a more comprehensive approach.

Should Dual-Member ESAs Be First?

Policy makers may question if job duty or dual member status is the best criteria for selecting groups for transfer.

An incremental approach requires policy makers to decide which group of members should go first. Stakeholders have suggested that dual member ESAs could be this group. These members represent a small subclass of similarly situated Plan 2/Plan 3 dual members. The distinguishing characteristic of ESAs is their job duties. Some policy makers may question if job duties are the best criteria to select groups of dual members for transfer. Policy makers who feel that dual members do not have any unique plan design concerns would likely question whether transfers should start with dual members at all.

Other States

The questions raised by stakeholders involve specific situations arising under Washington's plan provisions that are not directly comparable to Washington's peer states.

Conclusion

Stakeholders have raised the issue of allowing Plan 3 members hired into that plan to transfer to Plan 2. They have suggested that policy makers may wish to take an incremental approach to this issue by using dual-member ESAs as a pilot group. In evaluating this issue, policy makers may wish to consider if the requests to transfer are being driven by a plan design that no longer meets the needs of the workforce or by specific individuals seeking to maximize their benefits. Policy makers may consider if an incremental approach to this issue will add more complexity to the retirement systems and require more time and effort than a more comprehensive approach. Some policy makers may question if job duty or dual-member status is the best criteria for selecting groups for transfer. Finally, policy makers may wish to consult with tax counsel when considering a specific transfer proposal.

Stakeholder Input

Correspondence from: Randy Parr, WEA, September 11, 2009.

Wallis, Keri

From: RParr@washingtonea.org
Sent: Friday, September 11, 2009 4:50 PM
To: Office State Actuary, WA
Subject: WEA Issue for 2009 Interim
Attachments: SCPP 2009 WEA Issues.pdf

OSA staff and SCPP Members;

Attached please find WEA's letter regarding the issue we would ask the committee to study during this brief 2009 interim. I plan to bring copies for sharing with the committee and/or executive committee at next Tuesday's meeting, but wanted to send this a few days in advance for possible inclusion in committee materials at your next meeting.

Please feel free to contact me should you have any questions.

Randy Parr
Budget Analyst-Lobbyist
Olympia Public Policy Center
Washington Education Association
360-943-3150
253-765-7155
rparr@washingtonea.org

September 11, 2009

Select Committee on Pension Policy
Executive Committee Members
P. O. Box 40914
Olympia, WA 98504-0914

Dear Executive Committee Members;

On behalf of the 81,000 members of the Washington Education Association, we would appreciate your consideration of the following issue for study and/or action during the 2009 interim in preparation for the 2010 Legislative Session.

The WEA has a number of priorities for pension improvements that we expect to address in the future. However, we recognize the committee has only a limited time for studying issues this interim, and are not seeking any efforts on your behalf that require prolonged deliberation. However, while we are not asking the SCPP to act this year, the WEA does continue to have as its highest priority the enactment of Rule of 85 legislation.

The one issue WEA would seek the committee to study this year would be an option for those members of TRS and SERS Plan 3 who were hired in to that plan tier to transfer to their respective Plan 2. We would expect such a transfer to be effected in a manner that would be revenue neutral to the pension system. Should such an undertaking be deemed too large for the short time available to the committee this interim, we would suggest a means by which such an effort could be "piloted" with a small sub-class of system members. The WEA has raised this specific issue in the past, but this year would seek your consideration as a means to explore methods for affecting the larger objective:

- **Education Staff Associates with multiple employers**. Several certificated professions are common to both the state and school systems. These include speech language pathologists, physical therapists and others. Some of these employees began their careers in the state system under PERS 2 and then gained

employment in schools where they were enrolled in TRS 3 (or the reverse). There is a concern that combining these two plans do not add up to a whole pension benefit. We would ask the committee to study the issue of those whose employment has forced them to earn service credit in the two separate systems in this manner and seek a resolution that assures that their career of public service to the state results in a full pension without having been penalized for service in two separate systems. (see RCW 41.32.032 for how this was addressed in the 1980's)

We are prepared to discuss this issue in more detail and would welcome the opportunity to work with the committee in determining the best way to address the issue. Thank you for your consideration.

Sincerely;

Randy Parr
Budget Analyst/Lobbyist
Washington Education Association
(360) 943-3150
(360) 481-2825

SCPP Recommendations on Economic Assumptions

Issue

Should economic assumptions be changed based on recommendations of the State Actuary?

Background

Every two years the Office of The State Actuary (OSA) studies and makes recommendations on long-term economic assumptions to the Pension Funding Council (PFC) and the Select Committee on Pension Policy (SCPP). The SCPP is statutorily required to study and make recommendations to the PFC on changes to the long-term economic assumptions. The PFC may adopt changes to the assumptions by October 31, 2009.

OSA completed its most recent study on economic assumptions in August. OSA determined the current assumptions were reasonable, but not OSA's best estimate.

OSA Recommended Assumptions

Assumption	Current	Recommended
Inflation	3.50%	3.25%
General salary growth	4.00%	4.00%
Annual investment return	8.00%	7.50%
Growth in system membership	0.90% (TRS), 1.25% (Others)	0.90% (TRS), 1.15% (Others)

Excludes LEOFF 2.

The state actuary further recommended coordinating any changes to the long-term economic assumptions with a plan to manage the future health of the retirement systems.

Committee Activity

Staff briefed the committee at the September and October meetings. At the October meeting, the committee voted to table the recommendation to the PFC. No further action was taken during the interim.

Staff Contact

Darren Painter, Senior Policy Analyst
360.786.6155
painter.darren@leg.wa.gov

Furloughs and Senate Bill 6157 (2009)

Issue

In the 2009 Legislative Session, the Legislature passed Senate Bill (SB) 6157 to minimize or avoid possible reductions in retirement benefits due to budget related furloughs. The bill was introduced in the Senate in April 2009, and did not go through the Select Committee on Pension Policy (SCPP). At its June meeting, the SCPP instructed staff to brief the SCPP on SB 6157 and the effect of furloughs on the retirement systems.

Background

In response to budget shortfalls, some public employers are requiring or offering employee furloughs. Furloughs can impact the retirement systems by:

- Reducing member benefits by lowering salary averages used to calculate pensions.
- Reducing member benefits by causing a loss of service credit.
- Reducing the amount of contributions made to the systems.

Senate Bill 6157

The bill eliminates the impact of furloughs on salary averages used to calculate pension benefits, and only applies to certain Public Employees' Retirement System (PERS) members experiencing furloughs as part of agency cost-cutting measures.

Any compensation lost due to furloughs taken before July 1, 2009, or after June 30, 2011, will not be counted in the member's salary average.

There will be a fiscal cost to the bill, as reflected in the fiscal note.

Policy Considerations

- The full extent of all impacts will not be known until it is determined how many public employees will be furloughed, how many furlough hours those employees will take, when these furlough hours will be taken, and when those employees will retire.
- The bill adds cost to the system at a time when the system is already challenged.
- The bill only applies to PERS members. It is yet to be determined if members of other systems will be affected by furloughs, but if they are this could result in an inconsistency between systems. However, expanding the protections to other systems would further increase costs.
- Some PERS members have experienced furloughs that are not covered by SB 6157.

- Few employees are likely to lose service credit, and those who do have several options under current law for avoiding the loss or reducing the impact.

Committee Activity

Staff briefed the committee on this issue in September. No further action was taken.

Staff Contact

Aaron Gutierrez, Policy Analyst
360.786.6152
gutierrez.aaron@leg.wa.gov

Briefing on Furloughs and Senate Bill 6157 (2009)

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

In Brief

Issue

Some public employers are utilizing furloughs in response to budget reductions. Senate Bill 6157 was enacted to minimize or avoid possible reductions in benefits resulting from reductions in work hours.

Member Impact

Furloughs may potentially impact members of all systems. Senate Bill 6157 only applies to members of the Public Employees' Retirement Systems Plans 1, 2, and 3.

Description of Issue

In the 2009 Legislative Session, the Legislature passed Senate Bill (SB) 6157 to minimize or avoid possible reductions in retirement benefits. The bill eliminates the impact of furloughs on salary averages used to calculate pension benefits, and only applies to certain Public Employees' Retirement System (PERS) members experiencing furloughs as part of agency cost-cutting measures.

The bill was introduced in the Senate in April 2009, and did not go through the Select Committee on Pension Policy (SCPP). At its June meeting, the SCPP instructed staff to brief the SCPP on SB 6157 and the effect of furloughs on the retirement systems.

How Furloughs Work

In response to budget shortfalls, some public employers are requiring or offering employee furloughs. Furloughs are one option for reducing expenditures without resorting to layoffs. However, furloughs may result in reduction of employee retirement benefits and a reduction in contributions to the retirement systems.

Furloughs are unpaid leaves of absence that allow agencies to save money by reducing the amount of hours an employee works. By taking a furlough, the employee is paid less without a reduction in the employee's contractual salary. Agencies may also save additional money (such as overhead costs like electricity) by requiring all employees to take a furlough at the same time.

Furloughs can affect retirement benefits by lowering salary averages or causing members to lose service credit.

For the purposes of this paper, any reduction in work hours that results in a reduction of compensation is considered a furlough, such as reduced work hours and unpaid leave.

Furloughs can be voluntary or mandatory. Voluntary furloughs typically involve an employer identifying a target reduction in hours, and then asking for volunteers to take all or a portion of those hours. Mandatory furloughs can either be self-directed (akin to taking unpaid

vacation days), or a complete shutdown of a department for a set period, such as three Fridays per month.[1]

[1]*As is the case currently in California.*

If an employee is nearing retirement, furloughs could potentially affect an employee's salary average. Salary averages are used to calculate retirement benefits, and the result could be a reduction in benefits.

Furloughs in Washington

Budget reduction strategies are in flux throughout the state and the nation.

At this point, there is no single statewide furlough policy in Washington, and agencies have discretion in meeting cost reductions. Without polling each city, county, agency, and school district, it is not yet known how many are, or will be, utilizing mandatory or voluntary furloughs. However, to cite two known examples, Washington legislative staff will be taking mandatory furloughs:

- House staff must take five furlough days (40 hours) during fiscal year (FY) 10. However, furloughs may not be taken during the legislative session.
- Senate staff must take five furlough days (40 hours) during FY 10, and another five days during FY 11. Furloughs may not be taken during the legislative session.

Other States

As of this writing, at least 23[2] other states are requiring public employee furloughs. In practice, furloughs vary widely. For example, furloughs may affect all public employees, or they may exempt some agencies or personnel – most commonly in public safety, health, and education fields.

[2]*See Figure 1.*

Figure 1

States Utilizing Furloughs		
(Asterisk Indicates Peer State)		
California*	Colorado*	Connecticut
Georgia	Hawaii	Idaho*
Iowa*	Maryland	Massachusetts
Maine	Michigan	Nevada
New Jersey	North Carolina	Ohio*
Oklahoma	Oregon*	Rhode Island
South Carolina	Tennessee	Utah
Vermont	Wisconsin*	

Furloughs may be required by statute, executive order, or internal agency processes, and existing systems may already compensate for the impact of furloughs without requiring new legislation. Also, several other states are discussing the possibility of furloughs, and state policies are continually being updated.

For states requiring furloughs, the amount of unpaid leave currently ranges from two days per year to 72 days within the current biennium.[3] At least one state[4] has established a graduated system, where those earning more than $40,000 per year must take additional furlough time.

[3]*Maryland and Hawaii, respectively.*

[4]*Maryland.*

Some employees are allowed to take the furlough days in small increments (such as one half hour per day), while others must take whole days. Similarly, some states allow employees to take furlough days in blocks, while others are not allowed to take more than eight hours of unpaid leave per month.

At least six states allow employees to retain their same level of benefits by taking into account compensation the employee would have earned.

[5]*See Figure 2.*

Figure 2

State or System Absorbs Cost		
(Asterisk Indicates Peer State)		
California*	Maryland	North Carolina
Oregon*	Vermont	Wisconsin

At least five states[6] allow employees to retain the same level of benefits by continuing to make contributions during the furlough period.

[6]*See Figure 3.*

Figure 3

States That Allow Employees to Continue to Make Contributions During Furlough		
(Asterisk Indicates Peer State)		
Iowa*	Louisiana[7]	Nevada
New Jersey	Rhode Island	

[7]*Only applies to higher education employees.*

Recent Legislation

SB 6157 eliminates the impact of furloughs on members' salary averages when calculating benefits.

In the 2009 Legislative Session, the Legislature passed SB 6157 to mitigate the possible impact of furloughs on members of PERS. The bill was introduced directly in the Senate in April and did not go through the SCPP.

In calculating average salary for retiring PERS members, the Department of Retirement Systems (DRS) must take into consideration any compensation foregone during the 2009–11 Biennium as a result of reduced work hours, voluntary leave without pay, or temporary furloughs taken as part of the employer's efforts to reduce costs.

In other words, if upon retirement it is determined that a furlough taken during the 2009–11 Biennium will affect a member's average salary, then DRS will adjust the calculation to include any compensation the member would have earned if the member had not been subject to furlough. The member does not actually receive compensation for the time off, and the employer only reports the actual hours earned by the member.

SB 6157 creates a cost to the system at a time when the system is already challenged.

Contributions to the system are based on salary, and a reduction in compensation generally results in a reduction of contributions to the system. The practical effect of SB 6157 is that contributions to the system will decrease while the anticipated level of benefits will stay the same, resulting in a cost to the system (see attached fiscal note).

Policy Considerations

As of this writing, there is no statewide furlough policy, and the retirement effects of furloughs and SB 6157 cannot yet be determined. The impact will depend on:

- The number of employees furloughed.
- The amount and timing of reduced hours for each employee.
- When those employees retire.

In order to determine which employees will be affected by furloughs, the Department of Personnel (DOP) has asked public employers to report furloughs, and DRS has advised public employers to keep a note in the file of each employee affected by furloughs.

Potential impacts of SB 6157 that policy makers may wish to consider include:

- Inconsistency between systems.
- Furloughs not covered by the bill.
- Possible lost service credit.

Inconsistency Between Systems

The bill only covers members of PERS Plans 1, 2, and 3. It has yet to be determined if other systems will be utilizing furloughs. In other states, employees in public safety and education functions are often exempted from furlough policies. However, this is not always the case, and if employees from systems other than PERS are furloughed an inconsistency between the systems would result.

If an inconsistency exists, the provisions of SB 6157 could be expanded to include other systems. However, this would further increase the cost to the system, at a level yet to be determined.

Furloughs Not Covered

Senate Bill 6157 only addresses furloughs taken during the current biennium.

The bill does not address compensation lost due to furloughs taken prior to July 1, 2009, or after June 30, 2011, and such lost compensation will not be considered in calculating a member's average salary. This may be of particular concern to local governments, as budget cycles vary, and some local governments have furloughed employees prior to July 1, 2009. According to correspondence received by the Office of the State Actuary at least one local government, the City of Bremerton, has furloughed employees prior to July 1, 2009.

The provisions of SB 6157 could be expanded to include furloughs taken outside the 2009-11 Biennium window. However, expansion would further increase the cost to the system, at a level yet to be determined.

Possible Lost Service Credit

Members have several options under current law to avoid a loss of service credit.

The bill also does not address possible loss of service credit. Service credit is generally based on hours worked, and while it is unlikely that a full-time employee would lose service credit, it is possible that a part-time employee could take enough furlough days in one month to cause a loss of at least a partial month of service credit. For any individuals who do lose service credit, the loss of even a full month credit will not cause a break in service,[8] but it may affect:

- When the member's benefits vest.
- When a member can start receiving benefits (retirement eligibility).
- The amount of benefits the member will receive each month.

[8] *WAC 357-46-057*

The full extent of impacts cannot be determined at this time.

Employers may be able to minimize or avoid lost service credit through careful scheduling. In addition, members may be able to minimize or avoid lost service credit by purchasing the lost credit, working longer before retirement, or purchasing additional service credit at retirement.

Conclusion

The full extent of impacts from furloughs and SB 6157 cannot be determined at this time. The impact will depend on:

- The number of employees furloughed.
- The amount and timing of reduced hours for each employee.
- When those employees retire.

SB 6157 addresses some potential impacts of furloughs on retirement benefits for some public employees. The bill does not seek to address all potential impacts for all public employees who may be furloughed. Given how little is known about the full extent and impact of furloughs at this time, policy makers may wish to gather more information before considering changes to the underlying policies in the bill.

Stakeholder Input

Kelly Fox, Chair, LEOFF 2 Board letter, received June 8, 2009.

Carol Conley, Human Resources Manager, City of Bremerton, received July 22, 2009.

Senate Bill 6157

Attached.

Fiscal Note

Attached.

Appendix

Kim Smith, Department of Retirement Systems email to public employers, received June 20, 2009, explaining how the department will be administering SB 6157.

S-2819.1

SENATE BILL 6157

State of Washington 61st Legislature 2009 Regular Session

By Senators Prentice, Tom, Hobbs, and Fraser

Read first time 04/13/09. Referred to Committee on Ways & Means.

AN ACT Relating to the calculation of compensation for public retirement purposes during the 2009-2011 fiscal biennium; and amending RCW 41.40.010.

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

Sec. 1. RCW 41.40.010 and 2007 c 50 s 4 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

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

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

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

(4)(a) "Employer" for plan 1 members, means every branch, department, agency, commission, board, and office of the state, any political subdivision or association of political subdivisions of the state admitted into the retirement system, and legal entities authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the

term shall also include any labor guild, association, or organization the membership of a local lodge or division of which is comprised of at least forty percent employees of an employer (other than such labor guild, association, or organization) within this chapter. The term may also include any city of the first class that has its own retirement system.

(b) "Employer" for plan 2 and plan 3 members, means every branch, department, agency, commission, board, and office of the state, and any political subdivision and municipal corporation of the state admitted into the retirement system, including public agencies created pursuant to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August 31, 2000, school districts and educational service districts will no longer be employers for the public employees' retirement system plan 2.

(5) "Member" means any employee included in the membership of the retirement system, as provided for in RCW 41.40.023. RCW 41.26.045 does not prohibit a person otherwise eligible for membership in the retirement system from establishing such membership effective when he or she first entered an eligible position.

(6) "Original member" of this retirement system means:

(a) Any person who became a member of the system prior to April 1, 1949;

(b) Any person who becomes a member through the admission of an employer into the retirement system on and after April 1, 1949, and prior to April 1, 1951;

(c) Any person who first becomes a member by securing employment with an employer prior to April 1, 1951, provided the member has rendered at least one or more years of service to any employer prior to October 1, 1947;

(d) Any person who first becomes a member through the admission of an employer into the retirement system on or after April 1, 1951, provided, such person has been in the regular employ of the employer for at least six months of the twelve-month period preceding the said admission date;

(e) Any member who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement becomes entitled to be credited with ten years or more of membership service except that the provisions

relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member;

(f) Any member who has been a contributor under the system for two or more years and who has restored all contributions that may have been withdrawn as provided by RCW 41.40.150 and who on the effective date of the individual's retirement has rendered five or more years of service for the state or any political subdivision prior to the time of the admission of the employer into the system; except that the provisions relating to the minimum amount of retirement allowance for the member upon retirement at age seventy as found in RCW 41.40.190(4) shall not apply to the member.

(7) "New member" means a person who becomes a member on or after April 1, 1949, except as otherwise provided in this section.

(8)(a) "Compensation earnable" for plan 1 members, means salaries or wages earned during a payroll period for personal services and where the compensation is not all paid in money, maintenance compensation shall be included upon the basis of the schedules established by the member's employer.

(i) "Compensation earnable" for plan 1 members also includes the following actual or imputed payments, which are not paid for personal services:

(A) 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 in a position 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 and the individual shall receive the equivalent service credit;

(B) If a leave of absence is taken by an individual for the purpose of serving in the state legislature, the salary which would have been received for the position from which the leave of absence was taken, shall be considered as compensation earnable if the employee's contribution is paid by the employee and the employer's contribution is paid by the employer or employee;

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

(D) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(E) 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

(F) 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.

(ii) "Compensation earnable" does not include:

(A) Remuneration for unused sick leave authorized under RCW 41.04.340, 28A.400.210, or 28A.310.490;

(B) Remuneration for unused annual leave in excess of thirty days as authorized by RCW 43.01.044 and 43.01.041.

(b) "Compensation earnable" for plan 2 and plan 3 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.

"Compensation earnable" for plan 2 and plan 3 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 in a position 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 above, 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 41.40.038;

(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.

(9)(a) "Service" for plan 1 members, except as provided in RCW 41.40.088, means periods of employment in an eligible position or positions for one or more employers rendered to any employer for which compensation is paid, and includes time spent in office as an elected or appointed official of an employer. Compensation earnable earned in full time work for seventy hours or more in any given calendar month shall constitute one service credit month except as provided in RCW 41.40.088. Compensation earnable earned for less than seventy hours in any calendar month shall constitute one-quarter service credit month of service except as provided in RCW 41.40.088. Only service credit months and one-quarter service credit months shall be counted in the computation of any retirement allowance or other benefit provided for in this chapter. Any fraction of a year of service shall be taken into account in the computation of such retirement allowance or benefits. Time spent in standby status, whether compensated or not, is not service.

(i) Service by a state employee officially assigned by the state on a temporary basis to assist another public agency, shall be considered as service as a state employee: PROVIDED, That service to any other public agency shall not be considered service as a state employee if such service has been used to establish benefits in any other public retirement system.

(ii) An individual shall receive no more than a total of twelve service credit months of service during any 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 seventy or more hours is rendered.

(iii) A school district employee may count up to forty-five days of sick leave as creditable service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than twenty-two days equals one-quarter service credit month;

(B) Twenty-two days equals one service credit month;

(C) More than twenty-two days but less than forty-five days equals one and one-quarter service credit month.

(b) "Service" for plan 2 and plan 3 members, means periods of employment by a member in an eligible position or positions 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 except as provided in RCW 41.40.088. 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.

(i) Service in any state elective position shall be deemed to be full time service, except that persons serving in state elective positions who are members of the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and firefighters' retirement system at the time of election or appointment to such position may elect to continue membership in the Washington school employees' retirement system, teachers' retirement system, public safety employees' retirement system, or law enforcement officers' and firefighters' retirement system.

(ii) 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.

(iii) Up to forty-five days of sick leave may be creditable as service solely for the purpose of determining eligibility to retire under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal to two service credit months. Use of less than forty-five days of sick leave is creditable as allowed under this subsection as follows:

(A) Less than eleven days equals one-quarter service credit month;

(B) Eleven or more days but less than twenty-two days equals one-half service credit month;

(C) Twenty-two days equals one service credit month;

(D) More than twenty-two days but less than thirty-three days equals one and one-quarter service credit month;

(E) Thirty-three or more days but less than forty-five days equals one and one-half service credit month.

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

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

(12) "Prior service" means all service of an original member rendered to any employer prior to October 1, 1947.

(13) "Membership service" means:

(a) All service rendered, as a member, after October 1, 1947;

(b) All service after October 1, 1947, to any employer prior to the time of its admission into the retirement system for which member and employer contributions, plus interest as required by RCW 41.50.125, have been paid under RCW 41.40.056 or 41.40.057;

(c) Service not to exceed six consecutive months of probationary service rendered after April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of the total amount of the employer's contribution to the retirement fund which would have been required under the law in effect when such probationary service was rendered if the member had been a member during such period, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member;

(d) Service not to exceed six consecutive months of probationary service, rendered after October 1, 1947, and before April 1, 1949, and prior to becoming a member, in the case of any member, upon payment in full by such member of five percent of such member's salary during said period of probationary service, except that the amount of the employer's contribution shall be calculated by the director based on the first month's compensation earnable as a member.

(14)(a) "Beneficiary" for plan 1 members, means any person in receipt of a retirement allowance, pension or other benefit provided by this chapter.

(b) "Beneficiary" for plan 2 and plan 3 members, 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.

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

(16) "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.

(17)(a) "Average final compensation" for plan 1 members, means the annual average of the greatest compensation earnable by a member during any consecutive two year period of service credit months for which service credit is allowed; or if the member has less than two years of

service credit months then the annual average compensation earnable during the total years of service for which service credit is allowed.

(b) "Average final compensation" for plan 2 and plan 3 members, 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 41.40.710(2) <u>or (c) of this subsection</u>.

<u>(c) In calculating average final compensation under this subsection for a member of plan 1, 2, or 3, the department of retirement systems shall include any compensation forgone by the member during the 2009-2011 fiscal biennium as a result of reduced work hours, voluntary leave without pay, or temporary furloughs if the reduced compensation is an integral part of the employer's expenditure reduction efforts, as certified by the employer.</u>

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

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

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

(21) "Retirement allowance" means the sum of the annuity and the pension.

(22) "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.

(23) "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.

