



# Office of the State Actuary

*"Securing tomorrow's pensions today."*

September 18, 2012

TO: Select Committee on Pension Policy (SCPP) Members

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

**SUBJECT: 2013-15 OSA BUDGET REQUEST**

Enclosed please find the Office of the State Actuary's (OSA's) 2013-15 Budget request. The SCPP Rule of Procedure 8 (F) requires the state actuary to submit the biennial budget request to the SCPP for approval. After approval, I will submit the budget to the Office of Financial Management. This budget is also subject to review and revision by the Legislature in the 2013 Legislative Session.

The enclosed budget request includes the following items:

- Description of agency mission.
- Statutory authority.
- OSA organizational chart.
- 2013-15 Budget documents.

The proposed 2013-15 Budget represents an increase of \$188,000 above the current 2011-13 Biennial Budget (5.7 percent increase). This increase is comprised of a \$22,000 decrease to the agency's "carry forward level" (see attached budget documents) plus and increase of \$210,000 to facilitate "workload changes" (noted below).

The \$210,000 increase to facilitate workload changes includes funding to provide (1) step salary increases for eligible staff during each fiscal year of the 2013-15 Biennium and (2) additional salary increases for retention purposes if necessary.

## **Funding Source**

The Legislature provides funding for the agency's budget through the Department of Retirement Systems (DRS) Expense Fund. The GET Committee, LEOFF Plan 2 Retirement Board, Institutions of Higher Education, and the Board for Volunteer Fire Fighters' and Reserve Officers' reimburse the OSA for the cost of actuarial services through an interagency agreement.



The DRS Expense fund is supported by an administrative expense rate that is collected by DRS from all retirement system employers. The current DRS administrative expense rate is 0.16 percent. OSA's proposed 2013-15 Budget request will not impact this expense rate.

## **Workload Changes**

### **Step Salary Increases**

OSA requests \$160,000 to provide step increases to eligible staff during the 2013-15 Biennium (this includes both salary and benefits costs). The \$160,000 represents approximately a 5 percent increase each fiscal year for all non-management staff (2.5 percent increase each fiscal year for management staff). OSA does not automatically provide step salary increases when available. Eligibility for step increases depends on individual performance and the number of step increases available for an employee based on their current salary within their current salary range.

### **Additional Salary Increases for Retention Purposes**

OSA requests \$50,000 to provide additional salary increases for retention purposes if necessary. The \$50,000 represents approximately a one-time salary increase of 10 percent for two credentialed actuaries for 24 months (based on the current average annual salary for credentialed actuarial staff). During the past two biennia, OSA made counter offers to two credentialed actuaries in an effort to retain them on staff. OSA has also faced difficulties recruiting credentialed actuaries during the current biennium.

The \$50,000 of additional funding represents a one-time request, but the cost of providing additional salary increases for retention purposes would become an on-going expense if increases are provided during the 2013-15 Biennium.

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## **Our Mission Statement**

The Office of the State Actuary promotes the security of Washington State public employees' retirement benefits by providing expert, accurate, and objective actuarial and policy analysis in a cost-effective and timely manner.

## **Our Values Statement**

We model the highest level of professionalism. We remain independent and unbiased when delivering services in support of our mission. We value teamwork and collaboration to continually improve the quality of our services and working relationships. We promote a fun and friendly office culture that provides work-life balance and opportunities to grow.

