

In Brief

Issue

Universities and colleges provide DC retirement plans, known as HERPs, to their faculty and civil service exempt staff. Some policy makers question the current policy of providing HERPs to all HIED exempt staff.

The Legislature directed the SCPP to study HERP eligibility during the 2011 interim and report back findings and any recommendations.

The key policy question for this study is to what extent should HERPs be provided to exempt staff?

Member Impact

There are approximately 12,000 FTE HIED exempt positions as of FY2011.

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SCPP Study Of HERPs

Introduction

Washington State's public universities and colleges are authorized by the Legislature to offer Defined Contribution (DC) retirement plans to faculty and certain other employees. These plans are collectively referred to as Higher Education Retirement Plans (HERPs).

In 2011, the Legislature made several changes to eligibility, benefits, and funding for HERPs. Among the changes, the Legislature also expanded the SCPP's duties to include periodically reviewing HERPs. During the 2011 Interim, the SCPP was also directed to study the "suitability and necessity" of HERPs for various positions in Higher Education (HIED) and report back findings and any recommendations for restrictions on future plan membership. The HERP changes and study mandate were enacted in [ESHB 1981](#).

What's The Issue?

In preparing for this study, committee staff spoke with legislators and legislative staff. Based on these discussions, staff found that some policy makers question the current policy of providing HERPs to all HIED civil service exempt staff as an alternative to membership in the Public Employees' Retirement System (PERS). These policy makers may prefer additional restrictions on HERP eligibility for exempt staff. However, HERP eligibility for faculty and HERP non-eligibility for classified staff is not currently in question. Given this, the key policy question before the SCPP is: To what extent should HERPs be provided to exempt staff?

How Is This Paper Organized?

This paper is organized into four main sections:

- ❖ Background.
- ❖ HERP Suitability and Necessity Analysis.
- ❖ HERP Eligibility Issue Analysis.
- ❖ Appendix.

The **Background** provides an overview of the study mandate, HERPs and the HIED workforce, plan design differences, recent legislative and SCPP activity on HERPs, and HERPs in other states. The **HERP Suitability and Necessity Analysis** analyzes the suitability and

necessity of HERPs for various positions in HIED, reports staff findings, and identifies options for further study. The **HERP Eligibility Issue Analysis** analyzes key policy issues around HERP eligibility for exempt staff and provides high-level policy options to address this issue. The **Appendices** includes supporting data for all sections and stakeholder correspondence on this issue.

Section 1: Background

Study Mandate

The study mandate requires the SCPP to evaluate the suitability and necessity of HERPs.

[Chapter 47, Laws of 2011 1st Special Session](#) directs the SCPP, during the 2011 Interim, to evaluate the suitability and necessity of HERPs for employees in various positions within higher education institutions. The SCPP shall report its findings, including any recommendations for restrictions on future plan membership, to the fiscal committees of the Legislature by December 31, 2011.

Overview Of HERPs And The HIED Workforce

HERPs are different from the state's other retirement systems in their design and administration. A general understanding of HERPs and the structure of the HIED workforce will be helpful in framing this issue and following the analysis in this paper.

HERPs Are DC Plans Offered To Certain HIED Employees

Public universities and colleges in Washington State are authorized by the Legislature to offer retirement income plans to faculty and certain other employees. These plans, collectively referred to as HERPs, are primarily DC plans that work much like a private sector 401(k).

HERPs are DC plans administered by HIED institutions and work much like private sector 401(k)s.

In a HERP, employers and employees both make contributions to an individual retirement account. Employees contribute between 5 and 10 percent of pay, matched by employers. Individual accounts are invested under the direction of the employees and serve as the basis for the retirement benefit. An individual's retirement benefit will vary based on the investment earnings of his or her account.

In addition to the DC plan, HERPs also provide a supplemental Defined Benefit (DB). This benefit guarantees a minimum level of retirement benefits for eligible employees. The supplemental benefit was ended for new hires in 2011.

HERPs are administered by the HIED institutions, which are given broad authority to administer the plans within statutory guidelines. For example, institutions generally determine contribution rates, investment options, and eligibility for the plans. Plans are generally similar among institutions with some variation in administrative details.

HERP eligibility is tied to employee classification within the HIED system. Faculty and exempt staff are generally eligible for HERPs,

HERP eligibility is tied to employee classification and participation is optional for new employees.

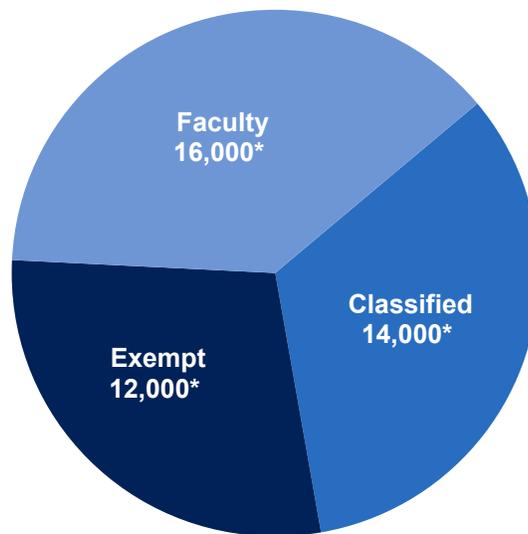
while classified staff are not. Participation in HERPs is optional for new employees in HERP-eligible positions, and they may choose to join Plan 3 instead of a HERP. Plan 3 is a DB/DC Hybrid plan that combines a smaller DB (compared to the Plans 2) with a DC account.

Appendix A provides more details on the operation and administration of HERPs and the supplemental benefit.

The HIED Workforce Consists Of Three Employee Groups

The HIED workforce consists of three employee groups with distinct workforce characteristics: faculty and academic staff, civil service exempt, and civil service classified. The chart below shows the relative size of each category in FTEs.

Figure 1
HIED Workforce By Employee Classifications¹



*FY2011 FTEs.

Faculty And Academic Staff

Faculty and academic staff are eligible for HERPs. This class includes professors on a tenure track, classroom instructors, and other staff with academic appointments. Though Human Resource (HR) distinctions can be made between faculty and other academic staff, the remainder of this paper will refer to this entire class as faculty.

Faculty are eligible for HERPs.

Faculty are employed at-will. This means the terms and conditions of their employment are not covered by civil service statute and are generally set by employer policy. Data from LEAP shows about 16,000 faculty FTEs for FY 2011.

Exempt staff are eligible for HERPs.

Civil Service Exempt

Civil service exempt staff are eligible for HERPs. Exempt staff include mid-to-upper level administrative, professional, and technical employees. Like faculty, exempt staff are employed at-will and are not covered by civil service statutes. Examples of exempt staff positions include presidents, program directors and coordinators, research scientists, IT managers, executive assistants, and mid-to-upper level attorneys, accountants, and finance officers. Data from LEAP shows about 12,000 exempt FTEs for FY 2011. See **Appendix B, C, and D** for more examples of exempt staff positions.

Classified staff are in PERS.

Civil Service Classified

Civil service classified staff are required by statute to participate in PERS and are not eligible for HERPs. Classified staff include clerical, maintenance, service, nursing, and entry-level professional employees. Classified staff are covered by civil service statutes. Civil service statutes specify the terms and conditions of employment unless superseded by a collectively bargained labor agreement. Civil service rules and labor agreements typically set forth requirements for compensation, leave, hiring practices, promotions, layoffs, etc. Data from LEAP shows about 14,000 classified FTEs for FY 2011.