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

(25) "Eligible position" means:

(a) Any position that, as defined by the employer, normally requires five or more months of service a year for which regular compensation for at least seventy hours is earned by the occupant thereof. For purposes of this chapter an employer shall not define "position" in such a manner that an employee's monthly work for that employer is divided into more than one position;

(b) Any position occupied by an elected official or person appointed directly by the governor, or appointed by the chief justice of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which compensation is paid.

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

(27) "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.

(28) "Totally incapacitated for duty" means total inability to perform the duties of a member's employment or office or any other work for which the member is qualified by training or experience.

(29) "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.

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

(31) "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.

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

(33) "Plan 1" means the public employees' retirement system, plan 1 providing the benefits and funding provisions covering persons who first became members of the system prior to October 1, 1977.

(34) "Plan 2" means the public employees' retirement system, plan 2 providing the benefits and funding provisions covering persons who first became members of the system on and after October 1, 1977, and are not included in plan 3.

(35) "Plan 3" means the public employees' retirement system, plan 3 providing the benefits and funding provisions covering persons who:

(a) First become a member on or after:

(i) March 1, 2002, and are employed by a state agency or institute of higher education and who did not choose to enter plan 2; or

(ii) September 1, 2002, and are employed by other than a state agency or institute of higher education and who did not choose to enter plan 2; or

(b) Transferred to plan 3 under RCW 41.40.795.

(36) "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.

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

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

(39) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

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

(41) "Annual increase" means, initially, fifty-nine cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(42) "Separation from service" occurs when a person has terminated all employment with an employer. Separation from service or employment does not occur, and if claimed by an employer or employee may be a violation of RCW 41.40.055, when an employee and employer have a written or oral agreement to resume employment with the same employer following termination. Mere expressions or inquiries about postretirement employment by an employer or employee that do not constitute a commitment to reemploy the employee after retirement are not an agreement under this subsection.

(43) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

--- END ---

ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**4/18/09**	**SB 6157**

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 modifies the definition of Average Final Compensation (AFC) for the Public Employees' Retirement System (PERS) to include the salary forgone by members due to taking time off without pay during the 2009-2011 Biennium. This modification only applies to time off taken as an integral part of an employer's effort to reduce expenditures.

Impact on Pension Liability

(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$34,695	$15.8	$34,711
Earned Pensions Not Covered by Today's Assets	$3,609	$5.8	$3,614

Impact on Contribution Rates: (Effective 9/1/2009)

2009-2011 State Budget	**PERS**	**SERS**	**PSERS**
Employee (Plan 2)	0.01%	0.00%	0.00%
Employer:			
Current Annual Cost	0.01%	0.00%	0.00%
Plan 1 Past Cost	0.01%	0.01%	0.01%
Total	0.02%	0.01%	0.01%

Budget Impacts

(Dollars in Millions)	**2009-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.8	$0.5	$5.1
Total Employer	$3.7	$2.4	$22.9

Please see the remainder of this fiscal note for additional detail including how the cost could increase above the amounts listed above.

WHAT IS THE PROPOSED CHANGE?

Summary Of Benefit Improvement

This bill impacts the PERS Plans 1, 2, and 3 by modifying the definition of AFC. The new definition of AFC for purposes of calculating a member's retirement benefit includes salary forgone by the member during the 2009-2011 Biennium due to time off without pay. However, this modification to the AFC only applies to time off without pay taken as an integral part of the employer's efforts to reduce expenses.

Effective Date: 90 days after session.

What Is The Current Situation?

AFC for PERS Plan 1 members is the annual average of the greatest salary earned during a two year period where the members earned service credit in each month of that period. For PERS Plan 2/3 members, AFC is the annual average of the greatest salary earned during a five year period where the members earned service credit in each month of that period.

PERS members who take time off without pay may be able to restore the missing service and/or compensation upon return to employment, depending on the member's plan and the reason for the time off. For example, all members can generally restore service and salary for time off to serve in the armed forces. However, only Plan 2 or Plan 3 members can restore service for other voluntary time off without pay.

Who Is Impacted And How?

We estimate this bill could affect all 158,022 active members of PERS through improved benefits. With the absence of a statewide furlough policy, we believe at least 19,000 members will be affected by taking ten furlough days in each year of the upcoming biennium. We used this as the assumption for our pricing.

We believe a reasonable estimate of a statewide furlough policy would be anywhere from 39,506 to 158,022 members taking ten furlough days in each year of the upcoming biennium. We priced these two scenarios in the How The Results Change When The Assumptions Change section (AKA sensitivity analysis).

WHY THIS BILL HAS A COST AND WHO PAYS FOR IT

Why This Bill Has A Cost

This bill changes the law to increase the AFC, and retirement benefit, of anyone who takes cost-saving furloughs over the next two years. Any increase in ultimate retirement benefits due to this law change would be considered a cost to the pension system. The AFC is used in the retirement benefit calculation through termination, retirement, disability, and death.

Who Will Pay For These Costs?

These costs will be funded consistent with the normal pension funding policy of PERS. All employers of PERS, School Employees' Retirement System (SERS), and Public Safety Employees' Retirement System (PSERS) members will pay a larger Unfunded Actuarial Accrued Liability (UAAL) contribution rate due to the increase in costs from PERS Plan 1 members. Members of PERS Plan 2 and employers of members in PERS Plans 2/3 will share equally in contribution rate increases due to the costs from PERS Plans 2/3 members.

HOW WE VALUED THESE COSTS

Assumptions We Made

For the pricing of the fiscal note we assumed:

- Twelve percent of the members in PERS (both State and local) would take ten furlough days each of the next two years, absent a statewide furlough policy.

For the low-cost estimate we assumed:

- Twenty-five percent of the members in PERS (both State and local) would take ten furlough days each of the next two years, based upon a statewide furlough policy.

For the high-cost estimate we assumed:

- Every member in PERS (both State and local) would take ten furlough days each of the next two years, based upon a statewide furlough policy.

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

How We Applied These Assumptions

We determined the cost of this bill when both one-quarter (low-cost estimate) and the full population (high-cost estimate) took ten furlough days for the next two years. We decided that was a reasonable range for this bill if a furlough policy were announced.

However, since a statewide furlough policy has not been announced, we determined that 12 percent of the PERS population would need to take ten furlough days in order to impact supplemental contribution rates in the 2009-2011 Biennium. We concluded that 12 percent of the population taking furloughs is likely based on King County (3.5 percent of PERS) already announcing a 10-day furlough policy.

The method we used for calculating the cost of our scenarios is outlined below:

We created a new "base" which reflects the future benefits expected to be earned based on average final compensation excluding missed furlough pay.

To do this we first altered the projected salary stream of the affected members. Each affected member's salary would decrease by 2/52 in the first year to reflect two work weeks of time off. We then increased every member's salary by 4.25 percent in the second year to reflect assumed general salary growth. We then increased every member's salary by 8.42 percent in the third year to reflect assumed general salary growth and the return to a full annual salary. Please see the table below for an example of the salary streams under this pricing.

	Salary Example		
	Year 1	Year 2	Year 3
With Furlough	$48,077	$50,120	$54,340
Without Furlough	$50,000	$52,125	$54,340

We then measured the increase in liability between the "base" and the "pricing" – where the "pricing" is consistent with our AVR. The increase in liability emerges due to a higher AFC in the calculation of retirement benefits. We discounted the liability increase by two years to produce a liability change consistent with the liabilities as of the valuation date.

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

Special Data Needed

We relied on information contained in the 2009 King County budget that requires ten county-wide furlough days in the 2009 budget year. King County represents approximately 3.5 percent of the total PERS population.

We developed these costs using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

How The Liabilities Changed

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

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,061	$5.8	$14,067
PERS 2/3	20,634	10.0	20,644
PERS Total	**$34,695**	**$15.8**	**$34,711**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$5.8**	**$3,614**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$3,990	$5.7	$3,995
PERS 2/3	(2,470)	8.4	(2,461)
PERS Total	**$1,520**	**$14.1**	**$1,534**

Note: Totals may not agree due to rounding.

How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown below that applies in the current biennium. However, we will use the un-rounded rate increase to measure the budget changes in future biennia.

Impact on Contribution Rates: (Effective 9/1/2009)			
System/Plan	**PERS**	**SERS**	**PSERS**
Current Members			
Employee (Plan 2)	0.008%	0.000%	0.000%
Employer:			
Normal Cost	0.008%	0.000%	0.000%
Plan 1 UAAL	0.005%	0.005%	0.005%
Total	0.013%	0.005%	0.005%
New Entrants*			
Employee (Plan 2)	0.000%	0.000%	0.000%
Employer:			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	0.005%	0.005%	0.005%
Total	0.005%	0.005%	0.005%

**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

	Budget Impacts			
(Dollars in Millions)	**PERS**	**SERS**	**PSERS**	**Total**
2009-2011				
General Fund	$0.7	$0.1	$0.0	$0.8
Non-General Fund	1.0	0.0	0.0	1.0
Total State	**$1.6**	**$0.1**	**$0.0**	**$1.8**
Local Government	1.7	0.2	0.0	1.9
Total Employer	**$3.4**	**$0.3**	**$0.0**	**$3.7**
Total Employee	**$1.3**	**$0.0**	**$0.0**	**$1.3**
2011-2013				
General Fund	$0.4	$0.1	$0.0	$0.5
Non-General Fund	0.6	0.0	0.0	0.6
Total State	**$1.1**	**$0.1**	**$0.0**	**$1.2**
Local Government	1.1	0.1	0.0	1.2
Total Employer	**$2.2**	**$0.2**	**$0.0**	**$2.4**
Total Employee	**$1.0**	**$0.0**	**$0.0**	**$1.0**
2009-2034				
General Fund	$4.2	$0.7	$0.1	$5.1
Non-General Fund	6.0	0.0	0.0	6.0
Total State	**$10.2**	**$0.7**	**$0.2**	**$11.0**
Local Government	10.9	0.9	0.0	11.8
Total Employer	**$21.0**	**$1.7**	**$0.2**	**$22.9**
Total Employee	**$8.6**	**$0.0**	**$0.0**	**$8.6**

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. If the State adopts a furlough policy in the 2009-2011 Biennium, the State Actuary may calculate an additional supplemental contribution rate increase for this bill.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

The cost of this bill could increase if the State adopts a furlough policy and/or actual experience exceeds the amount assumed in this pricing. The tables below show the impacts of this proposal when we change the assumed percentage of members who will take ten furlough days in the next two years.

- **Low Estimate –** 25 percent assumption
- **High Estimate –** 100 percent assumption

How The Liabilities Could Change

Impact on Pension Liability – Low Estimate			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,061	$12.5	$14,074
PERS 2/3	20,634	21.5	20,656
PERS Total	**$34,695**	**$34.1**	**$34,729**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$12.5**	**$3,621**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$3,990	$12.2	$4,002
PERS 2/3	(2,470)	18.2	(2,451)
PERS Total	**$1,520**	**$30.5**	**$1,551**

Note: Totals may not agree due to rounding.

Impact on Pension Liability – High Estimate			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,061	$50.2	$14,111
PERS 2/3	20,634	86.1	20,721
PERS Total	**$34,695**	**$136.3**	**$34,832**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$3,609**	**$50.2**	**$3,659**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$3,990	$48.9	$4,039
PERS 2/3	(2,470)	72.9	(2,397)
PERS Total	**$1,520**	**$121.8**	**$1,642**

Note: Totals may not agree due to rounding.

How Contribution Rates Could Change

Impact on Contribution Rates – Low Estimate (Effective 9/1/2009)			
System/Plan	**PERS**	**SERS**	**PSERS**
Current Members			
Employee (Plan 2)	0.017%	0.000%	0.000%
Employer:			
Normal Cost	0.017%	0.000%	0.000%
Plan 1 UAAL	0.011%	0.011%	0.011%
Total	0.028%	0.011%	0.011%
New Entrants*			
Employee (Plan 2)	0.000%	0.000%	0.000%
Employer:			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	0.011%	0.011%	0.011%
Total	0.011%	0.011%	0.011%

**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.*

Impact on Contribution Rates – High Estimate (Effective 9/1/2009)			
System/Plan	**PERS**	**SERS**	**PSERS**
Current Members			
Employee (Plan 2)	0.069%	0.000%	0.000%
Employer:			
Normal Cost	0.069%	0.000%	0.000%
Plan 1 UAAL	0.043%	0.043%	0.043%
Total	0.113%	0.043%	0.043%
New Entrants*			
Employee (Plan 2)	0.000%	0.000%	0.000%
Employer:			
Normal Cost	0.000%	0.000%	0.000%
Plan 1 UAAL	0.043%	0.043%	0.043%
Total	0.043%	0.043%	0.043%

**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 Could Impact Budgets And Employees

Budget Impacts - Low Estimate				
(Dollars in Millions)	**PERS**	**SERS**	**PSERS**	**Total**
2009-2011				
General Fund	$1.0	$0.1	$0.0	$1.2
Non-General Fund	1.4	0.0	0.0	1.4
Total State	**$2.4**	**$0.1**	**$0.0**	**$2.6**
Local Government	2.6	0.2	0.0	2.8
Total Employer	**$5.1**	**$0.3**	**$0.0**	**$5.4**
Total Employee	**$2.6**	**$0.0**	**$0.0**	**$2.6**
2011-2013				
General Fund	$0.9	$0.2	$0.0	$1.1
Non-General Fund	1.3	0.0	0.0	1.4
Total State	**$2.3**	**$0.2**	**$0.0**	**$2.5**
Local Government	2.5	0.2	0.0	2.7
Total Employer	**$4.7**	**$0.4**	**$0.0**	**$5.2**
Total Employee	**$2.1**	**$0.0**	**$0.0**	**$2.1**
2009-2034				
General Fund	$8.6	$1.4	$0.3	$10.3
Non-General Fund	12.3	0.0	0.0	12.3
Total State	**$20.9**	**$1.4**	**$0.3**	**$22.6**
Local Government	22.3	1.8	0.1	24.2
Total Employer	**$43.2**	**$3.2**	**$0.4**	**$46.8**
Total Employee	**$18.4**	**$0.0**	**$0.0**	**$18.4**

Note: Totals may not agree due to rounding.

Budget Impacts - High Estimate				
(Dollars in Millions)	**PERS**	**SERS**	**PSERS**	**Total**
2009-2011				
General Fund	$3.7	$0.6	$0.1	$4.4
Non-General Fund	5.3	0.0	0.0	5.3
Total State	**$9.0**	**$0.6**	**$0.1**	**$9.6**
Local Government	9.6	0.7	0.0	10.3
Total Employer	**$18.6**	**$1.3**	**$0.1**	**$20.0**
Total Employee	**$9.1**	**$0.0**	**$0.0**	**$9.1**
2011-2013				
General Fund	$3.8	$0.7	$0.1	$4.6
Non-General Fund	5.4	0.0	0.0	5.4
Total State	**$9.2**	**$0.7**	**$0.1**	**$10.0**
Local Government	9.8	0.8	0.0	10.7
Total Employer	**$19.0**	**$1.5**	**$0.2**	**$20.6**
Total Employee	**$8.2**	**$0.0**	**$0.0**	**$8.2**
2009-2034				
General Fund	$34.1	$5.7	$1.1	$40.9
Non-General Fund	48.6	0.0	0.1	48.7
Total State	**$82.6**	**$5.7**	**$1.2**	**$89.6**
Local Government	88.4	7.1	0.3	95.8
Total Employer	**$171.0**	**$12.9**	**$1.5**	**$185.4**
Total Employee	**$72.1**	**$0.0**	**$0.0**	**$72.1**

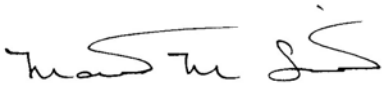
Note: Totals may not agree due to rounding.

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

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.

Wallis, Keri

From: Smith, Matt
Sent: Monday, July 20, 2009 2:18 PM
To: Gutierrez, Aaron
Cc: Harper, Laura
Subject: FW: DRS Email 09-010, SB 6157 (Furlough)

Follow Up Flag: Follow up
Flag Status: Flagged

FYI. A communication from DRS to employers.

From: Smith, Kim (DRS) [mailto:KimS@DRS.WA.GOV] **On Behalf Of** DRSEmployer
Sent: Monday, July 20, 2009 1:51 PM
Subject: DRS Email 09-010, SB 6157 (Furlough)

Senate Bill (SB) 6157 allows any compensation forgone by a Public Employees' Retirement System (PERS) member, due to a furlough during the 2009-2011 biennium, to be included in the average final compensation calculation of that member's retirement benefit. The qualifying factor is that the furlough must have been an integral part of the employer's efforts to reduce expenditures. Furloughs prior to July 1, 2009 or after June 30, 2011 are not covered by this legislation.

What is a furlough?
A furlough is a temporary reduction in work hours and salary. The term would also apply if an individual took a voluntary leave without pay as part of an employer's expenditure reduction efforts.

Who may be affected?
Members of PERS Plan 1, 2, and 3 who have all or part of the 2009-2011 biennium in their average final compensation (AFC) time period (24 consecutive months for Plan 1, and 60 consecutive months for Plan 2 or 3).

How does a furlough impact reporting by employers?
Employers should report actual hours worked and compensation paid. If DRS determines that the 09-11 biennium could impact a member's AFC period, the employer will be asked to verify the use of furloughs as part of an expenditure reduction effort. Also, the employer will be asked for the amount of compensation foregone by an employee due to the furlough. DRS is not prescribing the documentation employers should keep on the furloughs. This may be done by employer resolution, documentation in an employee's personnel file, or any other method that will allow an employer to respond to future requests.

How does a furlough affect a member's retirement benefit?
SB 6157 provides only for lost compensation due to a furlough, it does not grant service credit.

- **Earnings:** In furlough cases, there will be a reduction in earnings reported by the employer. This reduction could be a small amount per month or full months of leave without pay. In applying SB 6157, DRS will confirm the furlough impact on earnings with the employer.
- **Service Credit:** Depending on the retirement plan and the length of the furlough, service credit may be affected as the member will be granted service credit (full or partial) based on the hours of service reported each month. In situations where members of Plans 2 and 3 lose

service credit due to a furlough, they have the option of purchasing the time as an authorized leave of absence. Plan 1 has no such provision.

- **Retirement Benefit Calculation:** The AFC period is determined by consecutive service credit months of a member's highest earnings. The member must still have sufficient service credit in the months the furlough took place in order for DRS to include it in the AFC.

Example 1 – Slightly Reduced Work Hours – No Service Credit Impact

Ben's employer determines that its expenditure reduction efforts during the 2009-2011 biennium will include reducing Ben's work hours. Ben is a fulltime employee earning $3,000 and will be subject to two furlough days per month for six months. Ben's employer should report to DRS each month's actual salary and hours worked by Ben. Ben still will be receiving full retirement service credit as he will continue to work well above the minimum hours needed for full service credit (90 for Plan 2 or 3, 70 hours for Plan 1).

Later in his career when Ben asks DRS for a retirement estimate, DRS will determine if the 2009-2011 biennium might be included in his AFC period. If so, his employer will be asked to verify that the salary and hour reductions qualify as an integral part of an expenditure reduction effort. Once verified, DRS will include the salary forgone by the use of the furlough in calculating his benefit.

Example 2- Reduction in Work Hours - Resulting in Loss of Service Credit

Sarah currently works fulltime for a state agency making $3,500 per month. As part of the agency's reduction efforts during the 2009-2011 biennium, her agency determines Sarah should only work two weeks per month for three months. Sarah's employer should report to DRS each month's actual salary ($1,750) and hours (80) worked by Sarah.

As a PERS Plan 2 member, Sarah will not be receiving full retirement service credit while she is working 80 hours per month (Plan 2 requires 90 hours to earn full service credit). She would receive ½ of a service credit for each of the three months she was only working 80 hours.

Once Sarah completes her furlough time, she would have five years, or until she retired (whichever comes first) to buy the service she missed and increase those three months to full service credits. If she so requests, her employer will be asked to verify that the hour reductions qualify as an integral part of an expenditure reduction effort, and if Sarah qualifies for an authorized leave of absence service credit purchase.

Key Points

- Employers should report normally – hours worked and compensation paid
- Retirement contributions should only be taken on compensation paid
- Members will only be impacted if their AFC period includes the 2009-2011 biennium
- A member does not have to retire during the 2009-2011 biennium to benefit from SB 6157
- Early and mid-career employees are less likely to have furlough in the 2009-2011 biennium impact their AFC period

Questions

Should you have questions, please reply to this notice or call Employer Support Services at 360-664-7200 (option 2) or 1-800-547-6657 (option 6 then option 2).

RECEIVED
JUN - 8 2009
Office of
The State Actuary

STATE OF WASHINGTON
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD
P.O. Box 40918 • Olympia, Washington 98504-0918 • (360) 586-2320 • FAX (360) 586-2329 • www.leoff.wa.gov

June 8, 2009

RECEIVED
JUN - 8 2009
Office of
The State Actuary

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

Dear Honorable Members of the Select Committee on Pension Policy:

On behalf of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF 2 Board), I would like to thank you for the cooperative working relationship we have shared during the past 6 years and look forward to a similar partnership in the future.

I would like to bring several topics back to your attention as you begin preparation for the 2009 interim. It is our hope that the Select Committee on Pension Policy (SCPP) and the LEOFF 2 Board can work cooperatively on these issues. I have provided a brief summary of each topic for your reference:

Duty-Related Death Benefit
The LEOFF 2 Board and the SCPP jointly recommended legislation last session to increase the lump-sum benefit provided to beneficiaries of all retirement system members who die in the course of their service to the public. That legislation did not pass.

Annuity Purchase
Under current law, Plan 3 members (TRS, PERS & SERS) can purchase an annuity out of the combined trust fund. Plan 2 and Plan 3 members may purchase additional service credit at the time of normal retirement by paying the actuarial cost of the additional service, but they are limited to five years. Members who have assets in excess of the purchase cost for the maximum five years could benefit from another avenue to invest those assets.

Survivor Factors
The current benefit calculation methodology uses joint and survivor factors to calculate a survivor retirement even though just one spouse is alive at the time of retirement. This practice results in a greater reduction for the surviving spouse than using a reduction factor based on just their lifetime.

Service Credit for Shared Leave
State employees who use shared leave get to include the associated hours and salary in the calculation of their pension benefit. However, local government employees do not get to include shared leave for either service credit or the calculation of their average final salary.

Furloughs
The Legislature passed a bill in the 2009 session that provided retirement protections for state and local government PERS employees who take unpaid leave of absences as a means of addressing budget challenges. Public employees who are members of other retirement systems could also benefit from similar protection.

The LEOFF 2 Board also would like to respectfully request that the legislative sponsorship of any bills that are jointly recommended by the Board and the SCPP to the Legislature for the 2010 legislative session be coordinated between the Chair of the LEOFF 2 Board and the Chair of the SCPP.

Please feel free to contact me or Steve Nelsen, LEOFF 2 Board Executive Director, should you have any questions or would like additional information. Steve can be reached at (360) 586-2320 or steve.nelsen@leoff.wa.gov, and I can be contacted at (360) 943-3030 or pres@wscff.org.

We would be happy to meet with you to discuss these topics at an upcoming SCPP or LEOFF Plan 2 Retirement Board meeting. Thank you for your consideration and we look forward to working with you.

Sincerely,

Kelly Fox, Chair

cc: Matt Smith, State Actuary

Wallis, Keri

From: Smith, Matt
Sent: Thursday, July 23, 2009 7:15 AM
To: Seaquist, Rep. Larry
Cc: Conway, Rep. Steve; Futrell, Oriana; Harper, Laura; Gutierrez, Aaron
Subject: RE: Senate Bill 6157

Follow Up Flag: Follow up
Flag Status: Flagged

Rep. Seaquist,

I agree with Ms. Conley's interpretation of the bill and how it would impact PERS employees with furlough days prior to 7/1/2009. The bill was introduced late in session and I don't recall any discussion on this particular topic, but can't say for sure. The SCPP will receive a full briefing on this legislation at their September meeting. In the meantime, please let us know if you need additional information.

Matt

-----Original Message-----
From: Seaquist, Rep. Larry
Sent: Wednesday, July 22, 2009 9:04 AM
To: Smith, Matt
Cc: Conway, Rep. Steve; Futrell, Oriana
Subject: FW: Senate Bill 6157

Matt,
Can you offer any background on this query from Bremerton please? I'll go see her to learn more but I suspect this is not a new concern.
Thank you,
Larry

-----Original Message-----
From: carol.conley@ci.bremerton.wa.us [mailto:carol.conley@ci.bremerton.wa.us]
Sent: Tuesday, July 21, 2009 4:16 PM
To: Seaquist, Rep. Larry
Subject: Senate Bill 6157

HOUSE INTERNET E-MAIL DELIVERY SERVICE

TO: Representative Larry Seaquist

FROM: Ms. Carol Conley

STREET ADDRESS:
345 6th St
Bremerton, WA 98337-1858

E-MAIL: Carol.Conley@ci.bremerton.wa.us

PHONE: (360) 473 - 5347

BILL: 6157 (For)

SUBJECT: Senate Bill 6157

MESSAGE:

Representative Larry Seaquiist:

The City of Bremerton's annual budget runs from Jan 1, 2009 through December 31, 2009. All of our employees, with the exception of our Police Guild, started 8 unpaid furlough days or reduced work week schedules as of May 1, 2009 thru December 31, 2009 due to budgetary deficits. Those furlough days taken in May and June would be excluded under the SB 6157. I am sure Bremerton is not the only entity to be on other than a biennial budget.