## **Office Overview**

The Office of the State Actuary (OSA) is an independent and non-partisan agency of the Washington State Legislature and works primarily on the funding and benefit issues of the state's public retirement systems. OSA was created in 1977 and its duties are set forth in Chapters 44.44 and 41.24 RCW. The role of the office as currently defined is to function on two levels:

### ***The First Functional Level Is To Provide Actuarial Services.***

- ❖ Perform annual actuarial valuations on all state funded and/or state sponsored retirement plans. The manner in which the valuation is performed is subject to statutory requirements and actuarial standards of practice.
- ❖ Recommend employer/state and member contribution rates to the Pension Funding Council (PFC) based on the results of the valuations. It is the PFC's responsibility to officially adopt any changes to contribution rates. The PFC also solicits an outside audit to verify the OSA results.
- ❖ Prepare an actuarial fiscal note on each pension bill introduced in the Legislature. Any pension bill that passes into law may alter the funding status of the state's retirement plans. Current law requires any additional costs be calculated and contribution rates adjusted accordingly. Provide risk analysis/assessments for applicable actuarial fiscal notes.
- ❖ Provide advice and consultation to the Legislature, Office of the Governor, Department of Retirement Systems and State Investment Board.
- ❖ Perform all actuarial services for the Department of Retirement Systems including all studies required by law.
- ❖ Provide actuarial assistance to the Law Enforcement Officers' and Fire Fighters' Plan (LEOFF) 2 Board. LEOFF 2 rates are adopted by the LEOFF 2 Retirement Board.



- ❖ Provide actuarial services for the state Board for Volunteer Fire Fighters and Reserve Officers.
- ❖ Perform actuarial valuations and experience studies, provide actuarial services, risk analysis and price-setting recommendations for the Guaranteed Education Tuition Program.
- ❖ Perform actuarial valuations and experience studies for supplemental retirement plans within Higher Education.

***The Second Functional Level Is To Provide Staff And Assistance To The Select Committee On Pension Policy (SCPP).***

- ❖ Research issues or subject areas at the direction of the SCPP, provide verbal and written testimony on its research findings, and prepare and/or evaluate proposed legislation. This function mirrors the activity performed by other legislative committees.
- ❖ Maintain the SCPP website.

**Statutory Authority**

The powers and duties of the Office of State Actuary specified in RCW 44.44.040 are:

The office of the state actuary shall have the following powers and duties:

- (1) Perform all actuarial services for the department of retirement systems, including all studies required by law.
- (2) Advise the legislature and the governor regarding pension benefit provisions, and funding policies and investment policies of the state investment board.
- (3) Consult with the legislature and the governor concerning determination of actuarial assumptions used by the department of retirement systems.
- (4) Prepare a report, to be known as the actuarial fiscal note, on each pension bill introduced in the legislature which briefly explains the financial impact of the bill. The actuarial fiscal note shall include: (a) The statutorily required contribution for the biennium and the following twenty-five years; (b) the biennial cost of the increased benefits if these exceed the required contribution; and (c) any change in the present value of the unfunded accrued benefits. An actuarial fiscal note shall also be prepared for all amendments which are offered in committee or on the floor of the house of representatives or the senate to any pension bill. However, a majority of the members present may suspend the requirement for an actuarial fiscal note for amendments offered on the floor of the house of representatives or the senate.
- (5) Provide such actuarial services to the legislature as may be requested from time to time.



- (6) Provide staff and assistance to the committee established under RCW 41.04.276.
- (7) Provide actuarial assistance to the law enforcement officers' and fire fighters' plan 2 retirement board as provided in chapter 2, Laws of 2003. Reimbursement for services shall be made to the state actuary under RCW 39.34.130 and section 5(5), chapter 2, Laws of 2003.
- (8) Provide actuarial assistance to the committee on advanced tuition payment pursuant to chapter 28B.95 RCW, including recommending a tuition unit price to the committee on advanced tuition payment to be used in the ensuing enrollment period. Reimbursement for services shall be made to the state actuary under RCW 39.34.130.

[2003 c 295 § 4; 2003 c 92 § 2; 1987 c 25 § 3; 1986 c 317 § 6; 1975-'76 2nd ex.s. c 105 § 22.]

