The Select Committee on Pension Policy

2009 Interim Issues Executive Summary

(Revised January 25, 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 materials in this report have been updated to reflect the most recent committee activity. They 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 web site at http://www.leg.wa.gov/SCPP, on the meetings page.

The January 25, 2010, version of this report is 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 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

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David Westberg, *SERS Actives*

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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

Office of the State Actuary

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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,

Representative Steve Conway, Chair
Select Committee on Pension Policy

Senator Mark Schoesler, Vice Chair
Select Committee on Pension Policy

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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.

Staff Contact

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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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January 8, 2010

The Honorable Margarita Prentice, Chair
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PO Box 40466
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Dear Chair Prentice:

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,

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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 ---

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.

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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 October 20, 2009, the committee voted to endorse House Bill 1541/Senate Bill 5302 for the 2010 Legislative Session.

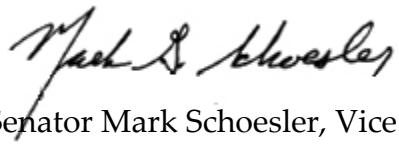
House Bill 1541 and Senate Bill 5302 grant half-time service credit to certain Plans 2/3 members who worked at least half time for an educational employer prior to 1987.

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

***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

Robert Thurston
WSPRS Retirees

David Westberg
SERS Actives

***Executive Committee*

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Select Committee on Pension Policy

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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.

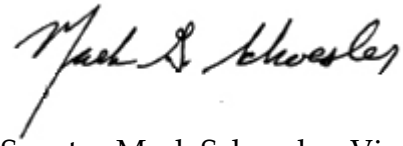
House Bill 1541 and Senate Bill 5302 grant half-time service credit to certain Plans 2/3 members who worked at least half time for an educational employer prior to 1987.

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



Senator Mark Schoesler, Vice 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 ---

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

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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.

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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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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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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.

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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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$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.

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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 Committee held a work session on this issue in November. At that meeting, the Executive Committee directed staff to prepare a bill draft for the December meeting to 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 Committee held a public hearing and executive session in December. It was moved and seconded to recommend changing the plan default to Plan 2 for PERS, SERS, and TERS. The motion failed.

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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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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.

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Other

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

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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

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TRS Retirees

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***Representative Steve Conway, Chair**

Representative Larry Crouse

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Randy Davis
TRS Actives

***Steve Hill,** Director
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Senator Steve Hobbs

Senator Janea Holmquist

***Robert Keller**
PERS Actives

***Corky Mattingly**
PERS Employers

Senator Joe McDermott

Doug Miller
PERS Employers

Victor Moore, Director
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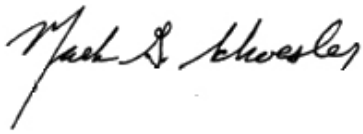
Service for plan qualification approval, they declined to qualify those plans if the annual rate flexibility was allowed.

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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