Has the Legislature given any thought to jurisdictions that are not on a biennial budget and how this may affect their employees' retirement?

Respectfully,

Carol S. Conley

Human Resources Manager

City of Bremerton

345 Sixth Street, Suite 600

Bremerton, WA 98337

Telephone (360) 473-5347

NOTE: We are 99% sure that this constituent is in your district

RESPONSE REQUESTED: Ms. Conley has requested a response to this message.

$150,000 Death Benefit / LEOFF 2 Board Proposal

Issue

Stakeholders are seeking increases in duty-related death benefits. The SCPP and the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF 2 Board) made different proposals on duty-related death benefits.

- The SCPP recommended a smaller increase to a single death benefit for all employees.
- The LEOFF 2 Board recommended larger increases to many death benefits for police and fire fighters.

Background

The retirement systems provide a $150,000 death benefit for public employees who die as a result of a duty-related injury or illness. The benefit amount has not changed since the benefit was first established in 1996.

During the 2009 Legislative Session, the SCPP recommended increasing the amount of the benefit to $175,000. The bill (HB 1547/SB 5312) did not pass the Legislature, but did pass the House. The bill is still alive for the 2010 Session.

The LEOFF 2 Board discussed the $150,000 death benefit at its December meeting as part of a broader proposal on duty-related death benefits for public safety officers. The board recommended increasing the amount of the death benefit to $214,000 and applying a cost of living adjustment to protect the value of the benefit against future inflation. The board's recommendation applies to members in both plans of LEOFF and the Washington State Patrol Retirement System (WSPRS) and covers qualifying deaths that occurred since January 1, 2009.

The LEOFF 2 Board also recommended other improvements to duty-related death benefits provided to members of LEOFF 2 and WSPRS 2 including:

- Removing the ten-year service requirement to qualify for a survivor annuity.
- Removing the actuarial reduction applied to a survivor annuity.
- Providing a minimum survivor annuity of 10 percent of average final compensation.

Eligibility for the improved survivor annuities applies to qualifying survivors of qualifying deaths that occurred since the plans were opened–benefit increases would be paid prospectively from the effective date of the bill.

Also, as part of the broader proposal, the LEOFF 2 Board recommended improvements to duty-death benefits for public safety officers provided in workers' compensation and higher education statutes. The board recommended that workers' compensation benefits continue after remarriage for surviving spouses for LEOFF and WSPRS members who die from duty-related causes. The board also recommended that universities and community colleges waive all tuition and fees for children and surviving spouses of public safety officers who are killed or totally disabled in the line of duty.

The LEOFF 2 Board proposal was introduced in the 2010 Session as HB 2519 / SB 6407.

Policy Considerations

- What is the appropriate amount for the lump sum duty-death benefit?
- Should other benefits be increased for duty related death?
- Should the same duty-death benefits be provided for all public employees, or should public safety employees receive more?
- Should the SCPP and the LEOFF 2 Board proposals be coordinated?

Committee Activity

The SCPP deferred a public hearing and possible executive action on the $150,000 death benefit at the December 17, 2009, meeting so the SCPP could consider the final action of the LEOFF 2 Board on duty related death benefits for public safety officers.

Staff briefed the SCPP on the $150,000 death benefit and the LEOFF 2 Board proposal at the January 18, 2010, special meeting. It was moved and seconded to endorse the pension provisions in LEOFF 2 Board bill (HB 2519 / SB 6407). The motion failed.

Staff Contact

Darren Painter, Senior Policy Analyst
360.786.6155
painter.darren@leg.wa.gov

$150,000 Death Benefit

In Brief

ISSUE

The retirement systems provide a $150,000 death benefit for public employees who die as a result of a duty-related injury or illness. The benefit amount has not changed since 1996.

The LEOFF 2 Board asked the SCPP to consider adjusting the amount of this benefit for past inflation and adding an automatic COLA to address future inflation.

The SCPP twice recommended legislation that would have applied an automatic COLA to the death benefit. The COLA provisions did not pass the Legislature.

MEMBER IMPACT

*Actuaries expect fewer than 13 duty-deaths each year from a group of over 290,000 public employees.**

**As of June 30, 2007.*

This report appeared in the 2008 Interim Issues Report, and was presented to the SCPP on December 15, 2009. It has not been updated.

Current Situation

The retirement systems provide a $150,000 lump sum (or one-time) death benefit for public employees who die as a result of a duty-related injury or illness. The benefit amount is set in statute and has not changed since the benefit was first established in 1996. The benefit is not subject to federal income tax.

The benefit is available to members of all state retirement systems*. Determination of eligibility is made by the Department of Labor and Industries (L&I).

The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board asked the SCPP to consider adjusting the amount of this benefit for past inflation and adding an automatic Cost-Of-Living-Adjustment (COLA) to address future inflation.

**Also state, school district, and higher education employees who are not members of a state retirement system; paid from the state general fund.*

History

History Of The $150,000 Death Benefit

The $150,000 death benefit was first established in the LEOFF and the Washington State Patrol Retirement System (WSPRS) in 1996. The benefit was subsequently extended to various other groups of public employees over a period of several years. See **Appendix A** for a legislative history of the benefit.

Fifty-four $150,000 death benefits have been paid out since the benefit was first established—the majority being paid for LEOFF members (see **Figure 1**).

Figure 1

Number of $150,000 Death Benefits Paid*	
System	**Benefits Paid**
LEOFF	32
PERS	14
VFF	2
TRS	1
SERS	1
WSPRS	1
Unknown (paid from general fund)	3
Total	**54**

**As of 9/25/2008. Length of reporting period varies among systems.*

SCPP Has Recommended Death Benefit Bills

The SCPP studied this issue in coordination with the LEOFF 2 Board in 2006 and 2007. The Committee recommended legislation in the 2007 and 2008 Sessions that would have applied an automatic COLA to the death benefit. The COLA provisions did not pass the Legislature. See below for more details concerning the SCPP legislation.

The Legislature Has Rejected Death Benefit COLAs

Bills with provisions that would have automatically increased the amount of the $150,000 death benefit for inflation were introduced in the past three legislative sessions. None of the bills passed the Legislature with the COLA provisions intact.

Bills that would have automatically increased the amount of the $150,000 death benefit for inflation were introduced in the past three legislative sessions.

2006 Session

HB 2933/SB 6724 dealt with the death benefit for LEOFF Plan 2. The bill expanded eligibility and provided an automatic COLA on the benefit amount. The proposed COLA would have annually increased the amount of the death benefit based on cumulative changes in the Consumer Price Index for Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB), up to a maximum of 3 percent per year. This is the same increase

provided for pensions in the Plans 2/3 retirement systems. The COLA was removed before the bill passed the Legislature.

2007 Session

HB 1266/SB 5177, an SCPP bill, made similar changes to the death benefit as the 2006 bill except it applied to all plans. The COLA was removed from the House bill in the Appropriations Committee, but was retained in the Senate version of the bill that passed Ways and Means. The House version of the bill, without the COLA, ultimately passed the Legislature.

2008 Session

HB 3026/SB 6664, another SCPP bill, contained the same COLA provisions as introduced in the earlier legislation. The bill was heard in the Senate Ways and Means Committee and received no hearing in the House.

Comparisons

Other Death Benefits Provided

The $150,000 death benefit is one of many death benefits that are provided for members*. Others include:

Many death benefits are provided for members.

- Survivor and death benefits from the retirement plan.
- L&I death benefits.
- Social Security survivor benefits.
- Federal public safety officer's death benefits.
- Reimbursement of premiums paid to the Health Care Authority.

A detailed list of the various death benefits provided is contained in **Appendix B**. Among these, the most significant other lump sum death benefit provided is the federal Public Safety Officers' Benefits Death Benefit. This benefit ($315,746 in 2008) is payable to survivors of law enforcement officers, fire fighters, and other public safety

personnel who die in the line of duty. The benefit is annually adjusted for inflation.

**Employer provided life insurance is beyond the scope of this paper and is not considered among the death benefits provided.*

Death Benefits In Comparative Systems

Most of Washington's comparative systems provide survivor annuities similar to those in Washington's retirement systems. The annuities are generally based on the member's earned benefit or some percentage of the member's salary.

Five of Washington's comparative systems also provide some type of lump sum death benefit (see **Figure 2**). The three systems (California, Idaho, and Iowa) that provide fixed-dollar lump sum benefits similar to Washington do not automatically increase the benefit amount for inflation. Three systems (Colorado, Idaho, and Wisconsin) provide a lump sum based on the member's contributions. Since contributions are based on salaries, and salaries grow with inflation, contribution-based lump sums effectively have built-in inflation adjustments. One system (California) provides a lump sum that is "periodically adjusted." Idaho and Iowa provide an enhanced return of contributions and a special duty-related lump sum death benefit for public safety employees.

Figure 2

Lump Sum Death Benefits in Comparative Systems*		
System	**Benefit Amount**	**COLA**
California CALSTRS	$24,652	Periodically adjusted.
Colorado PERA	200% Return Of Contributions plus interest (ROC).	None.
Idaho PERSI	200% ROC. Also $100,000 for police and firefighters killed in line of duty.	None.
Iowa IPERS	100% ROC plus additional amount based on salary and service. Also $100,000 for public safety officer killed in line of duty.	None.
Wisconsin WRS	200% ROC.	None.

**Source: Member handbooks published on system administrator's web sites as of 10/08/2008.*

Policy Analysis

This Issue Raises Two Basic Policy Questions

The issue of whether or not to adjust the $150,000 death benefit for inflation raises two basic policy questions:

- Is the current amount of the death benefit sufficient, or should it be increased for past inflation?
- Should the death benefit be protected against future inflation?

The way policy makers respond will likely depend upon three key factors.

The way policy makers respond to these questions will likely depend upon three key factors:

- How they choose to apply policy on inflation protection to the death benefit.
- How they view the purpose of the death benefit.
- How much control they wish to keep over the death benefit.

The rest of this paper will explore these and other factors that policy makers may consider in addressing this issue.

Inflation Erodes The Relative Value Of The Death Benefit

The value of the death benefit has declined 27 percent since 1996.

Inflation erodes the relative value of a fixed dollar amount over time. The $150,000 death benefit was first established in 1996. The cumulative effect of inflation since then has eroded 27 percent* of the relative value of the benefit. Put another way, the amount of the death benefit would need to be increased to $205,000 to provide the same level of purchasing power that it did in1996. Absent any adjustment, inflation will continue to erode the value of the death benefit in the future.

**Based on the Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB), all Items.*

The State's Policy On Inflation Protection For Pensions

State policy on protecting retirement benefits from inflation can be found in existing policy statements and further inferred from plan design. The SCPP has adopted as a stated goal ". . . to increase and maintain the purchasing

power of retiree benefits in the Plans 1 of PERS and TRS. . . ." The Plans 2/3 of the state's retirement systems, the most recently created tiers, provide an annual COLA on retirement pensions. The Plans 2/3 COLA is based on inflation as measured by changes in a Consumer Price Index (CPI). The inclusion of this COLA in the Plans 2/3 design indicates a clear desire to protect retirement pensions from the effects of inflation.

Policies on inflation protection were not necessarily designed for lump sum benefits.

These policies around inflation protection were designed to apply to ongoing *pension* benefits and not necessarily one-time *lump sum* benefits. Policy makers may wish to consider to what extent, if any, inflation protection policies apply to non-pension benefits like the $150,000 death benefit.

COLAs For Pensions And Lump Sums Have Different Policy Implications

Why would the nature of the benefit matter when considering inflation protection policies? COLAs for ongoing pensions have different policy implications than COLAs for one-time lump sum benefits. One provides inflation protection, while the other provides equity across generations.

Providing a COLA for a pension or other annuity-type benefit provides inflation protection for an *individual's* income. The COLA helps maintain the relative value of the pension payments over time by offsetting the effects of inflation.

COLAs for lump sums maintain value among generations.

In contrast, providing a COLA for a lump sum benefit maintains the value of the benefit among successive *generations* of recipients. It ensures that later recipients are able to purchase the same amount of goods and services with the benefit that earlier recipients could. It does not provide inflation protection for an individual's income. Why not? A lump sum payment is only received once. It doesn't become part of the recipient's ongoing income stream and consequently doesn't lose its value (from the recipient's perspective) over time.

Lump Sum Death Benefits Are Less Likely To Have COLAs

Given the different policy implications of COLAs for annuities and lump sums, policy makers may wish to consider current practice in this area. **Figure 3** shows that death benefits for retirement system members paid in the form of a monthly annuity are more likely to have inflation protection than benefits paid in a lump sum. A detailed list of the various death benefits provided is contained in **Appendix B**.

Figure 3

Death Benefits Provided*			
Type	**Total**	**COLA**	**%COLA**
Annuity	9	7	78%
Lump Sum	7	3	43%

**Similar benefits in state retirement systems are considered a single type.*

In the preceding figure, the "Total" column shows the total number of benefits of each type (annuity or lump sum); the "COLA" column shows how many include an automatic COLA; and the "%COLA" column shows the percentage of annuity and lump sum benefits with an automatic COLA.

The Death Benefit Is Designed To Provide Temporary Assistance

A key policy consideration is the intended purpose of the benefit.

Policy makers may consider the purpose of the $150,000 death benefit in determining how to apply policy on inflation protection. Is the benefit intended to replace income and support an ongoing standard of living? Or, is the benefit intended to provide one-time relief for specific situations? The answers to these questions have implications for policy decisions.

The death benefit is a one-time payment that is not related to a member's salary. Recipients may do with the payment whatever they wish—including spending the entire amount at once. Given this design, it is unlikely that the benefit was intended to replace income and support an ongoing standard of living. Rather, it is more likely that the death benefit was primarily intended to provide temporary financial assistance following the death of a member.

The purpose of the benefit may affect how policy makers view this issue. From the perspective of policy makers, there may be less need to adjust for inflation a benefit that is transitional and does not serve to replace income or maintain an ongoing standard of living.

Policy Makers May Take An Insurance-Based Approach

The death benefit more closely resembles an insurance benefit than a pension.

The design and purpose of the $150,000 death benefit more closely resembles an insurance benefit than a traditional pension benefit. It is a one-time payment of a fixed-dollar amount that provides temporary financial assistance—much like term life insurance. Policy makers who view this as an insurance-type benefit may be inclined to take more of an insurance-based approach to this issue. An insurance approach would involve periodically reviewing the "policy" and adjusting the coverage amount based on the risks and needs at that time. Under this approach, the policy focus shifts away from COLAs and more towards the adequacy of the benefit provided.

Assessing The Adequacy Of The Death Benefit May Be Challenging

Policy makers may find it challenging to assess the adequacy of a benefit (like the $150,000 death benefit) that is not dedicated to a specific purpose. Since the value of the benefit can't easily be measured against a specific outcome, assessments of adequacy will likely be highly subjective. Such assessments may involve considering how the $150,000 death benefit fits in with all the other death benefits provided—many of which are pension benefits that do have inflation protection. This could be a complex task given the number and variety of different death benefits provided, and the fact that survivors may qualify for multiple death benefits (see **Appendix B**).

Policy makers may assume the amount was adequate when the benefit was first enacted.

For the sake of simplicity, some policy makers may assume the amount was adequate when the benefit was first enacted in 1996. Under this assumption, all that is needed to ensure the adequacy of the benefit today is to adjust the amount of the benefit for past inflation.

Duty-Related Death Benefits May Impact Recruitment

When contemplating adjustments to the $150,000 death benefit, policy makers may also consider the purpose and adequacy of the benefit from an employer perspective. Duty-related death benefits may impact the ability of employers to recruit for high-risk occupations. The availability and generosity of such benefits may serve as an added inducement for employees considering such occupations. This would likely have the greatest impact for public safety employers. The fact that the $150,000 death benefit was first established for police and fire fighters (see **History**) may be indicative of a greater interest in duty-related death benefits by public safety groups.

Automatic And Ad-Hoc COLAs Can Be Equally Effective In Maintaining The Value Of Benefits

Policy makers who feel the $150,000 death benefit should be adjusted for inflation will likely consider how to adjust it. Most likely, this will involve some form of a COLA—since COLAs are a common and effective way to adjust benefits for inflation. There are two basic approaches to COLAs that policy makers may wish to consider: ad-hoc and automatic. The approach chosen has implications for how much control policy makers retain over the benefit.

Policy makers who want the most control will likely prefer an ad-hoc approach.

Ad-hoc COLAs are one-time increases. Ad-hoc COLAs are generally more backward-looking. They can be very effective at making up for past inflation, but usually do little to address future inflation. Ad-hoc COLAs can give policy makers the most flexibility in reacting to specific situations and in controlling costs. Policy makers who want to maintain the most control in adjusting benefits will likely prefer an ad-hoc approach.

Policy makers who want less involvement will likely prefer an automatic approach.

In contrast, automatic COLAs are ongoing increases and tend to be more forward-looking. Automatic COLAs can be very effective at protecting benefits against future inflation, but may do little to address lost purchasing power due to past inflation. Automatic COLAs may be preferred from the member viewpoint since they are ongoing and don't require continual action by policy makers. However, for the same reasons, it may be more difficult to fine-tune an automatic COLA for a specific situation. Policy makers

who want less involvement in the process of adjusting benefits will likely prefer an automatic approach.

A common way of implementing automatic COLAs is to base the COLA on a measure of inflation such as the CPI. This process of linking a benefit to an underlying measure of inflation is known as *indexing*. Indexing is a direct and effective way to protect benefits against inflation. This is the method chosen by the SCPP in prior years when the Committee recommended applying an automatic COLA to the death benefit (see **History**). **Appendix C** contains a more complete discussion on the various ways to index a benefit.

Periodically granting ad-hoc COLAs can have much the same effect as an automatic COLA.

Ad-hoc COLAs can be as effective in maintaining the value of a benefit as automatic COLAs, depending on how they are administered. Periodically granting ad-hoc COLAs to make up for past inflation can have much the same effect as providing an automatic COLA. The main difference is that ad-hoc COLAs may occur less frequently than every year. When this happens, the benefit loses more value in the years between ad-hoc COLAs than it would lose under an automatic COLA. Given that both approaches can be equally effective in maintaining value, the approach taken will likely depend on how much control and involvement policy makers want in the process of adjusting benefits.

Conclusion

The issue of adjusting the $150,000 death benefit for inflation raises two basic policy questions. Is the current amount sufficient or should it be increased for past inflation? Should it be protected against future inflation?

How policy makers respond to these questions will likely depend upon three key factors:

- How they choose to apply policy on inflation protection to the death benefit.
- How they view the purpose of the death benefit.
- How much control they wish to keep over the death benefit.

Some policy makers may prefer to take an insurance-based approach to this issue rather than the COLA-based approach taken in the past.

Possible Options

Policy makers who feel the current amount of the death benefit is sufficient for its intended purpose will likely be inclined to take no further action at this time. Policy makers who feel the current death benefit should be adjusted for inflation may consider one of the options below.

Preliminary pricing for each of the policy options was provided at the November meeting.

Option 1: Provide A One-Time Adjustment For Past Inflation

This option restores the relative value to its original level.

This option would grant an ad-hoc COLA on the amount of the death benefit to make up for past inflation. The amount of the death benefit would be increased to $205,000.

This option would restore the relative value of the death benefit to its original level but wouldn't prevent future loss in value due to inflation.

Option 2: Provide An Automatic CPI-Based COLA

This option generally prevents further loss of value.

This option would apply an automatic CPI-based COLA to the death benefit. The COLA would be modeled after the COLA provided for pensions in the Plans 2/3. The amount of the death benefit would annually increase based on cumulative changes in the CPI-W, STB, up to a maximum of 3 percent per year. This is the approach that has been taken by the SCPP in the past and has been rejected by the Legislature (see **History**).

This option would generally not recover value already lost due to past inflation since the annual increases are capped at 3 percent. The 3 percent cap is a cost-control feature originally intended for pension benefits. It may be of limited value for a death benefit that is paid out infrequently. This option would generally prevent further

loss of value due to inflation—while long-term inflation averages 3 percent or less. This approach requires policy makers to give up some control over the benefit amount, but may reduce the need to revisit this in the future.

Option 3: One-Time Adjustment And Automatic CPI-Based COLA

This option recovers lost value and generally prevents further loss.

This option combines the previous two options. It would increase the amount of the death benefit to $205,000 and apply an automatic CPI-based COLA on the new amount.

This option would recover all value lost to past inflation as well as generally prevent further loss of value due to inflation—while long-term inflation averages 3 percent or less. This option has the same policy implications regarding the cap on the automatic COLA as discussed under Option 2. This approach also requires policy makers to give up some control over the benefit amount, but may reduce the need to revisit this in the future.

Option 4: Increase To $175,000

This option recovers some lost value.

This option would increase the amount of the death benefit to $175,000. This option would recover some of the value of the benefit lost to past inflation, but would not fully restore the benefit to its original level. This option would not prevent further loss in value due to future inflation.

Committee Activity

During their September meeting, the Executive Committee of the SCPP directed staff to develop policy options and bring those options back to the full SCPP with pricing.

Staff briefed the Committee on the first three options at the October meeting. Following the meeting, the Chair requested staff to prepare draft legislation and pricing for an additional option of increasing the benefit to $175,000.

At the November meeting, staff briefed the Committee on Option 4 and a public hearing was held. The Committee moved this issue to December for another public hearing.

The Committee held a second public hearing in December and took executive action recommending Option 4 to the Legislature.

Executive Committee Recommendation

None.

Recommendation To 2009 Legislature

Increase the amount of the death benefit from $150,000 to $175,000. Recommended December 16, 2008.

Bill Draft

A Code Reviser bill draft to implement the SCPP recommendation is attached (Z-0399.1/09).

Draft Fiscal Note

Attached.

Stakeholder Input

Correspondence attached from:

Kelly Fox, Chair, LEOFF 2 Board, 5/12/2008, and 6/30/2008.

Correspondence on file from:

John Kvamme, WASA & AWSP consultant, 5/15/2008.

Appendix A: History Of Legislative Changes To The $150,000 Death Benefit*

History of Legislative Changes to the $150,000 Death Benefit		
Year	**Bill**	**Effect**
1996	E2SSB 5322	$150,000 death benefit established for LEOFF and WSP.
1998	SB 5217 ESB 6305	$150,000 death benefit established in VFF. $150,000 death benefit is established for survivors of PERS 1 port and university police officers.
1999	ESSB 5180 (Budget)	$150,000 death benefit provided to teachers and paid as sundry claim from general fund. Expired 6/30/2001.
2000	EHB 2487 (Budget)	$150,000 death benefit provided to school district employees and paid as sundry claim from general fund. Expired 6/30/2001.
2001	ESSB 6153 (Budget)	$150,000 death benefit provided to state, school district, and higher education employees and paid as sundry claim from general fund. Expired 6/30/2003.
2003	HB 1207	$150,000 death benefit established in PERS, TRS, and SERS. Benefit also provided as a sundry claim to the general fund for state, school district, and higher education employees who are not eligible to receive the benefit from a state retirement system.
2006	SHB 2933	Eligibility for the $150,000 death benefit expanded to include death from duty-related illness for LEOFF 2.
2007	SHB PL 1266	Eligibility for the $150,000 death benefit expanded to include death from duty-related illness for all plans.