The Select Committee on Pension Policy was established by Chapter 295, Laws of 2003, and codified in RCW 41.04.276, .278, and .281. These statutes state:

**RCW 41.04.276**

- (1) The select committee on pension policy is created. The select committee consists of:
  - (a) Four members of the senate appointed by the president of the senate, two of whom are members of the majority party and two of whom are members of the minority party. At least three of the appointees shall be members of the senate ways and means committee;
  - (b) Four members of the house of representatives appointed by the speaker, two of whom are members of the majority party and two of whom are members of the minority party. At least three of the appointees shall be members of the house of representatives appropriations committee;
  - (c) Four active members or representatives from organizations of active members of the state retirement systems appointed by the governor for staggered three-year terms, with no more than two appointees representing any one employee retirement system;
  - (d) Two retired members or representatives of retired members' organizations of the state retirement systems appointed by the governor for staggered three-year terms, with no two members from the same system;
  - (e) Four employer representatives of members of the state retirement systems appointed by the governor for staggered three-year terms; and
  - (f) The directors of the department of retirement systems and office of financial management.



- (2) (a) The term of office of each member of the house of representatives or senate serving on the committee runs from the close of the session in which he or she is appointed until the close of the next regular session held in an odd-numbered year. If a successor is not appointed during a session, the member's term continues until the member is reappointed or a successor is appointed. The term of office for a committee member who is a member of the house of representatives or the senate who does not continue as a member of the senate or house of representatives ceases upon the convening of the next session of the legislature during the odd-numbered year following the member's appointment, or upon the member's resignation, whichever is earlier. All vacancies of positions held by members of the legislature must be filled from the same political party and from the same house as the member whose seat was vacated.
  - (b) Following the terms of members and representatives appointed under subsection (1)(d) of this section, the retiree positions shall be rotated to ensure that each system has an opportunity to have a retiree representative on the committee.
- (3) The committee shall elect a chairperson and a vice-chairperson. The chairperson shall be a member of the senate in even-numbered years and a member of the house of representatives in odd-numbered years and the vice-chairperson shall be a member of the house of representatives in even-numbered years and a member of the senate in odd-numbered years.
- (4) The committee shall establish an executive committee of six members, including the chairperson, the vice-chairperson, one member from subsection (1)(c) of this section, one member from subsection (1)(d) of this section, one member from subsection (1)(e) of this section, and the director of the department of retirement systems.
- (5) Nonlegislative members of the select committee serve without compensation, but shall be reimbursed for travel expenses under RCW 43.03.050 and 43.03.060.
- (6) The office of state actuary under chapter 44.44 RCW shall provide staff and technical support to the committee.

[2005 c 24 § 1; 2003 c 295 § 1.]

**RCW 41.04.278**

- (1) The select committee on pension policy may form three function-specific subcommittees, as set forth under subsection (2) of this section, from the members under RCW 41.04.276(1) (a) through (e), as follows:
  - (a) A public safety subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e);



- (b) An education subcommittee with one member from each group under RCW 41.04.276(1) (a) through (e); and
- (c) A state and local government subcommittee, with one retiree member under RCW 41.04.276(1)(d) and two members from each group under RCW 41.04.276(1) (a) through (c) and (e).

The retiree members may serve on more than one subcommittee to ensure representation on each subcommittee.

- (2) (a) The public safety subcommittee shall focus on pension issues affecting public safety employees who are members of the law enforcement officers' and fire fighters', public safety employees', and Washington state patrol retirement systems.
- (b) The education subcommittee shall focus on pension issues affecting educational employees who are members of the public employees', teachers', and school employees' retirement systems.
- (c) The state and local government subcommittee shall focus on pension issues affecting state and local government employees who are members of the public employees' retirement system.

[2006 c 309 § 4; 2003 c 295 § 2.]

