

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.

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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.

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

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.

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.

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

¹As 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

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.

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

Other States

As of this writing, at least 23² 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.

²See 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 state⁴ 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 states⁶ 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.*

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

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

Recent Legislation

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.

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.

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

Furloughs Not Covered

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.

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

Possible Lost 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.

⁸WAC 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.

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.

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

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

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

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

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

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

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

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

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

7 (b) "Employer" for plan 2 and plan 3 members, means every branch,
8 department, agency, commission, board, and office of the state, and any
9 political subdivision and municipal corporation of the state admitted
10 into the retirement system, including public agencies created pursuant
11 to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August
12 31, 2000, school districts and educational service districts will no
13 longer be employers for the public employees' retirement system plan 2.

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

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

20 (a) Any person who became a member of the system prior to April 1,
21 1949;

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

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

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

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

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

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

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

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

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

23 (A) Retroactive payments to an individual by an employer on
24 reinstatement of the employee in a position, or payments by an employer
25 to an individual in lieu of reinstatement in a position which are
26 awarded or granted as the equivalent of the salary or wage which the
27 individual would have earned during a payroll period shall be
28 considered compensation earnable and the individual shall receive the
29 equivalent service credit;

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

36 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
37 72.09.240;

1 (D) Compensation that a member would have received but for a
2 disability occurring in the line of duty only as authorized by RCW
3 41.40.038;

4 (E) Compensation that a member receives due to participation in the
5 leave sharing program only as authorized by RCW 41.04.650 through
6 41.04.670; and

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

12 (ii) "Compensation earnable" does not include:

13 (A) Remuneration for unused sick leave authorized under RCW
14 41.04.340, 28A.400.210, or 28A.310.490;

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

17 (b) "Compensation earnable" for plan 2 and plan 3 members, means
18 salaries or wages earned by a member during a payroll period for
19 personal services, including overtime payments, and shall include wages
20 and salaries deferred under provisions established pursuant to sections
21 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
22 shall exclude nonmoney maintenance compensation and lump sum or other
23 payments for deferred annual sick leave, unused accumulated vacation,
24 unused accumulated annual leave, or any form of severance pay.

25 "Compensation earnable" for plan 2 and plan 3 members also includes
26 the following actual or imputed payments, which are not paid for
27 personal services:

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

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

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

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

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

11 (iv) Compensation that a member would have received but for a
12 disability occurring in the line of duty only as authorized by RCW
13 41.40.038;

14 (v) Compensation that a member receives due to participation in the
15 leave sharing program only as authorized by RCW 41.04.650 through
16 41.04.670; and

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

22 (9)(a) "Service" for plan 1 members, except as provided in RCW
23 41.40.088, means periods of employment in an eligible position or
24 positions for one or more employers rendered to any employer for which
25 compensation is paid, and includes time spent in office as an elected
26 or appointed official of an employer. Compensation earnable earned in
27 full time work for seventy hours or more in any given calendar month
28 shall constitute one service credit month except as provided in RCW
29 41.40.088. Compensation earnable earned for less than seventy hours in
30 any calendar month shall constitute one-quarter service credit month of
31 service except as provided in RCW 41.40.088. Only service credit
32 months and one-quarter service credit months shall be counted in the
33 computation of any retirement allowance or other benefit provided for
34 in this chapter. Any fraction of a year of service shall be taken into
35 account in the computation of such retirement allowance or benefits.
36 Time spent in standby status, whether compensated or not, is not
37 service.

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

7 (ii) An individual shall receive no more than a total of twelve
8 service credit months of service during any calendar year. If an
9 individual is employed in an eligible position by one or more employers
10 the individual shall receive no more than one service credit month
11 during any calendar month in which multiple service for seventy or more
12 hours is rendered.

13 (iii) A school district employee may count up to forty-five days of
14 sick leave as creditable service solely for the purpose of determining
15 eligibility to retire under RCW 41.40.180 as authorized by RCW
16 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW
17 28A.400.300 is equal to two service credit months. Use of less than
18 forty-five days of sick leave is creditable as allowed under this
19 subsection as follows:

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

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

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

25 (b) "Service" for plan 2 and plan 3 members, means periods of
26 employment by a member in an eligible position or positions for one or
27 more employers for which compensation earnable is paid. Compensation
28 earnable earned for ninety or more hours in any calendar month shall
29 constitute one service credit month except as provided in RCW
30 41.40.088. Compensation earnable earned for at least seventy hours but
31 less than ninety hours in any calendar month shall constitute one-half
32 service credit month of service. Compensation earnable earned for less
33 than seventy hours in any calendar month shall constitute one-quarter
34 service credit month of service. Time spent in standby status, whether
35 compensated or not, is not service.