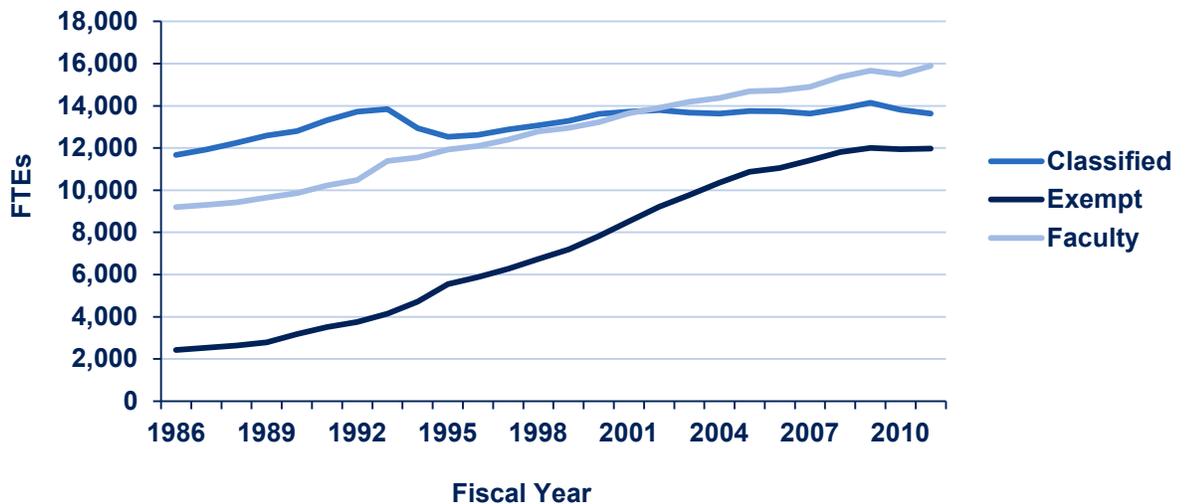
The Legislature expanded the number of HIED exempt positions in 1993.

The Exempt Class Has Expanded Over Time

The types of HIED positions that are exempt from civil service are defined in statute ([RCW 41.06.070](#)) and have changed over time. In 1993, the Legislature expanded the number of HIED exempt positions. Some of the exemptions added include: principal assistants to executive heads of major divisions, professional staff having substantial responsibility for directing program operations or formulating policy, and senior computing system and network programming staff. This change resulted in more positions becoming HERP-eligible under HIED policy and ultimately moving out of PERS. When these positions were reclassified, HERP employer contribution rates (see **Appendix A**) were generally higher than [PERS employer rates](#).

The chart below shows the relative growth in exempt staff compared to faculty and classified staff over time.

Figure 2
Growth In HIED Exempt Class¹



The faster growth of the exempt class from 1993-95—and corresponding drop in classified staff—shows the impact of reclassifying positions following the expansion of HIED civil service exemptions. Additional reasons given by the institutional representatives^{2,3} for the more rapid growth of the exempt class relative to the others include:

- ❖ Expansion of student services and research.
- ❖ Increase in grants and contracts.
- ❖ New programs/mission areas.

Plan Design Differences

Plan design is one of the key policy elements setting HERPs apart from the state’s other retirement systems. HERPs are generally designed to provide DC benefits, while the state’s other systems (such as PERS) are generally designed to provide DB benefits.⁴ Each design represents different policy choices and policy goals in providing retirement income. Much of the later analysis in this paper hinges on these policy differences. The remainder of this section will provide a brief overview of key elements and policy implications of DC and DB plan designs later referenced in this paper.

The DC design of HERPs sets them apart from other state plans.

DC Plans Are Designed To Accumulate Portable Funds

DC plans define the contributions made.

HERPs are examples of DC plans. DC plans define the contributions made—not the benefit provided. DC plans are designed to accumulate funds in an individual retirement account that can follow an employee when they change jobs. Accounts can be accessed at any age and generally rolled into other DC plans. In DC plans, employees direct the investment of the accounts, and employers carry no further liability once contributions are made. DC plans are more prevalent in the private sector than in the public sector.

Some of the policy implications of a DC plan design include:

- ❖ Benefits are not guaranteed and can vary widely based on economic conditions over an employee's career.
- ❖ Employers carry no long-term liability for plan benefits after making contributions.
- ❖ Contributions are very predictable and stable.
- ❖ Employees have considerable control over how their benefit is accumulated and how and when it is taken.
- ❖ Employees bear the risk of providing the benefit—including investment and longevity risks.
- ❖ Plan doesn't encourage retirement at specific ages or after specific years of service.
- ❖ Benefits are geared toward mobile employees and are very portable.

DB Plans Are Designed To Provide Lifetime Income

DB plans define the benefits provided.

The Plans 2 are examples of DB plans. DB plans define the benefits provided by the plan—not the contributions made. They are designed to provide lifetime income during retirement. Benefits are typically tied to a specific retirement age or years of service, and are generally not transferable to other plans. In DB plans, investments are controlled by employers, and employers carry liability until all required benefit payments are made. DB plans are more prevalent in the public sector than in the private sector.

Some of the policy implications of a DB plan design include:

- ❖ Benefits are guaranteed and generally not impacted by economic conditions over an employees' career.
- ❖ Employers carry long-term liability for plan benefits until all benefits are paid.

- ❖ Contributions can vary widely based on economic conditions and plan experience.
- ❖ Employers have considerable control over how benefits are accumulated and how and when they are taken.
- ❖ Employers bear the risk of providing the benefit—including investment and longevity risks.
- ❖ Plan may encourage retirement at specific ages or after specific years of service.
- ❖ Benefits are geared toward career employees and have limited portability.

Legislative/Committee Activity

HERPs have undergone significant changes since they were last considered by the SCPP a couple of years ago. This section highlights the recent legislative changes to HERPs, and discusses past SCPP work on issues around HERP eligibility.

The Legislature Recently Made Several Changes To HERPs

In 2011, the Legislature made several changes to eligibility, benefits, and funding for HERPs:

- ❖ Limited eligibility for HERPs to faculty and employees exempt from civil service who are not retired or eligible to retire from a DRS-administered system.
- ❖ Ended HERP supplemental benefits for new hires.
- ❖ Gave new hires the choice to participate in a HERP (without a supplemental benefit) or Plan 3.
- ❖ Capped state contributions to HERPs at 6 percent of salary.
- ❖ Established the infrastructure for prefunding HERP supplemental benefits through employer contribution rates. (Prior to this, supplemental benefits were paid on a pay-as-you-go basis, with no pre-funding.)

In 2011, the Legislature made several changes to HERPs and expanded the SCPP's duties relating to HERPs.

The Legislature also expanded the SCPP's duties relating to HERPs by:

- ❖ Giving the SCPP a role in periodically reviewing HERP contribution rates.

- ❖ Directing the SCPP to study HERPs during the 2011 Interim.

More information on the recent changes to HERPs can be found in the bill information for [ESHB 1981](#) on the Legislature's web site.

The SCPP Has Considered HERP Eligibility Before

The SCPP has considered the issue of HERP eligibility in the past. The committee has recommended expanding eligibility for some groups of employees and limiting eligibility for others.

In the past, the SCPP has recommended both expanding and limiting HERP eligibility for different groups.

In 2007, the SCPP studied a proposal brought by the Higher Education Coordinating Board (HECB) to allow the board to offer HERPs to its employees. The committee recommended allowing the HECB to offer HERPs to employees not retired from a state-administered retirement system. Ultimately, this proposal was enacted by the Legislature in Chapter 21, Laws of 2010.

In 2010, the SCPP recommended* policy changes limiting HERP eligibility across all HIED employers. The committee recommended that HERPs be limited to faculty and senior academic administrators not retired or eligible to retire from a state-administered retirement system.

The Legislature enacted part of the SCPP recommendation in Chapter 47, Laws of 2011, First Special Session. Specifically, the Legislature limited HERP eligibility to all faculty and exempt staff not retired or eligible to retire from a state-administered retirement system.