See **Appendix D for a description of the plan acronyms used.*

Appendix B: Death Benefit Provided For Public Employees*

Death Benefits Provided for Public Employees[1]				
Benefit	**Normal Form**	**Eligible Deaths**	**Amount**	**Annual Adjustment[2]**
LEOFF & WSP Plan 1 Survivor Pension	Annuity	Duty & Non-Duty	50%-60% of AFC	Indexed to CPI
PERS & TRS Plan 1 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or return of contributions with interest (ROC)[3]	Uniform COLA on annuity -- indexed by level 3%
Plans 2/3 Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Member's earned benefit or ROC[3,4]	Annuity Indexed to CPI
VFF Survivor Benefit	Annuity	Duty & Non-Duty	Member's earned benefit	None -- Benefits periodically increased by Board
VFF Duty-Death Survivor Pension	Annuity	Duty	$1,589/month +$137/month per child. As of 7/1/2008.	Indexed to CPI
HIED Survivor Benefit	Annuity or Lump Sum	Duty & Non-Duty	Payout of member's account	None
LEOFF Plan 2 Survivor Health Care	Annuity	Duty	Reimbursement of premiums paid to Health Care Authority—up to $839/month for 2008	Indexed to Health Care Authority medical and dental premiums
L&I Death Benefit	Annuity	Duty	60%-70% of gross wages up to 120% of state average wage[5]	Indexed to state average wage[5]
Social Security Survivor Benefit	Annuity	Duty & Non-Duty	75%-100% of employees earned Social Security benefit	Indexed to CPI
$150,000 Death Benefit	Lump Sum	Duty	$150,000 (+$2,000 in VFF)	None
VFF Funeral Benefit	Lump Sum	Duty	$2,000	None
TRS 1 Death Benefit	Lump Sum	Duty & Non-Duty	$400 or $600	None
L&I Death Lump Sum	Lump Sum	Duty	100% state average monthly wage[5]	Indexed to state average wage[5]
L&I Burial Benefit	Lump Sum	Duty	Up to 200% state average monthly wage[5]	Indexed to state average wage[5]
Social Security Burial Benefit	Lump Sum	Duty & Non-Duty	$255	None
Federal Public Safety Officers' Death Benefit	Lump Sum	Duty	$315,746 as of 10/01/2008	Indexed to CPI

1. *Eligibility varies by group. Some benefits are not available to all groups and some groups may be eligible for multiple benefits. Excludes employer provided life insurance.*
2. *Excludes optional COLAs purchased by recipient.*
3. *Actuarial reduction applied if death is not duty-related.*
4. *150% ROC for LEOFF Plan 2; payout of member's DC account for Plans 3.*
5. *$3,727 as of 7/01/2008.*

See **Appendix D for a description of the plan acronyms used.*

Appendix C: Indexing Benefits

A frequently used method of protecting the value of a benefit against inflation is indexing. Indexing involves making annual adjustments to the benefit amount based on changes in an underlying measure of inflation.

One of the most commonly used measures of inflation is the Consumer Price Index (CPI). The CPI records changes in the price of a set "market basket" of goods and services at different points in time. The U.S. Department of Labor publishes numerous indexes that measure inflation based on different market baskets and geographic regions. Each CPI produces a slightly different measure of inflation. The CPI most commonly used in Washington State's retirement systems is the Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB). An individual may experience inflation quite different from that measured by the CPI if the goods and services purchased by the individual do not closely match the market basket used by the CPI.

A key issue in indexing benefits is the amount of inflation protection to provide. The value of a benefit may be:

- Fully protected from inflation (full indexing).
- Protected up to a maximum amount of inflation (partial indexing).
- Protected against a set amount of inflation (level indexing).

A **fully indexed** benefit increases at the same percentage change as inflation each year. This method ensures the full purchasing power of the benefit is always maintained, but can lead to greater than expected costs if actual inflation exceeds the amount assumed for funding the benefit. Examples of fully indexed retirement benefits include Social Security, which is indexed to the CPI-W, All U.S. Cities; and the LEOFF Plan 1 pension, which is indexed to the CPI-W, STB.

A **partially indexed** benefit increases with the percentage change in inflation each year up to a maximum percentage. In years where inflation exceeds the maximum, the benefit will lose some purchasing power.

The index can be designed to allow the benefit to recover lost purchasing power during periods when actual inflation is lower than the maximum. This method can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Examples of partially indexed retirement benefits are Plans 2/3 pensions, which are indexed to the CPI-W, STB, to a maximum of 3 percent.

A **level indexed** benefit increases by a fixed percentage every year. Purchasing power is lost in years when inflation exceeds the fixed percentage and is gained in years when inflation is less than the fixed percentage. This method is simple to administer and can maintain most of the purchasing power of a benefit while controlling costs and promoting stable funding. Under this method, if actual inflation is consistently less than the fixed amount, the purchasing power of the benefit will increase. An example of a level indexed retirement benefit is the PERS and TRS Plan 1 Uniform COLA, which increases by 3 percent each year.

Appendix D: Plan Acronyms

- Public Employees' Retirement System (PERS)
- Teachers' Retirement System (TRS)
- School Employees' Retirement System (SERS)
- Public Safety Employees' Retirement System (PSERS)
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
- Washington State Patrol Retirement System (WSPRS)
- Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFF)
- Judicial Retirement System (JRS)
- Higher Education Retirement Plans (HIED)

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Z-0400.1

HOUSE BILL 1547

State of Washington 61st Legislature 2009 Regular Session

By Representatives Bailey, Conway, Seaquist, Crouse, Kenney, Simpson, and Ormsby; by request of Select Committee on Pension Policy and LEOFF Plan 2 Retirement Board

Read first time 01/23/09. Referred to Committee on Ways & Means.

AN ACT Relating to increasing the duty-related death benefit for public employees; amending RCW 41.04.017, 41.24.160, 41.26.048, 41.32.053, 41.35.115, 41.37.110, 41.40.0931, and 41.40.0932; reenacting and amending RCW 43.43.285; and declaring an emergency.

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

Sec. 1. RCW 41.04.017 and 2007 c 487 s 1 are each amended to read as follows:

A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit shall be paid as a sundry claim to the estate of an employee of any state agency, the common school system of the state, or institution of higher education who dies as a result of (1) injuries sustained in the course of employment; or (2) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter, and is not otherwise provided a death benefit through coverage under their enrolled retirement system under chapter 402, Laws of 2003. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the director of the department of general administration by order under RCW 51.52.050.

Sec. 2. RCW 41.24.160 and 2001 c 134 s 2 are each amended to read as follows:

(1)(a) Whenever a participant dies as the result of injuries received, or sickness contracted in consequence or as the result of the performance of his or her duties, the board of trustees shall order and direct the payment from the principal fund of (i) the sum of one hundred ((~~fifty-two~~)) seventy-seven thousand dollars to his widow or her widower, or if there is no widow or widower, then to his or her dependent child or children, or if there is no dependent child or children, then to his or her dependent parents or either of them, or if there are no dependent parents or parent, then the death benefit shall be paid to the member's estate, and (ii)(A) the sum of one thousand two hundred seventy-five dollars per month to his widow or her widower during his or her life together with the additional monthly sum of one hundred ten dollars for each child of the member, unemancipated or under eighteen years of age, dependent upon the member for support at the time of his or her death, (B) to a maximum total of two thousand five hundred fifty dollars per month.

(b) Beginning on July 1, 2001, and each July 1st thereafter, the compensation amount specified in (a)(ii)(B) of this subsection shall be readjusted to reflect the percentage change in the consumer price index, calculated as follows: The index for the calendar year preceding the year in which the July calculation is made, to be known as "calendar year A," is divided by the index for the calendar year preceding calendar year A, and the resulting ratio is multiplied by the compensation amount in effect on June 30th immediately preceding the July 1st on which the respective calculation is made. For the purposes of this subsection, "index" means the same as the definition in RCW 2.12.037(1).

(2) If the widow or widower does not have legal custody of one or more dependent children of the deceased participant or if, after the death of the participant, legal custody of such child or children passes from the widow or widower to another person, any payment on account of such child or children not in the legal custody of the widow or widower shall be made to the person or persons having legal custody of such child or children. Such payments on account of such child or children shall be subtracted from the amount to which such widow or widower would have been entitled had such widow or widower had legal

custody of all the children and the widow or widower shall receive the remainder after such payments on account of such child or children have been subtracted. If there is no widow or widower, or the widow or widower dies while there are children, unemancipated or under eighteen years of age, then the amount of one thousand two hundred seventy-five dollars per month shall be paid for the youngest or only child together with an additional one hundred ten dollars per month for each additional of such children to a maximum of two thousand five hundred fifty dollars per month until they become emancipated or reach the age of eighteen years; and if there are no widow or widower, child, or children entitled thereto, then to his or her parents or either of them the sum of one thousand two hundred seventy-five dollars per month for life, if it is proved to the satisfaction of the board that the parents, or either of them, were dependent on the deceased for their support at the time of his or her death. In any instance in subsections (1) and (2) of this section, if the widow or widower, child or children, or the parents, or either of them, marries while receiving such pension the person so marrying shall thereafter receive no further pension from the fund.

(3) In the case provided for in this section, the monthly payment provided may be converted in whole or in part into a lump sum payment, not in any case to exceed twelve thousand dollars, equal or proportionate, as the case may be, to the actuarial equivalent of the monthly payment in which event the monthly payments shall cease in whole or in part accordingly or proportionately. Such conversion may be made either upon written application to the state board and shall rest in the discretion of the state board; or the state board is authorized to make, and authority is given it to make, on its own motion, lump sum payments, equal or proportionate, as the case may be, to the value of the annuity then remaining in full satisfaction of claims due to dependents. Within the rule under this subsection the amount and value of the lump sum payment may be agreed upon between the applicant and the state board.

Sec. 3. RCW 41.26.048 and 2007 c 487 s 2 are each amended to read as follows:

(1) A one hundred ((~~fifty~~)) <u>seventy-five</u> thousand dollar death benefit shall be paid to the member's estate, or such person or

persons, trust or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's death benefit shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2) The benefit under this section shall be paid only when death occurs: (a) As a result of injuries sustained in the course of employment; or (b) as a result of an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

Sec. 4. RCW 41.32.053 and 2007 c 487 s 3 are each amended to read as follows:

(1) A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

Sec. 5. RCW 41.35.115 and 2007 c 487 s 4 are each amended to read as follows:

(1) A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

Sec. 6. RCW 41.37.110 and 2007 c 487 s 5 are each amended to read as follows:

(1) A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit shall be paid to the member's estate, or the person or persons, trust, or organization the member has nominated by written designation duly executed and filed with the department. If the designated person or persons are not still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

Sec. 7. RCW 41.40.0931 and 2007 c 487 s 6 are each amended to read as follows:

(1) A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit for members who had the opportunity to transfer to the law enforcement officers' and firefighters' retirement system pursuant to chapter 502, Laws of 1993, but elected to remain in the public employees' retirement system, shall be paid to the member's estate, or such person or persons, trust, or organization as the member has nominated by written designation duly executed and filed with the department. If there is no designated person or persons still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) Subject to subsection (3) of this section, the benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment as a general authority police officer; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3) The benefit under this section shall not be paid in the event the member was in the act of committing a felony when the fatal injuries were suffered.

Sec. 8. RCW 41.40.0932 and 2007 c 487 s 7 are each amended to read as follows:

(1) A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation duly executed and filed with the department. If no such designated person or persons are still living at the time of the member's death, the member's death benefit shall be paid to the member's surviving spouse as if in fact the spouse had been nominated by written designation, or if there is no surviving spouse, then to the member's legal representatives.

(2) The benefit under this section shall be paid only where death occurs as a result of (a) injuries sustained in the course of employment; or (b) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

Sec. 9. RCW 43.43.285 and 2007 c 488 s 1 and 2007 c 487 s 9 are each reenacted and amended to read as follows:

(1) A one hundred ((~~fifty~~)) seventy-five thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's death benefit shall be paid to the member's surviving spouse as if in fact such spouse had been nominated by written designation, or if there be no such surviving spouse, then to such member's legal representatives.

(2)(a) The benefit under this section shall be paid only where death occurs as a result of (i) injuries sustained in the course of employment; or (ii) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(b) The retirement allowance paid to the spouse and dependent children of a member who is killed in the course of employment, as set forth in RCW 41.05.011(14), shall include reimbursement for any payments of premium rates to the Washington state health care authority under RCW 41.05.080.

NEW SECTION. **Sec. 10.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the

state government and its existing public institutions, and takes effect immediately.

--- END ---

DRAFT
ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL:
Office of the State Actuary	**035**	**12/07/2009**	**$150,000 Duty Related Death Benefit**

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 and the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board during the 2009 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 bill increases the amount of the duty-related death benefit from $150,000 to $175,000. Current law provides the duty-related death benefit to members of all state retirement systems and other public employees who die from duty-related illnesses or injuries. The bill does not apply to duty-related deaths before the effective date of the act.

Impact on Pension Liability			
(Dollars in Millions)	Current	Increase	Total
Today's Value of All Future Pensions	$70,618	$2.9	$70,621
Earned Pensions Not Covered by Today's Assets	$5,410	$0.1	$5,410

Impact on Contribution Rates: (Effective 09/01/2010)						
2010-2011 State Budget	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**
Employee (Plan 2)	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Employer						
Current Annual Cost	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
State					0.00%	

Budget Impacts			
(Dollars in Millions)	2010-2011	2011-2013	25-Year
General Fund-State	$0.0	$0.1	$3.8
Total Employer	$0.1	$0.4	$11.0

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

WHAT IS THE PROPOSED CHANGE?

Summary of Benefit Improvement

This bill impacts the following retirement systems and public employees:

- Public Employees' Retirement System (PERS).
- Teachers' Retirement System (TRS).
- School Employees' Retirement System (SERS).
- Public Safety Employees' Retirement System (PSERS).
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).
- Washington State Patrol Retirement System (WSPRS).
- Volunteer Firefighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)
- Members of the Judicial Retirement System (JRS).
- Members of the Higher Education Retirement Plans (HIED).
- State, school district, and higher education employees who aren't members of a state retirement system.

This bill increases the amount of the duty-related death benefit from $150,000 to $175,000.

Effective Date: Immediately.

What Is The Current Situation?

The retirement systems and, in some cases, the state general fund pay a lump-sum death benefit for public employees who die as a result of a duty-related injury or illness. The amount of the benefit is currently $150,000. This benefit is provided for all members of PERS, TRS, SERS, PSERS, LEOFF, WSPRS, VFFRPF, JRS, and HIED; and to state, school district and higher education employees who aren't members of a state retirement system. The lump-sum death benefit in VFFRPF includes an additional $2,000.

Who Is Impacted And How?

We estimate this proposal could affect all 312,931 active members of the systems listed above through improved benefits. In addition, this proposal could affect 601 inactive fire fighters of LEOFF who are eligible for the benefit up to five years after separation of service. However, we only expect this benefit to be paid to about one member out of 22,800 members per year over the long-term.

This proposal will increase the lump-sum death benefit by $25,000 for any member that dies as a result of a duty-related injury or illness after the effective date of the bill.

This proposal impacts all 16,626 active Plan 2 members of LEOFF through increased contribution rates. With the exception of WSPRS members, this proposal will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this

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proposal will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

This proposal increases the amount of the lump sum death benefit by $25,000. This increases the present value of future benefits of the affected systems. This proposal will not result in more lump sum death benefits being paid, but when the benefits are paid, the amount will be larger.

Who Will Pay For These Costs?

Each system will subsidize the increase in liability that results from this proposal under their normal cost-sharing formulas:

- LEOFF 2: 50 percent member, 30 percent employer, and 20 percent state.
- Plan 1: 100 percent employer.
- Plan 2: 50 percent member and 50 percent employer.
- Plan 3: 100 percent employer.

HOW WE VALUED THESE COSTS

We changed the lump sum duty death benefit to provide a $175,000 benefit in place of the current $150,000 benefit. We assumed no members of JRS will die from duty-related illness or injury and have excluded these members from this pricing.

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

We used the Entry Age Normal actuarial funding method to determine the fiscal budget changes for future new entrants. We used the Aggregate actuarial funding method to determine the fiscal budget changes for current plan members.

ACTUARIAL RESULTS

How The Liabilities Changed

This proposal will impact the actuarial funding of the plans by increasing the present value of future benefits payable under the plans as shown in the following table.

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Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits			
(The Value of the Total Commitment to all Current Members)			
PERS 1	$14,227	$0.0	$14,227
PERS 2/3	22,621	$0.7	22,621
PERS Total	**$36,847**	**$0.7**	**$36,848**
TRS 1	$10,936	$0.0	$10,936
TRS 2/3	7,693	0.1	7,693
TRS Total	**$18,629**	**$0.1**	**$18,629**
SERS 2/3	**$2,940**	**$0.2**	**$2,941**
PSERS 2	**$323**	**$0.0**	**$323**
LEOFF 1	$4,383	$0.1	$4,383
LEOFF 2	6,596	1.8	6,597
LEOFF Total	**$10,979**	**$1.8**	**$10,981**
WSPRS 1/2	**$900**	**$0.0**	**$900**
Unfunded Actuarial Accrued Liability			
(The Portion of the Plan 1 Liability that is Amortized to 2024)			
PERS 1	**$4,092**	**$0.0**	**$4,092**
TRS 1	**$2,527**	**$0.0**	**$2,527**
LEOFF 1	**($1,209)**	**$0.1**	**($1,209)**
Unfunded PUC Liability			
(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)			
PERS 1	$4,062	$0.0	$4,062
PERS 2/3	(2,627)	0.7	(2,627)
PERS Total	**$1,434**	**$0.7**	**$1,435**
TRS 1	$2,530	$0.0	$2,530
TRS 2/3	(1,152)	0.1	(1,152)
TRS Total	**$1,378**	**$0.1**	**$1,378**
SERS 2/3	**($397)**	**$0.2**	**($397)**
PSERS 2	**($8)**	**$0.0**	**($8)**
LEOFF 1	($1,238)	$0.1	($1,238)
LEOFF 2	(1,266)	1.8	(1,265)
LEOFF Total	**($2,505)**	**$1.8**	**($2,503)**
WSPRS 1/2	**($150)**	**$0.0**	**($150)**

Note: Totals may not agree due to rounding.

In addition, this proposal increases the relief liability of the VFFRPF by $125,000**.** Currently, the Board for VFFRPF pays for all relief costs as they come due (no prefunding).

We did not value the impact of this proposal on the following members since we do not currently value them in any of our actuarial valuations:

- 2,551 Volunteer Fire Fighters that are not members of the pension plan.
- Members of HIED.
- State, school district, and higher education employees who aren't members of the Washington State Retirement Systems.

How Contribution Rates Changed

The rounded increase in the required actuarial contribution rate results in the supplemental contribution rate shown on pageone1 that applies in the current biennium. However, we will use the un-rounded rate increase to measure the budget changes in future biennia.

Impact on Contribution Rates: (Effective 09/01/2010)						
System/Plan	**PERS**	**TRS**	**SERS**	**PSERS**	**LEOFF**	**WSPRS**
Current Members						
Employee (Plan 2)	0.001%	0.000%	0.001%	0.000%	0.005%	0.003%
Employer:						
Normal Cost	0.001%	0.000%	0.001%	0.000%	0.003%	0.003%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.001%	0.000%	0.001%	0.000%	0.003%	0.003%
State					0.002%	
New Entrants*						
Employee (Plan 2)	0.001%	0.000%	0.002%	0.001%	0.008%	0.005%
Employer:						
Normal Cost	0.001%	0.000%	0.002%	0.001%	0.005%	0.005%
Plan 1 UAAL	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Total	0.001%	0.000%	0.002%	0.001%	0.005%	0.005%
State					0.003%	

**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.*

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How This Impacts Budgets And Employees

Budget Impacts							
(Dollars in Millions)	PERS	TRS	SERS	PSERS	LEOFF	WSPRS	Total
2010-2011							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Total Employer	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.1**	**$0.0**	**$0.1**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.1**	**$0.0**	**$0.1**
2011-2013							
General Fund	$0.0	$0.0	$0.0	$0.0	$0.1	$0.0	$0.1
Non-General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total State	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.1**	**$0.0**	**$0.2**
Local Government	0.1	0.0	0.0	0.0	0.1	0.0	0.2
Total Employer	**$0.1**	**$0.0**	**$0.1**	**$0.0**	**$0.2**	**$0.0**	**$0.4**
Total Employee	**$0.1**	**$0.0**	**$0.0**	**$0.0**	**$0.2**	**$0.0**	**$0.3**
2010-2035							
General Fund	$0.7	$0.4	$0.5	$0.0	$2.2	$0.0	$3.8
Non-General Fund	1.0	0.0	0.0	0.0	0.0	0.1	1.1
Total State	**$1.7**	**$0.4**	**$0.5**	**$0.1**	**$2.2**	**$0.2**	**$5.0**
Local Government	1.8	0.2	0.7	0.0	3.4	0.0	6.1
Total Employer	**$3.5**	**$0.6**	**$1.2**	**$0.1**	**$5.6**	**$0.2**	**$11.0**
Total Employee	**$2.4**	**$0.3**	**$0.7**	**$0.1**	**$5.6**	**$0.2**	**$9.1**

Note: Totals may not agree due to rounding.

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

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

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

To determine the sensitivity of the actuarial results to the best-estimate assumptions used in this pricing, we varied the duty-related death assumption for LEOFF 2. We chose LEOFF 2 for our sensitivity testing for two reasons:

1. We developed our current duty-related death assumptions for LEOFF 2 in 2006 and 2007 in response to new laws for duty-related injuries and illnesses. We have not had sufficient experience in the plan to determine if these assumptions are accurate in the long-term. As a result, there is a higher risk for this pricing with LEOFF 2.

2. If we experience any catastrophic events impacting duty-related injuries or illnesses that result in death, we expect this will affect our law enforcement officers and fire fighters. A single catastrophic event, while short-term, could add a significant cost to the plan, particularly with lump-sum benefits.

We changed the duty-related death assumption by doubling the rate of deaths that we expect will result from a duty-related injury or illness. We did not increase our mortality assumptions, only the number of deaths that are duty-related. The next table shows our current assumptions ("Base Assumptions") and increased assumptions ("Sensitivity Assumptions").

	Base Assumptions	Sensitivity Assumptions
Duty Death Rate	0.0376%	0.0752%
Occupational Disease Death Rate (Fire Fighters only)		
Age 20-49	14.742%	29.484%
Age 50+	27.393%	54.786%

The result of increasing the rate of deaths from a duty-related injury or illness is detailed in the following table. We compare the assumptions used in this proposal ("Best Estimate Pricing") with the increased assumptions ("Sensitivity Pricing") to show the sensitivity of this pricing proposal on the duty-related death assumptions.

(Dollars in Millions)	Best Estimate Pricing	Sensitivity Pricing
Liability Increase	$1.8	$3.4
Contribution Rate Increase		
Employee	0.005%	0.010%
Employer	0.003%	0.006%
State	0.002%	0.004%
Budget Impacts		
2010-2011		
General Fund - State	$0.0	$0.0
Total Employer	$0.1	$0.1

There is also a possibility that fewer duty-related deaths will occur than we assume for LEOFF 2 in the future. If we tested the sensitivity of the results to lower rates, we would expect lower costs than our pricing of this proposal shows.

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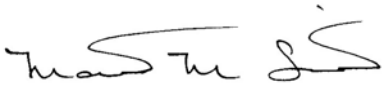
ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost and asset valuation methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this draft fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods and assumptions may also be reasonable and might produce different results.
5. We prepared this draft fiscal note for the Select Committee on Pension Policy and the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board.
6. 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

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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.

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Z-1024.2

HOUSE BILL 2519

State of Washington 61st Legislature 2010 Regular Session

By Representatives Green, Hope, Ericks, Maxwell, Sullivan, Upthegrove, Carlyle, Conway, Simpson, Van De Wege, Kenney, Morrell, Hurst, Campbell, and Kelley; by request of LEOFF Plan 2 Retirement Board

Prefiled 01/04/10. Read first time 01/11/10. Referred to Committee on Ways & Means.

AN ACT Relating to duty-related death benefits for public safety employees; amending RCW 41.26.048, 51.32.050, 28B.15.380, 28B.15.520, and 43.43.285; reenacting and amending RCW 41.26.510 and 43.43.295; and creating new sections.

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

Sec. 1. RCW 41.26.510 and 2009 c 523 s 7 and 2009 c 226 s 2 are each reenacted and amended to read as follows:

(1) Except as provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount

identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse or domestic partner as if in fact such spouse or domestic partner had been nominated by written designation, or if there be no such surviving spouse or domestic partner, then to such member's legal representatives.

(2) ((~~If~~)) Except as provided in subsection (4) of this section, if a member who is killed in the course of employment or a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse, domestic partner, or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW 41.26.430, actuarially reduced by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 41.26.460 and if the member was not eligible for normal retirement at the date of death a further reduction as described in RCW 41.26.430; if a surviving spouse or domestic partner who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse or domestic partner, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse or domestic partner eligible to receive an allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated as herein provided making the assumption that the ages of the spouse or domestic partner and member were equal at the time of the member's death; or

(b)(i) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670; or

(ii) If the member dies on or after July 25, 1993, one hundred fifty percent of the member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670. Any

accumulated contributions attributable to restorations made under RCW 41.50.165(2) shall be refunded at one hundred percent.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies after October 1, 1977, and is not survived by a spouse, domestic partner, or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To an estate, a person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, or the retirement allowance of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction <u>for early retirement as provided in RCW 41.26.430 or an actuarial reduction to reflect a joint and one hundred percent survivor option under RCW 41.26.460</u>. The member's retirement allowance is computed under RCW 41.26.420<u>, except that the member shall be entitled to a minimum retirement allowance equal to ten percent of such member's final average salary. The member shall additionally receive a retirement allowance equal to two percent of such member's average final salary for each year of service beyond five</u>.