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

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

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

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

- 23 (A) Less than eleven days equals one-quarter service credit month;
- 24 (B) Eleven or more days but less than twenty-two days equals one-
25 half service credit month;
- 26 (C) Twenty-two days equals one service credit month;
- 27 (D) More than twenty-two days but less than thirty-three days
28 equals one and one-quarter service credit month;
- 29 (E) Thirty-three or more days but less than forty-five days equals
30 one and one-half service credit month.

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

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

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

37 (13) "Membership service" means:

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

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

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

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

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

24 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
25 in receipt of a retirement allowance or other benefit provided by this
26 chapter resulting from service rendered to an employer by another
27 person.

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

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

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

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

3 (b) "Average final compensation" for plan 2 and plan 3 members,
4 means the member's average compensation earnable of the highest
5 consecutive sixty months of service credit months prior to such
6 member's retirement, termination, or death. Periods constituting
7 authorized leaves of absence may not be used in the calculation of
8 average final compensation except under RCW 41.40.710(2) or (c) of this
9 subsection.

10 (c) In calculating average final compensation under this subsection
11 for a member of plan 1, 2, or 3, the department of retirement systems
12 shall include any compensation forgone by the member during the 2009-
13 2011 fiscal biennium as a result of reduced work hours, voluntary leave
14 without pay, or temporary furloughs if the reduced compensation is an
15 integral part of the employer's expenditure reduction efforts, as
16 certified by the employer.

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

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

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

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

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

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

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

37 (25) "Eligible position" means:

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

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

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

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

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

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

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

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

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

29 (33) "Plan 1" means the public employees' retirement system, plan
30 1 providing the benefits and funding provisions covering persons who
31 first became members of the system prior to October 1, 1977.

32 (34) "Plan 2" means the public employees' retirement system, plan
33 2 providing the benefits and funding provisions covering persons who
34 first became members of the system on and after October 1, 1977, and
35 are not included in plan 3.

36 (35) "Plan 3" means the public employees' retirement system, plan
37 3 providing the benefits and funding provisions covering persons who:

38 (a) First become a member on or after:

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

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

6 (b) Transferred to plan 3 under RCW 41.40.795.

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

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

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

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

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

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

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

30 (43) "Member account" or "member's account" for purposes of plan 3
31 means the sum of the contributions and earnings on behalf of the member
32 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			
<i>(Dollars in Millions)</i>	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	<u>0.01%</u>	<u>0.01%</u>	<u>0.01%</u>
Total	0.02%	0.01%	0.01%

Budget Impacts			
<i>(Dollars in Millions)</i>	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			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 1	\$14,061	\$5.8	\$14,067
PERS 2/3	<u>20,634</u>	<u>10.0</u>	<u>20,644</u>
PERS Total	\$34,695	\$15.8	\$34,711
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized to 2024)</i>			
PERS 1	\$3,609	\$5.8	\$3,614
Unfunded PUC Liability			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)</i>			
PERS 1	\$3,990	\$5.7	\$3,995
PERS 2/3	<u>(2,470)</u>	<u>8.4</u>	<u>(2,461)</u>
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	<u>0.005%</u>	<u>0.005%</u>	<u>0.005%</u>
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	<u>0.005%</u>	<u>0.005%</u>	<u>0.005%</u>
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				
<i>(Dollars in Millions)</i>	PERS	SERS	PSERS	Total
2009-2011				
General Fund	\$0.7	\$0.1	\$0.0	\$0.8
Non-General Fund	<u>1.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.0</u>
Total State	\$1.6	\$0.1	\$0.0	\$1.8
Local Government	<u>1.7</u>	<u>0.2</u>	<u>0.0</u>	<u>1.9</u>
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	<u>0.6</u>	<u>0.0</u>	<u>0.0</u>	<u>0.6</u>
Total State	\$1.1	\$0.1	\$0.0	\$1.2
Local Government	<u>1.1</u>	<u>0.1</u>	<u>0.0</u>	<u>1.2</u>
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	<u>6.0</u>	<u>0.0</u>	<u>0.0</u>	<u>6.0</u>
Total State	\$10.2	\$0.7	\$0.2	\$11.0
Local Government	<u>10.9</u>	<u>0.9</u>	<u>0.0</u>	<u>11.8</u>
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			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 1	\$14,061	\$12.5	\$14,074
PERS 2/3	<u>20,634</u>	<u>21.5</u>	<u>20,656</u>
PERS Total	\$34,695	\$34.1	\$34,729
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized to 2024)</i>			
PERS 1	\$3,609	\$12.5	\$3,621
Unfunded PUC Liability			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)</i>			
PERS 1	\$3,990	\$12.2	\$4,002
PERS 2/3	<u>(2,470)</u>	<u>18.2</u>	<u>(2,451)</u>
PERS Total	\$1,520	\$30.5	\$1,551

Note: Totals may not agree due to rounding.