**This recommendation came out of an SCPP study of [retire-rehire](#) in HIED.*

Other States

Policy makers considering the issue of HERP eligibility and the suitability and necessity of the plans may look to other states for additional perspective and trends.

A majority of other states offer HERPs to faculty and some exempt staff.

Staff research found a majority of other states offer HERPs in their public universities and colleges. How HERPs coordinate with other state retirement plans and HERP eligibility for employee groups varies among institutions. HERPs may be the sole retirement plan offered at an institution, may be offered as an alternative to a state retirement plan, or may be offered in addition to a state retirement plan. In addition to faculty, HERPs may be provided to exempt staff (all or select) and classified staff.

Data obtained by staff shows at least 45 states (including Washington) offer HERPs in at least one public university or college. Over half these states (26) offer HERPs as an alternative to the state plan, as does Washington. Seventeen states offer HERPs as the only retirement plan. Four states offer HERPs as a supplement to the state plan. The state of Maine offers HERPs as the only plan in some HIED systems, and as an alternate or supplement to the state plan in others.

HERPs may be the only plan or an alternate to the state plan.

Staff also looked at a smaller and more detailed sample of HERPs provided in other states to gain a better understanding of eligibility in other states. All of the HIED systems examined provide HERPs to faculty and at least some exempt staff, while some provide HERPs to classified staff as well. Among the 23 systems from 20 states that were sampled:

- ❖ Seven offer HERPs to faculty and select exempt staff.
- ❖ Ten offer HERPs to faculty and all exempt staff.
- ❖ Six offer HERPs to all employees: faculty, exempt, and classified.

The data obtained by staff was for public institutions offering TIAA-CREF⁵— a common investment program offered in HERPs. Additional states may offer HERPs using other investment programs. Also, additional research would be required to determine how representative the sample of 23 systems is of all public HIED systems nationwide. See **Appendix E and F** for more information on other states.

Section 2: HERP Suitability And Necessity Analysis

Study Scope And Approach

Assessing the suitability and necessity of a plan design is a complex policy exercise.

Assessing the suitability and necessity of a plan design is a complex and challenging policy exercise. Why? Suitability and necessity are subjective terms and cover many areas of policy from pension to HR. Policy makers will likely weigh many factors and consider different viewpoints in assessing suitability and necessity. Supporting this kind of policy analysis requires a broad analytical framework. Accordingly, the study will consider policy implications in many areas including:

- ❖ Plan design.
- ❖ Benefit consistency.
- ❖ Workforce characteristics.
- ❖ Recruitment and retention.
- ❖ Benefit adequacy.
- ❖ Cost.
- ❖ PERS Plan 1 Unfunded Accrued Actuarial Liability (UAAL) funding.

The study assumes a high bar for finding HERPs generally unsuitable.

The study assesses suitability by considering the factors above, and necessity by considering the ability of employers to recruit for various positions. The study assumes a high bar for finding HERPs generally unsuitable, since policy makers would likely require a high degree of convincing evidence to reach such a conclusion. The study will generally focus on faculty and exempt staff, as classified staff are not offered HERPs. The study also relies on representatives of the HIED institutions for much of the data included in the analysis. Key findings for the study as a whole are summarized below.

The study considers which plan is more suitable and necessary for a given group: HERPs or PERS.

For this study, suitability and necessity are analyzed in the general context of which plan is more suitable and necessary for a given group: HERPs or PERS. This approach is consistent with current statutory policy of providing PERS to classified staff. Also, PERS covers the largest number of public employees in the widest variety of positions.

Given time and resource constraints, the study is limited on the amount of data that can be gathered and analysis that can be performed. Further study could provide more data to better inform the policy discussions around the issue of HERP eligibility. Key areas where additional data could be gathered and analysis performed are identified in the analysis and summarized at the end of this section under **Options For Further Study**.

Key Findings

- ❖ HERPs are likely suitable and necessary for HIED faculty.
 - This finding is based on industry prevalence of HERPs for faculty, a possible employee preference for HERPs, and employer statements that faculty are mobile and HERPs are useful for recruitment.
- ❖ HERPs are not necessary for classified staff.
 - Based on employers' ability to fill most classified positions using PERS.
- ❖ HERPs might be necessary and more suitable than PERS for some exempt positions, but not necessary and less suitable than PERS for others.
 - This finding is inconclusive due to insufficient data for exempt staff positions on industry prevalence of HERPs, mobility, and similarities to PERS. Some exempt positions are likely similar to PERS positions. However, employers suggest that exempt staff are mobile and that HERPs are useful for recruitment. Data suggests, but is not conclusive, that HERPs may be prevalent for exempt positions within the HIED industry, and that exempt employees may prefer HERPs over PERS.
- ❖ Increasing the number of HIED positions exempt from civil service has likely increased the PERS 1 UAAL rate.
 - Positions exempted from civil service likely migrated over time from PERS into HERPs. This reduces total PERS salaries available to amortize the PERS 1 UAAL, which will tend to increase the UAAL rate.
- ❖ Further study could provide more data to better inform the policy discussions around this issue.
 - Data for some key policy considerations is lacking. Possible areas for further study are separately identified in **Section 2: Options For Further Study**.

Different plan designs represent different policy choices and are geared toward different workforce needs.

Plan Design

Plan design has implications for policy makers assessing the suitability of HERPs for the HIED workforce. Different plan designs represent different policy choices and are geared toward different workforce needs. This study will examine various factors that policy makers may consider when assessing the suitability of the HERP plan design including legislative policy, design preference, design fit, other states' practice, and plan choice.

This analysis finds that:

- ❖ The Legislature views both DC and DB plan designs as generally suitable.
- ❖ Policy makers may prefer one design over the other.
- ❖ HERPs may be a better fit for a mobile workforce.
- ❖ HERPs are common in other states.
- ❖ Plan choice may mitigate suitability concerns.

The Legislature Views DB And DC Plan Designs Generally Suitable

The Legislature generally requires eligible public employees to participate in a state retirement system and has authorized three plan designs: DC plans (HERPs), DB plans (Plans 2), and Hybrid plans (Plans 3). One may infer from this that the Legislature views retirement plans as necessary for public employees and that DC, DB, and DB/DC Hybrid plans are generally suitable plan designs.

Hybrid plans provide a guaranteed benefit—as do other DB plans—and are generally considered a variation of the DB plan design for the analysis in this study.

Policy Makers May Prefer One Plan Design Over Another

HERPs take a different policy approach than PERS in providing retirement benefits. DC plans, such as HERPs, shield *employers* from the risks (and liability) of providing benefits. DC plans offer employees more control over their benefits and generally provide increased value for employees who move around a lot in their careers. DB plans, such as PERS, shield *employees* from the risks of providing benefits. DB plans offer employees guaranteed benefits and generally provide increased value to long-service, career employees. (Differences between DC and DB plan designs are discussed more fully in **Section 1: Plan Design Differences**.) Given the fundamental differences in plan design, some policy makers may prefer one over the other. This, in turn, may influence their assessment of the suitability of HERPs.

Preference for a plan design may influence assessment of suitability.

HERPs may be a better fit if the HIED workforce is more mobile than PERS.

HERPs May Be A Better Fit For A Mobile Workforce

From a plan design perspective, DC plans such as HERPs may be a better fit for a more mobile workforce. Benefits in DC plans are generally more portable than benefits in DB plans such as PERS. More portable benefits generally provide increased value for employees who move around in their careers. Also, given the prevalence of DC plans in the private sector, employees who move between the public and private sectors, could benefit from participating in DC plans during their public employment.

Other states generally view HERPs as suitable.

HERPs Are Common In Other States

Staff research found HERPs are widely offered across the nation. At least 90 percent of states offer HERPs to faculty. This suggests that other states generally view HERPs as suitable for faculty. Data on non-faculty is more limited, but shows HERPs are provided in some degree to exempt and classified staff as well. Extrapolating from the limited data suggests that a majority of other states may view HERPs as suitable for at least some exempt staff, and a minority may view HERPs as suitable for classified staff. (See **Section 1: Other States** for more information about HERPs in other states.)