### **RCW 41.04.281**

The select committee on pension policy has the following powers and duties:

- (1) Study pension issues, develop pension policies for public employees in state retirement systems, and make recommendations to the legislature;
- (2) Study the financial condition of the state pension systems, develop funding policies, and make recommendations to the legislature;
- (3) Consult with the chair and vice-chair on appointing members to the state actuary appointment committee upon the convening of the state actuary appointment committee established under RCW 44.44.013; and
- (4) Receive the results of the actuarial audits of the actuarial valuations and experience studies administered by the pension funding council pursuant to RCW 41.45.110. The select committee on pension policy shall study and make recommendations on changes to assumptions or contribution rates to the pension funding council prior to adoption of changes under RCW 41.45.030, 41.45.035, or 41.45.060.

[2006 c 309 § 4; 2003 c 295 § 2.]



*The Present Members Of The SCPP Are*

- \*Representative Barbara Bailey, Vice Chair
- Marty Brown, Director OFM
- \*Representative Steve Conway, Chair
- Vacant - Employers
- Randy Davis, TRS Actives
- Eugene Forrester, TRS Retirees
- Representative Bill Hinkle
- \*Steve Hill, Director DRS
- Senator Steve Hobbs
- Senator Janea Holmquist Newbry
- Robert Keller, PERS Actives
- Corky Mattingly, PERS Employers
- Doug Miller, PERS Employers
- \*Glenn Olson, PERS Employers
- Representative Timm Ormsby
- Senator Mark Schoesler, Chair
- Representative Pat Sullivan
- \*J. Pat Thompson, PERS Actives
- \*Robert Thurston, WSPRS Retirees
- David Westberg, SERS Actives