(5) The retirement allowance paid to the spouse or domestic partner and dependent children of a member who is killed in the course of employment, as set forth in RCW 41.05.011((~~(14)~~)) <u>(16)</u>, shall include reimbursement for any payments of premium rates to the Washington state health care authority pursuant to RCW 41.05.080.

Sec. 2. RCW 41.26.048 and 2009 c 523 s 4 are each amended to read as follows:

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(1) A ((~~one hundred fifty~~)) two hundred fourteen thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's death benefit shall be paid to the member's surviving spouse or domestic partner as if in fact such spouse or domestic partner had been nominated by written designation, or if there be no such surviving spouse or domestic partner, then to such member's legal representatives.

(2) The benefit under this section shall be paid only when death occurs: (a) As a result of injuries sustained in the course of employment; or (b) as a result of an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(3)(a) Beginning July 1, 2010, and every year thereafter, the department shall determine the following information:

(i) The index for the 2008 calendar year, to be known as "index A;"

(ii) The index for the calendar year prior to the date of determination, to be known as "index B;" and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than two hundred fourteen thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's 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.

Sec. 3. RCW 51.32.050 and 2007 c 284 s 1 are each amended to read as follows:

(1) Where death results from the injury the expenses of burial not to exceed two hundred percent of the average monthly wage in the state as defined in RCW 51.08.018 shall be paid.

(2)(a) Where death results from the injury, a surviving spouse of a deceased worker eligible for benefits under this title shall receive monthly for life or until remarriage payments according to the following schedule:

(i) If there are no children of the deceased worker, sixty percent of the wages of the deceased worker;

(ii) If there is one child of the deceased worker and in the legal custody of such spouse, sixty-two percent of the wages of the deceased worker;

(iii) If there are two children of the deceased worker and in the legal custody of such spouse, sixty-four percent of the wages of the deceased worker;

(iv) If there are three children of the deceased worker and in the legal custody of such spouse, sixty-six percent of the wages of the deceased worker;

(v) If there are four children of the deceased worker and in the legal custody of such spouse, sixty-eight percent of the wages of the deceased worker; or

(vi) If there are five or more children of the deceased worker and in the legal custody of such spouse, seventy percent of the wages of the deceased worker.

(b) <u>A surviving spouse of a member of the law enforcement officers' and firefighters' retirement system under chapter 41.26 RCW or the state patrol retirement system under chapter 43.43 RCW who is entitled to benefits under this section must continue to receive benefits under this section monthly for life. Such surviving spouse shall not be eligible to receive a lump-sum payment under (g) of this subsection. After the effective date of this section, the monthly payments to any such surviving spouse which have been suspended pursuant to (d) or (g) of this subsection shall resume. However, the monthly payments to any spouse who received a lump-sum payment under (g) of this subsection shall be actuarially reduced to reflect the amount of the lump-sum payment.</u>

(c) Where the surviving spouse does not have legal custody of any child or children of the deceased worker or where after the death of the worker legal custody of such child or children passes from such surviving spouse to another, any payment on account of such child or children not in the legal custody of the surviving spouse shall be made to the person or persons having legal custody of such child or children. The amount of such payments shall be five percent of the monthly benefits payable as a result of the worker's death for each such child but such payments shall not exceed twenty-five percent. Such payments on account of such child or children shall be subtracted from the amount to which such surviving spouse would have been entitled had such surviving spouse had legal custody of all of the children and the surviving spouse shall receive the remainder after such payments on account of such child or children have been subtracted. Such payments on account of a child or children not in the legal custody of such surviving spouse shall be apportioned equally among such children.

((~~(c)~~)) (d) Except as provided in (b) of this subsection, payments to the surviving spouse of the deceased worker shall cease at the end of the month in which remarriage occurs: PROVIDED, That a monthly payment shall be made to the child or children of the deceased worker from the month following such remarriage in a sum equal to five percent of the wages of the deceased worker for one child and a sum equal to five percent for each additional child up to a maximum of five such children. Payments to such child or children shall be apportioned equally among such children. Such sum shall be in place of any payments theretofore made for the benefit of or on account of any such child or children. If the surviving spouse does not have legal custody of any child or children of the deceased worker, or if after the death of the worker, legal custody of such child or children passes from such surviving spouse to another, any payment on account of such child or children not in the legal custody of the surviving spouse shall be made to the person or persons having legal custody of such child or children.

((~~(d)~~)) (e) In no event shall the monthly payments provided in subsection (2) of this section:

(i) Exceed the applicable percentage of the average monthly wage in the state as computed under RCW 51.08.018 as follows:

AFTER	PERCENTAGE
June 30, 1993	105%
June 30, 1994	110%
June 30, 1995	115%
June 30, 1996	120%

(ii) For dates of injury or disease manifestation after July 1, 2008, be less than fifteen percent of the average monthly wage in the state as computed under RCW 51.08.018 plus an additional ten dollars per month for a surviving spouse and an additional ten dollars per month for each child of the worker up to a maximum of five children. However, if the monthly payment computed under this subsection (2)((~~(d)~~)) (e)(ii) is greater than one hundred percent of the wages of the deceased worker as determined under RCW 51.08.178, the monthly payment due to the surviving spouse shall be equal to the greater of the monthly wages of the deceased worker or the minimum benefit set forth in this section on June 30, 2008.

((~~(e)~~)) (f) In addition to the monthly payments provided for in subsection (2)(a) through ((~~(c)~~)) (d) of this section, a surviving spouse or child or children of such worker if there is no surviving spouse, or dependent parent or parents, if there is no surviving spouse or child or children of any such deceased worker shall be forthwith paid a sum equal to one hundred percent of the average monthly wage in the state as defined in RCW 51.08.018, any such children, or parents to share and share alike in said sum.

((~~(f)~~)) (g) Upon remarriage of a surviving spouse the monthly payments for the child or children shall continue as provided in this section, but the monthly payments to such surviving spouse shall cease at the end of the month during which remarriage occurs, except as provided in (b) of this subsection. However, after September 8, 1975, an otherwise eligible surviving spouse of a worker who died at any time prior to or after September 8, 1975, shall have an option of:

(i) Receiving, once and for all, a lump sum of twenty-four times the monthly compensation rate in effect on the date of remarriage allocable to the spouse for himself or herself pursuant to subsection (2)(a)(i) of this section and subject to any modifications specified

under subsection (2)((~~(d)~~)) (e) of this section and RCW 51.32.075(3) or fifty percent of the then remaining annuity value of his or her pension, whichever is the lesser: PROVIDED, That if the injury occurred prior to July 28, 1991, the remarriage benefit lump sum available shall be as provided in the remarriage benefit schedules then in effect; or

(ii) If a surviving spouse does not choose the option specified in subsection (2)((~~(f)~~)) (g)(i) of this section to accept the lump sum payment, the remarriage of the surviving spouse of a worker shall not bar him or her from claiming the lump sum payment authorized in subsection (2)((~~(f)~~)) (g)(i) of this section during the life of the remarriage, or shall not prevent subsequent monthly payments to him or to her if the remarriage has been terminated by death or has been dissolved or annulled by valid court decree provided he or she has not previously accepted the lump sum payment.

((~~(g)~~)) (h) If the surviving spouse during the remarriage should die without having previously received the lump sum payment provided in subsection (2)((~~(f)~~)) (g)(i) of this section, his or her estate shall be entitled to receive the sum specified under subsection (2)((~~(f)~~)) (g)(i) of this section or fifty percent of the then remaining annuity value of his or her pension whichever is the lesser.

((~~(h)~~)) (i) The effective date of resumption of payments under subsection (2)((~~(f)~~)) (g)(ii) of this section to a surviving spouse based upon termination of a remarriage by death, annulment, or dissolution shall be the date of the death or the date the judicial decree of annulment or dissolution becomes final and when application for the payments has been received.

((~~(i)~~)) (j) If it should be necessary to increase the reserves in the reserve fund or to create a new pension reserve fund as a result of the amendments in chapter 45, Laws of 1975-'76 2nd ex. sess., the amount of such increase in pension reserve in any such case shall be transferred to the reserve fund from the supplemental pension fund.

(3) If there is a child or children and no surviving spouse of the deceased worker or the surviving spouse is not eligible for benefits under this title, a sum equal to thirty-five percent of the wages of the deceased worker shall be paid monthly for one child and a sum equivalent to fifteen percent of such wage shall be paid monthly for each additional child, the total of such sum to be divided among such

children, share and share alike: PROVIDED, That benefits under this subsection or subsection (4) of this section shall not exceed the lesser of sixty-five percent of the wages of the deceased worker at the time of his or her death or the applicable percentage of the average monthly wage in the state as defined in RCW 51.08.018, as follows:

AFTER	PERCENTAGE
June 30, 1993	105%
June 30, 1994	110%
June 30, 1995	115%
June 30, 1996	120%

(4) In the event a surviving spouse receiving monthly payments dies, the child or children of the deceased worker shall receive the same payment as provided in subsection (3) of this section.

(5) If the worker leaves no surviving spouse or child, but leaves a dependent or dependents, a monthly payment shall be made to each dependent equal to fifty percent of the average monthly support actually received by such dependent from the worker during the twelve months next preceding the occurrence of the injury, but the total payment to all dependents in any case shall not exceed the lesser of sixty-five percent of the wages of the deceased worker at the time of his or her death or the applicable percentage of the average monthly wage in the state as defined in RCW 51.08.018 as follows:

AFTER	PERCENTAGE
June 30, 1993	105%
June 30, 1994	110%
June 30, 1995	115%
June 30, 1996	120%

If any dependent is under the age of eighteen years at the time of the occurrence of the injury, the payment to such dependent shall cease when such dependent reaches the age of eighteen years except such payments shall continue until the dependent reaches age twenty-three while permanently enrolled at a full time course in an accredited

school. The payment to any dependent shall cease if and when, under the same circumstances, the necessity creating the dependency would have ceased if the injury had not happened.

(6) For claims filed prior to July 1, 1986, if the injured worker dies during the period of permanent total disability, whatever the cause of death, leaving a surviving spouse, or child, or children, the surviving spouse or child or children shall receive benefits as if death resulted from the injury as provided in subsections (2) through (4) of this section. Upon remarriage or death of such surviving spouse, the payments to such child or children shall be made as provided in subsection (2) of this section when the surviving spouse of a deceased worker remarries.

(7) For claims filed on or after July 1, 1986, every worker who becomes eligible for permanent total disability benefits shall elect an option as provided in RCW 51.32.067.

Sec. 4. RCW 28B.15.380 and 2005 c 249 s 2 are each amended to read as follows:

Subject to the limitations of RCW 28B.15.910, the governing boards of the state universities, the regional universities, and The Evergreen State College ((~~may~~)) shall exempt the following students from the payment of all ((~~or a portion of~~)) tuition fees and services and activities fees:

(1) Children of any law enforcement officer ((~~or~~)), firefighter, or Washington state patrol officer who lost his or her life or became totally disabled in the line of duty while employed by any public law enforcement agency or full time or volunteer fire department in this state: PROVIDED, That such persons may receive the exemption only if they begin their course of study at a state-supported college or university within ten years of their graduation from high school; and

(2) Surviving spouses of any law enforcement officer, firefighter, or Washington state patrol officer who lost his or her life or became totally disabled in the line of duty while employed by any public law enforcement agency or full time or volunteer fire department in this state.

Sec. 5. RCW 28B.15.520 and 2007 c 355 s 6 are each amended to read as follows:

Subject to the limitations of RCW 28B.15.910, the governing boards of the community colleges may:

(1) Waive all or a portion of tuition fees and services and activities fees for:

(a) Students nineteen years of age or older who are eligible for resident tuition and fee rates as defined in RCW 28B.15.012 through 28B.15.015, who enroll in a course of study or program which will enable them to finish their high school education and obtain a high school diploma or certificate, but who are not eligible students as defined by RCW 28A.600.405; and shall waive all of tuition fees and services and activities fees for:

(b) Children of any law enforcement officer ((~~or~~)), firefighter, or Washington state patrol officer who lost his or her life or became totally disabled in the line of duty while employed by any public law enforcement agency or full time or volunteer fire department in this state: PROVIDED, That such persons may receive the waiver only if they begin their course of study at a community college within ten years of their graduation from high school; and

(c) Surviving spouses of any law enforcement officer, firefighter, or Washington state patrol officer who lost his or her life or became totally disabled in the line of duty while employed by any public law enforcement agency or full time or volunteer fire department in this state;

(2) Waive all or a portion of the nonresident tuition fees differential for:

(a) Nonresident students enrolled in a community college course of study or program which will enable them to finish their high school education and obtain a high school diploma or certificate but who are not eligible students as defined by RCW 28A.600.405. The waiver shall be in effect only for those courses which lead to a high school diploma or certificate; and

(b) Up to forty percent of the students enrolled in the regional education program for deaf students, subject to federal funding of such program.

Sec. 6. RCW 43.43.295 and 2009 c 522 s 8 and 2009 c 226 s 4 are each reenacted and amended to read as follows:

(1) For members commissioned on or after January 1, 2003, except as

provided in RCW 11.07.010, if a member or a vested member who has not completed at least ten years of service dies, the amount of the accumulated contributions standing to such member's credit in the retirement system at the time of such member's death, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's estate, or such person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's accumulated contributions standing to such member's credit in the retirement system, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid to the member's surviving spouse or domestic partner as if in fact such spouse or domestic partner had been nominated by written designation, or if there be no such surviving spouse or domestic partner, then to such member's legal representatives.

(2) If <u>a member who is killed in the course of employment or</u> a member who is eligible for retirement or a member who has completed at least ten years of service dies, the surviving spouse or domestic partner or eligible child or children shall elect to receive either:

(a) A retirement allowance computed as provided for in RCW 43.43.260, actuarially reduced, except under subsection (4) of this section, by the amount of any lump sum benefit identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670 and actuarially adjusted to reflect a joint and one hundred percent survivor option under RCW 43.43.278 and if the member was not eligible for normal retirement at the date of death a further reduction from age fifty-five or when the member could have attained twenty-five years of service, whichever is less; if a surviving spouse or domestic partner who is receiving a retirement allowance dies leaving a child or children of the member under the age of majority, then such child or children shall continue to receive an allowance in an amount equal to that which was being received by the surviving spouse or domestic partner, share and share alike, until such child or children reach the age of majority; if there is no surviving spouse or domestic partner eligible to receive an

allowance at the time of the member's death, such member's child or children under the age of majority shall receive an allowance share and share alike calculated under this section making the assumption that the ages of the spouse or domestic partner and member were equal at the time of the member's death; or

(b)(i) The member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670; or

(ii) If the member dies, one hundred fifty percent of the member's accumulated contributions, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670. Any accumulated contributions attributable to restorations made under RCW 41.50.165(2) shall be refunded at one hundred percent.

(3) If a member who is eligible for retirement or a member who has completed at least ten years of service dies, and is not survived by a spouse or domestic partner or an eligible child, then the accumulated contributions standing to the member's credit, less any amount identified as owing to an obligee upon withdrawal of accumulated contributions pursuant to a court order filed under RCW 41.50.670, shall be paid:

(a) To an estate, a person or persons, trust, or organization as the member shall have nominated by written designation duly executed and filed with the department; or

(b) If there is no such designated person or persons still living at the time of the member's death, then to the member's legal representatives.

(4) The retirement allowance of a member who is killed in the course of employment, as determined by the director of the department of labor and industries, or the retirement allowance of a member who has left the employ of an employer due to service in the national guard or military reserves and dies while honorably serving in the national guard or military reserves during a period of war as defined in RCW 41.04.005, is not subject to an actuarial reduction <u>for early retirement if the member was not eligible for normal retirement or an actuarial reduction to reflect a joint and one hundred percent survivor option under RCW 43.43.278. The member is entitled to a minimum retirement allowance equal to ten percent of such member's final</u>

average salary. The member shall additionally receive a retirement allowance equal to two percent of such member's average final salary for each year of service beyond five.

Sec. 7. RCW 43.43.285 and 2009 c 522 s 7 are each amended to read as follows:

(1) A ((~~one hundred fifty~~)) two hundred fourteen thousand dollar death benefit shall be paid to the member's estate, or such person or persons, trust or organization as the member shall have nominated by written designation duly executed and filed with the department. If there be no such designated person or persons still living at the time of the member's death, such member's death benefit shall be paid to the member's surviving spouse or domestic partner as if in fact such spouse or domestic partner had been nominated by written designation, or if there be no such surviving spouse or domestic partner, then to such member's legal representatives.

(2)(a) The benefit under this section shall be paid only where death occurs as a result of (i) injuries sustained in the course of employment; or (ii) an occupational disease or infection that arises naturally and proximately out of employment covered under this chapter. The determination of eligibility for the benefit shall be made consistent with Title 51 RCW by the department of labor and industries. The department of labor and industries shall notify the department of retirement systems by order under RCW 51.52.050.

(b) The retirement allowance paid to the spouse or domestic partner and dependent children of a member who is killed in the course of employment, as set forth in RCW 41.05.011((~~(14)~~)) (16), shall include reimbursement for any payments of premium rates to the Washington state health care authority under RCW 41.05.080.

(3)(a) Beginning July 1, 2010, and every year thereafter, the department shall determine the following information:

(i) The index for the 2008 calendar year, to be known as "index A";

(ii) The index for the calendar year prior to the date of determination, to be known as "index B"; and

(iii) The ratio obtained when index B is divided by index A.

(b) The value of the ratio obtained shall be the annual adjustment to the original death benefit and shall be applied beginning every July 1st. In no event, however, shall the annual adjustment:

(i) Produce a benefit which is lower than two hundred fourteen thousand dollars;

(ii) Exceed three percent in the initial annual adjustment; or

(iii) Differ from the previous year's annual adjustment by more than three percent.

(c) For the purposes of this section, "index" means, for any calendar year, that year's 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.

NEW SECTION. **Sec. 8.** Section 1 of this act applies prospectively to the benefits of all members killed in the course of employment since October 1, 1977.

NEW SECTION. **Sec. 9.** Sections 2 and 7 of this act apply to the benefits of all members killed in the course of employment since January 1, 2009.

NEW SECTION. **Sec. 10.** Section 6 of this act applies prospectively to the benefits of all members killed in the course of employment since January 1, 2003.

--- END ---

HB 2519: LEOFF 2 Board Duty-Death Bill

Summary of Bill

This bill makes changes to duty-related death benefits for public safety officers provided in retirement statutes, workers' compensation statutes, and higher education statutes. The retirement system changes affect members of the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) and the Washington State Patrol Retirement System (WSPRS).

This bill makes the following changes:

- Removes the ten year service requirement in LEOFF 2 and WSPRS 2 for survivors of duty-related deaths to qualify for a survivor annuity.*
- Removes the actuarial reduction for a joint and 100 percent survivor option applied to survivor annuities in LEOFF 2 and WSPRS 2 for survivors of duty-related deaths.*
- Provides a minimum survivor annuity in LEOFF 2 and WSPRS 2 of 10 percent of Average Final Salary (AFS) for survivors of duty related deaths.*
- Increases the lump-sum duty-death benefit in both plans of LEOFF and WSPRS to $214,000 and applies an automatic Cost-Of-Living-Adjustment (COLA) modeled after the Plan 2 COLA. **
- Requires workers' compensation benefits provided to surviving spouses of LEOFF or WSPRS members who die from duty-related causes to continue after remarriage. Benefits for surviving spouses that were previously stopped due to remarriage will resume after the effective date of the bill.
- Requires universities and colleges to waive all tuition, service fees, and activity fees for children and surviving spouses of public safety officers who are killed or totally disabled in the line-of-duty.

**Changes are retroactive to the opening of the plans (October 1, 1977, for LEOFF 2, and January 1, 2003, for WSPRS 2) for purposes of determining eligibility for the improved benefits. Actual benefit increases would be paid prospectively from the effective date of the bill.*

***Retroactive to qualifying deaths occurring since January 1, 2009.*

Sectional Analysis

<u>The following is a brief description of the individual bill sections.</u>

Section 1: Amends LEOFF 2 statutes to enhance the survivor annuity provided for survivors of duty-related deaths: removes ten year service requirement to qualify, removes actuarial reduction, and provides a minimum annuity of 10 percent of AFS.

Section 2: Amends LEOFF statutes to increase the duty-death benefit to $214,000 and apply an automatic COLA to the benefit amount.

Section 3: Amends workers' compensation statutes to continue benefits after remarriage for surviving spouses of LEOFF and WSPRS member who die from duty-related causes. Requires benefits that were previously stopped due to remarriage to resume after the effective date of the act.

Section 4: Amends higher education statutes to require universities to waive all tuition, service fees, and activity fees for children and surviving spouses of law enforcement officers, firefighters, or state patrol officers who are killed or totally disabled in the line-of-duty.

Section 5: Amends higher education statutes to require community colleges to waive all tuition, service fees, and activity fees for children and surviving spouses of law enforcement officers, firefighters, or state patrol officers who are killed or totally disabled in the line-of-duty.

Section 6: Amends WSPRS 2 statutes to enhance the survivor annuity provided for survivors of duty-related deaths: removes ten year service requirement to qualify, removes actuarial reduction, and provides a minimum annuity of 10 percent of AFS.

Section 7: Amends WSPRS statutes to increase the duty-death benefit to $214,000 and apply an automatic COLA to the benefit amount.

Section 8: Makes Section 1 of the act retroactive to duty-related deaths occuring since October 1, 1977. Changes are retroactive for purposes of determining eligibility for the improved benefits–actual benefit increases would be paid prospectively from the effective date of the bill.

Section 9: Makes Section two & seven of the act retroactive to duty-related deaths occuring since January 1, 2009.

Section 10: Makes Section 6 of the act retroactive to duty-related deaths occuring since January 1, 2003. Changes are retroactive for purposes of determining eligibility for the improved benefits–actual benefit increases would be paid prospectively from the effective date of the bill.

Change Plans 2/3 Default

Issue

The SCPP is being asked to change the plan choice default in the Plans 2/3 of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS). The requested change would require new employees who do not choose Plan 2 or Plan 3 to become permanent members of Plan 2 by default. Plan 3 is the current default.

Background

- Plan 3 was the default plan when plan choice was introduced with PERS Plan 3 in 2002.
- The Legislature continued to use Plan 3 as the default when new teachers and school employees were granted plan choice in 2007.

Policy Considerations

- Have the values changed that made the Plan 3 design the policy preference for the default plan?
- There may be issues with changing the default at this time.
  - Legal considerations.
  - Financial market conditions.
- If policy makers don't have a policy preference for continuing the Plan 3 default, how should they decide which plan should be the default?
  - Look at historical data of plan choice preference?
  - Determine which plan best serves the needs of new employees?
- There are different implications for eliminating the default than there are for changing the default to Plan 2.
  - May raise questions about whether the benefits are definitely determinable.
  - Participation is mandatory, but it is not possible to force someone to make an affirmative choice.

Committee Activity

The SCPP studied this issue in 2008, and recommended a bill that would change the default to Plan 2 for PERS only. The Legislature considered this proposal in 2009 (HB 1722/ SB 5307), but did not enact it.

The SCPP held a work session on this issue in November 2009. At that meeting, the Executive Committee directed staff to prepare a bill draft for the December meeting that would change the default plan to Plan 2 for PERS, SERS, and TRS. The Executive Committee also directed staff to prepare an option for eliminating the plan default altogether.

The SCPP held a public hearing and executive session in December 2009. It was moved and seconded to recommend changing the plan default to Plan 2 for PERS, SERS, and TERS. The motion failed, and the SCPP did not recommend a bill.

A non-SCPP bill that would change the default to Plan 2 for all three systems was considered by the Legislature in 2010 (SB 6516). It was not enacted.

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Change Plans 2/3 Default

In Brief

Issue

New employees hired into PERS, TRS, or SERS eligible positions must choose to be a member of Plan 2 or Plan 3. Members who don't choose are "defaulted" into membership in Plan 3. Stakeholders have suggested that members who don't choose should be defaulted into Plan 2.

Member Impact

This change would impact all new hires into PERS, TRS, and SERS eligible positions. Since the inception of optional membership, beginning for PERS in March 2002, over 95,000 new employees have been faced with the Plan 2 or Plan 3 choice. Of these, nearly 18,000 have been defaulted into Plan 3. See Appendix A for more information.

This report was updated in March 2009 to reflect new SCPP action, and a section entitled, "Is Eliminating the Default Provision a Viable Option?" was added. Appendix A has been updated with new plan member data. The remainder of the report is substantively unchanged from 2008.

Introduction

The SCPP is being asked to change the optional plan choice default provisions in the Plans 2/3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS).