Additional study on the prevalence of HERPs for non-faculty in other states could add rigor to the data and strengthen the findings of the study.

Plan choice can reduce the risk that an individual is placed in an unsuitable plan design.

Plan Choice May Mitigate Suitability Concerns

New employees are no longer required to participate in HERPs. The Legislature provided plan choice when they ended the HERP supplemental benefit for new hires. The supplemental benefit is a DB add-on to HERPs that guarantees a minimum level of benefits for eligible employees. (See **Appendix A** for more information on the HERP supplemental benefit.)

New hires in HERP-eligible positions are now given the choice between a HERP without a supplemental benefit or Plan 3.* This means new hires can choose between a plan with no guaranteed benefit (HERP) and one with some guaranteed benefit (Plan 3). Plan choice can reduce the risk that an individual is placed in an unsuitable plan design. However, there is no guarantee that employees will pick the plan design that will result in the highest level of retirement benefits for them.

**Some policy makers may prefer that new hires also be given the choice of an entirely DB plan such as the Plans 2.*

Benefit Consistency

Some policy makers may prefer that employees in similar positions receive similar retirement benefits.

The issue of HERP eligibility for exempt staff is primarily driven by concerns over benefit consistency. Some policy makers may prefer that employees in similar positions receive similar retirement benefits. If HERPs are perceived as providing inconsistent benefits for a particular group of employees, they may be viewed as unsuitable for that group.

This study will examine the benefit consistency of HERPs from a variety of viewpoints: Within HIED, across public employers, employees' perspective, across career paths, and with the private sector.

This analysis finds that:

- ❖ State retirement systems generally provide consistent benefits. However, exceptions are made for workforces with different needs.
- ❖ Benefits may appear consistent within HIED.
- ❖ Benefits may appear inconsistent across public employers for some exempt positions.
- ❖ Policy makers may consider other factors such as employees' perspective, consistency across career paths, and consistency with the private sector.

State Retirement Systems Generally Provide Consistent Benefits

Benefits for the majority of public employees are similar.

The Legislature has established as statutory policy that the state retirement systems should provide similar benefits where possible (RCW 41.50.005). Benefits for the majority of public employees are similar. However, there are some exceptions for different groups.

Benefits for teachers, school employees, and general public employees are similar in the state's plans. However, public safety employees receive different benefits. For example, public safety plans generally provide for lower retirement ages and larger death and disability benefits than other state plans. These different benefits likely reflect different concerns and needs of public safety employees. They may also be necessary to recruit for these positions.

Exceptions are made for different needs.

Providing different benefits for public safety employees suggests that policy makers may make exceptions to a general policy of benefit consistency based on different workforce or recruitment needs.

HERPs May Appear Consistent Within HIED

When consistency is viewed within the confines of HIED institutions, offering HERPs to faculty and exempt staff may be considered consistent pension policy. Faculty and exempt staff may be viewed as similarly situated in their employment conditions for various reasons:

Faculty and exempt staff may be viewed as similarly situated.

- ❖ Faculty and exempt staff are not covered by the civil service rules that apply to classified staff.
- ❖ Faculty and exempt staff typically have higher levels of responsibility than classified staff.
- ❖ Faculty and exempt staff are often recruited on a regional or national level from other institutions offering HERPs. Classified staff are usually recruited locally.

HERPs May Appear Inconsistent Across Public Employers For Some Exempt Staff

When consistency is viewed across all public employers, offering HERPs to some exempt positions may appear an inconsistent pension policy. While faculty and some exempt positions are likely unique to HIED, some exempt positions are likely similar to positions commonly found in PERS. It is these latter positions that may raise questions around benefit consistency.

Some exempt positions are likely similar to positions commonly found in PERS.

HIED faculty* and some exempt positions, such as research scientists, are likely unique to HIED. Policy makers may not view offering HERPs to unique HIED positions as inconsistent with pension policy for other public employers. However, some exempt positions are likely similar to positions commonly found in PERS. For example, both state agencies and HIED institutions employ executive assistants and IT managers. While these positions may be similar** in terms of typical duties and levels of responsibility, HIED exempt staff in these positions are offered HERPs—which are not available to PERS members. Some policy makers might view this as inconsistent pension policy.

It is beyond the scope of this study to determine if specific HIED exempt positions are substantially similar to positions commonly found in PERS. A comprehensive HR study is needed to determine which exempt positions are unique to HIED and which may be similar to PERS positions. Such a study could consider job duties, levels of responsibility, education and training requirements, working conditions, etc.

**There may be similarities between some HIED faculty positions and teaching positions in K-12. However, this will not be explored in this study since policy makers are not questioning HERP eligibility for faculty at this time.*

***Based on limited review. A full HR study would be required to determine how similar these and other exempt positions are to positions in PERS.*

Policy Makers May Consider Other Factors When Assessing Consistency

Policy makers may consider other factors before making a final assessment of benefit consistency. These factors may include employees' perspective, consistency across career paths, and consistency with the private sector.

Faculty and exempt staff would likely seek benefits consistent with other faculty and exempt staff.

When considered from the employees' perspective, it seems likely that most employees would generally seek comparable benefits with their co-workers. For example, faculty and exempt staff would likely seek benefits consistent with other faculty and exempt staff. It is less likely they would compare their benefits to—or seek consistency with—public employees working outside of HIED. This view was expressed by stakeholders in their input to the SCPP and this study. (See **Workforce Characteristics** below.)

Some policy makers may prefer that benefits be consistent along likely career paths or with the private sector.

Benefit consistency may also be considered across career paths. For example, if a person starts a HIED career as faculty, and is later promoted into an exempt administration position, should he or she be allowed to continue participating in a HERP? Some policy makers may prefer that benefits be consistent along likely career paths.

Finally, some policy makers may prefer that benefits in the public sector be generally consistent with benefits offered in the private sector. Since DC plans are more prevalent in the private sector than DB plans, HERPs would likely be viewed as more consistent with the private sector than PERS.

A plan that appears a good fit for workforce needs may be considered suitable.

Workforce Characteristics

Workforce characteristics are relevant in assessing benefit consistency and the overall suitability of a plan design. A plan that appears a good fit for the needs of the workforce may be considered suitable. Policy makers may also make exceptions to a general policy on benefit consistency for public employees to accommodate different workforce needs.

This study will examine two key workforce characteristics that may give an indication of how well HERPs meet the needs of the HIED workforce and whether those needs are different than PERS employees: mobility and employee plan preference.

This analysis finds:

- ❖ Employers view faculty and exempt staff as mobile and exempt staff may work shorter careers.
- ❖ Findings on mobility are inconclusive due to lack of sufficient data.
- ❖ Faculty and exempt staff likely prefer HERPs and view them as a better fit.
- ❖ Faculty and exempt staff may have different workforce needs than PERS members.
 - Faculty and exempt staff likely prefer DC plans.
 - PERS members may prefer DB plans.

Mobility

As discussed earlier, HERPs may be a better fit than PERS for a mobile workforce—particularly one that moves between the public and private sectors. This poses two key questions for analysis:

- ❖ Are HIED employees generally more mobile than PERS employees?
- ❖ Do HIED employees typically move between the public and private sectors?

Evidence Suggests Faculty And Exempt Staff Are Mobile

Anecdotal evidence from HIED employers suggests that faculty and exempt staff are mobile and may benefit from a more portable plan design such as HERPs. According to employer representatives,^{2,3} faculty and exempt staff tend to move around in the industry and may not work a full career in a single retirement plan. They may move between public institutions in and out of the state, and between the public and private sectors. Finally, some employees, such as senior level administrators, tend to move around more than others.

