DRAFT
ACTUARY'S FISCAL NOTE

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

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this draft fiscal note based on our understanding of the proposal as of the date shown above. We intend this draft fiscal note to be used by the Select Committee on Pension Policy during the 2010 Interim only. If a legislator introduces this proposal as a bill during the next Legislative Session, we will prepare a final fiscal note based on that bill language. The actuarial results shown in this draft fiscal note may change when we prepare our final version for the Legislature.

We advise readers of this draft fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this draft fiscal note as a whole. Distribution of, or reliance on, only parts of this draft fiscal note could result in its misuse, and may mislead others.

SUMMARY OF RESULTS

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

See the section "Why This Proposal Doesn't Have a Cost" for additional detail.

WHAT IS THE PROPOSED CHANGE?

Summary of Change

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

Effective Date: January 1, 2012.

What Is The Current Situation?

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

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

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

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

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

Who Is Impacted And How?

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

WHY THIS PROPOSAL DOESN'T HAVE A COST

We estimate this proposal doesn't have a cost because it would simply extend PSERS membership to current PSERS members. We currently assume these members will continue to accrue PSERS service since we do not assume any future closure of a PSERS facility or the transfer of members to a facility that is not a PSERS eligible employer.

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

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

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

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

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

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. We prepared this draft fiscal note for the Select Committee on Pension Policy.
2. We prepared this draft fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown on page one of this draft fiscal note.

While this draft fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Matthew M. Smith, FCA, EA, MAAA
State Actuary

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.