The requested change would require new employees who failed to choose Plan 2 or Plan 3 to become permanent members of Plan 2 by default. Currently, new employees who fail to choose a plan are permanently defaulted into membership in Plan 3. This request raises two immediate policy questions:

- Should the plan default be changed, particularly at this time?
- If so, how should the default be determined?

Current Situation

New employees hired into eligible positions in PERS, TRS, and SERS have ninety days from their first day of employment to choose whether to become members of Plan 2 or Plan 3. New employees who do not decide within the ninety-day window become members of Plan 3 by default. Whether members choose or are defaulted into a plan, their plan designation cannot change; the decision or designation is irrevocable.

History

TRS Plan 3, implemented in 1995, was the first Plan 3 in Washington State. At the time, all new teachers were required to be members of Plan 3. This was also true for SERS Plan 3, implemented in 2000. Classified employees hired after 2000 were also required to become members of SERS Plan 3.

The choice of Plan 3 as the default plan began with the implementation of PERS Plan 3 in March 2002. When PERS Plan 3 was created, the Legislature gave new public employees the irrevocable choice upon hiring to become a member of Plan 2 or Plan 3. If a new employee failed to make a choice, they were defaulted into PERS Plan 3.

Using Plan 3 as the default plan started with PERS in 2002 and was later expanded to TRS and SERS in 2007.

In 2007, the Legislature continued to use Plan 3 as the default plan when they implemented optional membership in TRS and SERS. These benefits, and others, were passed in HB 2391, which also repealed the provisions of gain-sharing. Some of the provisions of this bill are currently being litigated.

Comparing Plan 2 and Plan 3

Plan 2 and Plan 3 provide different designs to accrue a retirement benefit. Understanding the differences in the design of the two plans may help policy makers understand the potential impact of changing the default plan to future new employees.

Below is a description of the benefit design provided by each plan.

Plan 2 is a **defined benefit retirement plan** that provides a monthly payment for life based upon a formula. The benefit is defined because the formula is known. The Plan 2 benefit formula is: 2% X years of service X salary average. The Plan 2 benefit is funded by equal employee and employer contributions, which may vary over time depending upon the funding needs of the plan. The full benefit is guaranteed by the state of Washington, so employees do not carry the investment risk for their benefits, the state does.

Plan 2 is a defined benefit plan that provides a monthly payment for life based upon a formula.

Some Benefits Of Plan 2

For a new employee who will remain a member until retirement, DB plans, like the Plans 2, are generally a very cost effective method to provide lifetime retirement income*.

First, because they "pool" all members into a common fund, defined benefit plans only have to collect enough contributions and earnings to fund the "average" lifetime of the member. Members who fund their own retirement would have to contribute and earn more in order to ensure they wouldn't outlive their savings if they lived longer than the average.

Plan 2 offers a cost effective method to provide replacement income at retirement.

Second, because large defined benefit plans invest over a very long time horizon, they can afford to take on more investment risk, which

should lead to higher returns. Individual members are often advised to change their investment allocations to less risky products as they near and enter retirement, which leads to lower lifetime investment returns.

Finally, defined benefit plans generally achieve higher investment returns than individual investors. Defined benefit plans use investment professionals, have access to investment asset classes that individuals typically don't, and can use their size to negotiate lower investment fees. Over a long career, a small increase in investment returns can provide a significantly higher benefit.

** Beth Almeida and William Fornia, "A Better Bang for the Buck," National Institute on Retirement Security, <http://www.nirsonline.org/index.php>, August 2008, <http://www.nirsonline.org/storage/nirs/documents/ky_dc_working_group.pdf>, accessed August 2008.*

Plan 2 offers members a lower risk retirement plan that requires little involvement in managing the benefit.

Plan 2 is also of value to members who don't want to assume the primary responsibility and risk for their own retirement funding. In a defined benefit plan, the plan sponsor assumes the responsibility and the risk to invest and provide a retirement benefit for the employees. This provides the member with a secure, known benefit that is guaranteed. For members who lack the investment confidence, the desire to more directly manage their retirement income, or the time to accrue substantial earnings, this option can be desirable. However, members do still bear the responsibility to determine if the amount provided by the plan is sufficient for their own retirement needs, and make additional plans if it is not.

Plan 3 is a **hybrid retirement plan**, because it contains two separate components:

- A defined contribution account.
- A defined benefit account.

The *defined contribution* account is funded by the member's own contributions. The plan gives members the choice of how much they want to contribute to their own retirement, and options to manage investing those contributions over time. Currently, Plan 3 members have six contribution rate options, beginning at 5 percent, and over nine separate investment funds from which to choose. New employees, who become members of Plan 3 by default, are also defaulted into a contribution rate of 5 percent and into an investment option that provides the same mix of investments and rate of return as the retirement trust funds managed by the Washington State Investment Board (WSIB).

Plan 3 has both a defined contribution and defined benefit component.

This is called a "defined contribution" account because the benefit received by members from the account is not defined; only the amount of contributions into the account is defined. The benefit received from the account is based upon how much members contribute and the associated investment earnings. There is no guaranteed return on the contributions, so members carry the full investment risk. This type of retirement option is very similar to the "401K" retirement plans commonly offered by private employers.

The *defined benefit* account in Plan 3 is paid by the employer contributions. The defined benefit provided is similar to the Plan 2 defined benefit, a lifetime monthly payment based upon a formula, guaranteed by the state. However, because member contributions are not funding the defined benefit in Plan 3 like they are in Plan 2, the value is half that of the Plan 2 benefit. The Plan 3 defined benefit formula is: 1% X years of service X salary average.

Some Benefits Of Plan 3

Plan 3 offers members more value if leaving the workforce before retiring.

Many new employees will never draw a lifetime monthly payment from their retirement plan. It is estimated that less than half of all new PERS employees will remain employed for the five years necessary to earn a guaranteed benefit at age 65*. Also, some new employees may work long enough to earn a benefit, but will leave public employment prior to age 65. The Plans 3 were designed in recognition of this new, more mobile workforce. The policy statement in the legislation that created TRS Plan 3 stated "…public employees need the ability to make transitions to other private or public sector careers, and … the retirement system should not be a barrier…."

To accommodate this recognition of greater mobility, Plan 3 provides more opportunity to receive value for both member and employer contributions should employees leave employment prior to retirement. In Plan 2, members who leave employment can withdraw the contributions made to the plan and any interest that has been credited to their account. However, if they do so, they forfeit all right to a future defined benefit from the system. This means Plan 2 members who withdraw never receive any benefit from all the contributions made by the employer.

In Plan 3, the benefit is split into the defined contribution and the defined benefit accounts. Plan 3 members who leave prior to retirement can withdraw their contributions from the defined contribution account, and it does not impact their eligibility for an employer-funded defined benefit payment in the future. If Plan 3

members earn a guaranteed future payment, they retain the value from the employer contributions.

** Office of the State Actuary, 2007 Actuarial Valuation Report, September 2008.*

Plan 3 gives members greater flexibility and control within their retirement plan.

Plan 3 also offers members more control over their retirement planning. With the increased awareness of the stock market in the late 1980s and early 1990s, many employees wanted flexibility and control over their retirement contributions. Plan 3 provides flexibility in the amount of contributions and control over how they are invested. Plan 2 does not provide these benefits. Even if the new employees do not choose Plan 3 initially, this flexibility and control may be desired later in their career.

Plan 3 shifts some risk of providing a retirement benefit to members, but provides features to help mitigate that risk.

However, with this increased flexibility and control comes increased risk. Members in Plan 3 are assuming more risk for their future retirement benefit than Plan 2 members. Part of the benefit from Plan 3 comes from the members own contributions and earnings, on which there is no guaranteed return. Therefore, depending upon the amount invested and the earnings, members may or may not have as much income replacement at retirement as Plan 2 members may have.

Some policy makers may question whether a plan designed for active management that shifts some retirement risk to members is appropriate for new employees who cannot choose a retirement plan in ninety days. While there is more risk to members in this plan, there are several design options within Plan 3 that attempt to mitigate some of that risk.

First, as stated earlier, members who are defaulted into Plan 3 are also defaulted into the WSIB investment option. This provides them with access to a professionally managed, low-fee, and diverse investment portfolio, the same portfolio that funds the defined benefit plans in Washington. This option mitigates some of the risk for individual investors.

Second, the Plans 3 provide an option for members to purchase a lifetime monthly annuity with their contributions at the time of retirement, paid out of the state retirement funds. Because this annuity is purchased from the state, it provides more benefit for less cost than what could typically be purchased in the private sector, and removes some of the risk of members outliving the value of their investments.

Finally, members still receive a defined benefit payment funded from the employer contributions. This ensures there is some level of secure monthly income being earned.

Policy Analysis

The request to change the plan membership default in the Plans 2/3 raises two immediate policy questions:

- Should the default be changed, particularly at this time?
- If so, how should the default be determined?

Should The Plan Default Be Changed?

As discussed earlier in this paper, Plan 3 was the original choice as the default plan for PERS, and has remained the default choice as optional membership was expanded to TRS and SERS. As shown in **Appendix A**, nearly 18,000 members have been defaulted into Plan 3 since the creation of optional membership. This amounts to approximately 19 percent of all new employees.

The question for policy makers is: Have the values changed that made the Plan 3 design the policy preference for the default plan?

Have the values changed that made the Plan 3 design the policy preference for the default plan?

The Plan 3 design offers value for the mobility and flexible retirement planning needs of many new employees. For employers, it offers a retirement plan that helps recruit from the private sector, which primarily offers defined contribution retirement plans for employees. For the state of Washington, as the plan sponsor, the Plan 3 design shifts some of the investment risk for providing a benefit to members, and lowers the long-term cost of the plan that the state guarantees. As explained earlier, the Plan 3 members carry the investment risk for their own contributions, and the state guarantees the value of the defined benefits paid by employer contributions. Since the Plan 3 defined benefit is half the value of the Plan 2 defined benefit, the state accrues less liability with Plan 3. Shifting the investment risk and lowering the long-term liability were key benefits to the state of implementing Plan 3 and designating Plan 3 as the default plan.

Have the values in the Plan 3 design changed? Do policy makers no longer consider lowering the long-term liability for the state a goal? If the values discussed above have not changed, then some reason must override the design values in significance to consider changing the current plan default. Otherwise, retaining Plan 3 as the default plan would be the consistent approach.

Should The Default Be Changed At This Time?

Changing the plan default at this time may raise legal concerns.

In addition to the question of whether the Plan 3 default should be changed at all, there are also two concerns raised by the timing of this request. First, as mentioned earlier, the Legislature continued the use of Plan 3 as the default plan when they implemented plan choice for TRS and SERS in HB 2391. Some of the benefit provisions in this bill are in current litigation, and the provisions of plan choice may be impacted by the outcome of this litigation. As a result, the committee may want to consult with their Assistant Attorney General before making a decision on this proposal.

Policy makers may want to consider whether the desire to change the default from Plan 3 may be linked to current market conditions.

Second, policy makers may want to consider whether the desire to change Plan 3 as the default may be linked to current market conditions. As discussed earlier, in Plan 3 members invest their contributions. When the financial markets are in a downturn, as they are now, the reaction to this financial climate may be that this exposure to investment risk is too great for members to accommodate. Therefore, some feel Plan 2 should be the default plan because the benefit is guaranteed and the state, as plan sponsor, should carry the investment risk, not members. This reaction may not fully consider the cyclical nature of the financial markets. The markets have had periods of tremendous gain, as well as loss. Volatility is part of their nature. When the financial markets are earning significant returns, will there be another request to change the default back to Plan 3 so members can participate in the gains?

How Should The Plan Default Be Determined?

If policy makers no longer feel Plan 3 should be the default plan for new employees from a broad-based policy perspective, then how should they choose which plan should be the default? Two possible approaches are:

- Use historical plan choice data to set the default.
- Determine which plan best serves the needs of new employees.

Using Historical Data To Set Plan Default

Historical data shows a strong preference for Plan 2 among PERS employees, but the data is somewhat less clear for school employees and teachers.

Appendix A provides detail of new employee choice in the Plans 2/3. PERS has had optional membership since March of 2002, so there is more historical data available. In PERS, over 64 percent of new employees choose Plan 2. An additional 17 percent choose Plan 3, and the remaining 19 percent are defaulted into Plan 3. This data indicates a strong preference in PERS for Plan 2.

SERS data also indicates a preference for Plan 2 of 48 percent to 32 percent choosing Plan 3. The remaining 20 percent are defaulted into Plan 3. TRS new members have a slight preference for Plan 3 of 46 percent to 40 percent choosing Plan 2. The remaining 14 percent of new teachers are defaulted to Plan 3.

While this data does show a strong preference for Plan 2 among PERS employees, the data is somewhat less clear for school employees and teachers. Also, since optional membership for SERS and TRS was implemented only 16 months ago, there is far less data in those plans from which to base a decision. If taking the approach to use historical data to determine the plan default choice, policy makers may want to consider whether enough data is available in SERS and TRS to make an informed choice.

Which Plan Best Serves The New Employees?

Policy makers may also set the plan default based upon a judgment of which plan best serves the new employees. This determination is complicated, however, as Plan 2 and Plan 3 were each designed to best serve the needs of different members. As discussed earlier in this paper when comparing the benefits in the two plans, Plan 2 may provide more value to the new employees who stay and retire from the system, or who don't want the primary responsibility or the risk of managing their own retirement. Plan 3 may be preferable for the new employees who will likely leave public employment prior to retirement, or those who may remain, but want more flexibility and options than a typical defined benefit plan provides.

Policy makers would need to determine which group of new members they would like to best serve. Those new employees who will stay to retirement age may be benefited by a Plan 2 default, and those who leave prior to retiring may be benefited by a Plan 3 default.

Instead of one default for all retirement systems, other approaches could include defaults based upon each system's demographics, or plan default based upon groupings of new employees.

Should There Be Different Defaults For Different Members?

Applying one default plan for all the Plans 2/3 would necessarily mean some members are defaulted into a plan that may not be best suited for their needs. A different approach may be to fit the default to the demographics of new employees in the retirement system. For example, PERS and SERS new employees are far more likely to leave the workforce prior to the normal age of retirement than new TRS employees. Would a Plan 3 default suit these employees better since it may provide more value to a departing worker? If new employees in

TRS are more likely to work to the normal age of retirement, should they be given a Plan 2 default since Plan 2 is a cost effective means of providing retirement income? This approach could result in different default plans among the three retirement systems.

Another approach would be to fit the default to groupings of new employees specifically. For example, Plan 3 may be more valuable to younger employees who have time to invest and manage their contributions through market volatility. Plan 3 may be a logical choice as the default for these new employees. But what of new employees that enter the workforce at later ages? They may not have time to earn significant investment gains in Plan 3. New employees past a certain age may benefit from being defaulted into Plan 2. This approach could result in different plan defaults within each retirement system.

Is Eliminating the Default Provision a Viable Option?

Upon review, eliminating the default and changing the default to Plan 2 requires very different analyses. Eliminating the default would require policy makers to revisit some fundamental principles and aspects of Washington's retirement systems.

In discussing the elimination of the default provision, policy makers may need to consider compliance with federal law and the need for mandatory participation.

Compliance with Federal Law

Federal law does not explicitly bar the state from offering a choice of plans for more than ninety days, but any modification that could extend or eliminate that time period could raise questions of whether the benefits are definitely determinable.

Under federal law,[1] a defined benefit plan, or portion of a plan, must have definitely determinable benefits that are not subject to employer discretion. If an employee were allowed to wait for an extended period of time before being placed (by choice or default) into a plan, that employee's benefits would remain undeterminable for that extended period of time.

[1] *See 26 CFR 1.401-1 and 26 USC §401(a).*

Mandatory Participation

Since the inception of retirement systems in Washington, the Legislature has chosen to require mandatory participation. A default provision serves to ensure this participation since it is difficult, if not impossible, to force someone to make an affirmative choice. Without a default, employees could theoretically wait until the day they retire to affirmatively make a selection.

Default provisions are used in two other programs that require mandatory participation.

New employees must choose a medical and dental plan within 31 days. If they do not make the choice during the allotted time, they are defaulted into the Uniform Medical Plan and Uniform Dental Plan.[2]

At the federal level, new employees must complete and submit an IRS form W-4 to the employer in order for the employer to calculate the employee's withholding. If the employee does not complete and submit a form W-4, the employer must withhold income taxes as though the employee was single, with no withholding allowances.[3]

[2] *WAC 182-08-197*
[3] *See IRS Publication 15, Section 9, p. 16.*

Other States

Only two comparative systems offer similar plan choice to new employees, and both systems default members into the defined benefit option.

Among the comparative states, only two systems offer new employees a choice between a defined benefit plan and some form of defined contribution or hybrid plan: Ohio PERS and the Florida Retirement System.

Ohio PERS gives new employees a choice between a traditional defined benefit plan like Plan 2, a hybrid retirement plan like Plan 3, and a defined contribution plan. If members do not choose a plan, they are defaulted into the traditional defined benefit plan.

The Florida Retirement System gives new members the option to participate in a defined benefit plan and a defined contribution plan. Like Ohio PERS, if members fail to make a timely choice, they are defaulted into the defined benefit plan.

Conclusion

There is a request to the SCPP to change the plan choice default in the Plans 2/3. Plan 3 has been the policy choice as the plan default since the inception of optional membership in 2002 and remained the

default choice when optional membership was expanded in 2007. Have the plan design values that drove that default policy changed?

Is now the right time to change the plan default? There are also timing considerations concerning changing the plan default. These include possible legal concerns and the impact of the current financial markets on the desire for change.

If policy makers don't have a policy preference for continuing the use of Plan 3 as the default, how should they determine which plan should be the default?

- Look at historical data of plan choice preference?
- Make a determination of which plan best serves the needs of new employees?

A look at similar situations in comparative state systems shows that only two systems offer new employees a similar plan choice as Washington. In both of those systems, members who fail to choose within their allotted time period are defaulted into a defined benefit plan.

Committee Activity

The SCPP studied this issue in 2008, and recommended a bill that would change the default to Plan 2 for PERS only. The Legislature considered the PERS-only proposal in 2009 (HB 1722/ SB 5307), but did not enact it.

The SCPP held a work session on this issue in November 2009. At that meeting, the Executive Committee directed staff to prepare a bill draft for the December meeting that would change the default plan to Plan 2 for PERS, SERS, and TRS. The Executive Committee also directed staff to prepare an option for eliminating the plan default altogether.

The SCPP held a public hearing and executive session in December 2009. It was moved and seconded to recommend changing the plan default to Plan 2 for PERS, SERS, and TERS. The motion failed, and the SCPP did not recommend a bill.

A non-SCPP bill that would change the default to Plan 2 for all three systems was considered by the Legislature in 2010 (SB 6516). It was not enacted.

Bill Drafts

A bill draft is attached that changes the default plan to Plan 2 for PERS, TRS, and SERS.

Draft Fiscal Note Summary

Attached.

AN ACT Relating to plan membership default provisions in the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system; and amending RCW 41.32.835, 41.35.610, and 41.40.785.

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

Sec. 1. RCW 41.32.835 and 2007 c 491 s 3 are each amended to read as follows:

(1) All teachers who first become employed by an employer in an eligible position on or after July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3 <u>or plan 2 as follows:</u>

<u>(a) Becomes a member of plan 3 if first employed by an employer in an eligible position on or after July 1, 2007, but prior to July 1, 2010;</u>

(b) Becomes a member of plan 2 if first employed by an employer in an eligible position on or after July 1, 2010.

These plan choice and default provisions are subject to the rights reserved by the legislature in subsection (3) of this section.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

(3) The plan choice provision as set forth in section 3, chapter 491, Laws of 2007 was intended by the legislature as a replacement benefit for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to plan choice under this section is noncontractual, and the legislature reserves the right to amend or repeal this section. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, all teachers who first become employed by an employer in an eligible position on or after July 1, 2007, may choose either plan 2 or plan 3 under this section. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then all teachers who first become employed by an employer in an eligible position on or after the date of such reinstatement shall be members of plan 3.

Sec. 2. RCW 41.35.610 and 2007 c 491 s 7 are each amended to read as follows:

(1) All classified employees who first become employed by an employer in an eligible position on or after July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3 or plan 2 as follows:

(a) Becomes a member of plan 3 if first employed by an employer in an eligible position on or after July 1, 2007, but prior to July 1, 2010;

(b) Becomes a member of plan 2 if first employed by an employer in an eligible position on or after July 1, 2010.

These plan choice and default provisions are subject to the rights reserved by the legislature in subsection (3) of this section.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

(3) The plan choice provision as set forth in section 7, chapter 491, Laws of 2007 was intended by the legislature as a replacement benefit for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to plan choice under this section is noncontractual, and the legislature reserves the right to amend or repeal this section. Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, all classified employees who first become employed by an employer in an eligible position on or after July 1, 2007, may choose either plan 2 or plan 3 under this section. If the repeal of chapter 41.31A RCW is held to be invalid in

a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then all classified employees who first become employed by an employer in an eligible position on or after the date of such reinstatement shall be members of plan 3.

Sec. 3. RCW 41.40.785 and 2000 c 247 s 302 are each amended to read as follows:

(1) All employees who first become employed by an employer in an eligible position on or after March 1, 2002, for state agencies or institutes of higher education, or September 1, 2002, for other employers, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3 <u>or plan 2 as follows:</u>

<u>(a) Becomes a member of plan 3 if first employed by an employer in an eligible position on or after March 1, 2002, but prior to July 1, 2010, for state agencies or institutions of higher education, or on or after September 1, 2002, but prior to July 1, 2010, for other employers;</u>

<u>(b) Becomes a member of plan 2 if first employed by an employer in an eligible position on or after July 1, 2010</u>.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default pursuant to subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

--- END ---

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ACTUARY'S FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	PROPOSAL [NAME or Z-NUMBER]:
Office of the State Actuary	**035**	**12/02/09**	**Plan 2/3 Default**

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 2009 Interim only.

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 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 changes the Plan 2/3 membership plan default in the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS), from Plan 3 to Plan 2. This proposal doesn't increase the benefits or liabilities of the current Plans 2/3 members from these systems, but would change future contribution levels due to assumed changes in future plan membership.

Impact on Pension Liability			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Today's Value of All Future Pensions	$70,619	$0.0	$70,619
Earned Pensions Not Covered by Today's Assets	$5,411	$0.0	$5,411

Impact on Contribution Rates: (Effective 09/01/2010)			
2010-2011 State Budget	**PERS**	**TRS**	**SERS**
Employee (Plan 2)	0.00%	0.00%	0.00%
Employer:			
Current Annual Cost	0.00%	0.00%	0.00%
Plan 1 Past Cost	0.00%	0.00%	0.00%
Total	0.00%	0.00%	0.00%

Budget Impacts			
(Dollars in Millions)	**2010-2011**	**2011-2013**	**25-Year**
General Fund-State	$0.0	$0.1	$0.3
Total Employer	$0.0	$0.2	($8.2)

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

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This proposal impacts the following systems:

- PERS Plans 2/3
- TRS Plans 2/3
- SERS Plans 2/3

This proposal impacts the Plans 2 and 3 of these systems. This proposal would change the current plan membership default from Plan 3 to Plan 2. New employees who first become employed by an employer in eligible positions after July 1, 2010, would have 90 days to choose membership in Plan 2 or Plan 3. If the new employee does not make a choice within 90 days, they become a member of Plan 2.

For administrative ease employers report all new employees in Plan 2 until they choose membership in Plan 3. At that point the Department of Retirement Systems (DRS) transfers the member's service credit to their Plan 3 defined benefit accounts and the member's Plan 2 contributions to their Plan 3 defined contribution accounts.

Effective Date: 90 days after session.

What Is The Current Situation?

New employees who first become employed by an employer in PERS, TRS, and SERS eligible positions have 90 days to choose membership in Plan 2 or Plan 3. If the new employee does not make a choice within 90 days, they become a member of Plan 3, contribute at the minimum contribution rate (5 percent), and the Washington State Investment Board invests their contributions.

For administrative ease employers report all new employees in Plan 2 until they choose to join or default into Plan 3. At that point DRS transfers the member's service credit to their Plan 3 defined benefit accounts and the member's Plan 2 contributions to their Plan 3 defined contribution accounts.

Who Is Impacted And How?

This bill will impact all future members of PERS, TRS, and SERS who don't choose a pension plan. This bill does not impact the benefits of the current members of these systems.

This bill potentially impacts all current PERS, TRS, and SERS Plan 2 active members through decreased contribution rates. Additionally, this bill will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

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

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WHY THIS PROPOSAL HAS A COST AND WHO PAYS FOR IT

Why This Proposal Has A Cost

We assume this proposal will increase the percentage of new entrants that go into Plan 2 in the future. On average, we expect members of Plan 2 to work longer and retire later than members of Plan 3 because Plan 2 has a more strict early retirement eligibility standard. Plan 3 members are eligible to retire at age 55 after ten years of service; whereas, Plan 2 members are eligible to retire at age 55 after twenty years of service.