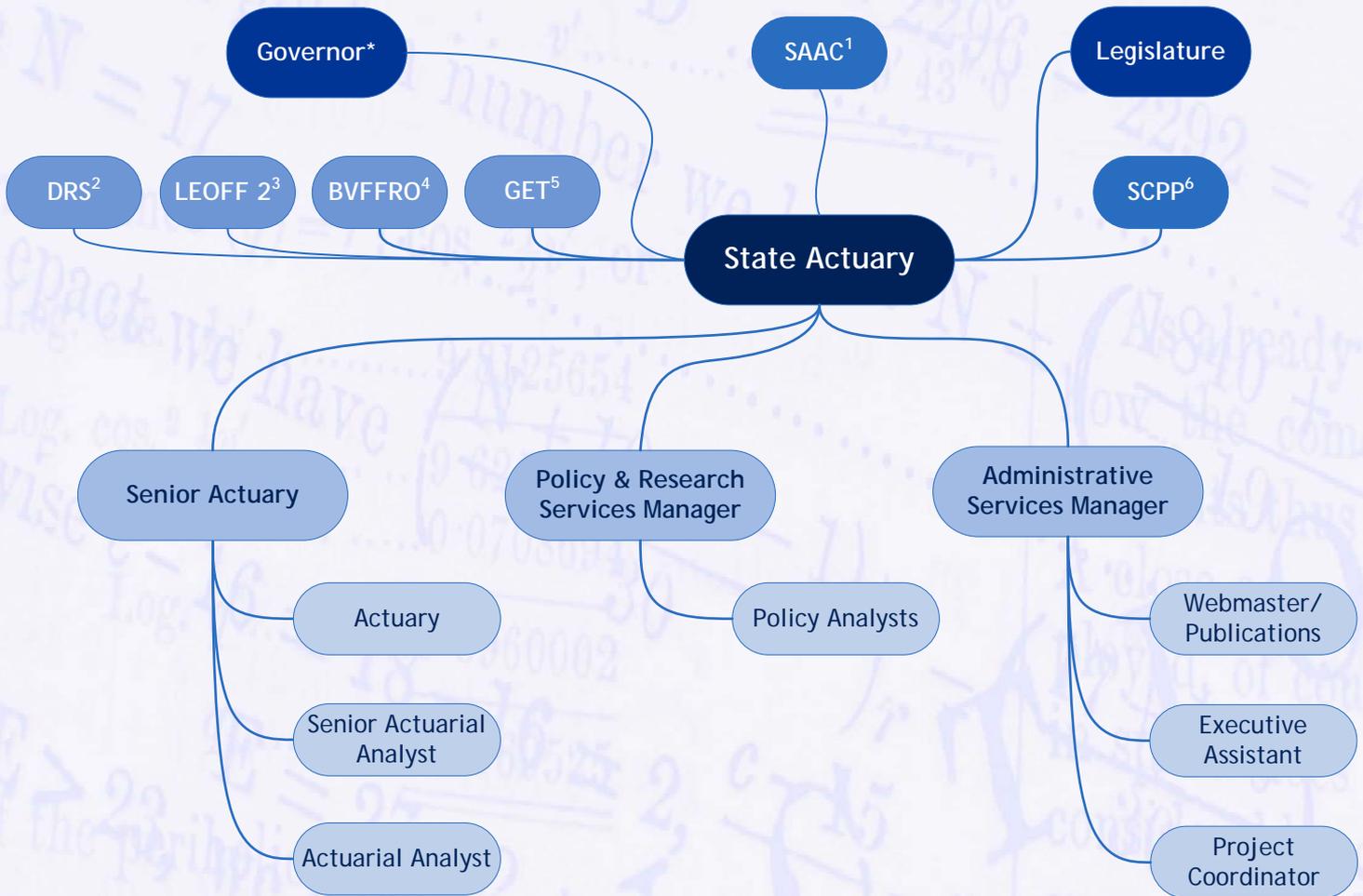
*\*Members of the Executive Committee*

*Membership as of August 10, 2012*



# Office of the State Actuary

*"Securing tomorrow's pensions today."*



\* Includes the Office of Financial Management, the Washington State Investment Board, the Office of the State Treasurer, and the Health Care Authority.

<sup>1</sup> State Actuary Appointment Committee

<sup>2</sup> Department of Retirement Systems

<sup>3</sup> Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

<sup>4</sup> The Board for Volunteer Fire Fighters and Reserve Officers

<sup>5</sup> Guaranteed Education Tuition Committee

<sup>6</sup> Select Committee on Pension Policy



## 035 - Office of State Actuary

### A001 Actuarial Analysis for Retirement Benefits and Investments

The Office of the State Actuary performs actuarial services for the Department of Retirement Systems; advises the Legislature and Governor regarding pension benefits, funding policies, and investment policies for the state retirement systems' assets; consults with the Legislature and Governor concerning determination of actuarial assumptions; prepares reports on each pension bill introduced in the Legislature; and provides such actuarial services to the Legislature as may be required.

Account	FY 2014	FY 2015	Biennial Total
<b>FTE</b>			
600-1 State	13.1	12.8	13.0
<b>600 Department of Retirement Systems Expense Account</b>			
600-1 State	\$1,792,000	\$1,720,000	\$3,512,000

**Statewide Result Area:** Strengthen government's ability to achieve results efficiently and effectively

**Statewide Strategy:** Provide data, information, and analysis to support decision-making

#### Expected Results

The professional service activities performed by the Office of the State Actuary provide state retirement system plan sponsors, participants, administrators, and other state retirement system stakeholders with complete, accurate, and objective fiscal and policy analysis. These professional service activities provide retirement system stakeholders with the actuarial and policy analysis required for the prudent governance of the state retirement systems.

#### Grand Total

	FY 2014	FY 2015	Biennial Total
FTE's	13.1	12.8	13.0
GFS	\$0	\$0	\$0
Other	\$1,792,000	\$1,720,000	\$3,512,000
<b>Total</b>	<b>\$1,792,000</b>	<b>\$1,720,000</b>	<b>\$3,512,000</b>

*Appropriation Period: 2013-15 Activity Version: CB - Current Biennium 2013-2015 Sort By: Activity*