While this suggests that faculty and exempt staff are mobile, the same statements could likely apply to many PERS employees as well. The increased portability of HERPs may not provide a significant advantage over the continuity of PERS for employees moving between public employers within the state. Additional data is required to determine if faculty and exempt staff are more mobile than PERS employee and the extent they are moving outside of Washington's public employers.

Exempt Staff May Work Shorter Careers

Another way to assess mobility is to look at the length of service for employees. Employees working shorter careers can move around

According to employers, faculty and exempt staff tend to move around in the industry and may not work a full career in a single retirement plan.

The average length of service for exempt staff in CTCs is under ten years.

more often than employees working longer careers. Data is available on length of service for faculty and exempt staff at community and technical colleges. The data shows the average length of service in the CTC system is under fifteen years for faculty and under ten years for exempt staff. Comparable data is not available for PERS members at this time.

While this length of service data may indicate that exempt staff in particular tend to work shorter careers, many PERS employees likely work shorter careers as well. Again, the increased portability of HERPs may not provide a significant advantage for employees moving within the state's public employers. And additional data is required to determine if faculty and exempt staff generally work shorter careers than PERS members.

Insufficient Data For Findings On General Mobility With The Private Sector

In addition to general workforce mobility, this study also considers mobility between the HIED institutions and the private sector. Employer representatives^{1,2} have indicated that faculty and exempt employees move between the public and private sectors. This includes private sector HIED and non-HIED employers. However, personnel systems do not currently collect data on who is hired from the private sector, and who goes to the private sector when leaving employment. Therefore, it is difficult to determine how frequently this movement occurs and which positions are involved. Given this lack of data, it is not possible to draw a conclusion on whether the HIED workforce is generally mobile with the private sector.

Data is inconclusive on whether faculty and exempt staff are more mobile than PERS members or mobile with the private sector.

Additional Data Could Improve Findings On Mobility

The employer evidence and length of service data gathered for this study suggests that some HIED employees may benefit from a more portable DC plan design such as HERPs. However, this data is inconclusive on whether faculty and exempt staff are more mobile than PERS members in general. The data is also inconclusive on how frequently faculty and exempt staff move between the public and private sectors.

An actuarial experience study could produce additional data that would allow policy makers to objectively measure and compare the mobility of the various HIED employee groups and PERS. Such a study is resource intensive and requires collecting data over a long period of time. OSA will begin collecting data for an experience study of HERPs as part of its duty to perform actuarial valuations of HERPs beginning in 2013.

An actuarial experience study could produce additional data to objectively measure and compare mobility.

Additional data could likely be gathered regarding mobility between the public and private sectors for HIED and other public employers. This could possibly be done through an employee survey or by employers collecting such data when employees enter and leave service.

Plan Preference

An employee preference for HERPs, would suggest that employees view the HERP plan design as generally meeting their needs. If HIED employees generally prefer a different plan design than PERS members, it may suggest that they have different workforce needs. This poses two key question for analysis.

- ❖ Do HIED employees generally prefer DC plans such as HERPs over DB plans such as PERS?
- ❖ Which plan design do PERS members prefer?

In addressing these questions, the analysis will consider input from stakeholders and plan choice data.

HIED Stakeholders Expressed A Preference For HERPs

HIED stakeholders have expressed a preference for HERPs in public testimony before the SCPP, and in written comment. Employers and plan participants expressed a preference for providing HERPs to faculty and all exempt staff. Some of the reasons given include the portability of the benefit, individual control, and prevalence of DC plans in the HIED industry. HIED stakeholders also expressed a desire for exempt staff to have the same retirement plan offered to faculty.

Public testimony was provided during a public hearing on this study at the November 15, 2011, SCPP meeting. [Audio](#) of the public hearing is available on the SCPP web site. Employer correspondence submitted to staff for this study is included in **Appendix G**.

Plan Choice Data Suggests A Preference For HERPs

Initial plan choice data shows a majority of newly hired faculty and exempt staff prefer HERPs over DB plans such as PERS. Newly hired faculty and exempt staff in HERP-eligible positions may choose between HERPs or a Plan 3. According to employer representatives,^{2,3} over 90 percent* of eligible new hires choose to participate in HERPs. Since plan choice has only been available since July 1, 2011, additional experience would likely be required to consider this a long-term trend.

**Data covers CTCs and the University of Washington (UW). HERP election rates are 90%-95% at CTCs and 95% at UW.*

HIED stakeholders prefer providing HERPs to faculty and all exempt staff.

Over 90 percent of eligible new hires choose HERPs.

Presumably employees would choose the plan design they feel best fits their needs.

Faculty And Exempt Staff May View HERPs As A Better Fit

Taken together, the stakeholder input and plan choice data suggests that faculty and exempt staff generally prefer HERPs over DB plans such as PERS. Presumably employees would choose the plan design they feel best fits their individual needs and circumstances. This suggests that faculty and exempt staff view HERPs—and the DC plan design—as a better fit for their needs than DB plans such as PERS.

Faculty And Exempt Staff May Have Different Workforce Needs Than PERS Members

Plan choice data gives further insight on possible differences in workforce needs between faculty and exempt staff and other public employees. New hires in both PERS positions and HERP-eligible positions may choose between different plan designs. PERS members may choose between a pure DB design (Plan 2) or a DB/DC hybrid design (Plan 3). Exempt staff may choose between a pure DC design (HERP), or Plan 3. As discussed above, initial plan choice data shows a large majority of faculty and exempt staff choose to participate in HERPs. In contrast, a majority of new PERS members (over 60 percent) choose to go into Plan 2. See **Appendix I** for additional detail on plan choice data for PERS members.

Plan choice data suggests that faculty and exempt staff likely prefer a DC plan design while PERS members may prefer a DB plan design.

This plan choice data suggest that faculty and exempt staff likely prefer a DC plan design, while PERS members may prefer a DB plan design. How is this conclusion reached? Plan 3 represents a compromise between DB and DC plan designs. If faculty and exempt staff preferred a DB plan design, they would likely choose Plan 3 because of its DB component. In a similar way, if PERS members preferred a DC plan design, they would likely choose Plan 3 because of its DC component. Difference in preferred plan design could indicate that faculty and exempt staff may have different workforce needs than PERS members in general

Recruitment And Retention

Recruitment and retention are often thought of as HR policy issues. However, they are impacted by pension policy since pensions are part of the total compensation package used to recruit and retain employees.

Policy makers may view HERPs as necessary if employers could not successfully recruit without them.

Policy makers may view HERPs as necessary if employers would have difficulty recruiting the desired employees without them, and unnecessary if they could successfully recruit using PERS. Policy makers may also make exceptions to a general policy on benefit consistency for public employees to accommodate recruitment needs.

Finally, policy makers may view HERPs as suitable if they help retain experienced employees, and unsuitable if they do not.

This section will examine whether HERPs are necessary for the recruitment of the various HIED employee groups, and how well they serve to retain employees.

This analysis finds:

- ❖ Employers view HERPs as useful for recruiting.
- ❖ HERPs are likely an industry standard for many positions.
- ❖ HERPs may be necessary for recruitment.
 - Likely necessary for recruiting faculty.
 - May be necessary for recruiting some exempt staff.
- ❖ HERPs are less likely to retain employees than PERS.

Employers could be at a competitive disadvantage if they were not able to offer HERPs.

Employers View HERPs As Useful For Recruiting

HIED institutions view HERPs as useful for recruiting and retaining faculty and exempt staff. According to employer representatives,^{2,3} faculty and some exempt staff are frequently recruited on a regional, national, and sometimes global basis from other HIED institutions offering DC plans. Many faculty and academic administrators expect they will be able to participate in such plans. Employers could be at a competitive disadvantage with other HIED institutions if they were not able to offer HERPs for these, and other exempt positions.