When we assume more members join Plan 2 in the future, costs in the affected systems change in two areas:

- System contribution rates decrease slightly since the longer assumed working careers in Plan 2 means the system will have more future salary to fund future benefits. Since the employer provided benefits in Plan 2 and Plan 3 are very similar, increasing the assumed salary available to fund those benefits decreases the contribution rates.
- Projected contributions on existing system benefits (before the proposed changes under this bill) will increase since the affected systems will levy contributions rates on a larger projected future salary base due to longer expected working careers of Plan 2 members.

The expected change in projected contributions on existing system benefits due to larger projected future salary offsets the savings of this bill from slightly lower contribution rates. The amount of this offset varies by affected retirement system. Please see the Actuarial Results Section for more detail.

Who Will Pay For These Costs?

To the extent that the combined cost of PERS, TRS, and SERS change because of this proposal, the employers and active Plan 2 members will fund those changes using the same funding method as the other costs of the plan. Employers will pay the defined benefit costs for Plan 3 members and half the cost for Plan 2 members. Plan 2 members pay for the other half of their costs.

HOW WE VALUED THESE COSTS

Assumptions We Made

We assumed the portion of new entrants going into Plan 2 would increase for PERS, TRS, and SERS from two-thirds to three-quarters. We also assumed future new entrants would have the same demographic characteristics (or profile) as the combined Plan 2/3 new entrants in the 2008 valuation data. Therefore, we did not assume different new entrant profiles by plan as we did in our prior fiscal note for this proposal and in our projection system. With this assumption change, differences in plan design influence the cost more so than assumed changes in future new entrant profiles by plan.

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For more detail please see Appendix A.

How We Applied These Assumptions

We used our liability projection system to project the current group of active members into the future. First we updated our existing projections to reflect a combined Plan 2/3 new entrant profile instead of plan specific profiles. This established a new base run for this pricing exercise. Then using the new entrant assumptions described above (an increase in members selecting Plan 2 in the future) in combination with the 1.25 percent membership growth assumption in PERS and SERS, and 0.90 percent in TRS, we replaced the current active members as they left active service, and allowed the active populations to increase each year. We compared the results of this new projection to our new base-run projections to isolate future contribution rate differences and changes in future system salary due to this proposal.

Special Data Needed

DRS provided us with new entrant data for PERS, TRS, and SERS. Data for these systems included new entrants starting in: March of 2002 for PERS, and July of 2007 for TRS and SERS; through September of 2009. The data by system included – the:

- Total number of new entrants into the system.
- Number of members opting into Plan 2.
- Number of members opting into Plan 3.
- Number of members defaulting into Plan 3.

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

For more detail please see Appendix B.

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ACTUARIAL RESULTS

How The Liabilities Changed

This proposal does not impact the liabilities for the current active members of PERS, TRS, and SERS since it does not change the benefits of any plan.

How Contribution Rates Changed

This proposal does not impact the contribution rates for the current active members of PERS, TRS, and SERS in the 2009-11 Biennium. But this proposal does change contribution rates for the Plans 2/3 of these systems in future biennia due to changes in future plan membership. We used these rate changes to measure the budget changes in future biennia.

How This Impacts Budgets

Because this proposal changes both future contribution rates and the assumed value of future salaries available to make contributions, we decided to split the budget impact into the two main components of the cost: (1) change in contribution rates, and (2) change in expected future salaries.

The results of our projections indicate that all three systems would experience a slight decrease in contribution rates in future biennia. The impact of this component alone will decrease future system cost. The following table shows the projected budget impact of this change. We do not expect any impact in the first two biennia from this change.

Budget Impacts – From Change in Contribution Rates				
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**Total**
2013-2035				
General Fund	($2.7)	($1.8)	($0.7)	($5.2)
Non-General Fund	(3.9)	0.0	0.0	(3.9)
Total State	**($6.6)**	**($1.8)**	**($0.7)**	**($9.0)**
Local Government	(7.0)	(0.9)	(0.8)	(8.7)
Total Employer	**($13.6)**	**($2.7)**	**($1.5)**	**($17.8)**

Note: Totals may not agree due to rounding.

On the other hand, we also expect an increase in expected future salary for all three systems. The impact of this component alone will increase future system cost. The following table shows the projected budget impact of this change. We do not expect any impact in the current biennium from this change.

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Budget Impacts – From Change in Expected Future Salary				
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**Total**
2011-2013				
General Fund	$0.0	$0.1	$0.0	$0.1
Non-General Fund	0.0	0.0	0.0	0.0
Total State	**$0.1**	**$0.1**	**$0.0**	**$0.1**
Local Government	0.1	0.0	0.0	0.1
Total Employer	**$0.1**	**$0.1**	**$0.0**	**$0.2**
2010-2035				
General Fund	$0.4	$4.9	$0.1	$5.4
Non-General Fund	0.5	0.0	0.0	0.5
Total State	**$0.9**	**$4.9**	**$0.1**	**$5.9**
Local Government	0.9	2.5	0.1	3.6
Total Employer	**$1.8**	**$7.5**	**$0.3**	**$9.5**

Note: Totals may not agree due to rounding.

The total budget impact for each system is the sum of these two prior tables. Notice that the increase in expected future salary for TRS has a greater impact than the decrease in contribution rates. That is not the case with PERS and SERS. Therefore, that is why we expect an overall cost for TRS and an overall savings for PERS and SERS. The following table shows the combined impact of these two components.

Budget Impacts - Total				
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**Total**
2010-2011				
General Fund	$0.0	$0.0	$0.0	$0.0
Non-General Fund	0.0	0.0	0.0	0.0
Total State	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Local Government	0.0	0.0	0.0	0.0
Total Employer	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2011-2013				
General Fund	$0.0	$0.1	$0.0	$0.1
Non-General Fund	0.0	0.0	0.0	0.0
Total State	**$0.1**	**$0.1**	**$0.0**	**$0.1**
Local Government	0.1	0.0	0.0	0.1
Total Employer	**$0.1**	**$0.1**	**$0.0**	**$0.2**
2010-2035				
General Fund	($2.3)	$3.2	($0.5)	$0.3
Non-General Fund	(3.3)	0.0	0.0	(3.3)
Total State	**($5.7)**	**$3.2**	**($0.5)**	**($3.1)**
Local Government	(6.1)	1.6	(0.7)	(5.1)
Total Employer	**($11.7)**	**$4.8**	**($1.2)**	**($8.2)**

Note: Totals may not agree due to rounding.

Note that we did not provide the budget impact on employees since most of the budget change for employees is due to the plan into which members default and not due to the cost of this bill. More specifically, defaulting members will pay the Plan 2 calculated

member rate in future biennia, compared to the fixed 5 percent of salary that these members would have contributed had they defaulted into Plan 3.

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

As with the costs developed in the actuarial valuation, the emerging costs of the systems 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:

The proportion of new entrants becoming Plan 2 members by default. We looked at the 25-year budget impacts of assuming the following percentages of new entrants becoming Plan 2 members:

- 70 percent.
- 80 percent.

25-Year Budget Impacts	
(Dollars in Millions)	**Total**
70% of New Entrants into Plan 2	
General Fund	$0.9
Non-General Fund	(2.0)
Total State	**($1.1)**
Local Government	(2.7)
Total Employer	**($3.8)**
75% of New Entrants into Plan 2 (Best Estimate)	
General Fund	$0.3
Non-General Fund	(3.3)
Total State	**($3.1)**
Local Government	(5.1)
Total Employer	**($8.2)**
80% of New Entrants into Plan 2	
General Fund	($3.0)
Non-General Fund	(3.7)
Total State	**($6.7)**
Local Government	(7.6)
Total Employer	**($14.4)**

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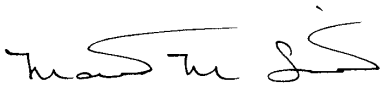
ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this draft fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this draft fiscal note for the Select Committee on Pension Policy.
6. 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 1 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

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APPENDIX A – ASSUMPTIONS WE MADE

In general we assume that two-thirds of all future entrants into PERS, TRS, and SERS will choose to join Plan 2, and that the remaining one-third will enter Plan 3. The data provided by DRS, shown in Appendix B, shows the portion of new entrants who defaulted into Plan 3. We converted the proportions shown into values corresponding to our one-third/two-thirds assumption in the following manner for each system. The example below shows the calculations for PERS:

(1) Portion of new entrants we assume enters Plan 3 = 33 percent.
(2) Portion of new entrants who actually entered Plan 3 = 36 percent.
(3) Portion of new entrants who actually entered Plan 3 by default = 19 percent.
(4) Portion of (1) we assumed entered Plan 3 by default = (1) * (3) / (2) = 18 percent.
(5) Portion of members who defaulted into Plan 3 who we assumed did not specifically want to be in Plan 3 = 67 percent.
(6) Portion of (4) we assume would default into Plan 2 under this bill = (4) * (5) = 12 percent.
(7) Portion of new entrants we assume enters Plan 3 under this bill = (1) – (6) = 22 percent.

The above process led to 22 percent of new entrants becoming PERS 3 members. We assumed 75 percent of new entrants would enter Plan 2 and 25 percent would enter Plan 3. Please note that we rounded the intermediate results for display purposes, but used the unrounded results in all calculations above.

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

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APPENDIX B – SPECIAL DATA NEEDED

DRS provided the following data:

Department of Retirement Systems - Plan 3 Choice Data

Data provided starting March of 2002 for PERS, and July of 2007 for TRS and SERS; and ending September of 2009.

Plan 3 Choice Data						
System and Plan	PERS 3		TRS 3		SERS 3	
	Count	Percent of Total	Count	Percent of Total	Count	Percent of Total
New Members	94,128		7,526		8,359	
New Members Opting Into Plan 2	60,040	64%	2,999	40%	4,005	48%
New Members Opting Into Plan 3	16,114	17%	3,106	41%	2,403	29%
New Members Defaulting Into Plan 3	17,974	19%	1,421	19%	1,951	23%

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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.

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SCPP Risk Assessment

Issue

The Executive Committee of the SCPP identified managing the future health of the retirement systems as a strategic priority for the 2009 and 2010 interims. The Executive Committee further recommended the SCPP undertake an assessment of the health risks facing the state's retirement systems and develop recommendations to the 2011 Legislature for managing those risks. Included in the assessment is building an actuarial risk model to measure and analyze health risks facing the retirement systems.

Background

This issue is the result of a convergence of a strategic planning effort and an actuarial assessment of retirement systems health. In June 2009, the Executive Committee created a strategic planning "subgroup" to further define and clarify a proposal related to strategic planning. At the same time, the Office of The State Actuary (OSA) prepared a report on the financial condition of the retirement systems as part of the statutory process for recommending economic assumptions. In the report, the state actuary noted the declining health of the retirement systems and recommended a risk assessment to several bodies–including the subgroup.

The strategic planning subgroup met during the summer and considered many challenges and risks facing the retirement systems. Ultimately, the subgroup selected managing the future health of the retirement systems as its top strategic priority. The subgroup recommended the SCPP take up the state actuary's proposed risk assessment and create an advisory group to provide input to the state actuary. .

The key goals for the Risk Assessment include:

- Educating stakeholders and improving understanding of the health risks faced by the retirement systems.
- Developing new tools to measure heath risks, manage health risks, and evaluate future changes to the retirement systems.
- Identifying root sources of health risks and options for managing the future health of the retirement systems.
- Informing future budget discussions.

The Risk Assessment is expected to span two interims. During the 2009 Interim, OSA staff worked with the advisory group to identify health risks and set health measures for the retirement systems. During the 2010 Session, staff will build the actuarial risk model. During the 2010 Interim, staff will measure and analyze risks, and work with the SCPP to develop

options for managing health risks and a decision aid for evaluating the options. It is expected the SCPP will share recommendations and findings from the risk assessment with the 2011 Legislature.

Committee Activity

OSA reported on the financial condition of the retirement systems at the September SCPP meeting. Also in September, the strategic planning subgroup reported on its strategic planning proposal to the Executive Committee. The Executive Committee adopted the subgroup's proposal and created the Risk Assessment Advisory Group for the 2009 Interim.

Staff briefed the full SCPP on "Managing the Future Health of The Retirement Systems" during October and November. In December, staff provided an update on the status of the Risk Assessment.

The Risk Assessment Advisory Group met once during November and once during December.

Next Steps

OSA staff will build the acturial risk model during the 2010 Session. Staff will report results of the preliminary health risk measurement and analysis to the SCPP during the 2010 Interim.

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Advisory Group Input on Risk and Health Measures

Introduction

The Risk Assessment Advisory Group of the SCPP met on November 16th and held a discussion on risk and health measures. As part of this discussion, the group conducted a structured brainstorming exercise where each member responded to the following three questions posed by staff:

1. What does a healthy pension system look like?
2. What things might prevent achieving the healthy pension system envisioned above?
3. What specific outcomes do you want to avoid?

The purpose of the exercise was to gather input from the group that will help staff identify risk and health measures for the SCPP risk assessment project. The questions were designed to gather information on risk and health factors from different perspectives. During the exercise, members took turns responding to the questions until they had given all their responses. Responses were not discussed or critiqued during the exercise.

The responses provided by members are documented below. Due to the nature of the exercise, there is some duplication and overlap in the responses.

Question #1

What does a healthy pension system look like?

1. Pension system guaranteed
2. Honesty and integrity in actuarial assumptions and funding
3. Provide stability in retirement
4. A fulfillment of a promise for the particular pension system
5. Would be funded
6. Fully funded (in prudent political terms)
7. Stable and predictable

8. Attract and retain key skills for employers
9. Contribution rate stability
10. Would align with clear policy goals
11. Allows for growth and challenges of inflation and distressed economy
12. Rewards long term service
13. Simple in structure
14. Competitive with other states
15. Funding system stable and reasonable
16. Flexible and portable
17. Sustainable
18. Provides for adequate living expenses
19. Clear and credible in its decision-making
20. Relevant to a new generation of young workers
21. Provides a recruitment tool
22. Promised benefits need to be protected by the State
23. Would enhance personal retirement plans
24. Provides an excellent return on investment
25. Flexible, adapting to broad changes in economic climate
26. Aligns system's investment strategy with the payout strategy
27. Neither political nor partisan
28. Can be tailored to individuals
29. Targeted to address differences in different career paths
30. Affordable – for both employees and employers
31. Incents overall life cycle employment costs

32. Does not entertain retroactive benefit improvements
33. Responsive to changes in investment environment and to constituent concerns regarding fairness
34. Well managed
35. Provides an equitable approach to distribute deficits and surpluses
36. Considered a well-run business by taxpayers and voters
37. Good years to cover for the bad years
38. Always looking long term
39. Would not implement benefit improvements via leapfrogging
40. Understandable by non-expert legislators
41. Legislators recognize the importance of a healthy pension system and the importance of funding it
42. Under-promises and over-delivers
43. Provides a guaranteed benefit in retirement
44. Conforms to actuarial best practices
45. Addresses the age 53-65 gap and the problem of retirement after age 65
46. Cannot provide for everything in retirement, only a part
47. Fairly distributes costs
48. Cross-connects with other strategic concerns of taxpayers (health care, child care, etc.)
49. Clearly defines its benefits and its contributions
50. Recognizes this is a tool to address the broader aging population
51. Transparent to public
52. Funded as a State obligation – similar to a debt paid outside of operating budgets
53. Its benefits are financed during working lifetime of participants and thereby its funding should therefore be protected for the beneficiaries

54. Robust enough to weather short-term budget priorities

55. Bounded by parameters, keep it safe from short-term budget priorities

56. Model to other systems

57. Maybe should have constitutional protection for the pension systems

Question #2

What things might prevent achieving the healthy pension system envisioned above?

1. Economic recession

2. Enhancing benefits beyond the capability of fully funding those enhancements before retirement

3. Current authorizing environment for benefit improvements

4. Lack of funding

5. Another crash or depression

6. Lack of honesty and integrity in funding and analysis of pensions

7. Investment volatility

8. Public opinion – pension envy

9. Mismanagement of investments

10. Failing to solve (address) the current funding problems

11. Lack of political will – risk avoidance

12. Lack of economic growth

13. Inflation

14. Not adhering to sound actuarial recommendations

15. Expedient budget decisions that burn bridges to long term recovery

16. Lowered priorities for expectations of pensions

17. Pulling more funds into the general fund budget

18. Rising health care costs
19. Playing politics with the pension system
20. Legislative overreaction: PERS 401(K)
21. Losing credibility with beneficiaries and the public
22. People living longer than funding assumptions
23. Implementing benefit improvements through leapfrogging
24. Over-promising and under-funding
25. Funding retroactive benefit improvements
26. Failure of coherent legislative governance/failure of SCPP process
27. Lack of collaboration between policy-makers and stakeholders
28. Lack of a clear policy direction for the pension system
29. Failure to build sufficient reserves during the good times
30. Individual constituencies pulling for their own self-interest
31. Ignoring the experts
32. Lack of positive labor relations
33. Lack of legislative understanding of the funding of pensions
34. Governor's budget priorities becoming disconnected from actuarial reality
35. Untimely responses to changing environments
36. Failure to protect a high quality Office of the State Actuary
37. Small gains taken at the expense of huge pension bow waves
38. Complexity of the current pension system
39. Perception that pensions are the end-all for everything in retirement
40. Volatility of State revenue
41. Ineffective or intermittent communication about the pension system

42. Failure to complete this new risk assessment process
43. Including pension funding in the general fund budget
44. Not understanding when a retirement system or plan needs to be closed

Question #3

What specific outcomes do you want to avoid?

1. Not being able to deliver the promise to the beneficiaries
2. End this process without overall policies for the pension system
3. Being forced to close Plans 2
4. Moving away from a defined benefit
5. Passing the problems on to future State leaders
6. Underfunding
7. Plan closure for fiscal expedience
8. Running out of money
9. Precipitous increase in plan contributions
10. Further complicating the pension system
11. Pension payments by employers that are unaffordable
12. Further fracturing the pension system
13. Loss of defined benefits
14. Further politicizing the pension system
15. Excessive rate volatility
16. Adding benefits that cannot be funded
17. Sense of entitlement
18. Underfunding – puts all pension systems at risk

19. Damaging the quality of our career workforce
20. Plans oriented only at the aging workforce
21. Overpromising
22. Breaking faith with existing retirees
23. Going to all cash system – pay as you go
24. Leapfrogging
25. Retroactive benefit improvements
26. Killing the messengers

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School Administrator Contract Year

Issue

School administrators are required to contract on a fiscal year that differs from the school year used for determining service credit for school employees in the Plans 2/3. As a result, Plan 2/3 administrators seeking to retire at the end of their contract year can find themselves two months short of the service credit needed to qualify for subsidized early retirement.

Stakeholders propose that Plan 2/3 administrators be allowed early access to subsidized early retirement. Their proposal would lower the service credit required for administrators to qualify for subsidized early retirement to twenty-nine years and ten months—two months less than is currently required.

Policy Considerations

- This issue raises two key policy questions.
  - Is a policy change required to address this?
  - If so, are the retirement systems the best place to make the policy change?
- Policy makers may view this as a retirement planning, contracting, retiree health care access, or plan design issue.
- Some policy makers may prefer to address this outside of the retirement systems.
- Administrators have several options for addressing the lack of alignment between their contract year and the school year under current policy.
- The stakeholder proposal:
  - Allows administrators to qualify for subsidized early retirement at the end of their contract–eliminating possible Plan 2 member concerns about access to PEBB retiree health care insurance.
  - Provides a benefit improvement for administrators by effectively allowing them to retire two months earlier than other plan members.
  - Allows school districts to continue contracting with administrators on a fiscal year basis.
  - Sets a new precedent of providing different retirement eligibility for a specific group of members within the plans.

- ◊ Could lead to other Plans 2/3 members seeking earlier access to subsidized early retirement.
- ◊ Changes early retirement provisions that are currently subject to litigation.

Committee Activity

Staff briefed the committee at the December meeting. No further action was taken.

Staff Contact

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School Administrator Contract Year

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

In Brief

Issue

School administrators are required to contract on a fiscal year that differs from the school year. As a result, Plans 2/3 administrators seeking to retire at the end of their thirtieth contract year can find themselves two months short of the service credit needed to qualify for subsidized early retirement.

Stakeholders are proposing that Plans 2/3 administrators be allowed early access to subsidized early retirement.

Member Impact

This issue can impact any administrator in the Plans 2/3 of TRS and SERS. Data necessary to identify these administrators is not currently collected by the Department of Retirement Systems.

Current Situation

School administrators are required to contract on a fiscal year that differs from the school year used for determining service credit for school employees in the Plans 2/3. As a result, Plans 2/3 administrators seeking to retire at the end of their thirtieth contract year can find themselves two months short of the service credit needed to qualify for subsidized early retirement. Stakeholders are proposing that Plans 2/3 administrators be allowed early access to subsidized early retirement.

This issue raises two key questions for policy makers.

- Is a policy change required to address this?
- If so, are the retirement systems the best place to make the policy change?

Throughout the remainder of this paper, unless otherwise noted, the terms administrators, teachers, and school employees refer to Plans 2/3 members in these positions.

Background

This issue is impacted by four areas of statute, two of which are outside the retirement systems. These areas are:

- Contracting requirements.
- Service credit provisions.
- Early retirement provisions.
- Retiree health care requirements.

Contracting Requirements

School administrators are covered by the Teachers' Retirement System (TRS) or the School Employees' Retirement System (SERS). School administrators are defined as certificated employees in a superintendant, assistant superintendent, director, principal, assistant principal, coordinator, or in any other supervisory or administrative

position.* Most administrators are required by statute** to be contracted on a July through June fiscal year. In contrast, teachers are generally contracted for a September through August school year–even though most of their contract requirements are generally satisfied in June.

The requirement for administrator contracts to end on June 30 was enacted in 1990.*** The Legislature established a standardized time period for administrator contracts to prevent abuses of the average final compensation calculation.† The June 30 date may have been selected because it aligned with the service credit year used in TRS Plan 1. At that time, most administrators were likely Plan 1 members.

**RCW 28A.405.230.*

***RCW 28A.400.315 and RCW 28A.405.210.*

****Section 6, Chapter 8, Laws of 1990.*

†Section 1, Chapter 8, Laws of 1990.

Service Credit Provisions

Service credit for school employees, including administrators, is granted on the basis of a September through August school year. Service credit rules do not allow a member to receive more than one month of service credit for a given month. Employees who work at least 810 hours during nine months of the school year receive twelve months of service credit for the year. However, they cannot receive the full twelve months if they retire before the end of the school year. Employees who work fewer than 810 hours or less than nine months receive service credit based on different rules (see **Appendix A**).

School employees, including administrators, may obtain additional service credit to qualify for early retirement.

School employees, including administrators, may obtain additional service credit to qualify for early retirement. School employees may convert up to 45 days of accrued sick leave to receive up to two months of service credit.* Also, teachers may use an unlimited amount of out-of-state teaching experience to qualify for early retirement. Both of these types of service credit are at no cost to the member and do not apply in benefit calculations.

**RCW 41.32.010 and RCW 41.35.010.*

Early Retirement Provisions

The Plans 2/3 provide subsidized early retirement for members with thirty years of service credit who are at least age 55. There are two forms of subsidized early retirement provided: 3% Early Retirement Factors (ERF) and 2008 ERFs. The 3% ERFs allow eligible members to retire and receive a pension reduced by 3 percent for each year the member retires prior to reaching age 65–with a maximum reduction of

30 percent. The 2008 ERFs allow eligible members to retire with unreduced benefits beginning at age 62 and prior to age 62 with benefits reduced by specified percentages–with a maximum reduction of 20 percent. The 2008 ERFs were established as part of the legislation that repealed gain sharing.* This legislation is currently subject to litigation.

The 2008 ERFs were established as part of the legislation that repealed gain sharing.

Members who do not qualify for subsidized early retirement can qualify for early retirement at age 55 with twenty years of service for Plan 2 members and ten years of service for Plan 3 members. Benefits for members retiring under early retirement are subject to much higher age-based actuarial reductions that can exceed 60 percent of the benefit at the youngest age. See **Appendix B** for more information on early retirement factors.

**Chapter 491, Laws of 2007.*

Retiree Health Care Requirements*

Retired school employees may continue to participate in health and other insurance plans offered by the Public Employees' Benefits Board (PEBB) provided they immediately begin drawing their monthly benefit upon separation from service. Eligibility to participate in PEBB insurance plans for members who separate from service without immediately retiring varies depending on plan. Plan 2 members who separate when eligible to retire (at least age 55 with at least twenty years of service) but do not begin drawing their monthly retirement benefit, are not eligible to participate in PEBB insurance plans offered to retirees. In contrast, Plan 3 members separating at age 55 with at least ten years of service are eligible to participate in PEBB insurance plans, regardless of whether or not they are drawing their monthly retirement benefit. This provision is part of the overall Plan 3 design, which is geared toward a more mobile workforce. Plan 3 members must choose to participate in PEBB plans immediately upon separation from service to qualify.