Impact on Pension Liability – High Estimate			
<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits			
<i>(The Value of the Total Commitment to all Current Members)</i>			
PERS 1	\$14,061	\$50.2	\$14,111
PERS 2/3	<u>20,634</u>	<u>86.1</u>	<u>20,721</u>
PERS Total	\$34,695	\$136.3	\$34,832
Unfunded Actuarial Accrued Liability			
<i>(The Portion of the Plan 1 Liability that is Amortized to 2024)</i>			
PERS 1	\$3,609	\$50.2	\$3,659
Unfunded PUC Liability			
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service that is not covered by current assets)</i>			
PERS 1	\$3,990	\$48.9	\$4,039
PERS 2/3	<u>(2,470)</u>	<u>72.9</u>	<u>(2,397)</u>
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	<u>0.011%</u>	<u>0.011%</u>	<u>0.011%</u>
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	<u>0.011%</u>	<u>0.011%</u>	<u>0.011%</u>
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	<u>0.043%</u>	<u>0.043%</u>	<u>0.043%</u>
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	<u>0.043%</u>	<u>0.043%</u>	<u>0.043%</u>
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				
<i>(Dollars in Millions)</i>	PERS	SERS	PSERS	Total
2009-2011				
General Fund	\$1.0	\$0.1	\$0.0	\$1.2
Non-General Fund	<u>1.4</u>	<u>0.0</u>	<u>0.0</u>	<u>1.4</u>
Total State	\$2.4	\$0.1	\$0.0	\$2.6
Local Government	<u>2.6</u>	<u>0.2</u>	<u>0.0</u>	<u>2.8</u>
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	<u>1.3</u>	<u>0.0</u>	<u>0.0</u>	<u>1.4</u>
Total State	\$2.3	\$0.2	\$0.0	\$2.5
Local Government	<u>2.5</u>	<u>0.2</u>	<u>0.0</u>	<u>2.7</u>
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	<u>12.3</u>	<u>0.0</u>	<u>0.0</u>	<u>12.3</u>
Total State	\$20.9	\$1.4	\$0.3	\$22.6
Local Government	<u>22.3</u>	<u>1.8</u>	<u>0.1</u>	<u>24.2</u>
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

<i>(Dollars in Millions)</i>	PERS	SERS	PSERS	Total
2009-2011				
General Fund	\$3.7	\$0.6	\$0.1	\$4.4
Non-General Fund	<u>5.3</u>	<u>0.0</u>	<u>0.0</u>	<u>5.3</u>
Total State	\$9.0	\$0.6	\$0.1	\$9.6
Local Government	<u>9.6</u>	<u>0.7</u>	<u>0.0</u>	<u>10.3</u>
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	<u>5.4</u>	<u>0.0</u>	<u>0.0</u>	<u>5.4</u>
Total State	\$9.2	\$0.7	\$0.1	\$10.0
Local Government	<u>9.8</u>	<u>0.8</u>	<u>0.0</u>	<u>10.7</u>
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	<u>48.6</u>	<u>0.0</u>	<u>0.1</u>	<u>48.7</u>
Total State	\$82.6	\$5.7	\$1.2	\$89.6
Local Government	<u>88.4</u>	<u>7.1</u>	<u>0.3</u>	<u>95.8</u>
Total Employer	\$171.0	\$12.9	\$1.5	\$185.4
Total Employee	\$72.1	\$0.0	\$0.0	\$72.1

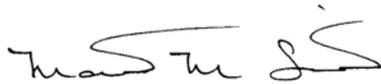
Note: Totals may not agree due to rounding.

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).



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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

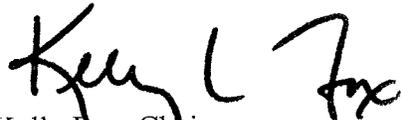
The Legislature passed a bill in the 2009 session that provided retirement protections for state and local government PERS employees who take unpaid leave of absences as a means of addressing budget challenges. Public employees who are members of other retirement systems could also benefit from similar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

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.