<b><u>Parameter</u></b>	<b><u>Entered As</u></b>
Budget Period	2013-15
Agency	035
Version	CB - Current Biennium 2013-2015
Result Area	All Result Areas
Activity	All Activities
Program	All Programs
Sub Program	All Sub Programs
Account	All Accounts
Expenditure Authority Type	All Expenditure Authority Types
Theme	All
Sort By	Activity
Display All Account Types	Yes
Include Policy Level	Yes
Include Activity Description	Yes
Include Statewide Result Area	Yes
Include Statewide Strategy	Yes
Include Expected Results Text	Yes
Include Charts	Yes
Chart Type	Line
Include Parameter Selections	Yes
Version Source	Agency

State of Washington  
**Recommendation Summary**

**Agency: 035 Office of State Actuary**

11:26:39AM  
 9/12/2012

Dollars in Thousands

	Annual Average FTEs	General Fund State	Other Funds	Total Funds
<b>2011-13 Current Biennium Total</b>	<b>13.2</b>		<b>3,324</b>	<b>3,324</b>
CL 88 Remove one-time retirement buyout			(11)	(11)
CL LQ Central Service Reforms			(3)	(3)
CL ML Remove one-time LEOFF Study Cost	(0.3)		(75)	(75)
CL ZB Biennialize Health Insurance Rate			(8)	(8)
CL ZC Pension Rate Biennialization			1	1
CL ZS Restore 3% Salary Cut			74	74
<b>Total Carry Forward Level</b>	<b>13.0</b>		<b>3,302</b>	<b>3,302</b>
Percent Change from Current Biennium	(1.9)%		(.7)%	(.7)%
<b>Carry Forward plus Workload Changes</b>	<b>13.0</b>		<b>3,302</b>	<b>3,302</b>
Percent Change from Current Biennium	(1.9)%		(.7)%	(.7)%
M2 AB OSA Merit Decision Package			160	160
M2 AC OSA Retention Contingency Package			50	50
<b>Total Maintenance Level</b>	<b>13.0</b>		<b>3,512</b>	<b>3,512</b>
Percent Change from Current Biennium	(1.9)%		5.7%	5.7%
<b>Subtotal - Performance Level Changes</b>	<b>0.0</b>			
<b>2013-15 Total Proposed Budget</b>	<b>13.0</b>		<b>3,512</b>	<b>3,512</b>
Percent Change from Current Biennium	(1.9)%		5.7%	5.7%

**M2 AB OSA Merit Decision Package**

OSA requests funding to provide step increases to eligible staff during the 2013-15 Biennium. The additional funding represents approximately a 5 percent increase for each fiscal year for all non-management staff (2.5 percent increase each fiscal year for management staff). OSA does not automatically provide step salary increases when available. Eligibility for step increases depends on individual performance and the number of step increases available for an employee based on their current salary within their current salary range.

**M2 AC OSA Retention Contingency Package**

OSA requests \$50,000 to provide additional salary increases for retention purposes if necessary. The \$50,000 represents approximately a one-time salary increase of 10 percent for two credentialed actuaries for 24 months (based on the current average annual salary for credentialed actuarial staff). During the past two biennia, OSA made counter offers to two credentialed actuaries in an effort to retain them on staff. OSA has also faced difficulties recruiting credentialed actuaries during the current biennium.



**Agency:** 035 Office of State Actuary  
**Decision Package Code/Title:** AB OSA Merit Decision Package  
**Budget Period:** 2013-15  
**Budget Level:** M2 - Inflation and Other Rate Changes

### Recommendation Summary Text:

OSA requests funding to provide step increases to eligible staff during the 2013-15 Biennium. The additional funding represents approximately a 5 percent increase for each fiscal year for all non-management staff (2.5 percent increase each fiscal year for management staff). OSA does not automatically provide step salary increases when available. Eligibility for step increases depends on individual performance and the number of step increases available for an employee based on their current salary within their current salary range.

