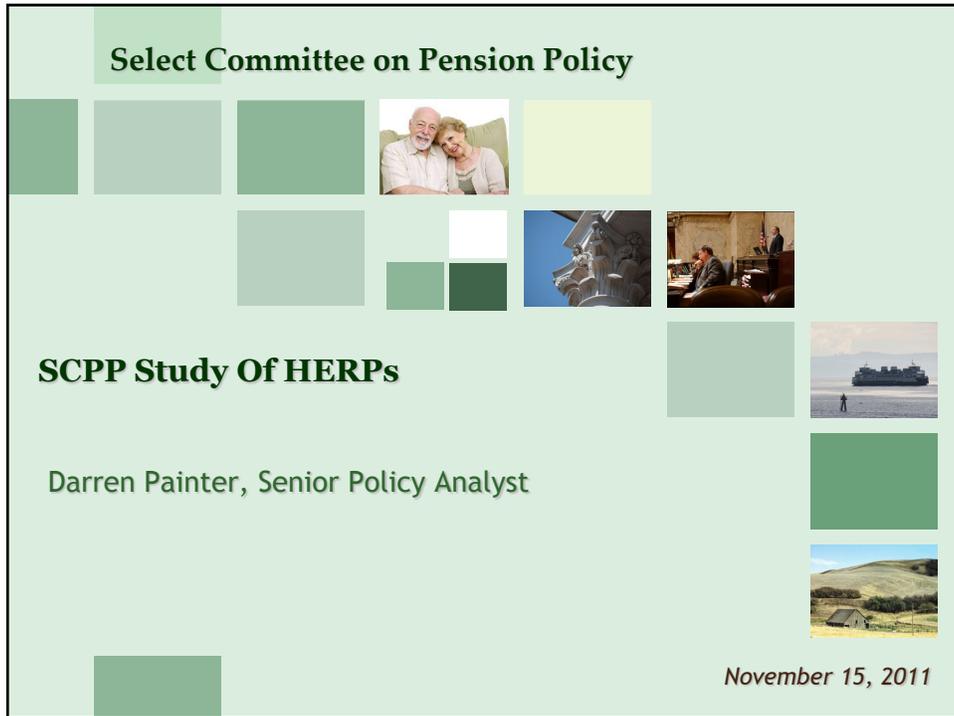


Select Committee on Pension Policy



SCPP Study Of HERPs

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November 15, 2011

What's The Issue?

- Universities and colleges are authorized to offer DC retirement plans to their employees
 - Higher Education Retirement Plans (HERPs)
- Some policy makers question if HERPs should be offered to all non-faculty, professional staff
- Legislature directed the SCPP to study HERPs in 2011
 - Unusual to have mandated SCPP study



Office of the State Actuary
Some things have always been the same today.

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Committee Activity

- Work session in October
 - Background and previews
- Work session today
 - Policy considerations
 - Preliminary findings
- Opportunity to take action today
 - Possible public hearing
 - Possible executive session

Today's Briefing

- Combined study update and policy briefing
- Review background
- Policy considerations
- Preliminary study findings
- Options
- Possible next steps



HERP Overview

- Tax qualified DC plans similar to 401(k)
 - Employer and employees contribute to account
 - Benefit depends on contributions and investment earnings
- Plans administered by HIED institutions
 - Institutions determine eligibility
 - Subject to some statutory restrictions
- Participation in HERPs is now optional
 - Eligible new hires choose between HERP or Plan 3
 - About 30,000 HERP participants



HERPs Include A Supplemental Benefit

- Guarantees certain level of retirement income
- Legislature ended program for new hires in 2011
 - Required prefunding of liabilities
- OSA will perform a state-wide valuation in 2013/2014



Eligibility Depends On Employee Classification

- Three classes of HIED employees
 - Faculty
 - Professors and staff with academic appointments
 - Civil service classified
 - Support staff and entry level professionals
 - Civil service exempt
 - Mid to upper level administrators and professionals
- Faculty and exempt staff are eligible for HERPs
- Classified staff are in PERS

Recent Legislative Activity On HERPs

- 2011 Legislature made several changes to HERP eligibility, benefits, and funding
 - Ended supplemental benefit for new hires and required prefunding
 - Restricted eligibility for retirees and classified staff
- Expanded SCPP duties regarding HERPs
 - New role in periodically reviewing HERPs
 - Directed to study HERP eligibility during 2011 Interim
- SCPP fully briefed on these changes in July
 - [Legislative Session Highlights](#)
- Provisions in ESHB 1981

Recap: Background

- HERPs are DC retirement plans offered by universities and colleges
- Eligibility depends on employee classification
 - Faculty and exempt staff are offered HERPs
 - Classified staff are in PERS
- Legislature made several changes to HERPs this year
 - Included eligibility restrictions
- Legislature directed SCPP to further study HERP eligibility
 - Make possible recommendations on further restrictions



Issue Boils Down To Exempt Staff Eligibility

- Two-part study mandate
 - Evaluate the suitability and necessity of HERPs for employees in various positions
 - Option to make recommendations for further restrictions on future plan membership
- Crux of study is restrictions on future membership
 - Some policy makers may prefer additional restrictions on exempt staff
 - Eligibility for faculty and classified staff not in question
- Key question for SCPP: To what extent should HERPs be provided for exempt staff?
- Issue hinges on policies around consistency

Issue Driven By Concerns Over Consistency

- Policy makers may agree on a general consistency policy
 - Like positions should have like benefits
- May differ on how to apply consistency
 - Within HIED
 - Across public employers
- How consistency is applied will likely affect view



Benefits For Exempt Staff May Be Viewed As Consistent Or Inconsistent

- Within HIED benefits may appear consistent
 - Similarities between faculty and exempt staff
 - At-will employees
 - Higher levels of responsibility
 - Often recruited regionally or nationally
 - Provided same benefits
 - Could be viewed as consistent
- Across public employers benefits may appear inconsistent
 - Some exempt positions appear similar to PERS positions
 - Exempt staff offered HERPs
 - Could be viewed as inconsistent

Key Benefit Consistency Questions

- Is there an overarching policy on consistency?
- Are some exempt positions similar enough to PERS?
- Are there other factors to consider?
 - Workforce needs?
 - Recruitment?