Plan 2 members who separate from service and defer retirement are not eligible for PEBB insurance plans.

The SCPP studied the issue of Plan 2 access to PEBB during the 2007 Interim and made a recommendation to the Legislature. The Committee recommended providing retiree eligibility for insurance plans and contracts offered by PEBB to separated Plan 2 members of the Public Employees' Retirement System (PERS), TRS, and SERS who are at least age 55 and have at least twenty years of service credit. The SCPP bill (HB 3027/SB 6648) did not pass the Legislature, but did pass the House.

**Relevant provisions are found in RCW 41.05.08 and RCW 41.05.011.*

Example

The lack of alignment between the administrator contract year and the school year used for determining service credit can impact administrators as illustrated in the following example.

Al has been employed by the school district for thirty years: twenty years as a teacher and ten years as a principal. During his years as a teacher, Al was contracted on a September through August school year basis. When Al became a principal, he was contracted on a July through June fiscal year basis. Thus, his administrator contract started in July–two months before his teacher contract ended in August.

During the two months that his contracts overlapped (July and August), Al received two salaries: his teacher salary and his principal salary. Members working multiple jobs do not receive more than one month of service per month, so Al received two months of service credit for this same period: one month for July and one month for August.

Some administrators complete their thirtieth contract after working only twenty-nine years and ten months.

This two-month overlap in contracts causes Al to complete his thirtieth contract after working only twenty-nine years and ten months. This leaves Al two months short of the service credit needed to qualify for subsidized early retirement.

Policy Analysis

This issue raises two key questions for policy makers.

- Is a policy change required to address this?
- If so, are the retirement systems the best place to make the policy change?

To answer these questions, policy makers will likely consider how to factor retirement planning, contracting, retiree health care access, and plan design into potential solutions. Policy makers may take different views of this issue, and the view they take will likely decide their answers to the two key policy questions. Some policy makers may wish to consider options available under current policy before pursuing policy changes.

The crux of this issue is the lack of alignment between the contract year and the service credit year.

The crux of this issue is the lack of alignment between the contract year and the service credit year. This lack of alignment has the most impact on administrators seeking to retire after thirty years because it impacts their ability to utilize subsidized early retirement factors at the

end of their contract. However, administrators have several options for addressing this under current policy.

Administrators Have Several Options Under Current Policy

Administrators have several options to address the lack of alignment between their contract year and the school year.

According to stakeholders, some administrators are able to negotiate a two-month contract to keep them employed until the end of the school year when they qualify for subsidized early retirement. Some administrators may be able to convert accrued sick leave or use out-of-state teaching experience to pick up the extra two months of service credit needed to qualify. Administrators who are unable to address this with supplemental contracts or service credit can likely extend their employment or defer retirement. Extending employment for another year allows administrators to retire at the end of their next contract under subsidized early retirement. Administrators can also separate from service and defer retirement for two months until the end of the school year–when they will pick up the two months of service credit* needed to qualify for subsidized early retirement. However, separating from service without immediately retiring may raise additional concerns for Plan 2 members seeking access to PEBB retiree health care.

Under the 12-month service credit rule. See **Appendix A.*

There Are Many Ways To View This Issue

Policy makers may view this as a retirement planning, contracting, retiree health care access, or plan design issue.

Policy makers may take different views of this issue. Some may view this as a retirement planning issue and feel that individual administrators should plan around their plan's design. Policy makers with this view would not see any need for policy changes to address this issue. Some may view this as a contracting issue and feel that the administrator contract year should be aligned with the school year. Others may view this as a retiree access to health care issue and feel that PEBB provisions should better accommodate deferred retirements. Policy makers with either of these views would see a need for policy changes, but would feel the best place to make such changes is outside of the retirement systems. Finally, some policy makers may view this as a plan design issue and feel that early retirement provisions should better accommodate administrator contracts. These policy makers would see the retirement system as the best place for policy changes addressing this issue.

Other States

Research did not find any of Washington's peer states that provided administrators different eligibility for early retirement than other school employees.

Stakeholder Proposal

Stakeholders view this as a plan design issue.

Stakeholders view this as a plan design issue and have proposed changing early retirement provisions so administrators can qualify for subsidized early retirement with twenty-nine years and ten months of service credit.

The stakeholder proposal is targeted to the administrators most impacted by this issue: those seeking to retire after thirty years of service. From the member perspective, it would allow them to qualify for subsidized early retirement at the end of their contract and thereby eliminate possible Plan 2 member concerns about accessing PEBB retiree health care insurance. From the employer perspective, it allows school districts to continue to contract with administrators on the same fiscal year and may reduce requests to write supplemental contracts. From the plan perspective, it provides a benefit improvement for administrators by effectively allowing them to retire two months earlier than other plan members and adds complexity to the plan design.

The stakeholder proposal would set a new precedent for retirement eligibility and change provisions currently subject to litigation.

The stakeholder proposal has implications for pension policy that may be of special interest to policy makers. Currently all members of TRS, SERS, and the PERS Plans 2/3 have the same retirement eligibility. The stakeholder proposal would set a new precedent of providing different retirement eligibility for a specific group of members within the plans. Teachers and other public employees might also like earlier access to subsidized early retirement if it is offered to administrators. Also, this proposal would change early retirement provisions that are currently subject to litigation.

Conclusion

Stakeholder Input

Correspondence from: John Kvamme, WASA and AWSP, October 7, 2009.

School administrators are required to contract on a fiscal year that differs from the school year used for determining service credit in the Plans 2/3. This lack of alignment between contract year and service credit year can impact their ability to access subsidized early retirement at the end of their thirty-year contract. Administrators have many options for addressing this under current policy such as supplemental contracts, supplemental service credit, extending employment, or deferring retirement. Policy makers may view this as a retirement planning, contracting, retiree health care access, or plan design issue. The view they take will likely decide their answers to the key policy questions of whether or not a policy change is required, and if so, whether the retirement systems are the best place to make the policy changes.

Appendix A

Plan 2/3 Service Credit Rules for Educational Employees

Plans 2/3 members working for an educational employer (includes all SERS, all TRS, and some PERS members) earn service credit as follows*:

- At least 810 hours worked during a nine-month period of the school year** equals twelve months of service credit.
- At least 630 hours but less than 810 hours worked during a nine-month period of the school year equals six months of service credit.
- At least 630 or more hours worked in five months of a six-month period of the school year equals six months of service credit.

Educational employees who work less than a full school year or less than 630 hours earn service credit on a month-by-month basis as follows:

- Ninety hours or more in a month equals one month of service credit.
- At least 70, but less than 90 hours in a month equals a half month of service credit.
- Less than 70 hours in a month equals a quarter month of service credit.

**Note: Members are awarded service credit under whichever rule provides the most service credit.*

***School year means the twelve-month period from September through August of the following year.*

Appendix B

Plans 2/3 Early Retirement Factors

Source: Department of Retirement Systems

Early Retirement Factors			
Retirement age	At least 10 or 20 years service[1]	30 years or more service	
		3% ERF	*2008 ERF*[2]
55	0.358	0.70	0.80
56	0.395	0.73	0.83
57	0.435	0.76	0.86
58	0.481	0.79	0.89
59	0.531	0.82	0.92
60	0.588	0.85	0.95
61	0.652	0.88	0.98
62	0.724	0.91	1.00
63	0.805	0.94	1.00
64	0.896	0.97	1.00

[1] Plan 3 members must have at least 10 years of service. Plan 2 members must have at least 20 years of service.

[2] These factors were available beginning 7/1/2008 (PERS), 9/1/2008 (SERS and TRS), and were established by legislation which ended gain sharing. If a court of law decides the repeal of gain sharing is invalid, the factors and return to work rules in place before passage of the law will apply.

Wallis, Keri

Subject: October 20th SCPP Exec Packet
Attachments: Plan 2 and 3 final year contract.doc

From: john kvamme [mailto:jekvamme@yahoo.com]
Sent: Wednesday, October 07, 2009 11:21 AM
To: Smith, Matt
Subject: October 20th SCPP Exec Packet

Matt

Attached is an expanded explanation of the "Administrator ERRF Early Retirement Problem and Solution" for the SCPP Executive Committee to consider for further action. At the September SCPP Executive Committee meeting this issue was discussed, however it appeared that a more detailed explanation of the issue was needed. A draft bill has been requested from the Code Revisor's Office, however is not yet available.
If it is not too late I would appreciate the attached sheet to be included in the SCPP Executive Committee packet. Please let me know if this request is too late so that I can bring copies for the committee.

John Kvamme, WASA & AWSP Consultant

Plan 2/3 Final Year Contract

PROBLEM

- Many school administrators that are in Plans 2 & 3 who decide to retire on July 1st effectively are short two months of service credit to reach full years of service when completing their last contract year of active service.
- The reason for this is that a good proportion of administrators served as teachers in this state prior to moving into an administrative position. The contract year for teachers generally runs from September 1st through August 31st even though they generally complete their contract in June. The teacher's pay is spread through August and they generally start drawing retirement on September 1st. The contract for school administrators by statute is required to run from July 1st through June 30th and their pay ends at the end of the contract. The shift from teacher to administrator contract causes many of these administrator's final contract year to be short two months of reaching an even total number of service credit years when converting the total service credit months into service credit years.
- This hasn't been a problem in the past because most retirees have been Pan 1 members. Plan 1 member service is counted by the service year, whereas Plans 2 and 3 count service by the month.
- This now causes problems for some school administrators that wish to take advantage of Plan 2 and 3 early retirement requirements (ERRF), a major requirement being that the member must have completed thirty service credit years.
- The problem of Plan 2 member access to the PEBB upon separation could also play into this situation.

SOLUTION OPTION

- Legislatively add a short paragraph to each of the TRS, SERS and PERS Plan 2 & 3 RCWs dealing with the alternate early retirement criteria.
- The paragraph would state that "a school administrator member completing twenty-nine service credit years and additionally completing ten additional service credit months through June 30 of the school administrator's fiscal thirtieth member year is eligible to retire under this RCW41…….provision."
- This language would allow administrators wishing to begin retirement at the end of their fiscal year to not have to work an additional two months or an additional year in order to take advantage of alternate early retirement

John Kvamme, WASA & AWSP Consultant – 253 232 0375

Plan 2/3 Final Year Contract
H-3661.3/10 3rd Draft

PROBLEM

- Many school administrators that are in Plans 2 & 3 who decide to retire on July 1st effectively are short two months of service credit to reach full years of service when completing their last contract year of active service.
- The reason for this is that a good proportion of administrators served as teachers in this state prior to moving into an administrative position. The contract year for teachers runs from September 1st through August 31st even though they generally complete their contract in June. The teacher's pay is spread through August and they usually start drawing retirement on September 1st.
- The contract for school administrators by statute is required to run from July 1st through June 30th and their pay ends at the end of the contract. The shift from teacher to administrator contract causes many of these administrator's final contract year to be short two months of reaching an even total number of service credit years when converting the total service credit months into service credit years.
- This hasn't been a problem in the past because most retirees have been Plan 1 members. Plan 1 member service is counted by the service year, whereas Plans 2 and 3 count service by the month.
- This now causes problems for some school administrators that wish to take advantage of Plan 2 and 3 early retirement requirements (ERRF), a major requirement being that the member must have completed thirty service credit years.
- The problem of Plan 2 member access to the PEBB upon separation could also play into this situation.

SOLUTION OPTION

- Draft H-3661.3/10 adds a short paragraph to each of the TRS and SERS Plan 2 & 3 RCWs dealing with the alternate early retirement criteria.
- The paragraph would basically allow an active school administrator to take advantage of early retirement and alternate early retirement if completing 29 service credit years plus 10 additional service credit months through June 30th of the school administrator's 30th service credit year This language would allow administrators wishing to begin retirement at the end of their fiscal year to not have to work an additional two months (July and August) in order to fulfill 30 years of service.
- The possible solution of returning the contract year of administrators to be the same as teachers would cost schools two extra months for all active administrators, therefore is not a reasonable solution.

John Kvamme, WASA & AWSP Consultant – 253 232 0375

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: H-3661.3/10 3rd draft

ATTY/TYPIST: LL:seg

BRIEF DESCRIPTION: Calculating service credit for school administrators for alternate early retirement eligibility.

AN ACT Relating to calculating service credit for school administrators for alternate early retirement eligibility; and amending RCW 41.32.765, 41.35.680, 41.32.875, and 41.35.420.

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

Sec. 1. RCW 41.32.765 and 2007 c 491 s 2 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years of service who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760.

(2) EARLY RETIREMENT. Any member who has completed at least twenty service credit years of service who has attained at least age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT.

(a) Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection (3) shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(b) On or after September 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection (3) shall have the retirement allowance reduced as follows:

Retirement Age	Percent Reduction
55	20%
56	17%
57	14%
58	11%
59	8%
60	5%
61	2%
62	0%
63	0%
64	0%

(c)(i) An active school administrator is eligible to retire under (a) or (b) of this subsection (3) if the member meets the following requirements:

(A) Has completed twenty-nine service credit years, plus ten additional service credit months through June 30th of the school administrator's thirtieth service credit year; and

(B) Has attained age fifty-five.

(ii) For the purposes of this subsection (3)(c), "school administrator" means a member who serves in a managerial role relating to the administration of a public school or who is involved in the

exercise of direction over employees of the public school. This includes, but is not limited to, service as: Principal, assistant principal, superintendent, assistant superintendent, directors and coordinators, such as those persons covered under RCW 28A.150.203(2) and 28A.410.120; and both classified and certificated employees serving in positions such as business manager and personnel manager.

(d) Any member who retires under the provisions of this subsection (3) is ineligible for the postretirement employment provisions of RCW 41.32.802(2) until the retired member has reached sixty-five years of age. For purposes of this subsection (3), employment with an employer also includes any personal service contract, service by an employer as a temporary or project employee, or any other similar compensated relationship with any employer included under the provisions of RCW 41.32.800(1).

(e) The subsidized reductions for alternate early retirement in this subsection (3) as set forth in section 2, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection (3) is noncontractual, and the legislature reserves the right to amend or repeal this subsection (3). Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection (3), and upon receipt of the first installment of a retirement allowance computed under this subsection (3), the resulting benefit becomes contractual for the recipient. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then retirement benefits for any member who has completed at least thirty service credit years and has attained age fifty-five but has not yet received the first installment of a retirement allowance under this subsection (3) shall be computed using the reductions in (a) of this subsection.

Sec. 2. RCW 41.35.680 and 2007 c 491 s 8 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT.

(a) Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection (3) shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(b) On or after September 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection (3) shall have the retirement allowance reduced as follows:

Retirement Age	Percent Reduction
55	20%
56	17%

57	14%
58	11%
59	8%
60	5%
61	2%
62	0%
63	0%
64	0%

(c)(i) An active school administrator is eligible to retire under (a) or (b) of this subsection (3) if the member meets the following requirements:

(A) Has completed twenty-nine service credit years, plus ten additional service credit months through June 30th of the school administrator's thirtieth service credit year; and

(B) Has attained age fifty-five.

(ii) For the purposes of this subsection (3)(c), "school administrator" means a member who serves in a managerial role relating to the administration of a public school or who is involved in the exercise of direction over employees of the public school. This includes, but is not limited to, service as: Principal, assistant principal, superintendent, assistant superintendent, directors and coordinators, such as those persons covered under RCW 28A.150.203(2) and 28A.410.120; and both classified and certificated employees serving in positions such as business manager and personnel manager.

(d) Any member who retires under the provisions of this subsection (3) is ineligible for the postretirement employment provisions of RCW 41.35.060(2) until the retired member has reached sixty-five years of age. For purposes of this subsection (3), employment with an employer also includes any personal service contract, service by an employer as a temporary or project employee, or any other similar compensated relationship with any employer included under the provisions of RCW 41.35.230(1).

(e) The subsidized reductions for alternate early retirement in this subsection (3) as set forth in section 8, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection (3) is

noncontractual, and the legislature reserves the right to amend or repeal this subsection (3). Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection (3), and upon receipt of the first installment of a retirement allowance computed under this subsection (3), the resulting benefit becomes contractual for the recipient. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then retirement benefits for any member who has completed at least thirty service credit years and has attained age fifty-five but has not yet received the first installment of a retirement allowance under this subsection (3) shall be computed using the reductions in (a) of this subsection.

Sec. 3. RCW 41.32.875 and 2007 c 491 s 4 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age forty-four; or

(c) Completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT.

(a) Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection (3) shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(b) On or after September 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection (3) shall have the retirement allowance reduced as follows:

Retirement Age	Percent Reduction
55	20%
56	17%
57	14%
58	11%
59	8%
60	5%
61	2%
62	0%
63	0%
64	0%

(c)(i) An active school administrator is eligible to retire under (a) or (b) of this subsection (3) if the member meets the following requirements:

(A) Has completed twenty-nine service credit years, plus ten additional service credit months through June 30th of the school administrator's thirtieth service credit year; and

(B) Has attained age fifty-five.

(ii) For the purposes of this subsection (3)(c), "school administrator" means a member who serves in a managerial role relating to the administration of a public school or who is involved in the

exercise of direction over employees of the public school. This includes, but is not limited to, service as: Principal, assistant principal, superintendent, assistant superintendent, directors and coordinators, such as those persons covered under RCW 28A.150.203(2) and 28A.410.120; and both classified and certificated employees serving in positions such as business manager and personnel manager.

(d) Any member who retires under the provisions of this subsection (3) is ineligible for the postretirement employment provisions of RCW 41.32.862(2) until the retired member has reached sixty-five years of age. For purposes of this subsection (3), employment with an employer also includes any personal service contract, service by an employer as a temporary or project employee, or any other similar compensated relationship with any employer included under the provisions of RCW 41.32.860(1).

(e) The subsidized reductions for alternate early retirement in this subsection (3) as set forth in section 4, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection (3) is noncontractual, and the legislature reserves the right to amend or repeal this subsection (3). Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection (3), and upon receipt of the first installment of a retirement allowance computed under this subsection (3), the resulting benefit becomes contractual for the recipient. If the repeal of chapter 41.31A RCW is held to be invalid in a final determination of a court of law, and the court orders reinstatement of gain-sharing or other alternate benefits as a remedy, then retirement benefits for any member who has completed at least thirty service credit years and has attained age fifty-five but has not yet received the first installment of a retirement allowance under this subsection (3) shall be computed using the reductions in (a) of this subsection.

Sec. 4. RCW 41.35.420 and 2007 c 491 s 6 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400.

(2) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT.

(a) Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection (3) shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(b) On or after September 1, 2008, any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection (3) shall have the retirement allowance reduced as follows:

Retirement Age	Percent Reduction
55	20%
56	17%
57	14%
58	11%
59	8%
60	5%
61	2%
62	0%
63	0%

(c)(i) An active school administrator is eligible to retire under (a) or (b) of this subsection (3) if the member meets the following requirements:

(A) Has completed twenty-nine service credit years, plus ten additional service credit months through June 30th of the school administrator's thirtieth service credit year; and

(B) Has attained age fifty-five.

(ii) For the purposes of this subsection (3)(c), "school administrator" means a member who serves in a managerial role relating to the administration of a public school or who is involved in the exercise of direction over employees of the public school. This includes, but is not limited to, service as: Principal, assistant principal, superintendent, assistant superintendent, directors and coordinators, such as those persons covered under RCW 28A.150.203(2) and 28A.410.120; and both classified and certificated employees serving in positions such as business manager and personnel manager.

(d) Any member who retires under the provisions of this subsection (3) is ineligible for the postretirement employment provisions of RCW 41.35.060(2) until the retired member has reached sixty-five years of age. For purposes of this subsection (3), employment with an employer also includes any personal service contract, service by an employer as a temporary or project employee, or any other similar compensated relationship with any employer included under the provisions of RCW 41.35.230(1).

(e) The subsidized reductions for alternate early retirement in this subsection (3) as set forth in section 6, chapter 491, Laws of 2007 were intended by the legislature as replacement benefits for gain-sharing. Until there is legal certainty with respect to the repeal of chapter 41.31A RCW, the right to retire under this subsection (3) is noncontractual, and the legislature reserves the right to amend or repeal this subsection (3). Legal certainty includes, but is not limited to, the expiration of any: Applicable limitations on actions; and periods of time for seeking appellate review, up to and including reconsideration by the Washington supreme court and the supreme court of the United States. Until that time, eligible members may still retire under this subsection (3), and upon receipt of the first

1 installment of a retirement allowance computed under this subsection
2 (3), the resulting benefit becomes contractual for the recipient. If
3 the repeal of chapter 41.31A RCW is held to be invalid in a final
4 determination of a court of law, and the court orders reinstatement of
5 gain-sharing or other alternate benefits as a remedy, then retirement
6 benefits for any member who has completed at least thirty service
7 credit years and has attained age fifty-five but has not yet received
8 the first installment of a retirement allowance under this subsection
9 (3) shall be computed using the reductions in (a) of this subsection.

--- END ---

Other

Office of the State Actuary

"Securing tomorrow's pensions today."

IRS Letter

Background

At the October meeting of the Executive Committee, the Executive Committee instructed staff to draft a letter (see attached) to the Internal Revenue Service (IRS) from the chair and vice chair. The letter asks the IRS to reconsider the option to provide Public Employees' Retirement System Plan 3 and School Employees' Retirement System Plan 3 members an annual option to change the employee's contribution rate.

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

October 23, 2009

Douglas Shulman
Commissioner of Internal Revenue
500 N. Capitol St. NW
Washington, DC 20221

Dear Commissioner Shulman:

As chair and vice chair of the Washington Select Committee on Pension Policy (SCPP), and on behalf of the Executive Committee of the SCPP, we respectfully request that you reconsider a decision of the Internal Revenue Service (the Service) and grant to thousands of public employees in the state of Washington the flexibility to determine the percentage of their salary that they contribute to their retirement account.

Beginning in 1995, the Washington State Legislature created hybrid retirement plans for most public employees in the state. These plans contain a defined contribution component funded by member contributions, and a defined benefit component funded by the employer. The hybrid plan was implemented for teachers in 1996, for classified school employees in 2001, and for general public employees in 2003. Each of the hybrid plans are separate retirement plans and are distinctly funded.

When the administrator for the plans, the Washington Department of Retirement Systems (DRS), received plan qualification approval from the Service for the first hybrid plan in 2002, the Service also approved a feature of the plan allowing the teachers an annual option to change the percentage of salary they contribute to their retirement account. Based upon this Service approval of the teachers' annual option, the Washington Legislature passed a law in 2003 that granted this same annual flexibility for members in all the hybrid plans, including the school employees' plan and the general public employees' plan. However, when DRS submitted the remaining plans to the

Representative Barbara Bailey

***Don Carlson**
TRS Retirees

Lois Clement
PERS Retirees

***Representative Steve Conway, Chair**

Representative Larry Crouse

Charles E. Cuzzetto
TRS and SERS Employers

Randy Davis
TRS Actives

***Steve Hill,** Director
Department of Retirement Systems

Senator Steve Hobbs

Senator Janea Holmquist

***Robert Keller**
PERS Actives

***Corky Mattingly**
PERS Employers

Senator Joe McDermott

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Glenn Olson
PERS Employers

***Senator Mark Schoesler, Vice Chair**

Representative Larry Seaquist

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

Executive Committee

(360) 786-6140
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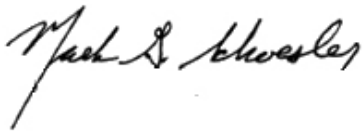
http://www1.leg.wa.gov/SCPP.htm

Service for plan qualification approval, they declined to qualify those plans if the annual rate flexibility was allowed.

Not allowing the annual rate flexibility for some public employees, many of whom work side by side with teachers who have this benefit, has created an inequity in our public retirement systems. Currently, over 59,000 public and school employees are denied the benefit that is afforded to our 52,000 school teachers. We respectfully request that you reconsider your position, help us bridge this benefit divide, and approve annual rate flexibility for all our public employees.

Sincerely,

Representative Steve Conway, Chair
Select Committee on Pension Policy



Senator Mark Schoesler, Vice Chair
Select Committee on Pension Policy

cc: Senator Patty Murray
Senator Maria Cantwell
Representative Jay Inslee
Representative Rick Larsen
Representative Brian Baird
Representative Doc Hastings
Representative Cathy McMorris Rodgers
Representative Norm Dicks
Representative Jim McDermott
Representative Dave Reichert
Representative Adam Smith

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