### Fiscal Detail

Operating Expenditures	<u>FY 2014</u>	<u>FY 2015</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	53,000	107,000	160,000
<b>Total Cost</b>	<b>53,000</b>	<b>107,000</b>	<b>160,000</b>

### Package Description:

OSA Merit Decision Package

### Narrative Justification and Impact Statement

*What specific performance outcomes does the agency expect?*

Retain current staff expertise and maintain current levels of service.

### Performance Measure Detail

**Activity:**

**Incremental Changes**

No measures submitted for package

*Is this decision package essential to implement a strategy identified in the agency's strategic plan?*

Not applicable.

***Does this decision package provide essential support to one of the Governor's priorities?***

Not applicable.

***Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?***

Not applicable.

***What are the other important connections or impacts related to this proposal?***

Not applicable.

***What alternatives were explored by the agency, and why was this alternative chosen?***

We considered absorbing this cost, but don't have the available funds to provide such increases. Additionally, if approved, the authority to provide such salary increases would be clearly granted.

***What are the consequences of not funding this package?***

OSA may lose current staff and be unable to maintain current levels of service.

***What is the relationship, if any, to the state's capital budget?***

Not applicable.

***What changes would be required to existing statutes, rules, or contracts, in order to implement the change?***

Not applicable.

***Expenditure and revenue calculations and assumptions***

Not applicable.

***Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?***

The additional funding represents a one-time request, but the cost of providing step salary increases would become an on-going expense to the extent these salary increases are provided during the 2013-15 Biennium.

<b><u>Object Detail</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>	<b><u>Total</u></b>
A Salaries And Wages	47,000	95,000	142,000
B Employee Benefits	6,000	12,000	18,000
<b>Total Objects</b>	<b>53,000</b>	<b>107,000</b>	<b>160,000</b>

**Agency:** 035 Office of State Actuary  
**Decision Package Code/Title:** AC OSA Retention Contingency Package  
**Budget Period:** 2013-15  
**Budget Level:** M2 - Inflation and Other Rate Changes

### Recommendation Summary Text:

OSA requests \$50,000 to provide additional salary increases for retention purposes if necessary. The \$50,000 represents approximately a one-time salary increase of 10 percent for two credentialed actuaries for 24 months (based on the current average annual salary for credentialed actuarial staff). During the past two biennia, OSA made counter offers to two credentialed actuaries in an effort to retain them on staff. OSA has also faced difficulties recruiting credentialed actuaries during the current biennium.

### Fiscal Detail

Operating Expenditures	<u>FY 2014</u>	<u>FY 2015</u>	<u>Total</u>
600-1 Dept of Retirement Systems Expense-State	25,000	25,000	50,000
<b>Total Cost</b>	<b>25,000</b>	<b>25,000</b>	<b>50,000</b>

### Package Description:

OSA Retention Contingency Package

### Narrative Justification and Impact Statement

*What specific performance outcomes does the agency expect?*

Retain current staff expertise and maintain current levels of service.

### Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

*Is this decision package essential to implement a strategy identified in the agency's strategic plan?*

Not applicable.

***Does this decision package provide essential support to one of the Governor's priorities?***

Not applicable.

***Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?***

Not applicable.

***What are the other important connections or impacts related to this proposal?***

Not applicable.

***What alternatives were explored by the agency, and why was this alternative chosen?***

We considered absorbing this cost should the need to provide retention salary increases arise next biennium. We selected this option because, if approved, the authority to provide such salary increases would be clearly granted.

***What are the consequences of not funding this package?***

OSA may not have the authority or available funds to provide such salary increases next biennium if necessary to retain actuarial staff.

***What is the relationship, if any, to the state's capital budget?***

Not applicable.

***What changes would be required to existing statutes, rules, or contracts, in order to implement the change?***

Not applicable.

***Expenditure and revenue calculations and assumptions***

Not applicable.

***Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?***

The \$50,000 of additional funding represents a one-time request, but the cost of providing additional salary increases for retention purposes would become an on-going expense if increases are provided during the 2013-15 Biennium.