State Generally Provides Consistent Benefits

- Legislature established policy that the state retirement systems should provide similar benefits where possible
 - RCW 41.50.005
- Benefits for teachers and general public employees are similar
- Public safety officers receive different benefits based on different workforce needs



Exempt Staff May Have Different Needs

- Employers suggest exempt staff are more mobile
 - Tend to move around in the industry
 - May not work a full career
 - Colleges report average length of service for exempt staff under 10 years
- Plan choice data suggest a different plan design preference
 - New exempt staff prefer a pure DC plan
 - New PERS hires prefer a pure DB plan
- Additional study could add rigor to the data



Some Exempt Positions Likely Similar To PERS

- Limited review of HIED job titles suggests some exempt positions are unique to HIED
 - Research scientist
 - Medical resident
- Others are likely more similar to PERS
 - IT managers
 - Executive assistants
- HR position analysis is needed to determine with certainty if positions are similar
- Could consider job duties, level of responsibility, education and training requirements, working conditions, etc.

HERPs May Be Necessary To Recruit Some Exempt Positions

- Employers report finding HERPs useful for recruiting exempt staff
- HERPs are offered widely at public institutions across the nation
 - At least 45 states offer to faculty
 - Some offer HERPs to exempt staff
- Employers may have difficulty recruiting exempt staff with HIED experience using PERS
- Additional study could add rigor to data



Recap: Policy Considerations

- Some policy makers may prefer additional restrictions on HERPs for exempt staff
 - Eligibility for faculty and classified staff not in question
- Issue hinges on policies around consistency
- Policy makers may differ on how broadly to apply consistency
- Policy makers may balance other factors
 - Workforce needs
 - Recruitment

HERP Study Is A Complex Policy Analysis Exercise

- Suitability and necessity are subjective
 - Involve many areas of policy, including HR
 - Requires a broad policy framework
 - Weigh many factors
 - Consider different perspectives
- Address entire HIED workforce
 - Exempt staff whose eligibility is under question
 - Faculty and classified staff whose eligibility is not being questioned



Study Approach

- Interview institutions and legislative staff
 - Identify key issues and different viewpoints
 - Gather background and facts
- Research and gather data for analysis
- Analyze key policy considerations from different perspectives and weigh many factors
- Determine preliminary findings and review with institutions and legislative staff

Study Made Several Preliminary Findings

- Facts and analytical framework
- Most are likely noncontroversial
- Three key findings on suitability and necessity
- One finding on the PERS 1 UAAL
- All findings are provided in materials



Preliminary Findings On Suitability And Necessity

- HERPs are likely suitable and necessary for faculty
 - Based on industry prevalence and recruitment
- HERPs are not necessary for classified staff
 - Based on recruitment
- Finding on HERPs for exempt staff inconclusive
 - May be suitable and necessary for some, not others
 - Insufficient data
- Exempt staff were covered earlier in briefing

HERP Eligibility Can Impact PERS 1 UAAL Rate

- PERS 1 UAAL amortized over salary of all PERS, SERS, and PSERS members
 - Changing salary base can impact the rate
- In 1993 the Legislature expanded the number of HIED exempt positions
 - Made more positions HERP-eligible
 - Many positions moved out of PERS
- Increasing the number of HIED exempt positions has likely increased the UAAL rate
 - Same dollars are collected over fewer salaries
 - Cost sharing changes
- HIED employers pay less for UAAL, other employers pay more

Policy Makers May Differ On Further Restrictions

- Some may prefer no further restrictions
 - HIED stands apart from other public employers
 - Give employers maximum flexibility in recruitment
- Some may prefer further restrictions
 - HIED benefits should be more consistent with other public employers
- Some may prefer further study before deciding on a course of action



Recap: Today's Briefing

- Legislature directed SCPP to study HERP eligibility in 2011
 - Faculty and classified staff are not in question
 - Some policy makers may prefer additional restrictions on eligibility for exempt staff
- Issue hinges on policies around benefit consistency
 - May balance against workforce needs and recruitment
- Preliminary study findings
 - HERPs likely suitable and necessary for faculty, and not necessary for classified staff
 - Inconclusive on exempt staff
- Policy makers may differ on further restrictions

HERP Eligibility Policy Options

- No further restrictions on HERP eligibility for exempt staff at this time
 - Continues current HIED policy
 - Affirms authority of institutions
- Limit HERPs to exempt staff where needed for recruitment
 - Promotes recruitment
 - Could lead to inconsistent benefits with PERS
- Limit HERPs to exempt staff in positions unique to HIED
 - Promote benefit consistency across PERS employers
 - Could impact employers ability to recruit
- The last two options are high-level policy approaches and would require additional work to develop

Possible Next Steps For SCPP

- Make recommendation on HERP eligibility for current study
 - None from Executive Committee
- Study issue further next interim
 - Eligibility for exempt staff
 - Suitability and necessity of HERPs
 - Study report provides a foundation
- Defer action on current study until December
 - Risk that special session could preempt meeting



Next Steps For Staff

- Consider input from today's meeting
- Finalize study and write report
 - Including any recommendations from SCPP
- Deliver report to SCPP members and Legislature
 - By December 31, 2011