Select Committee on Pension Policy

2ESB 6378
Reforming the State Retirement Plans

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May 15, 2012

Bill Passed At The Tail End Of Special Session

- Short title: "Reforming the State Retirement Plans"
- Chapter 7, Laws of 2012, First Special Session
- Chair Bailey requested a briefing on the bill
- No action required today

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Today's Presentation

- Overview
- Bill provisions
- Fiscal analysis

Overview: The Bill Has Three Major Pieces

- Replaces Early Retirement Factors (ERFs) for new hires
  - PERS, TRS, and SERS
  - First reduction in early retirement benefits since Plans 1 closed in 1977
- Codifies lower Rate-Of-Return (ROR) assumptions
- Requires SCPP to study
  - High-risk job classifications
  - PSERS membership
  - ERFs for school employees

Background: Early Retirement Factors

- General rule
  - PERS, SERS, and TRS members can retire early at age 55
  - When a member retires earlier than the normal retirement age (65), their benefits are actuarially reduced
  - Percentage reduction for each year below the normal retirement age
- Subsidized early retirement
  - If the member has at least 30 years of service, the reductions are smaller
    - Two options
      - “2000 ERFs”
      - “2008 ERFs”

New Early Retirement Factors For New Hires Only

- ERFs for current employees unaffected
- PERS, SERS, and TRS only
- New ERFs apply when new hires retire early
  - After reaching age 55; and
  - Accumulating 30 years of service
- Five percent reduction for each year the member retires before age 65

Early Retirement Factor Comparison

Subsidized Early Retirement Reduction Factors			
Age	2000 ERFs	2008 ERFs	2ESB 6378 ERFs*
55	0.70	0.80	0.50
56	0.73	0.83	0.55
57	0.76	0.86	0.60
58	0.79	0.89	0.65
59	0.82	0.92	0.70
60	0.85	0.95	0.75
61	0.88	0.98	0.80
62	0.91	1.00	0.85
63	0.94	1.00	0.90
64	0.97	1.00	0.95
65	1.00	1.00	1.00

**Applied for members hired on or after May 1, 2013, with at least 30 years of service.*

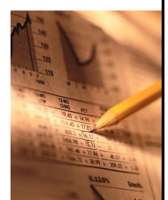
Hypothetical Example

- For a Plan 2 member
  - Retiring at age 61
  - AFC of $50,000

	Current Employee	New Hire (2ESB 6378)
ERF	0.98	0.8
Reduction	2%	20%
Initial Annual Benefit	$29,400	$24,000

Background: Rate-Of-Return Assumptions

- ROR is one of four key long-term economic assumptions
- Assumed ROR does not affect actual Rate-Of-Return that WSIB will earn on investments
- ROR assumption used for calculating contribution rates
  - Typically, around three-fourths of pension costs are paid by investment returns
  - The less you assume you'll earn from investing the contributions, the more you need to contribute (more prefunding)



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PFC Adopted Changes To Rate-Of-Return Assumption

- ROR assumption had been 8 percent
- In 2011, State Actuary recommended reducing to 7.5 percent
  - Also presented phase-in option to reduce by 0.1 percent per biennium until reaching 7.5 percent in 2021-23 Biennium
- PFC adopted 7.9 percent, effective July 1, 2013
  - PFC actions are subject to revision by Legislature
  - Affects all plans except LEOFF 2 and Volunteer Fire

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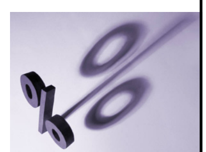
Bill Codifies Lower Rate-Of-Return Assumptions

- Bill codifies the following ROR
  - Seven point nine percent, as of July 1, 2013
  - Seven point eight percent, as of July 1, 2015
  - Seven point seven percent, as of July 1, 2017
- Lower RORs increase prefunding
- Bill does not address other economic assumptions
  - Other PFC-adopted changes presumed to be unaffected

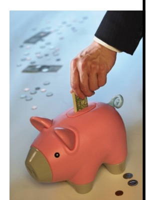


Bill Requires SCPP Study

- SCPP must
  - Study high risk job classifications
    - With assistance from Department of Labor and Industries
  - Study ERFs and job requirements that may limit the effectiveness of older classroom employees
    - With assistance from Office of Superintendent of Public Instruction
  - Identify groups and evaluate them for
    - Inclusion in PSERS
    - Early retirement factors for school employees
- Report due to fiscal committees of Legislature by December 15, 2012

Overview Of Fiscal Analysis

- Net 25-year savings
- No supplemental rate
- Copies of fiscal note in meeting packets



Net 25-Year Savings

Budget Impacts			
(Dollars in Millions)	Fiscal Year 2013	2013-2015	25-Year
General Fund-State	$0.0	($4.4)	($180.7)
Local Government	$0.0	($4.1)	($173.8)
Total Employer	$0.0	($9.6)	($382.5)

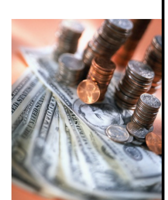
Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

Net Savings Is A Result Of Interaction Of Two Provisions

- ERFs for new hires
  - Expected 25-year savings of $1.6 billion
  - No immediate impact since only affects new hires
- Changes to ROR
  - Expected 25-year cost of $1.2 billion
  - Assumption change does not affect actual earned ROR
  - Changes timing of contributions (more prefunding)
    - Pay more now, pay less later
    - Temporary increase in cost, followed by long-term savings
  - If long-term savings, then why does fiscal note show a cost for this provision?

Statute Requires Actuarial Fiscal Notes To Show 25-Year Analysis

- Savings from additional prefunding won't show up until after 25 years
- Viewed over longer term (e.g. 50 years), changes to assumed ROR result in expected savings of approximately $4 billion



Rate Impacts

- No supplemental rate
  - Bill does not impact benefits for current members
  - Seven point nine percent ROR already assumed
- Temporary increase in rates
  - Plan 2 member and employer contribution rates increase beginning in 2015-17 Biennium
- Long-term rate decrease
- Rate impacts also a result of interacting bill provisions
  - ROR change brings temporary increase (more prefunding)
  - ERF change and increased prefunding result in overall long-term decrease in rates

Summary

- Three major bill provisions
  - Reduction in early retirement benefits for new hires
    - Five percent ERFs
  - New ROR assumptions
    - Seven point nine percent effective July 1, 2013
    - Drops additional 0.1 percent in each of the following two biennia
  - SCPP study due December 15, 2012
- Net 25-year savings
  - Larger expected savings over longer time horizon
- No supplemental rate
- Temporary rate increases, followed by overall long-term rate decreases