In contrast, classified positions are generally recruited locally and employers do not feel that offering HERPs would be all that useful in filling most classified positions.

HERPs Are Likely An Industry Standard For Many Positions

HERPs are likely an industry standard for faculty.

Staff research found that HERPs are widely offered to faculty across the nation with over 90 percent of states offering these plans. Another indication of the national presence of HERPs is that TIAA-CREF⁵ is offered at more than 15,000 institutions in the academic, medical, governmental, research and cultural fields.* This suggests that HERPs are likely an industry standard for faculty.

HERPs may be an industry standard for some exempt positions.

Data on the prevalence of HERPs for exempt staff is less conclusive. In a sample of 23 HIED systems examined, 70 percent provided HERPs to all exempt staff, and 30 percent provided HERPs to select exempt staff. If this sample is representative of the HIED industry as a whole, it suggests that HERPs are likely an industry standard for some exempt

positions. Additional data is required to determine with more certainty how prevalent HERPs are for exempt staff.

*According to the [TIAA-CREF](#) website; May 4, 2012.

HERPs May Be Necessary For Recruitment

Based on the information examined in this study, HERPs may be necessary for HIED institutions to recruit desired candidates in many faculty and exempt staff positions.

HERPs are likely necessary for recruiting faculty. This is based on industry prevalence of HERPs for faculty, possible employee preference—and expectation—for HERPs, and employers finding them useful for recruitment.

HERP are likely necessary for recruiting faculty and may be necessary for recruiting some, but not all, exempt staff.

HERPs may be necessary for recruiting some, but not all, exempt staff. This is based on possible employee preference—and expectation—for HERPs, employers finding them useful for recruitment, and a possible industry prevalence for some exempt staff positions. However, data is insufficient to determine if HERPs are an industry standard for all exempt staff positions. At least some HIED systems do not offer HERPs to all exempt staff—suggesting that these institutions do not view HERPs as necessary for some exempt staff. Also, some exempt positions, such as executive assistants and IT managers, are likely similar to PERS positions and could possibly be recruited using PERS. However it may be difficult to find candidates with HIED experience using a PERS benefits package if they are offered HERPs elsewhere.

HERPs Are Less Likely To Retain Employees Than PERS

In theory, DC plans such as HERPs are less likely to retain employees than DB plans such as PERS. DC plans are more portable than DB plans and make it easier for employees to leave prior to retirement without giving up the value of the benefit. Also DC plans do not have set retirement ages that encourage employees to work to a specific age. One feature in Washington's HERPs that likely helps retain older employees is increasing the employer matching contribution at age 50.

HERPs are more portable and make it easier to leave prior to retirement.

There is one circumstance where DC plans such as HERPs are more likely to retain employees than DB plans such as PERS. This is during periods of poor financial market performance. DC accounts can lose considerable value when markets crash. This could cause employees to defer retirement until markets and their accounts recover. In contrast, DB benefits are guaranteed and members' retirement benefits are generally not impacted by economic conditions.

An actuarial experience study as discussed under **Workforce Characteristics: Mobility** above could provide data to measure how well HERPs retain employees compared to PERS.

Some policy makers may find HERPs unsuitable if the benefits are perceived as inadequate.

Benefit Adequacy

Some policy makers may find HERPs unsuitable if they are perceived to provide inadequate benefits or have a high risk of providing inadequate benefits. Recent changes to HERPs have implications for benefit adequacy. Ending the supplemental benefit for new hires means future participants no longer receive any guaranteed level of retirement income. This will likely increase the risk that future participants may receive inadequate benefits from the plan if their DC accounts perform poorly.

This study will discuss different approaches to evaluating the adequacy of HERP benefits: compared to a standard of living and compared to PERS. However, an actual evaluation of benefit adequacy is a complex and resource intensive actuarial exercise and is beyond the scope of this study.

Policy Makers May Consider If HERPs Provide An Adequate Standard Of Living

Policy makers may approach benefit adequacy by considering whether benefits provided by HERPs are sufficient to maintain an adequate standard of living during retirement. Evaluating adequacy of benefits in this context is a complex and challenging policy and actuarial exercise. First and foremost, it requires policy makers to determine what an adequate standard of living is. This may involve consideration of other sources of income and different standards based on length of career. It may also involve reconciling different views of what adequate means. On the actuarial side, a benefit adequacy study generally requires actuaries to convert DC account balances into lifetime income streams using actuarial assumptions and methods.

A typical study of benefit adequacy compares expected benefits to a target level.

A traditional study of benefit adequacy would look at the benefits expected from the HERP design and compare them to a given target benefit level—often expressed as a percentage of salary. To be most useful, a benefit adequacy study would also incorporate risk analysis to show policy makers the risks that benefits would not meet the target under a wide range of economic scenarios. A traditional benefit adequacy study is a complex and resource intensive actuarial exercise and is beyond the scope of this study. Given sufficient time and resources, OSA could undertake such a study in the future.

Policy Makers May Consider How HERP Benefits Compare To PERS

Policy makers may also approach benefit adequacy by considering how HERP benefits compare to PERS benefits. They may ask if HERPs provide more or less benefits than PERS. This is a very difficult

HERPs may provide a greater or lesser benefit than PERS.

A comparison of benefits under various career and economic scenarios could help answer questions of which plan generally provides better benefits.

Some policy makers may find HERPs unsuitable if they cost more to provide than PERS.

question to answer because DC benefits depend upon both individual choices and economic forces. A HERP may provide a greater or lesser benefit than PERS depending on an individual's investment choices and market performance. Also, because of their greater portability, DC plans can provide greater value to individuals who separate from service prior to retirement.

A comparison of benefits from HERPs, PERS Plan 2, and PERS Plan 3 under various career and economic scenarios would give policy makers data to help answer the question of which plan design generally provides larger benefits. Such a comparison may also influence assessments of benefit consistency. Concerns over benefit consistency between HIED and other public employers may be magnified if HERPs are viewed as providing more generous benefits than PERS.

A benefit comparison would require actuaries to convert benefits from the different plans into comparable forms using actuarial assumptions and methods. Comparable forms could include lifetime payments or lump sums amounts. To be most useful, a benefit comparison would also include risk analysis so policy makers could see the probability that one design would underperform or outperform another under a wide range of economic scenarios. Such a comparison is a complex and resource intensive actuarial exercise and is beyond the scope of this study. Given sufficient time and resources, OSA could undertake such a study in the future.

Cost

Some policy makers may find HERPs unsuitable if these plans generally cost employers more to provide than PERS. Cost may be a more significant factor for policy makers concerned about benefit consistency between HIED and other public employers.

This study will explore comparing costs between HERPs and PERS, and discuss some of the limitations of using contribution rates or contributions over careers as a means to evaluate cost. However, an actual cost comparison is a complex and challenging actuarial exercise that is beyond the scope of this study.

This analysis finds:

- ❖ DC plans generally cost more to produce the same level of benefits.
- ❖ Contributions over a career may not represent the full cost of providing benefits in a DB plan.
- ❖ Comparing HERP and PERS contribution rates or long-term expected costs can be misleading.

DC Plans Generally Cost More To Produce The Same Benefit

It is expected to cost more to provide a given level of benefits in a DC plan.

Generally speaking, it is expected to cost more to provide a given level of benefits under a DC plan design than under a DB plan design. One reason is that DB plans have a much longer investment horizon than individual DC plan participants. The longer investment horizon allows DB plans to earn higher expected returns by taking on more investment risk than is prudent for an individual investor. It also allows DB plans to invest in higher performing, but less liquid, asset classes that may not be available or prudent for an individual investor. For example, private equity or real estate

Policy makers may balance the higher expected costs of offering comparable benefits in DC plans against other factors such as greater portability of benefits, elimination of employer risk and long-term liability, and contribution rate stability.

Contributions Over A Career May Not Represent The Full Cost Of Providing Benefits

Amounts contributed over an individual's career do not necessarily represent the full cost of providing benefits.

Some policy makers may compare amounts contributed over an employee's career as a way of comparing the costs of HERPs and PERS. However, amounts contributed by an employer over an individual's career do not necessarily represent the full cost of providing a given benefits package. Contributions to HERPs are fixed and employers have no further obligation to the plan once they have been made. Contributions to PERS can vary widely based on plan experience—particularly investment return. Employers may also have to make additional contributions for retirees if their benefits are not fully funded during their careers.

Comparing HERP And PERS Contribution Rates Can Be Misleading

Comparing contribution rates for DB and DC plans can be misleading.

Some policy makers may look to contribution rates as a way of comparing the costs of HERPs and PERS. Employer contribution rates for HERPs are generally higher than employer contribution rates for PERS (excluding the UAAL rate). However, directly comparing expected PERS rates to HERPs rates may be misleading. The difference in PERS and HERP employer contribution rates will vary over time. PERS rates are recalculated every two years based on an actuarial valuation, while HERP rates are fixed. Also, PERS rates represent the expected costs of the plan at a single point in time, and not necessarily the actual long-term cost of the plan. PERS costs are expected to change over time based on the actual experience of the plan. HERP costs (excluding supplemental benefits) are not.

Comparing Long-Term Expected Costs Can Be Misleading

Comparing expected costs for DB and DC plans can be misleading.

Some policy makers may compare the long-term expected costs of PERS to HERPs as a way of assessing the relative cost of the plans. One measure of the long-term cost of a DB plan such as PERS is the Entry Age Normal Cost (EANC). The EANC represents the expected long-term costs of the plan, as a percentage of payroll, if:

- ❖ All assumptions are realized.
- ❖ All required contributions are made.
- ❖ Current benefits do not change.

The long-term cost for DC plans such as HERPs, as a percentage of payroll, is the employer contribution rate.

HERPs contribution rates are generally higher than the PERS 2/3 EANC. However, directly comparing the two may be misleading because it does not take into account the risk differences between them. The EANC rate will not represent the true long-term cost of PERS 2/3 if assumptions are not realized (including investment returns), required contributions are not made, or benefits are changed. HERP contribution rates are fixed and do not have the same risks.

Actuarial analysis is required in order to make an apples-to-apples comparison of costs.

Because of the risk differential in DB and DC plans, actuarial analysis is required in order to make an apples-to-apples comparison of the long-term expected costs of HERPs and PERS. This would likely require adjusting contribution rates for risk. Calculating risk-adjusted rates is a complex and challenging actuarial exercise that is beyond the scope of this study. Given sufficient time and resources, OSA could undertake such a study in the future.

A cost comparison would likely be more useful if coupled with a benefit comparison as discussed in **Benefit Adequacy** above. A cost/benefit analysis would give a more complete picture of the value of the plans after accounting for possible differences in the level of benefits provided.

PERS Plan 1 UAAL Funding

Changing HERP eligibility can impact the UAAL rate charged to all employers and the share of UAAL costs paid by the institutions.

The final area to be examined in this study is the PERS 1 UAAL. Funding policy for the UAAL has implications for policy makers considering the suitability of, or changing eligibility for, HERPs for exempt staff. Changing HERP eligibility can impact the UAAL rate charged to all employers and the share of UAAL costs paid by the institutions.

This study will explore the dynamics behind this, and examine how past changes to HERP eligibility impacted the PERS 1 UAAL rate.

This analysis finds:

- ❖ Changing the salary base used for amortizing the PERS 1 UAAL can impact the rate.
- ❖ Expanding HIED exemptions from civil service in the early 1990s has reduced the share of PERS 1 UAAL costs paid by HIED institutions and likely increased the UAAL rate.
- ❖ Payroll for HIED positions moving out of PERS was treated differently than payroll for other positions moved out of PERS.
- ❖ Restricting HERP eligibility might decrease the PERS 1 UAAL rate. However the full impact might not be realized before the UAAL is expected to be paid off.

The UAAL Is Amortized Over Salary

PERS Plan 1 has a liability for members' past service known as an Unfunded Accrued Actuarial Liability or UAAL. The UAAL represents the unfunded cost of past service for PERS 1 members. In other words, the costs for benefits already earned by members that are not funded under the plan's funding policy. Employers pay for the UAAL through an additional contribution rate collected as a percentage of salaries. The UAAL is amortized within a rolling ten-year period over the combined salaries for all PERS, School Employees' Retirement System (SERS), and Public Safety Employees' Retirement System (PSERS) members. Under current funding policy, HIED institutions contribute to the UAAL for employees who are members of PERS—but not for employees participating in HERPs.

The UAAL represents the unfunded cost of past service for PERS 1 members.

HIED institutions contribute to the UAAL for employees who are members of PERS.

Changing The Salary Base Can Impact The UAAL Rate

Changes to the salary base used for amortizing the PERS 1 UAAL can impact the rate charged to employers. For example, increasing the number of PERS positions will tend to decrease the UAAL rate because the same cost is spread over more salaries. Conversely, decreasing the number of PERS positions will tend to increase the UAAL rate because the same cost is spread over fewer salaries. In both cases, the same total dollars are paid toward the UAAL, but the share of the total cost paid by each employer may differ.

Expanding HIED Exemptions From Civil Service Has Likely Increased The UAAL Rate

In 1993, the Legislature expanded the number of HIED positions exempt from coverage under state civil service law. (See **Section 1: Background** for more information.) This change resulted in more

positions becoming HERP-eligible under HIED policy and ultimately moving out of PERS over time. The migration of HIED exempt positions out of PERS has reduced the share of PERS 1 UAAL costs paid by HIED institutions—since they no longer pay the UAAL contribution for these positions. It has also decreased the salary base for amortizing the UAAL, which will tend to increase the UAAL rate.

The migration of exempt positions out of PERS has reduced the share of UAAL costs paid by HIED institutions and likely increased the UAAL rate.

The exact impact of the reclassification cannot be determined because the necessary data is not available. However, salary data collected for this study indicates there was likely an increase in the UAAL rate. Salary data for exempt staff positions at the University of Washington (**See Appendix H**) shows about \$186 million* in current annual salaries have been removed from PERS due to the reclassification of positions. Removing this much salary from the base for amortizing the UAAL is sufficient to increase the rate calculation today. The same total dollars have been collected for the UAAL. However, some costs have shifted from HIED institutions to other PERS employers.

\$240 million in salaries for exemptions added after 1993 minus \$54 million in salaries for HERP-eligible members who have remained in PERS. See **Appendix H for more information.*

Payroll For HIED Positions Was Treated Differently

Payroll for reclassified HIED positions moving out of PERS and into HERPs was treated differently than the payroll for other positions that have been moved out of PERS. In the past, the Legislature has changed funding policy to mitigate impacts of moving groups of employees out of PERS. When SERS was created in 1998 by moving school employees out of PERS, the Legislature changed funding policy to retain their salaries for purposes of amortizing the PERS 1 UAAL. The Legislature made similar funding policy changes when PSERS was created in 2004 by moving certain public safety employees out of PERS.

In the past, the Legislature has changed funding policy to mitigate impacts of moving groups out of PERS.

Restricting HERP Eligibility Might Decrease The UAAL Rate

Restricting HERP eligibility for new hires would likely increase the number of positions covered by PERS—which will tend to decrease the PERS 1 UAAL rate. The same total dollars will be collected, spread over more positions. This would tend to result in a cost shift from non-HIED employers to HIED employers. HIED employers would pay a greater share of the costs of the UAAL since they will be contributing for more positions. Non-HIED employers would pay a lesser share due to potentially lower contribution rates.

The full impact of potential UAAL rate decreases may take years to emerge.

However, potential decreases in the PERS 1 UAAL rate would emerge over time as positions are filled by new hires. The full impact may take

years to emerge and may not be realized before the UAAL is expected to be paid off under the current funding method around 2025.⁶

Options For Further Study

Data was limited or not available for several areas considered in the study. Policy makers seeking to look further into the suitability and necessity of HERPs for HIED exempt employees may wish to further study one or more of the following:

- ❖ Workforce mobility comparisons: HIED exempt and PERS.
- ❖ Plan preference of HIED exempt staff: HERPs or Plan 3.
- ❖ Industry prevalence of HERPs for non-faculty.
- ❖ HERP/DC plan participation prior to recruitment for HIED exempt.
- ❖ Positional comparisons: HIED exempt and PERS.
- ❖ Cost/benefit comparisons: HERPs, Plan 2, and Plan 3.
- ❖ Adequacy of benefits: HERPs, Plan 2, and Plan 3.

Policy makers seeking to mitigate impacts on the PERS 1 UAAL rate may wish to study funding policy.

Policy makers seeking to mitigate the impacts of HERP participation on the PERS 1 UAAL rate may wish to further study PERS 1 UAAL funding policy.

Studies could be undertaken by the SCPP, OSA, or another policy entity such as a HIED policy committee or WSIPP.* Policy makers seeking further study may wish to consult with OSA, other policy committees, and the HIED institutions to determine the appropriate body to conduct additional study.

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Conclusion: HERP Suitability And Necessity Analysis

This study has taken a broad approach to assessing the suitability and necessity of HERPs for employees in various positions within HIED. The study has considered policy implications in the areas of plan design, benefit consistency, workforce characteristics, benefit adequacy, cost, and the PERS 1 UAAL. The study assumed a high bar for finding HERPs generally unsuitable, and the analysis considered whether HERPs were more suitable and necessary than PERS for a given class of employees. Data in some areas was limited or not available, and a full consideration of other areas such as benefit

adequacy and cost were beyond the scope of this study due to time and resource constraints.

The finding for exempt staff was inconclusive due to insufficient data.

The study generally finds that HERPs are likely suitable and necessary for faculty, and that HERPs are likely not necessary for classified staff. The finding for exempt staff was mixed: HERPs might be necessary and more suitable than PERS for some exempt positions, but not necessary and less suitable than PERS for others. This finding is inconclusive due to insufficient data for exempt positions on mobility, industry prevalence of HERPs, and similarities to PERS positions. Additional findings are presented in the body of this paper and in the attached **Summary Of Findings**. Additional study could strengthen some of the findings, and potential areas are listed under **Options For Further Study** above. Data used for this study is provided in the **Appendices**.

Section 3: HERP Eligibility Issue Analysis

Policy Analysis

The key policy question for this study is to what extent should HERPs be provided to HIED exempt staff?

Staff research for this study found that some policy makers question the current policy of providing HERPs to all exempt staff and may prefer additional restrictions. In light of this, the key policy question for this study is to what extent should HERPs be provided to HIED exempt staff?

The key study finding on HERP eligibility for exempt staff is that HERPs might be necessary and more suitable than PERS for some exempt positions, but not necessary and less suitable than PERS for others. Given this finding, policy makers will likely differ on their assessments of the suitability and necessity of HERPs for some exempt staff. Policy makers who view HERPs as unsuitable or unnecessary for some exempt positions would likely prefer those positions be covered by PERS and not offered HERPs.

This Issue Is Primarily Driven By Concerns Over Benefit Consistency For Exempt Staff

The issue of HERP eligibility is primarily driven by concerns over benefit consistency.

The issue of HERP eligibility for exempt staff is primarily driven by concerns over benefit consistency. These concerns arise because some exempt staff positions are likely similar* to positions commonly found in PERS. In deciding this issue, policy makers may differ on how broadly to apply benefit consistency and may balance it with other factors such as workforce needs and recruitment.

**It was beyond the scope of the study to determine which exempt positions are substantially similar to positions commonly found in PERS.*

Policy Makers May Differ On Their View Of Benefit Consistency For Exempt Staff

The dividing line may fall on whether or not HIED institutions are viewed as standing apart from or alongside other public employers.

The dividing line on benefit consistency may fall on whether or not HIED institutions are viewed as standing apart from or alongside other public employers. Policy makers who view benefit consistency within HIED institutions—and see faculty and exempt staff as similarly situated—will likely find the current policy of providing HERPs to all exempt staff as generally consistent. Policy makers who view benefit consistency across all public employers may find current policy inconsistent for some exempt positions. In particular, those appearing similar to positions commonly found in PERS.

Some policy makers may make exceptions to a general policy of benefit consistency for different workforce or recruitment needs. While these areas were examined in the study, the findings for exempt

staff were generally inconclusive due to insufficient data for key factors such as mobility and industry prevalence of HERPs. However, the study did find that exempt staff may have different workforce needs than PERS members based on differences in plan design preference. The study also found that HERPs may be necessary to successfully recruit some exempt positions based on employer input and practice in other states.

Policy Makers May Differ On How Much Flexibility Institutions Should Have In Offering HERPs

Policy makers seeking more benefit consistency between HIED and other public employers may prefer to limit the flexibility of employers to offer HERPs to exempt staff. These policy makers may prefer that HERPs be limited to exempt positions not typically found in PERS. These policy makers may also seek more conclusive data before making any exceptions based on workforce or recruitment needs.

Other policy makers may see little or no need to limit the flexibility institutions have in offering HERPs to exempt staff. These may include policy makers who:

- ❖ Do not seek benefit consistency between HIED and other public employers.
- ❖ View exempt staff as having different workforce needs than other public employees.
- ❖ Want to give employers maximum flexibility in recruiting exempt staff.

While benefit consistency is a key driver of this issue, policy makers may also weigh other factors around the suitability and necessity of HERPs. These factors may include plan design, workforce characteristics, benefit adequacy, cost, and impact on the PERS 1 UAAL. Each of these are discussed more fully in **Section 2: HERP Suitability And Necessity Analysis**.

Policy Options

Policy makers may choose among several high-level policy options to address this issue. The options are not necessarily mutually exclusive, and policy makers may choose more than one. These options generally reflect high-level policy approaches and some would require further study and definition to implement.

- ❖ Continue to provide HERPs to faculty and PERS to classified staff.
- ❖ Allow HIED employers to continue to determine HERP eligibility for exempt staff.

Policy makers may differ on how much flexibility institutions should have in offering HERPs.

Policy makers may choose among several high-level policy options.

- ❖ Allow HERPs for exempt staff only where necessary for recruitment.
- ❖ Allow HERPs for exempt staff in positions that are unique to HIED and not generally found in PERS.
- ❖ Provide retirement benefits for exempt staff that are consistent with retirement benefits for faculty.
- ❖ Further study
 - Issue in general
 - Specific policy area

Some policy makers may feel that further study is needed.

Some policy makers may feel that further study is needed before deciding on a policy option(s). Options for further study are laid out in **Section 2: Options For Further Study.**

End Notes

¹ Source: *Legislative Evaluation and Accountability Program, October 20, 2011.*

² John Boesenberg, Deputy Executive Director, Human Resources, Washington State Board for Community and Technical Colleges.

³ Kathleen Dwyer, Executive Director, Benefits Office University of Washington.

⁴ There is some design overlap when considering HERP supplemental benefits and DB/DC Hybrid plans such as the Plans 3. However, as a practical matter, this overlap is not relevant to the analysis in this paper. Supplemental benefits were ended for new employees, so HERPs will be considered as purely DC plans. The Plans 3 provide a guaranteed benefit—as do other DB plans—and will be considered a variation of the DB plan design.

⁵ Teachers Insurance and Annuity Association-College Retirement Equities Fund.

⁶ Source: ["State of the State's Pensions,"](#) OSA, January 17, 2012.

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